

**PRIVATE SECTOR ALTERNATIVES
TO THE WELFARE STATE:
A NEW AGENDA FOR BLACK AMERICANS**

**Robert L. Woodson
President
National Center for Neighborhood Enterprise**

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**NATIONAL CENTER FOR POLICY ANALYSIS
7701 N. Stemmons Suite 800
Dallas, Texas 75247
214/951-0306**

EXECUTIVE SUMMARY

The black community in the U.S. has a rich tradition of self-help institutions. These institutions, essential to black survival, thrived at the time of black slavery, during the period following the Civil War, during the Great Depression and during other crises -- long before there was a welfare state and at times when white society was either hostile or indifferent to the plight of blacks.

The self-help institutions that have been the mainstay of black progress throughout most of our history were strongly pro-family, pro-education, pro-religion and highly entrepreneurial in spirit. Yet these institutions have been devastated by the rise of the modern welfare state.

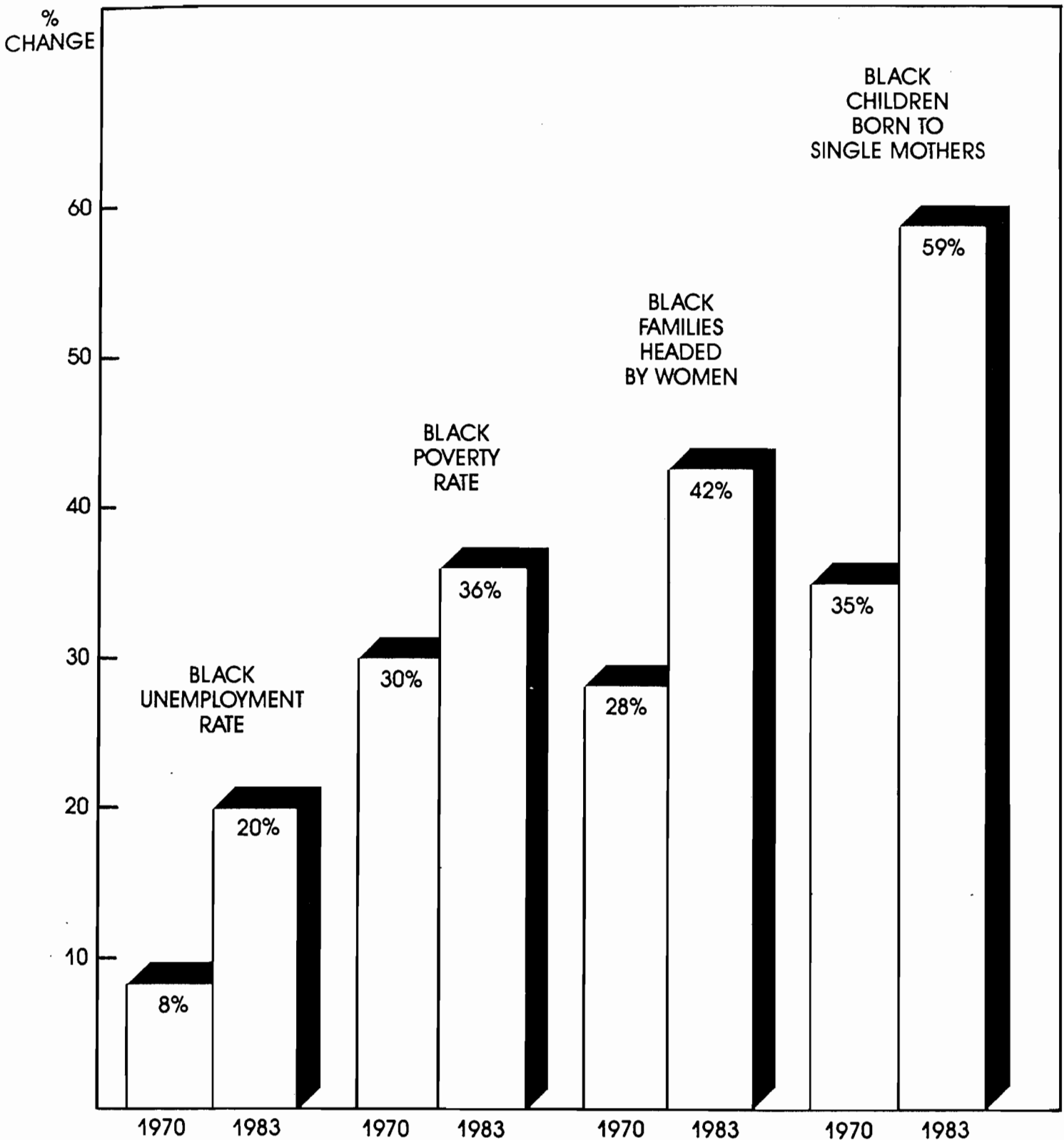
- Between 1970 and 1983, while welfare spending grew by leaps and bounds, black poverty rose from 30 percent to 36 percent, and black unemployment rose from eight percent to 20 percent.
- Over the same period, black families headed by women increased from 28 percent to 42 percent, and black children born to single mothers increased from 35 percent to 59 percent.

Federal efforts to deal with the growing problem of the black cultural underclass have proved uniformly disastrous. In fact, success in the fight against poverty today is largely confined to self-help, neighborhood-based efforts within the black community. For example,

- Although as many as 40 percent of all black teenagers are functionally illiterate, private inner-city schools maintain high levels of educational achievement at costs well below that of "free" public education.
- While almost all government-directed efforts to "rehabilitate" teenage criminals have failed miserably, private programs are achieving success rates of 70 percent.
- While public housing projects managed by government have become breeding grounds for drugs, crime, welfare dependence and teenage pregnancy, projects managed and controlled by the residents themselves have reduced teenage pregnancy and welfare dependency by 50 percent and have reduced crime by 75 percent.

The new agenda for black Americans recognizes that the welfare state has failed and calls for a radically new approach -- one that transfers power over welfare resources from middle class bureaucrats to the people who need help and one that builds on those neighborhood-based institutions that are the modern heirs of a self-help tradition black Americans have relied on for more than 300 years.

