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Chapter 5

Making Social Capital Work: Social Capital and Community Economic Development

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The discussion of social capital as it relates to economic development in low-income communities has been inappropriately narrow. It has focused on social ties and relations within and between firms in ethnic enclave economies without paying sufficient attention to how social capital can influence private market rules, individual preferences, and economic outcomes. We offer an alternative view, with social capital as a contributing factor in the shaping of economic markets through political and collective community action and in the actualizing of market potential in inner-city economies. Our view is that social capital can operate in concert with other important development assets and contribute to community economic development.

HOW SOCIAL CAPITAL INFLUENCES MARKETS

To appreciate the role of social capital in shaping markets and their outcomes, it is necessary to shed some popular understandings of markets. In a simplistic view offered by traditional economic theory, individuals have money and preferences that take the form of demand. Businesses respond to these demands and compete in quality and price; this constitutes supply. It is assumed that individuals have a priori and stable preferences. This assumption is an important fallacy that hides the role of social capital in setting market preferences. Businesses know that consumers do not necessarily know what they want a priori. Businesses thus spend significant resources on marketing to influence consumer preferences. Extensive research is conducted by business to understand the social and cultural attachments of various subgroups of the population. Often, a "star" from a subgroup is hired to help promote a product to that subgroup, so that the product becomes identified with the subgroup. This entire set of activities could easily be thought of as businesses building up social capital with various subgroups of the population.

For many if not most consumers, social connection (or "fashion") is as important a selling point as product quality or price. If consumers do not have predetermined or stable preferences and producers can shape consumer demand, then the distinction between supply and demand dissolves. It follows that the idea of a "natural balance," or equilibrium, between the distinct elements of supply and demand loses its foundation. If there is no rigid law of supply and demand, then we must ask again some old questions: How do suppliers and consumers come to know, understand, and interact with each other? How is economic success achieved and sustained in markets? It is in rethinking these old questions from a fresh perspective that social capital can become more analytically and practically useful in community economic development and other discussions.

At a micro level, we could explore how individual consumers come to choose one sneaker or another and the role that social attachments play in that decision. We are instead interested here in identifying how social capital affects a couple of *macro* issues: Why are market institutions (that is, market rules and regulations, consumer individual interests and incentives) shaped the way they are? Relatedly, why are consumer markets primarily oriented around *individual* demands versus group or social demands? We start with the question of how social capital structures markets.

Many have remarked on how U.S. citizens, businesses, and government all tend to defend the U.S. economic structure under the banner of freedom, or "free" markets (Ankersmit 1996). However, there is actually no such thing as a free market; there are only agreements and conflicts over the degree of regulation and types of structuring of markets (Block 1994). In making the argument that social capital influences the shape of U.S. markets, we need only show that free markets are themselves a social construct. That is, by disconnecting free markets from any notion of natural economic necessity, the only alternatives for explaining why the United States has a "free market" structure are social and political. In the United States, however, political battles over free markets have been comparatively rare. Coordination of production and services through markets has been socially popular.

Without social organization and government, neither individuals nor *private* businesses would survive for long. Markets are not natural systems. Rather, they are constructed by social agreements reinforced through law, government power, and social norms. Business conduct, far from being value-free and responsive only to objective market forces, is heavily value-driven (DiMaggio 1994) and affected by politics. Corporations attempt to put in place public policies that will structure the kind of markets they can thrive in. Corporations have championed the idea of freedom to defend their ability to move capital across national borders and regulatory domains with a minimum of governmental control (Albrow 1997). Unions and environmental groups have frequently called for government regulation of such market freedom to protect constituent interests in combating poverty, political repression, and environmental degradation.

In Arthur Okun's (1975) seminal view of market efficiency, market efficiency benefits the *whole* of society, but it is interrupted by various government requirements that promote equality for particular classes and groups—such as those represented by unions and environmental groups. Some government interference is necessary for market stability because too much inequality produces social disruption, protest, and even revolution. Too much equality, however, leads to serious disruption of market freedoms and stifles economic incentives and efficiency for everyone. The key to long-term growth is stability achieved through the "right mix" of equality and efficiency. In this view, private firms concentrate on efficiency (to serve the greater good), while government focuses on increasing equality for those weakened in the marketplace. Okun pushes the dichotomy between equality and efficiency too far, however.

For example, many government efforts made in response to demands for equality have generated economic growth that narrow views of efficiency do not recognize. This includes governmental programs such as public education and health insurance (Medicare), which help contribute to worker productivity. Also, some of the actions of major private corporations—such as the recent support of affirmative action by the General Motors Corporation—have suggested positive correlations between diversity in hiring and economic performance. The University of Michigan has an unusual ally in its effort to defend its affirmative action policies in admissions against two separate lawsuits in federal court. In a brief submitted in U.S. District Court, General Motors maintained that its interest in affirmative action legal disputes involving the university is substantial. The company, based in Detroit, employs a large number of graduates from the university, in particular from its business and engineering schools. The brief says: "In General Motors' view, only a well-educated, highly-diverse work force, comprised of people who have learned to work productively and creatively with individuals from a multitude of races and ethnic, religious, and cultural histories, can maintain America's global competitiveness in the increasingly diverse and interconnected world economy" (quoted in Schmidt 2000).

