Lessons from the Field

How 21st Century Community Development Can Inform Federal Policy

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Thriving neighborhoods are critical to the success of their cities and metropolitan areas, which in turn drive national prosperity.[2] Building from long experience and applying newly available tools to changing circumstances, the community development field has developed a sophisticated and dynamic understanding of neighborhoods—as arising from and contributing to the place-based interactions of metropolitan economic, social and political systems. We understand that the success of a neighborhood is a function of how well its housing, human capital, businesses and civic institutions reinforce each other to continually build connections and transactions within the neighborhood and beyond it. As a result, the field has developed more integrated, inclusive and systemic approaches to neighborhood revitalization—and new infrastructure and tools to implement them.

Across the federal government, new programs are being created which reflect this more dynamic, comprehensive, cross-silo approach to neighborhood development in the context of regional economies. However, designing and implementing these programs presents major challenges. Neighborhoods need highly tailored, coordinated, cross-sectoral activity. Furthermore, determining and delivering the most effective programming in a particular neighborhood entails an ongoing process which has to be driven from the ground up. In short, the federal government needs high-capacity local partners to enable it to support sophisticated integrated initiatives tailored to place. As a result, the federal government should support emergence of new comprehensive operating capacities in neighborhoods, and offer a more flexible—and strongly performance-based—federal partnership with neighborhoods developing these capacities.

> In Duluth, new workforce development centers place local residents with employers throughout the region. A new Farm 2 Table program is delivering affordable, quality fruit and vegetables from regional farmers to meet previously unmet local demand in Richmond, California. In the Twin Cities, new Financial Opportunity Centers help community residents with job placement, financial literacy and access to public benefits. A new wave of development approaches and activities is emerging across America's communities. Why is it working, and how can the federal government participate?

This policy brief primarily uses Local Initiatives Support Corporation's ("LISC") Sustainable Communities program to illustrate emerging best practices in neighborhood development, and to extract implications for how the federal government can best promote neighborhood revitalization efforts across the country. It first addresses why neighbor-

The Sustainable Communities program, launched by LISC in more than 60 communities across the U.S., develops deep, local knowledge of a neighborhood's assets, enabling design and delivery of strategies that build opportunities and choice for residents by connecting them to the regional economy, strengthening both the neighborhood and the region.

hoods are important and how they work (Section I); then turns to best practices in neighborhood development reflecting these more systemic and strategic understandings of neighborhoods (Section II); proceeds to illustrate with highlights from the Sustainable Communities program (Section III); and finally offers some suggestions for federal policy to reflect and support these best practices (Section IV).

I. A New Understanding of Neighborhoods

Neighborhoods are important. They are the front lines and core building blocks through which people and other assets get developed and deployed to constitute the national economy, society and polity. At the same time, neighborhoods arise and function as integral parts of broader systems. Interactions between regional housing, labor and business markets with characteristics of place cause neighborhoods to move through stages of development and to differentiate by type. This section summarizes how these interactions cause neighborhoods to change and differentiate; suggests that the functions of neighborhoods are in fact to enable these interactions—to build capacity and choice for their residents; and makes the case that different types of neighborhoods in different stages of development require very different, place-specific strategies to succeed in these functions.

- **Neighborhoods are dynamic, not static.** They are constantly in motion, as people, households, businesses and investors choose to stay or leave, move in or invest. Indeed, this process is the primary mechanism of change in neighborhoods. A neighborhood that is not renewing is dying.
- **Neighborhoods are integral parts of larger systems, not self-contained.** This constant motion—which determines whether the neighborhood thrives or stagnates—is largely a function of systems that go beyond the neighborhood. Success depends upon how well the people and other assets (real estate, business, etc.) of the neighborhood connect to and engage in transactions with broader housing, labor and business markets; and social and political systems. Market systems are of particular importance, as deploying underutilized neighborhood assets for wealth creation—economic development—occurs through market activity. Neighborhoods and their assets compete with each other for investment from their city and regional markets.
- **Neighborhoods are highly interactive.** In practice, these systems interact within the neighborhood; indeed, they give rise to the neighborhood as its own complex adaptive system.[3] As a result, neighborhoods are greater than the sum of their parts, and the parts only succeed in the context of their interactions. The people, the housing, the local businesses and services, the public institutions, the infrastructure—all influence each other, and must interact in mutually supportive ways, or they fail to enable the necessary connections within and outside the neighborhood to investors, employers, higher educational institutions, and so forth. Housing, for example, succeeds or fails "in context"—in the context of access to retail, services, transportation, safety, and other amenities. We have learned that housing agencies need to be about more than housing—because concentrating housing out of context is not good for the housing, which does not attract reinvestment; for the residents, who become isolated; for the neighborhood; or for the region.
- **Neighborhoods are specialized.** Dynamic interaction of the pieces within the neighborhood and as parts of broader systems results in an iterative process in which neighborhoods differentiate by type and go through stages of development. Different combinations of types of households and amenities mutually attract and reinforce each other (again, in the context of larger economic, social and political systems), to create, for example, an immigrant community or a bohemian community or a starter-home community. As a result, what's needed for success in different types and stages of development is highly place-specific: "one size fits all" does not apply to neighborhood development.