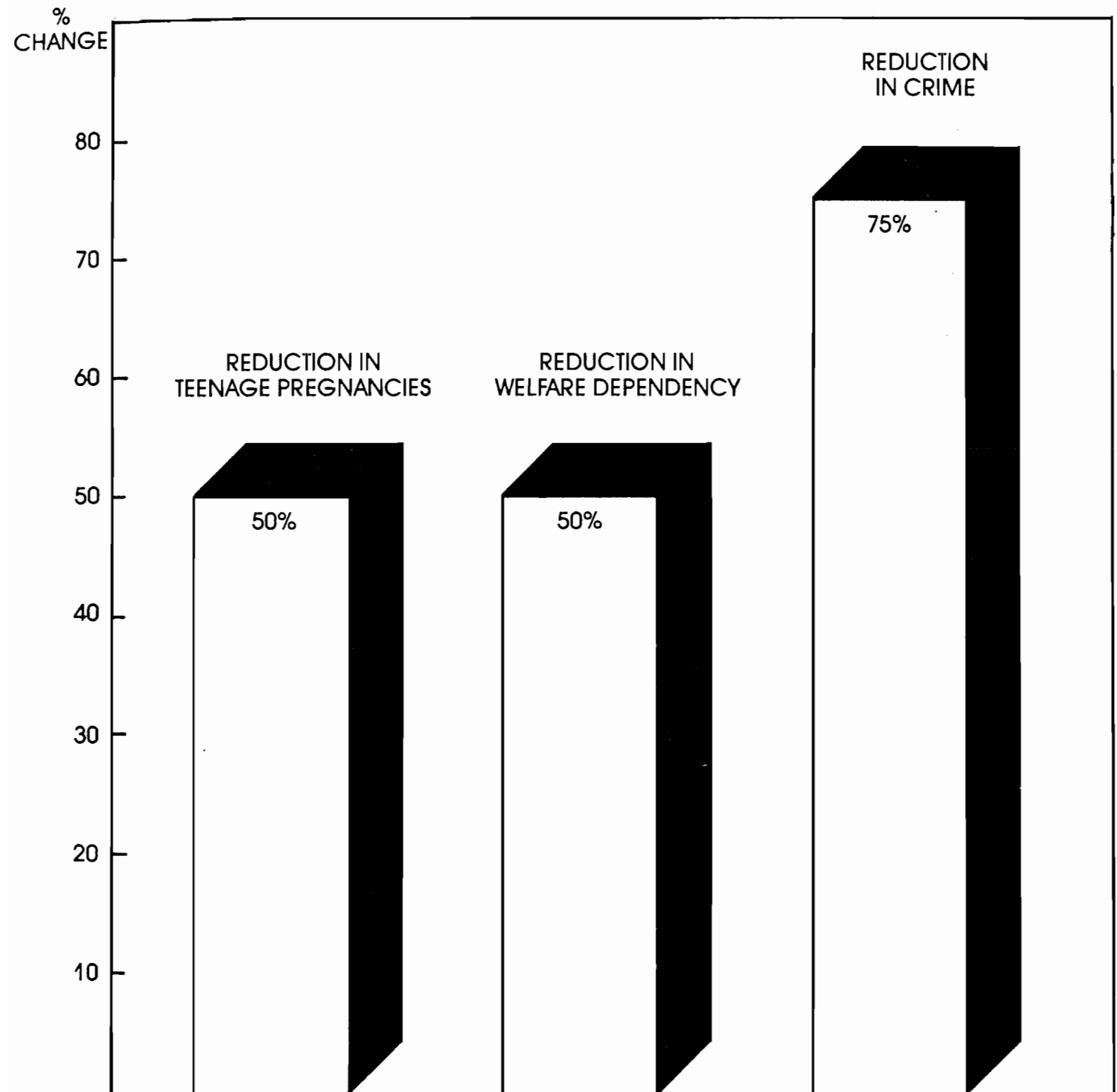
THE GROWTH OF THE WELFARE STATE: HOW BLACK AMERICANS HAVE FARED?



SOURCE: NATIONAL CENTER FOR NEIGHBORHOOD ENTERPRISE

WHAT HAPPENS WHEN PUBLIC HOUSING TENANTS MANAGE THEIR OWN HOUSING?

(Kenilworth-Parkside Development, Washington, D.C.)



SOURCE: NATIONAL CENTER FOR NEIGHBORHOOD ENTERPRISE

INTRODUCTION

The growing problem of a cultural underclass in America is one that is alarming scholars and public officials alike, regardless of their political ideology. One writer has described the problem as:

a culture of poverty out there that has taken on a life of its own It is a "community" where 90 percent of the children are born into fatherless families, where over 60 percent of the population is on welfare, where the work ethic has evaporated, and the entrepreneurial drive is channeled into gangs and drug-pushing.¹

The problem of poverty is not exclusively a black problem. Only one-third of blacks live below the poverty line, and most poor people are not black. Yet the most intractable and most disturbing elements of the problem of poverty are to be found in largely black, inner-city areas. It is here that the "culture of poverty" seems to be spreading. And, it is a culture that has disproportionately affected the black population.

- In 1925, 85 percent of black families living in Harlem were intact, and single teenage mothers were a rarity.
- Today, about 80 percent of all black babies born in Harlem are born to single mothers, and two of every five of those babies are born to unwed teenage mothers.
- In 1948, the black teenage unemployment rate was less than 10 percent and was lower than the rate for white teenagers.
- Today, the black teenage unemployment rate in most major cities varies between 40 and 60 percent.
- By the end of World War II, the literacy rate for blacks was fast approaching the literacy rate for whites.
- Today, about 40 percent of all black teenagers are functionally illiterate and cannot even fill out a job application.

To what extent can these problems be blamed on the welfare state? No one is sure. Yet one thing is certain: The culture of poverty is subsidized and sustained by the welfare state. Without the welfare state, the black cultural underclass could not maintain its current lifestyle.

Regardless of why the problem of the black underclass has arisen, it is clear that the solution does not lie in another round of anti-poverty programs managed and administered by middle-class welfare bureaucrats. Instead, it is time to approach the needs of the black underclass from a different perspective -- one that is cognizant of existing strengths within the black community; one that recognizes the intelligence, creativity, and innovative abilities of people in

¹Mickey Kaus, "The Work Ethic State," The New Republic, July 7, 1986, p. 22.

handling their own affairs; and one that keeps the role of government to a minimum. Those experiencing poverty firsthand must play a primary role in developing avenues of escape. Above all, the black community must disentangle itself from the welfare professionals who perpetuate a poverty population in order to justify their jobs.

A LEGACY OF SELF-DETERMINATION AND SELF-HELP²

The view that most blacks cannot "make it on their own" is one that is either explicitly or implicitly accepted by a widely diverse group of people whose political views span the ideological spectrum. It is accepted by white supremacists who believe that blacks cannot compete and be successful because they are inferior. It is accepted by leftist intellectuals who believe that blacks cannot be successful because capitalism is unfair. It is accepted by a welfare bureaucracy that would like us to believe that most blacks would live in miserable poverty without billions of dollars of government spending. It is accepted by black and white civil rights activists who would like us to believe that blacks cannot compete and win as long as there is any remaining vestige of racism in our society.

The facts of black history say otherwise. The history of black Americans is a history of success, not failure -- success in the face of racism, political disenfranchisement, Jim Crow laws, race-baiting politicians and a generally hostile white society. The history of black Americans is a history of a people who developed a culture conducive to success and who built the institutions needed to sustain that culture. Unfortunately, this is a history that remains largely untold.

A Legacy of Entrepreneurship

Prior to the Civil War, even free blacks systematically were denied basic political rights throughout the United States:³

- Between 1814 and 1861, free blacks were disenfranchised in Delaware, Kentucky, Maryland, Ohio and New Jersey.
- They were either denied the vote or drastically restricted in their access to it in Connecticut, New York, Rhode Island, Pennsylvania, Indiana, Illinois, Michigan, Minnesota, Wisconsin, Iowa, Kansas, North Carolina, and Tennessee.