Another aspect of the efficiency-versus-equality paradigm deserves mention. This is the notion that markets pursue efficiency while government pursues equality. We noted earlier that government programs for equality can produce economic growth over time, that is, they can enhance efficiency in the long run. We also believe that markets can promote equality—for instance, through the diversity programs of many U.S. corporations. It is critical not to view markets as driven by individual economic self-interests only; we must also recognize the potential value of social ties and cooperation to individuals.

Social cooperation can take a variety of forms in economics, including customer loyalty, the sharing of information, and asset maintenance. Customer loyalty, for example, enables Nike to charge higher prices than competitors whose product is virtually identical. The sharing of information, such as a worker's willingness to inform employers of problems on the job, has been increasingly recognized as a key factor in business success. Asset maintenance, such as an apartment renter's willingness to help maintain leased property, has helped some low-income landlords to turn a profit and maintain housing; landlords lacking such cooperation have sometimes lost money and had to abandon property (as discussed later in this chapter).

Increasing equality can lead to greater social cooperation, lower costs, and improved economic efficiency: lower rents and better service for the poor, for example, can lead to timely rent payments, building preservation, and lower maintenance costs. In this example, the opposition between equality and efficiency fades. In short, there can be sound economic reasons to pursue equality and social justice as good business practice.

If this is so, however, why have not more businesses pursued equality and social cooperation? The answer does not lie, we think, in some inherent law of the market. There are numerous examples of businesses that utilize social cooperation toward economic ends. The answer, we suggest, has to do with the limited perspective of commercial capitalism-liberalism, which sees connections to consumers as something made through blind and anonymous interactions based on individuals' economic interests. Under this view, one understands universal needs only through their expression in individual buying habits, and then in the aggregation of individual desires and needs.

It is this "ideal" of commercial liberalism (that is, that progress is achieved through *individual* efforts rather than in cooperation with others), not a hidden economic law, that leads many businesses and entrepreneurs to underappreciate equality and social cooperation. Business managers and owners undervalue equality because, like consumers, they are overly enamored by the logic of commercial liberalism.

If it is disconcerting that business owners and managers have hung on to the competitive individualistic ideal, it is more disturbing and surprising that social capital and civil society advocates (who often decry the individualism of commercial society) have not been more engaged in applying social capital concepts to economic development. Some prominent "oversights" have contributed to this shortcoming in thinking about how social capital can aid in the process of economic development in poor communities. First is the long-standing view that market economies have an inherent and unalterable tendency to exploit the poor, undermine the environment, and exacerbate various inequalities. We do not want to argue that these evils have not happened and that markets have not contributed to them. However, we do not believe that the market must always serve neutral or morally repugnant ends. What is often considered to be an evil inherent in market structures is more accurately a criticism of bourgeois social values, or a "mis-education" of citizens on the role of social ties and cooperative action in the economic process.

An example may clarify this point. Imagine that a business executive encounters a large hardwood forest along a pristine river in Maine. When it occurs to the executive to buy the forest, she immediately puts her mind to work on how she might develop the property. She considers selling the hardwood to lumber companies for shipment to Japan. She thinks about damming the river to generate electricity that could be sold to nearby towns. Once the hardwood is cleared, she could replant fast-growing trees, subdivide the property, build luxury homes, and sell parcels as vacation getaway homes. Her imagination, structured entirely around the production of commodities that people could purchase and use, has led her to think about all of the useful products that could be developed out of the property.

Now imagine a slightly different scenario. An executive purchases the same piece of property, and rather than thinking of how it can be transformed into various types of commodities, she decides that the greatest value of the property is its beauty: the fauna and wildlife. The executive decides to build a network of trails through the property, along with a network of ecologically friendly hotel facilities on the outer edges. She advertises the property to environmentalists (a significant market segment) as a tourism site. The executive imagines that if she preserves the

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As shown in this example, there is nothing logically inherent in the notion of markets that prevents them from being used to preserve the environment rather than destroy it. The difference between the two examples is in the market *assessment* and social *values* the two entrepreneurs bring to their view of the property. In other words, the differences are human and aesthetic.

Another misunderstanding, also mentioned by Cathy Cohen (this volume), is the tendency of social capital theorists to define social capital in purely positive terms, or to define social capital as promoting the type of community values that they themselves wish to promote. Yet there is a negative side to social capital that has been too often ignored. For example, when businesses extensively promote youth interests in gangsta rap, smoking, and alcohol through mass media and direct marketing, they are not seen as building social capital. Similarly, suburban housing developers who build exclusive residential communities are criticized for destroying social capital in the communities from which residents are moving (often city neighborhoods with more diverse populations), but social capital analysts tend to ignore that developers are building social capital of another type in residentially exclusive neighborhoods. Such one-sided analysis of social capital often leads researchers to ignore the vast influence of businesses in organizing social groups and determining social trends, and it reduces the general understanding of how social capital connections affect markets.

