Restructuring and Retooling—Full Summary

Introduction

(Glenda Wilson, St. Louis Fed): We at the Federal Reserve welcome the viewing audiences at the St. Louis location, Little Rock, Memphis, Evansville and Kansas City sites. We recognize the three panelists who join us this morning as experts and thought leaders in national policy and all of you as true innovators and fresh voices—what this conference is all about.

(Daniel Davis, St. Louis Fed): We live in difficult times, with uncertain circumstances and challenging economic times. We want to consider: What is the future of economic community development? To help wade through the waters, we have a great national panel: Gary Logan, (bio), president and CEO of Synago Consulting; Ruth McCambridge (bio), editor-in-chief of *The Nonprofit Quarterly*; and Ray Boshara (bio), from the New America Foundation.

Gary Logan

Gary Logan began his discussion with a Tahitian greeting (adorning several conference hosts with a shell lei) that would punctuate a key theme he would build in his message: Customs and symbolic gestures are bonding among those who share them, and to truly make a difference in our communities, we must learn them, respect them and understand the value these have in building communities.

Questions posed by Logan: When you engage in community development, do you know the community with which you are working? Do you know who they are, their history, their traditions, their customs, their fears and dreams? What assumptions, attitudes, biases, personal prejudices, customs do you bring to the conversation? What mannerisms, speech patterns, dress, customs do you have that may hinder or help the conversation?

Logan explains that his company helps develop strategies that would make them "glocal;" that is, bridging what you do locally on a global scale.

He provides the following personal anecdote that ties to key point he will make later in his presentation. His mother called last night, wanting to take a road trip, to go across the country to witness the birth of her first great grandson. His mother, who is now 89, had heart attack just a few years ago trying to start weed eater, and has lived out certain values, namely, vitality. She has an enthusiasm for life, a purpose, a vision. This story solidifies much of what Logan has to say about communities.

Getting back to community development, he says, let's get back to the foundations that are extremely important. The problem is, when we get focused in our conversations, when we get excited about our strategic planning; when we begin to put together our different types of plans of how we're going to connect with our community, we lose sight of the foundation all too often.

Folks need to feel a sense of belonging. This is applicable to individuals, families, tribes, communities, neighborhoods, businesses, organizations and even national and international levels. We want to belong to a group. We want to connect, dream, have a sense of meaning. Studies done in the 40s, 50s, and 60s on a psychological level recognize that these elements keep us alive. They are more important than bread and water. When we think of community development, those are the values we need to go back to.

People want to relate to a group, a community, a cause. They want to belong. That sense of connection comes from something within us that wants to get outside of us, outside of ourselves. We as human beings are not encapsulated by our own sphere protected from all of life; we want to be outside of that sphere. All of us have innately the ability to dream, to imagine, to vision, to see beyond where we are, beyond life circumstances, and when we lose that ability, we give lose that hope, and we no longer see growth is possible.

One of the things you hear recurring again and again in the stories in the third world, Logan continues, is that those who are able to rise above the inhumane conditions are those who are able to imagine a life that goes beyond the poverty, beyond the oppression, the violence, those who have the sense of meaning, purpose, hope. In community development, those are the things that are so woven into whether people will talk with us, collaborate, engage in partnerships, take action. These types of values enhance the process and informs a vision of how the community wants to develop. This leads to a certain type of energy, vitality.

Community development then, at its core, is the process of developing people, he says. People are our greatest resource in any endeavor. Healthy community development is giving people the critical thinking skills, the training, resources, equipment, the tools, they need to build, dream, to create. When we look at community development this way, we are creating culture. We are going beyond an entitlement program or a project to fund or something that has goals and accountability statements and a process that we can measure. When we go beyond those types of things, we are able to effect real change. Community development is embedded in this life-giving, character-building value system that is within the culture of every component of our society, whether it's at the family level, organization level, neighborhood level, national level.

Community development embodies "ubuntu," Nguni saying, roughly translates to "the quality of being human." He tells a story of those in Nigeria, about what made the people there so excited about wells and schools being built. "A person is a person through other people." Community development develops people in a way in which other people are impacted.

Communication is critical. It can be symbolic, interpretive, transactional context, in which people create shared meanings. Without the context, there is not shared meaning.   Without the shared meaning, there is not a connection.   (Example from opening greeting: several people now have a shared connection of wearing leis, but have no understanding of their meaning).