From this more dynamic perspective, neighborhood health is determined by how well the neighborhood attracts household and business investment in the context of larger housing, retail and other markets; how well it builds capacity in its residents and connects them to broader labor markets; how well it creates the civic engagement to attract and better deliver services and public investment from the broader political system; and so forth. By doing this, healthy neigh-

Successful neighborhoods build the capacity of residents and other assets and provide opportunities by connecting them to regional labor and business markets, as well as social and political systems. At the same time, by more fully deploying their assets, successful neighborhoods strengthen the region.

borhoods increase the core capabilities and opportunities of their residents by connecting them to larger systems.[4] At the same time, they help the larger systems work better by leveraging all of the resources and assets that neighborhoods can provide. Neighborhoods of Choice thus build capacities in their residents and other assets, and create opportunities for them, by fostering connections and transactions between them and broader economic, social and political systems.[5] Failing neighborhoods, on the other hand, are "traps"—islands of poverty isolated from the economic and social mainstream—wasting human, real estate and business assets critical to regional prosperity.[6]

II. New Strategies for Neighborhood Development

This understanding of the nature and functions of neighborhoods evolved from decades of community and economic development practice. A fundamental shift occurred away from a deficiency-based view, emphasizing hand-outs and alternative support systems, to an asset-based view, focusing on how to influence markets and other systems to see, invest in and deploy neighborhood assets. This, in turn, requires an increased focus on building connections and enabling market and other transactions that reconnect neighborhood people and assets to the larger economy and society.

While the substantive focus is on connecting neighborhood assets to the regional economy, there are "procedural" challenges as well. Wealth is overwhelmingly created through the myriad on-going transactions amongst individuals and businesses in the private sector, in ways that are highly organic and market-driven as entrepreneurs and investors find opportunities. One of the key challenges of economic development at any level of geography is how to create the conditions for and catalyze—without supplanting or stifling—this complex, organic activity, which cannot be directly planned or managed. Assets can be prepared for market (e.g., education to improve human capital; brownfields remediation), and market enabling conditions can be improved (e.g., infrastructure or public safety), but after that, the work is often much more flexible and deal specific.

How is this done? It requires understanding and addressing local market inefficiencies and related dynamics, and so starts by building on deep, local knowledge of a neighborhood's assets and barriers to design interventions which make it easier for individuals and businesses to engage in transactions both within a neighborhood and with regional businesses, investors and institutions. Success depends upon broad engagement of stakeholders with local knowledge and capacity, development of strategies which are simultaneously integrated, comprehensive and flexible, and institutional capacity to sustain on-going engagement, adaptation and execution. A successful neighborhood revitalization strategy will include the following key elements:

- **Address local market barriers and inefficiencies, and create a strong civic and governmental enabling environment, to deploy assets.** Assets are deployed through markets, as households, businesses and investors decide where to live, produce, hire, sell and invest. With respect to any given neighborhood, these decisions are influenced by the enabling environment and market mechanisms, each of which is subject to local development activity.

In partnership with the City of Duluth, LISC supports eight workforce development programs which are helping residents become work ready and find jobs. Each resident is offered comprehensive support services tailored to overcome individual barriers such as transportation, limited English, child care, housing status, or lack of financial sophistication. Through the Sustainable Communities network, local and regional employers guide program and curriculum design, and are employing graduates.

The enabling environment is a function of both the social system—such as social capital, public safety and civic institutions; and the political system—including public goods or amenities such as infrastructure, schools and parks, as well as local regulation and taxation that influences land assembly, licensing, special tax districts and so forth.

Market mechanisms of production, exchange and consumption are heavily influenced by local transaction costs—particularly the capacity to efficiently find, evaluate and invest or otherwise engage in transactions with local people and assets. Rich information resources and networks, and spatial proximity, are the key factors reducing transaction costs in successful neighborhoods. Neighborhood development requires understanding and influencing these mechanisms which enable markets to expand and become more inclusive of the assets of any particular neighborhood.

