COMMUNITY PARTICIPATION: A CRITICAL VIEW

J. A. C. HETHERINGTON*

INTRODUCTION

Since the problem of urban poverty was discovered and began to receive significant public attention in the early 1960's, much has been written about the various strategies and tactics by which the conditions of life of the urban poor might be improved. In this substantial body of literature there are wide areas of agreement. Perhaps the principal area of consensus is the view that an essential first step in any successful ghetto improvement program is the creation of jobs for ghetto residents and the development in the ghetto of business enterprises which are locally owned and operated.¹ These two allied objectives are in several significant respects quite distinct. The creation in the short run of large numbers of jobs for ghetto residents is a task which could probably be best accomplished by having existing manufacturing enterprises establish facilities in ghetto areas. Accordingly, the goal of immediate jobs in the ghetto² suggests programs, such as tax incentive arrangements, that would induce established businesses to operate in the ghetto. The focus of these programs would be on protecting employers against the special risks and higher costs attendant on ghetto operations;³ the tactic would be to make ghetto operation profitable for them.

Proposals for the development of black-owned and operated businesses in ghetto areas reflect a different order of priorities. Here the aim, expressed variously by different writers, is to redress the inequality of the economic opportunity structure and to build a black middle class. It is obvious that this effort would be successful—if at all—only over a longer period of time, while the number of ghetto residents directly benefited, at least initially and probably even in the long run, would be considerably smaller. The two approaches are mutually complementary, and both can be pursued simultaneously. Mutual interference occurs only to the extent that resources devoted to one are necessarily denied to the other. Since the resources that we are prepared to devote to alleviating poverty are limited (and may be in-

* Professor of Law, University of Wisconsin. The writer is pleased to acknowledge the assistance of Miriam Witlin, a third year law student at the University of Wisconsin Law School, in the preparation of this paper.

¹ Among the many works dealing with various aspects of the subject, notable recent contributions include *NEGROES AND JOBS* (L. Ferman, J. Kornbluh & J. Miller eds. 1968); T. Cross, *BLACK CAPITALISM* (1969); R. KRAMER, *PARTICIPATION OF THE POOR* (1969); *BLACK ECONOMIC DEVELOPMENT* (W. Haddad & G. Pugh eds. 1969); L. SULLIVAN, *BUILD, BROTHER, BUILD* (1969).

² For an eloquently stated analysis which places the primary emphasis on employment, see Kennedy, *The Urban Ghetto and Negro Job Problems: A Diagnosis and a Proposed Plan of Action*, in *NEGROES AND JOBS*, *supra* note 1, at 256, 262, 264.

³ There are numerous discussions in the literature on this point. See, e.g., Cross, *supra* note 1, at 73-110; Garrity, *Red Ink for Ghetto Industries?*, *HARV. BUS. REV.*, May-June 1968, at 4; Skala, *Inner-City Enterprises: Current Experience*, in *BLACK ECONOMIC DEVELOPMENT*, *supra* note 1, at 151.

adequate even if wisely expended), it becomes important to compare and appraise as carefully as possible the relative cost effectiveness of the two strategies. The remainder of this paper deals with only one part of this comparison: its purpose is to consider and evaluate the suggestion that business organizations operating in ghetto areas be owned and controlled by local residents. The discussion is divided into five parts: (1) the social significance of control; (2) the traditional function of business; (3) the concept of control of business enterprises; (4) community control of ghetto business enterprises; and, finally and somewhat anticlimactically, (5) some suggestions for future action in view of the conclusions reached in the preceding sections.

I

THE SOCIAL SIGNIFICANCE OF CONTROL

In the growing literature dealing with urban poverty such phrases as black capitalism, compensatory capitalism, black ownership and control, economic separatism, and local ownership and control, have become familiar terms. While these various phrases express related, and to some extent common, meanings there are at least two distinct ideas which need to be clearly identified: one is black ownership and control, and the other is community or local ownership and control. These ideas share some common ground because the populations of our urban ghettos are predominantly black, and therefore community ownership and control means black ownership and control. But black ownership and control need not be in any sense community ownership and control, although it could mean ownership and control by members of the local black community.

A. Black Capitalism

The argument for black capitalism is basically unrelated to community control; it simply asserts that there ought to be more businesses owned and operated by blacks than there are.⁴ Everyone concerned with the urban poverty problem agrees on this and the only questions concern how to stimulate black entrepreneurship and what priority to accord it in the overall antipoverty effort.

Further, there is a solid consensus among writers on the subject that black entrepreneurship is of great importance in the effort to bring economic vitality to the urban ghetto. This means ownership at different levels, ranging from the traditional sole proprietorship, which typically in the ghetto has meant a corner store, to larger and more ambitious enterprises. To a people who have been denied access to economic opportunity, ownership of a business is a symbol of personal

⁴ See generally Goodpaster, *An Introduction to the Community Development Corporation*, 46 J. URBAN L. 603, 638-45 (1968). "Of the nearly five million private businesses in the United States fewer than one percent are non-white owned." Statement of Robert A. Levine, in *Financial Institutions and the Urban Crisis, Hearings Before the Subcomm. on Financial Institutions of the Senate Comm. on Banking and Currency*, 90th Cong., 2d Sess. 101, 106 (1968). See also SULLIVAN, *supra* note 1, at 165; Samuels, *Compensatory Capitalism*, in BLACK ECONOMIC DEVELOPMENT, *supra* note 1, at 60, 61-66; Johnson & Smith, *Black Managers*, in BLACK ECONOMIC DEVELOPMENT, *supra* note 1, at 112, 115.

emancipation.⁵ The person who owns a business is entitled to manage it, within the limits of the law, for his own benefit and without regard to other interests. Hence, the owner-controller has a degree of autonomy and independence not generally enjoyed by those who earn their livelihoods by selling their services in the labor market. Some aspects of this freedom-of-enterprise doctrine have been challenged in the case of large publicly-held enterprises⁶ in which ownership and control are separated. But for small businesses, even of the marginal type known in the ghetto of past and present, the dogma continues to be unquestioned. The entrepreneur symbolizes both independence and a degree of security which members of a minority group need. Black ownership and control therefore appears to be an appropriate form of redress for the fact that in this, as in other industrial countries, it has been the historical fate of the black to earn his livelihood as an employee of the white. To make a meaningful and symbolic social and economic contribution to the solution of urban poverty, black capitalism must be developed far beyond the meager experience of "mom and pop" establishments known in the ghetto. Any program for economic development of the ghetto must include measures aimed at promoting entrepreneurship among ghetto residents to the greatest possible degree.

B. Community Control

Community ownership and control is a very different matter. The central idea here is that business enterprises established in the ghetto should be owned and controlled by the ghetto community as a community. This is a remarkable and an important idea, because it is a major departure from the pattern of ownership and control in American industry and is without important modern precedent in our economy. There are, of course, some community-owned enterprises, such as municipal utilities. In addition, there are large and important producers' cooperatives in various agricultural commodities, and there are many, usually local, consumer cooperatives. These enterprises, which are owned by the producers or consumers whom they serve, perform functions which are quite different in relation to their owners from those of a profit-making business enterprise. Of course, the stockholders of companies whose shares are not regularly traded or are locally traded are often residents of the locality in which the businesses operate. In any case, they would be a small fraction of the local population; in no sense would such enterprises be considered by the owners or other local residents as community-owned or controlled.