²This section is based largely on Robert L. Woodson, "A Legacy of Entrepreneurship," in Robert L. Woodson, ed., On the Road to Economic Freedom: An Agenda for Black Progress, (Washington, D.C.: Regnery Gateway, 1987), pp. 1-23.

³R. Kluger, Simple Justice, (New York: Alfred A. Knopf, 1976), p. 38.

Yet these and other barriers to black progress did not kill the black community's collective will and determination to succeed. Indeed, the more restrictive the political, social, and economic barriers, the more determined black Americans appeared to be in their resolve to overcome them. Progress, for the most part, came about because the black community did what it had to do -- rely on its own resources to survive and prosper.

Black Entrepreneurs. Before the American Revolution, before slavery, and even before the arrival of the Mayflower, blacks already were firmly entrenched as workers and entrepreneurs determined to make good in a new land of opportunity. During the 17th and 18th centuries, free blacks owned inns, stables, construction firms, barber shops, tailoring and catering establishments, restaurants and taverns. They also ventured into shipbuilding, furniture and machinery manufacturing, real estate, and newspaper publishing. On the eve of the Civil War, the total personal wealth of free blacks in the U.S. was at least \$50 million.⁴

Interestingly, black entrepreneurs often turned racial barriers erected in the marketplace into opportunities for business success. For example,⁵

- In 1863, when more than 1,000 blacks were fired from the loading docks in Baltimore, they responded by forming the Chesapeake and Maine Railroad and Dry Dock Company -- a company that operated successfully for 18 years.
- In Philadelphia, because blacks were systematically denied access to business loans, they started ten savings and loan associations.

In the years following the Civil War, there was a virtual explosion of black entrepreneurial activity as blacks formed banks, insurance companies, savings and loan associations and wholesale food supply houses. Fifty years after emancipation, the evidence of black economic progress was striking:⁶

- By 1913, black Americans had accumulated a personal wealth of \$700 million.
- This included 550,000 homes, 937,000 farms and 40,000 businesses.

The Black Economy. In general, the economic success of any one black business had spillover benefits for other blacks. Where they were prevented or discouraged from participating in the white economy, blacks reaped the benefits of specialization and trade with each other. Black businesses hired black

⁴R. J. Yancy, Federal Government Policy and Black Business Enterprise, (Cambridge, Massachusetts: Ballinger Publishing Co., 1974), p. 9.

⁵Robert L. Woodson, "Self Help, Not Big Daddy, Must Rescue the Black Underclass," Washington Post, May 12, 1985.

⁶L. Bennett, Before the Mayflower: A History of Black America, (Chicago, Illinois: Johnson Publish Co., 1969), p. 287.

employees. Black banks made loans to black businesses, black landowners, and black homeowners. Blacks were able to purchase insurance, buy homes and rent apartments -- often from other blacks or with loans from other blacks.

One especially interesting example of black economic cooperation occurred in Harlem, with the encouragement of Booker T. Washington's National Negro Business League:

- Founded in 1905, the Afro-American Realty Company, practically singlehandedly, turned white Harlem into a black metropolis.
- The company bought apartments and rented them to blacks; within a short period of time, blacks owned and controlled more than \$60 million in Harlem real estate.

Black Towns and Black Communities. Precisely because of the barriers they faced in the white economy, blacks often created entire communities in which virtually all goods and services were supplied by blacks to each other. These communities evolved into viable societies with their own hospitals, banks, restaurants, insurance companies, food and clothing stores, gas stations, moving companies, and other essential enterprises. Black newspapers reported on the community's life; black doctors treated the community's sick; and black undertakers buried the community's dead. Black theaters, inns and hotels thrived at a time when racial segregation was a fact of life and law.

Black communities formed in the North as well as in the South. In the early part of the 20th century, nearly 1.5 million blacks moved out of the South to northern states. Many of these migrants, like the frontiersmen before them, felled trees, cleared wooded areas and created their own communities in Pennsylvania, New York, New Jersey, Ohio, Illinois, and in other states.

When blacks moved to large northern cities, they frequently transformed previously white areas into black urban enclaves. As new roots were put down, black churches took over previously white churches and synagogues; black doctors opened hospitals and clinics; black dentists and lawyers put out their shingles; black entrepreneurs bought out white businesses; and black politicians mustered black voters to become members of previously all-white city councils and state legislatures.

The early 1900s also produced the phenomenon of scores of all-black towns. These included Mound Bayou, Mississippi; Nichodemus, Kansas; Boley, Oklahoma; and Langston, Oklahoma. The founder of Langston stated bluntly that these towns were created for the purpose of allowing blacks to "rule supreme in their own community."⁷

⁷V. P. Franklin, Black Self-Determination, (Westport, Connecticut: Lawrence Hill and Co., 1984), p. 143.

A Legacy of Self-Help Institutions

The story of black economic success is a story of Americans who exhibited backbone, resolve, energy, vitality, creativity, innovation and intellect at a time when the country generally was either indifferent or hostile to their interests. Yet this success would not have been possible if it were based solely on the pursuit of economic self-interest. An entire culture developed, along with institutions to support it. Some of the roots of this culture grew out of the 19th century resistance to slavery, when free black vigilance committees helped runaway slaves by supplying the fugitives with lodging, clothing, medicine, and letters of introduction for employment. But the roots of a culture of self-help - in which blacks help blacks succeed -- goes far beyond resistance to slavery. In some ways it was a culture that developed out of necessity.

The Self-Help Culture. From the end of the Civil War until the Great Depression there was an almost unbroken upward trend in black economic progress. On the eve of the Depression, there were 65,000 black-owned businesses in the United States. Yet the Depression, devastating to the country as a whole, was even more devastating to blacks.

- During the Depression, many black businesses failed and were never revived.
- About one-fourth of all black workers were unemployed.
- Even in the New Deal emergency relief projects, blacks were paid less, hired last, and fired first.

During this period, the black community showed the same spirit it showed a century earlier when blacks plotted slave rebellions and mapped escape routes in their resistance to slavery. The extended family concept, a mainstay of slavery, was revived nationwide as unemployed aunts, uncles, and cousins moved into the households of traditional family units. Mended and altered clothing was passed down and around by people who had to share to live. Families lived on credit extended by the neighborhood (black) grocer. Black churches and fraternal organizations served as gathering points for food, clothing distribution, and job information.

Mediating structures such as churches, neighborhood associations and families linked the private lives of individuals in achieving collective goals. These institutions gave black communities across the land a cohesiveness of spirit and purpose during a time of setback and retrenchment. Rent parties, rummage sales, quilting bees, church socials, homecomings, lodge meetings and neighborhood gatherings around a communal pot-bellied stove served to unify a community driven by the will and desire to survive. During this period government relief was modest and sparse. There was no modern welfare state.

The Role of Churches. The church has always played a more important role in the black community than in the white community. The black church is not merely an institution that transmits religious values and engages in occasional charitable projects. In the black community, the church became the focal point of the philosophy of bootstrap economics and determined self-help.

