Resources : Economics As If Values Mattered

The Value of Land in Economics

First in a three-part series redefining land, labor, and capital.
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AS OFTEN AS economic issues occupy our personal thoughts or dominate public discourse, the subject of "economics" remains confusing and even intimidating to many people. It seems to be vast, highly technical, and quite impersonal—yet we are each so profoundly affected by its realities.

Despite appearances, economics is in essence a very personal and fundamentally moral discipline. It is nothing short of the web of our material relationships with one another and with the natural environment. Economic relationships have personalities and personal histories. Inescapably, these relationships physically manifest our social and spiritual values.

Our language expresses this duality. "Values" are both moral principles and economic measures. "Equity" is defined both as a financial interest in property and as fairness or justice. The root of "property" is also the root of "propriety." But perception and practice often reflect a division between them.

Many of the economic problems confronting us can be understood as the result of neglected or broken relationships. Americans celebrated the fall of communism, citing its failure to respect individual rights and the legitimate role of individuals in the economy. But we have a tendency to polarize public and private interests and, in our case, to mythologize the private sector and ignore the community as a genuine economic actor.

If it will, the church can play a critical role in healing these divisions. It has a unique contribution to make: philosophically. by drawing on its theology of creation, its understanding of the individual in community, and its preferential option for the poor; practically, because it is the largest and most widespread nongovernmental institution and one of the few stable institutions in low-income communities.

The encyclicals and pastoral letters of recent years bear witness to the intellectual acuity and moral insight of church leaders. But by omission they also highlight a particular challenge. What's too often missing is a simple, straightforward discussion of' how individual Christians, parishes and other religious institutions should live their economic lives. What’s needed is practical, faithful advice on the myriad economic decisions each of us must make: when and how to acquire, use, lease, or transfer real properly: where and on what terms to place investments: what employment structures, working conditions, and compensation scales to establish or advocate: and more.

In practice, the division of faith and finance is nearly as common within the church as it is outside. Some of these issues are complex, with real institutional and personal consequences: it's important to avoid oversimplification. Still, one cannot help remembering O.K. Chesterton's observation that our problem "is not that Christianity has been tried and found wanting, but that it has been found difficult and not tried." In this lime of rising need and diminishing charitable resources, the challenge of restoring the commonwealth is not only a matter of theological consistency, but may well be the only way to keep our social fabric from tearing apart.

The following is the first in a series of three articles reflecting on relationships along the three legs of the economic triangle—land, labor, and capital—from the perspective of a community development practitioner. They are by no means comprehensive, but they will offer an overview of several constructive new initiatives and serve as an invitation to readers to participate in such efforts.

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Land

TRADITIONALLY, land is the first leg of the economic triangle. Even in a modem economy, it is the source of shelter, nourishment, and raw materials for production—and literally the common ground on which all social and economic activity takes place, all shaped the character of American society and. for many individuals, real property remains the greatest personal investment and economic asset.

Nevertheless, the most prominent domestic problem in the United States in the past decade was homelessness and the crisis of affordable housing. In the same period, tens of thousands of family fanners left the land, and an already troubled national economy was further burdened with nearly a trillion dollars in debt chat is significantly related to the involvement of Financial institutions in speculative real estate ventures.

Despite many good efforts, the problems still persist. In housing as in health care. The evidence is that conventional social welfare programs simply aren't working. The subsidies are inadequate and inefficient. Needs are growing faster than available resources, and political will is limited. But more fundamentally, conventional programs cannot ultimately succeed because they are based on false premises.

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The Myth Of Poverty

THREE WIDESPREAD MYTHS distort popular perspectives on poverty. First is the “myth of poverty,” or the tendency to judge the poor by their apparent deficiencies, ignoring very real economic capacities.
Most low-income people are renters. Before Mrs. M became one of the first homeowners in a new community land trust in Cincinnati, Ohio she was paying $350 a month for a dilapidated apartment with a market value of less than $15,000. Over her lifetime, with normal rent increases, she would have paid several hundred thousand dollars for a slum dwelling, far more than would have been required to purchase the same (or better) housing on conventional terms. In fact, many low-income families pay not only a higher percentage of income, but a greater total amount than many homeowners pay—with none of the same benefits.

Poverty is not simply a lack of income. Examine the economy of most low-income communities and you will find far more money flowing than one might suspect. The problem is that what flows in flows right back out: and that is a problem of ownership.

From small urban neighborhoods to large areas, one of the most common characteristics of low- income communities is a prevalence of absentee ownership that rivals any Third World country. These patterns may not represent our national average, but they are the circumstances of the poor and a root cause of their continuing poverty.

The poor need equity before subsidies.

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The Myth Of Wealth

NEXT IS THE "MYTH of wealth." which is very respectful of private initiatives and protective of private investment, but often ignores the social contribution to property value. When individuals purchase or improve properties, they create value. But when a city government installs a subway line, giving" another neighborhood the amenity of convenient transportation, that also adds value.

And when low-income ten ants organize to transform vacant lots into mini-parks or otherwise make their community more desirable, that too enhances property values. They themselves will receive no economic return for their investment and may inadvertently accelerate a process of gentrification that will displace them altogether.

The legal conception of property as a "bundle of rights" (air rights, development rights, timeshares etc.) has an economic corollary. Property value is a "bundle of values." It comes from many sources both individual and communal. And this realization may hold a key to solving our land and housing problems.