Hence, the idea of community ownership is certainly not an obvious step to take toward the economic development of ghetto areas. Nevertheless, it has already

⁵ See, e.g., McKersie, *Vitalize Black Enterprise*, HARV. BUS. REV., Sept.-Oct. 1968, at 88. "The importance of business ownership and management in helping a minority group to achieve pride and influence cannot be overstated." *Id.* at 88-89. Johnson & Smith, *supra* note 4, at 117-18.

⁶ The corporate social responsibility doctrine and the concept of the corporate good citizen are a challenge to the conventional view of the role of business at least in the case of large industrial firms. See notes 11, 16, and 17 *infra*.

had considerable impact on current thinking about solutions to urban poverty.⁷ It may reflect tendencies to think about poverty in community rather than individual terms and, based on past experience, to think of privately-owned business, at least in relation to blacks and the ghetto, as exploitative and antisocial. In any event, the idea of collective community ownership is the basic principle underlying the Community Self-Determination Act of 1969 and the prior version of substantially the same proposal which was sponsored by twenty-six senators.⁸

The bill reflects the strongly-held opinion of an important segment of the black leadership.⁹ The desire of the black community to control its own social and economic affairs after decades of discrimination and neglect is certainly understandable. This does not mean, however, that collective community ownership would be a desirable or effective organizing principle for building economic enterprise in the ghetto. As has been pointed out, community ownership of economic enterprises has not been an important aspect of the economic development in this country, and there is no convincing reason to think that ghetto residents in their attitudes and aspirations on this matter are significantly different from other segments of the population. Presumably the successful operation of communal enterprise requires a strong, cohesive social organization among the members of the

⁷ A good statement of the community ownership position appears in Innis, *Separatist Economics: A New Social Contract*, in *BLACK ECONOMIC DEVELOPMENT*, *supra* note 1, at 50.

⁸ S. 33, 91st Cong., 1st Sess. (1969); S. 3875, 90th Cong., 2d Sess. (1968). An informative account of the draftsmen's views of the problem and of the thinking underlying the proposed solution, appears in McClaghry, *Black Ownership and National Politics*, in *BLACK ECONOMIC DEVELOPMENT*, *supra* note 1, at 38.

The organization of a community development corporation under S. 33 is prescribed in great detail in the bill and is a model of complexity without equal under general corporation law. The process is initiated by a letter of intent from residents which, among other things, must prescribe the precise boundaries of the area in which the corporation would function; articles of incorporation are then prepared and filed, providing for the issuance of \$5 par value shares; an organizational certificate is then issued, and pledges for the purchase of shares must be obtained from at least 5% of the area residents. S. 33, 91st Cong., 1st Sess., in 115 CONG. REC. 834 (1969). The National Community Corporation Certification Board, which would be established under the bill to administer the statute, must then open an office in the area to disseminate information concerning the proposal (unless the Board finds the proposal to have been filed "for a patently frivolous purpose or with respect to a patently frivolous area"); thereafter additional stock subscriptions must be obtained to increase the total number of subscribers to 10% of the residents of the area over 16 years of age. *Id.* at 835. Finally a referendum must be held in the area on the question whether the corporation should function in the area; and if more than one corporation has been proposed, successive referenda must be held until all but one is eliminated or until "it becomes clear that community sentiment opposes the establishment of a CDC in any of the proposed communities." The theme of democratic control is maintained in the internal arrangements: shareholders have only one vote regardless of the number of shares owned (*id.* at 834), and proxy voting is allowed only if the proxy specifies the "particular matter" to be voted on. However, the quorum may be reduced to one-twentieth of the shareholders. Management is divided between a board of directors and a business management board (which manages the "business and assets" of the corporation) elected by the directors. *Id.*

The bill has been severely criticized. See, e.g., Cross, *supra* note 1, at 196 ("quasi-socialist enclave"); Sturdivant, *The Limits of Black Capitalism*, *HARV. BUS. REV.*, Jan.-Feb. 1969, at 122.

A new bill, the Community Development Act of 1970, significantly changes some of the provisions of S. 33.

⁹ S. 33 was largely prepared by the staff of the Congress on Racial Equality. See McClaghry, *supra* note 8.

group. A disciplined social structure of this sort is inconsistent with the emphasis on individualism and independence which is the dominant theme of the social philosophy of this country. Nor is there reason to think that such a structure exists in the ghetto. The fact that ghetto residents have been excluded from the benefits of this loose system does not mean that they are or have been immune from its influence. On the contrary, the emphasis of the movement for equal opportunity for the blacks has been on access to the benefits of an open society and economy.

The idea of a cohesive communal black society working together for common betterment has strong appeal to those who feel the urgency of the need for change, who want the black American to be free to control his own future, and who would be the leaders of such a community if it existed. The idea reflects the sense of frustration and isolation of black leadership. The fact is that in many of their attitudes, values, and aspirations, blacks are like other citizens of this country. Consequently, the vision of an harmonious black community working together to develop its own economy for the good of all is only a vision. It is based on a misconception of the values and goals which the black community shares with American society at large. On the basis of precedent and experience in this country, community ownership and control seems to be of questionable value in the effort to eliminate black poverty. The point of this discussion, then, is simply that in view of the nature of the black community, communal ownership and control is not a workable mechanism for economic development. We will consider subsequently whether, from the economic standpoint of business enterprise itself, community control (if it were feasible) could provide effective business management.

This criticism of the community control concept does not in any way apply to black capitalism. In one sense, the community control concept is merely one tactic for achieving black capitalism. The discovery of the most effective means of developing black ownership and control of business enterprise must be a matter of high priority in the search for ways to end urban poverty. However, as the foregoing discussion indicates, in the context of urban poverty, ownership and control of business enterprise has dimensions which are very different from those fundamental to economics and business law. Economic and legal ideas about ownership and control have become tools for basic social reform which Roy Innis has called "*a new social contract*."¹⁰ In attempting to evaluate this development, it may be useful to reconsider briefly some conventional learning about business enterprise.

II

THE TRADITIONAL FUNCTION OF BUSINESS

In a time when the need for reform and social change seems paramount, tradition becomes a dirty word. Nevertheless, the effort to utilize business enterprise

¹⁰ Innis, *supra* note 7, at 51.

