The Economic Facts of Unemployment

By Gerry Stahl

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THE ECONOMIC FACTS OF UNEMPLOYMENT

by Gerry Stahl

Unemployment seems so simple. Everyone understands that too many people are unemployed and it is not too difficult to list the harmful consequences to everyone of high unemployment. It seems that there should be a straightforward solution, for everyone knows there is a great deal of work to be done to meet people's needs.

The problem is that economic life is not so direct; it is more circular. People work, produce goods or services, get paid wages to meet their needs, work some more, produce more to meet consumers' needs, and so on. In our society, this cycle or work and payment takes place in the context of a "job." The job is created when someone invests money (capital) in production.

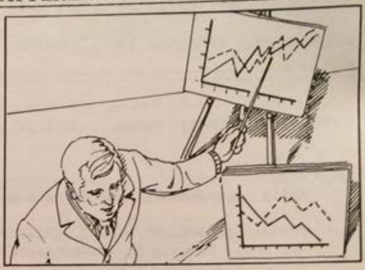
...ECONOMIC LIFE IS CIRCULAR...

"On the Belt"

The investor looks at the cycle of production differently from the worker. The institution or individual who invests expects the investment to be increased after the product is sold. Part of the increased return is reinvested, and part is kept as profit.

Production in our economy is, thus, a continuous cycle which converts raw materials into products, labor into wages, and capital into profits. Philadelphia has plenty of raw materials (like abandoned houses) which could be made into useful products. There is also no lack of labor power (unemployed people) which could be transformed into wages.

THE PROBLEM IS THAT THE INVESTOR LOOKS AT THE PRODUCTION CYCLE DIFFERENTLY THAN THE WORKER...



The problem is that the people who control the capital that turns raw materials and labor into production are convinced that they can get a better return on their investment--that is, they can make a bigger profit--elsewhere in the country and the world. Behind the issue of local unemployment, then, is the local failure to raise capital for production and services.

In searching for solutions, especially in the older industrial cities, some people believe we can attract new private investment from corporations and small businesses by offering tax breaks and cheap land for economic development. Others say that only public investment--funds from local, state, and federal government--can make the difference, given the recent trend of larger corporations to move out of the cities. A third group, activists in the neighborhoods' movement, believe that community organizations can acquire capital for themselves through credit unions, cooperatives, and other ways of pooling local resources for revitalization. Whatever the solution, the problem is finding capital. There is plenty of work to be done, and plenty of people to do it.

"Economic development" is the art of stimulating the economy in ways that encourage new investment and create new jobs. "Community economic development" is the art of raising enough capital within a specific community to produce its own investments and to create its own jobs.

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The Monopolization of Industry

Most Americans still believe that the best way to encourage private economic development is by promoting competition among companies for the profits to be made within a given field. Unfortunately, in many critical industries, competition as we imagine it--several firms fighting for a share of the market, lowering prices and improving quality to attract consumers--disappeared a long time ago. The little, unsuccessful companies have been unable to compete with the relatively small number of multinational corporations which dominate the market.

Of the United States' 213 major manufacturing industries, the top four companies in each case control an average of 42%--almost half--of the market. IBM, ITT, GM and Exxon are familiar examples of monopoly control. But the process of consolidation of economic power is continuing, accelerating and spreading to new areas.

Take beer and cigarettes, two popular consumer goods. In 1950 there were 440 beer companies in the US; now there are only 48, and the top 4 control 2/3 of all beer sales. In 1961 Philip Morris (maker of Marlboro and Parliament) sold only 9% of all cigarettes in the US; today it controls 25% of the market and, together with R.J. Reynolds, sells 67% of all cigarettes. Philip Morris, the second biggest cigarette company, now owns Miller, the third largest beer company.

Heavy industry is well monopolized on a world basis. In the U.S., the fifty largest firms account for nearly ¼ of total manufacture sales, while the Fortune 500 companies account for 2/3 of manufacture sales and 3/4 of total industrial employment. Of these companies, 55% are extremely capital-intensive petroleum or chemical processing industries. Exxon, now the world's largest corporation, invests $400,000 in capital assets for each wage-earning production worker. Not much of their money goes to employees. This picture of monopoly power and capital is repeated throughout Europe and Japan.

The Power of Multinationals

One thousand multinational companies (half U.S. based) already control 75% of the Western World's capital, industrial production and distribution, and dominate foreign trade, the monetary system, and international politics. They are intimately linked with the giant multinational banks. This can be clearly seen by comparing Boards of Directors of major corporations and major banks. Many executives have seats on both boards at once; this is called "interlocking directorates."

Together, the largest fifty banks (thirteen American) have combined assets of nearly three trillion dollars. Considering that these assets are liquid and turn over rapidly, the volume of capital and money-credit transactions under the control and influence of these banks is truly astronomical.

Development in the Third World is almost entirely at the mercy of these institutions. In the 1960s, the largest portion of Philadelphia banking credits went to Latin America; this area of the world now accounts for 1/3 of total credits. In the last decade, Europe has received 42% of these credits, Asia has received about 18%, and Africa only 4%.

Yes, at home we also believe that everything goes better with Coke...

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The growth of multinationals has proved disasterous to cities like Philadelphia. Manufacturing jobs were always the most desirable in cities: they were highly-unionized, secure, with decent wages and benefits, and few entrance requirements. Unskilled workers emigrating to America, leaving their farms or coming up North, "made it" in American society thanks to manufacturing jobs.

Now manufacturers are moving their production to areas of cheap labor, and deserting Northeastern cities like Philadelphia. Automation aggravates the consequences. Even as manufacturers expand their production, they cut back on employment. Computerized production systems replace blue-collar workers, with only a few technicians needed to run the entire plant. The sky-rocketting capital requirements for high technology industries like Exxon distort the functioning of the economy. At this point, the objective of multinationals is not to produce goods and services, nor even to maximize profits, but to generate capital with which to grow and extend their power.

COMPUTERIZED PRODUCTION SYSTEMS REPLACE BLUE-COLLAR WORKERS...