Theoretical prejudices against markets and blindness to the influences on social capital formation that businesses already have in large part lead social capital researchers and advocates to overlook much of the practical value of social capital in economic development. Although these theorists and advocates sometimes make a connection between building social capital and group political organizing, on economic issues they tend to think of individuals as generally isolated from others. They rarely think about how mass economic preferences are generated or how they could be generated. The powerful effect that organizations and networks could have on both the supply and demand sides of the market is thus too often obscured from view.

For instance, although black communities in the United States are poor when black individuals' wealth is compared with white individuals' wealth, this way of thinking about wealth is one-sided and disempowering. African Americans in 1998 earned roughly $460 billion in income (Graves 1998). A single trade union of low-income, mostly black and Hispanic hospital workers in New York, local 1199, has a pension fund worth more than $6 billion. If blacks were half as unified in their economic preferences as they are in their voting patterns (they are overwhelmingly Democratic), they could make some markets flourish. They could force change in business practices that they do not like. They could require businesses that receive their investments and purchases to reinvest in their communities and make community members directors of the companies. Similarly, a union like 1199 could use its pension funds to establish a credit union and community investment fund that would significantly improve members' income and quality of life by offering low-interest credit cards and building day care facilities in underserved areas. In short, the economic power of African Americans exists *only* at a collective or *social* level, but their power at this level could be considerable. The relative lack of attention given to collective community economic power and assets in low-income and minority communities suggests the dominating prevalence of the ideology of individualism (embodied by commercial liberalism) even among its critics.

As in politics, social cooperation can generate new perspectives and opportunities that are often hidden from isolated poor individuals. A social capital approach to markets could emphasize such opportunities. By asking low-income citizens to consider the economic landscape from a social perspective, new appreciations of market power and opportunities (on both the supply and demand sides) emerge.

Another example has to do with energy privatization and its potential effect in poor communities. A number of community groups fear any form of privatization as a threat to guaranteed service, affordable prices, or the maintenance of quality jobs. And privatization has a well-established track record of leading to just these types of negative outcomes. Ironically, however, if poor urban communities form energy cooperatives for the purchase or supply of energy, they may be well positioned to exact leverage over (and benefit from) the privatization process. Poor communities have long been targeted as locations for the large, energy-consuming, and frequently noxious facilities (treatment plants, airports, hospitals) that are refused by more powerful and wealthy communities. By working cooperatively with large energy consumers to coordinate demand—for instance, by encouraging community residents to use energy when it is least needed by a local hospital—poor communities can minimize strains on the local utility system. As demand rises faster than the supply of energy in many areas, poor communities become critical leverage points in a utility company's efforts to provide reliable energy service. In this way, energy co-ops could broker reductions in energy prices or utility contributions to community improvement in ways that would be unimaginable for an individual consumer in a poor neighborhood.

As these examples illustrate, our thinking about community economic development often neglects the social capital concept, which is an important potential mechanism for accessing and leveraging economic and political resources.

SOCIAL CAPITAL AT THE NEXUS OF COMMUNITY ECONOMIC DEVELOPMENT

The Components of Economic Development

Social capital is just one of many assets important for community economic development. Financial capital, a skilled workforce, a physical infrastructure, organizational capacity, and supportive public institutions and policies are also important assets. These assets collectively are also important for the economic development of (rich and poor) cities (Gittell 1992), states (Osborne 1988), and nations (Thurow 1999; Reich 1991). Social capital is not magical, nor is it a special formula for developing low-income areas. All the development factors are important for all kinds of economic development.

A long-standing contribution to the understanding of the interrelationships between community development assets is the literature on black capitalism. Proponents of black capitalism stress that black businesses increase black employment, improve consumer welfare, stimulate community investment, reduce welfare dependency, and increase black political clout by strengthening black economic power. R. L. Boyd (1990, 269) suggests that black business presence grants the power and status necessary to reduce prejudice and break down barriers to black economic progress. He argues that black businesses can be important institutions at the community level (169) by catering to the low-income, nonwhite customers often neglected by major stores, providing initial employment experience to disadvantaged youth, and reinforcing the notion that community life is organized around work. Lending support to an African American business focus in inner-city development is evidence that black business owners are more likely than their white and Asian counterparts to employ black workers, thus generating greater employment and communitywide benefits in African American neighborhoods (Bates 1994; Porter 1997).

A major and all-too-common problem in low-income communities is a severe lack of one or more of the important development assets; thus, these communities must develop some combination of those critical assets before they can make any significant economic progress. The value of social capital in this context is that it can be generated internally through some form of community organizing or by leveraging organizational networks established for some other purpose (such as political campaigns or organized labor). The possibility that one or two of the development assets might fit together and the potential role of social capital in helping to blend the different development assets to the benefit of the broader community interest do not emerge often enough in thinking about community economic development. For example, an organized community with a large segment of workers in a particular union might press the union to invest in a community project and pressure local government officials to match the funds. Such assets are often not developed or deployed because community development efforts are driven by whatever external resources are available at the time, not by the local social assets available for economic development. It is well known that both government agencies and foundations fear that community organizing may cause them to lose control of community projects. Nonetheless, community organizing is critical to building social capital in neighborhoods (Gittell and Vidal 1998). Social capital for economic development can be built through community organizing that conducts strategic planning, identifies community assets and liabilities, and draws in community groups and residents to prioritize objectives and demands.