- **Develop deep, on-going, comprehensive knowledge of neighborhood assets, interactions and dynamics; and make the tacit knowledge explicit.** Creating rich information resources, and identifying the specific barriers, opportunities and leverage points for strengthening the enabling environment and market activity in any given specialized neighborhood, require intimate knowledge of the neighborhood. Development needs to reflect a sophisticated understanding of how particular activities interact in specific places to cause success or failure of each, and contribute to creating a whole greater than the sum of the parts. Because neighborhoods are specialized and dynamic, the barriers and opportunities affecting market, social and political systems vary by place and time (i.e., the stage of development within a particular neighborhood). Deep knowledge of opportunities (e.g., untapped buying power, under-developed real estate or under-employed labor) and barriers (from lack of broadband infrastructure to high transaction costs of finding and evaluating potential local employees) makes it possible to determine what is needed and will work where. Furthermore, the knowledge itself, if made readily available, plays a critical role in reducing transaction costs and enabling market activity.
- **Actively engage all of the stakeholders in a community and enable development to be locally driven.** Much of this knowledge is tacit knowledge held by local residents, businesses and institutions. These are also the "parts" that are trying to more efficiently and productively connect within and outside the neighborhood. Broad engagement is necessary both to understand what needs to be done and, more importantly, to do it. The process of actively engaging stakeholders itself begins to reduce transaction costs, strengthen the civic and social environment, create capacity for integrated development, enable more market activity and build connections and formal and informal networks for the free flow of information about job and investment opportunities, educational programs, and so forth. Specialization, the need for deep knowledge and for targeted local action all mean that the best strategies must be developed and executed "bottom-up."
- **Enable "platforms"—the collaborative infrastructure for ongoing engagement, identification of strategic development opportunities and activities, and execution.** Platforms can take many forms: they are meant to be tailored to and build upon the relationships, institutions and characteristics of the community. As described below, the Sustainable Communities' platforms effectively create a community infrastructure which continuously and organically engages and knows the neighborhood, connected to institutions outside the community, enabling design and execution of tailored development activities. A "lead agency" acts as the formal institution in the neighborhood at the nexus of different collaborations of local residents, businesses and other institutions which arise as appropriate to the opportunities. The platform and lead agency then function as a disciplined, business-like intermediary that can continually develop specialized knowledge of particular neighborhood opportunities, design comprehensive interventions tailored to them, and create and enable relationships and transactions within and beyond the neighborhood to implement.[7] These elements—a lead agency, neighborhood institutional infrastructure and city-wide support organizations—together act as "connectors" within the neighborhood and between neigh-

The Bedford-Stuyvesant Restoration Corporation struggled for years to improve the retail mix and attract new businesses to a commercial corridor in Brooklyn. In 2008, LISC MetroEdge, working with local residents, analyzed market conditions, identified specific categories and amounts of unmet retail buying power, and inventoried available space for retail development. By compiling and sharing compelling market data and identifying suitable properties with prospective business operators, the Corporation was able to attract new retailers to the corridor.

When the City of Chicago was allocated federal stimulus funding to scale up its summer jobs program, the New Communities Program neighborhoods were mobilized and ready. As a result of their platforms, they were able to quickly utilize their networks of relationships to identify organizations which could both manage and benefit from summer interns, and shared a community economic development specialist to guide them and their many partners through the process. The groups were rewarded with extra slots by the City, and the New Communities Program soon became the largest Youth Ready "hub" in Chicago, placing 837 youngsters into meaningful jobs.

borhood assets and outside investors and partners, including the federal government. This enables better and more timely delivery of program specific "parts" (e.g., housing, labor force development); delivery of new flexible programs supporting integrated, comprehensive, tailored development strategies; and delivery of a wide range of "civic engagement" (greater citizen participation in the work of government, such as community health or public safety programs).

- **Create comprehensive, integrated but flexible development initiatives that are highly place specific.** Move beyond the silos to the interactions, connections and deployment. The pieces come together (or not) in different ways in different places, and success entails understanding the particular opportunities, barriers and leverage points that can productively "connect the dots" within the neighborhood and beyond. This entails flexibility, as neighborhoods, opportunities and barriers change and the process of new relationships, transactions and deals emerging is organic. It also requires long-term commitment—as neighborhood change is generally a gradual process (the challenges often arose over years or more often decades, and reversing them takes time).

The LISC Sustainable Communities program, described in the next section, illustrates the effectiveness of this approach.

III. LISC's Sustainable Communities Initiative

All of this theory is nice, but LISC has figured out the practice—how to do it. The Sustainable Communities program has made engagement, comprehensiveness, integration, deep actionable knowledge, and enhancing connections and transactions all operational.[8] Since 2007, LISC has invested more than $107 million in its Sustainable Communities program. These investments have leveraged more than $1.02 billion in total development activity to benefit lower-income residents and their communities. Key characteristics of the Sustainable Communities model are presented below.