Boston Globe/cpf

Thus, multinational companies building new plants will re-locate in other areas with low wages and no unions, and they will usually merge several of their smaller, older subsidiaries (regardless of the local consequences) to accumulate the necessary capital. They are helped along by the banks, which are increasingly interested in foreign investments themselves. In fact, Philadelphia's banks are "in the forefront" of the foreign banking business, according to Business Review published by the Federal Reserve Bank of Philadelphia. From 1972 to 1977, average foreign loans to average total loans increased steadily from 14% to 24% for Philadelphia banks as a group. Foreign earnings made by Philadelphia banks are 40% of their total earnings!

EXPORTS AND IMPORTS TRIPLED IN DELAWARE RIVER PORTS, 1972-1978 TO OVER $10 BILLION

And the dollar value of exports and imports passing through Delaware River ports has tripled since 1972 to over $10 billion. During the same period, U.S. private investment abroad grew at a compound annual rate of 34.2%.

These statistics simply demonstrate that Philadelphia-area capital is being re-invested in foreign countries--at the expense of the capital needs of small business here. The loss is felt by the manufacturing firms that have closed, by the deterioration of our neighborhood shopping districts for the lack of commerical credit, and by all of the houses abandoned for lack of mortgages and repair loans.

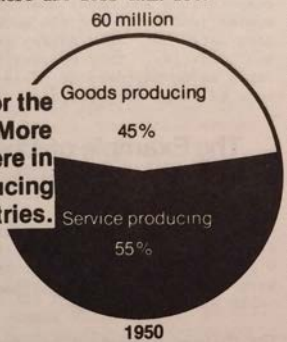
Runaways--The Tip of the Iceburg

In the 1960's and 70's jobs have been flowing out of Philadelphia, New York City and other old industrial cities of the Northeast and Midwest at an alarming rate. Among the most dramatic cases are the movement of textile mills to Georgia or the current threat of ITE-Gould to go to North Carolina. But the migration of manufacturing to the "Sunbelt" Southern and Western United States is only the most visible part of the disinvestment iceburg which is chilling inner-city employment opportunities.

During a period of the last 25 years, while employment increased nationwide by 50%, the City of Philadelphia lost 8% of its jobs. Some of the city's jobs went to the suburbs, so that the Philadelphia region had an overall job increase of 25% in this same period. Other jobs migrated in various ways across the country, while still other employment potentials left the U.S. all together.

Manufacturing jobs were hit the hardest. Of 130,000 jobs the City admits to having lost since 1970, over 80,000 were in the manufacturing sector. This has meant drastic changes in the city's economy. Since 1950, employment in manufacturing decreased by 50%, construction by 35% and retail trades by 20%. Where over 45% of all jobs in 1950 were in manufacturing, today there are less than 20%.

In 1950, for the First Time, More Workers Were in Service-Producing Industries.



On the other hand, service employment has more than tripled. The result is that the percent of the work force in blue collar occupations (craft workers, operatives, and laborers) went down from 45% to 30%. Unfortunately, the shifts have left many former blue-collar workers from manufacturing industries in the unemployment lines and welfare rolls.

By 1985 Service-Producing Industries Will Provide 7 of 10 Jobs.

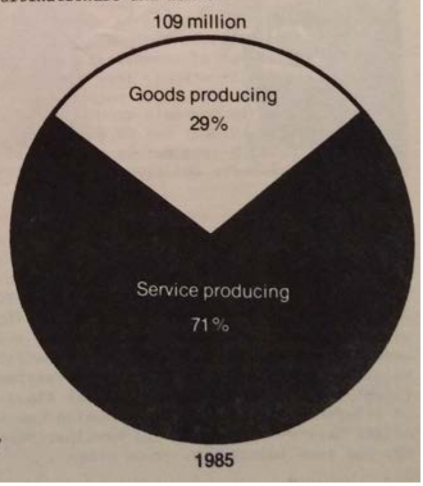
The corporate exodus from Philadelphia and other industrial centers is part of a national problem affecting the entire national economy. A report entitled Industrial Exodus argues that, "Domestic economic stagnation, largely caused by overseas investment of multinational corporations, is the context for the regional shift to the South now occurring." [7]

Investment Redlining

Overseas investment by American corporations, estimated at $118.6 billion in 1974, makes the total overseas output of American multinationals the world's third biggest GNP, behind only the U.S. and the U.S.S.R. This resulted in an estimated job loss between 1966 and 1973 of approximately a million American jobs, 735,000 of them in manufacturing.

Plants "run away" in different ways. Small, independent businesses are usually geographically stable. The typical pattern is not simply that an entrepeneur picks up and moves to greener pastures. In cases like ITE-Gould or Youngstown Sheet and Tube's Campbell Works, a locally based firm is taken over by a large national or multinational corporation. The new owner "milks" the company for a few years by limiting maintenance and modernization costs. When the company becomes less profitable than other components of the parent conglomerate, it is abandoned and serves as a tax write-off. The abandonment may proceed gradually, with production slowly transferred to another site or it may come abruptly as the result of a new merger or an economic recession.

The more complex form of "runaway" is actually a form of disinvestment more than anything else. The net effect is to move an investment in production from Philadelphia or Youngstown to North Carolina or Korea. This amounts to "commercial redlining," whereby the Northeast and Midwest are written off the investment maps of multinationals and banks.



The statistics gathered in The President's Urban Policy Report document that the Northeast's economic decline is not due to companies going bankrupt or moving so much as to a lack of investment. The Report notes: "The closure or death rates of firms in the South and West are approximately the same as those in the Northeast and North Central regions, but the rates of expansion and new firm formation in the latter are less than two-third those in the former."

Comparing just the Middle Atlantic to the South, the Report's statistics show the rate of job creation due to new enterprises to be twice as high in the South and that due to expansion of existing enterprises to be eight times as high. This difference in capital investment resulted in an 11.1% loss of job opportunities in the Middle Atlantic states from 1969 to 1974, while the South experienced an 11.6% gain.