In the 19th century, black churches were the central force in organizing mutual aid societies and in providing services and resources for the congregation. In many ways, black entrepreneurship flourished through a church-led process of promoting aggressive self-determination. Many black insurance companies, banks, publishing houses, newspapers and a host of smaller businesses owed their survival to the economic muscle of the black church.⁸

This tradition was continued during the Depression years. Father Divine and Daddy Grace were two notable black ministers who combined religion and economics in an attempt to absorb the black poor into their flocks. Both Grace and Divine operated many businesses and provided hundreds of jobs for the unemployed. Divine grew his own food at black farm co-ops and provided free meals for all who entered his churches.⁹

Even today, many people believe that the most important strength of black families is their strong religious commitment:¹⁰

- According to a 1981 Gallup poll, 67 percent of blacks say that religion is "very important" in their lives.
- This compares to only 55 percent of whites.

The overwhelming majority of blacks belong to churches and attend church regularly. According to the National Urban League's Black Pulse Survey in 1979-80,¹¹

- About 76 percent of all blacks belong to churches.
- About 67 percent attend once a month, and 47 percent attend weekly.
- About 71 percent of all black parents send their children to Sunday School regularly.

Educational Achievement. Contrary to many contemporary notions about black culture, educational achievement has always been highly valued in the traditional black community:¹²

⁸Bill Alexander, "The Black Church and Community Empowerment," in On the Road to Economic Freedom, p. 45.

⁹Ibid., pp. 53-54.

¹⁰Robert B. Hill, "The Black Family: Building on Strengths," in On the Road to Economic Freedom, p. 86.

¹¹Ibid.

¹²Bennett, Before the Mayflower, p. 287.

- Partly because of the stifling effects of slavery, in 1863 only five percent of all blacks were literate.
- By 1913, the literacy rate among blacks had climbed to a phenomenal 70 percent.
- That same year there were 75,000 employed black teachers and 1.7 million black students enrolled in mostly black public schools.

By the end of World War II, both the black literacy and the elementary school enrollment rates were approaching parity with the rates for the country as a whole.¹³ Moreover, droves of returning black veterans took advantage of the G.I. Bill of Rights. Blacks overwhelmed colleges and universities at both the graduate and undergraduate levels. On a large scale, they moved into electronics, medicine, law, radio-TV repair, sociology and psychology, the arts and humanities, and business administration and economics. Virtually no field was untouched by black Americans' traditional, unquenchable hunger for knowledge.

The Black Press. The most important information pipeline in the black community has always been the black press. As early as 1827, scores of black newspapers fought aggressively for equal rights with their crusades for community protest, solidarity and betterment for black people. Their independence was assured by the fact that local black businesses provided the bulk of the advertising revenues.

- In the early part of the 20th century, a network of black newspapers and magazines fought back at lynchings, white mob violence, and other forms of oppression.
- During the Depression years, the black press joined with the black church and black community organizations in mobilizing support for "Buy Black" and "Spend Your Money Where You Can Work" campaigns.
- In the aftermath of World War II, the black press was the single most important vehicle for portraying positive role models in the black community.

In general, the black press made heroes of neighborhood folk: The mothers, fathers, aunts, uncles, cousins and neighbors who fought off the mobs; the workers who returned to the factory gates every day despite taunts, jeers and abuse; the young men who marched off to war; and the politicians and clergymen who organized boycotts and demonstrations to open up housing and employment opportunities.

The practice of portraying positive black role models in an attractive way was elevated to a high art by the magazine Ebony, first published in 1945. Ebony packed its splashy pages with black role models in sports, entertainment, law,

¹³R. Bandolph, The Negro Vanguard (New York: Vintage Books, 1961), p. 275.

education, medicine, architecture, politics, science, literature, and business. Interestingly, Johnson Publishing Company (which publishes Ebony) ranked as the number one black business in America in 1985.¹⁴

Self-Help vs. Government

Since the Civil Rights movement reached its zenith more than two decades ago, a new generation of black Americans has come of age. It is a generation bred on government dependency and despair. The tragic statistics that describe black America today serve as an ironic ending to an era of racial progress. Black youth unemployment is dangerously high; more than half of all convicted felons are black; and educational attainment among black Americans is despairingly low. The failure of current social policies is well-documented. These policies have created a class of citizens permanently dependent on government programs, a dependency that often passes from one generation to the next.

Without abandoning programs that sustain the poor, we must shun policies that breed dependence and embrace policies that promote development and give people more power to improve their own lives. Before black America's historical zest for free-enterprise, self-assertion and success is completely lost, policymakers must remove regulatory barriers and begin breaking away from the "government-knows-best" policy that has quashed black America's traditional desire to prosper. And through its own efforts, black America must help lift itself out of the pitfalls of poverty.¹⁵

In the 1960s, the civil rights movement fought institutional racism as manifested in laws, policies and community-wide attitudes that denied blacks public accommodation, voting rights and political representation in government. Along with a host of other obvious gains today, blacks have free access to public places and seven of the 12 major cities in the country have black mayors. Black America enjoys far greater political power than any other minority group. Since 1970, the number of black members of Congress has more than doubled, and the number of black mayors is approaching 300. Yet this power has not translated into either economic power or influence.¹⁶ There is no better example to prove the point than our nation's capitol:¹⁷

¹⁴"The Top 100 Black Businesses," Black Enterprise, June, 1985, pp. 97-105.

¹⁵Robert L. Woodson, "Empowering Poor Neighborhoods," Critical Issues: A Conservative Agenda for Black Americans, (Washington, D.C.: The Heritage Foundation, 1987).

¹⁶Robert L. Woodson, "Civil Rights and Economic Power," IBM Think Magazine, No. 2, 1987, pp. 35-37.

¹⁷Woodson, "Self-Help, Not Big Daddy, Must Rescue the Black Underclass."

- Washington, D.C. is a city run by blacks and controlled by blacks, with a black mayor, a black-controlled city council and a black-controlled school board.
- Despite this political control and despite millions of dollars of federal money spent on downtown development, one is hard-pressed to find any black-owned businesses there.

For black Americans, the goal of economic independence and self-sufficiency can only be reached by private sector, self-help efforts -- not through more government control. Fortunately, the black community has a rich cultural tradition on which to draw. That tradition is alive and well today in cities and counties across the country.

What follows are a few examples of self-help programs the black community has created to solve problems that government has not solved and, in some cases, has made even worse. The originators of these self-help programs have unique, firsthand knowledge concerning the problems and resources to be found in their communities. They have established track records for solving social and economic problems by motivating their communities to develop innovative solutions to unemployment, substandard education, inadequate housing, teenage pregnancy, gang violence, child care, and other community issues.

PRIVATE SECTOR SOLUTIONS: HOUSING

Public housing was originally created to serve as temporary residences for middle-class families rendered homeless during the Great Depression. During the post-depression economic recovery, upwardly mobile families migrated out of public housing and the public housing population became increasingly poor, welfare dependent, and black. Public housing today often serves as a breeding ground for crime, drugs, welfare dependency, hopelessness and despair.