as a vehicle for achieving social reform must take account not only of its own goals and objectives, but of the nature and structure of the institutions through which it seeks to accomplish its purposes. And the values and structure of the business community in this country are in a proper sense traditional. The rhetoric of the poverty literature, which advocates the use of business enterprise as a vehicle for promoting the welfare of the poor, is preoccupied with the needs of the poor and is relatively unconcerned or perhaps unaware of the nature and function of business enterprise. The fact is, however, that business enterprises as institutions have certain unique characteristics. The principal one is that business enterprises are unilinear institutions: they exist and operate to serve a single specific purpose—profit-making—and all corporate activities must be evaluated in the light of that end. It is this characteristic which more than anything else is responsible for the remarkable achievements of the business system. The fact that successful operation of the enterprise directly inures to the material and personal benefit of both owners and operators is the heart of the system. Discussions of social responsibility and corporate good works tend to obscure this basic yet essential fact about business enterprise. This oversight leads to misconstruction of such activities as corporate charity and to failure to apprehend the limitations on the capacity of business to contribute to the solution of social crises. In a business enterprise, nothing can take precedence over successful economic operation, including the public-spirited desire of its managers to train and hire the unemployed, to contribute to social causes, and to uplift the ghetto. The rhetoric and the record of corporate good citizenship amount to nothing more than the fact that a financially healthy enterprise can and may direct some of its profits to good works. It does not alter the case a fraction to say that enlightened corporate leadership has a moral obligation to devote some of the enterprise's assets to cleaning up the environmental mess that business has created, or to say that alleviating poverty is a part of the cost of doing business, because if poverty is not alleviated there will be a revolution. The critical fact for present purposes is that business must make a profit first, so that when costs rise, avoidable and deferrable commitments and expenditures will be avoided and deferred—*Business and Society*¹¹ and the

¹¹ *Business and Society* is a biweekly newsletter which reports current developments in the area of social and environmental responsibilities of business. It has responded vigorously to assertions of the priority of the profit motive. For example, when an article by Professor Milton Friedman espousing the traditional role of business recently appeared (Friedman, *The Social Responsibility of Business Is to Increase Its Profits*, N.Y. Times, Sept. 13, 1970 (Magazine), at 32), *Business and Society* responded with a piece of its own. See *Friedman's Folly*, *Business and Society*, Sept. 22, 1970, at 1. More recently, the paper attacked statements along this line by the president of Ford Motor Company in a piece entitled "The Iacocca Doctrine." The article attributed to Mr. Iacocca the view that profit comes first, and that this is true even of "equal opportunity jobs."

A trivial but eloquent illustration of the basic misunderstanding that occurs on this point concerns a businessman who stated, concerning the problem of environmental pollution, that he saw no alternative to government regulation. *Business and Society*, Mar. 3, 1970, at 1. The column writer suggests that this view represents failure of the "entrepreneurial spirit." The assumption must be that management has the right and the duty voluntarily to allocate a portion of a corporation's available funds to public service. The argument for such executive authority is liberal in the same sense that embezzlement is liberal; it is an appropriation of property by a fiduciary for purposes not consented to by the owner-beneficiaries. The

*Harvard Business Review*¹² notwithstanding. All the corporate charity that has occurred, and all that can reasonably be hoped for as a contribution to the solution of social problems, is an insignificant but well-intentioned gesture which can be justified or rationalized in traditional terms as tax deductible institutional advertising.¹³

The idea that the antipoverty effort must begin with an understanding of private enterprise would seem obvious, were it not for the fact that in several significant aspects a major proposal for developing business in the ghetto advocated arrangements that are basically inconsistent with the fundamental facts of business life. In trying to bring the ghetto into the normal economy, we must utilize the basic strengths of the business system. The task is to create conditions under which business enterprises outside the ghetto will have an economic incentive to operate within ghetto areas, and under which locally-owned and operated businesses may be organized and developed. Within this larger framework, the particular assignment of this paper is to discuss the function and role of local control in the light of the objectives described and the nature of business enterprise.

III

THE CONCEPT OF CONTROL OF BUSINESS ENTERPRISES

Some of the special problems which arise in connection with an effort to develop extensive community participation in business enterprises in ghetto areas can perhaps be seen most clearly through a brief discussion of the role of ownership and the relationship between ownership and control in business corporations generally.

argument is not saved by the suggestion that not all the earnings of the enterprise should be so allocated—that is like advocating “only a little embezzlement.” Of course, the legal power to make charitable donations has long since been settled, and moderate charitable donations are a generally accepted usage that is unlikely to be successfully challenged. However, shareholder proposals to limit corporate giving regularly appear (along with resolutions to place a ceiling on management compensation) in the proxy statements of publicly-held corporations. See also note 17 *infra*.

¹² The *Harvard Business Review* has apparently taken a strong stand in favor of corporate social responsibility. Articles appearing in recent issues include Carr, *Can an Executive Afford a Conscience?*, July-Aug. 1970, at 58; Brower & Little, *White Help for Black Business*, May-June 1970, at 4; Cohn, *Is Business Meeting the Challenge of Urban Affairs?*, Mar.-Apr. 1970, at 68; Nadler, *Helping the Hard-Core Adjust to the World of Work*, *id.* at 117.

¹³ It is totally unrealistic to expect that business is capable of making the sustained effort needed to bring economic life to the ghetto on a non- or low-profit basis. Gestures, even very significant gestures, are one thing; large scale performance is another. In 1967 the business community expended about 1% of its pre-tax revenues on charity. Albrook, *Business Wrestles with Its Social Conscience*, *FORTUNE*, Aug. 28, 1968, at 88. In 1967, one of the more impressive business antipoverty efforts was announced: the life insurance industry pledged \$1 billion for slum mortgages. The money was to be “diverted from the normal channels of life insurance investments in a special effort to help alleviate the problems of the central cities. This sum was to be invested in core city areas to improve housing and to finance job-creating enterprises—projects which would not have ordinarily been financed under usual business practices because of their type, location or risk.” *LIFE INSURANCE FACT BOOK 5* (1968). By September 1968, \$658 million had been lent, creating 46,800 housing units and 16,060 new jobs. Cross, *supra* note 1, at 244. The total assets of the U.S. life insurance industry in 1967 were \$177.4 billion (including an increase during the year of \$10.3 billion). *LIFE INSURANCE FACT BOOK 8* (1968). The industry had therefore agreed to commit .56% of its assets to this antipoverty effort.

A. Small Businesses—Sole Proprietorships, Closely-Held Corporations

Special considerations apply to small, closely-held businesses, those in which the owners, often all of them, characteristically are directly involved in operations. Here there is, of course, no separation of ownership and control. Businesses of this kind are extremely common and exist in the ghetto as well as elsewhere. The development of this type of business in the ghetto is highly desirable because it contributes to community stability and creates a class of independent businessmen within the community of the poor. Encouragement of such small enterprises primarily involves making credit and insurance available on reasonable terms and improving the stability and physical safety of the ghetto community. An important part of the effort to promote such enterprises is the preservation of the independence and sense of independence of the operators. If the cost of these essential services is prohibitive, not only will fewer ghetto residents attempt to develop their own enterprises, but those who do will be demoralized by their inability to generate a profit sufficient to afford them a livelihood and to accumulate savings for expansion.

B. Medium and Large Size Enterprises

Discussions of community control and participation largely focus on businesses which are substantially larger than the corner store. These are enterprises which in the normal economy may be publicly or closely held. Enterprises in this range are of major importance to the antipoverty effort because of their capacity to make substantial short-run contributions toward the eradication of unemployment and underemployment, problems which are generally considered to be the point at which the principal attack on poverty should be directed.