The picture becomes very clear by comparing the employment changes in the Middle Atlantic states to those in the Southern states from 1969-1974. For every 10,000 jobs in the region in 1969, the Mid-Atlantic lost 21 and the South gained 45. The Mid-Atlantic created 860 jobs in new businesses to 1710 in the South; the Mid-Atlantic expanded business by 200 while the South expanded by 1570. The same number of jobs closed in both regions due to death of firms.

The effect of runaway shops or migration from the Mid-Atlantic to the South is small compared to the effect of commercial redlining or corporate disinvestment: less than 2% of the problem. Where the South outpaced the Mid-Atlantic region in economic growth by 66 new jobs (for every 10,000) due to migration, it did better by 4220 jobs due to creation of totally new businesses and expansion of existing firms.

Investment Abroad

Foreign imports are often blamed for layoffs at home. But the villains are not always foreigners. American companies themselves own sweatshops in Taiwan paying $1 a day, and in Malaysia paying 30¢ a day. These starvation rates account for much of the recent flood of inexpensive imports, a flood which has caused massive layoffs in the textile, shoe, TV, and auto industries, among others.

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These imports aren't always "foreign" imports. As a booklet entitled What's Happening to Our Jobs points out, the Dodge Colt is made in Japan by Chrysler's subsidiary, Mitsubishi Motors; the Capri is made in Ford's German factories; RCA, Sylvania and Admiral make TVs in Taiwan and Mexico; and over 500 U.S.-owned clothing and electronics factories in Mexico dump all of their output in U.S. markets.

Between 1960 and 1975, the total direct investment in foreign factories and mines by U.S. Corporations more than tripled from $32 billion to well over $100 billion. This does not even include foreign profits reinvested abroad or American capital loaned to foreign governments and corporations. U.S. corporations and banks dominate the economies (and influence the governments) of many Latin American, Asian, Arab and African countries. They operate in Europe and Japan as co-partners or "friendly" competitors of local corporations.

The Example of China

Red China has now "opened the door" to American investment. Even before the recent establishment of formal diplomatic ties between China and the U.S., Hyatt, Coastal State Gas, Boeing, IBM, Bethlehem Steel, U.S. Steel, Pepsi and other American firms were negotiating or had already made agreements with the Chinese.

The Chinese government has committed itself to an astounding $350 billion development program within the next decade. The 120 major projects the Chinese are planning include ten steel plants, nine nonferrous metals complexes, thirty power plants, five harbors, six trunk railways, eight coal complexes, and ten oil and gas fields.

It is estimated that China would require $600 - $700 billion to finance its ambitious target of achieving economic modernization by the year 2000. The Chinese hope to attract at least half of that from American sources. Peking leaders are apparently now revising the Chinese Constitution to include an incorporation and patent clause that would protect foreign property once established on Chinese soil. Peking has projected plans that include the use of cheap Chinese labor to produce American brand products under American direction, and American exploitation of Chinese resources.

All of this will clearly benefit the American economy--in some way. But will the benefits "trickle down" to those who do not own substantial stock in multinational corporations? Bayard Rustin recently wrote that "China offers untold possibilities for huge profits won at the expense of defenseless workers." He noted that the per capita income in China is less than $400 per year, so there will be little market there for American products other than food and computers.

If Taiwan is, indeed, to be a model for mainland China, it is more likely that factories here will close to take advantage of a virtually limitless supply of cheap, well-disciplined but non-unionized workers. At the same time, businesses that do remain here will have to compete with yet another source of foreign imports. Additionally, capital to modernize, expand, or convert threatened businesses here will be in short supply, due to China's heavy capital demands. This amounts to three ways of spelling "unemployment" for many Americans. The global economy is structured in such a way that any boon to business ends up increasing the gap between the haves and the have nots.

With the departure of multinational corporations from older cities in the Northeast and Midwest, municipal governments have been hard pressed to find new capital to put citizens back to work. At the heart of the urban crisis is the vast sector of unemployed people, denied economic opportunity in a shrinking job market, living on welfare, available for low-paying positions but existing essentially as permanent wards of the state.

New Businesses and Small Businesses

Throughout the country, mayors have argued that if funds were available to hire these people, the tax base would rise, the cost of city services would decline, and the related problems of crime and mental illness would subside to manageable proportions. The problem, however, is that the three logical sources of capital--from new businesses in the private sector, from the federal government, and from urban cooperative institutions--have not been willing or able to respond. A critical part of the debate over urban economic revival, then, is how a city administration can persuade one or more of these sectors to produce capital for jobs, and on what basis.

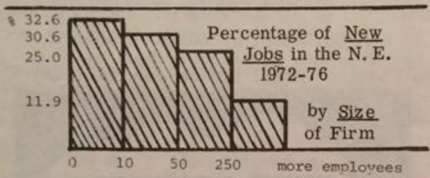
With the growth of multinational corporations and the related competition from international trade, the opportunity for Americans to start their own small business has become extremely scarce. Since 1940, the number of Americans who support themselves in this way has been cut in half. Today, a new, small company has about one chance in twenty of surviving for more than two years.

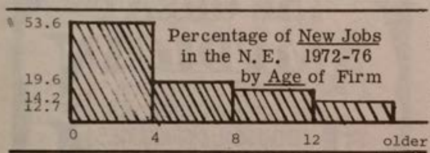
It is unfortunate that small businesses are having so much trouble these days, for they are what is left of the American Dream, and

one of the few hopes for creating new jobs. Many people, bored or oppressed by menial labor or welfare, long to open their own shops and capture some control over their own lives. Few people have the necessary capital, however. In the manufacturing sector, the multinationals pose enormous obstacles to anyone hoping to enter their industries on a competetive basis. In the service field, retail chains and conglomerates control the best markets. Inflation and recession hit small enterprises hardest.

Despite these handicaps, small enterprises have been the major source of new jobs in cities since the 1940s. The Department of Labor reports that between 1960and 1976, nine million new jobs were created in the U.S. but there was no increase whatsoever in employment at the 1000 largest corporations! (See Charts I and II.)