Each year the federal government spends about \$4.8 billion to support more than 10,000 housing projects across the country. Yet despite the billions of dollars poured into public housing since its creation, conditions remain deplorable for many low-income tenants. Public housing authorities charged with administering this financial empire are losing millions of dollars through poor management practices. These include failing to collect back rent, failing to perform routine maintenance, and failing to evict non-paying tenants. As a result, the overall quality of America's public housing continues to decline. For example, in 1983 about 90,000 of the 1.2 million public housing units were unoccupied because of vandalism or neglect.

Although public housing is often housing of last resort, there are many residents who have lived in housing projects their entire lives and remain there by choice, even after their financial status would allow them to move. Most public housing residents want for their families exactly what all Americans want -- safe, pleasant living conditions in which to work, to socialize and to raise their children. Many residents of public housing are more concerned with

improving their current environments than with "getting out." Public housing, they contend, need not be the housing of last resort. Rather, it should be as it was initially designed -- decent and safe housing where people can live, raise their families and prosper.

Until recently, housing projects were always managed by "professionals" -- trained foot soldiers in the army of bureaucrats who man the gigantic apparatus of the welfare state. Tenants were given little or no voice in any formal decisions. Their environment was completely controlled by others. The housing projects have been derisively described as the federal government's answer to the plantation system. The symbolism is apt. The projects communicated to the tenants a harsh message: You have no control over your own destiny.

Fortunately, things have begun to change. In Washington, Boston, New Orleans, St. Louis, Cleveland, Jersey City, Chicago, Rochester -- and anywhere else the public housing authorities will allow it -- residents are being given the power to manage their own projects. Wherever this has occurred, dramatic and striking changes have taken place. Scores of small businesses and hundreds of jobs have been created; crime and vandalism have decreased; the incidence of teenage pregnancy has decreased; and fathers and husbands have returned to their families. At the same time, administrative costs have been drastically reduced; vacant apartments have been repaired; and rent collections have doubled and tripled.

Resident management corporations, whereby tenants take full responsibility for managing their own properties, have turned public housing projects into healthy communities that place a premium on education, family, and self-motivation.

Case Study: Kenilworth-Parkside in Washington, D.C.¹⁸

The Kenilworth-Parkside housing development in northeast Washington, D.C. is attracting growing national attention. Prior to the resident management takeover in 1982, the project was plagued by drugs, crime, vandalism, and soaring teenage pregnancy. The roofs were caving in, trash and graffiti were everywhere, and the residents had endured three years without heat or hot water. Kimi Gray, a young single mother with five children, thought she and the other residents could do a better job of running Kenilworth-Parkside than the housing authority. She turned out to be right.

¹⁸Descriptions of the Kenilworth-Parkside housing projects may be found in Gil Klein, "For the Poor -- Hope, Schooling, Independence," The Christian Science Monitor, Sept. 17, 1985; "When Tenants Take Over," U.S. News and World Report, August 4, 1986; and "The Legacy Revived: A Self-Help Design for Living," in On the Road to Economic Freedom, pp. 24-26.

A resident-management corporation, headed by Gray, now has responsibility for collecting rents, maintaining the building and grounds, enforcing housing regulations, screening applicants, maintaining accounting records and setting policies. The results have been dramatic. Since the residents took over the management of the project,

- Teenage pregnancies have been reduced by 50 percent;
- Crime has been reduced by 75 percent;
- Welfare dependency has been reduced by 50 percent; and
- Income from work has increased by 27 percent.

Using the entrepreneurial skills of the residents, businesses were established within the project to provide jobs for unemployed tenants. These include a co-op supermarket, a barber shop, two day-care centers, a health clinic, a snack bar and carryout shop, a thrift store, a catering service, a screen door repair shop, and a video arcade.

The management has not only succeeded in taking residents off welfare by giving them jobs, they also have kept families together and sent more than 500 youngsters off to college through strong community programs. Among the services provided to residents: a family counseling service, a free legal clinic, various support services for senior citizens, job training programs, and a job referral service. Moreover, what's good for people also has turned out to be good for business:

- Rent receipts have increased by 130 percent;
- Administrative costs were cut by 64 percent in the first year of operation; and
- Instead of being a steady drain on the public purse, the project now generates enough in revenues to cover all of its operating costs.

Other Case Studies¹⁹

Kenilworth-Parkside is not alone. Similarly dramatic changes have occurred in housing projects across the country where tenants have been given the opportunity to control their own destiny.

B. W. Cooper Tenant Management Corporation (New Orleans). When the tenants took over in 1978, there was a backlog of 3,000 requests for maintenance and repairs in the projects. Today, the backlog has been reduced to zero.

¹⁹For additional descriptions of these projects, see "When Tenants Take Over."

A. Harry Moore Tenant Management Corporation (Jersey City). When the tenants took over in 1978, the vacancy rate was 20 percent. Today, it has been reduced to two percent. The monthly backlog of uncompleted repairs has been reduced from 150-300 per month to 20-40 per month. The crime rate has been reduced from three times the city-wide average to below the city-wide average.

Bromley Heath Tenant Management Corporation (Boston). In pre-tenant-management days, the project had 4,000 broken windows, and crime was so rampant that even the police were afraid to enter the area. Today, the windows are repaired and robberies have been cut by 77 percent.

Cochran Garden Tenant Management Corporation (St. Louis). Home to 3,600 people, Cochran Garden's 12 buildings are neat and secure with well-maintained yards and playgrounds for the many children who live there. The freshly-painted apartments have new appliances and most teenagers are in school. There was a time when Cochran had so much vandalism, drug traffic and crime that it was nicknamed "Little Nam." At Cochran today, those applicants with no criminal record, steady employment, an insured car and whose children have missed fewer than ten days of school a year have the best chance to become residents. Cochran leaders have started businesses that provide jobs and have formed joint-ventures with real-estate developers to construct 675 new units of housing.²⁰

Public Policy Proposals

At a time when communities are struggling with a scarcity of federal resources and mounting social crises within public housing, it is critical that public policy build on the notable accomplishments of resident management organizations. New policies should remove regulatory barriers to neighborhood self-help, and seek to give low-income people direct control over government expenditures on housing. In particular,

1. New efforts must be made to convert housing projects managed by the social service bureaucracy into housing projects managed by tenants themselves.
2. New government funds intended to modernize public housing projects should be directly tied to incentives to develop and establish workable resident management programs.
3. "Urban homesteading" should be encouraged and, if necessary, subsidized. Currently government owns thousands of abandoned housing units that are a drain on public resources and a blight for urban areas. Low-income tenants who are willing to "settle" in these units should be able to buy them for \$1 and obtain a private property right in the dwellings.

²⁰Martin Wooster and John Fund, "Up From Public Housing," Reader's Digest, July, 1987, pp. 139-143.

4. Housing vouchers should be encouraged as an alternative to government construction of low-income housing. Through the use of vouchers, public and private housing should be forced to compete for tenants on a level playing field.
5. Existing housing vouchers often restrict the ability of low-income people to relocate to areas where job opportunities are more abundant. These restrictions on mobility should be removed.
6. In order to encourage private sector alternatives to public housing, we should retain rapid tax write-offs for investors who construct low-income housing.