In the normal economy, control and ownership are typically separated in publicly-owned companies. Over the years this separation has received much attention and has been the subject of extended scholarly discussion, as it is inconsistent with the basic dogma that owners should control because the productivity of private enterprise is derived from the avarice and energy of owners. This conventional, simplistic free enterprise psychology does not account for the competitive ardor of concerns not run by owners or by managers directly under the watchful eye of owners. It has been suggested that the explanation for this theoretical anomaly is to be found in the nature and aspirations of American business managers¹⁴ who are intensely competitive¹⁵

¹⁴ A powerful and widely-discussed analysis of the commitment of corporate management to growth and earnings (but not necessarily to the payment of dividends) appears in J. GALBRAITH, *THE NEW INDUSTRIAL STATE* (1967). The argument is that the managerial hierarchy seeks to preserve itself and to protect itself from outside interference, and that these objectives are promoted by financially successful operations. The security of the management is promoted by growth, profitable operation, and above all by the absence of losses, which may lead to borrowing and consequent loss of independence to outsiders. Avoidance of risk of loss is not the equivalent of profit maximization; loss avoidance as a goal leads to conservative management practices and does not aim at increased profit where there is an attendant increased risk of loss. See generally *id.* at 166-78.

¹⁵ In psychological terms, corporate executives are "high need achievers." See D. McCLELLAND, *THE ACHIEVING SOCIETY* 226-35 *et seq.* (1961).

and measure their own performance by growth, and in the fact that the owners collect their dividends, watch the price-earnings ratio, and sell their stock if they dislike what they see.¹⁶ In the recent discussions about the irresponsibility of corporate power, shareholders have been rarely heard from;¹⁷ and when they have, their complaint has usually been that management has not been sufficiently aggressive or effective in its pursuit of profit. The conclusion to be drawn from this seems to be that if managers and owners share a common goal, and if the owners can withdraw their investment from the business if they become dissatisfied, it is not necessary for the protection of the interests of the latter that management be directly under their control.

The other aspect of the control dilemma is concerned not with the responsibility of management to the owners, but with its responsibility to society at large. The suggestion is not that corporate managers should become socially responsible, but that responsibility to a range of public interests and values should be imposed upon business organizations through regulation in the public interest. There is nothing novel about this suggestion, since many aspects of business conduct have been regulated for years; certain values about competition have long been protected by the antitrust laws and recently the public interest in motor vehicle safety and in environmental deterioration has produced both state and federal regulatory legislation. The initial inquiry when restriction or regulation of corporate conduct is proposed concerns what interests are sought to be advanced. Discussion in general terms of the control of business enterprises in the public interest is quite useless; one must know the specific purpose for which control is sought. After this is determined, it becomes possible to talk about means. In the case of large publicly-held companies, most of the groups whose interests and welfare are immediately affected by the operation of the business have available devices or remedies of greater or lesser effectiveness by which they can protect themselves against corporate conduct which is detrimental to their interests.¹⁸ In any given case there may be no remedy

¹⁶ The author has developed this theme at length elsewhere. See Hetherington, *Fact and Legal Theory: Shareholders, Managers, and Corporate Social Responsibility*, 21 STAN. L. REV. 248 (1969).

¹⁷ The annual reports of the brothers Gilbert are a diary of the stockholder movement in publicly-held companies. The most recent report discusses 1969 annual meetings and reports of various companies. It emphasizes adequacy of disclosure and shareholder concern over executive compensation and pensions, cumulative voting, and related matters. See L. & J. GILBERT, THIRTIETH ANNUAL REPORT OF STOCKHOLDERS ACTIVITIES AT CORPORATION MEETINGS 129, 142, 154, 173 (1970). Notably absent are materials dealing with corporate responsibility. The efforts of Mr. Ralph Nader and his associates to procure representation on corporate boards of other groups whose interests are affected by corporate operations continue. One such proposal was to have some members of the board of directors of General Motors "named by GM employees, purchasers of new GM vehicles and GM auto dealers." *Wall Street Journal*, Nov. 20, 1970, at 1, col. 2. It is unlikely that the constituency represented by the Gilberts will look with favor on such innovations.

¹⁸ Among these groups are shareholders (the stock market, managerial duties of competence and loyalty, derivative suits, proxy fights); employees (unions, employment contracts); customers (rights and remedies under the law of sales, power to bargain in certain cases, antitrust law, freedom to deal elsewhere, appeals for government aid, the mass media); dealers and suppliers (trade associations, state laws in certain cases); and competitors (price changes or other alterations in their own competitive conduct, anti-trust litigation). The list is incomplete and is intended to be only suggestive.

or none that is effective, and there may be important questions of costs to be considered, but at least mechanisms are available to limit the ability of business enterprise to impose upon the interests of various groups affected by its operations. Those in control of an enterprise do not have anything approaching complete and unrestricted freedom in decision making on behalf of the company. In general, management has the broadest discretion in connection with proposed *new* undertakings—where to locate a new facility or whether to develop a new product. In decisions concerning existing operations it may be forced to take account of the views of various groups having established interests and relationships with the company.

In summary, control of a business enterprise means power, but not unrestricted power, and it is therefore necessary to think in terms of power to perform a specific act or to make and implement a specific policy under particular circumstances. In speaking of ghetto enterprises, it is similarly necessary to know as exactly as possible what is meant by community participation and control and what are the reasons and the purposes for which community control is advocated.

IV

COMMUNITY CONTROL OF GHETTO BUSINESS ENTERPRISES

This section is concerned with whether widespread community participation and control can be achieved in ghetto economic enterprises and, if it can, what is likely to be the effect of such control on the operation of the businesses involved. In order to reach these questions it is necessary to comment briefly on the legal forms of organization that are being used in community development efforts.

A. Membership Corporations

There are presently two types of corporate vehicles being used in efforts to develop business activity in ghetto areas: profitmaking (stock) and nonprofit (nonstock) corporations.¹⁹ Nonprofit corporations, which apparently are more prevalent, are exempt from income tax and are eligible to participate in certain government programs. The nonstock form of organization also simplifies the mechanical aspects of arranging for community participation;²⁰ membership may be open to any interested person or to any resident of a particular area. Stock corporations, on the other hand, may engage directly in profitmaking activities, must pay taxes, and must limit membership to stockholders, although nonstockholder participation in particular corporate decisions may easily be arranged.²¹

¹⁹ For example, Zion Investment Associates, Inc. (Philadelphia), began as a stock corporation, while Action Industries, Inc. (Venice, California), and East Central Citizens Organization, Inc. (Columbus, Ohio), were initially financed through grants. Hough Area Development Corporation (Cleveland) is a nonprofit corporation initially financed by a group of trustees. See Note, *Community Development Corporations: Operations and Financing*, 83 HARV. L. REV. 1558, 1562-77 (1970).

²⁰ *Id.* at 1585.

²¹ There is no principle or rule of corporation law which would prohibit the creation of an advisory board selected for any purpose from any interested group or constituency so long as ultimate decision-making authority is retained by directors elected by shareholders.

In view of the consensus on the desirability of community control, the question of how to bring about this result arises in both types of organization. Experience thus far with community development corporations organized under state corporation laws has produced no example in which broadly-based community participation and control has been achieved. A distinction must be observed between participation and control. In at least one case, a degree of community participation was achieved through a representative structure, but the amount of direct control by residents appears to have been limited as a consequence.²² In other nonprofit community development corporations the number of community members involved in the organization has been relatively small.²³ This experience suggests that development of large-scale community participation may take considerable time and effort to achieve, and even if it is attained it may be of dubious benefit to the organization.