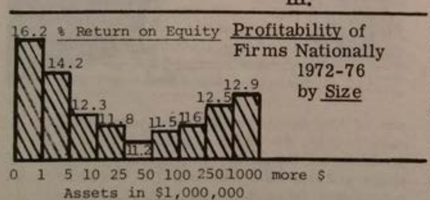
I. and II.





Such results indicate very strongly that the focus of development efforts should not be on the location or expansion of very large corporations or their branches, but on the birth, expansion and retention of small enterprises. Furthermore, as seen in Chart III, these small businesses are the most competitive in terms of actual profitability; where they have been run out of the market, it has been due to the political and economic power of the super corporations rather than by any lack of their own economic viability.

III.



Barriers to Small Business

Unfortunately, the largest corporations wield the greatest political, as well as economic clout. In return for substantial campaign contributions and in response to well-financed lobbying, government officials lean toward the interests of the multinationals. Unnoticably, social programs to solve unemployment become transformed under these pressures to rewards for anti-social behavior.

Tax incentives to attract jobs to one city compete with similar bribes from other cities to encourage plants deserting old sites and writing off the abandoned property, which is left for the community to suffer. This competition among cities to offer the best tax incentives, land deals and wage subsidies actually reduces the tax bases these incentives are supposed to be building. Meanwhile it is becoming increasingly clear that such incentives play little role in corporate location decisions.

Market Gaps and Failures

It is clear that the growth of the small business sector is necessary for increased employment opportunities in the long run. But to suggest this is little more than to hanker after the old American Dream. Why is small business not growing naturally? One reason is the shortage of capital. The other is the lack of modern, professional expertise in the community.

Strange as it may seem, given the popularity of business courses on college campuses this decade, experts all contend that there is a tremendous need for management assistance to people who would like to start businesses. A lack of business skills is cited as a major cause of the high failure rate of new firms, and even established merchants are criticized as being ignorant of modern business practices.

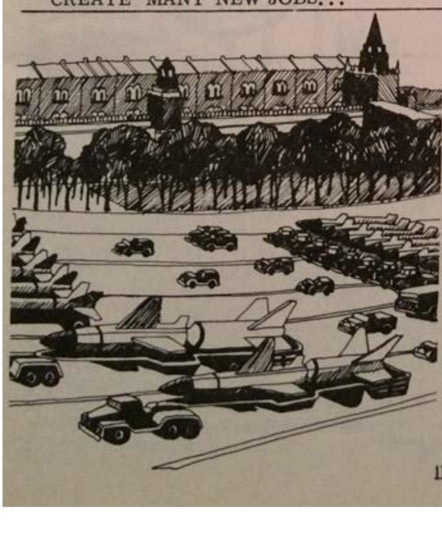
The Newsletter of the Center for Community Economic Development in Cambridge, Massachusetts, has defined the problem in terms of a helpful scheme of three market failures--or capital shortages--and three gaps. Some businesses simply need (1) loans (debt financing); others need (2) long-term subsidies to counterbalance extended periods of loss; finally some require (3) equity funding to permit delayed returns. These failures of availability of loans, subsidy and equity capital may be caused by supply, demand or institutional gaps in the structure of the market. (1) Supply gaps exist when an area's capital market cannot attract sufficient funds for investment; (2) demand gaps occur when an area lacks managers and enterprises; finally, (3) institutional gaps arise when a depressed area does not have the institutions to bring together potential suppliers and users of funds.

Is There a Short Cut Through Washington?

An effective system to stimulate economic development must respond meaningfully to these failures and gaps. First, it must provide a range of finance and support mechanisms sufficient to meet all possible development problems. This includes the need for debt, subsidy and equity financing, and the capabilities to fill supply, demand and institutional gaps. Second, there must be some way of "packaging" the assistance (and also any other federal, state, or local programs) to meet the specific needs of target areas.

The only shortcut to full employment is through Washington. The federal government could undertake a massive employment and public service program to put hundreds of thousands of people to work meeting the social needs that existing corporations ignore or worsen. Of course, corporations cannot compete with well-funded, non-profit, subsidized government enterprises. For this reason, the corporations often apply pressure to limit government programs to only the most critical of social problems--drug abuse for example--and to preserve national security through a huge military budget. Military spending is another boon to corporations, which subcontract for expensive new weapons systems. Contrary to public opinion, military spending does not create many new jobs.

MILITARY SPENDING DOES NOT CREATE MANY NEW JOBS...



Thus, while the federal government offers the most logical source of short term capital for urban jobs, the political climate of the country reimforced by major corporate interests consistently blocks the Congress and the President from taking decisive steps in this direction. The current budget, shifting dollars from welfare programs and CETA to the defense budget is a perfect example to the contrary.

DAIRY COOPERATIVES HAVE GROWN TO MULTI-MILLION DOLLAR BUSINESSES IN FIFTY YEARS

During the early part of this century, cooperative enterprises were the way farmers and urban immigrants collectively pulled themselves "up by their bootstraps." Agricultural cooperatives, such as those in the dairy industry, remain multimillion dollar enterprises to this day. Savings and loan associations show us what immigrants of the past were able to do by pooling their meager resources into substantial financial institutions.

At least one federal program created under the Community Services Act (CSA) in 1974 has made limited progress in stimulating similar cooperative institutions today. The CSA program suggests a model for dealing with the complex forms of capital shortage at the community level; Title VII of the Act formalizes the role of local institutions to deliver packages of services in response to local needs. Community development corporations (CDCs), cooperatives, and other community-controlled organizations are charged with the responsibility to draw from the range of available support programs those that meet their own particular needs. Some, such as Kentucky Highlands Investment Corporation, combine demand-creating techniques such as entrepreneurial development with a flexible venture-financing capability. Others might focus on providing skills and appropriately structured debt financing for new small enterprises. In addition to financial support for CDCs, the CSA has given rise to a network of direct support agencies that can provide assistance in training, legal problems, venture selection, program development and specialized research.

