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DECENTRALIZING THE AMERICAN ECONOMY

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Our recent bicentennial has focused national attention on the changes wrought by 200 years of American development. Unfortunately, that attention did not extend to one of the most important changes; the general transfer of power from small and local institutions to larger and more remote ones. What was once a highly decentralized social and economic system has become much more centralized. Our own control over important decisions--decisions affecting our personal and family lives, our communities, our jobs and our work opportunities--has increasingly been eroded.

This is nowhere more obvious than in economic life. For example, the 500 biggest American firms produce over three-quarters of all American goods and services, and employ a similar proportion of the work force, despite the fact that they are only one-fifieth of one percent of all businesses. Our industrial system consists of a handful of very large firms and a great many comparatively tiny ones. Because of this, economic life tends to be dominated by the action of a few large firms, which are themselves controlled by a relatively small group. This is not a radical statement; top management personnel, who make the critical decisions, constitute a very small percentage of the total work force.

Present Concerns

These large firms are coming increasingly under attack; disclosures of inappropriate acts appear regularly. Lockheed, Gulf and many more have been heavily involved in unethical practices both here and abroad; many others have tacitly admitted to discriminatory behavior. Even where proof is hard to get, grave suspicions are the order of the day; "The energy crisis was

engineered by big oil to increase their profits," or "Multinationals are replacing American jobs with foreign ones." As a matter of fact, practically nobody is really satisfied with the present situation.

The underlying concerns fall roughly into three different categories or schools of thought. The first includes those who see a system of large firms as the appropriate response to the vase and varied demands for goods and services characteristic of modern economics; in their view, large size is not only the efficient production means, but also the most effective economic agent for furthering social goals. Not surprisingly, this includes most people associated with "big business." The second group comprises those who see large firms as necessary evils; necessary because of the demands of highly developed economies and the requirements of modern technology, but bad (inappropriate) in terms of their impact on the distribution of rewards, opportunity, and power. John Kenneth Galbraith is perhaps this camp's most eloquent spokesman, but the same feeling underlies the considerable bipartisan support that rises in discussions of controls on prices, wages, profits, and employment. Economic liberals tend to fall into this camp. The third group essentially takes it for granted that large size is not primarily a consequence of economic or technological necessity, but is rather a reflection of the concentrated power characteristic of societies permitting private ownership of production resources and the private accumulation of great wealth. This, in general, is the radical position.

These three groups have different goals, different degrees of interest in changing the system, and have in mind different mechanisms for change. The first, believing in the virtues of big business, would like to reduce "government interference" and thereby bring the system closer to classical free enterprise ideals. The second, which is probably closest to the present main stream, sees no other option but to make the best of a bad job, supporting the large firms of which it disapproves in principle, but hedging them all around with

controls, which become an unfortunate necessity. The third wishes either to break up the large firms and to modify the economic framework to eliminate any future possibility of private ownership of the means to production, or alternatively, to nationalize them forthwith.

These "solutions" are no more satisfactory than the problems they wish to attack. The first two are flatly wrong in asserting either the value or the necessity of very large firms, as I will show below. The first group also errs in stressing the virtues of private enterprise; they are real and important, but they simply do not result from a system dominated by very large firms. And the second group is attacking problems of overcentralization by developing even more centralized mechanisms, a strategy akin to fighting for peace; anyone who thinks it can work should take a look at the British economy. As for the third group, transfering control from "private" to "public" hands (those words mean different things to different people) simply shifts power from one small group to another. This is clearly demonstrated by the general experience of most nations putting those principles into practice (for example, in the socialist bloc).

The plain fact of the matter is that the major proposals being put forward today are simply inadequate to the job that needs to be done. And yet that job is probably more important even than these remarks suggest. It is not merely a matter of fine tuning. The need to develop real alternatives is pressing, because our present economic arrangement is defective in several <u>fundamental</u> respects. First, effective and timely coordination is difficult or impossible. We continue to "discover," for example, that our plans and programs do not always work as intended and indeed, that they often produce entirely the wrong results. Second, it is wasteful of resources; costs continue to increase without equivalent benefits. It takes more and more merely

to stand still, as we see from the combination of high inflation and deteriorating results. Third, it is unresponsive to the needs of our society. The economic system and its components only exist to serve social functions. They cannot be justified otherwise. Yet increasingly, these large organizations--firms and governments alike--operate in terms of their own priorities. They are simply too remote from the ultimate results of their actions and too big to respond adequately even if they were in closer contact.

Finally, the present arrangement is downright destructive in two important ways. For one thing, it tends to swamp local economic life. As the tides of economic change sweep across the country (and the world) they leave prosperity in some towns and some regions and destruction in others. But even the prosperity is temporary; at the moment, New England is down and the sunbelt is up. Or look at New York City: its present situation was unthinkable as little as a decade ago. These effects are not aberrations. Rather, they are entirely normal, because the present arrangement makes it both appropriate and necessary that some places prosper while other do not. Plants are moved, products shift, market orientations are altered, and economies change. Under those circumstances, people lose jobs and towns, areas and regions are hurt, sometimes fatally.

Second, our present economic arrangements do not and cannot offer most people rewarding and dignified work. Although this applies most particularly to blue-collar and clerical work, it is increasingly true of managers and professionals as well. This generates enormous human and social costs by reducing mental and physical health and it contributes directly to the lagging productivity that has lately become characteristic of American industry. Most importantly, peoples' capacities, skills and competence cannot be developed without opportunities for their exercise. And these are available only to a small fraction of our citizens.

This is always a tragedy. But it is especially tragic in the United States, with its extraordinarily fruitful and well-developed economy in a richly-endowed social and physical environment. That good fortune permits us much more flexibility and a greater possible range of options. Societies that literally cannot feed their citizens--and there are many such societies--have to deal with those basic problems first. (This is no excuse for repressive governments; there are always some options).

Happily, a real alternative is available in America; one that is particularly consistent with the American historical experience. I am referring to a return to traditional American decentralist principles, and in particular to decentralizing our economic system by simultaneously moving to reduce the size of large firms and distributing control over them more broadly. I would like to show first, that smaller firms need not be less effective and indeed that in important ways they would be more effective; second, that alternative arrangements for redistributing control are both available and valuable in their own right; and third, that their advantages are enhanced by combining both these approaches.

Some Important Distinctions

Before developing my argument, let me clarify a few important points. First, an economic system is not merely a collection of firms. It includes consumption units (households, families, and individuals), and production and distribution units (firms), all operating within a legal and political framework establishing the range of legitimate action open to them. In the U.S., key elements of that framework include private ownership, freedom of enterprise, and markets in labor, capital, physical assets, and knowledge. This is important because changes can be made through any or all of those avenues. Substantial changes may even require attention to all of them, and particularly to the "rules of the game."

Firms--especially large ones--are themselves complex entities. In particular, they are very different from plants or individual business establishments (factories, stores, motels, etc.) which are their basic operating units and which produce goods or offer services at particular locations. In contrast, a firm is a legal or operating entity, controlled and owned by some particular person or group and often owning and controlling in its turn any number of individual plants or establishments. This is the central fact about large firms; they consist in every case of a whole cluster of separate facilities, whether plants, offices, laboratories, or distribution outlets, under central control. The classic firm of economic theory, which owns and operates a single plant or establishment, is actually what we now call "small business." The whole issue of size for this reason becomes confused with issues of control or ownership, which are of very different characters. Since our measures of size are usually related to firms, then the very same plant or retail store shifts in classification from "small" business to "large" depending on whether it is owned independently or by an international firm a curious and unsatisfactory situation.

Finally, size itself can be measured in very different ways--number of employees, dollar volume of sales, and value of assets owned are probably the three most common. Each is useful for particular purposes. Since my major focus is related to the relationship between individuals or groups, and organizations of different types, it makes sense in general to measure size by employment.

Size is also technically different from scale. Whereas measures of size are absolute--numbers of employees, dollars or whatever--scale is a measure of relative size. The scale of a firm, for example, might be specified as twice as many employees, 70 percent of sales, or 25 percent more assets than

some standard of reference. In practice, they are often used more-or-less interchangeably.

The Anatomy of American Industry

I would like to start by briefly describing the size and character of American industry now. The size distribution of American firms is shown for all industry in Figure 1 and for manufacturing industry only in Figure 2. Although those figures are for 1967 (the last year for which comprehensive and detailed statistics are available), there has certainly been no marked change since. One thing stands out at once; the mean number of employees/establishment never gets very large, especially if the top category is dropped. Companies tend to grow not by increasing the size of their individual production units or plants, but by bringing new units of roughly comparable size under their control. Moreover, much of this growth is accomplished by acquiring existing firms, or product lines, rather than by developing new ones from scratch (see John M. Blair, Economic Concentration, NY: Harcourt Brace, Jovanovich, 1972). Note also that manufacturing companies, which overall account for only 10.9 percent of all companies with employees, account for 70.4 percent of all those employing more than 1,000. Clearly, although problems of large size exist in all business sectors, they are most evident in manufacturing.

Even so, the separate units are surprisingly small; mean employment per operating establishment in 1967 was only 52.5 persons. To some extent, that is the result of a large number of tiny businesses still classified as manufacturers. However, even if these figures are pulled apart, it can be shown that most plants are still of moderate size. American multi-unit firms (those controlling more than one establishment) comprise only about 4.3 percent of the total American manufacturing companies, although they own 16 percent of all plants and contain over 74 percent of total manufacturing employment.

Figure 1

DISTRIBUTION OF EMPLOYMENT BY ESTABLISHMENT AND COMPANY

ALL BUSINESS

	Companies	Establishments/ Company*	Employment/ Establishment
All companies (with at least 1 employee)	2,326,703	1.18	15.20
Companies with 1-99 employees	2,292,680	1.05	6.94
Companies with 100-999 employees	31,353	3.86	60.50
Companies with 1,000-9,999 employees	2,306	36.00	75.6
Companies with 10,000-99,999 employees	346	352.80	68.0
Companies with over 100,000 employees	18	855.60	213.0

*An establishment is a business unit at a single physical location which produces or distributes goods or services for sale, usually in a particular line of activity.

Source: General Report on Industrial Organization, 1967, Vol. I, Government Printing Office, Washington, D.C., 1972.

Figure 2

DISTRIBUTION OF EMPLOYMENT BY ESTABLISHMENT AND COMPANY

MANUFACTURING INDUSTRY ONLY

	Companies	Establishments/ Company*	Employment/ Establishment
All companies (with at least 1 employee)	253,498	1.61	52.5
Companies with 1-99 employees	234,923	1.02	14.5
Companies with 100-999 employees	16,694	2.31	107.0
Companies with 1,000-9,999 employees	1,593	23.60	119.0
Companies with 10,000-99,999 employees	273	312.00	77.3
Companies with over 100,000 employees	15	398.00	452.0

Source: General Report on Industrial Organization, 1967, Vol. I, Government Printing Office, Washington, D.C., 1972.

These are the giants of American industry, and here, if anywhere, we expect to find large plants. Yet the separate plants owned and operated by these firms employed only 203 people on the average. Moreover, if a very few industries such as automobiles, defense systems, and large electrical machinery were excluded, the mean employment figure drops to about 100. I do not deny the existence of many very large plants. I do deny that they are typical; the size of plants is very different from the size of firms. American industry is therefore quite concentrated so far as control (firms) is concerned, but is still remarkably dispersed, small scale and unconcentrated so far as production (plants and establishments) is concerned.

Size and Decentralization

Much more attention has been paid to the size and concentration of firms than to that of plants or establishments. Most discussion never even mentions the distinction. This has led to a general confusion between the two very different issues of control or ownership, and size. And this has led in turn to a parallel confusion between decentralization, or distribution of control, and options for the effective arrangement and use of resources. In fact, each has an important effect on the other, though each can also be profitably explored separately.

Reducing the size of large firms would itself be a step toward decentralization for a very simple reason: it would result in more units of more comparable size, among which control could be distributed. However, there is obviously some limit below which we would not wish to go for it would mean the loss of the qualities that make such organizations valuable in the first place. A totally "atomized" economy, with no firm employing more than, say, 10 persons would be inefficient, wasteful of resources, and in general unable to provide adequately for society's economic needs. The question is: What are the limits of useful reduction of firm size? It is also perfectly possible to imagine

an economy containing no firms above some moderate size (say, 500 employees) but in which those firms were each closely controlled by a single entrepreneur/owner. This would be an economy decentralized in one sense (no market concentration) but not another (not, that is, with respect to employees, customers, or neighbors). The question here is: What are the consequences of decentralizing by only reducing size of firm?

Conversely, the economy could continue to be dominated by very large firms but ones over which control was distributed quite broadly. This could be done in many different ways. One alternative exists in West Germany (and increasingly in Scandinavia) where the principle of co-determination assures laborers of formal representation on the managing board of the firm. Firms could also be organized along principles of broad-based worker (meaning all employees) control, as in Yugoslavia. Or again, control could be shared with groups outside the firm itself, whether consumers, suppliers, members of plant communities, or even a governmental agency acting as representative to the public (as is the case, for example, with AT&T). And this by no means exhausts the options. The question is: What difference do these differences make?

The Effects of Size

Since the effects of size are probably clearest, let me start by exploring that one first. My own detailed studies (and others) concerning the relationship between the size of economic units and their ability to utilize resources effectively unequivocably deny the routine assertion of large firms that their great size is necessary. The usual argument is based on economies of scale; that is, the principle that some costs become relatively smaller as the size of the operation increases. For example, the cost of producing, say, ten identical chairs per week may be $100 per chair. If production could be expanded to 100 of the same chairs per week, the cost would drop considerably; say to $50 apiece.

Let me say at once that there is no doubt that such economies of scale exist and that they are important. But most of the obvious ones are related to the size of plant or establishment, and not to size of firms. The tables presented earlier show conclusively that most plants are not very large. The great majority are within the Commerce Department's definition of "small business." And if larger plants were required to gain those economies, the firms that own and construct them would certainly build larger ones.

The real issue therefore hinges on the possible economies to be gained by operating many plants under a single organizational umbrella. Most studies are in basic agreement here. In general multi-unit operation is not more economical than single-unit firms operating an equivalent facility (I have reviewed and summarized the evidence in Size, Efficiency, and Community Enterprise). The most comprehensive economic treatment of this question was recently carried out in depth on 20 industries by F. M. Scherer and associates (The Economics of Multi-plant Operation, Harvard, 1975). Their conclusions were mixed, but even where they found evidence for multi-plant economies of scale, they were typically of the order of only a few percent.

However, the nature of their data and procedures do not allow us to put much confidence in them; the authors themselves noted many mitigating factors. Even if the figures are taken at face value, they are well within the range where "business practice" can make more of a difference. Furthermore, and I will expand on this below, economies from scale in such functions as research or finance or in specialized skills, can be gained by other means than ownership. For example, separate specialized firms can offer such services: this is now widely true for computer facilities. Cooperative or other shared activities can provide adequate scale for other purposes; for example, small Swiss firms pool credit and financial resources. Or again, industry and trade

associations are common devices to gain economies in promotion, training, and standardization of products.

There are also important diseconomies of scale (costs that increase with size). For example, both the generation of new ideas and their applications are more common in small firms than in large. This is often particularly clear in market-concentrated industries, where major technical developments tend to come from smaller, more peripheral firms (See J. Jewkes et al, The Sources of Invention, 2nd ed., W.W. Norton, 1969). Similarly, small firms are more responsive to environmental, social, and economic changes, because they can perceive them more accurately (being less insulated from them) and because they can respond to them faster (just as a small ship can be maneuvered vastly more easily than a large one). In short, smaller firms can "track" social changes and consumer needs much better than can large ones. This is the central factor in John Kenneth Galbraith's sustained critique of mainstream economics (The New Industrial State, Houghton-Mifflin, 1967). And in fact, is is related to the most fundamental source of diseconomies of scale, rapidly increasing costs of coordination as organizations become larger. There is also a substantial human cost. As size increases, worker satisfaction and mental health decrease, and strikes, physical injury, and sabotage increase. (See the report of the Special Task Force of HEW, Work in America, MIT Press, 1973.)

Many large firms attempt to minimize these problems by decentralizing their decision-making as much as possible. Although this is certainly useful, it is not and cannot be equivalent to fully independent units, and in principle can only gain a fraction of the benefits. To the extent that there is central control, it will reduce flexibility. If there is not, then common control is not needed. Finally, many of these diseconomies, such as those involving long-term loss of human resource potential, and those related to less constructive or downright destructive behaviors will not show up in

economic calculations such as those carried out by Scherer.

All this leads to an important conclusion. A large fraction of existing manufacturing capacity operated under the control or ownership of multi-unit firms could be converted to independent operation without loss of economic effectiveness, and with some probably gains. In other words, this is an issue of control and not one of size. Since it could be done, actions leading to this end should certainly be encouraged, since our economy, without the present proportion of multi-plant firms, would be far less concentrated than is the case at present. For similar reasons, business and individual opportunity would increase; wealth, power, and income would tend to become more equitably distributed; and government regulation of business could be greatly reduced.

That leads to the second question; How far could such a decentralization or divestiture be carried without creating efficiency problems of its own? In other words, how big do plants have to be to take advantage of real economies of scale in particular industries? Previous work on this topic has led to extremely inconsistent results. Recently a colleague and I carried out a new series of calculations by making detailed comparisons of successive government censuses of manufacturing industries (at four or five year intervals) to determine the size of new plants entering particular markets. These markets were those described by so-called four-digit Standard Industrial Classifications, which are moderately precise (see B. Stein and M. Hodax, Competitive Scale in Manufacturing--The Case of Consumer Goods, Center for Community Economic Development, 1976). Specifically, we determined the minimum size of plants entering the 100 such markets for manufactured consumer goods between 1963 and 1967. In effect, we estimated the smallest (by employee-size) plants thought by business people to be effective in the marketplace. Using other data, we also estimated the capital requirements of such plants and the necessary consumer market (numbers of average consumers) needed to support them.

The results are as follows.

1. Almost 70 percent of these industries could use plants with less than 250 employees; 44 percent of them need less than 100 employees.
2. If automobile-related products are excluded (eg, cars, petroleum products, tires), 71 percent of all consumer goods (by value) could be locally produced for an area containing 1 million persons. Twenty percent could be produced even for a market of 200,000.
3. In about 70 percent of the 100 industries, these minimum plants would need a capital investment of less than $1 million.

I should also add that there is no reason to assume that these figures represent a real minimum. On the contrary, if our practice and technology were oriented toward smaller rather than larger units, fully effective and competitive firms could enter the market at considerably smaller sizes even than those identified by this procedure, which reflects current practice. Size, per se, can be reduced substantially without losing effectiveness and even with some gains.

Alternatives for Decentralization

I will now turn to the organizational and institutional alternatives that could modify the distribution of control, whatever the size of the units. There are many variations in detail. They can be grouped according to whether they attempt to decentralize by redistributing control within firms, outside firms, neither, or both. These four possibilities are shown schematically in Figure 1.

In the usual case, every firm is associated with one or more persons whose financial benefits and costs are directly linked to the fortunes of the firm. Such persons usually exercise control and are known as owners. The axis "Control Within the Firm", differentiates arrangements in which only the

Control Outside the Firm

Control Within the Firm	Minimum Distribution	Extended Distribution
Minimum Distribution	Quadrant 1: Entrepreneurial Firms Partnerships Shareholder Corporations	Quadrant 2: Community Development Corporations Consumer Cooperatives Government Firms
Extended Distribution	Quadrant 3: Firms with Codetermination Worker-Owned Firms Producer Cooperatives Communities of Work	Quadrant 4: Israeli Kibbutzim Intentional Community-based Firms Yugoslavian Firms

Figure 1

Decentralist Alternatives

"owners" have legal rights of control (Minimum Distribution) from those in which others within the firms, such as employees, also have control rights (Extended Distribution). The qualification "legal" is strictly necessary; many owners as a matter of good practice or good conscience elect to share their own control with others. But if it rests on the owners' whim, which can be taken away as readily as it is given, it is not equivalent to legally shared control. The category "Control Outside the Firm" similarly differentiates legal arrangements that offer some control to external persons or groups (Extended Distribution) from those that do not (Minimum Distribution).

Quadrant 1

This quadrant describes entrepreneurial firms, partnerships, and shareholder corporations. To the extent that shareholder's fortunes are tied to those of the firm, they are by my definition owners even though they may in other ways be outside it. Indeed, the legal mechanism permitting widespread share ownership of a corporation serves precisely to encourage owners to put the firm's interest above all other potentially conflicting interests. Some external influence is always necessary--one is otherwise dealing with a species of dictatorship. In this quadrant, that is provided by the exceedingly indirect means of the market. But this is fundamentally different in character from the sort of control or influence that can be thoughtfully and deliberately applied to the firm by persons or groups legally entitled to do so.

This is the markets' greatest strength and greatest weakness. Its impact cannot readily be deliberately withheld, nor can it be deliberately increased by the action of an individual or firm. Where it is thought to be functioning inappropriately, the government must step in one way or another. Indeed, there can be no such thing as a market system unless the government and the legal system provide rules and agreements by which all participants abide. Since these influences are still indirect, so far as particular firms

are concerned, it is still fair to say that in quadrant 1, control is closely limited to owners. In this case, a decentralized system exists to the extent that the market functions in its classic competitive mode, or it does not, to the extent that market distortions exist.

The conditions necessary for a perfect market are well-known, stringent, and nowhere observed in practice. In the present U.S. economy, the chief source of distortions is the extremely skewed size distribution of firms described above, and the consequent concentration and market power held by the giants among them. As this becomes evident, the government introduces new mechanisms, or redefines old ones, to restore what is thought to be a proper balance. But this generally has unintended and inevitable side effects and it is not always clear that the cure is better than the disease.

Quadrant 1

This quadrant basically includes firms that operate internally much as do the conventional enterprises in quadrant 1, but that add control by outsiders. These firms are of three types; community development corporations (CDC's), consumer cooperatives (coop's) and enterprises under government control, whether exercised directly by the state (socialist firms), directly by a subordinate political unit (municipal firms) or merely regulated closely by political agencies (regulated firms, such as AT&T or public utilities in general). Although these differ in detail, they are based on a common structural arrangement that justifies putting them all into one category. In the final analysis, they share a theory.

They all assume that the conventionally accepted arrangement of an enterprise--that is, by a system of hierarchical control and a chain of command--is most appropriate for operational purposes, but that the market as it exists is disadvantageous. That in turn can be divided into two views; one, th

market defects prevent appropriate outcomes (and therefore must be modified deliberately) or two, that an alternative arrangement produces better results in some way than would the market, even if perfect. In the first case, the external control is used as a corrective of the existing market, whereas in the second, it is a deliberate distortion of it. Holders of the former view see the results of the market as the best that can be achieved, while to holders of the latter view, this is not true.

On this basis, regulated firms wish to achieve market outcomes (regulation is clearly supposed to be corrective); all others in this quadrant believe that market results need modification. Regulated firms are therefore more like the enterprises of quadrant 1; they are based on minimum possible interference with the market, that interference being designed to produced outcomes consistent with a perfect market. Since the issues I am exploring here are more sharply focused in the other alternatives, and since no one ever seems satisfied with the results of regulatory mechanisms, I will drop them for this discussion.

The fully-fledged members of quadrant 2 wish to decentralize by giving legal rights to special groups of persons outside the firm. Coops empower the firms' customers, CDC's empower members of the community in which the firm does business, and socialist or municipal firms empower citizens of the appropriate political jurisdiction. These, at least, are the theoretical results. In all too many cases, the potential benefits of these arrangements (assuming for the moment that they exist) are not in fact realized. Socialist or municipal firms, for example, often give power only to those persons already politically influential. And in practice there is much overlap among these different types of firms; consumers, local residents, and citizens might be substantially the same group of people, depending on the enterprise in question. This is not to suggest that the difference is not important; the rationale for choosing one or another of those differs profoundly. In the limit, however, an organization providing goods or services for people who <u>by definition</u> are

customers because they are also residents and citizens is a political rather than a economic entity.

Quadrant 3

This quadrant basically contains the alternatives built around employee participation. Decentralization here is internal; those who are directly involved in operation of the firm are seen as appropriately involved in its control, although the mechanisms vary. As a common position, I should say that these alternatives are based on theories exactly opposite to those of quadrant 2. Alternatives in quadrant 3 seek minimum external interference with a firm's independence and autonomy, but believe that the internal organization of the firms should differ from the classic entrepreneurial or managerial model.