Community organizing is also important because of the disconnection between community assets in economic development perpetuated by the organization of many federal and state government programs meant to assist low-income communities. The programs often operate along traditional agency lines (education, labor force development, financial assets, and physical infrastructure) and tend to deliver resources narrowly targeted within agency guidelines. This leaves the task of integration—putting the development pieces together—to local communities, which must often develop the experience, operating capacity, and social cohesiveness to plan and operate effectively.

Poor communities have many internal deficits and require bridges to outside resources. However, our view is that they often also have many social assets and internal capabilities to develop additional assets. The capacity to combat poverty (and develop low-income community economies) can be enhanced by identifying and utilizing existing community social assets synergistically to create new economic assets. Communities that cooperate internally to make effective use of their own assets are more attractive to private investors and businesses and better partners for outside institutions.

In our view, the most effective way to foster community economic development is through a holistic approach that draws on the social capital assets of communities, such as churches, unions, fraternal organizations, political organizations, and child care networks. Although individuals in poor communities have little financial capital, when aggregated through networks, the social capital that these communities assemble can be powerfully leveraged to accumulate economic and political capital. Community residents can use social capital to ensure that economic development efforts improve their lives and strengthen their social, political, and economic networks.

The Role of Social Capital in Economic Development

A number of researchers studying ethnic enclaves have suggested that social capital accounts for the business success of these enclaves and the success of local enclave economies. These studies tend to focus on the role of social capital as an alternative to working through mainstream financial and political institutions rather than on how community and mainstream development assets might work in concert. The studies have focused on communities with concentrations of ethnic entrepreneurs—for example, Koreans in Los Angeles (Light and Bonacich 1991), Cubans in Miami (Portes and Rumbaut 1996), and Chinese and Dominicans in New York City (Portes and Zhou 1996). The main finding is that some immigrant groups are very effective in their use of social relationships (for example, in their ethnic solidarity) to achieve levels of economic growth independent of mainstream institutions.

Although they illuminate the potential economic role of social capital, the studies of ethnic entrepreneurs are generally limited by a lack of specificity about the other assets necessary for business success and community economic development. Timothy Bates (1994a), for example, in a critique of the literature on ethnic entrepreneurs, finds that ethnic entrepreneurs succeed for reasons applicable to any small business, including access to equity capital and the human capital of entrepreneurs. From our perspective, the two views (Bates's and the sociologists') on ethnic entrepreneurs need not be at odds. It is entirely conceivable that ethnic entrepreneurs need money, skills, *and* community support in order to succeed. Social capital can have positive direct economic effects in communities as well as important indirect effects by developing other community assets.

One of social capital's strongest indirect influences in community economic development is on political institutions, policymakers, and public policy. For example, social capital has contributed indirectly to financial asset enhancement by first affecting political discourse and policy, as with the organized community protests that led to the Community Reinvestment Act. Social capital can affect physical development, as it does with NIMBY efforts in both poor and rich communities. It can influence public policies related to wages and human capital development, such as living-wage legislation. And it can affect the market rules that govern entrepreneurial and business development opportunities. This was the case with New York City's Neighborhood Entrepreneur Program (discussed in detail later), in which neighborhood residents demanded that privatization of city-owned property in low-income neighborhoods include the condition that neighborhood residents be given priority (Gittell and Thompson 1999).

Nevertheless, it is important to recognize that social capital is no community development panacea. As mentioned earlier, social capital's effect on community economic development is not always positive. In enclave economies, neighborhood residents who are not members of the dominant groups can be excluded from financial resources and employment and market opportunities. In diverse neighborhoods, strong ethnic and racial groups can distract from the political capacity to act on communitywide issues. Old boys' networks in the construction trades can limit opportunities for women-owned businesses (discussed in more detail later in the chapter). Second, there is a concern that social capital may be lacking in low-income communities (Wilson 1987), and therefore that it may not be a promising community asset base for organizing development efforts. We are skeptical, however, about such conclusions: researchers may simply not be well trained in identifying social networks in low-income and minority communities. Not all communities have equal levels or the same types of social capital, but recent research suggests that even "abandoned" neighborhoods have some social organization and relations to advance their development prospects. Organizations that have often been described in purely negative terms, such as youth gangs, may also be utilized for positive social functions (Venkatesh 2000).

THE OTHER COMPONENTS OF ECONOMIC DEVELOPMENT AND HOW THEY RELATE TO SOCIAL CAPITAL

Financial Assets

Access to financial capital has been identified as one of the most significant factors contributing to the development of economies at all levels. Loans to developing nations are the dominant form of aid in international development. In developed countries, national, state, and municipal government bonds are used to fund a variety of economic development activities, ranging from physical infrastructure development and capital improvements to subsidized financing for start-up, relocating, and struggling businesses. Examples of how access to financial capital can contribute to community improvement and minority business success—such as South Shore Bank (Taub 1988) and immigrant groups arriving with "capital in hand" (Bates and Dunham 1993)—are used by policymakers to make the case for the importance of financial capital in community economic development. The significant growth in and support of microloan programs in the United States (and globally) also suggest the prevalence of the view that financial capital is important to community economic development (Servon 1995, 1999).