Controlling the Future

Questions to Ask as Federal and Local Strategies Search for Capital and Create Jobs

In their search for job-creating capital, urban governments often pursue all three of these strategies simultaneously. For commercial areas, they seek loans for new companies from the Small Businessman's Administration. To put unemployed people to work in providing services to neighborhoods, they fight for expanded funding in the CETA program and for public service jobs. Cooperative institutions are not as widely encouraged, but they, too, are supported in some cases.

The former analysis--emphasizing the problem of acquiring capital to create jobs--suggests several question that citizens should ask about all job development programs undertaken by the local, state, and federal governments.

--Is the program targeted to provide fiscal relief to distressed city budgets, or to provide jobs for underemployed? There is a big difference!
--Will the funds finance new economic development activities, or merely assist existing businesses in target areas?
--What are the mechanisms to insure that those people who are hired are the same people that the program is designed to serve? What are the mechanisms to guarantee that the new jobs will be desirable?
--Are public subsidies sufficient to induce new, socially-conscious behavior by the assisted businesses, or will the program turn out to be just a new windfall for companies who would have done the same thing without assistance?

These questions are useful to raise about any job creation or development program. Yet behind the specifics lies the deeper issue that this analysis emphasizes--namely, control. Major policy-makers in the field of economic development are now arguing about the kind of jobs that will become available in the future, given America's increasing reliance on high technology in production and consumer services. Political leaders in cities are wondering whether it makes sense to concentrate on retaining manufacturing plants that may be doomed to extinction, as opposed to promoting new service industries and tourism geared to the "post-industrial" economy of the future. The question is important, to be sure, but it is not the only one.

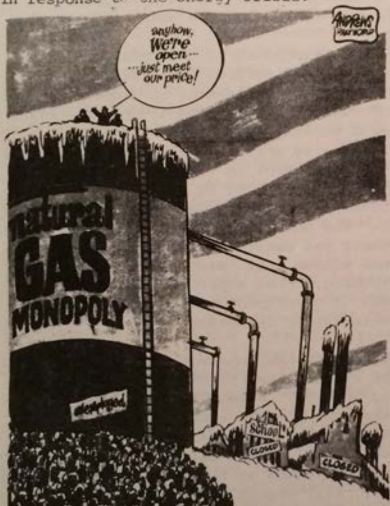
Before we can determine what kind of eco
mic program makes sense for the cities,
must ask who will make the decisions?--
large corporations? --local and federal
vernments? --neighborhood-based organiz
tions and institutions? Right now, the
porate program for urban America is the
minant one, and it has spelled disaster
the urban residents themselves. As we h
seen, it is a program built around the
drawal of capital from the Northeastern
ties to elsewhere; the destruction of sm

...CHEAP IMPORTS
MADE POSSIBLE BY
FOREIGN LABOR...

ler companies through cheaper imports made
possible by lower foreign labor costs; and
attraction of available credit away from l
cally-based companies to the multinational
themselves. It is this program that has s
multeneously thrown out of work thousands
people in the clothing and electronics ind
tries, while blocking the entrance of mino
ities and women into the job market. Yet
given the political power of multinational
large corporations and the financial insti
tions that support them remain the decisiv
voice in economic decisions, no matter tha
these decisions end up hurting millions of
people.

The only alternative is for citizens to find ways of raising their own capital to support jobs in the cities. On the national level, this would mean expanded federal subsidies for local employment. Both the labor movement and the neighborhoods movement have been strong advocates for these subsidies, coordinating lobbying efforts with Congress against cutbacks in public service jobs programs. Unfortunately, we have not succeeded.

A second, more controversial national strategy that might be sought from the federal government would involve the creation of public corporations to compete with private industry in areas where the industry has failed to meet a critical national need. George Meany, President of the AFL-CIO, made this sort of proposal in response to the energy crisis.



Meany argued that if the oil industry were unwilling to explore for new reserves unless guaranteed prices out of the reach of ordinary citizens, then the federal government ought to undertake oil exploration and drilling itself. Obviously, the creation of public corporations such as this is theoretically possible--conceptually, no different from municipally owned power companies that exist throughout the United States. The political opposition to such plans from corporations and conservatives, however, would be tremendous.

OF COURSE, THE
POLITICAL OPPOSITION FROM
CORPORATIONS AND CONSERVATIV
WOULD BE TREMENDOUS...

On the local level, control over capital mi
be achieved through the development of coop
atives and development corporations such as
envisaged in the Community Services Adminis
tion program. In Philadelphia, such corpor
tions have concentrated on housing construc
rehabilitation, and sale. Elsewhere, they
set up local industries and stores, respons
to both the employment and consumer needs o
the community. Obviously, a cooperative en
prise is subject to some of the same forces
that influence a privately owned business.
it is badly planned and managed, it will fa
The difference, however, is that an industr
or store built by a community will be accou
able to it. The community conception of a
"return" on investment will be the advantag
that accrue to the people within the neighb
hood as a result of its being there. It wi
not leave when some other market promises
cheaper labor or better tax breaks. The co
munity will determine its destiny, not the
other way around.

In conclusion, the urban experience shows t
there will be no solution to the problems c
urban unemployment until the people who rer
in the cities begin to work together to rec
this sort of power over their lives, which
tinational corporations have tried so hard
take away.

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PIDC-- Industrial Development

by Gerry Stahl

The Philadelphia Industrial Development Corporation is a quasi-public local agency charged with preserving the existing industrial base of Philadelphia, as well as attracting new manufacturing and, to some extent, service establishments within the City. PIDC takes credit for having "created or retained" over 120,000 jobs in the City in the past 20 years. Its strategies include obtaining favorable terms for land acquisition from the City: PIDC industrial parks cover 2,500 acres, a substantial percentage of the City's industrial land; working out tax breaks and local and federal subsidies for businesses that want to stay or will relocate into Philadelphia; and offering consultations to establishments that, for one reason or another, have gotten themselves into trouble.