- In each participating neighborhood, a "lead agency" is identified and connected to a peer learning network. The lead agency, with technical and other support from LISC acting as a central intermediary, broadly engages local residents, businesses, community organizations, civic and political institutions to devise "quality of life" plans for the neighborhood. These can be viewed as "neighborhood business plans," in that they undertake deep analysis of the neighborhood's assets and environment; create shared mission, vision and goals; and then create tailored strategies, and related implementation products and projects, to develop the neighborhood by applying the principles summarized above.
- A key innovation of Sustainable Communities is that each lead agency broadly engages the stakeholders in the community to create the core local components of the "platform"—the new neighborhood collaborative capacity for ongoing engagement, identification of strategic development opportunities and activities, and execution. The

Milwaukee residents and entrepreneurs saw demand for and opportunity to deliver healthier foods, and so created a "healthy food district" which both attracts regional providers to a local farmers' market and enables new local businesses — such as harvesting honey — to help meet local demand.

entire platform includes key city-wide partners (as further described below), including particularly LISC, which support and connect these local resources to regional and national investors and partners. The entire platform is a "virtual infrastructure"—an organic, on-going network of relationships and information—which systematically engages local residents, businesses and institutions, along with key city-wide partners and investors The lead agency serves as a "one-stop" entry point and, with the city-wide partners, as a connector between outside businesses, agencies and investors, and neighborhood stakeholders.

With a heavy emphasis on developing and making transparent knowledge of community assets and opportunities, strengthening on-going communication and connections, and continuing strategy evaluation and refinement, the platform creates relationships, skills, and implementation capacity. This, in turn, makes it possible to tailor projects, attract outside investors, and make it more efficient for them to engage in transactions to implement the projects.

It also enables flexibility and speed. Flexibility is critical for responding to emerging opportunities, economic circumstances, political and bureaucratic constraints, changes in local leadership or neighborhood capacities, and other factors. As all partners are actively collaborating and readily exchanging information, they can move quickly to take advantage of business opportunities or adapt programs to shifting conditions. Speed not only reduces costs, but is essential to capitalize on neighborhood momentum, take advantage of investment opportunities and outside programs, and provide demonstrable results.

The platforms include, but are quite different from, the traditional way community development has been practiced. They recognize the need for a wide array of development activities, which require different mechanisms and stakeholders (some, for example, more market or deal specific, such as developing a retail strip; others needing public engagement, such as a community safety initiative). The focus shifts to development of a flexible and efficient network. The platforms reconcile coordinated planning with more specific, organic activity by engaging multiple organizations and sectors and enabling them to engage in their particular investments and projects efficiently.

The platforms create a level of trust between neighborhood leaders and other actors, enabling them to respond much more efficiently to opportunities. Both organizing and sustaining the platforms requires trusted local agencies and leadership. Creating platforms must be inclusive and bottom-up: it cannot simply be done, for example, by government mandate (a key point, further discussed below).

- The key city-wide partner in the platform is LISC, acting as the central intermediary, providing technical support and resources, helping broker connections outside the neighborhoods, enabling cross-fertilization and synergies between components in different neighborhoods, and providing economies of scale in supporting programs for multiple neighborhoods. One of the key lessons learned from the limited success of an earlier generation of comprehensive community initiatives is the importance of connecting to the larger context outside the neighborhood, including to outside resources. This insight is of course deeply embedded in the market-based thinking described above, which understands the neighborhood as embedded in larger systems. At a practical level, having regional intermediaries who see the neighborhood in the context of the region and can continually build the connections is critical.
- Using this approach of platforms, including a central intermediary, Sustainable Communities neighborhoods have implemented projects and enabled market deals spanning the areas of economic and workforce development, housing and commercial real estate development, digital excellence, consumer finance, child care, charter schools, public safety, public spaces, community image and the arts, and social services. The key is that these varied activities are coordinated and tailored to specific neighborhoods:
  > In Quad Communities (Chicago), the ambitious projects already implemented through or in association with the Sustainable Communities program include a $36 million reconfiguration of 3,000 public housing units, development of a new charter elementary school, revitalization of a central commercial strip, development of a new arts center, and establishment of a new Center for Working Families (a one-stop source for financial planning, employment, tax preparation and application for public benefits). Most importantly, these diverse projects are geographically and strategically integrated.

  > "Elev8" is a $25 million five-school transformation effort enabled by the platforms in five Chicago neighborhoods and coordinated by LISC. Through the platform, community members were able to efficiently and successfully design neighborhood schools incorporating appropriate full-service health centers, health programming and dental vans, food gardening, out-of-school arts programming, family engagement and support services.
- Examination of these examples (in much more depth than they can be described here) reveals how Sustainable Communities implements the theory and principles of development described above:
  > It takes a comprehensive approach to development that

cuts across many different areas, stitching the pieces together and identifying leverage points and connections across silos at the local level, both programmatically and for implementation. In short, it undertakes neighborhood development "in context," providing tailored, concentrated and coordinated investment across subject areas.

> It efficiently connects neighborhood residents, businesses and organizations to each other and to outside resources. It creates flexible networks and connectedness "on the ground," facilitating deals (i.e., transactions), and generally increasing the efficiency and productivity of the operations and interactions of the market, political and social systems in the neighborhood.