As community development professionals, we often go into neighborhoods wanting to do something and, without knowing their traditions, language and customs, we get frustrated because it fails. [It fails] because we did not even start with what is it that I need to know before I even go into the group—how do I need to act, how do I need to dress, how do I need to behave to open up the conversation to make something happen that has meaning. Often times in communities, that begins with symbols, which could be tangible, such as the leis, or intangible, such as body language, or this can be with clothing, language, even hand gestures.

A second aspect of communication is that in every community, there are myths. There are stories beyond the story—back stories—that we need to know about. These myths explain and express solidarity and cohesion and can create opportunities.

Also important to understand is the sense of values, which define a unique distinguishing character. They help convey a sense of identity, whether in the corporate boardroom or even bars or corner coffee shops where people gather. This identity helps people connect with what they do. In community development, stories, rituals and ceremonies have a certain function and power all of their own upon which you begin to build a foundation for movement from one point to another. In community development, stories, rituals and ceremonies help convey a sense of value, connection and purpose. These are important and should not be ignored. They spark action and communicate who we are.

When communities build a values culture in which there is a respect for people, whether it is for consumers, whether it's the way you provide equitable pay and benefits, opportunity for advancement, attention to family, stress needs, empowering and guiding social networking—that all is developing the power of respecting people or the concern for the environment, fostering cross-cultural relationships, responding to crises in a community where one is located, promoting the very basic characteristics of business and people skills. Those types of values embedded within any business, government, organization, business or community leads to opportunities for innovation, enhancing customer success, satisfaction, value for end-users, a positive image for community, acquisitions, motivating skilled workers in workplace, new revenue streams. Values should inform relationships with suppliers, customers, members of the community, employees, academia, faith community, business community, culture community, all in a way in which people want to work together because they know it betters the whole society and the whole culture.

Communication is based on assumptions and culture that is embedded in both verbal and nonverbal language. We consciously and unconsciously convey deep feelings and attitudes in everyday behavior, which is then interpreted and processed. Community development begins and ends with a cross-cultural sensitivity and communication.

Ruth McCambridge:

Acknowledging the symbol of the lei from Logan, McCambridge begins stating that we take for granted our own rituals and symbols—we don't even realize they are present. When we are in the middle of someone else's story, however, we have to learn all of those things. And that learning increases our humanity in ways that are "phenomenal," she says. It gets us out of the four walls of our own brain. It also creates a sense of humility. McCambridge continues as follows:

Nonprofits exist for the purpose of activating democracy. Many people see this as a service sector; those that provide services under contract primarily. I reject that notion, she says. This sector exists to engage people in making their own communities and lives richer, in providing the future of/for their children, enriching the way people live their lives in every way.

At *The Nonprofit Quarterly*, I have two realms that I'm thinking about all the time. One is the enormous change that's going on in the sector—in philanthropy, in nonprofits themselves, their context. Then, there's a recognition that my own work, the publishing work we do, that industry has changed, has transformed in the last five years in ways that no one could have anticipated. And it continues to change. The demands on someone who is in publishing are phenomenal (example: going digital, free vs. paid content, how do you make a business model in this new world). Every day there's a new issue you need to incorporate into your planning. You also have to test it. There's a good part of the sector that's feeling this way. You have to change it a lot; trying to keep up with up with everything.

At *The Nonprofit Quarterly*, she continues, we've tried to help nonprofits understand their role more deeply and how to do it more effectively and more powerfully. About 18 months ago, we knew there was a new administration and new economic climate. About once a year we call out to our readers and ask what's bugging them.   We chose 20 to have a conversation with them and asked what it is they think we're going to be facing. In their language, they said we're facing 'shifting tectonic plates.' The relationships between philanthropy, government, nonprofits; communities and nonprofits—all of that was going to be shifting. And it's the space between those plates that's going to require us to be agile, nimble. We're going to have to watch for the tremors to come.