The list of private companies that have benefitted from PIDC's land deals reads like a "Who's Who" of local industry. It includes Whitman Chocolates, Pepsi Cola, Western Union, W.A. Reynolds, J.B. Lippincott, Van Heusen, Bell, Dodesco, Otis Elevator, G.E., International Harvester, Strawbridge & Clothier, Silo, and Boeing Vertol. PIDC also handles such projects as the Food Distribution Center, Penn's Landing, major hotels (Bellvue Stratford, Franklin Town, Fairmount), the Gallery, the Frankford Arsenal, and American Street. Clearly, in the area of economic development, PIDC is the main game in town.

Actually, PIDC's numerous accomplishments demonstrate the limit of any economic development strategy that operates within the constraints of private investment. It is the business that dictates the terms, and local government must accept them--or lose the business. In the name of "improving the business climate," groups like PIDC do not have to apologize to taxpayers for the special deals they offer major corporations; citizens will put up with these arrangements gratefully if there is a promise of jobs.

Despite these economic tools, PIDC was
able to prevent the loss of 130,000 oth
jobs from Philadelphia in the past seve
years. All too often, businesses have
sons besides taxes or land prices for l
ing--as slow growth in the industrial p
indicates. In most cases, it is the hi
cost of unionized labor that these corp
ations wish to avoid.

The City clearly recognizes PIDC as the
major vehicle for economic development.
Over half of the federal Community Deve
ment money which is earmarked for econo
development goes directly to PIDC: $4,0
000 a year. PIDC now has assets of ove
third of a billion dollars. It would b
interesting to see what could develop i
some of this money were used in coopera
tion with community organizations and l
cal institutions, as well as with priva
corporations, for economic programs.

PIDC HAS TAKEN A STEP TO BENEF THE PEOPLE WHO LIVE HERE B REQUIRING EMPLOYMENT CRITERI IN TWO INDUSTRIAL LAND PROGRAM

PIDC has taken a first small step to ben
fit the people who live here, by requiri
employment criteria in some of its pro-
grams. Its "Inner City Program" provide
cash grants for acquiring land to firms
which promise to give "first preference"
to inner-city residents in filling newly
created jobs. A "City-wide Program" re-
duces the sale price of land for pro-
jects which provide at least a minimum
number of jobs per acre of land sold.

These are the sort of innovative program
designed specifically to benefit the residents of Philadelphia, that are desper
ately needed.

PHILADELPHIA CITYWIDE DEV CORP

by Gerry Stahl

A local economy develops through the vigor of new, small businesses; it stagnates under the dominance of corporations. Local businesses have a commitment to the growth of local economy; national corporations readily desert a field they have abused for greener pastures.

The Philadelphia Citywide Development Corporation (PCDC) was created in 1977 by the City's CD Office which funds it, to provide financial and technical assistance to small businesses. Other organizations which provide some of the same expertise are: Spanish Merchants' Association, Urban Coalition, OIC, the Anti-Poverty Action Commission (PAAC), and the Greater Philadelphia Community Development Corporation.

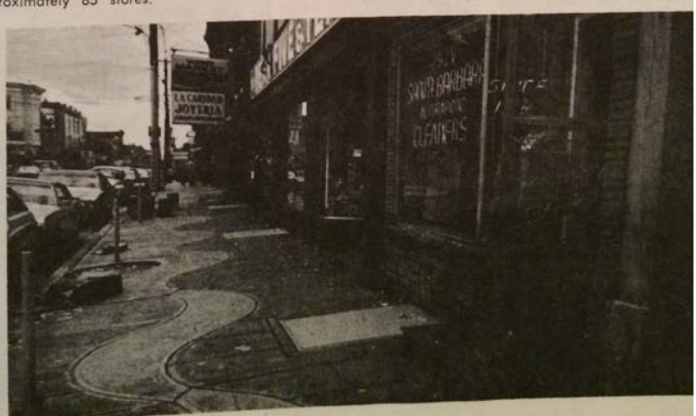
PCDC will provide most of its services to any business in the city. It will not only help put together ("package") loan applications, but also provide financial assistance in the form of equity loans to complement SBA loans. The staff of PCDC can give advice on accounting, management and inventory. They want to make businesses more effective so they can better serve the community.

NEIGHBORHOOD COMMERCIA REVITALIZATION PROGRAM

Another division of PCDC works on neighborl commercial revitalization. When they have lected a commercial strip (several blocks stores), they first consult the merchant a ciation, or if none exists, they organize o together. Then, they work out a plan for proving the strip. This involves (1) sit improvements to the street: lighting, sidew and parking; (2) a common style of storefr and signs; (3) a better balance of goods a services; (4) management advice to individ shopkeepers; (5) advertising and events to promote business; (6) finding owners for v cant stores.

Fifth Street Commercial Area

North Fifth Street, between Lehigh and Indiana Avenues, is a commercial corridor located in the heart of the Spanish-speaking neighborhoods and contains approximately 85 stores.



21

--PCDC

PCDC has targeted 5 neighborhood commercial strips in the past:
--Frankford Avenue (Margaret/Orthodox area)
--5th Street (Lehigh to Indiana)
--Germantown and Erie Avenues
--22nd Street (Somerset to Toronto)
--Woodland Avenue (60th to 66th Streets)

This year they are adding 2 strips:

--52nd Street (at and below Market)
--Girard Avenue (5th Street to Franklin, including Marshall)

In addition, the City has targeted a large commercial area in central Germantown, below Germantown and Chelten for extensive site improvements.