> It continually develops rich information resources, again enabling deals to occur more efficiently, and creating the capacity to do ongoing, strategic and specialized planning, design and execution tailored to differentiated communities.

> It taps and makes transparent local resources, expertise, creativity and talent—enabling them to be deployed, productive and connected.

> All of this provides economies of scale, reduces transaction costs and enables deals. As a result, it adds value to a wide range of constituents, including neighborhood businesses, households and civic organizations, as well as regional businesses, investors, government agencies and others. Indeed private and public sector actors from outside the neighborhoods repeatedly report that the platform identifies and creates the conditions for good investment, reduces their risks, decreases transaction costs and provides accountability.

> It re-confirms the fundamental importance of neighborhoods as the primary place where many assets, activities, engagement and connections are developed, and in myriad ways which benefit both the neighborhood and the region.

Previous neighborhood development efforts often have been piecemeal, challenged by inadequate coordination and funding, as well as an inability to traverse the idiosyncrasies of each separate community. Overall, Sustainable Communities addresses the problems of past attempts at comprehensive initiatives: it provides scale and a long time horizon, multiple capacities and types of transactions, coordination with flexibility, and accountability; and it produces sophisticated, on-going market and community development tailored to specific neighborhoods but each in a regional context. The New Communities Program alone has been able to implement 750 projects over a six-year period, and the target communities seem to be weathering today's economic storms.

IV. Implications for Federal Policy

Sustainable Communities and similar 21st century comprehensive community development initiatives have important implications for both the design and implementation of federal urban policy. Across the federal government, new programs are being created which reflect the new understandings of neighborhoods. They reflect the theory well, but they face serious design and implementation challenges in practice. The federal government, of course, also massively shapes the enabling environment, and it needs to incent the new understandings and practice where they don't yet exist, and support creation of new capacity, programs and comprehensive approaches. Ultimately, the federal government needs this new local capacity in order to have capable partners in a "new federalism" that is more flexible and bottom-up, that engages communities and leverages relationships and local resources, and that can more effectively tailor federal programming to neighborhoods. In other words, as neighborhood development gets more sophisticated, and the federal government does the same, opportunities arise for the federal government both to accelerate the work and to take advantage of the infrastructure already in place.

A. THE FEDERAL GOVERNMENT IS STEPPING UP, BUT FACES CHALLENGES

Encouragingly, under the Obama administration, the federal government is increasingly recognizing the importance of urban areas and of developing integrated neighborhood and metropolitan policies as part of national economic policy. Indeed, many of the administration's new initiatives are inspired by and beginning to incorporate much of the advanced thinking and approaches to urban development presented above.

In particular, the Executive Branch recognizes the centrality of metropolitan areas and their neighborhoods to national prosperity, and the necessity of cross-silo strategies to support regional and neighborhood development. In a memorandum to all heads of executive departments and agencies on "Developing Effective Place-based Policies for the FY 2011 Budget," the White House emphasized that:

> *"The prosperity, equity, sustainability, and livability of neighborhoods, cities and towns, and the larger regions depend on the ability of the Federal government to enable locally-driven, integrated, and place-conscious solutions …."*

And that:

> *"Change comes from the community level and often through partnership; complex problems require flexible, integrated solutions. The administration must break down Federal silos and invest in such a way that encourages similar coordination at the local level."* [9]

The DOT-HUD-Environmental Protection Agency (EPA) Interagency Partnership for Sustainable Communities (now expanding to include more agencies), the partnership between the Department of Housing and Urban Development (HUD) and the Department of Transportation (DOT) to promote transit-oriented development,[10] and creation of the White House Office of Urban Affairs (OUA) are clear examples that the administration is moving aggressively in the right direction.

Complementing these goals, the federal government is beginning to incentivize competitive, performance-based, customized approaches rather than top-down, cookie cutter programs in a variety of areas, such as the Race to the Top program in Education. Similarly, HUD's current strategic planning process seeks to engage stakeholders and partners in a discussion about how HUD can best fulfill its missions, including transforming itself into a partner in innovation and community based development.[11]

The Legislative Branch is taking some initial steps as well. The Choice Neighborhoods Initiative legislation provides $65 million in the FY2010 budget for the "transformation, rehabilitation and replacement housing needs of both public and HUD-assisted housing and to transform neighborhoods of poverty into functioning, sustainable mixed-income neighborhoods with appropriate services, public assets, transportation and access to jobs, and schools…." While small and still partially driven by a more traditional affordable housing focus, this initiative at least aspires to reflect some of the field's best thinking and approaches at the federal level:

- It embraces a comprehensive approach to development, calling for concentrated and coordinated neighborhood investment from multiple sources;
- It enables a wide scope of activities, allowing for customization at the local level;
- It calls for strategic approaches grounded in understanding of local circumstances and based on clear transformation plans.