As a result, what we decided to do at the *Quarterly* was transform our publishing. We used to publish quarterly. We decided to publish daily. We didn't expand our staff. But in order to do our job we needed to do, that's literally the pace at which changes were happening. She explains that to do this, today staff get up at 5 a.m. and go to bed at 10 p.m., and that what they call that at the *Quarterly* is 'internal philanthropy.' It's a way a lot of us function, she says. If you don't have the capital to effect transformation, the capital is you. If you care enough about your work, that's what you do. You may have other people around you as well who also provide capital, their own effort, their own energy, their own ideas to what you're doing. It's the soul of the Center. That kind of habit of caring about your work and what you're hoping to accomplish that you're really willing to go all out to get it done. You may up in the ditch next to the riding mower, but if you do, you'll get back up.

McCambridge references a recent article about innovation in *The Nonprofit Quarterly*, called "Goldilocks and the Three Budgets." Some budgets are too small, some too big, some just right. Budgets that are too big tend to result in executive pay that's too high. If they are just right, they allow you to be nimble in your work, to pick up when you can see an opportunity in front of you, to get out and market something and sense when something is coming down the pike. If they are too small, they are hard to live within them. Unfortunately, a good part of the sector is stuck in budgets that are too small. There is not just one reason—we have a pre-existing condition: People downsize. We have more difficulty because the money we have is restricted. It's not just the money, because we have project grants instead of operating grants; we restrict our own capital. When we start building capital, we put it into a building (fixed asset) or an endowment (can't move). Too little capital to innovate and have to extend ourselves to make that happen.

Looking at innovation in the sector, there is a model that has been pushed by a few large foundations and consulting firms—a franchised model. Annoint an organization that has promising results and the intention is to get this to scale by replicating this across the country. In some cases, this might be appropriate; for others it might be inappropriate. Communities often reject things that come from somewhere else. You cannot completely replicate the conditions under which something was successful (where it had political support, funding support, etc).   You will find ruins of efforts that have been started and abandoned. This is the model that the office of social innovation has adhered to.

There is another model that you should be familiar with—anyone who works with community development—and that's the networked model. In that model, you have community-based organizations that are linked centrally in at least one network and maybe multiple networks and that network that links them helps them to share their practices that they consider to be particularly promising, helps research to be done (in the entire network), surface resources that allow the entire network to work in more productive ways—it allows people to sit with one another and spark ideas because they come from different cultures and different communities. As we've watched what's gone on over the past 18 months, some of those networks have produced incredible results.

One example: Community Health Center Network – Positioned itself as the obvious choice for primary care in communities. The downturn produced a lot of unemployed people, a lot of uninsured people. The Administration decided to invest in the health clinics now. Wave after wave of funding went to those clinics, in the form of capital funding for facilities, adding facilities in underserved areas, upgrading record systems. This poised them for growth under the Health Reform Act. It was awesome.
They received $11 billion over the next five years. But everything is not perfect. At the same time they received this national funding, they are pulling funding at the state level. There is a shell game going on; there is no rest for the weary. You can succeed, but you still have to stay on top of your game.

The second network: The National Alliance for the Mentally Ill (NAMI) – 1400 Chapters around the country. Those who have mental illness and those who have family members with mental illness. It could not be more grassroots. States are primary on how well states are served. Advocacy programs developed at the state level. National level did a program called "Grading the states." That's the kind of activity to allow whole fields to develop. Mental Health Parody Law – This took forever to get passed. Allows people to get covered in the same way as those who have physical illnesses; not a higher deductible, not a higher cap, but you actually get covered in a way that's not discriminatory. Passed after 12 years, thanks to Peter Dominici (R) from New Mexico, who has a family member with a mental illness. He drove that bill through. If that network and bill had not been there, there would be nothing for this bill to attach to.

The previous examples illustrate what we are as a sector. The local culture, local development of those ties creates: 1) a political base—and we don't realize how profound an asset that is. 2) It creates a groundness in our issues that we could not get in any other way.

Franchise vs. small business administration approach. Do we care about the local nature of our work or do we think there are solutions that apply to absolutely everything and everybody? It's probably a mix of the two. As we look at our work, how do we emphasize the local? How do we create a noise at our own levels about what we do and the beauty in what we do and the people in what we do.
There's a significant part of philanthropy at the national level that [will say] we don't have to fund nonprofits anymore; we can get work done in other ways. They might be in partnerships with businesses, might be autonomous, be hybrids; that contract of them always being in partnerships with nonprofits is broken. At the local level, local foundations, they've become generally much more local, more attentive to what is going on around them, more empathetic. A lot more listening, willingness to alter what they're doing.