Ways in which social capital can enhance financial assets in community economic development include peer lending, credit unions and rotating credit associations, and union pension investments. These methods rely on social bonds and good relations among members and participants. Financial assets and relations can (in turn) enhance social capital within a community. This is apparently happening with union housing investment programs in New York (Greenhouse 2000). This also appears to be happening in high-technology centers such as Silicon Valley (Bronson 1999), where close social bonds are built from financial and business relationships.

Organizational Capacity

Perhaps the key asset in utilizing social capital for economic development is the organizational capacity of local community-based organizations, firms, nonprofit organizations, and public agencies. Community development corporations (CDCs) and other community-based organizations have played a prominent role in community development in many low-income neighborhoods across the country (Vidal 1992). Key factors contributing to CDC success (and the success of other community-based organizations) include management skills, technical planning, and the project development capabilities of board members and staff, as well as relations with community residents (Gittell and Wilder 1999).

A number of institutions with organizational capacity that operate in low-income communities may also play a leading role in organizing social capital or in community organizing. One of the most important research questions for using and developing social capital in poor communities is determining exactly which individuals build social capital, identifying their incentives, and tracing economic and social outcomes related to these and other factors. As discussed earlier, because CDCs and other community-based organizations tend to compete for governmental and foundation funding, their role in community organizing has been limited. Fortunately, there are other organizations that can play a significant role in community organizing and building social capital, including churches, cooperatives, labor unions, and environmental groups. Each brings different interests, incentives, and capacities to bear on building social capital. These organizations may initiate some of the community organizing that has been largely missing. Private entre-

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preneurs engaged in private market activities can also play a role in building social capital (in their private market self-interest, as we discuss in the next section).

Entrepreneurial Capacity

A final asset important for community economic development is entrepreneurship. In the traditional economic development literature, Joseph Schumpeter (1934) was the first to highlight the private profit-seeking entrepreneur as the key agent in economic development. Today it is hard to read an article about the U.S. economy without reference to entrepreneurs.

Ronald Burt (1992) provides a useful framework to discuss why there may be a paucity of private market entrepreneurial effort in low-income areas. Burt's framework suggests that such efforts fail in low-income communities as a result of a lack of social connections, what he calls "structural holes." In the inner city, private market entrepreneurs often fail to identify inner-city market opportunities and to link resources outside the inner city to take advantage of market opportunities in the inner city. We believe that some market opportunities are unrealized—and that structural holes are prevalent in the inner city—because of social disconnection between inner cities and outside business resources.

In a similar fashion, Mark Granovetter (1973), a sociologist focused on labor markets, recognized that most new opportunities (including jobs) come from weak ties—those ties that represent new relations linking individuals together in novel ways. Burt's and Granovetter's views together suggest that what may be most lacking in community economic development are the social ties and connections to move on market opportunities. Stated in different terms, social capital can be a key link to the actualization of market potential.

Michael Porter (1995) generated much interest in and attention to what he called the "untapped" potential in inner cities (low-income, inner-city neighborhoods) for business development. Porter highlighted the market potential of inner-city businesses supplying nearby large businesses, drawing on an available labor supply and serving underserved local demand for services and products. For Porter (as for Schumpeter and others), the main agent for change in the inner city (as in the market economy globally) is the profit-motivated entrepreneur. To realize inner-city market opportunities, we need entrepreneurs who effectively utilize existing human capital assets and connect them to outside resources and businesses.

In Porter's view, virtually any community has community assets and economic potential. The critical element is the private entrepreneur, who identifies the market opportunity and draws together the assets to realize the potential. It is social capital that helps to overcome the social disconnection that prevents outside entrepreneurs from understanding the economic potential of the inner city. Better connections can bring in outside entrepreneurs who would not even have considered the inner city—for example, a friend telling a friend to consider opening a new business in an inner-city community, or an MBA student who grew up in a low-income community connecting with Professor Porter in class.

Once entrepreneurs invest in the inner city, they have pecuniary incentives to build social capital, that is, to establish good relations with local residents and other businesses. Furthermore, when they invest in a community, they also bring in their human capital, access to financial and political assets, and a network of relations with outside resources. In Porter's framework, the community economic development pieces can be blended in inner cities, and social capital is one of the pieces. However, the entrepreneurs whom Porter talks about may not be strongly tied to the communities in which they operate, and they may also be unlikely to return the economic gains from their work to those communities. Community residents would therefore do well to develop their own bonding associations so as to be in a position to maximize economic benefits from Porter's entrepreneurs. For example, residents might join unions in order to increase their share of the benefits from profitable inner-city ventures.

What Porter's perspective highlights is that in low-income community economic development, Burt's spanning structural holes would require some bridging (connecting to and bringing in outside resources and expertise) targeted to business development. Social capital bridges into low-income communities can improve the prospects for inner-city entrepreneurship.