Clearly the question of community participation in a nonprofit organization is very different from ownership in a conventional profitmaking enterprise. Since the corporation issues no stock and cannot make a distributable profit, the motive for individual participation is community benefit, and personal benefit is only derivative. The member of such an organization lacks the characteristic interest of an investor in a business enterprise. Similarly, the position of the management of a nonprofit organization is significantly different from its counterpart in a for-profit corporation in that it lacks the personal incentive for material success on which a normal business venture depends. It is clear therefore that the selection of the nonprofit corporation as the primary structure for developing business activity in a ghetto deprives the organization, for better or worse, of the incentives and pressures which move participants in normal business corporations. The selfless devotion and determination of the community members in the cause of community betterment are substitutes for the usual incentives, but this makes the organization entirely dependent upon the energy and skill of the leadership in motivating and directing the efforts of the members. It seems questionable whether an organization which depends so heavily on the personal commitment of its leaders and members to the public good can sustain its vigor and effectiveness through the long pull. One wonders whether there may not be an inescapable tendency for this form of organization to develop a bureaucracy with a depressing resemblance to a government administrative agency or department. However excellent bureaucracies may be for regulatory and

²² The organization is East Central Citizens Organization, Inc. (ECCO), of Columbus, Ohio. All neighborhood residents over the age of 16 years (as well as nonresidents regularly employed in the neighborhood) are eligible for membership. Articles of Incorporation of East Central Citizens Organization art. 7, § 1. The members comprise the Neighborhood Assembly, which elects the Executive Council. *Id.* art. 9, § 1. The Council has "the power to represent the Corporation in all matters." *Id.* § 4. The Council has apparently taken an active interest in management: its activities are said to have "impinged . . . on operations Council activity has been characterized by devotion of much time to minor operating matters and by lack of ability to move swiftly and secretly on business matters." 83 HARV. L. REV. at 1575.

²³ Hough Area Development Corporation is an example of limited participation. 83 HARV. L. REV. at 1572.

supervisory functions, we have little experience to indicate that either governmental or eleemosynary cadres can provide the sustained, imaginative, and creative leadership required to build and maintain soundly-managed economic enterprise.

B. Stock Corporations

Stock corporations organized for community development face similar problems. In order to obtain any degree of community ownership, stock must be sold to a substantial number of residents who are inevitably not in a position to contribute substantial amounts of money.²⁴ Consequently, the stock must be offered at a low price.²⁵ Even so, it is unlikely that front-end money adequate to launch a significant effort can be raised from the local community, and outside financing will be necessary. This presents difficulty with the control problem; if outsiders buy shares of the class offered to residents, local control will be lost. Consequently, either debt or a non-voting or limited-voting stock must be used, but in any event local control may still be impaired. Further, if voting shares are issued to local residents, restrictions on transfer must be imposed to prevent stock from passing into the hands of outsiders.²⁶ Thus the price for the preservation of control is the destruction of any possible market for the shares.²⁷

Offering shares of such an organization to local residents differs in significant

²⁴ An impressive apparent exception on this point is Zion Investment Associates, Inc., where 600 members of the congregation of Zion Baptist Church had by 1968 bought shares of stock. *Id.* at 1564. Under the original subscription arrangement, congregation members were asked to invest \$10 per month for 36 months. SULLIVAN, *supra* note 1, at 168. Subsequently, 7000 people purchased or were purchasing shares on the installment plan. 83 HARV. L. REV. at 1564. The venture was launched as "a new kind of experiment in racial economic emancipation." SULLIVAN, *supra* note 1, at 166. However, the appeal was to the economic self-interest of the purchasers: "Put your ten-dollar bills down and keep them there . . . and within the years to come they will multiply themselves a hundred times." *Id.* at 168.

The special circumstances under which this success was attained are important. First, the appeal was launched to members of a well-organized, highly successful local church. Second, the appeal was to personal economic advantage. Third, the persons appealed to clearly were not the destitute poor of the community, and the amounts invested were not nominal. Fourth, there was not broad community participation.

²⁵ It is for this reason that corporations organized under S. 33, discussed at note 8 *supra*, were limited to a single class of stock, which was required to be offered to community residents at its par value of \$5 per share.

²⁶ For example, under S. 33 the shares of a community development corporation are nontransferable, and are redeemable by the corporation at par if the owner leaves the community. S. 33, 91st Cong., 1st Sess. § 118 (1969). Under these circumstances, share ownership is a contribution to the community and offers no personal economic incentive to the resident.

²⁷ The S. 33 proposal is destructive of proprietary incentive in other ways. For example, local businesses may be entitled to borrow from a community development bank on advantageous terms. However, eligibility for borrowing from the bank is limited to businesses "at least 75-percent owned by resident CDC stockholders." 115 CONG. REC. 835 (1969). If there is lesser degree of ownership the owners must agree they will not sell the business without first offering it to the local community development corporation under terms prescribed by the Comptroller of the Currency. Loans will also be made if the borrowing business is at least 51% owned by the community development corporation, or if it is an outside corporation operating under a turn-key arrangement with the CDC. *Id.* These restrictions appear to impose substantial disincentives to participation in the program by businessmen whose objective is profit.

ways from the sale of shares in a normal corporation. There is, first, the great difficulty of finding a large enough number of local residents with money and the disposition to invest. While the investment being offered should have substantial appeal to community pride, such a venture is undeniably risky. One could well ask whether it is a service or a disservice to local residents to ask them to put what little money they can spare into such an enterprise. Perhaps one answer to this criticism is that the money would not otherwise be put to better use, and that, to gain local support, local people must have a financial stake in the enterprise. But in fact they already have a stake in the community by living there, and the desirability as well as the need for imposing a price on their participation in a community development program seems questionable. Further, the stock purchase requirement discriminates against the residents who cannot afford to make the investment, and this discrimination cannot be justified on the usual ground that the proprietor of a business ought to be required to put in the first, or front, money. The local residents are not proprietors whose active personal interest and participation can be engaged by requiring them to put their own money down; the possibility of personal gain is remote and speculative, and the gain—if any—would be small because the amounts invested would be small. Under these circumstances an investment intended as earnest money and required as a symbol of support seems hardly essential and may not even be desirable. In addition, neither wide distribution of stock nor issuance of a large number of memberships will assure a substantial degree of actual community participation. In publicly-held stock corporations, as is well known, the vast majority of shares are usually represented by proxies gathered by management through strenuous and often repeated solicitation. In cooperative organizations, where proxies are sometimes not allowed, quorum requirements are reduced to less than ten per cent of the members so that meetings can be held.²⁸ The emphasis on community control of community development corporations is a hollow gesture if the sole intention is to create the possibility of local control without concern for its exercise.

The question therefore arises, what is the purpose for which control of business activity in ghetto areas is considered to be critical? What particular decisions made in the course of operating a business enterprise ought to be subject to control by local residents? We have already noted that shareholders in publicly-held companies neither have nor need control of the enterprise to protect their interests under most circumstances. The law merely requires that they elect managers and approve, after full disclosure, certain basic changes in the enterprises. As for day-to-day operation, shareholders are content (perhaps fortunately for us all) to leave things to management.