PRIVATE SECTOR SOLUTIONS: EDUCATION ²¹

There are many excellent public schools throughout the U.S. Experimental academic high schools in many urban areas have proved to be a boon to fast-learning students. Many affluent suburbs can boast of schools that regularly turn out high scores on merit scholarship tests.

Every large city can point to one or more model schools. But every large city, too, can point to educational disaster areas that are shunned by elected officials and hated by teachers, students, and parents alike. Unable to supply even basic educational needs, these schools deny students the dignity, discipline and challenge of scholarship. Because of this academic abandonment, many students are labeled, often unfairly, as "uneducable" or as "learning disabled."

The victims of these schools are not all black. They afflict students from every nationality and ethnic group. The casualties of inner-city public schools are system-wide. Yet estimates that as many as 40 percent of all black youngsters are functionally illiterate²² indicate that the burden of a failing public school system is falling disproportionately on the shoulders of black children.

²¹This section is based largely on Robert L. Woodson, "Education and Learning: Feeding the Hunger," in On the Road to Economic Freedom, pp. 93-103.

²²U. S. Department of Education and National Commission on Excellence in Education, A Nation at Risk; The Imperative for Educational Reform, U. S. Government Printing Office, April, 1983, p. 8.

Origins of the Independent School

From the beginning of the black American experience, the quest for education has been insatiable. Following emancipation, an educational explosion spanning 80 years nearly wiped out black illiteracy. Education and literacy were valued, especially during slavery, because the ability to read and write was associated with freedom. Books were sneaked onto plantations, hoarded and protected like gold bars, and the business of learning was tended to in stealthy fashion.

In 1803, Prince Hall, a free black, opened the first black independent school in his home in Boston. Hall's effort was prompted by the low attendance levels of black children in Boston's public school system -- a system that was generally hostile to blacks. His school was an immediate success, and it led to the creation of similar schools in other cities and towns. The independent school is a tradition that continues to this day.

It is significant that the earliest examples of black learning were initiated by the black community itself. Black entrepreneurs and professionals, along with black churches and fraternal organizations, joined together to provide schooling (legally or illegally) in every state that had a significant black presence.

In 1901, W. E. B. DuBois produced a report on financial expenditures for black and white public schools in 16 southern states and Washington, D.C. The report documented that although blacks constituted 60 percent of the school-age population in Mississippi, they received less than 20 percent of public school funds -- far less than the sum black Mississippians paid in state, county and city taxes. Furthermore, the school year for blacks lasted only 101 days, or less than four months.

The experience in Mississippi was not unique. Throughout the South, the underfunded black school system offered the bare bones of education -- using dilapidated buildings, outdated textbooks and leftover supplies from the white system. Often, black parents supplemented public funds with their own resources to purchase school sites, schoolhouses and school furniture.

According to studies, testimony given at Congressional hearings, and special education reports, the vast majority of blacks in the late 1800s actually preferred separate but equal educational facilities. Integration was not even an issue. What was an issue was how the blacks were going to maintain educational quality. It was only through the strong-willed efforts of the black community providing "back-up" educational support systems that the public schools were prevented from turning out generations of functional illiterates.

There is nothing new about the view that public school systems are unresponsive to the educational needs of black children. What is new and erroneous, in the era of the modern welfare state, is the view that there are few alternatives to schools run and operated by government.

Independent Schools Today

A major turning point in the history of black Americans occurred in 1934, when W. E. B. DuBois was dismissed as editor of Crisis, the NAACP's flagship publication. DuBois argued that black progress was more important than integration, and that the former should not be sacrificed to the latter. The NAACP officials disagreed. Twenty years later, black psychologist Kenneth Clark convinced a majority of Supreme Court Justices that segregation was inherently damaging to the personalities of black children, irrespective of the quality of their education. What has ensued has been a 30-year period in which the federal courts have pursued an integration-at-all-cost policy. The costs have been too high.²³

If DuBois lost the battle, his position has won the war -- at least for a growing number of black parents who have shown with their time, effort and money that education comes first. Disillusionment with the public schools has given way to self-help action in low-income neighborhoods from Boston to Los Angeles. Neighborhood-based, independent preschools, elementary schools, middle schools, and high schools are springing up in areas where public school systems have turned their backs on education. Operating almost exclusively on money collected from tuition and modest community fundraising, this private school network has become a viable option for low-income parents concerned about securing quality education for their children.

Participating in neighborhood schools usually heightens a family's sense of dignity, self-worth and achievement. Parents often help raise money for the school and donate paper, pencils, typewriters, and other supplies. This involvement and the shared desire to contribute to the success of the next generation has motivated many families to pool their resources for the common good of the community.

The National Center for Neighborhood Enterprise has identified more than 300 neighborhood-based, independent schools that are meeting the needs of minorities.²⁴ For example, at least 11 different independent schools are operating in the Washington, D.C. area alone. Most of these schools are owned and operated by minorities, serving black, Hispanic, American Indian and Asian-American children. The curriculum usually emphasizes the educational basics: reading, writing, arithmetic, and often higher-level math, computer literacy and foreign languages. In addition, these schools usually have regularly scheduled classroom study of the students' cultural and ethnic backgrounds. This contributes to a wholeness of character that lends itself to further student participation and receptivity -- a practice rarely found in public schools.

²³Glenn C. Loury, "Making It All Happen," in On the Road to Economic Freedom, pp. 115-116.

²⁴See Independent Schools: Give a Child a Chance, (Washington, D.C.: National Center for Neighborhood Enterprise, 1985).

Another important feature of independent schools is that they often reach out to troubled youths who have become gang members and alcohol and drug abusers. In this way, they have become an important factor in converting negative energy into a positive force that reaps benefits for the entire neighborhood. There are even instances where former gang members volunteered their time to convert old buildings into community schools.

Case Study: Ivy Leaf School, Philadelphia²⁵

Founded in 1965 by Liller and William Green, Ivy Leaf offers a curriculum that extends from preschool through the eighth grade. Its purpose is succinctly explained by Liller Green:²⁶

We had to create an environment where black children would be taught to be proud of themselves and their heritage. We had to teach them that they could succeed before society had the opportunity to teach them they could not.

In terms of academic achievement, the school has been phenomenally successful.

- About 85 percent of the students score above the national average on California Achievement Tests.
- Ivy Leaf's eighth grade graduates are regularly sought after by some of the most prestigious high schools in the nation.
- About one-half of the graduates are placed in the top academic schools in Philadelphia.
- Many receive full scholarships to private institutions such as Andover Phillips Academy in Andover, Massachusetts.

In addition to academic achievement and instilling a sense of pride and self worth in its students, Ivy Leaf also teaches them firsthand knowledge about the world of business. In 1984-85, along with the National Center for Neighborhood Enterprise, the school developed a project to give students entrepreneurial experience selling and installing smoke detectors. The students sold more than 1,700 smoke detectors and grossed more than \$16,000 in sales in the first three months of operation. Most of the sales were in low-income areas.

²⁵See "Reading, Writing and Relevance," in On the Road to Economic Freedom, pp. 104-109.