Among the national networks that are doing well, there's a willingness to knit together with the community development corporations. They did an unbelievable job, around the foreclosure issue, for example—NeighborWorks. They lobby for resources, they have resources flow down, produce research and reports, they encourage peer sharing. But, the work is still ours, and it is still not easy.

The local relationships between us geographically are very, very important, because what that provides us is the same thing we get at the national level, which is local intelligence. McCambridge shares a story about two organizations, that needed to share office space and were forced into conversations that jolted them into innovation.

Worse thing that ever happens in our sector is siloing of work that is done. One group doing something in economic development and another that's doing housing development, and another that's doing the community health centers. Sometimes you have overlapping people, but you're not gaining everything you can as the learning you get as when you put dissimilar things together in the same room. I learn more by traveling around the country than I do in my studiousness in Boston, she explains. (Example: In Hawaii, someone was asked 'who owns this land,' to which a person replied, 'no one owns land; the land is the land. What does it mean to be on land that others have been on centuries back? It was another way of thinking.) We have to jolt ourselves out of our ordinary way of thinking. Creativity incites a brand new way of thinking.

What do we need to be careful of? At *The Nonprofit Quarterly*, we track news reports, research and trends. What I see as most wanting is our own ability to tell our story. People are working so hard we are not celebrating the enormous successes. We're also not using our power bases in as conscious a way as we need to. The best possible way to create a political power base for yourself is to engage the people for whom a work is supposed to benefit. If you do not do that every day in every way, you are missing the boat. That's what NAMI's accomplishment was based on.

One thing that will not go away about this period is the emphasis on research and results. We may not be able to do that in our individual organizations, but we absolutely have to participate in making sure that it gets done. Then we have to cite the chapter and verse about the research we're basing our work on and make others understand the framework we're working from. The way that banks and funders can support nonprofits is to help them do to the research that will aid the field, she adds.

McCambridge tells a story of her role in directing a study in which she wanted to know to what degree where homeless people involved in helping to understand solutions to the problems they were facing. In this study's design, those in shelters, receiving care (the homeless) were trained to conduct the research of shelter and program directors about what guided their program selected. The power relationship between provider and receiver shifted. All of the homeless people they had engaged in the research went on to college; some become professional researchers. It not only taught the field, but also demonstrated that once someone feels empowered to question a system, to help redevelop a system, it's hard to take that away. The more people you have around you, and the better you are at facilitating a conversation, the better off you're going to be politically, in terms of power base.

We need to take the thing that is our biggest asset—the people we work with—and move it into a place where it's producing both power, ideas and connections.

As tough as this time is, there are some seeds in this periods that, if we plant them and nurture them properly, we're going to come out a lot better. Better this period, this sector was getting a little too sleepy; we were accepting subservience in our relationships with people who were holding the money a little too freely. That kind of passive relationship is never healthy. We need to figure out how to get aggressive on the right basis and take up a social justice agenda that crosses subsectors and allows us to make changes in communities.

Ray Boshera

There is an American social contract going back to a period of history defined as 1890-1920s known as "The Progressive Era." What can we learn from this era, going forward into what we think is now the "Next Progressive Era?"

Many of you many know that one of the great legacies of the Progressive Era is the creation of the Federal Reserve System. They didn't just build laws, they built institutions that endure today, such as Federal Reserve Banks, community banks, credit unions that benefit low-income people.

When I think of the future of community development, this is my lens: I think of asset building for low-income people, I think of social contracts and the broader forces that impact the forces of community development. Starting with the social contract, I think many of you would agree that we have a broken social contract now. There are many symptoms of that broken contract. It's broken because our public policies and our safety nets (health systems, pensions, unemployment, work/family balance) are based on outdated assumptions—assumptions that made sense during most of the 20th century but don't really reflect our economy anymore.

There are obvious symptoms of our broken contract—47 million uninsured (on a chart to change that); double-digit unemployment, declining real wages for the last 35 years, declining or stagnant economic mobility, poverty and gaping levels of income and wealth inequality. The economy has been growing over the last generation, but it's not growing evenly. The returns of a growing economy increasingly are going to those at the top and leaving a lot of people, basically everybody else with marginal growth or no growth whatsoever. The rising tide stopped lifting all boats evenly about 30-35 years ago. One of the results is growing inequality in both income and especially wealth. Wealth inequality dwarfs income inequality—it contributes significantly to income inequality, and I think it's actually more consequential. It matters more for your long-term development that you don't own, than the fact that you don't earn. Some of the numbers are startling.