When we fail to measure the social contribution then we also fail to utilize the social increment in value, the "commonwealth." for the common good This is true when public funds are used to subsidize housing in the private market, and it has been true of the management of public timber, mineral, and grazing lands in the West and elsewhere. If private trustees or investment managers were so heedless they would be dismissed or held legally liable for breach of fiduciary duties. But we have become accustomed to the neglect of public interests.

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The Myth Of Public Assistance

LAST IS THE "MYTH of public assistance." which portrays efforts to bridge the economic gap as a process of taking from those who have fairly earned and giving co those who have not (but probably should have). This characterization stigmatizes the poor and fosters resentment among the taxpaying public, creating a political climate in which appropriation levels will never be adequate.

Even more important, it reflects only a partial understanding (perhaps a willful blindness) of subsides in the housing market. In fact, while the poor receive some services through direct appropriations, a second set of indirect but very substantial subsidies are embodied in the tax code. It is significant that these subsidies are not even acknowledged as such: they are not subjected to annual review and renewal: and. in great disproportion, they benefit the wealthier sectors of society, not the poor.

If you ask a group of middle or upper-income homeowners. "How many of you live in subsidized housing?" no hands will be raised. But ask. "How many of you take advantage of the federal and state home mortgage interest deductions?" and virtually every hand will rise. Through this deduction alone, the federal treasury gives up several times as much each year as the total amount spent on housing assistance for the poor - and 80 percent of the financial benefit accrues to (he wealthiest fifth of the population. The rationale for this policy is the national commitment to helping every family realize the American Dream of home ownership. But this can hardly justify the deductions on million dollar homes, second homes, or equity loans unrelated to housing acquisition.

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Property As Partnership

PROPERTY CAN never be wholly private or wholly public, but must be seen as a partnership between the individual and the community. This realization is implicit in the religious doctrine of stewardship or Gandhi's concept of trusteeship. "The Earth is the Lord's." It is not of our making and cannot be, in absolute terms, a private possession.

There is growing public awareness of the environmental dimension of land stewardship, but less attention to the social and economic implications. A half-century ago, the early environmentalist Aldo Leopold observed. "We abuse the land because we regard it as a commodity belonging to us. When we see land as a community to which we belong, we may begin to use it with love and respect." It is not only the land itself, but also the entire community that is affected.

In this partnership, individuals have a legitimate economic interest; the community has a legitimate interest: and the original, essential value of the creation may be considered, in the spirit of the gospel, to be held in trust for the good of all and especially for the poor.

Historically, the church has affirmed the legitimacy of private ownership—but always qualified its affirmation by recognizing that the private interest is not singular or absolute and that there is a "social mortgage" on property. Our challenge is co give this principle a practical, personal application in a modem market economy.

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Models For Community Development

A NUMBER OF community development practitioners are doing just that today. Perhaps the most distinctive of these new models, and the most deliberate in its delineation of individual and community interests and the relationship between them, is the community land trust (CLT).

CLTs are democratically structured, nonprofit corporations that own land and make it available to individuals and organizations for residential, commercial, agricultural, public service, or other appropriate purposes. Occupants may own the buildings and other improvements they make on the land, and a lease agreement defines the relationship and the rights and responsibilities of each party.
Through a CLT, individuals gain the essential benefits of ownership: lifetime security and a legacy for their heirs, as long as they will actually use the land: and fair equity for their personal investment of capital and labor. But the community democratizes access, protecting itself from the effects of absentee ownership and monopolization; it has a stronger voice in planning decisions. And it reserves subsidies and the social appreciation in land value for multi generational benefit.

In different ways, public and private interests are also balanced by limited equity cooperatives (in which every resident owns a share but the transfer value is limited to preserve affordability) and mutual housing associations MHAs, which are resident controlled, not-for-profit housing corporations), and by deed restrictions, "sleeping" mortgages, and other legal and financial devices.

Many of these techniques can be used in combination with one another. For example, it is common for a CLT to hold land on which a group of families own their building as a limited equity coop.

These models can be applied in cities, towns, and rural areas. Over the past 15 years, there has been dramatic growth in the number of such organizations. The scale of their development activity, and the breadth of popular and institutional support. In important ways, they bridge traditional political divisions. On the one hand, they are cost-effective and create opportunities for individual homeownership: on the other, they give low-income communities security, economic power, and greater control over their own destinies.

For churches in particular, these efforts have both practical appeal and spiritual affinity. From the outset, churches have provided facilities, board and staff members, volunteers, and substantial amounts of investment capital. For example:

* The West End Alliance of Ministers and Ministries initiated the development of the Community Land Coop of Cincinnati (a CLT): black and white churches joined together to establish the Time of Jubilee CLT in Syracuse, New York.
* The Untied Methodist Church sponsored a pastor/organizer to work with developing CLTs in Atlanta, Georgia: the Catholic archdiocese in New York City assigned personnel to the sweat equity homesteading projects of the RAIN CLT.
* The Dominican Sisters of the Sick Poor donated property in Ohio and have now offered to donate land adjacent to their motherhouse in Ossining, New York.

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Companion Initiatives

There are now more than 100 CLTs across the country, and many individual coops or MHAs. Yet their numbers are still limited and most of this development takes place in low-income communities where the need is most urgent and where these models have obvious advantages over conventional marker or public sector options.

Companion programs are now needed engages socially concerned property owners in every geographical and economic sector, to make it clear that the social mortgage is not a form of "second class ownership for the poor" but rather, a guiding principle for an equitable market. The new Equity Trust Fund (see box below) is designed to be a vehicle for this commitment. It invites gifts from the social appreciation in proper value and gifts of property to be used to meet the needs of those who are disenfranchised or disadvantaged by the same market that gives current owners a windfall profit.