Successful inner-city entrepreneurs can give back to the communities in which they operate. They can use their social relations to garner outside resources for broader community benefit. They can also mentor others, including their employees, and serve as role models, making residents feel better about themselves and each other. This is most likely to happen, at least some research suggests, with entrepreneurs who are operating in strongly bonded communities (Gittell and Thompson 1999). The cooperative model may be interesting to study in this regard, as well as various other forms of community ownership, as a way of institutionalizing entrepreneurial accountability and connectivity in low-income communities.

"MODELS" FOR COMMUNITY ECONOMIC DEVELOPMENT

We now offer some models ("best practices" in operation or conceptually) for economically developing inner cities and critique them from our social capital perspective.

The Neighborhood Entrepreneur Program

There is evidence of the potential of social capital in community economic development in the Neighborhood Entrepreneur Program (NEP) in New York City (Gittell, Lawrence, and Thompson 1995; Gittell and Thompson 1999). In this novel, award-winning program (Innovations in American Government Award, 1999), inner-city entrepreneurs—the large majority of whom are minorities—are emerging as important local institutional foundations.

The Neighborhood Entrepreneur Program was established in 1994 by New York City's housing agency and a nonprofit private intermediary, the New York City Housing Partnership. It involves privatization of city-owned residential property in neighborhoods with high unemployment and poverty rates and concentrated minority populations. The program blends market incentives with community interests. By providing rent subsidies for low-income tenants and designing the rules for privatization, government plays an important role in the NEP in a way that complements local private entrepreneurial efforts. Political action by community groups also had a significant influence on program design—most specifically, the requirements that entrepreneurs have ties to low-income neighborhoods and that tenants not be evicted.

To participate in the NEP, entrepreneurs had to have had experience owning or managing property in the neighborhoods where program activity was concentrated. Geographic clusters of buildings were sold to entrepreneurs selected in a competitive process. Entrepreneurs had to agree not to evict existing tenants (except those guilty of destruction of property or nonpayment of rent), and they had to commit to not selling any buildings for eighteen years. Of the twenty-two entrepreneurs participating in the first two rounds of the NEP, nineteen were minorities, and most of these nineteen were living in, or had previously resided or worked in, inner-city neighborhoods.

Program experience indicates that the neighborhood entrepreneurs have profited and neighborhood residents have benefited. Entrepreneurs exercise control over the local environment and exert significant leverage in negotiating services from local governmental agencies. Because the market value of the buildings depends on the behavior of their tenants and on conditions in the neighborhood, the neighborhood entrepreneurs have an economic incentive to secure good long-term tenants by providing quality services and to improve the neighborhood. This motivates them to work with community-based organizations familiar with area residents and to increase their personal presence in the neighborhoods where they own property.

The neighborhood entrepreneurs operate more effectively than either large outside property managers or the city. They pay greater attention to cost issues than the city does, and unlike the city or large outside property owners, they help to build social capital by establishing personal relations with tenants. They are responsive to tenants' problems, and they insist that tenants reciprocate by paying rent and maintaining the buildings. For example, many neighborhood entrepreneurs indicated that they develop close relations with tenants so that they will be able to gain reliable and sensitive information about problems such as local drug dealing. These relationships facilitate their efforts to clear the buildings and surrounding neighborhood of drugs and related crime and protect their investments.

The NEP illustrates how leveraging development assets can work—in this case, the leveraging of entrepreneurial, political, and social assets in community economic development. It should be emphasized that the NEP was initiated only after six months of intensive community organizing by the city's Department of Housing, Preservation, and Development in conjunction with local officials, community groups, and a nonprofit intermediary, the New York City Housing Partnership.

Entrepreneurs in the program are building bridges to mainstream resources (for example, bank lines of credit) and new capabilities (connection to professional service organizations). They are earning profits, and community residents appear to be benefiting.

The NEP experience suggests that entrepreneurial opportunities in the inner city can be exploited in ways that benefit both private and community interests. This can be accomplished by aligning entrepreneurs' interests to the improvement of low-income neighborhoods through political action, public policy, and program design. But the key to having residents buy in to the program and cooperate in maintaining the buildings (which is the major source of the entrepreneurs' cost savings) was that they were organized to participate in the process from the beginning. This enabled residents' interests to be included in the design of the new privatized market. It was residents who insisted on anti-displacement language that prevented entrepreneurs from evicting existing tenants (except for serious offenses) and forcibly committed the entrepreneurs to working with the residents. The entrepreneurs initially resented the residents' organizations, but most soon came to recognize them as assets for their business, and in some cases the entrepreneurs eventually choose to fund resident organizing.

Women Business Owners

Based on growth statistics, there seems to be progress and significant potential for women business owners (WBOs) to play an important role in community economic development. WBOs are the fastest-growing business segment in the United States, both in the population as a whole and among all major minority groups. Among minority firms, between 1987 and 1992 (the year of the last available data), the number of minority female-owned firms increased by 85 percent, while the number of minority firms owned by males increased by just over 50 percent. Currently approximately 16 percent of all U.S. firms are female-owned, 62 percent are male-owned, and 19 percent are owned by both. At 37 percent, the percentage of WBOs among minority groups is even higher, suggesting the potential importance of WBOs in low-income areas with high concentrations of minority populations and female-headed households.