There are essentially three variants here. In order of increasing involvement of employees in the decision-making apparatus, they are; codetermination (worker-employee representative on the firms' board of directors), worker-owned firms or producer coops in a free enterprise market environment, and communities of work (of which the Scott Bader Commonwealth in England is perhaps the outstanding example). Codetermination, which has been applied most extensively in very large firms, shares control at arm's length, so to speak; day-to-day and shop-floor decisions tend to be made along conventional lines. Scott Bader, on the other hand, attempts to transform the very nature of the firm to make it less of an isolated job-related, 9-5 entity and more an integrated part of people's total lives, in the process changing also the relationships among "employees" (who become instead "members") and the nature of internal decision-making.

Quadrant 4

Quadrant 4 finally, includes those firms attempting to distribute

control much more broadly both within and without the firm itself. This is the only group in which decentralization is thought to require changing both the internal decision-making structure of the firm and its relationship to its external environment. Fully-fledged examples include kibbutzim, Yugoslavian worker-owned firms (which differ in very important ways from the western or American variant because ownership has a different meaning) and enterprises operated by and as a part of intentional communities (many of which exist in the U.S.).

Operationally, such firms offer people more than one means of formal influence over the firm's actions. In the kibbutz, or in intentional communities in general, all workers have access to control because they are workers. But they are also members of the community itself, and are entitled to some control over the enterprise for that reason as well. Moreover, because these alternatives are rooted in philosophical principles that see many defective results from hierarchy, bureaucracy and unevenly distributed expertise, such firms tend to develop special mechanisms to reduce those while keeping their desirable effects. For example, regular rotation of work roles is one such device.

Such firms also call attention to issues that must be considered in any discussion of alternative economic organizations; namely, the relationship between the principles underlying the alternative itself and the society in which it operates. As I noted earlier, an economic system consists of operating and consumption units and a legal/political framework that permits and supports certain things as against others. Conventional firms in the U.S. are effective in part because they are consistent with and reinforced by that framework. Different alternatives inevitably face pressures and problems as a direct result of their inconsistency with the framework; because they need to make a variety of adjustments, their results are in part due to those adjustments

or inconsistencies and are not necessarily inherent in the alternative. American intentional communities that operate enterprises should not be expected to match the results of kibbutzim in Israel, where they are socially supported. Similarly, American worker-owned firms should not be expected to duplicate the effects of the Yugoslavian system, where all firms must operate according to common principles.

The Effects of Size on Decentralist Alternatives

I have already extensively discussed certain effects of size on the firms in quadrant 1. As far as the effect on the potential for decentralization is concerned, there is little to add. Decreasing the size of large firms is important because it increases the numbers of competitors (reduces concentration) while simultaneously reducing the existing great disparities in size (and market power) as between firms. This properly speaking, is an issue of relative size--that is, scale--particularly in terms of existing market capacity and competing production units.

In quadrant 2, size enters in a different way; the relevant measure is the membership of the particular group with which control is being shared; customers, community members, or citizens. As these groups become larger, the effect of the sharing of control becomes increasingly small until, beyond a certain not very large point, it ceases to have much meaning for most people. An exactly similar argument applies to shareholders of quadrant I corporations. As a device for sharing control (decentralizing), it decays rapidly with size; as a device for sharing financial returns, it can be infinitely expanded. The difference is crucial; it is unfortunately much easier to offer people participation financially than in terms of power and control.

The effect of size on the quadrant 3 variants is clear. Co-determination, though readily applicable to any size of firm, offers relatively less personal

involvement for individual workers as size increases. The same issues arise as in any representative system; the larger the numbers, the less the individual influence, save for the inevitable small (elite) group that becomes more central. Neither of the other variants has been applied to firms of more than a few hundred persons, and thoughtful members of such groups, as well as theoreticians viewing them, agree that their benefits could not readily, if at all, be gained beyond that. Indeed, Scott Bader made the specific decision to split off a new entity rather than grow. Some of the American worker-owned firms, have, with growth, shown one of the potential problems. They have developed two distinct classes; an elite group of worker-owners and a secondary group of employee-workers with distinctly less influence. In quadrant 3, then, absolute numbers of people contained in the enterprise work force is the relevant measure.

As to the effects of size on the quadrant 4 alternatives, they combine those in quadrants 2 and 3 and are, accordingly, doubly important. Well-developed institutions of this type have invariably spent considerable time and energy on this issue. All observations indicate that where size is allowed to increase beyond a certain very modest point, the difficulty of living up to these principles becomes correspondingly great. The effect of size is compounded; it enters both in numbers of workers and in relation to the size of the larger unit of which the firm is an integral part (community or political body).

It follows that all possible variants function more effectively (that is, achieve more of their objectives) if their size, measured appropriately, is relatively small. This is not at all surprising; political theorists have long recognized the enormous effects of size on participation. And the classical political alternatives designed to deal with that problem are being applied to the economic or industrial sphere as well. Representative methods can certainly help; to the extent that control is distributed among interest

groups or important social units rather than individuals, somewhat larger numbers can be effectively accomodated. But this obviously involves trade-offs as well. An effective system for broadly distributing control will invariably need to combine direct participation with representative methods.

No matter how these variations are arranged, however, the critical point is this. Larger size is never beneficial so far as distribution of control is concerned. The fact that smaller enterprise size is fully consistent with effective operation means that all of the options explored become more accessible rather than less. It is technically feasible to decentralize the economic system, and there are many ways to do it.

A Decentralized American Economy

I would like to shift my focus now, and explore some specific principles that derive in part from the foregoing, or are consistent with them, but that draw on a wider range of experience. The alternatives mentioned have all been tried out in different places, and there exists much information on their impact and effectiveness. Similarly, the issues they raise, like those raised by the whole subject of decentralization, have been discussed extensively in theoretical terms and in an attempt to devise larger generalizations. Thus, we do not lack a basis for offering serious suggestions.

There seem to me two basic principles that need to be followed; each of them suggests many subordinate propositions. The first principle is this: any decentralist or power-sharing thrust--if that is really desired--must necessarily involve a strongly pluralist orientation. No single solution nor unique device or arrangement can possibly survive as a decentralist mechanism. Organizations in general, and firms in particular, are characterized by limited goals: it is the main source of their strengths. And people attached only to such groups become committed to those goals and those organizations,

in part because they offer their members the only source of rewards and power accessible to them. Yet we know that that single-minded dedication is an important source of the corrupting character of too much power. What is good for General Motors--or nearly anything else--is seen to be good for the country. This is not the result of evil or calculating people, but of structural limitations.

The solution is simple. Separate units of all kinds should be kept as small as possible, and people should be able to participate in meaningful roles (again, that requires smaller units) in a wide variety of institutions. Everyone should be able in principle to exert some personal influence, or to make his/her voice heard in many arenas. This is not to say that all will always, or even generally, be active; rather, it says that access to personal influence must be ready-at-hand and the mechanisms must be kept lubricated. The best guarantee against too great power wielded by any single group or entity is provided by a rich variety of options through which other people can express other views and gain influence. Thus competition in the most healthy sense of the word is an essential part of any effective decentralist system, but it is competition that always offers people a chance to learn and a place to turn.

On the other hand, it is important not to lose sight of the value of the dedication and commitment that people can bring to a social group or organization, especially when they identify strongly with it. This is a matter of balance; it would be just as much of an error to allow too little chance for people to concentrate their energy and attention as the opposite. That is why I stress access to channels for participation and influence rather than its uniform presence. People will make the choices themselves if the alternatives are visible, accessible, and real. But once again, this requires

relatively small and flexible structures and institutions; it is simply less flexible if giant organizations--firms or political unite--are dominant.

Overall, this sort of pluralist and influence balancing strategy offers important functional advantages for society. Indeed, if it did not, it would not be worth proposing, since every social alternative needs to be evaluated in terms of its impact on the three central types of social goals; those concerning operation, distribution, and integration. This sort of decentralist economic strategy would contribute positively in each of those categories.

Operational goals address the effectiveness of the economic system itself; the extent to which it provides goods and services when and where they are desired, and does so with minimum waste of resources. It has always been recognized that smaller sized units, even without other reforms, respond more flexibly, more rapidly, and more appropriately to shifting demands and needs. They also provide for location, style, and product variety (making more of the things people want and less that they don't). Such a system maintains flexibility by providing a rich variety of alternatives in economic life; alternatives, moreover, that are closely enough linked to their customers to enable rapid adjustment to environmental or international changes. A widely-ranging pluralist system of smaller firms would offer at least at the margin a means to modify other arrangements. Economists have pointed out--indeed, it is the central feature of mainstream theory--that competition need not be uniform; it need only exist to set boundaries (hence, at the margin) beyond which still less competitive behavior will result in replacement of that supplier by another. The conventional reason that this does not occur routinely is that larger (less ideal) firms are said to be needed for reasons of technical efficiency and to gain economies of scale. Yet as I have shown, this is simply not true. We can have the advantages of smaller firms, and we can have them without these assumed costs.

Distributional goals concern the ways that benefits and costs are spread across society. Smaller sized economic units, supported by institutional reform, would provide a more appropriate distribution of opportunities, rewards, and costs. Our present system tends to restrict many of the benefits to relatively few people, while spreading the costs among many. (See, for example, C. Jencks, Inequality, NY: Basic Books, 1972; and L. Thurow, Generating Inequality, NY: Basic Books, 1975). Since distributional issues concern not only direct economic rewards and costs but also opportunity to be influential, or to share power and control, these smaller and more decentralized alternatives result in broader distribution of these by definition.

Integration goals concern the relationship among different elements of society; no social order can function effectively unless its component parts are reasonably congruent and mutually supportive. In this sense, smaller firms and modified institutions would offer two important benefits that our present arrangement lacks. First, a smaller-sized enterprise offers employees a greater sense of the whole and provides for a more human scale of effort, in which people can take pride by seeing the value of their contribution. (See E. F. Schumacher, Small is Beautiful, NY: Harper and Row, 1972). Second, on a larger scale, such a system provides a more appropriate balance among economic, political and social institutions, and reduces the danger from the (virtually certain) misuse of power by large firms. This contributes to a healthier world order. (See H. Kohr, The Breakdown of Nations, NY: Reinhold, 1959.) Moreover, this would also go far towards eliminating the problem I mentioned earlier; the present overdependence of individuals, communities, and regions on one firm or organization.

These desirable changes can only be brought about by attending to the second basic principle. It is not enough merely to reduce the size of some large firms; they will simple become enlarged over time unless the legal and

institutional "rules of the game" are simultaneously changed. They must be made consistent with the revised, decentralist system instead of, as now, supporting and in fact generating a system of large firms. The present outcome is not an accident; it is the specific result of legal arrangements and governmental actions that have existed to this point. There are many appropriate modifications; let me suggest a few.

It is important to move towards mechanisms to provide much more open and public access to the internal operating data of firms in general, and especially those operating more than one unit or in more than one economic sector. The argument that this would destroy competition by giving away "industrial secrets" is nonsense. On the contrary, it would markedly enhance competition by showing precisely where effort could profitably be expended, by forcing firms to increase their effectiveness steadily, and by reducing their ability to hide ineffectiveness or unprofitability in one area in the profits of another.

At the same time, it is essential to modify present anti-trust legislation and its interpretation to permit (indeed to support) certain kinds of inter-firm efforts that are presently ruled out by the threat of government action. Most of the real benefits that do seem associated with size-access to capital, certain kinds of research and development, etc.--are perfectly accessible through limited collaboration of smaller units, such as are used in Switzerland (a country extremely strongly oriented towards decentralist principles) to provide credit for small firms by enabling each to draw on the potential value of all. Similarly, arrangements could be and should be devised that would provide community-based worker-controlled or cooperative enterprises with more access to support and capital, and with more flexible legal bases on which to operate. As it is, they tend to be seen as somehow anti-American, despite their deep roots in our early traditions, and it is much more difficult for them to gain access to resources or to use the same

mechanisms available for more conventional or entrepreneurial firms. For example, it has been virtually impossible for "collectives" to get loans or loan guarantees from the Small Business Administration.

I want to underline the most important point of all; that is, the notion of limited collaboration among independent firms. Virtually every advantage of scale beyond those associated with individual establishments can be gained by association for that specific purpose. It is not necessary that the separate units be under common ownership or control. Yet that is the conventional and in some ways the easiest means for such collaboration in the U.S. We desperately need new mechanisms and institutions to support limited association. The major oil companies have been vigorously arguing that they need to be big to explore new sources of oil; an offshore drill unit can easily cost $750. million. But several firms could form a limited association for this purpose, with the costs or benefits to be shared, and with the resulting petroleum (if any) to be refined and marketed separately. Indeed, such consortiums are perfectly common for larger ventures (eg, the Alaskan pipeline); they could readily be much more generally used.

Divestiture proceedings launched by the government under the provisions of anti-trust legislation should also specifically set out to make sure of two things; one, that the units divested are fully capable of independent operation (that is, that they are not stripped of key people, functions, and facilities) and two, that they in fact be operated independently and not merely purchased by some other multi-unit firm, as is often the case now. Large firms in general and multi-unit firms in particular should have to prove very specifically the advantages that would follow from their aquisition of another firm or establishment. Conversely, it would be particularly helpful to support aquisition of these divestitures by community groups, worker organizations, or consumer cooperatives, both legally and by providing access to credit and capital.

This would be helpful in another sense as well. One of the fundamental characteristics of the market is that production units are organized whereas consumption units are not (that is, the ultimate consumption units, household or individuals). And to that extent, the production side of the market inevitably has power not matched by the consumption side. Smaller firms reduce this disproportion, but in the local decision whether to buy or not, options are still restricted because, as economists well know, even very small firms gain monopoly power from their local and specialized character.. New sorts of firms whose control is shared by consumers in one form or another would offer a corrective alternative.

These are some of the steps that could lead to a much more decentralized economic system; one that, in my view, would be superior to our present one in terms of its efficiency, its equitable distribution of rewards and opportunities, its flexibility for the future, and its resistance to becoming a source of too great power for any one group. Perhaps most importantly, it would offer more people more alternatives--for work, for rewards, for goods and services, and most of all, for full participation in society. Surely lack of that is the most corrosive of all social ills.

What is proposed here is entirely consistent with American values, and all of it could be carried out by small steps. No sudden nor complete shift in public or legal attitudes is called for. And I believe that such a thrust would be supported very widely by the American people as it became obvious that it benefits the many, and costs only a few.

STATEMENT

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Before the Senate Select Committee on Small Business December 2, 1975

I am pleased to comment in connection with the Small Business Committee's hearings on "The Role of Small Business in Our Society." I am especially pleased by the Committee's express interest in the relationship of small business to American communities, American ideals and values, and the quality of American life. I say that because ordinarily, the phrase "small business" is taken to refer merely to a quantitatively distinct subcategory of business in general. On this assumption, considerable attention is paid to size and scale and their relationship to economic efficiency and market opportunity. Policies are devised in compensation for the presumed disadvantages of small size, and government agencies and offices arise to direct and monitor the resulting programs. Useful though this may all be, it has less than the desired impact because it ultimately rests on a misconception. Small business differs not quantitatively but qualitatively from business in general.

Small business in reality refers to a fundamentally different sort of economic system--one comprising economic entities and relationships with distinctive qualities lacking in the giant firms at the core of our present economy. Although size of firm is one dimension differentiating these two economic orders, it is far from the only one. Indeed, it is in some ways the least fundamental. What, after all, is a large firm?

In virtually every case, it consists of a whole cluster of separate facilities, whether plants, offices, laboratories, or distribution points, under unitary control. The classic firm of economic theory, a single plant or establishment owned and operated by some person or group, is in actuality the essence of what we now call "small business." The issues of size and control are therefore confounded, and it is essential to consider both in any discussion of either small or large business. The very same plant or retail store in a community, depending on whether it is owned by a local entrepreneur or an international conglomerate, shifts from classification as "small" business to "large". However, since that does not change the establishment, we may well ask what difference the distinction makes and to whom.

Grossly speaking, five categories of persons and groups are affected by every firm's activities: society at large, the local communities of operation, customers, employees, and controlling beneficiaries. Since each of these is in some way affected by changes in the size of the firm and its control structure, government must decide among the conflicting benefits and costs that alternative arrangements entail, and adjust the rules of the game to provide what is thought to be a fair and proper balance among them. I firmly believe that the present set of rules is seriously distorted by this standard on two accounts. First, there is a widespread (and incorrect) presumption that large size is necessary for productive efficiency, from which it follows that the special virtues of small business must be subsidized. Second, existing regulations essentially fail to give

adequate consideration to the costs and benefits of alternative means for distributing control over firms, even though these have a marked impact on both social and individual welfare.

Taking size first, some facts may put the matter in perspective. I restrict my remarks to manufacturing, both because that is the sector in which economies of scale are most important and because my own work has focused on it. American manufacturing units are surprisingly small; mean employment per establishment in 1972 was only 43.8 persons. To some extent, that is the result of a large number of tiny businesses still classified as manufacturers. However, even if these figures are disaggregated, most plants are of modest size. American multi-unit firms comprise only about 3 percent of the total number of American companies, although they own 16 percent of all plants and contain 73 percent of total manufacturing employment. These are the giants of American industry, and here, if anywhere, we can expect to find large plants. Yet the separate manufacturing establishments owned and operated by these firms employed only 203 people on the average, and that figure, by the nature of the data, is probably exaggerated. Moreover, if plants in a very few industries such as automobiles, defense systems, and large electrical machinery are excluded, the mean employment figure drops to about 100. I do not deny the existence of many very large plants. I do deny that they are typical; the size of <u>plants</u> is very different from the size of <u>firms</u>.

Of course, economies of scale do exist. However, my own extensive survey and the great majority of studies carried out by others, including

agents of the Congress, show clearly that these economies are generally achieved in individual plants of modest size. The exceptions are the large assembly-line operations to which I have already referred. The more critical issue, therefore, concerns possible economies to be gained by operating more than one efficient size plant; that is, in multi-plant or conglomerate firms. Here also most studies are in basic agreement. In most cases multi-unit firms are not more economical than single-unit firms operating an equivalent facility. Furthermore, economies from scale of such functions as development or finance, or in specialized skills, can be gained by other means as well. For example, separate firms can offer such services; this is now widely true for computer facilities. Cooperatives or other shared activities can provide more than adequate scale for other purposes; small Swiss firms pool credit and financial resources. Or again, industry and trade associations are common devices to gain economies of promotion, training, and standardization.

There are also diseconomies of scale. For example, both the generation of innovations and their application are more effective in small firms than in large. This effect is often particularly marked in concentrated industries, where major technical developments tend to come from smaller, peripheral firms. Similarly, small firms are more responsive to environmental, social, and economic changes, both in accuracy of perception and response to it. This capacity, which is important to national purpose, is related to the most fundamental source of diseconomies; larger firms acquire rapidly increasing costs of coordination. As information needs to flow further and across more junctions, it becomes both less accurate and less timely. There is also a substantial human cost. Available data indicate clearly

that as size increases, worker satisfaction and mental health decrease, and strikes, physical injury, and sabotage increase. Many large firms attempt to minimize these problems by decentralizing as much decision-making as possible. Although this is useful, it is not equivalent to fully independent units and in principle can only gain a fraction of the benefits.

In light of this it is natural to seek figures on the actual size of plant necessary to exhaust economies of scale in particular industries. Previous work in this direction has led to extremely inconsistent results. Recently a colleague (Mark Hodax) and I carried out a new series of calculations utilizing detailed comparisons of successive Censuses of Manufactures to determine the size of new plants entering particular markets characterized by four-digit Standard Industrial Classifications, which are moderately precise. Specifically, we determined the minimum size of plants entering 100 manufactured consumer goods markets between 1963 and 1967. In effect, our procedure estimates the smallest employment-size plants thought by business to be viable in the marketplace. Using other data, we have also estimated the capital asset requirements of such plants and the necessary consumer market or numbers of average consumers needed to justify them. The results are as follows.

1. Almost 70 percent of these industries involved entry plants with fewer than 250 employees; 44 percent required fewer than 100 employees.
2. If automobile-related products are excluded, about 71 percent of all consumer goods by value could be

produced for a market of 1 million persons. Twenty percent could be produced even for a population of 200,000.

3. Correspondingly, about 70 percent of the 100 industries require a capital investment in plant of less than $1 million.

These data suggest an important conclusion. A large fraction of existing manufacturing capacity operated under the control of multi-unit firms could be converted to independent operation in the market without loss of economic effectiveness, and with possible gain. Although this is an issue essentially of control rather than size, I certainly do not suggest it as a strategy. It is not feasible, and the short-term results would be disastrous. However, there is every reason to encourage individual actions of that sort, since an economy with a smaller proportion of multi-plant firms would be far less concentrated than our present one; business and individual opportunity would increase; wealth, power, and income would all be more equitably distributed; and government regulation of business could be greatly reduced. Policies for this purpose can be devised. I will offer some tentative suggestions later.

I wish also to call attention to the fact that the plant sizes resulting from these calculations are in general well within the category of small business as defined by the Small Business Administration. This applies not only to the minimum entry sizes computed for consumer goods but also to the mean size already existing in multi-plant firms. Although I have not carried out the detailed calculation, it is certain that a considerable share of present manufacturing already takes place in plants

more consistent with small business than large, a fact masked by confounding size of firm, size of plant, and issues of control. The very phrase, "small business", therefore, creates in the mind an exceptionally misleading image. Such units are substantial and complex, and contain adequate capacity to carry out most of the economic functions of American society.

So much for size and effectiveness. As to control, I have already noted that the data on multi-plant firms make it clear that in many or most cases, unitary control is not necessary to gain what small economies of multi-plant scale exist and that, indeed, it may generate diseconomies of its own. In short, efficiency is certainly not the main drive to growth, although American values and traditions make it mandatory that big business claim greater efficiency, because it has no other acceptable reason for existence. In consequence, large industry devotes much energy to rhetorical demonstrations of its economic effectiveness.

In reality, large firms exist for quite different but persuasive reasons that explain why their size tends to increase, and why so many persons, groups, and institutions prefer to associate with them. First, large firms have power and visibility, in which employees, suppliers, and customers all wish to share, since they are thought to confer status and other social benefits. For this reason, people will pay a premium, even explicitly, to gain them. Second, power provides security. Employees feel more secure than they would in smaller enterprises, whether efficient or not. Indeed, from an individual point of view, efficiency is irrevelant. What is relevant is income, position, and continued assurance of both. This both requires and helps firms to accumulate

power above that characteristic of a competitive market. This power in turn becomes the basis of large firms' impact both on the market and on society in general.

The tendency to grow also derives in part directly from a particular form of limited control. Incremental benefits from growth, particularly financial, can be captured in most firms by the few people (owners or managers) who exercise control over the distribution of those benefits. If those few people can gain a dollar of additional income or a step up the Fortune 500 ladder, on incremental sales of a million dollars, it is worth their while to do so, even though it represents an extremely inefficient use of resources. So long as the benefits need not be widely distributed, growth will still be sought.

These characteristics account for the fact that detailed studies of financial returns of corporations as a function of asset size show a steadily decreasing efficiency of asset use, as one would generally expect from the principle of diminishing returns. That is, the ratio of net benefits to assets employed falls as size increases. The critical issues once again are control and power, not efficiency.

The institution of small business, on the contrary, intrinsically distributes power and control more broadly; it helps increase distributional equity in the society. This applies both within firms and to firms as market units.

Internally, small firms offer individuals a sense of the whole and a chance to see the value of their own efforts. They enable personal relationships with executives, owners, and decision makers. In larger firms these things are generally not true--a situation which we know

leads to feelings of apathy, alienation, and lowered mental health. Smaller firms also provide both more visible and more genuinely accessible opportunities to individuals, and role models that are more realistic. For example, there is a greater proportion of women managers in small than large firms. Problems related to productivity and the quality of work life are increasingly apparent, particularly in large firms. These problems can be ameliorated by appropriately combining a broader distribution of influence within the firm, with direct rewards. However, these arrangements in principle are more consistent with smaller firms and easier to apply to them.