The Equity Trust Fund is unique. There are many conservation organizations that solicit land gifts, but this pro gram addresses human needs as well. It does draw inspiration, however, from the Bhoodan/Gramdan ("land gift/village gift") movement of Gandhi's successor. Vinoba Bhave and Javaprakash Narayan in India in the 1950s. While that effort failed co meet its ambitious goal of providing for poor landless peasants. It did redistribute more than a million acres, achieving more than any government program.

The purposes of the Equity Trust Fund are educational and political, as well as financial. It is designed to focus public attention on basic questions of property and equity as participants go beyond traditional charity to reform their own economic relationships.

Of course, CLTs and Equity Pledges alone cannot equal the volume of need, but they can play a role in developing a political constituency for properly reform. In Gandhi's conception, social change has three dimensions: personal commitment, the "constructive program," and political campaigns. CLTs. coops. MHAs—this emerging "third path" between the strictly public and private—represent our constructive program.

The Equity Trust Fund offers individuals and institutions an opportunity to express the values that underlie these efforts and to demonstrate the will to make the personal changes that meaningful political reform will require. For religious persons, it effectively combines practical economic action with prophetic witness.

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An American Land Reform

LAND REFORM in the United States will not take the same forms as in the Third World, but land reform is what we need. It should not be seen as a confiscatory program but rather, one that reflects renewed respect for one another and a new regard for equity in the economic relationship between individuals and communities.

Three principles should guide the development of a platform for reform. First, public contributions should be treated as long-term investments for the common good. Second, the poor should be able to make full use of their assets. And third, the playing field should be leveled so that all have the same opportunities, and preferential subsides are allocated to those who genuinely need them.

Conventional land and housing programs are constrained by budget limits that may well be a permanent feature of our political economy. But many reform measures need not be costly, and some will actually increase revenues or reduce the demand for future spending.

* Appropriations can be used much more efficiently if they are allocated on a priority basis to projects that ensure long-term affordability.
* Tax-default properties and the inventories from failed banks and S<&Ls should be placed in land trusts, with only buildings sold. And long-term lease fees used to recoup the public investment.
* The flow of investment capital could be increased by encouraging public and private pension funds, ensuring liquidity to give community development funds greater access to institutional assets, and applying the Community Reinvestment Act to insurance companies and even charitable institutions.
* Tenants and community trusts should have a first right of refusal for the purchase of rental properties and properties that have received public subsidies, as is true for housing in Washington. D.C., mobile home parks in Massachusetts, and farmland in Vermont.
* Tax reforms should be pursued, including capping mortgage-interest deductions (or relating them to the percentage of income paid for housing) and legislating more progressive capital gains and property taxes.

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Facing The Challenge

THESE ARE BUT A FEW of the measures that might be included in an American land reform agenda. They reflect the moral imperative to help first those in greatest need. But this would not be a "poor people's policy." Rather, it would be an inclusive effort to establish a socially, as well as environmentally responsible land ethic and more equitable market.

It is interesting that in the current national debate on health care, an unusual degree of consensus has emerged chat the private market alone cannot solve the problems, traditional subsidy programs are financially ruinous, and structural reform of some kind is required, in the previous years during which homelessness and the housing crisis were in the spotlight of national concern, no similar call for structural reform was heard.

Property is both a very basic issue and perhaps' the most controversial. Genuine reform will be a very difficult challenge. Nevertheless, as both social and environmental problems related to land continue to mount and resources dwindle, it will become clear to more and more people that we have only four alternatives. We can ignore these problems and suffer the terrible social and economic consequences of that neglect. We can continue subsidizing the private market, generation after generation, at ever-higher levels of spending. We can expand the public housing sector, which, though it provides an important service, offers only a limited range of housing benefits to residents and meets considerable resistance in many communities. Or, finally, we can renew the covenant between the individual, the community, and the land on which both depend - and embark together on the path of economic reform.

For some, this process will bring new opportunities. From others, it will also ask for sacrifices. It is appropriate - and perhaps even necessary - that the initiative be taken by people of faith. As the French philosopher Albert Camus said in response to a question from a group of Dominicans, what the world expects of Christians today is that they “speak out clearly and pay up personally.”

Resources : Economics As If Values Mattered

Faith and Finance

Second in a three-part series redefining land, labor, and capital.
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BENEATH ALL OF THE EMBOSSED certificates deposit books, and daily market reports, investments are human relationships. Capital, after all, represents labor and land. and whether it is accumulated from wages or donations, rents or product sales, inheritance or other unearned income, we might appropriately ask three questions: With whom are we called to enter into economic relationship? What is the purpose or intended product? Are the interests of the parties fairly balanced? In other words, who should have use of our money and what should be their obligation to us and our claim upon them?

In the religious community in recent years, there has been steadily growing interest in "socially responsible investment." From the share- holder resolutions of the Sisters of Loretto (dubbed "The Stinging Nuns" by Time) against the health and safety practices of the Blue Diamond Coal Company, to the South Africa divestment campaigns, to various attempts at screening out weapons producers major polluters, and alcohol and tobacco companies - and affirmatively selecting companies with fair labor practices or environmental sensitivity - hundreds of religious institutions and many parishioner are trying to integrate faith and finance.

There is a social mortgage on capital, resulting in the need for economic initiatives that can effect a just distribution of equity and earnings. Within the spectrum of social investment activity, "community investments" are the best reflection of gospel priorities. Community investments target resources to the poor: meet urgent needs for housing, employment, and essential services: and support structural change in the economies of low-income communities-objectives that are difficult, if not impossible, to achieve through conventional securities. Moreover, community investments compare well with many conventional options and, thoughtfully chosen, can be a responsible course for any investor.