The Livable Communities legislation, introduced by Senator Dodd earlier this year, similarly reflects principles of comprehensiveness and integration.

Still, issues remain. While the trend is positive, these initiatives are relatively small. The lion's share of programming and funding is provided by individual federal agencies which remain siloed—largely limited to specific domains (housing, labor force development, small business assistance, etc.).[12] The parts are still largely funded out of context: we are still concentrating affordable housing regardless of whether the concentration is bad for the housing, the residents and the neighborhood; training workforce without sufficient reference to projected job growth as the economy changes; and so forth.

In addition to under-connecting the parts horizontally (as in, for example, not sufficiently connecting housing, business and transit development in the context of particular neighborhoods), the federal government is not sufficiently making the vertical connections of neighborhoods and regions, even as it designs better programs for each. Neighborhoods comprise the region and, overall, inclusive regional economies do better. Nevertheless, the recently proposed Livable Communities legislation focuses exclusively on regional planning and implementation grants and limits its funds to regions and local governments.[13] Recognizing that regions are a key unit of economic activity does not imply that interventions can be limited to the regional level, nor that regional development can be successful if it fails to integrate neighborhoods.

Most importantly, however, the federal government faces severe challenges in implementation. Many existing, legacy federal programs—often developed in an era when distressed neighborhoods were viewed as riddled with deficiencies (rather than untapped assets) and in need of hand-outs and mandates—are fundamentally top-down and inflexible. They give rise to large bureaucracies designed to insure accountability through regulations and oversight (rather than performance based program design), often leading to micromanagement, preventing tailoring to local circumstances, stifling local innovation and scaring off the most capable private sector partners. Where flexibility is recognized as necessary, the programs flip to the other extreme, doling out funds with little strategic or programmatic direction or accountability to ensure that monies are well spent. In addition, by virtue of being siloed, the programs tend to be insular, charged with doing particular tasks and without scope or resources for understanding context or integration. And even were it otherwise, they often lack capable partners at the local level, where the integration and customization must arise.[14]

In other words, much of the legacy programming was already largely broken. And in the 21st century world of neighborhood development, it's particularly out of date. The federal government's approach to neighborhoods needs a new theory of change, a new partnership structure and much more engagement of local people, businesses, institutions and markets which are the real drivers of neighborhood, regional and ultimately national prosperity.

Fortunately, we have a federal government which gets this, and wants to do it differently. Yet the obstacles described above are deeply embedded and difficult to change. In addition, new understandings of neighborhoods and neighborhood change present three challenging problems for federal programming:

- First is the longstanding challenge (going back to the Federalist Papers) of the relationship of government to private markets.[15] If the key to neighborhood economic development is efficient functioning of private markets, how can government best enable efficient markets—particularly in neighborhoods suffering from severe market failures—and otherwise address market failures without supplanting market activity?
- Second, the federal government inherently tends to act globally and categorically—"one size fits all." Yet we know that neighborhoods are highly specialized. How can the federal government design national programs that support the varied activities needed in highly differentiated neighborhoods at different stages of development?
- Finally, a federal government that cares about neighborhoods and aspires to support tailored, integrated, locally driven development solves only half the problem. If knowing what needs to be done where, and doing it, must be continually determined and delivered by local institutions and capacity, the federal government needs sophisticated operational partners in neighborhoods and regions. Few existing partners—whether local governments or community institutions—currently have the necessary capacity.

B. IMPLICATIONS FOR FEDERAL PROGRAMMING

Place-based economic policy is needed to complement macroeconomic policy. Macroeconomic policy, of course, plays a critical role in shaping neighborhoods. By and large, a rising tide does lift all boats. However, while necessary, it is not sufficient. In the re-emerging field of economic geography, we are learning that the complex, place-based interactions of economic, social and political systems also must be understood and enabled. Particularly in the global knowledge economy, where metropolitan economies are specializing and driving national (and in substantial part neighborhood) prosperity, we need more economic policies and programs supporting competitive metropolitan areas.[16] Similarly, understanding the economics of place also entails greater focus on institutional economics, which recognizes the importance of institutional formation, behavior and interaction to economic performance (including, in this case, neighborhood institutions).

Regional and neighborhood policy need to be integrated. Federal programs must be designed to recognize the co-dependency of regions and neighborhoods, require that regional development activities are inclusive of neighborhoods and their assets (thereby increasing the efficiency and productivity of the regional economy), and ensure that neighborhood programs reflect that neighborhood growth requires better connections to regional systems.

Focus on engaging and enabling private and civic sector activity. Change, and particularly wealth creation, largely occurs through the actions of individuals and entrepreneurs, businesses and civic institutions. The proper role of government is to engage, unleash and leverage local private and civic activity, rather than displace or distort it. Many of the most successful federal programs for neighborhoods, ranging from the low-income housing tax credit to the CDFI fund, create incentives and structures to enable the private sector to engage and get the job done (often through new specialized institutions), in ways that inherently build in local knowledge, integration, discipline and capacity to self-correct.