Externally, of course, a system of independent and modest-size firms regenerates a healthy market, consistent with American political ideals that depend critically on the absence of large centers of private power. There would also then exist a greater array of perceived opportunities for individuals or groups to launch a business of their own, an established American way of increasing one's status and mobility. A system composed of relatively small organizations is demonstrably more accessible and can readily be seen as within the grasp of any person or group with sufficient interest and capacity, unlike the very large entities which presently populate our industrial universe.

A system of manageable and independent firms also helps provide the needed integration between economy and society, enhancing people's sense of coherence in their personal lives. This is doubly true where businesses participate in communities as interdependent systems, each adding strength and stability to the other. Such businesses are also more likely to multiply economic resources within the community. The relationship between

firm and community becomes influential in decisions regarding environmental impact, hiring, purchases from local suppliers, and use of local labor. Similarly, the distribution of benefits and opportunities between the firm and the community is likely to be more balanced, and a greater sense of local pride is derived from the presence of truly local firms, as against branches of externally-controlled enterprises. In the former case the firm necessarily considers its community. In the latter, the community is held hostage, since its interests are peripheral to powerful and externally-controlled firms. There needs to be deliberate exploration of a variety of other control alternatives and support for those showing promise. For example, community development corporations, as I have argued elsewhere, combine better-than-typical performance with important community, social, and human resource benefits.

In light of these conclusions, I propose for the Committee's consideration some possible changes in both legal structures and administrative practice. The aim is not sudden change; that would be neither appropriate nor most effective. Rather, it is to shift the course of future developments to increase the proportion, over time, of more independent, community-sustaining, opportunity-enhancing, and effective smaller businesses.

1. Explicitly recognize size as a continuous variable; firms are not merely small or large. Tax abatements, preferential contracts, set-asides, and subsidies should be redesigned along graduated lines up to fitting levels.

2. Such benefits should also take into account issues of control and distribution of equity as, for instance, in Iran. Single-plant firms should have preferential access to certain favored treatments. Firms whose ownership is locally or community-based should receive similar preference.

3. Both these arrangements should be tailored to the specific industry, and perhaps location, involved. In principle, differentiate firms as much as is practical along these several dimensions to relate rewards closely to desired actions and outcomes.

4. All government support for multi-plant firms should require justification in each case; there should be no such general or categorical subsidy.

5. In antitrust proceedings resulting in divestiture orders, the units to be divested should be functionally complete, and able to operate as firms in the market. Preference for purchase should be given to independent groups; those proposing to distribute control broadly within communities, or among workers or relatively disfavored persons, should have access to financial assistance.

6. All forms of existing government aid to business, notably from the SBA, should be readily available to community development corporations, cooperatives, and the like. At present, this is not the case.

7. A detailed study should be made of the limits that existing laws set on the use of potentially valuable structural and work alternatives, especially in smaller businesses. The Fair Labor Standards Act of 1938,

for example, prevents full application of innovations involving more flexible use of time.

In conclusion, arrangements in which large firms control many small plants that could be effectively independent permits certain beneficiaries of the large firms to derive extra benefits at the expense of a much larger but less powerful fraction of the population. As I have shown elsewhere, facilities are routinely shut down, or moved from one community to another, not because they are ineffective but because different arrangements generate preferential benefits. In this regard, New York City and Cornell, Wisconsin have had similar problems. Our present economic structure does not achieve essential and widely sought social goals. We must provide other means. Support for independent, smaller-sized, single-plant, community-enhancing businesses is an important aspect of the necessary new policies.

Thank you.

the community context of economic conversion

BARRY STEIN

CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT / NOVEMBER 1971
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INTRODUCTION

By the end of April 1971, at least 100,000 highly skilled professionals--engineers, scientists, and other specialists--were without work for the first time in most of their lives.[1/] Many had been engaged in key industries and laboratories producing steady advances in many areas of science and technology using skills said to be crucial to the nation. Almost without exception, their education and their experiences had led them to believe that these skills were, and would always be, needed; that their options and rewards would grow; and that the investment needed to achieve these skills would be repaid many times over. Now these skills appear to have become nearly worthless. Moreover, while public and government attention has focused on the plight of these professionals, many other workers, less visible, have been placed in the same position. Accordingly, the national unemployment rate went from 3.2 percent at the end of 1969 to 6.0 percent in April of 1971.[2/]

Since the bulk of the jobless professionals had been engaged in programs and services for the Department of Defense, either directly or through civilian contracts, most of the resulting outcry has been directed toward the need for economic conversion: the shift of that considerable fraction of American industrial effort involved in

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defense-related activities to the production of peacetime goods and services. This issue is not new; it grew steadily through the 1960's, its momentum fueled by a continuing flow of books and articles on conversion and such related issues as the military-industrial complex, the war economy, and the need for new priorities in national spending. As the National Journal commented, "Most of the conversion debate of the past 10 years centered on proposals to shift priorities and spending away from military programs to social programs."[3/]

The inevitable consequence has been a tendency to view the only possible solution, or ameliorating programs, as necessarily involving action at the national level. Some have asserted the need for a sort of civilian NASA--a large centralized agency--whose role it would be to channel federal funds into more appropriate (peaceful) channels.[4/] President Nixon, acting administratively, launched a pilot program to convert those professionals affected by layoffs into urban and social problem specialists, on the assumption that the professional skills lying fallow can be profitably redirected towards such areas as municipal services, transportation, and housing. In Congress, more than twenty major bills have been filed as a direct result of the conversion debate, in addition to much local and state government activity. These generally propose retraining, relocation, various forms of interim support, and establishment of new federal agencies to coordinate and plan.[5/]

It is most unlikely that any but a small fraction of these pilot programs or proposals will be generally implemented.[6/] Even if they were, however, their utility would be limited, since they place primary emphasis on the individuals affected. The individuals laid off, and the groups to which they are attached, however, are not distributed uniformly or randomly, in terms of either geographic or socioeconomic criteria. Even when the economy is relatively prosperous (e.g., unemployment less than 4 percent = ca. 3,000,000 people), some areas are much worse off than the average, with economically vulnerable communities and poorer citizens hardest hit. The situation is reminiscent of the story of the man who drowned crossing a stream that had, as he had been told, an average depth of three feet; that is, zero at the banks and six feet in the center.

In such communities, strategies of conversion aimed at relocating individuals are too narrowly conceived. The economic shock wave from, say, the closing of a local plant, spreads rapidly through the community and its surroundings. People not directly involved are enmeshed in the problem through a web of economic exchanges which spreads the initial impact like ripples in a pond. Even if new jobs can be found promptly for all those laid off, those less directly affected are not necessarily helped. Moreover, the longer the time lag, the more severe the total impact, because people and businesses alike become forced to make irrevocable decisions. The target group may regain its former income but the community economy will have been strained, sometimes terminally.

There are some who suggest that these local dislocations are the inevitable price of general prosperity. This paper proposes an alternative: an increase in community economic autonomy based on social processes different from those now deemed conventional and rooted in organizations whose prime focus is the community itself. Economic conversion, therefore, is regarded in this paper as a problem needing community-oriented action. How widespread is that problem in this country, what features identify such communities and what communities should aim to convert to are questions that need examining.

THE SCOPE OF THE PROBLEM

Although federal unemployment figures are useful for purposes of national planning, they mask the wide variations that exist among regions and, still more, in smaller areas. Of the 100,000 skilled professionals mentioned earlier in this paper, more than 10,000 were located in eastern Massachusetts, primarily in the northwest quadrant of Boston's suburbs, more than 20,000 around Los Angeles, and a further 14,000 in the Palo Alto/Stanford area.[7/] Conversely, some other parts of the country were essentially untouched.

As to general unemployment, similar concentrations existed. Thus, the April 1971 national figure was 6.0 percent, but for Massachusetts it was 7.0 percent. California unemployment reached 7.1 percent, Maine 8.4 percent, and the state of Washington 11.0 percent.[8/] In

addition, unemployment in some smaller areas within these states was greater yet. For example, unemployment in the Lowell, Mass. SMSA (Standard Metropolitan Statistical Area) stood at 11.6 percent and in the employment area of Newburyport at 15.3 percent.[9/] Such concentration is not, however, necessarily limited to small towns; Seattle, Washington (the home of Boeing) has 13.1 percent of its work force unemployed.[10/] In general, however, metropolitan areas show rather less variation than smaller ones, and their absolute level of unemployment is lower although wide variations may exist within any given SMSA.

Given these figures, it is clear that thousands of communities are (1) dependent for their economic health on too narrow an economic base, (2) that this narrow base is subject to loss suddenly by virtue of decisions made outside the boundaries of the community, and with only secondary concern for its health, and (3) that these situations arise in the main first from federal (especially DOD) contracting practice, secondly from absentee ownership of local facilities, and third from economic trends that change the competitive relationship among different areas, regions, and countries. Moreover, John E. Lynch has written in a study of military base closures that what characterizes the local communities "is the small number which have actually recognized their overdependence on nearby military facilities."[11/] The same point can be made more generally: communities are slow to note their often precarious economic condition. It is useful at this point to look at

some detailed illustrations of these problems.

Defense Contracts

Seattle, Washington stands as the most extreme example (because of its size) of how devastating such dependence can be when fortune changes.

> Within Seattle's city limits alone live some 600,000 people; the SMSA of Seattle-Everett included a population, at last count, of 1,340,000. It is a port of trade with the Orient, a link with Canada and Alaska, and a center for the lumber and fishery industries.
>
> It is also home for the Boeing Company, which employed, at its peak in 1968, 106,000. In May 1971 Boeing's work force had dropped to 40,000; by the end of 1971, it may drop to 29,000. More than 100,000 people are without work; the unemployment rate officially stands at 13.1 percent; and welfare workers estimate the true rate at twice that level (i.e., taking account of unreported unemployment). According to one survey of the city's central slums, the unemployment rate is 48 percent. As A.E. Fitzgerald aptly noted, Seattle is the world's largest mill town.
>
> Boeing is, nevertheless, regarded as one of the most efficient aerospace firms in the country. 707's, 727's, and now 747's dominate the commercial market. The demise of the SST and the shift in DOD requirements, compounded by a "softening" of the commercial aircraft market, are responsible for Boeing's problem. To quote The Economist, "The root of [Seattle's] problem lies in the economic dominance of the area by one giant corporation, the Boeing Co." and "As jobs at Boeing declined, a domino effect throughout the economy pared away service and trade jobs." 12/

Even though the top 100 or so contractors account for about two-thirds of all procurement dollars, there are all told 22,000 prime

contractors serving the defense industry and another 100,000 subcontractors operating plants in 5,200 communities in every state, or, said another way, in 363 out of the 435 congressional districts.[13] Because of local concentration, even the smaller facilities in this network can represent, to a small community, a dangerous dependence on the defense industry.

Defense-related (including AEC and NASA) contracts reached their peak of $63.3 billion in the second quarter of fiscal year 1968. By the third quarter of fiscal year 1970, it had dropped by 18 percent ($11.4 billion). In the process, some 1,300,000 people lost jobs with defense contractors.[14] In addition, many more who were suppliers of general (i.e., not specifically associated with a defense program) goods and services to the contractors and their employees, and therefore also largely dependent on such production, lost incomes. Estimates of the fraction of all U.S. employment more or less closely related to the defense industry go as high as 20 percent.[15]

One might assume that the current situation is temporary, and to some extent it is, but it is also unrealistic to assume the defense industry will recover to its high 1968 level. For while the federal budget in fiscal year 1972 includes $77.1 billion for defense-related expenditures--which is an increase of $1.5 billion over fiscal year 1971--inflation, salary increases, incentive pay to volunteers in the armed services (an added $9.5 billion between 1968 and 1972), and

changes in procurement priorities, will prevent most affected individuals or firms from regaining their lost position.[16/]

Compounding this problem for communities is the fact that the government owns a large amount of equipment, land, facilities--some in the form of government (primarily military) installations, and some used and/or operated by private contractors--and it would rather maintain control of these facilities than make them available for productive use by the local community.[17/] The director of the DOD's Office of Economic Adjustment recently explained that it would be "unfair" to let others use facilities that the government might be forced to recapture on short notice. This is no small affair: the DOD owns 29,000,000 acres of land and the aggregate value of its total real property holdings in the U.S. (including facilities and equipment) was $202 billion as of June 1969.[18/]

Even assuming real interest on the part of a community, recovery of surplus land from the government is no easy matter. The town of Maynard, some 25 miles from Boston, sold 890 acres to the DOD in 1941 for $501. When the land was declared surplus in 1970, the town expressed strong

interest in re-obtaining the use of it for conservation, recreation, water resources, and industrial expansion. No matter; it was put up for auction, and a significant part was acquired by the Massachusetts National Guard for training purposes. Negotiations are continuing, but even if the National Guard relinquishes its interest, it reverts to DOD, thence to the Central Services Administration (for any other federal agency) and then to the state.[19/] Frequently, therefore, facilities and properties either lie unused and unavailable for productive employment, or alternatively, they remain used in defense production if only to keep the jobs in the community!

Absentee Ownership

A second situation that has increasingly been responsible for the economic problems of communities is absentee ownership, as manifested by the recent turn of events in Mechanicville, New York.

> Mechanicville, New York, 21 miles north of Albany on the Hudson River, is a small (population about 7,500) industrial city of modest, somewhat run-down homes scattered along the river bank, and centered around a cluster of low red-brick stores and small office buildings. But for the modern cars, the seven mile drive from Interstate Highway 87 into Mechanicville is a 50 year drop in time.
>
> The largest employers in town are, and for many years have been, manufacturers of pulp and paper. Skilled paperworkers have passed their trade on to sons, again and again, for several generations. One plant has been in nearly continuous operation since 1876. Since 1904, this plant has operated

as a wholly-owned subsidiary of Westvaco Corporation (formerly West Virginia Pulp and Paper Company). In the production of pulp and specialty papers, it employed some 750 people--about one-third of the town's labor force.

Early in 1969, Westvaco shut down the pulp mill and severed 400 employees, most of whom, but not all, have found other work. Toward the end of 1970, Westvaco announced it was closing the remainder of the plant, transferring production to facilities elsewhere, and terminating most of the remaining 350 employees. In 1970, Westvaco (#255 in the Fortune 500) had total sales of $420,344,000 and 15,660 employees. 20/

Westvaco's pattern of operation is not an isolated case. In fact, most large corporations in the U.S. have widely spread facilities both at home and abroad. General Motors operates 118 plants in 68 cities/towns in the U.S. The conglomerates which, until recently, were far and away the most glamorous companies on the stock exchange, are especially prone to this tendency because of their pattern of growth by acquisition into highly diversified industries. IT&T, for one, has 96 plants in the U.S., many of modest size. Even #500 on the Fortune list of the 500 largest American industrial companies (Arvin Industries) employs 7,850 in 20 plants, and owns $109,000,000 of assets. 21/ The overall importance of these examples lies in the fact that the Fortune 500 produce, in the aggregate, 65 percent ($463.9 billion) of all American manufactured goods. 22/

Thus, to a great and increasing extent, U.S. manufacturing plants are owned or controlled by multi-facilitied corporations absent from

the communities in which they operate. In 1963, the last year for which comprehensive figures are available, 18,600,000 people were employed in 402,000 separate units. However, multi-facilitied corporations, although constituting only 4 percent of the number of firms, accounted for about 35 percent of the units and 70 percent of the employees. The trend over time is also clear. Between 1954 and 1967, multi-facilitied firms increased their share both of the number of separate manufacturing establishments controlled, and total employment. In the former case, the percentage increased from 11.1 percent to 16.9 percent. As for the latter, whereas only 61.0 percent of all manufacturing employment was in units of multi-facilitied corporations in 1954, it had reached 71.9 percent by 1967.[23/] Moreover, specific data in support of this proposition can be found in a recent study of the State of Vermont.

> "In a study of the ownership of the 31 largest manufacturing plants in Vermont, it was found that 2 of the 2 plants employing more than 2000..., 4 of the 5 plants employing more than 1000, 13 of the 15 plants employing more than 500 and 23 of the 31 plants employing more than 250... are owned by out-of-state corporations. [24/]

The test being applied in that study is stringent indeed, since it involves ownership outside the state, not merely the community.

That this pattern of external ownership is widespread is attested to by the fact that as of 1968, the fraction of statewide manufacturing employment in units employing over 250 persons (which tend to be

multi-facilitied firms) was over 40 percent for all except the eight least industrialized states: Alaska, Montana, Nevada, New Mexico, North Dakota, South Dakota, Wyoming, and Hawaii.[25/] In other words, the trend in the process of industrialization has traditionally involved a shift to larger manufacturing units (to meet the imperatives of mass production) which, as has been noted, are more likely to be owned outside the community in which they reside. Governor Milton Shapp of Pennsylvania commented recently that while there were some 60 independent firms of reasonable size in the eastern part of the state a few years ago, there were now only four or five, the rest having either been acquired by outside interests or closed.[26/]

Industrial Trends

The problem of absentee ownership is in many ways simply a reflection of another problem--that of changing industrial trends to which companies respond with deadly certainty; profits first, community second. The case illustrated here is a poignant, but not untypical, example.

> Roanoke is a small city of 5,000 located in the central part of Alabama, near the Georgia border. The town has been dependent, for more than 50 years, on two textile mills which, until recently, employed some 62 percent of Roanoke's labor force.

> Last November (1970), Handley Mills, the larger of the two, closed its doors; 844 workers were idled. The other factory, the Rolare Manufacturing Company, filed for bankruptcy at the end of March. A further 440 workers lost their jobs. An executive of Handley Mills predicted at the time: "And a hundred more plants will close next year if something isn't done." Since then, the economic shock wave has hit nearly every local institution and other businesses have closed.
>
> Handley's general manager, according to the N.Y. Times, "said he felt Handley had 'turned the corner' and was on its way back to prosperity when the closing came. 'But I guess everybody just sort of lost faith.' In a footnote, he added: 'We were just getting ready to move the corporate headquarters down from New York. It would have been the first time in 50 years that control of the mill would have been in the hands of the people living in Roanoke.'" 27/

The Roanoke example is typical of the continuing series of economic crises that afflict small communities as whole industries shift their focus. The textile industry, for example, concentrated itself in New England for 100 years before World War II. Literally hundreds of towns were built, or grew, around the mill, which often constituted the basis of such communities' economic health. 28/ By the onset of the war, however, the cheaper labor in the rural South encouraged firms to move.

The war itself and the widespread affluence following it deferred the inevitable, but one by one, firms went out of business or moved their plants into more modern and/or less expensive southern facilities. Moreover, important supporting industry--textile machinery, for example--

either moved or was itself superseded by new technology, in this case, synthetic fabrics and new production processes.

Some local enclaves maintained their vitality--a few still do--but competitive pressures, obsolete equipment, decaying facilities, and little or no sophisticated personnel have taken an inevitable toll. A casual tour of northern New England, in particular, makes obvious the extent of local dependence on those enterprises. They now stand as picturesque ivy-covered ruins, empty shells, or at best, home for one or more much smaller enterprises. Most of these towns have never regained their former vigor; some are virtual ghost towns. Harrisville, New Hampshire, for example, the home of Cheshire Mills, is for sale--nearly lock, stock and barrel.[29/]

But, as the earlier vignette suggests, there is no permanent solace even in the South. Some 27,000 textile workers in that area lost their jobs in 1970 alone. It took more than a century for New England to lose its mills; the process is being repeated in parts of the South within a couple of decades. And the textile industry is but one example among many. The rate of change is increasing, and whole areas--particularly economically dependent communities--must consider new alternatives to assure their continued health, and perhaps survival, in light of these effects.[30/]

Examples of communities disrupted are not scarce; one can hardly look at the newspapers without being assaulted by others. Consider:

- Unemployment in Bristol, Connecticut, stands at 21 percent (5,200 workers), largely due to layoffs in heavy manufacturing industries.[31/]
- Tyrone, Pennsylvania is "for hire" according to a full page ad placed in the Wall Street Journal. The town has 7,500 people, of whom 550 lost their jobs when Westvaco Corporation moved its pulp operations to Kentucky.[32/]
- Lackawanna, New York, dominated by the Bethlehem Steel Company, has seen over 4,000 workers laid off within the last year. Exact figures are hard to get; the company evades the question.[33/]
- In Cornell, Wisconsin (population 1,590), St. Regis Paper Company is planning to close its paperboard mill early in 1972, thus putting some 300 people out of work. The mill has been operating for over 50 years.[34/]
- The central Maine region of Oxford, South Paris, and Norway has seen its last two remaining shoe manufacturing companies shut down. Nearly 700 shoe workers in the area are without work; unemployment stands near 20 percent.[35/]

It is possible, of course, that there is no meaningful solution short of massive programs such as relocation. Certainly, some communities and some areas will suffer no matter what new politics and programs develop. But the visible part of the problem is only the tip of the iceberg: we confront a crisis in community economic health. If, as has been said, a healthy nation is composed of healthy communities, then unlikely or difficult strategies that are potentially helpful deserve consideration. In particular, reducing the vulnerability of communities to economic disaster would be highly beneficial.

JOBS AND THE COMMUNITY

When individuals lose their jobs, they can be found others in all good conscience. When communities lose their economic base, however, finding jobs for the individuals most directly and immediately affected is not adequate. To understand the reason for this distinction requires examining what might be called the quantization of production, and the chain of events that follows when production in a plant on which a community is dependent grinds to a halt.

The Economic Elements of Production Decisions

In looking at the factors needed for production (labor, capital, materials, facilities), it is evident that some can be subdivided more finely than others. Capital is obviously such

a factor in principle. An expensive machine is not; half of a lathe is not much use. Moreover, even for those factors which are completely or even relatively divisible (e.g., steel ingots), the unit cost increases as the quantity required decreases. That is, the ingots that can be purchased for say, $100/ton in quantities over 10 tons may cost $200/ton if only 1/2 ton is needed. The same is true of labor, particularly specialized. Economies of scale in production arise largely from this source. Facilities designed to operate at a certain level of output accordingly find their unit production costs rising as output is reduced beyond some point.

Now, if that were the only issue at hand--the increased unit cost at lower production--some tradeoffs might be possible; less profit or margin in exchange for continued operation of the unit. At a certain point, however, a quite different element enters the calculation. Usually alternative methods of production, or sources of supply, or means to the ultimate end, are available in any given situation. Since the present situation of interest involves industries and firms that are either explicitly operated as part of a larger economic organization (e.g., branch plants, or independent plants producing intermediate goods) or are compelled, willy-nilly, to compete very broadly with others (e.g., local textile or shoe firms in New England), other alternatives are indeed available.

If then, the government decides to reduce its investment, in, say, certain defense systems, or if a large company shifts its product line, the chain of events that follows involves a re-evaluation of the entire process by which the end targets are to be met. As a consequence, frequently a local plant producing a specific subcomponent may lose a (perhaps critical) market, the decision having been made to use a different method of construction, not requiring that item. Or the item may now be purchased from a different source that was previously unable to meet the order. The net result: a plant is forced to close, or one of its product lines is dropped, along with the employees involved in its production. In other words, relatively small changes in final demand may cause a larger change--a quantum of change--elsewhere. The same holds true for decisions made by corporations operating branch facilities elsewhere. Their interests may be better served by similar quantum changes.

But this is not the end of the chain of events. It is not merely that a plant closes, or that production of a piece of defense hardware is shifted elsewhere. That by itself is bad enough. The crisis and its more complex problems arise because modern industrial economies are built like an upside-down pyramid. At the base, typically, rests productive manufacturing, converting raw or semi-finished materials to more valuable products. In support of such efforts, other firms spring up to take advantage, on the one hand,

of the supplies and services required by the plant, and on the other hand, to retail goods and services to those employed. In this way, more of a community's economy is related to the obvious direct benefits conferred by an enterprise than is apparent at first glance (referred to as a "multiplier" effect).[36/]

Some part of this multiplier is due to a generally applicable effect: employees earn money which they spend on consumer items and help support, in the process, retail stores and some producers of goods and services. However, a portion of these ancillary activities are specific to the firm. Some of its needs are particular and directly related to the goods it produces. If it is a manufacturer of electronic subassemblies, it will very likely buy components, instruments, and hardware from other local firms that depend on that business. Under the circumstances, if that manufacturer either goes out of business or goes into a different business, these secondary firms will suffer, and possibly fail. And of course, even the general multiplier effect can be the source of further problems, as local businesses leave, change, or collapse.