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Community Investment Options

FOR MOST PEOPLE, investment decisions begin with opening a bank account. It's not always easy to choose the most responsible institution, but you can review a bank's CRA File (the federal Community Reinvestment Act requires banks to provide a measure of service to the communities from which they draw capital), talk with bank officers, and, perhaps most helpful, ask community development organizations about their actual experiences with local banks.

There are a small number of community development banks that welcome non-resident deposits. Best known are the South Shore Bank, which since 1970 has been dedicated to revitalizing a neighborhood on Chicago's South Side, and the newer Community Capital Bunk. in Brooklyn, New York. The Elkhorn bank established in Arkansas by South Shore was the original model for the Clinton administration’s pending Community Development Banking and Financial Institutions Act.

Among conventional institutions, Vermont National Bank's Socially Responsible Banking Fund is the most innovativeinitiative. Any depositor may participate, and the bank is committed to using all designated deposits in or near Vermont for affordable housing, family farms, small businesses, and environmental conservation.

In a relatively short time, the SRB Fund has grown to more than S60 million. Last year, in the difficult climate of continuing recession, the bank would have recorded a decline in overall deposits except for the unique appeal of this program. And though some initially feared that community investment might be riskier and less profitable than conventional lending, the SRB Fund had the lowest delinquency rate of any department in the bank.

Most low-income communities are poorly served by banks, and some not at all. But in 300 communities across the country, community development credit unions (CDCUs) provide basic consumer banking services. All credit unions are financial cooperatives, owned and controlled by their members. Unlike parish, workplace, and other traditional credit unions, however, CDCUs are defined by the geography of a low-income continuity and are allowed to accept non-member deposits to bring additional resources into under-capitalized areas.

According to the National Federation of Community Development Credit Unions, based in New York City, CDCUs currently manage more than S500 million in deposits. The federation will direct potential investors to individual credit unions, and it also manages a central fund to enable large investors, through a single investment, to channel funds to many CDCUs.

BOTH COMMUNITY development banks and credit unions are chartered and regulated financial institutions that offer a full range of savings, checking, certificates of deposit, and other options, with the protection of federal (or state) deposit insurance. Community development loan funds (CDLFs), on the other hand, are non-profit corporations that fulfill their charitable purposes through the activity of borrowing and lending.

CDLFs are distinguished by their ability to commit 100 percent of the capital under management to community development, by their flexibility, and by their analysis of poverty and philosophy of development. From the outset, the movement has set for itself a three-fold mission: 1) to assist those who need capital in meeting their immediate needs and changing the patterns of ownership that perpetuate their poverty; 2) to engage those who have capital in reflection on the origins and social responsibilities of wealth: and 3) to challenge those who manage capital to recognize the credit- worthiness of the poor and allocate resources more equitably.

Most CDLFs serve metropolitan areas or states: several are regional or national in scope. They solicit loans from many individual and institutional investors, on terms set by the investors within parameters established by the fund. The money is pooled and used to finance a broad spectrum of community development and service programs, including community land trusts, worker-owned businesses, soup kitchens, health clinics, and day-care centers.

The National Association of Community Development Loan Funds in Philadelphia counts 44 member funds, with others in development. Together they have placed more than S135 million in project loans throughout the United States. The association provides training and technical support, and administers a program of peer reviews or self-regulation. Its central fund also enables large investors and donors to distribute loans and equity capital among member funds. The Episcopal Church has made a S1.6 million Investment in the central fund, several charitable foundations have provided large loans, and Citibank recently made a $1.1 million equity grant.

In addition to these institutions, there are other business development and micro-enterprise funds affiliated with the Association for Enterprise Development, and a variety of additional community investment programs. Together they offer a broad spectrum of opportunities for conscientious investors, and many will utilize a combination of investment vehicles.

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Social Impact And Financial Performance

EVEN MODEST INVESTMENTS can have considerable impact. To date, loans made by NACDLF members alone have been responsible for the development of more than 18,000 units of affordable housing, the creation or preservation of more than 4,000 jobs, and vital services for many thousands more.

In some cases a fund will provide all of the financing for the first project of a young organization; in others, it will be the “missing piece” of a much larger financial package. NACDLF members’ loans have leveraged at a rate of more than 10:1—but even more significant, more than 2,000 loans have gone to first-time borrowers, both organizations and individuals, who had nowhere else to turn, but now have a credit history and a record of real economic and personal achievement.

Perhaps the most important contribution of a community development lender is this catalytic effect on other institutions. The New Hampshire Community Loan Fund’s (NHCLF) first loan, for example, went to a small group of low-income families who were threatened with displacement by the pending sale of their mobile home park. They had neither the security of owners nor the legal protection of tenants.

NHCLF established a co-op conversion program, offering a combination of community organizing, technical assistance and financing to mobile home parks throughout the state. Over time, the success of these efforts persuaded several banks and the state housing finance agency to alter their policies and extend mortgage loans—and the state legislature passed a bill giving mobile homeowners a first-right-of-refusal before their parks can be sold to any other party.

The financial performance of community investment institutions has been equally impressive. NACDLF members report loan losses of approximately one-half of 1 percent, with investors protected by loss reserves and the funds' equity. Community development banks and credit unions typically perform better than industry averages. Of course, care must be exercised in the selection of an intermediary, and community investments are not the most lucrative options in the financial markets, but there should no longer be any doubt that they can be a prudent - and faithful - commitment.