High proportions of WBOs are engaged in businesses that draw on social relations and ties to communities. A disproportionate percentage (twice as many as male-owned businesses) of WBOs provide personal services and retail to household clients: 35 percent of U.S. WBOs are in these industries, compared to 18 percent of male-owned firms (U.S. Bureau of the Census 1996). Some studies of women entrepreneurs suggest that they place more emphasis on social goals (such as helping family and friends) than on conventional measures of success (Godfrey 1992; Hagan, Rivchin, and Sexton 1989). However, low average receipts, low employment levels, and the type of industries in which WBOs are concentrated suggest limitations and barriers, as measured in conventional economic and business terms. With WBOs, gender and social roles appear to have motivated business ownership

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and created opportunities in particular market niches (such as personal services and retail), but discrimination against women appears to have also worked to limit market advancement in other areas.

Many WBOs complain that they are often not taken seriously when they seek customers beyond their traditional household clienteles (Brush 1997). Bates (1999) has documented how WBOs suffer from restricted access to government contracts and contracts with other businesses. Holding all things else equal—including industry, business size, equity investment, debt, and the education and experience of the business owner—being a woman owner translates into limited market access. The crux of the problem is that WBOs have to confront status quo networks that have traditionally not included them; those networks tend to be resistant to change (Bates 1999, 6).

From the standpoint of individual business ownership development, WBOs as many currently operate in the United States are not the ideal model for economic advancement and community economic development. However, data suggest that women are drawn to more cooperative relationships in business development. It is likely that cooperative business structures such as co-ops, trade associations, and sweat equity arrangements may attract women entrepreneurs and leverage their social networks in low-income communities. Women may then be better able to leverage their strong social ties to break into industry networks and enhance their financial and political assets.

Industry Associations

James Rauch (1996) suggests promising new strategies for minority businesses. He suggests that African American firms can benefit from affiliating with mainstream businesses and business associations. African American entrepreneurs working in such associations can learn the benefits of social networking and eventually form their own associations.

Rauch begins by critiquing international trade theory's treatment of differentiated products. He disputes the "black box" view that buyers and sellers are connected to an abstract international market that serves to match them without cost. In the alternative view he suggests, the more contacts you have with sellers and buyers who know what you are about, the better informed you are about opportunities for selling and buying without engaging in costly search. Using this concept, Rauch proposes to affiliate African American apparel and accessory retailers in Harlem with a large private independent buying office. For Rauch, there can be benefit in Harlem (and other African American communities) from the development of intermediary institutions that play the same role in facilitating trade as is played in other ethnic communities by preexisting intracommunity ties. The intermediary associations act in effect as community organizers whose base consists of small independent retail establishments.

A variant of the approach recommended by Rauch seems to have met with some success. Members of the National Minority Supplier Development Council

(NMSDC) have been able to work collectively to penetrate networks from which they have traditionally been excluded (Bates 1999). In 1997 the NMSDC had thirty-five hundred corporate members (most of the nation's large corporations) and over fifteen thousand minority business establishment (MBE) members. Large corporations seeking to expand their network of MBE suppliers use NMSDC as the vehicle for publicizing their desire to buy specific products from MBEs. The MBE members, in turn, use the NMSDC to publicize the products they would like to sell to business clients; they also use NMSDC information to seek out corporations offering specific goods and services that overlap with products they sell. Corporate members of the NMSDC purchased over $30 billion in goods and services in 1997 from MBE members (NMSDC 1998).

The NMSDC is an example of how a formal association can be used to establish new ties and open new market opportunities. From Rauch's perspective, it demonstrates that more information flows between buyers and sellers can facilitate market exchange. It also reinforces the important role of political capital in community economic development and minority business development. The effectiveness of the NMSDC is influenced by the preferential procurement programs of government agencies and corporations, which have been affected over the years by political action and public pressure (for example, Jesse Jackson's campaign with Corporate America). Political action in this case may have opened (even perhaps forced open) the opportunity for market exchange.

Cooperatives and Credit Unions

Since the founding of our nation, members of agricultural cooperatives have derived economic benefits from a mix of market, social, and political relations, including: collective buying of supplies; the sharing of equipment; common information dissemination on weather and agricultural conditions; collective control of pricing (and exclusion from antitrust laws); and using a collective political voice to influence public policies. Credit union members benefit from their affiliations (mostly workplace- or community-related) and their control of collective financial resources, deriving improved access to financing and lower credit costs.

In similar ways, community economic development efforts could benefit from the community-organized collective efforts of producers and consumers. Such efforts could draw on social capital to reduce business costs by collectively providing or purchasing property, casualty, and health insurance, goods and supplies, and health care and other services at reduced costs to community businesses and residents.

Another way the residents of low-income communities can collectively act to improve their economic situation is through protected or captive markets. Ethnic entrepreneurs have been described as benefiting from captive enclave economies. In enclave economies, the shielding of consumer and labor markets from outside competition gives businesses a captive market to charge prices above the competitive price and pay wages below the market wage. This can have both positive and negative market and community consequences. On the one hand, start-up firms can enter markets, develop basic business know-how, and get up on the learning curve. On the other hand, an enclave economy can lead to exploitation of consumers and local workers and market complacency.