According to the Fed's 2007 *Survey of Consumer Finances*, the lowest 25 percent of the population (looking at their net worth), plunged 37 percent from 2004, before the economic downturn.
One in eight Americans has a debt problem; one in four if you're poor. One in three Americans has a net worth of less than $10,000 and one in six has a negative net worth. How can these families move forward without some stock of resources? Inequality is not the problem, the issue is that low-income people do not have the capital to move their lives forward.

Two other symptoms of the broken social contract: (less obvious, more consequential:

<u>1) The current recession reflects that we are coming to the end of an economic era.</u> It started in the 1930s, in which the American consumer drove economic growth. American consumption, no matter where it's made, accounts for more than 70 percent of economic growth in the U.S., and 25 percent of the world's economic growth. The problem is that we financed that consumption through debt. We became overleveraged at the household level and at the national level. One of the reasons the house of cards came down is that we could not absorb any more debt.

Citing a quote from FDR (1932—In the future, we will reach a threshold …about thinking less about producer, more about the consumer), Boshara: In my view, we are at that threshold again. We need to rethink what are the fundamentals of our economy; what is unclear is what replaces the American consumer as the engine of our economic growth. Four possible answers:

- China, India will increase consumption, take the place of American consumption.
- Green economy will take the place of a consumption economy (hopeful).
- Larger public investment in schools, bridges, infrastructure, training (hopeful, not likely).
- Nothing: prepare for stagflation—no job growth. (Not good for household development, community development, any kind of development.)

Everyone, including the President, has agreed that this era has come to an end, but no one knows what comes next.

<u>2) The second less obvious fact is that in the 10-year period from 1999 to 2009, there was zero net job creation in the economy</u>. Certain number of jobs destroyed/created. Why have we not created enough new jobs to offset the ones being destroyed? We have too much concentration in too many industries stifling entrepreneurship and stifling innovation.

Examples:

- Two companies control 80 percent of all the beer sales in America.
- Milk: 70 to 80 percent of all milk is controlled by one firm.
- 80 percent of corn seed and 90 percent of soybeans is controlled by one company.
- Health care: Massive consolidation is why we've had double-digit inflation.
- Five largest banks control about half of all financial assets; 20 banks control about 80 percent.

This remarkable concentration of power and wealth started around 1980 when regulators came to redefine what is fair and not fair about whether to allow companies to consolidate. Regulators used to take a pretty broad view of concentration, allow mergers because they worried about jobs, wealth. The new paradigm was called "consumer welfare." If a merger meant you had lower prices, saved $5 on a coffee pot at Target, it was seen as good for the economy, good for you. The problem is, you can save $5 off that coffee pot, but you don't have a job anymore; you can't buy it. We need to rethink consolidation, what constitutes antitrust. {Why are we not creating enough jobs? Massive consolidation, stifling innovation, stifling entrepreneurship in so many communities}

<u>Three ideas central to how we think of community and economic development/social contract going forward.</u>

It's not clear what will drive economic growth, but it is clear that not enough jobs are being created. As mentioned, we are continually returning the fruits of the growing economy to those who own, rather than to those who earn. In that context I offer some ideas, but also don't want to give up on classic job creation in (sectors such sectors as health care, education and local public services). But these classic sources are not enough. Job creation alone is not enough to thrive in the 21st century.

Three ideas—

1) Develop producers, not just consumers. (Go back to pre-FDR era). We should pride ourselves, be defined by what we produce, rather than by what we consume. I would like to see America, especially here in the Heartland, making more things that people worldwide want to buy. Not just made in the high tech corridor, but those in our poorest communities can make.

2) Create entrepreneurs, not just employees. Entrepreneurship and small businesses are the engine of where new jobs are coming from—they're not starting enough. Can we spark a new

era of entrepreneurship? My view is that we can. I think there's going to be a huge public backlash of bring Republicans and Democrats together against consolidation in these sectors…If so, we have a whole new era of antitrust coming, spawning a whole new generation of job creation and entrepreneurship.