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Mobilizing Religious Commitment

THE EARLY FORAYS OF the churches into community investment in the 1960s produced mixed results and some substantial loan losses. The lesson of that experience is the value of qualified intermediaries.

A qualified intermediary has already assembled a staff, board, committees, and consultants with the necessary mixture of social concern and financial skills. It assumes responsibility for evaluating applications and negotiating, documenting, managing, and monitoring project loans. In most cases, the investor's legal claim is on the entire portfolio of the intermediary, and you are not dependent on the individual performance of the projects you support. When needed, the intermediary will provide or locate technical assistance for the project.

As new models and a new generation of intermediaries began to emerge in the late 1970s and early '8Os, religious institutions and representatives did play a central role - and they still do. The Boston Community Loan Fund was initiated by Old south Church, a United Church of Christ congregation, reaching out to other denominations and secular organizations in a broadly ecumenical effort. The New Mexico Community Loan Fund was sponsored by the New Mexico Council of Churches and the Catholic Diocese of Las Cruces. And religious investors provided a substantial portion of the initial capital for virtually all of the new institutions, with Catholic orders of women often in the lead.

The process of proposing, debating. and implementing community investment commitments with your own board of trustees can be enlightening, enlivening, and also quite challenging. Make sure that you bridge the common gap between social justice and investment committees, and include financial decision makers in the process from the outset. Use community investment practitioners as advisors to review practical experiences and relevant precedents. Ask for a detailed description of the percentage allocations and performance of each type of security in your current portfolio, as the basis for accurate comparison—and then establish clear principles, specific criteria, and an appropriate percentage for community investments.

Most important, use the process of investment planning as an opportunity to renew and enlarge the faith of your community. Though a serious business decision, the commitment to community investment is also an opportunity for reflection on the relevance of the gospels in modem life. It is an occasion for evangelization—a decision that not only applies to institutional resources but may inspire many individual members as well.

When Rev. Douglas Theuner was called to be the Episcopal bishop of New Hampshire, he initiated a relationship with the New Hampshire Community Loan Fund. First he made an investment from the bishop's discretionary fund. and then he went to the trustees of the diocese to propose a much larger investment from the resources in their stewardship. He and his wife have made a personal investment, and now he is convening a series of meetings in all of the regions of the diocese to encourage the participation of individual parishes and parishioners.

Similarly, the leadership conferences of Catholic religious orders in the New England area launched a collaborative investment program in law-income housing, using the services of an established intermediary. Individual orders can determine the amounts and terms of their investments: a steering committee establishes the social criteria and priorities; and the intermediary performs the financial evaluation and manages the loans. The program was announced in what some would call a prayer service and others might call a political demonstration in City Hall Plaza in Boston, and news of the event immediately brought inquiries from numerous individuals and other religious organizations.

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Anticipating Reservations

THERE ARE NOW many good examples, but one can still expect some hesitation in response to a community investment proposal. Virtually everyone will ac knowledge the potential social benefits, but many trustees will be concerned about financial issues—and perhaps even their legal ability lo take this action.

Individuals are free to make any investments they choose, but trustees have specific legal and fiduciary responsibilities in their management of corporate assets. In a legal memorandum prepared for the Episcopal Church, however, New York attorney William McKeown concludes that community investments are permissible. He says, in part "...Charitable purposes, and particularly religious purposes, are not as readily measured in monetary terms as commercial or business purposes are. The law recognizes this fact: "...A charity's governing board must manage the assets o an ongoing enterprise in order to carry out its purposes, not merely to conserve assets and generate income."

Traditionally, investors and investment managers are concerned about risk, return, and liquidity: preserving wealth, deriving income, and maintaining sufficient flexibility to meet changing personal needs or take advantage of new market opportunities. The practical relevance of these considerations is obvious, but Christian tradition offers unique perspectives and may impose unique criteria.

All investments involve some element of risk. Each intermediary or project must be evaluated realistically and the portfolio balanced carefully. But it is a mistake to assume that community investments are inherently riskier than conventional investments, if they are properly packaged, they may be just as secure, and sometimes even more so. The record briefly cited above bears witness - as does the fact that most of the dramatic losses in the Savings & Loan and banking industries in recent years have come at the upper end of the market.

In any event, financial risks must also be weighed against the vulnerability of a project's intended beneficiaries. What is the risk of human suffering if the project does not proceed? The central metaphor of the Christian faith is the story of Jesus coming to terms with risk, fear, and sacrifice. The challenge for Christians is not to avoid all risk, but to accept necessary risk for the right cause.

A greater concern for many investors may be the rate of return. The potential varies from project to project, but in general, community investments offer only modest returns, the lower end of conventional market opportunities.

At first, trustees may respond to a community investment proposal by com- paring its anticipated return with the overall portfolio average, but this is like comparing the proverbial "apples to oranges." Most community investments should be compared with other fixed- rate securities or deposit accounts, not equities. Properly calculated, it should be possible to transfer a meaningful percentage of virtually any portfolio to community investments with limited impact on total return.

The need for income may also bear some scrutiny. Religious institutions typically look to investment income for both operating expenses and mission funds. It is understandably tempting to make every effort to maximize return if those earnings are supporting charitable programs. However, community investment can enhance the social contribution of the church, even if it somewhat reduces investment earnings, because the combined impact of charitable gifts and investments—of social services and community economic development—will be greater than the impact of a somewhat larger grant fund alone would have been.