²⁶Ibid., p. 104.

Tuition at Ivy Leaf, incidentally, is only \$1,600 per year. This is less than the average per pupil cost at public schools and about half of the tuition charged by private schools of comparable quality.

Public Policy Proposals

A common myth in our society is the notion that private elementary and secondary schools exist primarily to serve the children of the rich and the elite. Nothing could be further from the truth:²⁷

- Of 21,000 private schools in the United States, only 1,000 -- less than five percent -- are the so-called elite schools with annual tuitions of \$3,000 to \$9,000.
- The other 95 percent of private schools usually cost less than public schools and serve Americans from all walks of life.

Poor families who are struggling to educate their children must have an opportunity to expand their educational options by choosing among public and private schools. Choice enhances a family's dignity and self-worth. It also improves the quality of education. Just as the GI Bill enabled millions of war veterans to choose among the nation's colleges and universities, an educational voucher system would give poor children and their families educational choices and would force public schools to compete in the marketplace, or face empty classrooms.

PRIVATE SECTOR SOLUTIONS: CARING FOR CHILDREN

Mistaken assumptions about black family life permeate contemporary social discourse. The assumptions -- either implicitly or explicitly -- appear in the print media, in academic studies, and in government reports. All too frequently, they form the basis for misguided social policies. Some of the worst of these assumptions are as follows:

1. It is assumed that single black mothers live in isolation from others and are totally lacking in financial or other resources. One implication is that these women are necessarily wards of the state. Another implication is that these women could not possibly engage in productive work without access to expensive day care centers for their children.
2. It is assumed that single black mothers head families that are "broken," "discouraged" or "pathological" and that their children are necessarily psychologically damaged by the experience. An implication is that these women are probably unsuitable for productive work and even if they could work, their children probably would be further damaged by the experience.

²⁷Independent Schools: Give a Child a Choice, p. 23.

3. It is assumed that black babies are largely "unadoptable." An implication is that the children of single black teenage mothers must either be haphazardly raised by their mothers or grow up as wards of the state in foster care institutions.
4. Finally, it is assumed that black teenagers live in an unalterable culture in which marriage and two-parent families have ceased to be a way of life. An implication is that little can be done about the problem of teenage pregnancy other than attempts to collect child support from fathers, when and if they get a job.

These assumptions have formed the basis for some of our worst public welfare programs. Yet each and every one of them is false.

Child Care and the Extended Family

All black teenage mothers come from families. Whether or not they are on welfare, these women frequently rely on families when things get tough. Far from living in isolation from others without financial resources or means of private help, these women usually are part of the extended family network that has always been more important in the black community than in the white community. Moreover, just as the extended family played such an important role during the years of slavery and during the Great Depression, so it has once again become the mainstay of a community that is experiencing increasing numbers of out-of-wedlock births to teenage girls:²⁸

- Currently 85 percent of the children born to single black teenagers live in the homes of their grandparents.
- Because of the young age of the mothers, grandmothers tend to be 35-45 year-olds rather than the 55 to 65 year-old grandmothers that were prevalent a decade ago.

Moreover, the extent of "doubling up" tends to rise and fall as economic conditions change:²⁹

- In periods of economic recession, extended families are more likely to be used as resources than in periods of economic expansion.
- For example, due to the effects of the 1974-75 recession, the proportion of single-parent black children living with their mothers in the households of kin rose from 30 percent in 1973 to 39 percent in 1975.

²⁸Hill, "The Black Family," in On The Road to Economic Freedom, p. 82.

²⁹Robert B. Hill, Informal Adoption Among Black Families (Washington, D.C.: National Urban League Research Department, 1977).

The failure of social scientists and policy makers to examine closely the way single-parent black families actually live has led to mistaken conclusions about the psychological health of their children. Recent statistics on child abuse, battered wives, and incest reveal a much higher prevalence of violence in "intact" two-parent families than is commonly believed. In fact,

- The incidence of runaway children is higher in intact, two parent families living in inner-city areas than in one-parent families.³⁰
- Moreover, rates of child abuse are highest among parents who are isolated from kin and lowest among parents who are integral parts of a cohesive kinship network.³¹

These findings have important implications for public policy:

Aid to Families With Dependent Children (AFDC). Started during the depression years as a means of aiding widows and orphans, this program has mushroomed in recent years because of the high incidence of divorce and out-of-wedlock births. AFDC is what is most commonly meant by the term "welfare" and those who qualify for AFDC are automatically eligible for food stamps and Medicaid. Yet AFDC, as it is now structured, does not acknowledge extended family relationships. As a consequence, the program is completely incapable of assessing genuine needs.

Day Care. A common feature of "workfare" programs -- now in effect in one form or another in 28 states -- is public provision for day care for AFDC mothers who enter work training or job programs. Yet the public officials who run these programs have expressed shock and surprise at the small number of black women who take advantage of these day care opportunities.³² Part of the explanation may be that extended family relationships in the black community already offer cheaper (and probably better) day care than the institutionalized version provided by government.³³

- Currently, about 50 percent of all black working mothers use relatives for day care services and another 20 percent use non-relatives (usually neighbors and friends).
- By contrast, only five percent of the women use day care centers.

³⁰Hill, "The Black Family," in On The Road to Economic Freedom, p. 78.

³¹Ibid., p. 82.

³²See Kaus, "The Work Ethic State," p. 32.

³³U.S. Bureau of the Census, "Daytime Care of Children," October, 1974 and February, 1975, Current Population Reports, October, 1976. Cited in Hill, "The Black Family," p. 82.

Reliance on relatives for day care services is especially prevalent among single black women:³⁴

- About 83 percent of black mothers who have never married use relatives for day care services.
- This is more than twice the percentage for black mothers who are currently married.

Foster Care

There are about 275,000 children locked in this country's publicly supported foster care system, costing taxpayers \$5 billion a year. The system has little to recommend it. In the words of the National Council of Family and Juvenile Court Judges, what we have done is "replace parental neglect with government neglect." For example,³⁵

- Several studies, including one by the New York City Council, found that the mortality rate for children in foster care is twice the national average.
- Another report found that a significant number of youngsters become delinquent as a direct result of prolonged foster care.

In addition, the foster care system is replete with bureaucratic waste and inefficiency. Studies show that about 70 percent of the money allotted for foster care nationwide is spent on overhead and salaries. Examples of abuse abound:³⁶

- In one instance, an agency that received \$24,000 per year per child spent less than \$3 per day to feed and clothe each child.
- In another instance, four agencies in the same city received a total of \$6 million to place 2,000 children for adoption; yet only ten children were placed after a year's time.

³⁴Ibid.

³⁵Robert L. Woodson, "Bureaucratic Barriers to Black Adoption," The Wall Street Journal, June 26, 1984.

³⁶See "A Haven in a Bureaucratic Storm," in On the Road to Economic Freedom, p. 89.

Nearly half of the children in the foster care system are black. Social welfare industry officials attribute the high proportion of black children in these institutions to the unwillingness of black families to adopt and to the increasing teenage pregnancy rates among blacks. The facts suggest otherwise. According to one national survey,³⁷

- 37 percent of all black families are interested in taking in a foster child, and 30 percent are interested in legally adopting one.
- This means that the number of black families interested in legal adoption is more than four times the number of black children born out-of-wedlock each year.