As the aggregate income of community citizens drops, due to layoffs, cut-backs, or reduction in pay, the local economy decays faster than would be suggested by only the immediate or pivotal event. Moreover, additional factors exacerbate even this effect. When fewer people are employed in the community, local resources are drained--

savings accounts leave local banks, which are thus less available for local loans; municipal funds must be expended in welfare and relief measures, and cannot be invested in the community; sm merchants, businessmen, and professionals lose income and are deferred payment on debts owed them, which reduces their ability to purchase goods and services from others--and so it goes.

The Impact on Communities of a Plant Closing

This process of economic decline has been observed in detail in smaller communities. Herman R. Lantz, in his study of Coal Town, commented as follows on the events succeeding the slow decay of the town's major industry, the coal mines.

> "With time the signs of economic decline became more pronounced and patterned. Out of this appeared a kind of 'natural history of community decline' which possesses some predictability and regularity."

He further identified the pattern as consisting of: initial rumor (expressing fear of trouble), changes in working patterns, (general) business decline, mobility (people who can leave tend to do so), changes in consumer habits (careful budget planning, fewer luxury items sold), homes deteriorate and property values fall, gossip (about misfortune), and finally a variety of psychological effects (pessimism, cynicism, and hopelessness). Although Lantz is speaking explicitly of a "one-company" town, the same effects show up, if in somewhat modified form, whenever a significant loss occurs in a community's economic base. 37/

Any such firm is, in short, more than a place where certain individuals work, or where exists a set of specific jobs. It is an institution that transforms energy, labor, and materials in ways unique to that unit and that community. To quote William F. Whyte:

> "The factory is, in one respect, a status system, and this system is closely related to the status system of the community. The two systems are mutually interdependent so that changes in one inevitably have an impact upon the other." 38/

Such an organization plays an extremely complex role in its community. Individuals tend to derive specific roles, and to shape their self-image, in ways which are conditioned by their position in the enterprise. Firms also exert a strong influence on interpersonal relationships to the extent that people are already related in some fashion through their independent relations to the firm. Let the firm disappear, or even change its productive focus (and therefore, the roles played by its employees), and the social structure of the community changes accordingly.

For both economic and social reasons, therefore, a major change in the organization's tasks and purposes, or in its internal processes (as, for example, when the local mill is bought by outside interests), is traumatic to the community. Some suppliers of goods and services will simply disappear, their previous functions no longer useful. Others will be able to readjust, but only in time and at a cost.

At the same time, the processes by which the community operates will themselves change to accommodate the new circumstances; venerable traditions will suddenly appear inappropriate or meaningless. Under these conditions, even the immediate replacement of individual jobs by other individual jobs does not prevent serious strain within the community.[39/]

In actuality, the community's problem will be worse for several reasons. First, many people only secondarily involved will lose their jobs (with no prospect of immediate replacement), second, supplier firms or those using the plant output as a material to be processed further will necessarily cut back or go out of business, and third, even those directly involved will require time to regain their former income. Some never will, though all will have to expend considerable energy in redefining their identity and their role within the community.

It should also be noted that certain elements of the population suffer more than others, and are, in consequence, more susceptible to personal problems. The chain of events described above, which distribute the results of a discrete act (e.g., a local plant closing), comes to an end when the individuals and organizations involved cannot redistribute their difficulties, or further share them. That is, anyone whose income is suddenly reduced will limit his spending, reduce his expenses, and defer payments due as much as the situation permits. He

will, in short, try to conserve his resources and stretch them as far as possible. So also with businesses.[40/]

Those people and firms reasonably well embedded in the economic structure--those who have some resources, who have a degree of credit and standing in the community, who experience a dependable and regular flow of income--have some useful flexibility in time of crisis. The poorer members of the community are in no such position. Since they tend to occupy the most marginal jobs--if any--they can most easily be let go or their services not used. Moreover, since their general level of income is, by definition, either at or below the lowest requirement for tolerable living, they have little or no opportunity to save or accumulate resources.

Of necessity, they immediately require greater support and relief, both in the form of direct payments and indirect subsidies. This calls for increased community spending at the very moment when community income is reduced. Whenever the community experiences an economic crisis, the poor, in particular, are forced to suffer most immediately and totally. Even if, during relatively good times, they are attempting to improve their skills, or otherwise accumulate for the future, these "routine" economic changes tend to wipe out such investments.

Finally, let no one suppose that such events occur only once in a great while in a given community. The economic system exists routinely in a state of flux, with general conditions now better, now

worse. 41/ Roland Warren has written of

> "the broad sweeps of economic activity which bear communities--differentially but inexorably--now up on one wave of high economic activity, now down into the generally shared trough of recession."

Moreover,

> "...specific events or decisions...,though minimal in the total economic picture, may be crucial on the local scene. [They]...all have a local community impact which may cause the level of economic activity in the community to depart drastically from the national trend." 42/

If communities are going to insulate themselves in whatever modest measure against these forces, what they need is an opportunity to exercise a degree of control and to increase their economic autonomy. Further, it is crucial that any new instruments and devices conceive of the problem in terms of the community at large and not in terms of individuals and individual jobs.

TO REBUILD COMMUNITY: YES OR NO?

Implicit in what has been said so far is the assumption that existing communities should survive--indeed, that they should be strengthened and supported. In point of fact, there is often no choice; most will survive, one way or another. Nevertheless, a good case can be made for the positive social value inherent in rebuilding and upgrading them as much as possible. Furthermore, while economic problems are not restricted to small communities, it is at least in those of modest size that they are most serious; and since the social significance of the human community is likely also to be more evident in smaller cities and towns, what is said below applies to them with special force. The same general considerations have, however, relevance even to cities like Seattle.

The Meaning of Community

Aristotle held that man is by nature a social animal and that quality is latent until developed through interaction with others. To quote Charles Horton Cooley:

> "...human nature is not some thing existing separately in the individual, but a group nature or primary phase of society.... It is the nature which is developed and

> expressed in those simple, face-to-face groups...of the family, the playground, and the neighborhood.... In these, everywhere, human nature comes into existence. Man does not have it at birth; he cannot acquire it except through fellowship and it decays in isolation." (emphasis added).[43]

It is in the sense of these primary groups that we understand one meaning of the word community. It is that association which acts as intermediary between the individual and society at large. Ultimately, it provides for the individual a locus of his identity; it contains many of the links connecting a person and his world. That sense of community, and the development of those links, can lead to stronger and more self-valuing persons. In simpler, more traditional societies, such communities constituted the basis of the social order.

But the processes of urbanization, industrialization, and bureaucratization, in conjunction with revolutions in transportation and communication, have confronted people with a mass society while breaking down the traditional communities.[44] Thus, Kenneth Kenniston speaks of "the shattering of community" and later, "We live as members of organizations and not of a community." And Philip Slater has described "...the feeble and self-defeating efforts of Twentieth-Century Americans to find themselves a viable social context."

A large volume of material has emerged, commenting on the loss of the mediating, stabilizing, and growth-enhancing qualities attributable to strong communities.[45] Robert A. Nisbet, in a powerful essay on this topic, deserves quoting at some length.

> "No large-scale association can really meet the psychic demand of individuals because, by its very nature, it is too large, too complex, too bureaucratized, and altogether too aloof from the residual meanings which human beings live by. The state can...mobilize in behalf of great 'causes' such as war, but as a regular and normal means of meeting human needs for recognition, fellowship, security, and membership, it is inadequate... The only proper alternative to large-scale, mechanical political society are communities small in scale, but solid in structure. They and they alone can be the beginning of social reconstruction..." [46]

Nisbet's observation summarizes one reason to support and sustain such communities as are struggling to survive, and to attempt to help others take root, where they do not now exist.

To say this is not to urge a return to some idealized and romanticized past. Modern industrial society has irrevocably transformed man's world, in some ways for the better, in others not. Harvey Cox, in The Secular City, has pointed out forcefully that among the other imperatives of present society is an increasing need for anonymity or at least impersonal relationships in the face of continual fleeting encounters with others.[47]

To attempt to make all of these into meaningful human contacts is both impossible and unwelcome. What seems feasible, however, is a better balance. It is possible to bear, and even welcome, some degree of anonymity (and privacy) if some sense of identity through community exists with others. Cooley's words, quoted earlier, provide the warning: human nature "decays in isolation."

Present Options

In the case of many existing communities then, there is no choice but to build or rebuild on the existing base. Such communities have a tradition and a history, as well as an ongoing social structure. Despite the evident mobility of Americans on the average, many would prefer to stay where they are, perhaps for "objective" reasons such as family origin, perhaps because of personal interest and commitment. Moreover, many are too poor to move, even if willing in principle. The Lynds, in their classic study of Middletown (Muncie, Indiana) during the depression of the 1930's, document the reluctance of workers to seek better employment opportunities elsewhere.[48/]

In the same vein, but more recently, Olin Corporation announced the closing of most of its Saltville, Va., soda ash facility--the only substantial employer in town. Although "Olin has offered to try to locate workers at other plants, less than 60 [of 415 affected] have registered any interest in the move, and only 4 have accepted jobs elsewhere." Further, "the suggestion that Saltville might fade into a ghost town--is met with civic-minded scorn" although real prospects for recovery are dim.[49/]

In any event, it would be economically and socially impossible to discard the investment and infrastructure that any settlement encompasses except in unusual and special cases.

And if existing communities fail, where are the people to go? Recently much attention has been directed to the increasing population growth and the inadequacy of present cities and towns to accommodate expected increases. One response has been a considerable effort to plan a large number of new towns, which presumably will be in some ways superior to existing towns. But even with a major commitment of this kind, the expected increase cannot be thus accommodated. William Alonso, in a detailed critique of existing new town policy proposals, concludes:

> "There is little force in the arguments... to channel much of our urbanization into a new towns pattern. On the other hand, there may be some sense in the limited use of new towns for the testing and development of... innovations which might be applicable to the expansion and rebuilding of existing cities." 50/

If, as Alonso suggests, new towns offer a sort of social laboratory, why cannot similar use be made of existing towns?

The Case for Autonomy

As has been previously argued, one of the critical issues facing most communities--and the smaller they are, the more generally true it is--is the lack of significant control over their own future. They are subject to decisions made in other places, by other people,

on the basis of criteria not strongly tied to the community. Roland Warren identified this trend as the most significant modern change in American communities.

> "...the 'great change' in community living includes the increasing orientation of local community units toward extra-community systems of which they are a part with a corresponding decline in community cohesion and autonomy." 51/

This change has not simply been forced on communities and their citizens. As power increasingly becomes exercised elsewhere, local agencies tend to abdicate even from what potential for local control still exists. Vidich and Bensman have described this process in detail in their study of a small town in upstate New York. "Instead, [the community] orients its actions to the facilities and subsidies controlled and dispensed by other agencies and by virtue of this, forfeits its own political power." 52/ To reverse this trend, or even to restrain it from further extension, there must be real options.

Three options come to mind, by which communities might recapture a degree of local stability. They are (1) private (non-absentee owned) businesses rooted in the community, (2) larger multi-facilitied corporations with more concern for their local setting, and (3) broadly community-owned enterprises. But in fact, the first two alternatives, while seductive and relatively straightforward, are inadequate long-term solutions even though they may ameliorate immediate economic problems. A closer look at each of these options is relevant here.

Limits of Private Control

The principle of local control--locally owned business--is part of the American experience. It involved the prosperous community whose economy (and the autonomy it conferred) was determined by a few local people or families. In some cases, the benefits were substantial. Where such people took seriously their "civic" responsibility, the towns often had unusual stability, attractive and expensive amenities and facilities, and essentially full employment.

In St. Johnsbury, Vt., the Fairbanks family, which owned the only significant local industry, was responsible for the town's railroad, its first bank, a private secondary school, free gas for public buildings, a library, a YMCA, and a museum of natural history--all built before 1900. According to Vermont Life, "As the Fairbanks' wealth increased, so did the mutual esteem between them and the townspeople..."[53/] W. Lloyd Warner, in his classic study of "Yankee City" (Newburyport, Mass.) describes the same process in detail.

> "Prior to bureaucratization there was a community consciousness in Newburyport that allowed the old families to provide leadership that symbolized the aspirations of the whole community in a fashion rarely approximated in American life." [54/]

These situations developed out of an historical experience in which the onset of industrial economies permitted new options, albeit options based on traditional social patterns. But Yankee City must now fend for itself, partly because ownership of local industry was transferred to New York interests.

In St. Johnsbury, the Fairbanks family sold its mill to Fairbanks-Morse, a Chicago-based corporation, which decided in the early 1960's to move it elsewhere but was convinced to do otherwise at the last minute by an heroic--and financially draining--effort on the part of the townspeople.[55/]

Although such communities still exist (Columbus, Indiana,' headquarters of the Cummins Engine Co., is one), they are increasingly rare.[56/] The nearest modern equivalent is the "company town" built around a branch plant of a larger industry. These, of course, are prey to all the problems described earlier. And the attempt to resolve community economic problems by enticing another company to replace the one just lost (as in, for example, Saltville, Mechanicville, or Tyrone) simply recreates the same potential problem, although the short-term result may be beneficial.

Clearly, if communities are to sustain the autonomy they achieve through locally-controlled businesses, they must go beyond the pattern of ownership by local elites as in St. Johnsbury, Newburyport, or Columbus, for the simple reason that an individual owner or small group may tend to see his or their interests as diverging from those of the community. As these businesses prosper, and as their owners or their owners' families see the prospect of substantial wealth without risk of loss or need for continued effort, such firms become all too susceptible to acquisition by others. To make the point more sharply, some 8,152 significant manufacturing and mining firms disappeared as independent entities in the five years from 1964 to 1969, not including a large number of smaller ones. Size alone is no deterrent;

698 of these had assets of more than $10 million.[57] Richard J. Barber, in a recent study of the American corporation, commented as follows:

> "Closely held, narrowly specialized, and local-regional firms have disappeared in great numbers in recent years, leaving more and more industries dominated by big, broadly diffused, and nationally--even internationally--based companies." [58]

In any case, decisions (such as to sell) are made by individual owners on the basis of their priorities and interests, rather than those of the community.

Above and beyond that, many Americans today are no longer willing to settle for "security" in exchange for continuing dominance by social and economic elites composed of mill owners and their families. Increasingly, the federal government provides this security, and work alone rarely offers sufficient personal fulfillment. The American economic machine has shown itself to be capable of immense--even profligate--productivity, and most people have definite--and rising--expectations about sharing more fully in its potential. All in all, it is difficult to imagine that many people, or communities, will put those expectations aside for long.

Limited Corporate Control in Communities

In all three of the cases presented above--defense-related contracts, absentee owners, industrial trends--the corporation plays a major, and often pivotal, role. When federal contracting patterns change, it is "private" corporate contractors that are most immediately

affected, and that make the critical local decisions. Problems of absentee ownership and of branch plants are, by definition, corporate concerns. And industrial trends, though a problem of different dimension, make their presence felt most keenly by the action of major firms responding to, or attempting to offset, those trends. It is therefore of special importance to look briefly at the nature of modern corporations, and the potential for communities to change the nature of their interaction with business enterprises so as to minimize unhealthy dependence.

The concept of the corporation in its present form derives from much earlier times, when the mechanisms for control were consistent with the social and economic order. But widespread and intermediary capital markets, the shift from owner management to professional management, and the enormous scope and power of the modern corporation raise serious questions about its governance in light of the constituencies served.[59/] Stockholders, of course, are supposedly in the controlling position, but both the extent of their control, and its appropriateness, are open to serious question. To quote Abram Chayes:

> "Of all those standing in relation to the large corporation, the shareholder is least subject to its power... He can sell his stock and remove himself, as a shareholder... A concept of the corporation which draws the boundary of 'membership' this narrowly is seriously inadequate... A more spacious conception, and one closer to the facts of corporate life, would include all those having a relation of sufficient intimacy with the corporation or subject to its power in a sufficiently specialized way." [60/]

In the general case, this has been accepted as a practical matter. Indeed, the presence of a large corpus of law attests to the attempt to force attention to these and other related issues of corporate control. Anti-trust legislation, trade policies, protection for stockholders, regulation of financial markets, and a legal framework for union representation and negotiation can be viewed as protective devices for the benefit of one or more corporate constituent groups, including the public at large. As a class, however, dependent communities have less protection, and are more exposed to risk than any other significant constituency. Workers can organize (in principle) and strike; customers can buy from other sources (even in oligopolistic industries, there is generally that degree of competition); competitors can force equivalent access to needed resources; and stockholders can bring suit (or for that matter, sell out). However, save for those rare cases in which residents of the community in question form an important subset of those classes, they have little legal protection against external decisions of great importance to their economy.

In other words, there is no market place within which the community and the producers of goods or services routinely interact. They may share space for a while, but largely as independent rather than interdependent entities. If local communities need to become self-controlling there is thus a need for the development of new mechanisms, whether they derive from the bringing together of the community with more conventional parties in the marketplace (as in the case where the enterprise largely serves local needs, thus

bringing its customers into closer registration with the community) or by devising new strategies or structures (for example, by means of community organizations negotiating more influence and participation as a condition of entry or growth for corporations).[61]

Such changes cannot be made overnight. It will take time and resources to begin to focus communities and community organizations in these new directions. However, even in the short run, alternatives exist. Many branch plants or enterprises owned by larger corporations are closed because of reasons not directly related to the community. Such facilities could be acquired by a community and oeprated for its benefit.[62] Because of differences in goals, and in criteria applied to such a decision, a facility which is not seen as desirable property by a large corporate entity may be eminently so as an independent community venture.

Another problem related to large corporate structures, which exacerbates the situation in communities suffering from "economic conversion," is that management and professional personnel attached to local branch plants have no particular allegiance to that community. As Norton Long has said, "It would scarcely be saying too much and perhaps is tritely apparent that people may be more citizens of the corporations for whom they work than of the local communities in which they reside."[63] In fact, John R. Seeley suggested that the only realistic option might be to develop more communitarian corporations, even at the loss of some economic efficiency.[64]

When a plant closes, the key staff often move, thus depleting the community of some of its critical resources. It is a sort of social distillation, whereby the more valuable and volatile people are driven off to condense elsewhere, leaving behind an increasingly concentrated residue of poverty and need. If alternatives were available which offered them a stake in staying, and a basis for greater commitment to the community, they would just as (or more) readily stay.

In the end, a community might seek to force outside corporations (or other agencies, for that matter) to put a higher premium on community needs. But, even if that approach was legislated (for example, by setting taxes or changing accounting principles so that a firm had need to bring into its calculations otherwise unrecognized costs), it would fall short of full effectiveness because of the unavoidable disparity between a corporation's and a community's ultimate priorities.

Accounting for Community Priorities

Communities need some assurance that their economies are not likely to collapse or become critically ill. That means reducing the extent of external control to assure that the community's goals are given the highest priority. The greater the extent of local autonomy, the greater the control exercised within the community, the more opportunity for it to survive, to develop, and to grow in its own fashion. Only this process will permit increased investment in the community's future, and the corresponding increase of personal commitment on the part of its citizens.

To the extent that an absentee owner, a national firm, or a governmental agency can legitimately take the local situation more carefully into account, they certainly should. However, this desirable strategy becomes positively mercurial on closer inspection. As soon as it is pushed slightly, it dissolves into fragments. Whatever charge is placed on those outside agencies, so long as they have the authority to make the decisions, then their estimate of the situation is the one that counts. Their priorities, their tradeoffs, most likely will not coincide with the community's. They may well believe in a "best" course of action that is in fact least useful (or most harmful) to any specific community.

And, in fact, they may well be right, from their own point of view. Any organization, whether governmental or private, has the ultimate obligation to frame its actions in terms of the whole system over which it operates. It must (at least should) consider the special needs of its constituent elements, but in and of itself, it must balance those special needs to arrive at an overall decision. By definition, an organization's function is to attempt to optimize the benefits or values for the whole. To do otherwise is to invite legitimate complaints from its other constituents, as well as to risk failure to provide such real benefits as should result from its larger scale and scope.[65/]

The conceptual basis--the reason--for the formation and utility of organizations lies in their ability to achieve things that are difficult

or impossible otherwise. Thus, if those things would be more easily or effectively achieved by an organization of different size or scope, the indicated changes should be made. Scale, in other words, should be a function of the goals to be pursued.

What is needed, therefore, is an overall structure by which larger units--corporate or governmental--can provide the overall benefits and opportunities which only their size can offer, but within which smaller entities have the control and legitimacy appropriate to their more specialized purposes and needs. There is, in short, a need for some basis by which the community can act in its own unique interest within the broad spectrum of overlapping institutions which--often by default--now determine the community's future.

The possibility of action within a community is illustrated by events following Westvaco's closing of its Mechanicville mill.

> After the closing of the paper mill was announced, seven middle managers offered to purchase the plant from Westvaco, with the goal of worker and/or community ownership. The local union chapter agreed to take a 10 percent pay cut, and a local bank agreed to put up the needed working capital of nearly 3 million dollars. After extensive negotiation (and an initial turndown from the company), Westvaco agreed to sell the property.
>
> The arrangement is highly plausible in principle. Westvaco recently invested over 60 million dollars in a new and automated facility, as part of a corporate strategy to mechanize as much production as possible. As a consequence, their market orientation is towards large volume users of paper which can be economically produced on such equipment. The Mechanicville plant is not able to produce effectively for those markets, since its capability lies in the production of small quantities of paper tailored to customer requirements.

> From the viewpoint of the new group, however, such a facility is an ideal base for independent production. It provides opportunity for specific service-oriented relationships with customers, it is not subject to strong competition from highly automated plants, and it requires the craft skills of local trained paper-makers. Final results await the test of time, but it can work. 66/

This example is obviously unique, but it demonstrates the different criteria that different groups apply. It suggests, moreover, that opportunities do exist, and exist routinely, though they are not usually recognized. The experience of a plant or a defense installation closing, or the loss of any significant part of a community's economic base can be of critical service in galvanizing the community into action.

Community Options

In order to maximize the benefits that the community might derive from conversion, what is required is an agency, organization, or informal group whose constituency is related to the community. Furthermore, whatever the specific structure, community control requires more or less formal organizations, able to focus citizens' energies towards particular ends, and to provide the means for action. To meet both social and economic needs, several criteria suggest themselves.

First, the organization should allow for the meaningful involvement of community members. Second, the priorities that determine the focus and tasks of the organization must be set by community residents themselves. No other arrangement can build commitment to the organization, or accurately respond to the wishes of community members, no matter

how "reasonable" or "appropriate" it might seem to an outside agency, and regardless of the apparent similarity of the end result. It is the process that builds commitment.[67] Third, all members of the community in question should be enabled to participate equally, independent of their social, educational, or economic position. Otherwise, fragmentation will continue, even if along different lines, expectations will be further frustrated, and distinctions that sever rather than bind will be created among the community's citizens.[68]

One structure that meets these criteria is the community development corporation (CDC).[69] CDCs can operate businesses, perform social and community services, and negotiate with other agencies. Moreover, every community member can participate on an equal basis (one man, one vote) with others, and the cost of entry (one share) is set at a level which excludes no one. Local government, too, can own commercial properties (as in Deming, N.M.) or hold a profitable lease on industrial parks (as in Rockville, Md.) for the benefit of the community;[70] so also can the local development corporations, operating as quasi-independent entities (like authorities) to channel resources and provide the foundation for other enterprises.

It has been argued that an increase in community autonomy works a dis-economy on the larger society. On the contrary: it can be beneficial at both levels. Certainly what is proposed here would have social value by increasing the economic health of towns and cities, providing

meaningful opportunities for them to invest in their own future, and enabling their citizens to regain both a sense of influence or power and of shared community. Further, these options would minimize the increasing dependence of individuals and communities on larger, ever-more-burdensome bureaucracies; they would offer a much broader set of alternatives for growth and development (since they would be more uniquely tailored to reflect local diversity), and they would reduce such present problems as are due to outmigration from poorer areas into urban centers.

These potential gains alone would justify the strategies proposed. However, even in the narrower sense of economic efficiency, the decentralized industrial system that would result from greater community economic autonomy based on independent enterprises would probably be less wasteful of resources. Highly efficient enterprises, even in manufacturing industry, are increasingly possible on the modest scale appropriate to community-based economic development. 71/

Conversion to greater community economic autonomy is both important and possible, although the specific means for so doing will vary with the situation. What is needed is both the real means to make such a strategy feasible, and attitudes and structures that can capture the imagination and will of community members; that can be forged into instruments of community power; and that increase the community's capacity to improve the options for its poorer as well as its more affluent, members.