If $100,000 from bonds paving, say, 7 percent is moved into community investments at 4 percent, the institution will lose S3.000 per year of grant- making capacity. But for every grant dollar lost. S33 of community investment capital will be committed to similar purposes!

Catholic Worker founder Dorothy Day was fond of reminding religious leaders that money lending at interest was forbidden in the early church. Most church members today are neither aware of this prohibition nor can they imagine its rationale. But the economist John Kenneth Galbraith explains that the "economy" in biblical times was very primitive. Most people labored to meet their basic needs - and borrowed only when they did not have enough. In that context, it was considered inconsistent with the spirit of Christian community io lake advantage of someone in a time of distress bv imposing an interest charge.

With the advent of market capitalism, people began to borrow in order to go into the marketplace and make more money. In this context, it seemed reasonable to expect a share of the profits. Nonetheless, despite the dramatic economic changes of the past two millennia, it is important to acknowledge that there are still millions who labor to meet basic needs and are unable to do so because they lack access to the capital necessary to acquire productive resources. If the "least of these" are truly the focus of a Christian economy, one cannot help wondering if early Christian traditions might yet have relevance. Finally, there is the concern for liquidity,

investors typically accept lower return on some investments in exchange for lower risk or greater liquidity, and this can also be a barrier to increasing the volume of capital for community development. Here it is useful to repeat that community investments offer a wide range of opportunities and terms, from liquid accounts to deposits and loans of virtually any length. Remember that the term "faithful" implies not only belief and commitment, but perseverance as well.

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The Widows Mite

ULTIMATELY, investment should be as much of a sacrament as any other act of a faithful person. Many charitable institutions define their charitability solely by their use of investment earnings, not the nature of the investments themselves. But the consistency of ends and means is a basic tenet of moral philosophy. Mahatma Gandhi, who recognized the inescapable relationship between faith and finance when he said. 'To the poor, God can only appear as a loaf of bread," also observed:

They say' "means are after all means.” I would say, "Means are after all everything." As the means, so the ends. The Creator has given us control over means, none over the end. Realization of the goal is in exact proportion to that of the means.

The investments referred to throughout this article as "community investments" are still known to many as "alternative investments." To date, in fact, they have been an experiment for most investors. Now, with the successful record that has been established, and with gospel imperatives in mind, perhaps it's time for community investment to become the norm of religious practice.

The Interfaith Center on Corporate Responsibility, which tracks the social investment initiatives of 250 Protestant ' denominations, Catholic orders, and other religious institutions, estimates that their community investments currently total approximately S250 million (with the United Methodist General Board of Pensions accounting for SIOO million in low-income housing). It is an impressive amount of money—but it still represents only two-thirds of 1 percent of ' the S35 billion value of these portfolios. '

When Jesus compared the offerings made by the wealthy men and the poor widow, he observed that the measure of faith is not the number of dollars, but rather the degree to which we give of our substance rather than our surplus. Religious institutions have provided critical leadership in the community investment field, affecting the lives of thousands of low-income people, and set valuable precedents for other institutions and individual investors. But we can do better.

Resources : Economics As If Values Mattered

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The Spirit Of Work

Last in a three-part series redefining land, labor, and capital.
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BY CHUCK MATTHEI

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THE ECONOMIC challenges confronting us, none is more complex and contentious than the problem of employment. The character and culture of labor are changing, even more than that of land or capital. From the definition of meaningful work to salary scales, corporate structures, and strategies for job creation, less consensus exists in this sector about values, goals, and the means of achieving them.

Work And Wages

WHEN THE PUBLIC LEARNED that the president of the United States of America received nearly a half-million dollars in annual compensation, all hell broke loose. Contributions dropped off. The president was forced to resign, and. for a few months in 1992. a flurry of investigative reporting about salary scales in both the non-profit and for-profit sectors of corporate America filled the airwaves. The Chronicle on Philanthropy surveyed CEO salaries among major non-profit institutions, discovering that three-quarters of the CEOs received more than S100, 000 a year and nearly a third more than S200, 000. A study by City Limits focused on the low wages paid to rank-and-file service workers by some of the same organizations. And when President Bush traveled to Japan with an entourage of American auto executives, the national media pointed out that the ratio of highest-to-lowest paid in the average Japanese corporation is only 15-to-l. while in the United Slates it is nearly 100-to-1.

In the midst of this debate, the MacNeil/Lehrer News Hour assembled a panel of experts to discuss appropriate standards for charitable organizations. One argued that non- profit executives should be paid according to conventional business norms because the leaders of charities also have substantial responsibilities and have to socialize with their corporate counterparts. Another said instead that compensation should be based only on the practices of other non-profit organizations (a rather circular argument. But no one spoke of the other employees of these organizations: no one acknowledged the many othersatisfactions and privileges of leadership: and no reference was ever made to the poor, whose needs are the raison d’etre of so many of these institutions.

Should a foundation officer’s salary reflect in any way the circumstances of the foundation's grantees, or a community development worker's salary the condition of the community? What's the responsibility of a pastor to the flock of to the "least of these"? Perhaps the panelists didn't address these questions because so many practitioners don't.

GANDHI CREDITED JOHN Ruskin's book, Unto The Last, with bringing about "an instantaneous and practical transformation in my life," citing its teachings that the good of the individual is contained in the good of all and that ail useful work is of equal value. It is an appealing philosophy for those who profess that all are equal in the eyes of God, but one that seems difficult to put into practice in the modem market economy. In fact, very few churches and charitable organizations even try to articulate a philosophy of compensation, to explain how they value life and labor and the respective contributions of their employees.