For the future, the City is considering a somewhat different approach along seven other strips which are large enough to serve many residents, healthy enough to be viable, and near residential redevelopment targets:

--Point Breeze Avenue
--60th Street near Cobbs Creek
--Lancaster from 40th to 44th
--Kensington and Front
--Germantown near Lehigh
--Broad and Old York Road
--Ridge and Columbia

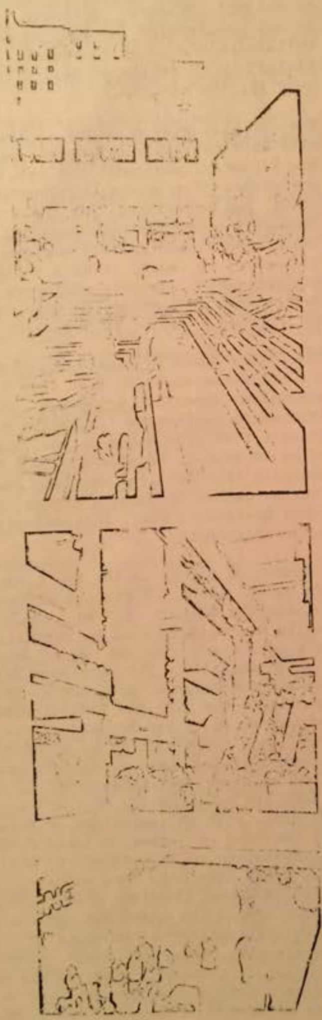
The difference is that there is little money allocated for these last seven. Therefore, community organizations might be welcomed into the process. They could, for example, organize a merchants and consumer organization, carry out market surveys to see what residents need, and co-sponsor promotional events. PCDC will assist and advise groups wishing to do this.

Community organizations acting as forceful and energetic advocates for the residents as consumers could benefit their neighborhoods in many ways. A prospering commercial strip brings money and jobs into an area, increases local services, and improves the appearance of a neighborhood.

A further possible step is for neighborhood associations to begin participating as owners and producers. The City and PCDC should provide aid for this, too. Many organizational structures are possible for businesses where the community maintains some control over basic policies. That way, there are guarantees that businesses helped by the community will continue to serve that community.

DOWNTOWN
The Gallery

by Gerry Stahl



The Gallery is Philadelphia's showplace of com-mercial development, just as Society Hill is still the pride of residential redevelopment. Both fit into a plan originally designed in 1961 for Center City which clusters banks and insurance buildings around City Hall; depart-ment stores to the east; offices to the West; tourism cutting across from the Art Museum through the Franklin Institute, City Hall, Inde-pendence Hall and New Market to Penn's Landing; industry in Callowhill; townhouses everywhere else; and all tied together by a magnificent modern subway system.

That these formidable plans have been carried out with nary a hitch, while the simplest home-steading or loan program for neighborhoods out-side the Center City target are hopelessly tan-gled in inept bureaucracies and scandalous dealings, says a lot about the clout of Center City interests.

While Gallery--and soon Gallery II--are part of a global process, they are worth question-ing on their own. Gallery I was built with a $100 million investment. The majority of that money came from Gimbel's, the Rouse Corp-oration; Strawbridge and Clothier's, and Park-ing Authority revenue bonds. But a substantia $28 million was public tax dollars from HUD, UMTA, and the City budget. Similarly, a Galle II, consisting of another mall, two office to-wers and more parking, is now projected at cos ing $155 million. Here, $107 million will be contributed by private corporations, $24 mil-lion by UMTA, EDA, and HUD, $7 million by a City bond issue, and $17 million from the City.

Given that over a quarter of this privately owned project is being financed with public funds, it is important to ask what the overall public impact will be. Gallery supporters poi first to the masses of money "brought into the city": average sales of $230 per square foot (about twice what a suburban mall can draw). Second, the City calculates job increases for Gallery I of over a thousand, and six times that for Gallery II. Additionally, the City looks forward to increased wage and real es-tate taxes of $2 million and $6 million an-nually from the two projects.

Paul Levy, in "The Defended City" and elsewhere, has raised a series of crucial questions about the overall effect of the mall strategy being pursued along Market Street East. He asks if the Gallery is really bringing shoppers back to Center City from the suburbs. Or is it rather that the new shoppers in the downtown are being lured away from the struggling businesses of surrounding neighborhoods? Surveys conducted by Rouse Corporation over a year ago indicate, for example, that 70% of the Gallery's customers were coming from Philadelphia neighborhoods, outside of the Center City area. What will be the effect on the shopping districts scattered through the city, on the hundred-odd commercial strips on neighborhood main streets, or scattered Mom-and-Pop stores still serving their local communities?

It is not merely nostalgic to think of preserving local businesses. As Food Fair has dramatized by closing a third of Philadelphia's supermarkets over night, centralization does not provide stability. Suppose Gimbel's, Rouse, and Strawbridge overpower their competition and then follow the lead of Lit's, Grant's or Robert Hall and abandon Philadelphia. The diversity of small shops, corner groceries and family businesses is essential to the economic health, social stability, physical security and vitality of urban neighborhoods.

The City's justifications of their strategy in terms of income, jobs, and taxes also lose some of their force if it is true--as studies suggest--that most of the new shoppers at the Gallery do come from neighborhoods in South Philadelphia, West Philadelphia, North Philadelphia, Kensington, etc. Then, instead of real increases, the figures for the Gallery really represent a redistribution and centralization of economic activity in Philadelphia--away from the small business owners.

The Commuter Tunnel

Perhaps the single most important resource in the hands of the City for stimulating economic development is the transportation system. If the unemployed can reach the factories, if new businesses can count on the availability of employees if marketplaces are accessible to shoppers, than half the problem is licked. Furthermore, it is the legitimate and accepted role of government to provide an adequate transportation system.

Unfortunately, Philadelphia's massive effort to develop its transportation system has had undesirable consequences on 95% of the city. The network of interstate highways designed to tie Philadelphia businesses into the national economy encouraged suburban sprawl. People working downtown could abandon aging neighborhoods and commute to the suburbs in every direction. Factories, too, found it convenient to move outside the city along the highways. Blue-collar workers excluded from the suburbs economically or racially were left behind, unemployed, to watch their neighborhoods deteriorate.

Somehow, nothing could be done to modernize the vintage 1928 subways, or improve the service and safety through North and South Philly or the antiquated trolley lines in the West and Southwest while wonders were accomplished to connect Center City with the outside world. In addition to the port and the airport, there is the Schuylkill Expressway, Vine Street, I-95, the Lindenwold High Speed Line, Route 202, and the Turnpike.