APPENDIX I - NOTES ON THE DEFENSE INDUSTRY

American economy's dependence on the defense industry is substantial, if not critical. Given the extraordinary network of relationships comprising our industrial substructure, it is difficult to know where to draw the line. At the core stands the Department of Defense, flanked by NASA, the AEC, and smaller related government agencies. These three agencies alone spent $83.3 billion in the fiscal year ending June 1970. In terms of money appropriated by the Congress in 1970, 61 percent (nearly $102 billion) went to cover present and related past defense-based expenditures (including, e.g., Veterans aid and interest on war-related national debt).[72/]

This money directly supports about 4.7 million civilian employees, and a relatively small number of large contractors (the top 25 receive roughly half of all procurement dollars; the top 100 roughly two-thirds). The prime contractors total 22,000. They, along with another 100,000 subcontractors, operate plants in 5,200 communities in every state of the Union, distributed in 363 of the country's 435 congressional districts.[73/]

In one form or another, the money thus injected into the economy, and its relative independence of market forces (i.e., money can be spent arbitrarily by the federal government and demand thus created) are used to explain the supposed economic benefits to society

that accrue from any government spending, including military. Since, however, the overwhelming bulk of government procurement is defense-related, the characteristics of that sector need particular attention. It has even been argued that no alternative but "defense" expenditures provides an adequate mechanism to assure economic stability. In its extreme form, this notion -- that capitalist economies need war--is, as Paul Samuelson said, the "pre-1915 Leninist ideology." And without doubt, some benefit does exist from even defense-oriented federal spending.[74/]

But to the extent that these dollars are used to produce goods (or more accurately, "bads") that can be put to no further use than destruction, important potential economic leverage is lost. Increases in real productivity in a technological society are built primarily on ever more sophisticated capital equipment and machinery, with which a given work force can produce faster, better, and ultimately cheaper goods. It is this feature of the defense industry that most differentiates it from other forms of industrial investment; and it is also this feature which accounts for the need of the defense agencies to claim, via programs of "technology transfer," that such production does contribute elsewhere. It is argued basically that defense and space research operates to extend the frontiers of technology, and that these advances are important assets for the civilian economy since they can be "transferred" to applications very far removed from their source. Microelectronics (useful in computers and sophisticated measurement and control devices) is one example; satellite communication and

mapping (international television, weather forecasting, etc.) is another.[75/]

However, this effect can never recover more than a fraction of that achievable by alternative expenditures (e.g., in public transportation systems) which could accomplish the same technological development while also producing useful economic goods. In addition, to the extent that the skills and experience needed for these limited purposes are so specialized as to be of no particular use elsewhere, human assets have also been "converted" to dead ends. The figures quoted earlier regarding unemployed scientists, engineers, and professionals partly reflect this fact, although these assets are probably not irretrievably lost merely waylaid.

For these reasons and others mentioned in the body of this paper, defense-related industry is an extremely hazardous economic base for communities and larger areas alike. The very nature of the business often results in facilities and human resources whose potential use is largely or entirely restricted to the artificial and largely arbitrary demands created (or destroyed) by government action.

APPENDIX II - NOTES ON THE CORPORATE SECTOR

The Fortune 500--the 500 largest industrial (excluding financial, utility, or retail companies) corporations in the country--produce 65 percent of all the manufactured goods in the country (total sales of $463.9 billion). They employ 41,600,000 people, had total profits of $21.7 billion (74.8 percent of all U.S. industrial profits), and own assets worth $432.1 billion. 76/

What is most striking about all of this is the extent to which manufacturing facilities are owned or controlled by multi-facilitied corporations. In 1963, the last year for which comprehensive figures are available, 18,600,000 people were employed in 402,000 separate units. The details are shown in Table I regarding employment, along with the number of such units operating more than one plant. Those labelled multi-unit, multi-industry are, by one standard or another, conglomerates; their number has increased through the 1960s, presumably at the expense of others.

The fact that the mean number of employees/unit is nearly identical for both single and multi-industry firms is, however, presumptive evidence that efficient manufacturing installations need not be large and that conglomerate growth is not due to the increased size of facilities but to acquisition of other modest units. Within manufacturing plants, distribution of size is heavily skewed, as indicated by the fact that the overall mean

number of employees per separate unit is 46, whereas the median is only 5. That is to say, half of all manufacturing units employ 5 or less people.[77/] The distribution of manufacturing employees and units within different size classes is shown in Table II for 1968 and 1970, along with the population in each category. It is interesting to note that the fraction of employment in units with over 500 employees has decreased slightly, the change being accommodated by a corresponding increase within moderate sized units.

As to geographic distribution, only New York (13.7 percent) and California (10.1 percent) exceed 10 percent of the total number of manufacturing establishments, but those two states, plus Illinois, Michigan, New Jersey, Ohio, and Pennsylvania include slightly more than 50 percent of the total. The number of units having more than 250 employees is 14,300 (4.8 percent) with a total aggregate employment of 11,830,000 (60.1 percent). These plants are fairly uniformly distributed, with the exception of seven relatively unindustrialized western states. A rough breakdown is given in Table IV. Within the states, further, there is widespread dispersion of manufacturing plants into virtually all counties of the industrialized states, although units tend to be more or less clustered near metropolitan areas.

NUMBER OF COMPANIES, SEPARATE MANUFACTURING UNITS, AND EMPLOYEES BY CLASS OF OWNERSHIP (1963)

TABLE I

	Independent Units	Multi-Unit Single Industry	Multi-Unit Multi-Industry
Number of companies	263,000	4,500	6,550
Number of Units	263,000	15,300	123,800
Mean units/co.	1.0	3.4	18.9
Number of employees	5,570,000	1,396,000	11,602,000
Mean emp./unit	21.2	91.4	93.8
Mean emp./co.	21.2	310.0	1,770.0

Source: Enterprise Statistics, Bureau of the Census, 1963

NUMBER OF UNITS AND EMPLOYEES IN MANUFACTURING UNITS OF DIFFERENT SIZE CATEGORIES

TABLE II

No. of Employees per unit	No. of Units		Total No. of employees (1000's)		Percent of all employees in class	
	1968	1970	1968	1970	1968	1970
1-3	71,600	68,900	133	128	6.2%	6.1%
4-7	48,200	47,400	257	253		
8-19	66,000	66,000	825	825		
20-49	51,000	52,000	1,600	1,640	17.5	17.8
50-99	26,400	26,800	1,840	1,870		
100-249	20,900	21,500	3,240	3,330	30.7	32.0
250-499	8,100	8,600	2,810	2,980		
500-999	3,750	3,800				
1,000-1,499	1,050	1,100				
1,500-2,499	680	710	9,020	8,730	45.6	44.1
2,500-4,999	480	460				
Over 5,000	220	200				
TOTALS	298,500	297,800	19,720	19,760		

Source: 1968 County Business Patterns, Bureau of the Census, 1969
1970 County Business Patterns, Bureau of the Census, 1971

CHANGE IN NO. OF MANUFACTURING ESTABLISHMENTS CONTROLLED BY MULTI-UNIT AND SINGLE-UNIT COMPANIES

TABLE III

	1954	1958	1963	1967
Total				
Establishments (1000's)	287	298	307	306
Employees (1000's)	15,600	15,400	16,200	18,500
Single Unit Companies				
Establishments (1000's)	225	256	261	254
Employees (1000's)	6,200	5,300	5,200	4,900
Multi-Unit Companies				
Establishments (1000's)	31.8	41.9	45.9	51.7
Percent of all Establishments	11.1%	14.1%	14.9%	16.9%
Employees (1000's)	9,500	10,100	11,000	13,300
Percent of all Employees	61.0%	65.6%	68.0%	71.9%

Source: 1967 Census of Manufacturers, Vol. I, Bureau of the Census, 1971

FRACTION OF STATEWIDE MANUFACTURING EMPLOYMENT IN UNITS OF GREATER THAN 250 EMPLOYEES

TABLE IV

% of state manufacturing employment in plants of greater than 250 employees	
Less than 30%	Alaska, Montana, Nevada, New Mexico North Dakota, South Dakota, Wyoming
30-40%	Hawaii
40-50%	Florida, Idaho, New York, Oregon, Rhode Island, Utah
50-60%	Texas, Vermont, Arkansas, California, Colorado, D.C., Georgia, Massachusetts, Louisiana, Minnesota, Nebraska, New Hampshire, New Jersey, Oklahoma
60-70%	North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, Washington, West Virginia, Missouri, Wisconsin, Alabama, Arizona, Connecticut, Illinois, Iowa, Kansas, Kentucky, Maine, Maryland, Michigan, Mississippi
greater than 70%	Delaware, Indiana, South Carolina

Source: 1968 County Business Patterns, Bureau of the Census, 1969

NOTES

1. Ellis R. Mottur, Conversion of Scientific and Technical Resources; Economic Challenge-Social Opportunity, Technological Innovation Policy Project, Program of Policy Studies in Science and Technology, George Washington University (Washington, D.C.: March 1971), p. 33. Mottur predicts 200,000 unemployed scientists, engineers, and technicians by the end of 1971.

   According to the Boston Office of the Bureau of Labor Statistics, the unemployment rate for "professional and technical personnel" went from 1.8 percent in December 1961 to 3.4 percent in March 1971. This is equivalent to a drop of 185,000 jobs, but it is a broader category than that used above.

2. Unemployment figures are from Economic Indicators (Washington, D.C.: Government Printing Office, January 1970, March 1971).

   During the late 1950's and early 1960's, an effort (originally triggered in part by the first Sputnik) was made to increase the number of technical personnel available on the presumption that there would be a shortage in the late 1960's and the 1970's. See, for example, Gerhard Cohn and Leonard A. Lecht, "Requirements for Scientific and Engineering Manpower in the 1970's," in Toward Better Utilization of Scientific and Engineering Talent, Report of a National Academy of Sciences Committee (Washington, D.C.: 1964), p. 71ff., which predicted a minimum deficit of 147,700 trained people in 1970.

3. Michael D. Mosettig, "Defense Report; Proposals to Convert Defense Industries to Peacetime Production Find Few Supporters," in National Journal 3 (August 28, 1971): 1810.

   A few of the many important books and articles on the issue of defense conversion are listed as follows: Fred J. Cook, The Warfare State (New York: Macmillan Co., 1962); Richard J. Barnet, The Economy of Death (New York: Atheneum Publishers, 1969); a special issue on "Military Industrial Complex," in The Congressional Quarterly Weekly Review (May 24, 1968); W. Adams, "The Military Industrial Complex and the New Industrial State," American Economic Review (May 1968):652-665; and the writings of Seymour Melman, especially Our Depleted Society (New York: Holt, Rinehart, & Winston, 1965), Pentagon Capitalism (New York: McGraw-Hill, 1970), and (as ed.) the five-volume series, Conversion of Industry from a Military to Civilian Economy (New York: Frederick A. Praeger, Inc., 1970).

4. For example, both Senator Alan Cranston of California, and Ken Bannon, Director United Auto Workers Aerospace Division, made such a suggestion at a recent conference. See Leonard Rodberg, Report on the Conference on Economic Conversion, Coalition on National Priorities and Military Policy (Washington, D.C.: 1971). See also p.43 of this paper, and note 75.

5. The three major bills are surveyed in Mottur, op. cit., p. 11ff. Pending legislation is covered more broadly by Mosettig, op. cit., pp. 1814-1815.

6. Mosettig, op. cit., p. 1810ff.

7. The Massachusetts figure is from a Boston Globe editorial, 1 March 1971. See also Mottur, op. cit., p. 57: the figure for Los Angeles is from Mottur, op. cit., p. 55; that for Palo Alto/Stanford is taken from discussion at the National Conference on Economic Conversion, Washington, D.C., March 31 to April 1, 1971.

8. The national figure is from Survey of Current Business (Washington, D.C.: Government Printing Office, April 1971); the Massachusetts figure is from the state Division of Employment Security, personal communication; the figure for California is from a statement of Representative Glenn M. Anderson of California in Congressional Record, April 21, 1971, p.H 2775; the figure for Maine is from the state Division of Employment Security; and the Washington figure is from the state Division of Employment Security.

9. Massachusetts Division of Employment Security. A more detailed picture of the changes within a state, over the same period of time, is shown for Massachusetts in the two following tables.

TABLE V

Unemployment (Unadjusted) for SMSA's

SMSA	December 1969		April 1971	
	%	No.	%	No.
Boston	3.2	46,200	5.7	83,000
New Bedford	6.5	4,200	9.2	5,800
Lowell	5.4	3,300	11.6	7,500
Brockton	4.4	2,600	8.7	5,300
Springfield/ Holyoke	4.6	10,300	8.5	18,800

TABLE VI

Unemployment (Unadjusted for Employment Areas)

Employment Area	December 1969		April 1971	
	%	No.	%	No.
Newburyport	6.5	850	15.3	2,100
Milford	6.5	800	13.3	1,700
North Adams	4.8	800	11.9	1,900
Bourne/Wareham	8.0	400	17.4	990
Greenfield	4.7	850	8.4	1,550
Provincetown/ Truro	29.9	490	31.5	620

Source: Massachusetts Division of Employment Security

10. The Economist, May 22, 1971, p. 57.

11. John E. Lynch, Local Economic Development After Military Base Closures (New York: Frederick A. Praeger, Inc., 1970), p. 231.

12. Basic population data from Statistical Abstract of the U.S., 1971; unemployment figures and the quotations from The Economist, op. cit.; Mr. Fitzgerald's comment was made at the Conference on Economic Conversion, cited above; the comment on Boeing's efficiency is based on Peter Barnes, "Aerospace Dinosaurs," The New Republic, March 27, 1971.

13. Senator McGovern in Congressional Record, cited above, is the source for the figures on procurement dollars. The figures on geographic distribution are from Senator Fulbright, as quoted in the Boston Globe editorial, 2 March 1971.

14. Figures are taken from Economic Report of the President, 1971 (Washington, D.C.: Government Printing Office, 1971), especially the section "Defense Spending and Employment," pp. 42ff. See also Appendix I, p. 43, of this paper.

15. Jeffrey Schaevitz, University of California at Berkeley, has estimated 20 percent; quoted in Barnet, op. cit., p. 151. Seymour Melman estimated 20-25 percent in testimony before the Senate Committee on Labor and Public Welfare, December 1, 1969. Senator George McGovern of North Dakota has estimated that 15 percent of that total labor force is employed by the military and arms industry combined (see Congressional Record, March 11, 1971, p. S 292f.).

16. Budget figures are taken from Charles L. Schultze et al., Setting National Priorities: The 1972 Budget (Washington, D.C.: Brookings Institution, 1971). In any event, the nature of federal contracting is an issue. See pp. 43-45 of this paper.

17. John E. Lynch, Local Economic Development After Military Base Closures (New York: Frederick A. Praeger, Inc., 1970), p. xi, has treated the special case of military bases for the period of 1961 through 1969 in an extensive study. However, in a preface added after the study was completed, he commented on the closure announcements affecting fiscal years 1970 and 1971: "In contrast to the closures of 1961-1969, the nation should not expect the rapid readjustment of the communities affected by the more recent closure actions" (emphasis added).

18. The conversation mentioned took place with Albert C. Pierce, Tufts University. The figures on DOD land and property ownership are from Pentagon Capitalism, op. cit., p. 72.

19. Rachelle Patterson, Boston Globe, 12 April 1971, p. 3.

20. Information supplied by Mr. Carl Fagins, formerly of Westvaco, Inc., in Mechanicville. The sales and employment figures are from the 1970 Fortune list of the top 500 American industrial companies (see Fortune, May 1971).

21. The figures on number of plants are from the public relations departments of the corporations mentioned. The employment and asset figures for Arvin are from the 1970 Fortune 500 list.

22. Ibid. See also Appendix II, page 46, of this paper.

23. These data are contained in Tables I and III in Appendix II, p. 76, of this paper.

24. Lee Webb, "Colonialism and Underdevelopment in Vermont," mimeographed (Plainfield, Vermont: Goddard College, 1971), p. 3.

25. See Table IV, p. 51.

26. Remarks made at the Conference on Economic Conversion, Washington, D.C., March 31 - April 1, 1971.

27. Ray Jenkins, "Twilight of a Textile Town," New York Times, 28 March 1971.

28. In New England, this tradition actually goes back to revolutionary days. The first detailed information on Arkwright's "spinning jenny" was brought to Pawtucket, Rhode Island, in 1789. By 1810, "the bulk of goods manufactured by the loom" was produced in New England and accounted for nearly one-third of the total value of all U.S. manufacturing. See D.J. Struik, Yankee Science in the Making (New York: Collier Books, 1968), pp. 191ff.

29. The package available for sale, as of March 14, 1971, included the mill complex (some 95,000 square feet), considerable textile machinery, 14 single and three double houses, 30 acres of land in the center of town, plus 160 acres of woodland and lakes -- all for $850,000. For an indication of the size of the town, there are about 20 more houses (privately owned) in the town itself. (The above information was obtained through a private communication with Mr. N. Tsivoulis, following his conversation with the president of the Cheshire Mills, Mr. Colony.)

    The history of these historic mills, and of the community, has been described in J.B. Armstrong, Factory Under the Elms (Cambridge: Massachusetts Institute of Technology Press, 1970).

30. New York Times, ibid. The entire American textile industry is under attack from foreign -- especially Japanese -- producers. The initial result was the voluntary agreement on the part of the Japanese to limit their share of the U.S. market for certain classes of products. This has, of course, now been superseded by the import quota established under President Nixon's new economic policy. See, for examples of data on the general problem, Isadore Barmash, "Textile Woe," New York Times, 4 July 1971; and Time, October 4, 1971 (cover story). On menswear in particular, see George A. Nikolaieff, "Threadbare Future," Wall Street Journal, 17 June 1971.

    These transitions in product or manufacturing are not restricted to textiles, of course. It has been estimated, for example, that turnover of products in the typical supermarket is enormous. In 1966, 7,000 new products became available. Moreover, 55 percent of all items sold there in 1970 did not exist in 1960, and 42 percent of products then available have since disappeared. See Alvin Toffler, Future Shock (New York: Random House, Inc., 1970), p. 65.

31. "Joblessness: Where and Why," New York Times, 18 April 1971. The article also adds: "The community's jobless...are not unaccustomed to layoffs. Bristol's industry...is vulnerable to weaknesses...in the automobile industry as well as to defense procurement cutbacks."

32. "Town Is for Hire in Pennsylvania," New York Times, 30 May 1971. Westvaco was "the town's biggest employer for nearly a century."

33. Metalworking News, February 15, 1971, p. 12. "...the principal contributing causes to the recent layoffs...are apparently permanent [and] will affect the long-range employment at the works despite what happens in the general economy."

34. "Paper Profits," Barron's, June 14, 1971, p. 5. St. Regis had sales of $857,000,000 in 1970. Barron's adds the following comment: "Since the paper field has been plagued...by too much supply, the plant closings, however painful to the communities involved, stack up as a definite plus."

35. Norway and South Paris (Maine) Advertiser-Democrat, 20 May 1971, p. 1.

36. Technically, these effects are measured by a figure known as the multiplier, which expresses, for example, the ratio of total jobs created to those associated, say, with entry of a new plant into a community. The same concept is used to relate the total impact of money entering into a community to the initial amount. That is, if the money stays in the community, it will be spent (exchanged) more than once, so that the multiplier will exceed 1.0 by an amount reflective of the extent of those continuing transfers.

    Data on these effects are relatively scarce for the case at issue here. However, Seymour Melman has estimated in the case of military bases that for each 100 people directly employed, about 258 others are dependent for their livelihood on the presence of that facility. (Testimony before the Senate Committee on Labor and Public Welfare, December 1, 1969.)

37. Herman R. Lantz, People of Coal Town (Carbondale, Ill.: Southern Illinois University Press, Arcturus Books, 1971), p. 190.

    It should also be noted that the sequence of events listed is long-term and does not attempt to offer a detailed basis for prediction in any given case. Thus, one of the mechanisms by which people in such a community attempt to protect themselves psychologically is to behave like the ostrich and speak confidently of the future, even with no sound reason for doing so. This process is described in Arthur Vidich and Joseph Bensman, Small Town in Mass Society (New York: Doubleday & Co., Inc., Anchor edition, 1958), as well as elsewhere in People of Coal Town, op. cit. See also remarks on Saltville, pp. 28-29 of this paper.

38. William F. Whyte, Industry and Society (New York: McGraw-Hill, 1946), pp. 186-187. The impact on a community as a major employer changes its internal structure and therefore its social structure is described at length in Alvin W. Gouldner, Patterns of Industrial Bureaucracy (Glencoe, Ill.: Free Press, 1954).

39. Such effects show up markedly when technological change is involved. See, for example, W.F. Cottrell, "Death by Dieselization: A Case Study in the Reaction to Technological Change," in The Concept of Community, David W. Minar and Scott Greer, eds. (Chicago: Aldine Publishing Co., 1969), p. 275ff.

    The classic study of shifts in ownership aggravated by broader social and economic trends is found in the Yankee City (Newburyport, Mass.) series of W. Lloyd Warner. See, in particular, W.L. Warner and J.O. Low, The Social System of the Modern Factory (New Haven: Yale University Press, 1947).

40. This suggests that a new institution to provide factoring services for the community, especially concerning small, minority, and community-based ventures, would be useful. Such a device (common in the textile industry) makes it possible for firms to get cash in exchange for receivables, at a slight discount for the service. Some profit is lost in the short term, but momentum can be maintained and survival more nearly assured. The Harlem Commonwealth Council, a CDC, has in fact set up a community factoring service.

41. It is not necessary to define "recession" or "depression" to support this point. The percentage of the labor force unemployed changes markedly from year to year, as the following table indicates.

TABLE VII

Unemployment of Noninstitutional Population 16 Years and Over

Year	Number (1000's)	Percent
1947	2,311	3.9
1949	3,637	5.9
1952	1,883	3.0
1954	3,532	5.5
1956	2,750	4.1
1958	4,602	6.8
1960	3,852	5.5
1961	4,714	6.7
1964	3,786	5.2
1968	2,817	3.6
1970	4,088	4.9
[April 1971	5,085	6.1] (p. 90,92)

Source: Monthly Labor Review, Bureau of Labor Statistics (Washington, D.C., September 1971), p. 88.

42. Roland L. Warren, The Community in America (Chicago: Rand McNally & Co., 1963), p. 301.

43. Charles Horton Cooley, Social Organization (New York: Schocken Books, Inc., 1962), p. 29-30.

44. See, for this viewpoint in particular, Maurice R. Stein, The Eclipse of Community (New York: Harper & Row, Harper Torch books, 1964).

45. The quotes are from Kenneth Kenniston, The Uncommitted (New York: Harcourt, Brace & World, 1960), pp. 248-249; and Philip E. Slater, The Pursuit of Loneliness (Boston: Beacon Press, Inc., 1970), p. 12.

Among the major works devoted to the loss of community or related issues, one might list the following in addition to the works already cited by Slater, Kenniston, Stein, and Warren: John R. Seeley, The Americanization of the Unconscious (New York: Science House, Inc., 1967); Robert A. Nisbet, The Quest for Community (New York: Oxford University Press, 1962); Amitai Etzioni, The Active Society (New York: Free Press, 1968); Erich Fromm, The Sane Society (New York: Holt, Rinehart & Winston, 1955), among others; Paul R. Goodman, Growing Up Absurd (New York: Random House, 1960); and Theodore Roszak, The Making of a Counter Culture (New York: Doubleday & Co., Inc., 1968).

46. Robert A. Nisbet, "Moral Values and Community," in his collection of essays, Tradition and Revolt (New York: Random House, 1968), pp. 136-137.

47. Harvey Cox, The Secular City, rev. ed. (New York: Macmillan Co., 1969), pp. 145ff.

48. Robert S. Lynd and Helen M. Lynd, Middletown in Transition (New York: Harcourt, Brace & World, Inc., 1937).

49. Life, March 26, 1971.

    Some months later, Olin announced that it would close the remainder of the Saltville facility by March 1, 1972, thus eliminating the remaining 260 jobs. The future for Saltville is now bleak indeed! See Wall Street Journal, 19 November 1971, p. 23.