Of course, some interesting exceptions and experiments are well known. The Catholic Worker continues in its 60th year of voluntary poverty. A few organizations have experimented with compensation based solely on need. One owned several buildings and a small fleet of vehicles; staff received housing, food, transportation, medical care, as well as payment for school debts, dependents, and other special needs, and a small stipend.

The practical advantages of such an approach can be significant. For an avenge of roughly S8,500 per adult per year, it was possible for that organization to ensure staff members a standard of living and supportive environment that would have been difficult to replicate even with three or four limes that amount as an individual or individual family unit in most markets. Low operating costs meant that very little time and few resources were spent on fund raising: services could be provided to those in need regardless of their ability to pay: and new programs could be initiated, or staff added, without the usual delays and limitations imposed by conventional costs.
At the same time, it's often hard to sustain such a practice.

Policymaking and administration can be time-consuming and complicated. Age and family life may bring additional pressures and concerns. And if intimacy and a dose community of support are the positive side of the coin, for many modern Americans, an uncomfortable feeling of dependency or invasion of privacy may sometimes be the other. As Dorothy Day used to say, somewhat ruefully, "Voluntary poverty means giving up your privacy: anyone can wear old clothes."

The organization mentioned above if now moving toward a more conventional salary scale. Another switched to a modest standard, equal for all staff regardless of position, but with some additional consideration for dependents. Some continue the original experiment. Perhaps there is no simple standard. If the world is a supper table, the serving bowls are in front of us, and we are asked to fill the plates, perhaps the best we can do is look across the table at our brothers and sisters and follow St. Augustine's advice to "love God and do as you please." Still, enormous discrepancies in income, and persistent discrimination based on factors such as gender, suggest that the "social mortgage" on labor is not being paid.

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Equity In The Workplace

ALL OF THESE EXPERIMENTS are instructive. Unfortunately, there's not vet any provision for non-profit managers and members to meet regularly and share their experiences. In a small but growing segment of the for-profit sector, however, an active exchange is taking place. The Social Investment Forum first brought together individual and institutional practitioners of socially responsible investment. Then came the Social Venture Network, an eclectic gathering of CEOs, entrepreneurs, developers, high net-worth investors, and even a few non-profit leaders. These have now been joined by Business for Social Responsibility (BSR), with a national membership of 700 firms of varying sizes and types.

"Socially responsible" is self-defined. None of these associations has established specific standards, chough they do publicize the "best policies and practices" in categories including pay scales, benefits, and other labor practices. They don't take stands on public policy matters, but many BSR members actively supported the recent national family leave legislation, for example.

Ultimately, equity in the workplace has to be measured not only by salaries, benefits, or working conditions, but by the structure of ownership itself. Some of these "responsible businesses" have made provisions for profit-sharing: relatively few, however, have yet taken steps toward employee participation in ownership, Some employee ownership programs are initiated by management, as with Springfield Remanufacturing in Missouri, which followed a management buy out by offering workers a role in ownership, even training them to read balance sheets and participate in the financial operations of the company. Others represent an effort by workers to save their jobs. Traditionally, many unions were wary of integration into management or ownership, but attitudes are changing. And in cases like the air-line industry, a share in ownership has been the only available compensation for employees faced with the prospect of making multibillion 'dollar concessions.

The National Center for Employee Ownership estimates chat employees hold the majority interest in approximately 2.000 U.S. companies, with more than 1.5 million workers represented. A much larger number have some kind of employee stock ownership plans. Some of these plans were motivated by tax benefits for the business; increasingly, however, employ participation in ownership is becoming a part of organizational development and management strategy.

Ownership issues should also be a concern for conscientious investors. Perhaps the reason that the furor surrounding United Way didn't spill over to other non-profit institutions (whose practices are not very different) is that United Way's income is so directly related to payroll contributions, while many others rely on endowments and investment portfolios.

We immediately contrasted the United Way president's salary with our own, but we ignored these issues in other organizations because we've lost sight of the human origins of stock dividends.

Catholic social teaching, for example, asserts the "primacy of labor over capital." If a choice must be made, the dignity and needs of the person, the worker, are to be given priority.

In the community development field, some hybrid debt- equity instruments have been designed that provide start-up enterprises with the more flexible and risk-tolerant capital characterizes of equity investments, but respect the interests of workers by limiting the potential for appreciation, regulating the control of shareholders, or providing an option for a future employee buy-out. But unless workers are also stakeholders, the "partnership" represented by conventional stocks is really no partnership at all.

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Any Job Or No Job

OF COURSE, FOR MANY AMERICAN workers today, the overriding concern is not income or even equity, but simply finding or keeping a job. Despite recent improvements in monthly unemployment statistics and other economic indicators, millions of blue- and white-collar workers alike are still jobless or very much at risk.

Unions are struggling to preserve existing jobs. Some have made important progress in internal reform and renewal. A few notable victories have been achieved, but overall their role in the work force has continued to decline as industries change and companies downsize.

Most, though not all, of the BSR members are small, non-union businesses. Some show encouraging signs of growth, and some offer unusual benefits and quality jobs, but their long-term potential for job creation is still uncertain.

As traditional jobs disappear a great deal of media attention has focused on micro-enterprise or self-employment. Inspired by the extraordinary example of the Grameen Bank of Bangladesh, which pioneered the peer-group model of lending to overcome the lack of collateral, and has successfully made tens of thousands of small loans to the rural poor. a growing number of U.S. micro-loan funds have become loosely grouped under the Association for Enterprise Opportunity.