In the daily operation of the business, ghetto residents are in the same position

²⁸ See, e.g., WIS. STAT. ANN. § 185 *et seq.* (1957). Proxies are not permitted—except that representation of members may be “by delegates apportioned territorially.” *Id.* § 185.12(3). The quorum requirement is “10 per cent of the first 100 members plus 5 per cent of additional members,” but not more than 50 members unless the bylaws provide otherwise. *Id.* § 185.14.

as shareholders. As shareholders of a community development corporation they are neither qualified nor probably disposed to participate in the operation of a going concern; the same is true of the affairs of a nonprofit corporation trying to promote and finance other concerns. However, as shareholders, or members, or neither, local residents have a substantial interest in being kept advised of the activities of the corporation and in being given ample advance opportunity for communication on corporate activities which affect community interests. A substantial degree of community acceptance and support is not only highly desirable, but it may be essential to successful operation of an industrial facility in the ghetto. Here the position of the shareholder in a publicly-held company ceases to be remotely analogous to that of the shareholder or member of a community development corporation. The importance of the corporation to the residents of a ghetto exists regardless of investment or membership in the enterprise; the typical shareholder's interest in a typical publicly-held corporation, on the other hand, begins and ends with his investment. He may discontinue his connection and concern with the corporation by a telephone call to his broker; the prospects and the life of a ghetto resident may continue to be affected by the activity of a community corporation regardless of his personal involvement with it. It is this continuing nonproprietary interest that gives him a stake in the corporation and requires that his voice and interests be interpreted to the corporation and that its activities and programs be communicated to and, in some measure, understood by him. A ghetto resident may or may not be a stockholder or a member of a community development corporation; he may or may not be a customer, employee, or trainee either of the corporation itself or of a corporation which it is promoting; he is in any event a neighbor and an intended beneficiary of the social and economic consequences of its operation in the ghetto. The aggregate of all these relationships, of which stock ownership or membership is the least significant, are the substance of his relationship with and stake in a community development organization.

What is needed is an arrangement that accommodates the unique relationship between the ghetto community and business enterprises established as part of the antipoverty effort. Neither the business corporation nor the nonstock membership corporation is an adequate model for this purpose. Reported experience thus far casts serious doubt on the possibility that an organizational form can be devised that will produce a broad, effective, and continuing community participation and control in a community development organization. The difficulty of this approach is illustrated in the recently proposed federal legislation which would provide for inflexible structure with forced community participation.²⁹ The elaborate structure thus created would exercise control over various privately-owned community enterprises within a specifically defined area.³⁰

²⁹ See note 8 *supra*.

³⁰ See note 27 *supra*.

There have been other proposals for the creation of new institutional forms to manage the ghetto economy. One scheme would create both local and regional development corporations.³¹ The local organization would be project-oriented and would work with and through "interested groups in the community."³² The organization would be divided into two parts, one a functional staff concerned with specific developmental problems (housing, business development, manpower, and financing), and the other an area staff concerned with "internal relationships with community organizations."³³ It is suggested that "sustained interaction between directors and members of the community would insure sensitivity to changing community attitudes and needs."³⁴ The author advances a very plausible argument that the structure advocated would be both effective and beneficial.

There does not appear to be any provision in the proposal, however, for solving the problem encountered by existing community development corporations—lack of broad participation by residents. Nor does there appear to be any way to solve this problem by manipulating the organizational structure.³⁵ The federal proposal would solve it by requiring community approval by referendum and by requiring community purchase of shares. Again, the overwhelming difficulty is that there is no evidence that broad, ongoing, active participation can be achieved in this way.

The proposed federal legislation and the proposal for regional and local development corporations are both based on the view that in order to bring economic vitality and growth to the ghetto a new institutional form is required. The proposals share the further assumption that the new form must be based on broad participation and actual control of the organization by the community. The organizations proposed are designed to achieve this requirement of local control, and also are designed to have special and unique powers and goals (such as community improvement) that distinguish them from conventional business enterprises.

The critical factor concerning both designs is that profit, the normal entrepreneurial incentive, has been removed from the organization. This is true under the federal proposal despite the fact that it involves stock corporations, and despite the fact that in certain events the boards of directors may authorize a distribution of earnings to shareholders.³⁶ The possibility of a distribution is so remote, and the individual investments of ghetto residents certain to be so small, that there is no serious possibility that personal gain would play any role at all in the shareholders'

³¹ Rosenbloom, *Corporations for Urban Development*, in *SOCIAL INNOVATION IN THE CITY* 161 (R. Rosenbloom & R. Marris eds. 1969).

³² *Id.* at 164.

³³ *Id.* at 165.

³⁴ *Id.* at 164.

³⁵ The author states, "The initiative must come from within the community, provided by an individual or small leadership group." *Id.* at 167. In other words, structure is secondary. If the local leadership or group exists, no new structures are needed; and there seems to be no reason to think that new structures will serve better than those available under present law to facilitate the mobilization and development of local leadership.

³⁶ See note 8 *supra*.

relationship to the corporation or in management's view of its responsibilities to them. The abandonment of the profit motive is made more explicit in the proposal for local and regional corporations, which offers as a "working definition of entrepreneurship" that its function is to "seek to attract talent and capital from new sources and to coordinate their application in the task of development."³⁷ The distinction is between entrepreneurs who are "profit-seeking" and those who are not.

The effective destruction of any meaningful profit motive is probably the unavoidable consequence of any arrangement for widespread community control. The amounts of capital available from large numbers of residents are necessarily so small, and the programs sought to be promoted so uncertain of financial success at least within any reasonable time, that no shareholder could regard his prospects for personal return as significant. This raises a very serious question about the desirability and the feasibility of the community ownership and control idea. Once the traditional motivating force of business enterprise is removed, the community ownership and control principle appears in a very different light, as an attempt to build a functioning economy in the ghetto on a basis wholly different from that on which the economy of the rest of the country was built and operates. It is ironic, to say the least, to offer to ghetto residents as a device for improving their economic situation a type of organization which denies its participants access to the benefits which owners of businesses normally expect. It is true, of course, that both existing CDC's and the forms proposed are in large part envisioned as organizations which assist others, rather than operating businesses directly. However, in the case of the federal bill at least, provision is made for preserving a right in the CDC under certain circumstances to acquire privately-owned businesses which it assists.³⁸ Since one of the avenues of business profit is sale of the enterprise, this provision would destroy one of the incentives of the operators of the businesses assisted.

To recapitulate, it seems that an organizational form which seeks broad participation in the community is extremely ill-suited to develop the ghetto economy, because the dispersion of ownership in the effort to build ghetto industry destroys the entrepreneurial element. The assumption behind this criticism is that permanent and dynamic business enterprises must be built on, and for, profit. Specifically, the effort to build ghetto business enterprise ought to focus on profit such that those involved, like businessmen anywhere, can see an apparently realistic probability of future profit from the beginning. The proposals to create special organizations to develop and control ghetto business would be subject to another less critical but nevertheless important objection, namely, that the proposed community control arrangements would tend to segregate ghetto business enterprises from the normal economy. Such

³⁷ Rosenbloom, *supra* note 31, at 161.