SOMEHOW, NOTHING COULD BE DONE TO MODERNIZE THE 1928 SUBWAYS.

As I-95 and an Airport High Speed Line approach completion, the Center City Commuter Tunnel will tie everything together. The Airport rail line will connect the airport with all the region's commuter rail lines, Amtrak, the el and subway, and the Civic Center. The Commuter Tunnel will connect the two Conrail lines which presently terminate at Pennsylvania Suburban Station (15th St.) and the Reading Terminal (12th St.). The major downtown station will be at 11th Street, gateway to Gallery II.

Rather than tying the neighborhoods of Philadelphia together, this approach to transportation benefits only the downtown and the suburbs. Potential economic activity in the neighborhoods is placed at an increasingly unfair disadvantage. Yet, in terms of its land, its strengths, and its people, Philadelphia is a city of neighborhoods.

$500 BILLION IN PENSION FUND INVESTMENT

by Gerry Stahl

A natural way for unions to stimulate economic development in a manner beneficial to their members is by the thoughtful investment of pension fund money. Here is a potential for major changes in the economy, a significant way to create good jobs and avoid the harmful consequences to workers which often unknowingly result from the investment of their pension money.

Today the total of all private and public employee retirement funds is over $500 billion, with billions added every year. Pension funds now have more assets than all of the savings and loans and mutual savings banks in this country (though not more than commercial banks). They also have more than all the life insurance companies, which are traditionally very important sources of long-term capital.

Most of the half-trillion in pension funds are invested in the stocks and bonds of America's largest multinational corporations. This is because control over the investments has been delegated to banker trustees.

Some unions do control their pension funds directly, but the vast majority are legally controlled by corporations or, in the case of public employees, by government bodies. Regardless of the legal structure, two facts are true, as stressed in a book on the potential power of pension funds, The North Will Rise Again. (1) Control over investment decisions by corporations,government and unions has generally been turned over to bank trust departments and portfolio managers who recycle the money back into the coffers of corporate America. (2) Money in pension funds accounts is the deferred wages of workers, who have a right to assert their control over its management.

The most dramatic success to date is that of the Amalgamated Clothing and Textile Workers Union, who successfully forced James Finley, Chairman of J.P. Stevens Company--the #1 violator of the National Labor Relations Act--to resign from his position on the Board of Manufacturers Hanover Trust, a New York City bank, by threatening to withdraw from the bank more than $1 billion in ACTWU trust and pension funds.

International Association of Machinist
President William Winpisinger has vowe
to put a stop to the use of I.A.M. fun
for non-union or anti-union corporatio

The AFL-CIO passed a resolution last s
urging member unions to devote at leas
of their pension portfolios to residen
mortgage loans in order to increase th
supply of affordable housing for moder
income people and stimulate employment
the construction trades.

The American Federation of State, Count
and Municipal Employees (AFSCME) gave
$180,000 to a research group in Wiscon
sin to find safe, profitable, job-gener
ating investments for the state's publi
pension funds and other trust accounts.

"OUR MONEY IS BEING USED TO PUT OUR OWN PEOPLE IN UNEMPLOYMENT LINES," SAID STEELWORKER'S PRESIDENT MCBRIDE.

The United Steelworkers at their fall co
vention discussed ways to assert control
over the $10 billion in steel industry
pension fund investments in order to pre
vent the steel companies from closing
plants in the unionized northern states
and moving to non-union plants in the So
or overseas. "Our money is being used t
put our own people in unemployment lines
said Steelworkers' President Lloyd McBri
"We can no longer tolerate the situation
using worker-produced capital against ou
selves."

1979 SPECIAL DOUBLE NEW YEAR EDITION

NEIGHBORHOODS

Vol. 5 No. 1

Political activity in Philadelphia has been feverish since last November's successful campaign to stop the Charter Change and Mayor Rizzo's right to seek a third term. It was easy for an incredibly wide range of interest groups--from Center City luxury apartment dwellers to ghetto militants--to agree that two terms are enough.

Since that election, the diverse organizations have not found it as easy to agree on the best new candidate for that office. The hopefuls can expect to be showered with "platform" papers questioning their positions on every issue from gay rights to the election of a new School Board.

There is one issue, however, on which everybody agrees. Philadelphia needs jobs. Six hundred people crowded the Amalgamated Clothing Workers hall on February 10 to plan employment strategies along with dozens of our union leaders, elected representatives, and state officials, including Governor Thornburg newly-appointed Secretary of Labor.

JOBS FIRST!

This edition of the Neighborhoods Newsletter is devoted exclusively to Economic Development.

The first section defines economic development and the causes of unemployment in our economy.

The second section criticizes President Carter's federal program for "non-employment," despite passage late last year of the Humphrey-Hawkins Full Employment Act.

The third section analyzes current city programs and Mayor Rizzo's five-year plan, especially the "partnership" concept with private industry which will convert Philadelphia to an "International City" by 1982.

A fourth section describes what neighborhood organizations in other cities have accomplished; they all agree that the best advice for Philadelphians is to first achieve some degree of financial expertise and then to proceed on the basis of a thorough economic plan.

Neighborhood Notes describes two Philadelphia neighborhood organizations that are working on economic projects, and includes the latest redlining data for the City.

A sixth section describes what neighborhood can do on their own to create capital investment and jobs, including a "How-to-Organize Guide" that step by step prepares a communi for a long range economic development plan.

A seventh section mentions several new idea that are being tried in some communities; most are new and experimental, but they represent the basis of a sound community economy for the future.

The last section analyses the economy of Puerto Rico, and the possible impacts of statehood or independence on this underestimated community of Philadelphia.

There is also a Glossary--to help readers along with specialized economic terms, and a very long Resources section at the end, listing local and national sources of help and information.

On the following page, you will find a very detailed Table of Contents to make sure you can find exactly the material that interest you and your organization.

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