Build from market strengths. A related point: as the federal government allocates limited resources, it needs to move beyond creating dependency-based, alternative systems to markets, providing handouts to the most distressed people and places. If the key to community development is moving people and assets into the economic mainstream by reconnecting them to markets, and if community development strengthens regional and national economies, then it is often most fruitful (and less costly) to also target the places that interventions can more readily move to market. This approach of working from market strengths presents a difficult political issue, but is not an "either-or" proposition—we need to do both.

Federal programs supporting the "parts" need to do so "in context." If context is key—as the success or failure of a local business, housing development or job training program depends upon interactions with each other and other characteristics of the neighborhood and region—then the federal programs which remain in silos need to better take context into account. Affordable housing, for example, should get preferential placement in mixed-income areas, or areas that are job and transit-rich; small business assistance needs to be better attuned to the specific characteristics of the neighborhood and region.

Create new programs which support flexible, bottom-up, comprehensive, integrated and specialized neighborhood development. Better yet, new programs should be created which support comprehensive (addressing all of the necessary pieces), integrated (the pieces reinforce each other) and specialized (the pieces are tailored to local conditions) neighborhood development activities—akin to the neighborhood business plans referenced above. However, success also requires capacity to be ongoing and adaptive: neighborhood development requires a customized approach that will continually identify opportunities and barriers, and then design and execute programs which coordinate investment from multiple sources and across domains. Funding for such programming must be flexible and stable.

Support development of neighborhood institutional capacity. Institutional mechanisms which facilitate broad engagement, planning, implementation, and deployment of resources at the local level must be supported. Programs are needed for struggling neighborhoods to build new infrastructure and capacity. "Platforms" anchored by lead agencies and city-wide intermediaries can organically link households, businesses and institutions within and beyond the neighborhood; naturally acquire deep, continuous knowledge of assets and opportunities; undertake comprehensive, ongoing community planning; and facilitate transactions between neighborhood assets and larger systems. Such platforms also become the critical partners at the local level for other federal programs. It's great to have federal agencies who want to collaborate—but they need operational capacity at the local level to collaborate with!

This does not mean that the federal government should specify and require particular kinds of "platforms." By their very nature, platforms cannot successfully be mandated by the federal government; they must be bottom-up and tailored to local circumstances. Rather, the federal government should create programs which incent and support local collaboration, integration and institutional capacity in multiple forms. This might include early action grants (provided by LISC in the Sustainable Communities program) to build momentum and favor engagement. More broadly, a new competitive grant program might be created—with new funding or perhaps pooling cross-agency funds—to support comprehensive neighborhood initiatives, including development of neighborhood collaboratives. These coordinating networks must demonstrate capacity to develop tailored, integrated strategies and to become effective delivery systems for currently siloed federal programs, from small business assistance to community health.

Support metropolitan intermediaries focused on neighborhood development. As we have seen, neighborhoods need local help building capacity, and certain functions are more efficiently played across neighborhoods. Sophisticated metropolitan intermediaries committed to supporting neighborhood capacity and comprehensive development linked to regional development can provide shared technical services, achieve economies of scale, foster connections outside the neighborhood, and leverage financial resources. In effect, these intermediaries, together with the neighborhood infrastructure, create and enhance transaction mechanisms which enable vertical integration across the metropolitan economy.

Invest in rich neighborhood information resources. Information fuels markets, reducing the costs of finding and evaluating assets, facilitating connections and transactions, and enabling strategic and systemic planning and action. In addition to the tacit knowledge held by community residents, businesses and institutions, the federal government is a critical resource for local area data, including census and HUD data on households, IRS information on individual and business assets, DOL information on employment, and SBA information on retail performance. These information resources need to be made readily available for neighborhood (not just metropolitan) geographies, particularly to enable markets to be more efficient and inclusive. Better local data and analytic tools enable more transparency and reduced transaction costs for reconnecting neighborhood assets, understanding what investments are best made where, and monitoring and adjusting strategies. Neighborhood networks then become communications systems through which information flows into and from neighborhoods.

