

BOOTSTRAPPING NEIGHBORHOOD DEVELOPMENT

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The triple whammy of Covid-19, the economic shutdown, and the rioting and looting in numerous large American cities have left many living in inner-city neighborhoods with no access to food or medicine, few job opportunities, and little protection from criminals roaming their streets preying on the weak and defenseless.

This triple whammy has slammed the tax revenues of state and local governments making it more difficult for them to respond to the unmet needs of their most distressed citizens.

Many ministers have been quick to admonish the rioters, looters, police, and unresponsive local and state public officials but few have been able to do more than just call for an end to the violence and racism and a restoration of peace and justice. Beyond that, they seem unable to do what must be done to reconstruct inner-city neighborhoods.

Two suggestions could make a difference in helping these people get back on their feet. One is a long-term remedy. The other can bring immediate relief to those who have been devastated by the rioting and looting that have destroyed the stores they most depend upon. Both are based on the premise that many of the residents of inner-city neighborhoods are close to their ministers and often turn to them in times of trouble.

With local food stores shuttered by mob violence, local ministers acting individually or together could set up a consumer cooperative that purchases fresh food supplies at reduced prices from area farmers markets and re-sells or donates those supplies to residents who have become coop members free of charge. This remedy will require volunteers willing to (1) identify the specific supplies their members need, (2) make the necessary purchases, and (3) deliver those supplies and collect payment. This remedy has the additional potential benefit of replacing junk food with nourishing food. Another cooperative operating along the same lines could be set up to purchase needed prescription and over-the-counter medications from nearby pharmacies that are still operating. The volunteers involved would have to be especially trustworthy in handling prescription drugs. Special payment accommodations would have to be made for coop members who receive SNAP, Medicaid, or Medicare benefits.

The long-term remedy available to local ministers is a plan of action to stimulate local economic development which can be addressed through two strategies -- attract already established firms to relocate in the local area or help local residents start their own businesses. The first strategy is appealing because it offers promise of increasing local employment, payrolls, spending, and tax revenues. For instance, a Wal-Mart neighborhood market with its heavy emphasis on groceries and prescription drugs could work in the targeted area for both the new company in the neighborhood and local residents. Often, however, public officials must deliver economic incentives to any prospective company in order to lure it to the local area even though there are no assurances that later on the company will not re-locate elsewhere for a better package of incentives including lower labor costs or be forced by local conditions to close. This strategy is less promising today because the rioters and looters have targeted the kind of chain stores that otherwise might have been incentivized to open a store in the local area.

The second strategy offers greater promise that start-up businesses will remain in the area when local residents are the driving force behind those new firms. However, start-ups cannot match the scale of the improvements that locating established firms bring to the local economy. Further, more than half of all start-up companies fail in the first five years.

Even so, with the right support such as recruitment and training of employees, site location and plant layout, and legal services, it is possible to lower the startup failure rate. What is required is a single institution that can provide direct and inexpensive access to the assistance a startup needs.

When local ministers with a commitment to neighborhood reconstruction understand the role of their deposits in banking operations and act together, they can become truly effective in local economic development. An alliance of ministers, each with a checking account that holds the congregation's funds and the account of any school operating under its auspices would approach several local banks at the same time and invite them to compete for those accounts. The bank with the best plan for local economic development focusing on startup businesses in the targeted area would be rewarded with the accounts of the alliance members. Failure on the part of any enterprise launched with the support of the alliance does not put the alliance ministers at risk. Any losses would be split between the owners of the failed enterprise and the bank. There is absolutely no risk to the alliance members provided their funds are kept in FDIC insured accounts where the balance does not exceed \$250,000. The members of the alliance might even be able to use this strategy to get a better rate of interest for their funds on deposit.

Community banks typically do not see themselves in the role of providing funds for development in distressed areas. Banks protect themselves from defaults on their loans that arise from start-up failures by requiring start-ups to refinance their loans well before they collapse into failure or by seizing the assets that secured those loans after they fail. Business failures on the part of commercial loan customers mean that banks suffer the loss of the accounts that those customers would have maintained in those banks had they been successful. The loss of any funds in those accounts lowers the bank's limit on its loan portfolios, defined as the bank's excess reserves

(accountholder funds on deposit minus reserves as required by the Federal Reserve). Thus, failed businesses operating with borrowed funds from a bank in effect reduce a bank's ability to make loans to other customers through the credit-creation process and thereby reduce the profits the bank could earn from additional loans.

To protect the limit on its loan portfolio, a bank must find new depositors willing to open their accounts with that bank. Sometimes a bank resorts to give-away items such as stadium seats or drinking cups to attract new depositors. Sometimes it boosts the rate of interest it pays for new deposits especially for new accounts with large opening balances. The funds that each one of the alliance members already maintain in order to manage their expenses for as utilities, property insurance, wages and benefits for its employees, routine and preventive maintenance of their facilities, packaged together would represent a compelling opportunity for the growth and additional profits for a local bank willing to take on the economic development challenge.

Any successful bank development plan would have to include the following.

- A commitment to prepare detailed business plans for whatever new enterprises are needed in the targeted area as specified in an agreement with the alliance.
- A pledge to provide the business services/expertise, especially management skills, that a start-up needs or refer that start-up to others in the area willing to offer the required help. The cost of providing those services would be paid initially by the bank with the understanding that the bank would be reimbursed by including those costs in any loan it makes to a start-up enterprise. Local community colleges could provide some of needed skills through coordinated certificate-like programs.
- An agreement with the alliance as to conditions under which the bank is obligated to approve or refuse funding for a start-up.
- In the agreement with the alliance, a set of benchmarks specifying the performance of the bank in terms of number of start-ups launched, jobs and payrolls created, success/failure rates.
- Finally, an understanding that the bank has five years to meet those performance benchmarks or risk losing the alliance's accounts.

Local economic development takes time, lots of time, and waiting takes lots of patience. Who better to instill patience in local residents than their own ministers whose mission is mandated in the Holy Bible. "There will always be poor people in the land. Therefore I command you to be openhanded with your poor and needy kinsmen." Deuteronomy 15:11. "Whatever you did for the least of these brothers and sisters of Mine, you did it to Me." Matthew 25:40.