3) Build assets and capital, not just income. We need to spread out ownership more broadly. The bottom 80 percent of the population owns 4.1 percent of the nation's wealth. Capital is one of the three big things we should focus on when moving forward in community development, and I'll repeat it. We can't just build income, we have to build capital. Debt got us into this mess, capital will get us out of it. Even Obama said we need to move to the "save and invest" economy. You've got to come to the table with skin in the game, some asset, some equity, some savings. The challenge for community development is to attract, develop, accumulate and protect capital. Three ways for communities to do this:

   Financial institutions not just making loans to low-income communities, but delivering more capital to those communities. At some point, we're going to have CRA 2.0. The financial services overhaul bill doesn't have a specific rewrite for the Community Reinvestment Act, but there are going to be consumer protections that could be construed as if you don't serve certain communities, you're not protecting consumers… but at some point, we will see a rewrite of CRA to better reflect the landscape of the financial services that we now have. You should be a part of this; let's make more of a focus on providing capital, rather than just on providing loans.

   We need to see more community banks, credit unions and CDFIs. In 1985, there were about 14,000 community banks; there are about half that many now. For every $1 of capital or equity into a community bank, it returns $7 to $8 in loans to families and businesses; the leveraging is remarkable. One of the sources of this capital should be savings and IDAs from low-income people. But to really thrive, community banks need access to long-term (?patient?) capital, and I would like to see the creation of a fund or trust that gives access to this patient capital.

   The real key to these types of institutions, which were created in the progressive era, is that they focus on relationship banking. Relationship banking has to be at the heart of how we manage finances, make loans, generate savings. We need to have relationships back in the equation. The trend over the last generation is to have more space between borrowers and lenders. Indeed, that distance when a loan is made in a low-income community, packaged on Wall Street, sliced and diced, sold to some investor in China who has no idea what risk he or she is sitting on, and the person who has the loan has no idea who he is accountable to—the accountability completely broke down. That led to the mess we're in right now. If we went back to relationship banking/community banking, we can restore the trust. The failure rate of big banks is seven times the rate of community banks.

   A final recommended focus for accumulating capital is at the individual and household level. Use an asset-building framework; not just income, but assets are necessary to get ahead. Lack of income means you don't get by; lack of assets means you don't get ahead. Assets are the key to breaking down poverty across generations. When you own things you feel different; you are engaged in the community, you take care of things. If low-income people own assets, it changes their outlook and behavior; they plan for their kids' futures in ways they didn't. Assets activate democracy; they engage people in ways that income does not. When low-income people are given the opportunity to save and build wealth, they do it. The poorest of the poor save a greater percent of their income than the better-off poor. It's not a matter of income or race.

Should we continue to build wealth in communities? Yes. Property ownership, asset building is the foundation of our democracy and was one of the central ideas of the progressive era. It is critical to have assets. How do we do it? We need to regulate payday lenders, check-cashers. We can't push subprime loans on people who can't afford them. We need a better CRA. We need the financial sector reform. We need appropriate and safe financial services products for low-income people. .. It's not whether or not we should do it, but how we should do it that should change.

We are at the dawn of the next progressive era, the American social contract is historically up for negotiation. We've had three social contracts so far—the first the founding of our republic (revolving around small-scale owners and farmers), second followed the first industrial revolution, which led to the progressive era (late 1890s-1920s), the third social contract followed the second industrial revolution and led to the New Deal. brought us social insurance and safety nets like we've never had before and the fourth social contract is totally up for grabs. We have not had a significant update to our social contract since the New Deal. The very foundation of our economy is up for grabs right now. If there was ever a time to innovate, ever a time be bold, ever a time to have impact with local, state and national leaders, this is the time right now.

We happen to have an administration that gets it—they know the social contract needs to be updated. They started with health care, they're working on the financial sector, the environmental and energy sectors I think are going to be overhauled, our retirement systems. My view is that if you are not engaged; if low-income people themselves are not engaged in the effort to rewrite contract, they will be rewritten for you.

My view is that we need to put owners, producers and entrepreneurs in the driver's seat of our economy. They need to be at the forefront of household and economic development.

We know that when low-income people are given the opportunity to save, own, start businesses, produce, employ and create jobs, they deliver.