³⁸ Nonresident owners of ghetto businesses would be required as a condition for obtaining a loan from a National Community Development Bank to agree to give the local CDC a right of first refusal if they should decide to sell. S. 33, 91st Cong., 1st Sess. § 1942(c)(2) (1969).

a private ghetto business system has been advocated by responsible commentators.³⁹ It is clear that even if an economic segregation program were in any degree feasible, it could not under any reasonably foreseeable circumstances provide employment in the near future for large numbers of ghetto residents. The economy of the area would of necessity retain substantial connections and dependence on the outside economy. Artificial barriers restricting access of outsiders who would establish businesses in the ghetto inure to the detriment of ghetto residents, tend to retard economic development of the area, and operate to encourage second-rate non-competitive black businesses whose future would be confined to the area of special privileges. Isolation of the ghetto economy on any terms is bad policy from the standpoint of those on both sides of the barriers.

The justification for efforts to design special organizational structures to build up the economy of the ghetto lies in the implicit assumption that since normal economic forces permitted ghettos to develop, they cannot be the basis for reviving the ghetto economically.⁴⁰ Hence the need for special arrangements. It seems to me that this conclusion is very dubious. The alternative is to attack directly the conditions in slum areas which perpetuate their economic underdevelopment. Instead of building new organizations, this approach suggests a program which would attempt to remove the economic barriers preventing growth in the ghetto economy.

V

TOWARD A LOW-PROFILE APPROACH TO COMMUNITY PARTICIPATION

The following suggestions about programs for building up the economy of our urban ghettos are based on three assumptions. First, from the beginning and over the long run, the objective of the effort to reduce and eliminate the poverty of the ghetto should be to integrate the ghetto into the national economy. Second, this objective should be achieved by creating conditions in which business can be organized and allowed to grow in the ghetto on the same basis and principles on which it functions elsewhere in the economy. Third, neither the experience of community development corporations in recent years, nor the arguments advanced in favor of community ownership and control, make a persuasive case that community ownership and control has been or can be an effective technique for developing successful business enterprise in the urban ghetto.

Credit and business insurance (fire and theft) must be made available to ghetto businessmen to develop and assist the entrepreneurial talent which presently exists but is prevented from attaining fruition by the nonavailability of the essential business services without which no enterprise can grow, or even survive.⁴¹ Credit should be available through normal channels and in large amounts. This would require gov-

³⁹ See Innis, *supra* note 7.

⁴⁰ See, e.g., Goodpaster, *supra* note 4.

⁴¹ Hellman, *Your Policy Is Hereby Cancelled*, N.Y. Times, Nov. 8, 1970 (Magazine), at 32.

ernment subsidies to lenders to absorb the extra costs of slum lending.⁴² Further, it would undoubtedly be desirable to have black financial institutions play a leading role in this effort.⁴³ The small independent retailer (mom-and-popism) is a symbol not only of the ghetto's backwardness and of the failure of national firms to service the ghetto market, but also of the ghetto residents' belief that business ownership is the way to economic security.⁴⁴ The local small business operator is an important figure in the neighborhood economy. Because he is self-employed he has a degree of independence which other residents lack. At the same time his dependence on the local market, his personal relationships with his customers, and his involvement and commitment to the area make him a stabilizing factor in the community. In this regard he is quite unlike the semi-itinerant professional executive who manages the local plant of a national firm.

In addition to services essential to business, job skill training needs to be made available on a large scale to ghetto residents. Probably the most encouraging development in this field has been the OIC program which began in Philadelphia.⁴⁵ The success of this program has been attributed in large part, by its founder, to the feeling of the participants that it was their own program⁴⁶ and to the fact that the students knew the program would lead to personal economic advantage.⁴⁷ The same initiative is and must be kept as the basis of the growth of black capitalism. Community job training programs not only develop job capability, they also stimulate interest in business and proprietorship.

On the basis of events to date, there is no way to estimate the capacity of ghetto communities to generate profitable economic activity in the conventional forms of business enterprise once credit, insurance, and training have been made available.

⁴² For a full discussion of this subject, see Cross, *supra* note 1, at 156-82. For an account of one bank officer's experiences in lending to ghetto businessmen, see Allen, *Making Capitalism Work in the Ghettos*, HARV. BUS. REV., May-June 1969, at 83.

⁴³ Racial problems may result when white-controlled banks seek to collect loans in urban ghettos. Cross, *supra* note 1, at 168. There are a number of banks controlled by blacks in ghetto areas. See Business and Society, Sept. 22, 1970, at 2. Aggregate assets of the 24 largest black-owned banks are \$3.7 million, while the 50th largest bank in the United States has assets of \$1.3 billion. *Id.*

⁴⁴ Johnson & Smith, *supra* note 4, at 112, 118-19. It has been persuasively argued that the provision of adequate financing for ghetto businesses would in itself be a grossly inadequate antipoverty strategy because of the inherent weaknesses and disadvantages of the ghetto businessman. McLaurin & Tyson, *The GHEDIPLAN for Economic Development*, in BLACK ECONOMIC DEVELOPMENT, *supra* note 1, at 126, 130. Clearly, provision of adequate financing will not solve the problems of the ghetto businessman, but it would undoubtedly strengthen his position. Hence this device can properly be a part of the overall attack on urban poverty. Building on and from local institutions has been recognized as necessary for the success of the campaign against poverty, and ghetto business is such an institution. Those who have survived in the hostile business environment of the ghetto have demonstrated a strength that should be encouraged.

⁴⁵ A personal and informative account of this venture appears in Reverend Leon Sullivan's book, BUILD, BROTHER, BUILD, *supra* note 1, at 85-142.

⁴⁶ "They [the students] saw it as their program, they believed in what it was doing, and it made each of them feel like somebody. In OIC the student feels that the teacher is there because of him. He is the most important individual." *Id.* at 108.

⁴⁷ *Id.* at 85-86.

There are indications, such as the Philadelphia program, that the potential may be very great. The most direct way of trying to develop ghetto enterprise is to offer the ghetto businessman financing at reasonable cost and insurance against business risks.

Major industrial firms must be given a business incentive to establish facilities in ghetto areas. The encouragement of local enterprise as proposed above would inure, at the beginning, to the benefit of consumer sales and service businesses. The inability of developing local enterprise to create a significant amount of employment and to bring new money into the ghetto, at least initially, is apparent.⁴⁸ For this purpose established businesses and large-scale industrial enterprises are needed. The costs of establishing industrial facilities in ghetto areas are high.⁴⁹ These operations must be profitable⁵⁰ to induce outside companies to establish substantial operations in ghetto areas, perhaps necessitating an incentive or subsidy arrangement to absorb the high costs. Strong opposition to this strategy has been expressed by some black leaders, who see in this proposal a perpetuation of "colonialism."⁵¹ In economic terms, this contention is difficult to understand. Under modern conditions, the relationship between a large industrial firm and its employees or the plant community in which it operates is not in any sense "colonial." There obviously are areas of both mutual and adverse interest between employers and employees. But the relationship between them is also obviously mutually advantageous: the company is interested in profitable operation, and the employees are interested in steady work and good wages. The degree of employer dominance of the local community implied by the term "colonialism" is highly unlikely in large urban centers. If the term is applied to the overall relationship between the ghetto and society or the economy at large, the meaning is still obscure. The relationship of the ghetto community with the "outside" social forces is complex; ghetto residents are sellers of labor, consumers of goods, borrowers of credit, and, to some extent, suppliers of goods and services. It should hardly be necessary to say that mutually advantageous economic relationships are not exploitative, and the history of exploitation and discrimination against blacks cannot be made a justification for attacking any employment relationship between whites and blacks. It is difficult to see how ghetto employment created by such a plan differs from the relationship between large business firms and their employees in other communities.