Conclusion

Our neighborhoods and regions are critical to national economic revival. As the economy rebounds, it will create unusual opportunities for urban neighborhoods, whose density, diversity, proximity to downtown and related amenities will attract households and investment. In order to seize these opportunities, we need a new understanding of place-based economics—of the functions and dynamics of neighborhoods, and of the integral relationship of neighborhood and regional development. A new theory and practice of neighborhood development is emerging which enhances the capacities and opportunities of residents and other assets, building connections and enabling transactions which strengthen both the neighborhood and the region. Reshaping, enhancing and much better linking neighborhood development practices and federal programs can generate more effective new programs, enable much more efficient delivery and greater success of existing programs and, most importantly, better develop all of our people and places. ■

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1 This paper was written for and presented at the inauguration of the Institute for Comprehensive Community Development in April, 2010. Many people provided extensive help with this paper. Andy Mooney conceived the project and provided many of the most important insights, however inadequately captured here. Eileen Figel gathered the critical facts and examples, and otherwise provided unstinting support and thoughtful commentary, as did other LISC leadership, including particularly Michael Rubinger and Chris Walker. Riccardo Bodini and Rachel Godsil provided extensive input on early drafts. The Advisory Board of the Institute for Comprehensive Community Development discussed and offered key insights on the penultimate draft, and members Paul Brophy, Anita Miller and Julia Stasch provided additional fine critiques. Most importantly, of course, special thanks to LISC for its amazing work in communities, and for supporting this project.

2 This is a policy brief, which does not leave room for a literature review. Many of the ideas in this document are drawn from more extensive analysis and discussions in the following work: *The Changing Dynamics of Urban America*; *Dynamic Neighborhoods*; *Market Based Community Economic Development*; *Strengthening America's Communities*; and *Into the Economic Mainstream*, all of which are available at <http://www.rw-ventures.com/publications/index.php>. Citations to the extensive literature in this field can be found in these reports.

3 See Jane Jacobs, *The Death and Life of Great American Cities*, Vintage Books Edition, New York, NY (1992).

4 Despite the current challenges, strong evidence suggests that long-term trends favor urban neighborhoods precisely because they offer the benefits of density, diversity, proximity to downtown and related amenities: they more efficiently enable interactions within and across systems and geographies.

5 This is a fundamental and profound conception of the goals of development, applying to neighborhoods the theories of Nobel Prize-winning economist Amartya Sen. In *Development as Freedom*, Sen details how successful development essentially builds mutually reinforcing capabilities (substantive freedom) and opportunities (instrumental freedom). Amartya Sen, *Development as Freedom*, Anchor Books, New York, NY (1999).

6 Xavier DeSouza Briggs, "Traps and Stepping Stones: Neighborhood Dynamics and Family Wellbeing," KSG Working Paper No. RWP04-13 (March 2004).

7 This specialized, business-like function for market-based development is analogous to what CDFIs (community development financial institutions) do for finance, but in this case the focus is on the at least equally important non-financial information and transactional resources. The platforms also reflect many of the principles emerging in the fields of institutional economics and economic geography about the roles of institutions in metropolitan economies. See, generally, Gordon L. Clark, Maryann P. Feldman, Meric S. Gertler, *The Oxford Handbook of Economic Geography*, Oxford University Press, New York (2000); Éric Brousseau and Jean-Michel Glachant, *New Institutional Economics*, Cambridge, Cambridge University Press (2008).

8 The LISC Sustainable Communities program builds explicitly on the experience of the Comprehensive Community Revitalization Program in the South Bronx as extended by the LISC/Chicago New Communities Program. This discussion will focus on the LISC Sustainable Communities program as an example of current best practices in community development, but it should be noted that several other initiatives currently underway reflect similar principles. For an extended discussion of the CCRP, see Anita Miller and Tom Burns, "Going Comprehensive: Anatomy of an Initiative that Worked—CCRP in the South Bronx," Philadelphia: OMG Center for Collaborative Learning (Dec. 2006).

9 Memorandum from Orszag, Barnes, Carrion and Summers, August 11, 2009, at 2, 5.

10 http://www.reconnectingamerica.org/public/show/090323huddot

11 http://portal.hud.gov/portal/page/portal/HUD/program_offices/cfo/stratplan

12 The exception—in mission at least—is HUD, which from its inception in 1965 was envisioned as the agency responsible for innovative federal participation in metropolitan thinking and planning. However, HUD until very recently has been primarily a housing agency with a focus on low-income populations. Newer federal urban investment programs have been located in other agencies such as the Treasury Department (the CDFI fund and New Markets), and HUD's historical mission of undertaking housing as one part of broader urban development has largely been thwarted. As noted throughout this paper, neighborhood development leaders have figured out that housing is not enough and needs to be done in context, and have moved on to broader, more integrated strategies. Many of the policy statements and programs mentioned here are promising signs of the administration's—and particularly HUD's—progress back in this direction.

13 http://dodd.senate.gov/?q=node/5147

14 The capacity and siloing problems are aggravated by the fact that different federal programs have different primary local partners—including states, cities, MPOs, community agencies and others—and many of these local partners also are siloed, and otherwise are not well suited for, or lack the necessary capacity, to deliver the strategies described here.

15 See remarks of then-Senator Barack Obama, "Renewing the American Economy," New York, NY (March 27, 2008) (http://www.barackobama.com/soot/o3/27/remarks_of_senator_barack_obam_54php).

16 See testimony of Bruce Katz, United States Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Economic Policy (December 9, 2009).