BUSINESS STRATEGY AND ACCESS TO CAPITAL IN INNER-CITY REVITALIZATION

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INTRODUCTION

This essay discusses critically Michael Porter's proposals for inner-city economic revitalization—to make the inner city more open to market forces and more attractive to large firms, while eliminating economic-development subsidies. It is argued here that the inner city is already open to market forces, which have devastated its job and wealth structures. Further, large firms cannot be depended on to supply secure inner-city jobs. And it is not easy in practice to separate inefficient "social" programs from efficient "economic" programs for urban development, especially given the complex legacy of discrimination. Finally, even a hard-headed, market-oriented urban policy can only work in a more receptive political environment.

In sum, mechanisms of capital accumulation—including community-based institutions which Professor Porter finds to be inefficient—must be strengthened in the inner city. Among these mechanisms are institutions for channeling capital and credit to inner-city firms and individuals. This essay goes on to suggest some policy ideas for enhancing access to capital in the inner city, which Porter admits is in short supply. The same forces that have led nonfinancial firms to flee the inner city have been at work among financial firms; so financial market forces will only worsen the inner-city capital shortage if left alone. Accordingly, a number of methods for "greenlining"—the shifting of savings and credit into the inner city from outside it—are proposed, followed by an idea for recycling funds lent productively in the inner city.

THE HARVARD BUSINESS SCHOOL MEETS THE INNER CITY

According to Michael Porter, governmental programs for urban eco-
nomic development—consisting primarily of subsidy and set-aside programs for inner-city and minority firms and organizations—have failed for three reasons: they have been fragmented; they have been aimed at individuals and firms, not just at impacted areas; and they have been formulated as both social and economic programs. These programs have nurtured small businesses and non-profit organizations, and have led many inner-city entrepreneurs to confuse achieving social goals with making profits. They have “treated the inner city as an island isolated from the surrounding economy and subject to its own unique laws of competition,” isolating the inner city from the market forces remaking the “mainstream economy.”

However, pro-market public intervention based on hard-headed economics can stave off this bleak future. This intervention must begin with a realistic inner-city economic balance sheet. Porter identifies numerous inner-city disadvantages: costly and fragmented land; high building, operating, and security costs; antiquated infrastructures; weak workers’ and managers’ skills, and sometimes bad attitudes; and a shortage of capital. But, offsetting these liabilities are four competitive advantages: a sizable consumer market; location; proximity to industrial clusters; and underused human resources.

“Mainstream” firms have the know-how and capital to overcome these disadvantages and to exploit these advantages, either directly or through partnerships with inner-city firms. To spur their involvement, several changes in the landscape of urban economic development are needed. Government spending for economic development must be reshaped. Programs that have targeted individuals and firms have sometimes worsened inner-city/suburban disparities; impacted areas should instead be targeted. Further, programs should not pursue joint social and economic goals, as in the case of subsidized housing construction; pursuing both goals does not spur market forces, it replaces them. In particular, government must cease using small firms and organizations to deliver capital and business services to the inner city; it must instead encourage “mainstream” firms to deliver these, in part through smart subsidies such as reduced capital gains taxes on equity investments in inner-city firms. Urban governments must reduce regulatory costs, bundle land into larger parcels, and rebuild infrastructures.

Further, Porter argues that community-based organizations and inner-city businesses must themselves recognize that their prosperity depends on the intervention of larger “mainstream” firms. They must seek out relationships and encourage “mainstream” firms to relocate in the inner