When a national firm establishes a ghetto facility, its interest would plainly dictate that it adopt and implement a program to develop local executive talent as

⁴⁸ This fact has been the principal basis of the criticism of the proposal discussed at pp. 15-19 *supra*.

⁴⁹ See, e.g., Garrity, *supra* note 3; Skala, *supra* note 3, at 151, 154.

⁵⁰ See Cross, *supra* note 1, at 137-41. The author's point is that economic incentive must be offered to the organization which is in the position to decide, on a normal profitmaking basis, whether to establish a ghetto business operation.

⁵¹ Innis, *supra* note 7. This article is a concise presentation of a separatist position. It argues in part from an analogy between colonies and parent country, on the one hand, and the situation of the urban ghetto in American cities, on the other. *Id.* at 53-54. The author approves the 1968 Community Development proposal (S. 3875) as providing "incentive for broad-based community ownership." *Id.* at 57.

rapidly as possible. Employment of blacks as managers,⁵² whether local residents or not, directly benefits relations between the company and the community. Corporations have in recent years made substantial efforts to hire and promote black executives, and as immediate, tangible evidence of changed attitudes toward blacks by industry, the presence of black executives in ghetto plants is plainly important to ghetto residents. In a recent project in which a local community organization developed a shopping center, the national firms renting space in the project were required to employ black managers.⁵³

The contribution other than in symbolic terms to the ghetto community is probably not great. Black executives, and for that matter, black owners of substantial profitable businesses, will not continue as residents there any more than the executives of industrial firms generally reside in working class neighborhoods. Possession of marketable management skills is a ticket out of the ghetto, and few who acquire it will not use it. The development of black executive talent is a useful and important part of the effort to gain for black citizens their rightful place in the society and economy. It is not of major significance, other than as a symbol, in the achievement of the immediate objectives of the attack on ghetto poverty.⁵⁴

If immediate ghetto employment on a substantial scale is the primary goal of the attack on poverty, direct community ownership and control of economic development must be substantially limited. A program which attempts to deliver training and jobs to ghetto residents as quickly as possible must work primarily through existing business enterprise. This does not mean that ghetto residents would be or could be excluded from consultation or involvement in the affairs of businesses operating in the ghetto. On the contrary, the legacy of bitterness and resentment engendered by decades of discrimination is a fact which must be taken into account in any effort to establish a ghetto business operation. The feasibility and success of any training and employment plan is dependent upon an effective community relations program. The ghetto poor have suffered so long from active discrimination and indifference that the task of convincing them (and ourselves) that a change has really come is very great. They must be informed through every means possible, beginning with communication with community leaders and social workers, and including meetings at which questions are encouraged and dealt with by people who

⁵² Johnson & Smith, *supra* note 4, at 112, 118. "It has been estimated that 100 jobs exist at the management level for every five trained black managers in existence." *Id.* at 124. Apart from employment contracts, which are probably not common, there are no legal devices which protect the interest or expectancy of managers in fair or equal treatment by their employers. Traditionally there has been no tenure in business hierarchy. See, e.g., R. EELLS, *THE GOVERNMENT OF CORPORATIONS* 211 (1962): "Least protected, at the administrative core of corporate governments, are the rights of persons in middle management." The author proposes an intracorporate structure to protect the constitutional rights of this group, who may lose their positions or be denied advancement on grounds unrelated to merit or performance.

⁵³ This is Progress Plaza in Philadelphia. SULLIVAN, *supra* note 1, at 170.

⁵⁴ Ghetto employment and executive training for blacks are aimed at different objectives; one seeks to improve the economics of ghetto residents, and the other to provide an exit from the ghetto. See note 50 *supra*.

know the facts. This means that small neighborhood meetings are required. Further, the enterprise must be responsive to their requests and suggestions. It is reported time and again that what the poor need is to be informed about issues and developments in programs which affect them. The information and community involvement programs must be on a sufficiently large scale to convince community residents that something is really happening and that they are a part of it. Management of such a program requires a high degree of skill and insight as well as persistence. (A member of an academic faculty must have at least some passing qualms before suggesting that the poor be subjected to the joys of the committee system.) However, involvement is impossible if it does not begin with communication, and communication must be as immediate and personal as possible. The most effective vehicles for initiating communication in many instances are existing community organizations. The primary need in this type of project is information—where, when, how many jobs, what about the training programs, and the like.

This level of communication and participation falls far short of control by ghetto residents. The degree of influence by residents on a business enterprise operating in the community should be determined by their respective needs and interests. There is no evidence to show that ghetto residents as employees of large companies do or would feel differently than other employees of large companies do about their prerogatives and interests as employees.⁵⁵ Where the purpose of the enterprise is to establish a business involving ghetto residents, the scope of the interaction which is feasible and needed is guided by that fact. Where the objective of the organization is otherwise, such as planning community services and housing, the role for local participation is determined by the fact that community residents are the consumers of these services.

CONCLUSION

In conclusion, it is difficult to explain our apparent reluctance to make a major effort to develop the ghetto economy in "normal" ways. The explanation may in part lie in the fact that for decades the normal economy permitted the ghetto to grow and to become what it is. There is an understandable reluctance among black leaders and others who are committed to the fight against ghetto poverty to look to the institutions of the economy which created a national disgrace to correct it. The sense of urgency about poverty is the product of the 1960's, and the undoing of the damage of decades in a few years seems to require special measures. Hence, the call for community ownership and control. The difficulty is that there is nothing in this idea, in the structures designed to implement it, or in recent experience

⁵⁵ The bitterness and antagonism of many ghetto residents toward "the establishment" is undoubtedly reflected in their attitudes toward "outside" society and institutions. These attitudes are destructive of the work relationship, and must be dealt with as part of the communication between the employer and the community and as part of the training of "hard core unemployables." It does not follow, however, that ghetto residents think that as employees they should have different rights vis-à-vis their employer than other employees do.

to support confidence that this is the way to promote economic growth. In failing to make full use of the resources, techniques, and incentives of normal economic growth we may be overlooking the best—and the least costly—remedy.

The critical aspect of the war on poverty is money. We have been unwilling in the past to give the antipoverty effort a high fiscal priority. It seems likely that for one reason or another efforts of the federal government in this field will continue to receive inadequate funding. Changes in the military budget and in economic conditions constantly threaten even modest poverty appropriations. Further, if there is not a recurrence of violence in the ghettos, the country and the ghetto communities themselves may well settle for a modest continuing effort in the poverty field. If this evaluation of fiscal prospects and hazards is correct, there would appear to be special advantage in an antipoverty program designed to promote permanent employment by integrating the ghetto into the national economy through normal economic institutions. In this process, community acceptance, participation, and support are essential, but community-owned and controlled business enterprise is not. Experimental business institutions do not appear to be a strategy which is well-suited to bring prosperous, stable economic activity to the ghetto. The message from our black urban ghettos is that the residents want to participate on an equal basis with others in the economic life of this country. The policy which is most responsive to that just and overdue demand is one which moves directly to bring ghetto residents into the normal economy.