50. William Alonso, "What Are New Towns For?", paper prepared for the Research Conference of the Committee on Urban Economics, September 11-12, 1969, mimeographed (Cambridge, Mass., 1969), p. 6. Alonso points out that the figures on which much new town planning is based are subject to great uncertainty, and that even if they are accurate as presented, there are serious arguments casting doubt on their assumed "efficiency" as compared to established metropolitan areas.

51. Roland L. Warren, op. cit., p. 53.

52. Vidich and Bensman, op. cit., p. 101.

53. Louis A. Lamoureux, "Victory in St. Johnsbury," Vermont Life, Summer 1968, p. 51ff.

54. Four volumes have been published on this study. For present purposes, Warner and Low, op. cit. (the fourth volume of the series) is the most germane. The quote is from Maurice R. Stein, op. cit., p. 281.

55. Vermont Life, op. cit. The community financial effort apparently included children going door-to-door seeking contributions, much as they do for UNESCO at Halloween! Carl Sussman of the Cambridge Institute has pointed out in a private memo that the earlier situation

could be viewed as paternalism on the part of the local company (and its owners), but the financial effort by the community constituted a kind of reversal in which the community assumed responsibility for the company (although the profits remain strictly with the latter). Obviously, this is an excellent deal for the company!

Such situations are not uniquely American. In England, for example, A.H. Birch has described the extent to which the town of Glossop, seat of the Dukes of Norfolk, benefited from their presence. One Duke built at his own expense both a railroad station and the entire line of track needed to connect it to the nearest junction. See A.H. Birch, Small Town Politics: A Study of Political Life in Glossop (London: Oxford University Press, 1959).

56. See "Company Town," Wall Street Journal, 29 June 1970.

57. Figures are taken from the American Almanac, 1971 (New York: Grosset & Dunlap, Inc., 1971), pp. 465ff. By way of comparison, it should be noted that the total number of manufacturing and mining corporations in the U.S. in 1967 was 197,000 for manufacturing, and 16,000 for mining -- 213,000 in all.

58. Richard J. Barber, The American Corporation (New York: E.P. Dutton & Co., Inc., 1970), p. 30.

59. Since Adolf A. Berle and Gardiner C. Means published The Modern Corporation and Private Property in 1932, an enormous literature has developed around these issues. One could well start with the revised edition of Berle and Means (New York: Harcourt, Brace & World, Inc., 1968), and indeed include more by Berle: The American Economic Republic (New York: Harcourt, Brace & World, Inc., 1964); and Power Without Property (New York: Harcourt, Brace & World, Inc., 1959).

In addition, the following list is further representative: John Kenneth Galbraith, American Capitalism: The Concepts of Countervailing Power (Boston: Houghton Mifflin Co., 1956), and The New Industrial State (Boston: Houghton Mifflin Co., 1967); Edward S. Mason, ed., The Corporation in Modern Society (Cambridge: Harvard University Press, 1960); Harry M. Trebing, ed., The Corporation in the American Economy (Chicago: Quadrangle Books, Inc., 1970); Andrew Hacker, ed., The Corporation Takeover (New York: Harper & Row, 1964); Daniel Bell and Irving Kristol, eds., Capitalism Today (New York: Basic Books, Inc., 1970); Peter F. Drucker, The Concept of the Corporation (New York: Day, 1946); and Robert L. Heilbroner, The Limits of American Capitalism (New York: Harper & Row, 1966).

60. Abram Chayes, "The Modern Corporation and the Rule of Law," in Mason, op. cit., pp. 40-41.

61. Merely because the enterprise is strictly of local character does not, of course, assure that it will be subjected to any degree of community influence, much less control. If consumers behave as individuals responding to their private interests only, and/or if the firm is large enough to have a degree of market control, the situation will be no different than in the usual case. However, under the circumstances, it is possible for the community to organize and therefore to exert substantial -- even pivotal -- control. One more or less accepted means, for example, is a boycott. In any case, what is needed to deal with such organizations is some form of community organization. (See pp. 37-39 of this paper.)

62. These events, as noted earlier, are not infrequent, although detailed information on the overall problem is scarce. It should also be noted that antitrust and monopoly controlling agencies of the government, such as the Federal Trade Commission and the Justice Department, often require a company to divest itself of a branch or subsidiary under conditions which require that it be left as a self-sustaining competitive enterprise. These actions provide a major opportunity for community-based groups that are ready to accept it.

63. Norton E. Long, "The Corporation, Its Satellites, and the Local Community," in Edward E. Mason, ed., op. cit., p. 202.

64. John R. Seeley, "The Corporation and Youth," The Center Magazine II, Center for the Study of Democratic Institutions (July 1969), p. 89.

65. It should be noted that the "real benefits" may or may not be dignified by formal identification as organizational goals. Invariably, organizations serve several purposes at once, and the original basis for their establishment may or may not remain the publicly identified purpose. Often, therefore, entities which do not seem to be fulfilling very well their stated function should be examined in a different light to see whether they are in fact fulfilling some other (unstated) purpose for one or more constituent elements. The importance of this distinction lies in the fact that the people who manage the organization may well perceive it as carrying out some purpose important to them, and in the process marginally pursuing the public purpose!

66. Personal communication from Mr. Carl Fagins, formerly of Westvaco Corporation, Mechanicville, and one of the prime movers in the transaction described here.

67. For example, see Rosabeth Moss Kanter, "Some Social Issues in the Community Development Corporation Proposal," in C.G. Benello and D. Roussopolis, eds., The Case for Participatory Democracy (New York: Grossman Publishers, Inc., 1971), p. 65ff.

68. See, for example, Elliott D. Sclar, The Community Basis for Economic Development, (Cambridge, Mass: Center for Community Economic Development, 1970).

It is interesting to note that Arnold Toynbee, in searching for the historical roots of the rise and fall of societies, concluded that the growth of civilization was intimately interlinked with progress towards self-determination. See Arnold J. Toynbee, A Study of History, in the abridgement by D.C. Somervell of volumes I-VI (New York: Oxford University Press, 1947), p. 198ff.

69. Most of the material written on CDCs is specifically related to ghettos or poor ethnic enclaves. However, the same notions and the structure are fully applicable in broader community settings and with other groups. See, for example, Michael Brower, Why Do We Need Community Development Corporations for Ghetto Development (Cambridge, Mass.: Center for Community Economic Development, 1970); Geoffrey Faux, CDCs: New Hope for the Inner City (New York: Twentieth Century Fund, 1971).

70. The Deming situation was described in a personal communication from John McClaughry, McClaughry Associates, Washington, D.C. Rockville is the subject of an article by Fred Jordan, "Land Speculation in the Public Interest," City, (January/February, 1971), p. 85.

71. This assertion will not easily be accepted by most readers. For interesting and relevant data, see "Concentration and Efficiency," in Economic Concentration, Hearings before the Senate Subcommittee on Antitrust and Monopoly, Part 4 (Washington, D.C.: Government Printing Office, 1964). See also Investigation of Conglomerate Corporations, Report by the Staff of the House Antitrust Subcommittee (Washington, D.C.: Government Printing Office, 1971), and Barry Stein, "Economics of Community Enterprise Scale" (Cambridge, Mass.: Center for Community Economic Development, forthcoming 1972).

72. 1970 expenditures are taken from American Almanac, op. cit., p. 378. The appropriation figures are from Newsletter, Friends Committee on National Legislation, March 1971.

73. See footnote 15 . Employment figures are from Economic Report of the President, 1971, op. cit., p. 44.

74. Professor Samuelson is quoted in Richard F. Janssen, "Troubles With the Post-War Economy," Wall Street Journal, 25 November 1970.

75. The loss of potential economic leverage is presented in Melman, The Depleted Society, op. cit. For an appraisal of the technology transfer benefits, see, for example, Samuel I. Doctors, The Role of Federal Agencies in Technology Transfer (Cambridge: Massachusetts Institute of Technology Press, 1969); some specifics are mentioned in Lillian Levy, ed., Space: Its Impact on Man and Society (New York: W.W. Norton & Co., 1965).

It is the extension of this notion that has presumably led to the idea of a civilian NASA (see page 2 of this paper). Such an agency would have the ability to modify aggregate demand as military expenditures do now, but towards more socially valuable ends. While that would certainly shift the technological focus, it does not deal with the two crucial issues remaining: first, social problems (e.g., pollution, transportation, health, etc.) are not subject to "technical" solutions in the same sense as development of a weapons system or a space vehicle; and second, centralized large bureaucratic structures have an imperative of their own which does not depend purely on the nominal task.

76. Fortune, May 1971.

77. Figures for mean and median are taken from Enterprise Statistics, Bureau of the Census (Washington, D.C.: Government Printing Office, 1963), Table 10.

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How Successful Are CDCs?

Center for Community Economic Development

639 Massachusetts Avenue
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How Successful Are CDCs?

An Interim Response

Barry Stein

Center for Community Economic Development
Cambridge, Massachusetts

1973

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How Successful Are CDCs?

The first CDC funded by OEO under the Special Impact Program was the Hough Area Development Council in June 1968. Since that time, approximately 40 other CDCs have become grantees of the program, as well as about 8 more that have received funds through other direct grant recipients. In the last few years, 5 CDCs have been dropped from the SIP (that is, not refunded). Therefore, with the sole exception of the Bedford-Stuyvesant CDC (formally, two interrelated corporations -- Bedford-Stuyvesant D&S Corporation and Bedford-Stuyvesant Restoration Corporation), initial funds for which predated the OEO program by about a year, the CDCs now operating have been in existence for less than five years.

Virtually from the beginning, there has been both concern and doubt about the potential of such organizations to develop viable business ventures given (1) the demonstrably deprived environment in which they operate, (2) their focus on combining social and economic purposes, and (3) their control by and responsiveness to the residents of their target area. For example, with respect to the first point, Thomas Vietorisz and Bennett Harrison (who advocate CDC-based development) describe the conventional wisdom.

> Situations being as they are, the ghetto is the last place to establish a privately owned and operated business having the option of alternative locations. Rents are high; labor skills, morale, turnover, and absenteeism unfavorable; crime and casualty losses frightening; insurance prohibitively expensive ... public services lagging miserably....[1]

As for rural areas, the situation is worse yet. At least in urban areas there exists a concentration of both human and physical resources and well-developed infrastructures. The issue in urban ghettos and barrios is "to get a piece of the action." In contrast, poor rural areas are characterized by a widely dispersed population, minimal infrastructure, few resources, and, typically, outmigration of those residents with some skills to sell. The issue here, in short, is "to generate some action." Clearly, in both types of depressed areas the environment is not conducive to profitable enterprise.

With regard to the second concern, Frederick Sturdivant has argued that "the lack of compatibility between political and economic goals is closely related to the conflict between social and economic objectives. ... the most serious weakness of the concept is the danger of confused objectives."[2] The third objection has been addressed directly by J. A. C. Hetherington: "An organizational firm which seeks broad participation in the community is extremely ill-suited to develop the ghetto economy because the dispersion of ownership ... destroys the entrepreneurial element."[3]

It is becoming more and more important to address these and related concerns directly, even while recognizing that the operating experience of the CDCs has been extremely limited, and that any conclusions drawn from present sources must be regarded as tentative. There is, however, a considerable body of data available from an ongoing and extensive evaluation study being carried out for OEO by Abt Associates, Inc. I propose in this paper to argue, using primarily those data, that the SIP in the aggregate has demonstrated a high level of achievement with regard to operation of business ventures, coupled with remarkably positive and supportive attitudes of residents in the communities involved.

THE ABT EVALUATION STUDY

The Abt evaluation study of OEO's Special Impact Program began in July 1970 and was planned to comprise three phases over a period of three years. A wide variety of research has been carried out, including extensive field work at many of the CDC sites. For purposes of this study, the data of interest are primarily those generated on aggregate performance of the 30 CDCs studied, as incorporated in the Phase II report of March 1973.[4] Available figures include financial results as well as information on jobs created and characteristics of CDC and venture employees. These data were collected between April and July 1972; aggregate figures are for the 30 CDCs studied.

In addition, the Phase I report of March 1972, though based on only 16 CDCs, presents the results of a series of survey questionnaires addressed both to CDC employees and area residents selected randomly.

The response categories cover a wide range of issues, notably including resident recognition of and attitudes toward the CDC and the community, and employee self-perception of such job-related factors as opportunity and responsibility related to previous experience. The survey data contained in this report were collected between June and August 1971. The accompanying table lists the CDCs studied in each phase, along with their total funding to date and their broad characteristics.

It is convenient to describe the results in three categories: financial and profit performance, employment related issues, and community response. It should be stressed that these results are both brief and preliminary, since the Abt study is continuing, and that there is no attempt here to be exhaustive. Details of methodology and of the findings are contained in the original reports.

Financial and Profit Performance

Total funds received from OEO as of July 1972 approximated $79.8 million. Of these, $23 million were used for administrative purposes on the part of the CDCs themselves; the remaining $56.8 million represent venture and investment capital. Of the latter amount, $17 million were applied to property development, $18.5 million went to business ventures, $16 million had not yet been invested, and the remaining $5.3 million were utilized largely for direct community development projects with a small amount going to loan funds.

Overall, then, about 29 percent of grant funds was earmarked for "administrative" purposes. However, the word administrative is misleading since it implies relatively routine operations of going-concerns; that is, organizational overhead and maintenance. In fact, however, some of this -- probably a substantial fraction -- is more appropriately viewed as "start-up" costs, which are always well above those required for maintenance. A very rough indication of this effect can be seen by noting that through June 1971 nearly 44 percent of funds of the 16 CDCs evaluated in Phase I had been used for "administrative" purposes. That is, between 1971 and 1972, the proportion of grant funds going to administrative expenses dropped significantly. It seems likely, then, that the CDCs have been learning from their experience, and that an unknown

CDCs Included in Abt Evaluation

Site	Location	Included in Phase I evaluation	Included in Phase II evaluation	Character	SIP funding through FY 1972 (thousands of dollars)
Adela Dev. Corp.	Salt Lake City, Utah		x	Rural, Chicano	1,095
Bedford-Stuyvesant Restoration and D&S Corps.	Brooklyn, N. Y.	x	x	Urban, Black	30,684
Black Dev. Foundation, Inc.	Buffalo, N. Y.		x	Urban, Black	1,060
Black Economic Union	Kansas City, Mo.		x	Urban, Black	1,817
Circle, Inc.	Roxbury, Mass.		x	Urban, Black	1,201
Community Investment & Dev., Inc.	Little Rock, Ark.		x	Rural, Black	1,292
Delta Foundation	Greenville, Miss.		x	Rural, Black	2,346
Denver CDC	Denver, Colo.		x	Urban, Chicano	1,343
East Boston CDC	East Boston, Mass.		x	Urban, white	1,600
[a]East Central Citizens Org. Dev. Corp.	Columbus, Ohio	x		Urban, Black	900[b]

East Central Committee for Opportunity	Mayfield, Ga.	x	x	Rural, Black	2,522
[a]Fight, Inc.	Rochester, N. Y.	x		Urban, Black	750[b]
Greater Memphis Urban Dev. Corp.	Memphis, Tenn.		x	Urban, Black	1,000
Harlem Commonwealth Council, Inc.	Harlem, N. Y.	x	x	Urban, Black	4,580
Home Education Livelihood Program	Nambe, N. Mex.	x	x	Rural, Chicano	1,842
Hough Area Dev. Corp.	Cleveland, Ohio	x	x	Urban, Black	7,811
Impact Seven, Inc.	Turtle Lake, Wis.		x	Rural, mixed	650
Inner City Business Improvement Forum	Detroit, Mich.	x	x	Urban, Black	1,800
Job Start Corporation	London, Ky.	x	x	Rural, white	1,388

Site	Location	Included in Phase I evaluation	Included in Phase II evaluation	Character	SIP funding through FY 1972 (thousands of dollars)
Lummi Indian Tribal Enterprise	Marietta, Wash.		x	Rural, Indian	2,211
Mexican-American Unity Council	San Antonio, Tex.		x	Urban, Chicano	1,425
Midwest Minnesota CDC	Detroit Lakes, Minn.		x	Rural, mixed	1,621
New Jersey State Dev. Corp.	Trenton, N. J.		x	Urban, Black	2,500
North Lawndale Ec. Dev. Corp.	Chicago, Ill.	x	x	Urban, Black	9,604
Northeastern Oklahoma CDC	Ft. Gibson, Okla.	x	x	Rural, mixed	3,425
Peoples Development Corp.	Washington, D. C.	x		Urban, Black	775[b]
Seminole Employment & Ec. Dev. Corp.	Sanford, Fla.		x	Rural, Black	800
Southeast Alabama CDC	Troy, Ala.	x	x	Rural, Black	940
Southwest Virginia Community Dev. Fund	Roanoke, Va.	x	x	Rural, mixed	1,863

Standing Rock Industries	Ft. Yates, N. Dak.		x	Rural, Indian	1,250
Union Sarah Ec. Dev. Corp.	St. Louis, Mo.	x	x	Urban, Black	2,125
United Durham, Inc.	Durham, N. C.	x	x	Urban, Black	1,800
[a]United Inner City Dev. Foundation	Seattle, Wash.		x	Urban, Black	152

[a]These CDCs are no longer included in the SIP.

[b]These figures are the funding through Phase I of the evaluation study.

but significant amount of "administrative" expense is in fact due to start-up costs, such as would be required by any new business.

To provide a general comparison, the CDCs may be regarded as ordinary corporations operating a number of ventures, with central administrative costs fully assigned to overhead. For all American corporations in 1968 the value of business receipts was about $1.4 trillion.[5] Cost of sales and operations on the same basis is approximately $0.99 trillion. To that may be added the figures for officer's compensation and employee benefit or pension plans (totaling about $42 billion). The sum of these, some $1.03 trillion, roughly speaking, is applied to the same purposes as SIP venture funds. The "administrative" costs for such firms, then, is $0.37 trillion, or 26.5 percent -- not very different from the CDC figure of 29 percent.

One of the important goals of the CDCs is to gain as much leverage on their own capital as possible by attracting loans and other grants or investments. The aggregate figure for the 30 CDCs covered by the Phase II report is $0.61 on every dollar of SIP funds released (that is, actually available for use by the CDC). This seems to be a respectable achievement.

It is very difficult to find a comparable figure with which to put this into perspective, but, as before, overall data on U.S. corporations provides an interesting point of departure. Since the CDCs to date have in effect leveraged capital in expectation of developing viable business ventures, it is reasonable to look at the debt burden (loans, bonds, and mortgages) of ordinary corporations as a proportion of stockholder's equity and retained earnings. On this basis, the leverage ratio of all U.S. corporations is approximately 0.65[6]; it would of course be much lower if the denominator included other (fixed) assets as well. Again, the difference is slight.

As to ventures themselves, the 30 CDCs studied had directly established about 90 and purchased or bought out an additional 160 ventures as of July 1972. The total of 250 includes 40 ventures that are concerned with property development, 198 businesses -- trade, service, and manufacturing -- with the remainder oriented toward community development (for example, day care centers) or loan funds. These, of course,

vary in size, but those started by the CDCs are less than three years old on the average. Those purchased have in some cases been in existence for a considerable time, but the venture funds have been heavily oriented (81 percent) toward the new ventures.

In the case of ventures oriented specifically toward property development, these have resulted (as of July 1972) in 40 projects whose total market value exceeds $30 million. Since the direct SIP investment (noted earlier) was only $17 million, this constitutes a significant achievement. These developments (by dollar investment) have been divided among residential (34 percent), commercial (54 percent), and manufacturing (15 percent) projects.

Overall, 50 percent of CDC ventures are projected (by Abt) to at least reach break-even (on a current basis) by their fourth year. Figures on life expectancy of small business are not as widely available as one would like, but the general facts are perfectly clear. To quote Edward Hollander, "The recent evidence is that about one-third [of new businesses] will live to age five and about one-fifth to age ten, after which the survivorship rates from year to year are very high."[7] These figures, of course, are average for the country as a whole.

The comparable failure figures for depressed areas, urban or rural, are considered to be much higher. There are some recent figures for survival of Black businesses in Chicago. In a November 1972 survey of 4,000 small minority-owned stores in operation as of the previous January, 36 percent (1,440) had either been sold or simply collapsed. "In addition, the study showed that 80 percent of the black-owned firms which opened their doors for the first time in 1972 were forced to close them before the year was out."[8]

In general, then, it is clear that the CDCs' venture performance is remarkably good, especially when considered in the light of the fact that they are attempting to do much more than "simply" develop viable businesses.

Employment Effects

Overall, the 30 CDCs being evaluated had directly created in an average period of 3 years 2,066 permanent jobs (as of July 1972) in ad-

dition to nearly 5,500 temporary jobs, which provided an opportunity both for income and for participation in the CDCs. Manufacturing ventures accou'ed for about 35 percent of those permanent jobs. However, most ventures are small; the mean employment per venture is 16 in manufacturing and 12 in the trade sector. But at least 5 firms had more than 40 employees, and 8 other firms between 20 and 40. Mean staff size of the CDC itself was 21 (including Bedford-Stuyvesant, which is by far the largest CDC), or 14 if Bedford-Stuyvesant is excluded.

Total wages paid amounted to $10.2 million annually, an average of just under $5,000 per year per employee. But it should be noted that although 2,066 jobs were permanent, they were not all full-time. Some 16 percent of jobs in manufacturing ventures were part-time, as were 37 percent of those in the wholesale/retail trade sector. Thus, the average annual figures understate the wage rates actually paid by the CDCs to such employees. Even so, these are very positive.

These figures should be contrasted with other figures drawn from the local communities. For example, the median weekly wage of those able to find work in Harlem in 1966 was $74 per week, or, assuming full-time employment at that rate, about $3,700 per year.[9] And, of course, a very high proportion of residents in such areas are simply not able to find work at all.[10] Consider also that in the Kentucky portion of Appalachia (where one of the CDCs is located) the per capita annual earnings in 1968 were only $1,717.[11]

One might assume that persons hired by CDCs and their ventures were already well employed at substantial wages, but that is not the case. Some were, of course, but the $10.2 million wage bill paid by these 30 CDCs represents an increase of $1.7 million, or nearly 17 percent above the wages earned by those same people before joining the CDC. Moreover, the aggregate CDC labor force included 48 percent who were previously under- or unemployed. Those previously unemployed make up 29 percent of the total, an increase from 19 percent one year earlier. Thus, the CDCs are, in general, finding employment for a substantial number of people who had not previously been able to

work and, in the process, are paying higher wages than those typical of the area.

In some cases, indeed, wage gains have been dramatic. The Acme Foundry, the first venture investment of the Harlem Commonwealth Council, was purchased in November of 1968. Since that time, its average annual wages have increased from $4,916 to $9,776. At the same time, HCC has invested other resources in upgrading Acme's physical plant, with the result that it is now at least marginally profitable, despite the greatly increased wage rates.

Some specifics add flavor to these general figures. Harlem Commonwealth Council owns the largest single manufacturing firm in Harlem, which employs over 100 people and has an annual sales level of about $2.5 million.[12] Although this venture was purchased by HCC and is therefore not an example of venture establishment, it is indicative both of available opportunities and a CDC's capacity to act on them. Even more remarkable is the Lawson Furniture Company, owned by the Knox County (Kentucky) CDC, which is associated with the Job Start Corporation. Lawson was started from scratch in a remote and impoverished Appalachian community in 1969, in facilities rebuilt and expanded by the CDC, utilizing employees who in general had never before held an industrial job. At the end of 1972, Lawson employed over 100 people and was just at the break-even point with total annual sales exceeding a million dollars. In fact, it is growing rapidly and is expected to be fully profitable before the end of 1973.[13]

More data underscoring these positive aspects of CDC employment are tabulated in the survey questionnaires incorporated in the Abt evaluation study. Both managers and nonmanagers were asked a series of questions to indicate whether they felt that their present (CDC) job was better than jobs held previously. The positive responses of managers to their own CDCs can be categorized in the following percentages: Only 2 (of the 16) scored below 60 percent in positive answers to questions, 4 between 60 and 70 percent, 5 between 70 and 90 percent, and 5 at 100 percent. In the case of nonmanagers, 3 fell below 60 percent, 4 scored between 60 and 80 percent, 4 between 80 and 90 percent, and 6 between 90 and 100 percent. These figures exclude one CDC being

evaluated (North Lawndale Economic Development Corporation) which had no nonmanagerial employees at that time. Nor does lack of a positive response necessarily imply a negative attitude; positive responses of this magnitude must be seen as an important indicator of CDC effectiveness.