The largest of these is the Working Capital Fund in New England. With initial funding and capitalization from four foundations, three banks, and the federal government. Working Capital has made nearly 800 loans in less than three years, with a repayment rate of more than 98 percent. A network of 52 local non-profits and public agencies serve as the fund's "enterprise agents," marketing the program and providing training and technical assistance.

Prospective borrowers form groups of four to eight members, complete a five-session training program, and become eligible for loans between S500 and S5,000 for terms of six months to one year. Working Capital enables the working poor, earning 60 to 30 percent of median income, to supplement family income. The fund estimates that S5, 000 in credit can often produce S2.000 to S4.000 in increased earnings.

Through this experience, people in the informal sector may develop skills that will give them access to the conventional job markets. As yet, however, most micro-enterprise programs in the United States do not reach the very poor, and they're more a strategy for income enhancement than true job creation. They aren't a substitute for the jobs being lost in established industries—as was painfully clear when, on the same day that the province of Ontario unveiled an ambitious new lending program with hopes of generating more than 300 new micro-businesses. IBM announced another 1,900 layoffs at its Windsor plant alone.

GENERALLY SPEAKING, EMPLOYMENT initiatives for the poor follow one of two strategies. They may try, through training and advocacy, to gain access to good jobs in industries that do not now hire many poor people. Or they may try to improve the quality of jobs in industries that do. In this latter category, one of the most interesting and successful ventures is Cooperative Home Care Associates (CHCA), an 8- year-old worker-owned business in the South Bronx.

CHCA employs 300 African-American and Latina women. 90 percent of whom were formerly on public assistance. It has begun to transform home health care into meaningful full-time employment, setting new industry standards and influencing public policy in the process. Wages for CHCA members have risen to S6.90 per hour plus benefits, and work has increased on average 20 to 34 hours per week, with opportunities for participation in governance and a culture of respect for workers. As a result, turnover at CHCA is only 20 percent, compared to the industry average of 45 percent.

Some experiments in low-income worker buyouts, such as the Workers' Own Sewing Company in North Carolina, have been successful, but start-ups provide an opportunity to choose a new work force for their personal qualities and interest in cooperatives. CHCA established the non-profit Home Care Associates Training Institute with the goal of launching four similar businesses within five years. The first of these began operation in February 1993 in Philadelphia, and now has 23 employees: The next is due to open in Boston in March 1994.

Will any or all of these strategies be sufficient to meet employment needs, especially those of the poor and marginalized? At this point, no clear solution exists. These and other strategies may have roles to play, yet in the wake of the recent NAFTA debate, one is left with the feeling that both sides may have been right; the proponents in arguing that the world economy is heading in that direction and others might step forward if the United States did not: the opponents in recognizing that with or without NAFTA, the poor and traditional workers in every country are increasingly disadvantaged, and far too little is being done to protect or assist them.

THE JUGGERNAUT of the modern market economy often seems unstoppable. Traditional cultures continue lo decline and people leave the land, though millions have vet to find any meaningful place in an urban economy.

A minority of social scientists like Charles Geisler at Cornell University, point to a significant correlation between landlessness (urban as well as rural) and poverty. Yet public policies give no serious consideration to resettlement, even for immigrant populations of rural people. The Catholic Diocese of Oakland, California, is trying now to assist a community' of Southeast Asian families who may spend a lifetime on welfare in a Bay Area slum because there is no credit or other assistance available to help them obtain farmland.

Another lesson that Gandhi claimed to have learned from Ruskin was "that a life of labor, i.e.. the life of the tiller of the soil and the handicraftsman,. is the life worth living." Because of this conviction, a leading Western social critic once called him “the greatest living anachronism of the 20th century.” But Gandhi was not opposed to technology as such, nor deluded by the romantic beauties of the rural landscape. He simply argued that "progress" should ensure for the masses of people the opportunity and dignity of labor and a better quality of life.

He never lost sight of the fundamental value of the human being or tried to separate the concept of “labor” from life itself, and his commitment to “bread labor” had more to do with overcoming the barriers of class than promoting an agrarian ideal. Perhaps he foresaw what we are now witnessing: the growing disintegration, for rich and poor alike, of the essential relationships among labor, production, compensation, and consumption.

Respect for labor has diminished, and millions are without sufficient skills or meaningful opportunities to work: much of what has come to be known as "work" yields no certain or tangible product: popular culture celebrates many whose wealth bears no relation to their real productivity and yet all of us are acculturated to increasing consumption.

When The New York Times observed that. "Pushed by poverty and pulled by a perverse interpretation of the American Dream," thousands of children are being lured into the drug trade; you could hear an echo of the early American Quaker, John Woolman. Distributive issues have always been with us, and they are becoming increasingly insistent, complex, and global.

This isn’t an easy challenge to face. In a workshop on the reality of class in American society, at the University of North Carolina's Institute of Arts and Humanities, a panel of professors presented a pyramid-shaped chart of income distribution in the United States. An eager freshman raised his hand and asked.' "How do you think the chart should look?" but no one would venture an answer. Such silence underlies the cynicism in a review of the new book by former Harvard president Derek Bok. Newsweek ended its comments on The Cost of Talent: How Executives and Professionals Are Paid and How it Affects America by saying "...if values are the crux of the matter, change will be tough. Bok ends up exhorting politicians, CEOs, and lawyers to scrutinize their own consciences - and act. He will be lucky if they just read the book."

Few issues are more personal, but few are more important. The church has been reading The Book for a long time. If leadership is needed - in philosophy, advocacy, investment, community organizing, and community development - who should be better prepared to act?

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