Bringing Venture Capital Networks to Low-Income Areas

Venture capital and private angel investor networks (Freear, Sohl, and Wetzel 1995) have played a strong role in financing nontraditional business start-ups (that is, those without the collateral or cash flow on which banks rely). Even more than traditional sources of financing, venture capital and private angel investors draw heavily on social ties and business relations to identify investment opportunities. They then stay closely connected to their investments, adding value to their investments through personal advising and connecting the businesses in which they invest to each other and to other businesses to which they are connected. Because these investors rely on personal contact, most of their ties and subsequent investment are geographically bound and industry-focused (for example, Silicon Valley outside of San Jose; Route 128, the high-technology highway surrounding Boston; and New York City's Silicon Alley).

The U.S. Small Business Administration (SBA) has tried to extend some of the dynamics of the venture capital and private angel investor market. In April 1997, it established ACE-NET, an Internet-based service that attempts to extend the venture capital and private angel financial funding network to start-up businesses that are outside its traditional venues. The hope is that the Internet can help overcome the geographic and social disconnection between the venture capital and private angel investor markets and minority and other businesses. Overcoming this barrier has been difficult to achieve. Only eight "marriages" were made between funders and start-ups in the first two years of program operation. There is a paucity of evidence that venture capital and private angel investor ties can be created (and social capital constructed) through the Internet. This is of little surprise to experienced venture capitalists and private angels who highlight the value of frequent informal personal contact in guiding their investments.

The experience of ACE-NET reinforces the value of personal contacts and relations in economic ventures. A lesson for community economic development is that it will not be easy to transfer networks (and bridge), even with new information technology. This will still have to be done the old-fashioned way, with personal, face-to-face contact. In markets with a history of discrimination and exclusion, such as information technology, it is likely that political action will be necessary.

A Role for Political Action

Michael Porter (1995) takes the position that in community economic development there has been an overemphasis on politics and overreliance on public policies. We believe that, because of the long history of economic development benefits being siphoned from inner cities, politics cannot be ignored. We also think that residents, businesses, and labor groups can organize more effectively to affect market rules, and thus economic outcomes and the distribution of economic benefits. What is required is a new focus for politics and political action in community economic development.

In contrast to Porter's anti-politics view, there is the long history in the United States of business lobbying and (to a lesser degree) union organizing to affect market structures, trade policies, labor standards, and subsidies for research and development. There is also some history of community mobilization on these issues. The Community Reinvestment Act (CRA), for example, represented a significant political victory for the supporters of low-income communities. The success of CRA, however, might have inadvertently contributed to a slowdown in political activism in low-income communities and to disempowerment. Politics has been marginalized in community development theory and practice. For example, CDCs (one of the main beneficiaries of the CRA) have focused on increasing housing production and gaining access to traditional sources of financial capital, but they are not active in political organizing (partly because of their nonprofit tax status). This is unfortunate. Recently, the CRA has been weakened by Congress, and political mobilization on the issue has not been as strong as it was during the initial legislation.

The CRA also created a market for national community development financial intermediaries, such as the Local Initiative Support Corporation (LISC). These organizations provide important financial assets for low-income residents. The quarter-billion dollars of community development financial capital that LISC has contributed to more than thirty metropolitan areas across the nation has resulted in thousands of new housing units and the physical improvement of many low-income neighborhoods across the country. Yet LISC and other community development financial intermediaries could be criticized for furthering the dependency of the residents of low-income communities by focusing too narrowly on financing housing and failing to contribute enough to the enhancement of other community assets—in particular, human capital and social capital. The narrow focus on financial assistance and housing production can make residents heavily reliant on the service of the intermediary and its staff and the goodwill of business elites, and it can depoliticize community development, with negative consequences for the development of other important community assets.

Summary: Lessons from Models

Social capital's role in community economic development has too often been highlighted without adequate definition of its connection to political and financial institutions and other factors that shape local economies and business opportunity. We have presented an alternative framework that suggests how social capital can work in concert with other critical community economic development assets to serve the interests of both businesses and residents in low-income communities.

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CONCLUSION

Social capital is a key resource for community economic development because it can be used to aggregate and leverage other development assets. Social capital is not a substitute for economic resources or political power. It may be a good starting point, however, for developing and leveraging other assets. Social capital is built by individuals and institutions with differing goals, incentives, prejudices, and dislikes. In the absence of strong community institutions, international and national corporations have utilized mass media and marketing techniques to affect social trends in low-income communities that end up being detrimental to these communities. Key questions include: Who builds up social capital in low-income communities? What is the nature of incentives to build social capital? And for what ends is social capital built? It is not easy to construct mechanisms that encourage individuals to organize in their communities, especially with the prevailing ideology of individualism, and there is no guarantee that social capital will be used to serve broad community interests.

A research agenda for inquiries into the role of social capital in community economic development should include a focus on how different institutions and entities (such as private entrepreneurs with strong social ties to low-income neighborhoods) affect social capital in poor communities. A goal should be to discern which approaches to social, political, and economic organization in a community inspire the greatest trust and commitment from its residents and contribute the most to the economic prospects of local businesses and residents.

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