Another set of survey questions attempted to determine whether nonmanagerial employees were learning new skills through their work in the CDCs. Again excluding NLEDC, the proportion of positive responses in each CDC included 2 below 40 percent, 4 between 40 and 60 percent, 6 between 60 and 80 percent, and 3 above 80 percent. It is interesting to note that the average response for all employees living in the impact area was 60 percent, whereas the comparable figures for nonresident employees (about one-third of the total) seem considerably lower. It is tempting to hypothesize that residence implies a degree of participation in and commitment to the CDC not available to outsiders, but this is only speculation. Overall, however, the figures are highly positive and suggest, again, that the CDCs are able to offer substantial employment benefits in addition to better wages.

Community Issues

CDCs are not narrowly designed to pursue business matters. Indeed, their focus on several goals, including some related to the community as a social system, has been seen as a source of difficulty. In the short run, time and effort spent working with residents and local institutions as opposed to concentrating on the demands of new businesses can be seen as a potential danger. However, I would argue that the effectiveness of CDCs even in terms of business results is intimately connected with and related to their real links to the community. As I have noted in an earlier publication,

> the greatest long-term real impact of CDCs will come because refocusing attention on the total life of people in a community will influence behavior and sense of opportunity ... so that many elements of the community will see, will have, and will exercise new and constructive options.[14]

The success of CDC efforts within the social context of the community is clear from the Abt evaluation's surveys of residents not directly

connected with CDC activities. For example, in one question people were asked if they now perceived more job opportunities for people with their skills than had previously been available. This question was not asked at 2 of the 16 CDCs, but of the remaining 14 CDCs, the proportion of positive responses in only 4 cases was below 50 percent, 9 fell between 50 and 60 percent, and one was nearly 70 percent positive. Surprisingly, there was not much difference between urban and rural areas; the overall average of positive responses was 53 percent.

Plainly, such findings cannot a priori be shown to be caused directly by the CDCs. Other changes are also occurring in these communities. However, Abt also asked many questions directly related to the CDCs, with comparably positive responses. Thus, community residents were asked whether they thought the CDC has made it possible to learn new skills. The weighted average response (that is, adjusted to reflect the different size of the sample at each CDC) was 51 percent positive. Similarly, people were asked whether they thought the CDC had created better jobs. Again, the weighted average response was 51 percent positive.[15] These results are only slightly below the more open-ended question reported above which did not specifically mention the CDC, but which concerned the same issue. It is plausible to conclude that in fact the CDC is itself a significant factor in the reported changes in attitude.

It is important also to keep in mind that the areas in question are quite large, either in target population or geographical size or both. For example, the Special Impact component of the Home Education Livelihood Program (HELP) covers 23,000 square miles of northern New Mexico with a target population of 30,000 persons. The Northeastern Oklahoma CDC covers 10,000 square miles with a target population of well over 100,000. The Harlem Commonwealth Council target population approaches 200,000 persons and that of Bedford-Stuyvesant still more. Given the size of these areas and populations, it is a tremendous task for the CDCs to develop relationships with their constituencies which give to the people a sense of value from the presence of the CDC.

In light of those considerations, the Abt figures are even more significant. Consider, for example, the simple issue of whether randomly selected residents recognized the CDCs and their ventures. The questions were so constructed that the respondents had to identify the CDCs and ventures from a list of names, some of which were fictitious. Results indicate that the proportion of residents having some knowledge of their particular CDC ranged as follows. In four CDC areas, between 30 and 50 percent responded positively. In two areas, positive responses ranged between 50 and 70 percent, four ranged between 70 and 80 percent, and six showed above 90 percent recognition. The weighted average was quite uniform across all sites, totaling 73 percent.

On the general question of whether residents thought the CDC had helped make the community a better place, the weighted percentage of positive responses included seven CDC areas between 20 and 40 percent, five between 40 and 60 percent, and four greater than 60 percent. The overall weighted average was 49 percent. An important question concerned the proportion of residents who had perceived general progress in their community in the last few years. The weighted average of positive responses included only one CDC area under 30 percent, five between 40 and 50 percent, three between 50 and 70 percent, four between 70 and 80 percent, and three over 80 percent. When the responses were separated into area categories of urban, mixed, or rural character, the weighted averages were 48, 64, and 80 percent respectively.

Given these figures, it should also be noted that, first, the one CDC whose response was below 30 percent (North Lawndale Economic Development Corporation) does not have any direct ventures in place and has consciously adopted a low profile strategy in favor of a long-run payoff on a major development. Second, the five highest ranking sites by this measure are all rural, and third, the drop in response from rural to mixed to urban sites is significant. A simple hypothesis accounting for all these results is that the rural sites are more likely to respond positively to the presence and operation of CDCs by virtue of their relatively self-contained quality and the lack of other community institu-

tions with which residents can identify. In addition, rural CDCs in particular tend to focus heavily on building links and relationships among residents. More research, however, is clearly needed.

Meanwhile, we do know that property development, where it is appropriate, can be a powerful tool for increasing CDC visibility, offering a range of benefits (social and economic) in the same project, and influencing residents' sense of community. Especially in urban areas, the need for new housing and commercial property is great; furthermore, the economic and technical resources are available. In short, it is in just these areas where "turf power" is important and useful. Finally, it is noteworthy that the property development ventures have generally been the most profitable CDC investments. In fact, these ventures were modestly profitable even at the time of analysis (July 1972), in contrast to both manufacturing and trade which were, on the average, not yet profitable at that time. Here, then, the integration of CDC goals becomes most immediate and practical in the short run.

Conclusion

The Special Impact Program, under which OEO funds some 40 rural and urban CDCs across the country, has been challenged as a possibly laudable but nevertheless misdirected program. Critics direct concern most particularly at whether the CDCs have a potential to develop viable business ventures, given their mixed social and economic goals, their direct control by the community, and the resource-poor areas which they aim to serve. The results available to date, however, do not support these concerns. On the contrary, even considering that the average life of the CDCs to the time of collection of most of these data is less than three years, they have demonstrated a remarkable level of performance in venture development and profitability, in employment-related matters, and in helping raise the level of confidence and opportunity in their communities. This becomes clear by contrasting the CDCs with conventional businesses and by observing the effects in their own communities.

No one would expect all new business to be successful, yet CDCs are criticized for failures even though their failure rate is much lower

than is conventionally observed in comparable or better districts. No one would expect major social changes to occur in a period of a few years, yet CDCs are criticized for not yet having "solved" the problems in their communities.

Actually, on the basis of data collected to date primarily by Abt Associates in its three-year continuing evaluation of the Special Impact Program, the CDCs are demonstrably -- even remarkably -- successful. They have, in the aggregate, increased the income of those they employ, taken into their job framework an increasingly high proportion of previously under- or unemployed people, established or purchased 250 ventures which are projected to have lower failure rates than conventional businesses -- far lower than private businesses in their areas -- and they have achieved a degree of visibility and helped create a sense of renewed opportunity in their communities, which alone is a strong indicator of long-term success.

I believe that these data can only reasonably be interpreted in one way, and that is by recognizing that at least two of the concerns noted earlier are in fact not properly sources of concern, but instead are the very bases of CDC success. The "problem" of joint goals is not a problem, but an opportunity. The institutional integration of a social with a more narrowly economic focus is precisely what has permitted the CDCs to build confidence in their value for the community and its residents. The democratization and community control of the CDCs is not an inherent predictor of failure. On the contrary, it is just this feature which allows residents to invest their own energies and efforts in the CDCs and which gives them the support without which they would surely fail.

In short, residents of the depressed areas in which CDCs operate have become accustomed to years of exploitation by or isolation from others, and to treatment which assumes their own inability to succeed. The CDCs are reversing those feelings by providing a source of local pride and value, and institutions in which people can have confidence and from which they and their communities can derive skills, income, influence, and self-confidence.

How successful are the CDCs? Damn successful!

Notes

1. Thomas Vietorisz and Bennett Harrison, "Ghetto Development Community Corporations, and Public Policy," Review of Black Political Economy 2 (Fall 1971), 31.

2. Frederick D. Sturdivant, "Community Development Corporations: The Problem of Mixed Objectives," Law and Contemporary Problems 36 (Winter 1971), 48-49.

3. J. A. C. Hetherington, "Community Participation: A Critical View," in ibid., p. 28.

4. Abt Associates, Inc., "An Evaluation of the Special Impact Program: Phase II Report " (Cambridge, Mass., March 1973), Contract # B 00-5181.

5. Internal Revenue Service, Corporation Income Tax Returns: 1968 (Washington, D. C.: Government Printing Office, 1972), p. 14, column 1.

6. Ibid.

7. Edward D. Hollander et al., The Future of Small Business (New York: Praeger, 1967), pp. 106-107.

8. Robert McClory, "Rough Times in Minority Business," Race Relations Reporter 4 (Nashville, Tenn., April 23, 1973), p. 6.

9. Thomas Vietorisz and Bennett Harrison, The Economic Development of Harlem (New York: Praeger, 1970), p. 22.

10. Steadily increasing data support the idea that the U. S. economy operates in a dualistic fashion, especially perhaps with regard to labor. That is, there is a secondary labor market characterized by very different structure and opportunities, which limit the kinds of work available, its continuity, and its rates of pay. Particularly in such depressed areas as those in which the CDCs operate, this secondary labor market is the one which most clearly accounts for the inability of local workers to find decent employment. See, for example, Michael J. Piore, "The Dual Labor Market: Theory and Implications," in David Gordon, ed., Problems in Political Economy: An Urban Perspective (Lexington, Mass.: D. C. Heath, 1971).

11. Bureau of the Census, Statistical Abstract of the U. S. for 1972 (Washington, D. C.: Government Printing Office, 1971), table 519.

12. Barry A. Stein, "Harlem Commonwealth Council: A Case Study in Community Business Development" (Cambridge, Mass.: Center for Community Economic Development, 1973).

13. Barry A. Stein, "The Biggest Little Conglomerate in the World: Community Economic Development in Kentucky" (Cambridge, Mass.: Center for Community Economic Development, 1973).

14. Barry A. Stein, "Abt Evaluation Study," Center for Community Economic Development Newsletter, March 1973, p. 3.

15. That is, adjusted to reflect the different size of the sample in the separate CDCs. The figures so calculated more accurately represent the feeling of the total population surveyed.

ABOUT THE AUTHOR

Mr. Stein is a research analyst on the staff of CCED. His past experience includes 15 years of industrial consulting, both as a senior staff member of a large firm and as president of his own company. He is also a Ph. D. candidate in the department of Urban Studies and Planning at M. I. T. He is particularly interested in the development of alternatives for the economic organization of society, especially those alternatives based on stronger and more autonomous communities.

The Center for Community Economic Development (CCED) is an independent research group located at 639 Massachusetts Avenue, Cambridge, Massachusetts 02139. Its primary function is to conduct public policy research by examining the ongoing problems of community development corporations (CDCs) and of other community-based economic organizations. CDCs and other similar community groups are instituted and controlled by local residents to improve the economy of their home areas. The central aim of these organizations is to increase the participation of their constituents in the nation's economic, social, and political life. R & D activities at CCED are designed to support that goal.

CCED also maintains a library, acts as a clearinghouse for materials and information on community-based economic development, and provides advocacy services related to its research. The work is supported by a grant from the federal Community Services Administration, as well as by other government and private funding sources.

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May 3, 1977

Mr. Brian Rogers
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Juneau, Alaska 99811

Dear Brian:

It was nice meeting you and your colleagues yesterday. I enjoyed our conversation and look forward enthusiastically to a possible visit and a chance to work with you.

In the meantime, I thought the enclosed might also be of interest. I look forward to hearing from you.

Best regards,

Barry A. Stein

Enclosures

BARRY A. STEIN

PERSONAL:

Address: 6 Channing Place, Cambridge, Massachusetts 02138; (617) 868-5264
Born Chelsea, Massachusetts, July 5, 1932; Married, two children
Social Security Number: 026-24-1653

EDUCATION:

MIT, Chemical Engineering	SB, 1955
MIT, Chemical Engineering	SM, 1957
MIT, Urban and Regional Studies	PhD, 1973

Dissertation: The Potential for Decentralized Community Industries

Other Professional Training: Boston University, MIT Sloan School of Management, National Training Laboratories and elsewhere; Human Relations and Organization Behavior, 1959-1967. International Training of Trainers Program, Oosterbeck, Holland, 1967.

PROFESSIONAL INTERESTS:

Organization Change and Development
Industrial and Work Alternatives
Community and Economic Development
Non-traditional Education and Training

EMPLOYMENT HISTORY:

Present

Associate Director, Center for Social and Evaluation Research, University of Massachusetts, Boston, Harbor Campus. (617) 287-1900 ext. 3217 or 3218. University-wide center for the development and support of programs in research, evaluation and social policy. Responsibilities include program development, general administration, and substantial research and consulting in areas of professional interest.

Professional Activities

- Developing and carrying out programs of local socio-economic development in depressed rural and urban neighborhoods. Involves institutional changes and strategies for local capture of created benefits.
- Applying new approach to evaluation of local and regional economic development programs, based on identification of specific site-program interactions and their effect.
- Designing and carrying out training programs for NTL Institute in organizational development and group dynamics.
- Designing and carrying out programs on organization structure and its effects, for management and professional personnel and specific firms, based on new theoretical framework and research.

EMPLOYMENT HISTORY (continued)

1974-1975

Lecturer, Graduate School of Education, Harvard University; taught course in organizational theory and change to doctoral candidates

Professional Activities

- For major consortium of business organizations, oriented toward help to municipal and educational institutions in New York City, acted as core consultant, member of management team, and coordinator of organizational and training resources in project to revitalize city high schools.

- Coordinated and directed field work for twelve doctoral candidates, as part of Harvard teaching activity above.

- For major chemical company, helped design and carry out program to assess internal attitudes and structures relevant to implementing equal opportunity mandate for women.

1971-1974

Research Analyst and Senior Consultant; Center for Community Economic Development. Responsibilities included research programs related to community-based development, and work with CDCs and other agencies on policy-related issues.

Professional Activities

Teaching:

- 1974: Lecturer, Whittemore School of Business and Economics, University of New Hampshire. Taught Business Policy to second year MBA class.

- 1973-1974: Instructor, Department of Urban Studies and Planning, MIT. Taught Theories of Economic Development to graduate students from university at large.

Research:

- Studied relationship of American defense and industrial conversion strategies to local regions and communities, drew policy conclusions, and suggested alternative strategies (principal investigator).

- Analyzed effects of size and scale of manufacturing firms on operating efficiency and effectiveness of resource utilization, and considered consequences for small business (principal investigator).

- Carried out major theoretical study of effects of property ownership on owners, particularly to develop empirically significant hypotheses concerning social-psychological issues (principal investigator).

- Developed and applied empirical technique to establish minimum entry size for firms into markets, and applied to consumer goods manufacturing industry (principal investigator).

1971-1974

Research (continued)

- Attempted to apply and extend emerging theory of dual labor markets to persistence and development of depressed urban areas and under-employment problems, and considered possible effects of alternative work organization arrangements.

Consulting:

- For New England office of federal agency, carried out and directed survey of economic development needs of region, wrote report, and formulated policy recommendations.

- For eight community corporations, carried out series of case studies to analyze particular issues needing attention, and to point out opportunities for improvement.

- Acted as technical representative of CDCs in connection with major (three year) evaluation study of overall program for OEO.

- For large chemical company, helped design and carry out major evaluation study of effectiveness and value of training programs.

1968-1971

President (and founder); Organization Development Associates, Inc. Responsibilities included business development and direct service to clients, along with usual chief executive functions. Directed activities of five people.

Professional Activities

- For large hotel chain, carried out (and designed) series of training programs for middle and upper management personnel.

- For small manufacturer of specialized valves, carried out (and staffed) comprehensive study of technical, administrative, market, and personnel policies on behalf of Board of Directors.

- For joint university-industry task force, helped design management structure and operating policy, and worked with group itself.

- For medium-sized car rental firm, appraised and evaluated morale and operational effectiveness, and designed and carried out elements of appropriate training program.

- For major chemical company, helped design and establish new training facility for sales and marketing personnel, based on principles of peer learning and personal diagnosis.

- For group of seven major Boston and New York corporations, carried out several training programs for managers, especially designed to increase organizational effectiveness.

1957-1968
Senior Staff Consultant, Arthur D. Little, Inc.

1966-1968: Brussels (Belgium) office. Responsibilities included business development, liaison with other consulting firms, representative of organization counselling function.

Professional Activities

- For government of Belgium, participated in project to analyze social and economic needs of depressed area, and devised development plan.
- For Arthur D. Little, Inc., evaluated potential for joint venture in Europe with Swiss manufacturer, carried out negotiations, market study, and design of organization.

1957-1966: Cambridge (Massachusetts) office. Responsibilities included business development, client programs, assisting in foundation and staffing of new section on materials science consulting.

Professional Activities

- For large mechanical manufacturing firm, established task force to help coordinate transition to new line of products under new management, carried out aspects of required training.
- For major oil company, worked to establish task force and procedures to improve efficiency of tanker fleet operations.
- For diversified electronics manufacturer, consulted with several divisions to appraise organization effectiveness and suggest potential improvement strategies.
- Carried out extensive research and consulting in technical areas of physical metallurgy, metallurgical engineering, instrumentation, computer simulation, and experimental design.

1955-1957
Research Assistant. Fuels Research Laboratory and Applied Mechanics Laboratory, MIT. Responsibilities included experimental design, instrumentation, and technical assistance to several ongoing projects.

SELECTED PUBLICATIONS AND PAPERS:

I. Economics and Economic Development

- The Community Context of Economic Conversion. Cambridge: Center for Community Economic Development (CCED), 1971.
- "The Case for Autonomy." in R.L. Warren, ed., Perspectives on the American Community. Chicago: Rand-McNally, 1973. Second edition.
- Size, Efficiency and Community Enterprise. Cambridge: CCED, 1974.
- "Decentralizing the American Economy," Chapter in Harold S. Williams, Ed. The Advantages of Smallness (tentative title, in preparation), Rodale Press, 1977.

PUBLICATIONS (continued)

- "The Internal Economics of Communes." in R.M. Kanter, ed., Communes: Creating and Managing the Collective Life. New York: Harper and Row, 1973.

- "How Successful Are the CDCs? An Interim Response." Review of Black Political Economy. (Spring) 1973.

- "Social Multiplier Effects in Community Economic Development." Presented at the 1974 meeting of the American Sociological Association. With R.M. Kanter.

- "Decentralizing the American Economy." in Harold S. Williams, ed., The Uses of Smallness. Rodale Press, 1977.

- "The Role of Small Business in Our Society." Statement for Senate Select Committee on Small Business, December 2, 1975.

- "The Economy of the Small Community." Institute on Man and Science, Rensellaerville, New York, 1976

II. Organizations and Other Social Science

- "On Decision." Quarterly Journal of Business. Antwerp, Belgium, (Spring) 1968.

- "Innovation, Uncertainty and Decision." Direction. Paris, June 1968.

- "Game Performance as an Indicator of Organizational Behavior." Presented at the 1970 meeting of the American Sociological Association. With H. Gadon and R.M. Kanter

- "On the Perception of Tasks." Presented at the 1970 meeting of the Project Management Institute. With L. Bennigson.

- "Social Implications of Ownership." Cambridge: CCED, 1972.

- Property Theory and the Collective Ownership of Firms. Cambridge: CCED, 1976.

- "The Social Functions of Products and the Nature of Organizations." Presented at the 1974 meeting of the American Sociological Association. With R.M. Kanter

- "Organization Development and Educational Systems: A Case Study and a Theory." With L. Bothwell (in draft).

- Women in Sales. Union Carbide Corporation, 1975. With R.M. Kanter.

- "Getting There: Patterns in Managerial Success." Center for Research on Women, Wellesley College, 1976.

- "Collective Ownership, Property Rights, and the Control of the Corporation." Journal of Economic Issues, June 1976.

- "Flextime: Work When You Want To." Psychology Today, June 1976. With H. Gadon and A. Cohen.

PUBLICATIONS (continued)

III. Community Studies

- United Durham, Inc.: A Case Study in Community Control. Cambridge: CCED, 1972.
- "The Centerville Fund, Inc.: A Case Study in Community Control." Journal of Applied Behavioral Science. (Spring) 1973. Special issue on Alternative Institutions.
- The Biggest Little Conglomerate in the World: Community Economic Development in Kentucky. Cambridge: CCED, 1973.
- Throw the Rascals Out: A Case Study of the Northeast Oklahoma CDC. Cambridge: CCED, 1973.
- Harlem Commonwealth Council: Business as a Strategy for Community Development. Cambridge: CCED, 1974.
- Rebuilding the Ghetto: Community Economic Development in Bedford-Stuyvesant. Cambridge: CCED, 1974.
- Tradition and Development: The Lummi Indian Business Council. Cambridge: CCED, 1975.
- "The Wrong Questions: A Critical Analysis of an Evaluation of Community Development Corporations." In Marcia Guttentag, ed., Evaluation Studies Annual. Beverly Hills, California: Sage Publications, 1977.

IV. Physical Science

Thirteen scientific publications in metalworking, physical metallurgy and instrumentation. Available on request.

INVITED LECTURES AND PRESENTATIONS:

- Davidson Lecturer, University of New Hampshire, 1975. "Does Communal Work Work?". With R.M. Kanter.
- The Uses of Smallness, Conference, Center on Man and Science, Renssellaerville, New York, 1975. "An Alternative Strategy for Development."
- Toward a Light Governance for America, Conference, The Lindisfarne Association, Southampton, New York, 1976. "Economic Strategies for Decentralization."

MEMBERSHIPS:

Past Director, Public Learning Corporation
Past Director, Community Change, Inc.
American Economic Association
American Sociological Association
Association for Evolutionary Economics
Member, National Training Laboratories

Local Economic Development: A Better Way

Barry Stein

November 1975

Most economic development programs have been massive failures. Costs have vastly exceeded benefits and results have fallen far short of proclaimed (and needed) goals. Even the apparent successes have often been purchased at great (and hidden) cost; the erosion of local autonomy and the inevitable passage of power from the community to externally-controlled governmental units and firms. Most distressing of all, many of these same "successes" turn out after a few years to be strictly temporary.

The reason is that economic development is usually confused with industrial development. It is assumed that the answer to a depressed community's prayers is a new plant installation by a member of the Fortune 500. This assumption is wrong. Less than a thousand significant new plants are put up in a year and five times as many cities, towns, states and regions compete for them. In the process, the local areas bid against each other by offering benefits. Present and future new tax revenues are waived, and actual income is pledged for training, elaborate facilities, infrastructural improvements, or environmental control equipment.

Additional hidden costs are often added to the community's burden; transportation, schools, public utilities and municipal services may be strained without the compensating new tax revenues. These cannot ordinarily be sought from the increased income of newly-employed local workers since these are few in number and tend to be limited to the lowest job categories. [illegible]

they often live outside the tax jurisdiction of the area (if indeed it has any--neighborhoods within a city are in the worst of all possible positions). The final blow comes a few years later, when the firm decides to move its plant elsewhere; as local inducements run out, another community will be all too eager to provide new ones. Such "economic development" merely creates a downward spiral in which outsiders reap the benefits thrown off by communities.

There is an alternative. The true aim of economic development must be the self-renewing community, based on creation of a capacity for continuing local action and a degree of self-reliance. This emphatically does not mean independence or self-sufficiency; that is both inappropriate and impossible in practice. It does mean that communities can and should utilize their available resources (including those attracted from outside) in their <u>own</u> interests. By so doing, they can better resist economic drain, retain more control over their affairs, and provide an environment more conducive to citizens' well-being. Effective economic development is not merely economic (not to mention industrial); it is a <u>social</u> process.

Broadly speaking, this approach to local development differs from more conventional ones in three critical ways. First, it creates an ongoing institutional capacity within the community to act in its own behalf, rather than to act "for" it. Second, criteria for evaluating alternative development options are related to increasing the community's retention and breadth of distribution of benefits created, and its control over its affairs, rather than to increasing the level of the usual economic indicators regardless of their social and institutional impact. Third, economic activities are oriented as much as is feasible toward local production for local needs and markets, and toward replacement of imported goods and services by locally-produced ones, rather than merely toward production or marketing of those goods or services in which the area is thought to have a potential [illegible] opportunity.

Development activities are designed to meet the following criteria. These are not merely values; they are the necessary elements of successful programs.

- Priorities and goals or objectives are established with participation of local residents, on the basis of as comprehensive and thorough coverage as can reasonably be established with available resources.
- Local resources and capacities; human, physical or financial, are preferentially developed, enhanced, and utilized.
- Added benefits from the development program and related activities are retained within the area. Correspondingly, their loss by leakage across area boundaries is minimized.
- Goods and services are produced to meet the needs and wishes of residents and institutions of the local area, and secondarily those of its hinterlands and environs. Only at a third level of priority is production oriented toward further markets.
- Distributional equity is increased; benefits are broadly distributed among residents. Such benefits include not only money but also opportunities for participation and other rewards.
- Power and influence accessible within the area is increased, and mechanisms for that purpose are developed. As above, these are distributed as broadly as possible to residents.
- Means are developed and introduced to increase local or community control, influence, or ownership over sources of power, value, and opportunities within the area.

The essential product of such development is not a plan, nor even newly attracted capital or industry (though both are likely to be outcomes) but [illegible] an enhanced capacity for the community to act in its own behalf, with a steady flow of resources for such actions, through an approach that [illegible]

that their (often) latent community has interests of its own, as a community, and that those interests offer a basis for concerted action.

Such development is not temporary, but permanent; not one-shot but continuing; not fragmentary but integrated. Persons whose skills increase will be more likely to stay than to leave; enterprises that develop will promote community-related benefits rather than merely narrow and private ones; and resources drawn into the area are likely to stay, circulate, and multiply rather than merely accrue to the benefit of outside agencies and persons. Even those not directly involved will be motivated and inspired by this sort of development, in contrast to the conventional in which a few people get the benefits that rhetoric claims for all.

Social Multiplier Effects in Community Economic Development

Barry A. Stein
Cambridge, Mass.

Rosabeth Moss Kanter
Brandeis University

Paper presented at the 1974 Meetings of the American Sociological Association, Montreal, August 1974.

Comments welcomed.

Social Multiplier Effects in Community Economic Development

Over the last few decades, much effort has been directed toward the economic development of depressed areas of the United States. In some ways, this was merely a recognition of the fact that the high level of development of the nation as a whole was not uniformly distributed among all regions of the country. It is clear, however, that the depressed areas differ enormously from one another, and that they have little in common save their poverty. In fact, what are formally labelled depressed, or poor, areas are merely those which fail to meet standards that change from time to time, and which are themselves relatively arbitrary. Moreover, since the measures on which these judgments are based tend to be gathered in connection with preexisting political units such as counties, they often have little relationship to any meaningful social unit. Such areas are large and small, urban and rural, densely and sparsely populated, composed of Black, white, Indian, Chicano, other ethnic groups, and mixtures of all and spread across the country. The assumption that "depressed" or "backward" areas can all be "developed" by universally applicable decisions and strategies is therefore extremely doubtful. This is supported by the wealth of experience indicating that it is still very difficult--perhaps impossible--to predict the effectiveness of development

programs. Some cases seem to respond better than others to our present understanding, but in both theory and practice our understanding visibly lags our results. (Owens and Shaw, 1972)

We propose that success of development programs is a function of the extent to which organizational decisions are congruent with, or build on preexisting local structure and culture. In particular, we propose that certain decisions broaden the impact of development programs more than others, and that these essentially help develop a participatory structure and committed citizenry. In short, the effective decisions are those which create and support a sense of community and of shared goals among residents of the area. The model that arises from this point of view argues that wider impact of invested resources requires a process of "social multiplication" by which immediate effects are led by local institutions and structures to produce impacts elsewhere. Thus our answer to the question of why investment, or investment per capita, does not correlate with program effectiveness is, in brief, that certain characteristics of the local culture, environment, and institutions intervene to determine whether the invested resources result in substantial change. We argue, in particular, that certain existing features and characteristics of the locality represent latent social multipliers, but that these do not automatically come into play during a development program. On the contrary,

although any program will have some effect, if only because it is in itself a source of income, whether the resulting change will be more or less permanent and self-sustaining depends on specific institutional and organizational decisions. Economic development of locally depressed areas is not automatic, even given highly favorable preexisting conditions, nor does it necessarily follow only one path. It results from and depends on specific decisions made in relationship to particular characteristics of an area.

We illustrate these effects by a comparative analysis of 9 U.S. communities. These all participate in the Special Impact Program of OEO, which has funded some forty community economic development groups since about 1967. Since this program has attempted to maintain a consistent philosophy throughout, and since the funded groups are as diverse as the depressed areas themselves, it offers an unusually appropriate opportunity for comparative analysis.

The Special Impact Program

In general, American ideology has lent itself more naturally to development based on individual effort and reward. That is, American development policies have almost without exception been directed toward gaining for each individual the benefits seen to be attached to the most-favored individuals. Program options have typically included a heavy dose of education and training--investment

in human capital, as it is formally known--along with related structures to help those newly learned persons gain access to appropriate opportunities. A good example is the concern for equal employment practices, and reverse discrimination strategies to compensate retroactively. More fundamental efforts tend to support traditional social and economic infrastructure needs--transport, power, financial institutions, and physical development. But the rationale remains provision of the base on which individual efforts by firms and persons alike can build.

The Special Impact Program of OEO emerged during the mid-1960s, in part as a result of perceived failures of the individualistic fallacy, and in part because of the conviction of some persons on Capitol Hill that more collective effort was needed. What emerged finally was an innovative attempt to offer a different option as an experimental program. (Perry, 1971)

Three elements are common to all of the CDCs. First, each CDC explicitly operates within a defined target area intended explicitly to represent a potentially meaningful social unit. Second, control of the program and of the grant funds, is directly in the hands of the CDC. Although they are themselves structured differently, all believe themselves responsive to their community constituency and are so viewed by OEO. Third, the program focuses on economic activities as the primary tool by which the social

welfare of the community can be enhanced. Overall, the CDCs basic thrust is institutional and economic, not individual. In short, it is assumed to be possible to develop a mutuality of interest among residents in the development of the community as a social, economic, and political entity. (Faux, 1971)

Nine CDCs were studied in depth by the senior author. They are as diverse as the program itself. Five are rural: Siete del North (SDN) in northern New Mexico, Northeast Oklahoma CDC (NOCDC), Job Start Corporation (JS), and Knox County CDC (KCCDC), both of which are in Appalachian Kentucky, and Lummi Indian Tribal Enterprises (LITE) in northwest Washington. SDN includes the largest area, 25,000 square miles, but a very modest population (32,000) largely Spanish-surnamed, but also including a small Navajo tribe. NOCDC is also very large, covering some 10,000 square miles and including about 220,000 people of which two-thirds are white, five percent are Black, and the remainder Indian. JS is about the same size, but virtually all white. KCCDC is also entirely white, but much small ; 25,000 people and only a few hundred square miles. LITE is the smallest CDC, with a target population of about 1500 Lummis on a reservation of roughly eight square miles. In addition to these specifically rural groups is United Durham, Inc. (UDI), which is part rural and part urban and whose target population includes about 50,000 Blacks.

The other three CDCs studied are urban; in fact, they are metropolitan inner-city Black ghettos. They are Bedford-Stuyvesant Restoration Corp. (BSR) in Brooklyn, Harlem Commonwealth Council (HCC), and the Peoples' Development Corp. (PDC) of Washington, D.C. BSR serves roughly a half-million people, HCC about half of that, and PDC half again. These nine groups are organized in different ways. Several are shareholder corporations (UDI, NOCDC), several are representative corporations (BSR, HCC, JS) with boards of directors representing other community groups. Still others, though non-stockholder corporations, are controlled by directors elected by the community (KCCDC, SDN). Two are controlled entirely by other organizations (PDC is owned by a community action agency, and LITE is owned by the tribe as a whole through its business council). Thus, in every respect, these groups cover a wide range.

We have two kinds of data on CDC effectiveness: the results of intensive case studies of the nine CDCs described above, and the report of a three-year evaluation of the entire program completed by Abt Associates, Inc., in 1973. As a cautionary note, we point out that there is no universal or comprehensive aggregate measure of effectiveness, but some differences are clear enough for present purposes.

Overall, the Special Impact Program has been a success. (Stein, 1973b) In its summary of the evaluation study, Abt Associates concluded:

> ...the experience of the Special Impact Program validates the key concepts of the approach. Particularly the critical element of community control and participation has been found to be effective in increasing the development impact of the CDC. (1973, p. 26)

This can be interpreted in the present view as an indication that the basic institutional framework inherent in the concept of the SIP itself activates and increases social multiplier effects. It does this essentially by enhancing the sense of community cohesion through the very act of empowering (funding) an indigenous organization (thus promoting individual commitment to the community, and to the notion of shared goals, by establishing a mechanism through which they may be realized) and structurally by the establishment of an entity whose defined boundaries create a social reality--an emergent community--out of what was probably a mere geographical unit.

In short, it creates a mechanism which not only invites citizens to participate, but enables them to do so. This is confirmed by other indicators of effectiveness. Physical development (housing and local commerce) activities are on the average more profitable faster than other economic efforts (Abt, 1973). Also, econometric studies show that production for local consumption is highly correlated with venture success, as is the degree of community "representativeness" of the CDC. (Cromwell and Merril, 1973) These findings are most directly explained by recognition that community support itself is meaningful even in economic

terms; that is, that social multiplier effects are clearly visible. Residents can participate by patronizing CDC ventures, and by acting to maintain/support its activities. What has become known as "turf power" counts.

Beyond this general level of accomplishment, however, are still great differences in effectiveness, especially as indicated by institutional and behavioral changes that offer some sign of permanence and continuity. In the remainder of this paper, we wish to focus on these differences, to illuminate the ways in which social multiplier effects are influenced by specific existing features and by decisions of the CDCs. The following brief vignettes illustrate, in our view, unusually effective development programs. The question is: why did these areas respond so positively?

Effective Community Economic Development

Knox County, Kentucky, is in the heart of Appalachia. Before the arrival of the community economic development program (KCCDC) in 1967, there were few jobs of any kind for the majority of residents. Indeed, most had never even had a job in any formal sense. There are now not only several new small businesses--craft workshops and retail (and mail-order) outlets, a restaurant, and a planned motel--but more importantly, there exists the Lawson Furniture Company grossing some million-and-a-half dollars annually, and employing full time well over 100 persons. All these

..are owned by the CDC. A sign has been erected outside the county seat; it says, "The Biggest Little Conglomerate in the World." What is even more impressive, the firm's facilities, and the office of the CDC itself, were built by the organization using local materials and with no previous experience of this kind.

Knox County is now also probably the only political unit in the United States where decisions as to the expenditure of road-building funds--ordinarily a first-rate opportunity for patronage arrangements--are made by vote of such community groups as the KCCDC councils. One result of this has been a great opening-up of the "hollows" in the area, many of which have been so inaccessible as to require school children to walk two miles to the nearest point capable of being reached by the school bus. Since the CDC also contributes labor and equipment to the County for the road work, ten times as much is done annually as before this arrangement. The integration of poor community members into these political decisions has effected a redistribution of power. Similarly, when Lawson needs new help, the community councils elect the new employees on the basis of some combination of perceived need and personal characteristics. (Stein, 1973a)

Knox County is not a lone example. The Northeast Oklahoma CDC (NOCDC) target area was considered so unlikely to be successful and so lacking in any effective community

programs that OEO very nearly refused to fund it on those grounds alone. Three years later, it had become one of OEOs favorite demonstration projects. There were ten operating ventures, well scattered across the territory, and employing several hundred people. Some of these, entirely owned by the CDC, were extremely sophisticated (e.g., jet engine subcontract manufacturing).

More remarkable is the fact that NOCDC has been engaged in a serious power struggle (itself a sign of success). It may survive; if it does, it will be because of actions taken by the otherwise uninvolved and entirely inexperienced poor shareholders. A group of directors, representing the existing power holders in the area, were attempting to take over the CDC for their own purposes. This whole affair, which stretched out for over a year, ultimately resulted in the removal from office, by a complex process of petitioning and special elections, of all but one of the "take-over" group of directors and their replacement by community representatives. The fact that so many persons, scattered over such a wide area, were motivated and able to take the actions they did, is striking. (Stein, 1973c)

Consider, finally, the Lummi Indians, who until 1966 never had as much as $8,000 of tribal income; there had never been a full-time paid person working for the tribe. Most members were extremely poor, health care was practically nonexistent (infant mortality was far above the mean), over

two-thirds of reservation housing was below minimum standards, no Lummi had ever gone to college, and most of the desirable ocean-front property on the reservation had been sold to whites for vacation or year-round homes.

The tribe has since then undergone what could only be called a renaissance. Several dozen persons, mostly Lummis, are working for the tribe in over a dozen programs, both Federal and State. A major aquaculture project, costing well over a million dollars, has been started, the necessary facilities were constructed by the Lummis themselves, and the first harvest has been taken. Infant mortality is down to the prevailing norm, several Lummis have graduated from college and many more are enrolled. Considerable new housing--attractive and well designed at that--is finished and more on the way. So much publicity has been generated that the Lummis are downright blasé about being the subject of a documentary film by Marlon Brando, and appearances on Johnny Carson and Dick Cavett shows. Perhaps most remarkable of all, the Lummis have started a School of Aquaculture which is attracting students from many other Indian tribes, and Lummis from off the reservation are returning in increasing numbers. (Stein, 1974)

Sources of Social Multiplier Effects

We are arguing that these examples stem from the presence of social multiplier effects, and from development decisions

appropriate to related characteristics of the localities in question. Before attempting to point these out, we expand somewhat on the concept itself and in particular on the sorts of local features that contribute importantly to the potential for substantial multiplier effects.

It is generally agreed that one of the inherent characteristics of more highly developed societies is a more complex institutional structure. It has also been suggested that certain arrays of institutions should correspond to particular stages of development. The contrary argument is that such a view is limiting, inasmuch as it sees development as unidirectional, universalistic in pattern, and therefore ahistorical. Although our view is that certain types of arrangements will generally promote social multiplier effects, because they are the source of the "social ratchets" which permit permanent change, the direction of that change, and the particular institutions involved, are a function of local history and culture. In any case, deliberate actions can promote (or hinder) this process, either through reinforcing appropriate linkages or creating new ones. Thus, social multipliers can be deliberately expanded.

We propose specifically that these social multiplier effects derive essentially from the existence of a sense of community among residents of the development area. For present purposes, we think of that sense of community as composed of two elements: one, the social cohesion among

members (enhancing the strength of the collectivity), and two, personal identification of members with the community (promoting commitment and shared goals). (Rossi, 1972) Under these circumstances, as the community prospers, so do its members. (Kanter, 1972) Social multiplier effects provide the linking mechanisms.

Three features contribute to the potential for such effects to become important: demographic, leakage-reducing, and cohesion-enhancing. Demographic effects are straightforward. Local development program effectiveness is enhanced when persons can identify themselves with the area, and when interpersonal interaction among the members of the target population is increased and routinized. These are easier when: (1) population itself is low, and (2) the target area is physically small. Thus, reduction of both numbers of persons and geographical size increases the potential for social multiplier effects, other things, as usual, being equal. This is not identical with population density; absolute size is itself important. Also, the impact of these characteristics will be greater in the lower ranges; as development area and population rise, the proportionate effect of further increases will be reduced. These effects are therefore more obvious and powerful in smaller sizes. The two most effective CDCs, of the nine studied in depth, are LITE and KCCDC. These are the two smallest, both in population and in geographical size. Thus, demographic

factors here contribute to increasing social multiplier effects.

Leakage effects are associated with isolation, whether physical (as for instance in communities located in remote or difficult access areas, or merely rural and off the beaten track) or social (as is often the case in ghetto or barrio, or in poor areas generally--the other side of the tracks). Although isolation is ordinarily regarded as a problem to be overcome, it also reduces potentially cohesion-destroying extra-community attachment. From this point of view, isolation is a virtue, preventing the social equivalent of leakage effects in economic life. The economic multiplier is enlarged when the potential for economic exchange across the boundary is reduced; this is one reason for tariffs. Exactly the same notion applies to social multipliers. Leakage (which includes co-optation and social and geographical mobility) reduces the likelihood that intra-community links will be strengthened. Community leaders are no sooner identified than they leave for greener pastures; opportunities for ventures are no sooner created than outside firms and entrepreneurs become interested and in effect guarantee economic leakage. Thus, in general, isolation strengthens the social multiplier. The few CDCs dropped from the program (aside from one special case) were in urban/metropolitan areas whose characteristics notably include "leaky" boundaries and strong ties out of the target areas.

These isolating features may be regarded as characteristics that reduce the likelihood of transfer of energy, commitment, and resources across the boundary between the target area and its surroundings, and thereby make leakage more difficult and less likely. However, this result is also gained by cohesive effects; that is, those which prevent leakage by building up local cohesion rather than by reducing extra-community attachment.

The specific nature of these cohesive effects can vary widely. They range from the well-developed sense of kinship and tradition held by members of American Indian tribes, (as the Lummis) to common awareness of and respect for a significant historical past, as in the industrial towns of New England. Still another source is a shared allegiance to a particular political unit, as in the counties of Appalachian Kentucky (a factor to KCCDC). And the cultural heritage of ethnic groups, even to the point of distinctive language, is certainly an essential source of solidary feeling for many groups, as in the Italian-Americans of East Boston, the Spanish-surnamed, Spanish-speaking migrants of Northern New Mexico, and perhaps urban Blacks.

Such features provide the community with a sense of its distinctiveness with respect to other social units, and therefore promote effective collective action, even though at a sufficiently exaggerated level this may also be dysfunctional for the larger society. In any case, cohesive

and isolating forces reinforce and support each other. In the process, they also increase the potential for social multiplier effects. This is supported by the finding that there is a clear and general superiority of rural groups over urban ones both in venture results and in the commitment and involvement manifested by residents in surveys (Abt, 1973). We interpret this as evidence of the effect of isolation in reducing leakage across community boundaries. Additionally, of course, rural areas benefit in having many fewer competing claims on persons' time and commitment, so that the cohesion-building task of the CDC is easier there than in urban areas. We have already indicated our opinion that KCCDC and LITE are the most effective groups in the program. Both are, of course, also rural and unusually isolated.

Institutional Decisions and Social Multiplier Effects

These features of local development areas provide for more-or-less powerful, but latent, effects; appropriate institutional decisions are required to make them manifest. Some of these follow from the concept of the Special Impact Program itself; others are of a more local character. Both may be illustrated with reference to the examples described above.

The progress and change of Knox County was due to some key institutional decisions which markedly increased social

multiplier effects. For instance, KCCDC divided the county into 11 subdivisions, roughly corresponding to existing political and elective units, and made each area the locus of a community organization with its own facility (typically, a discarded schoolhouse), structure, meetings, and priorities. Since all members of these groups (it costs $.50/year) belong automatically to the CDC, and are entitled to nominate and to elect directors and vote on policy decisions, these community groups combine functions as local (subcounty) units and as elements of the overall county community organization, KCCDC. In effect, by reducing the size of the operating units to which residents belong, social multiplier effects are enhanced. At the same time, since the county as a whole is the traditional locus of power and identity, the CDC as a whole sustains and builds on important and cohesion-building traditions. In contrast, Job Start Corporation, which operates in ten counties (including Knox) has had problems convincing people from the different counties to collaborate, or that they could thereby gain. In short, tradition here mitigates against developing commitment to a broader area than the counties. (Stein, 1973a)

Most target areas are not served only by the CDC, but by other community or development agencies as well. CDCs have therefore had to decide on their relationship to such other groups, and on the extent to which they should "specialize" in some types of action as against others.

This tends to show up in the extent to which business development is pursued, as against some combination of that and more broadly social o: community development activities. In our view, even though the CDCs that have taken the former path have generally done so with considerable success, it is the latter that has led to the unus· l results noted earlier. Thus, KCCDC is in fact a joint organization; it also operates as a Community Action Agency (CAA) with a common director, and staff that overlaps almost completely in practice. This joint approach specifically adds to the ability of such groups to tap and expand social multiplier effects. For example, it is the cohesive strength of the community groups in Knox County that enables them to elect workers to their jobs (even though the waiting list is very long).

This breadth of effort is even more true of the Lummis. LITE is but one arm of the tribal council (all registered members of the tribe), the others concerning tribal affairs and social welfare. The latter includes a CAA, among other things. Thus, even though from our view such a tribe offered great potential for effective social development through social multiplier effects, in all three categories described, critical institutional decisions enabled these to be manifested. In effect, these built on the tribe as a tightly-woven web of relationships, which operates to enhance, create, and support a wide variety of multiplier effects.

For example, one program has helped sustain tribal

traditions and thereby build cohesion and commitment by investing resources to write down and record the tribal history and language before the present elders (who are few in number) are gone. One can sense the importance of this, especially to the younger members of the tribe, for whom these traditions are increasingly a source of personal identity and meaning. A few years ago, they were more often a source of embarrassment. Moreover, the Lummis have taken great advantage of existing tradition by launching an aquaculture venture that taps the tribe's long-standing use of the sea both as a source of food and as an important element in tribal ceremony. For a hundred or so years, the USA has tried to get the Lummis to start farming on the reservation, but it has never been successful; the chance to develop the tribal waters has therefore been immensely important. (Stein, 1974)

KCCDC and LITE are instances of groups operating in areas that had, from our perspective, much potential from the outset. NOCDC, on the other hand, lacked reason for any such optimism. Its target area is vast and heavily populated, three different ethnic groups are involved, and no successful community organizations were known to exist. How, then, was it able to accomplish as much as it did? Again, the answer lies in certain key decisions made by the CDC, which enabled it to develop powerful social multiplier effects. In this, it may be usefully contrasted with

Job Start, which is similar in size, environment, and multi-county focus, but not in thrust.

First, JS is controlled by a board of directors elected by other community groups in its ten counties; NOCDC is a stock corporation, with the majority of stock (on the basis of one person, one vote) held by its poor constituents. Second, although both have been effective in developing ventures, JS has done this through its own staff with ideas derived from its own efforts; NOCDC created and supported a system of groups of constituents interested in generating ideas for their own ventures. NOCDC has provided expertise, funds, and procedures to help develop these (sometimes over 50 ideas per month). Third, JS has done no community organizing, leaving that function in the hands of the separate county CDCs; NOCDC has formally organized and supported community groups in each population center, and includes in its own structure a staff to work routinely with those groups. Moreover, NOCDC has consistently urged residents to attend as many of its meetings as possible (including internal ones, with a few exceptions). Opportunities for resident participation have therefore been great. (Stein, 1973a; Stein, 1973c)

Both JS and NOCDC have been very successful in terms of their own goals and perceived environments. However, NOCDCs accomplishment has been more broadly effective. In contrast to JS, it has manifested a range of social

multiplier effects noticeable especially in the demonstrated commitment of its constituents. This is the more striking when it is recognized that JS could build on effective groups (such as KCCDC) within its area, whereas NOCDC had to work alone.

Conclusions

Similar examples exist in other areas. The overall conclusion is straightforward. Certain existing characteristics of any specific area or social/political unit may be regarded as indicating the potential for social multiplier effects to enhance the effectiveness of development programs. These characteristics, which increase and support social cohesion and individual identification with the area, are merely latent; they require activation through appropriate institutional actions and decisions. If these are so designed as to take advantage of those latent opportunities, and to modify the existing features to promote still greater multiplier effects, then powerful and permanent change--development--will more readily occur. Many development theories and approaches regard existing social arrangements, traditions, relative isolation and the like as problems to be overcome rather than as potential means to help engage local persons in efforts which they themselves find meaningful, and which they can therefore enthusiastically support. The essence of appropriate development lies in identification of those factors, and design of approaches to be consistent

with them; that is, in recognition and support of potential social multiplier effects that convert resource units into institutional change. There are always latent social multipliers--or dividers--and they will have an effect. They should be used to advantage and supported, for in the end they may destroy, or at least modify, any development program which does not take them into account.

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