The real villain is the snarl of red tape and tangle of rules, regulations and adoption procedures that screen out prospective black families and inhibit the adoption of waiting children. Those who dominate the selection and placement process often apply inappropriate standards in evaluating the qualifications of black families to care for their own and other children.

The result is that the black community relies extensively on informal (and perhaps even illegal) methods of adoption. In addition, there are rare instances of private sector adoption services that have managed to bypass the public sector's rules and red tape.

Informal Adoption. Informal adoption and child care is widespread throughout the United States. For example,³⁸

- Currently, about three million children, half of whom are black, have been informally adopted by relatives; and
- Millions more live with relatives for short periods of time.

Although informal adoption is prevalent in both the black and white communities, it is far more prevalent among blacks. The black community has a long established tradition of informal adoption and foster care through extended family networks. Black families, for example, adopt ten times more babies through informal methods than they do through formal channels. According to one study,³⁹

³⁷Evaxx, Inc., "A Study of Black American's Attitudes Toward Self-Help," unpublished report prepared for the American Enterprise Institute, August, 1981. Cited in Hill, "The Black Family," in On The Road to Economic Freedom, p. 83.

³⁸Hill, Informal Adoption Among Black Families.

³⁹Robert B. Hill, Economic Policies and Black Progress, (Washington, D.C.: National Urban League Research Department, 1981).

- About 15 percent of all black children have been informally adopted -- usually by relatives.
- Interestingly, female-headed black families are three times more likely than husband-wife families to adopt children informally.

Case Study: Detroit's Homes for Black Children.⁴⁰ In 1969, a number of blacks under the leadership of Mrs. Sydney Duncan organized a private adoption agency called Homes for Black Children. The agency bypassed the bureaucracy, lessened income restrictions and reduced the home-study time from two years to six months. The results were striking:

- More than 800 black children were placed for adoption in less than 10 years.
- This number exceeds the number of black children moved from foster care to permanent adoptive homes by Detroit's 13 other public and private agencies combined.

Replication of this model in Phoenix, Arizona and Washington, D.C. also has produced dramatic results. However, in most cities all such efforts meet with stiff opposition from the established social welfare industry.

Teenage Pregnancy

Of all the statistics pointing to the plight of the underclass, none is more shocking than the tragic rate of teenage pregnancy. Teenagers who become pregnant often lack a real home, a relevant education, decent clothing, or warmth and love. In short, they lack the essentials that any child needs to grow and develop self-esteem. Unless pregnant teens are given incentives to broaden their economic and personal horizons, their self-worth is shattered and their potential productivity lost. Teen pregnancy prevention programs can work if they are community-based and involve caring people within the youngster's neighborhoods.

Case Study: Kenilworth-Parkside, Washington, D.C. The Kenilworth-Parkside "It's Okay to Say No" program strives to convince teenagers that it is not in their best interest to become sexually active before achieving education and employment goals, to provide role models for young men and teach them the responsibility and pride of fatherhood, and to convey the notion to young women that they do not have to become trapped in the welfare system as did many of their mothers and grandmothers. Regularly scheduled workshops and job opportunities, made available by the resident management team, have reduced the teenage pregnancy rate by 50 percent and also have reduced dramatically the number of teenage welfare recipients.⁴¹

⁴⁰See "A Haven in the Bureaucratic Storm," in On The Road to Economic Freedom, pp. 89-92.

⁴¹Like Kenilworth-Parkside, almost every successful resident-management program has reduced the rate of teen pregnancy substantially.

Kenilworth-Parkside also has made significant strides in bringing families together. Its residents seek out fathers, offer them jobs created by the resident management corporation, and return them to their families with dignity. For example, when the father returns home his name is included on the lease as head-of-household.

Case Study: Teenage Parent Program, (Chester, Pennsylvania). This 21-year-old program forges alliances with neighborhood residents, social service agencies, local hospitals and the school system to help reconstruct the lives of pregnant teenagers and teen mothers. The program has a job referral service, a tutorial program, group therapy sessions, clinics, prenatal and post-childbirth care, and a special counseling and sex information program for teenaged boys.

Case Study: Teen Father Program and Project Image, (Chicago, Illinois). These programs work with young fathers and their families to provide male influences for young black men. When reared in homes without adult male leadership, youngsters often are poorly motivated and low achievers. Too often, these young men repeat the lifestyles of their missing fathers, siring children and then abandoning them to a single female-headed household. These programs provide male role models, teach fathering skills, counsel young men in the responsibility of fatherhood and help them become active members of their families and communities.

Policy Proposals

One of the most important sources of strength in traditional black culture has been the extended family. Welfare programs that ignore this strength are unsuited to the needs and aspirations of poor blacks. In order to encourage self-help efforts that are capable of solving problems,

1. We should move as quickly as possible to privatize the nation's foster care system, giving local ethnic communities control over the placement of their own children.
2. Because the right to control one's environment has proved crucially important to developing attitudes of self-discipline and self-respect, we also should move as quickly as possible to privatize public housing.
3. Rather than let social workers decide what kind of day care working women need, all "workfare" employees and trainees should be given additional wages instead of day care services -- leaving the option to find the best and least costly day care to the mothers themselves.
4. Wherever possible we should search for ways of replacing the current AFDC system with private sector welfare alternatives.⁴²

⁴²Some suggestions on methods of accomplishing this goal are listed below.

PRIVATE SECTOR SOLUTIONS: CRIME

In the underclass community, where jobs are scarce and welfare dependency is common, welfare is the province of the women. Men who do not work usually are left with only two alternatives. One is "hustling," a slang term for "victimless" crimes, such as pimping or selling drugs. The other is hard-core crime. Like the many other problems that plague the urban poor, the startling growth of inner-city crime has paralleled the growth of the welfare state:⁴³

- Between 1963 and 1980, robbery and rape rates in the U.S. nearly quadrupled, burglary and assault rates roughly tripled, and the murder rate more than doubled.
- As a result, a 12 year-old boy in America has an 89 percent chance of becoming a victim of violent crime sometime during his lifetime.
- Urban householders have a 93 percent chance of being robbed sometime during the next 20 years.

Crime affects every segment of American society. But the harmful effects are greatest for the urban poor. Poor blacks are robbed four times as often as middle-class whites, and murder is now the leading cause of death among young black men.

The efforts of the criminal justice system to halt the rising spread of crime have proved to be a total failure. If the threat of punishment is supposed to deter crime, then deterrence is something we have had little of:⁴⁴

- During the 1960s, when crime rates were soaring, the total number of prisoners in the U.S. actually declined.
- In the 1970s in Chicago, young delinquents were arrested 13 times, on the average, before being sent to reform schools.
- Today, fewer than one-third of those convicted of a serious crime are sent to prison.

In general, the criminal justice system is confronted with two options in dealing with young men convicted of serious crimes: It can threaten, cajole and parole them in the hope that they will not commit more crimes; or it can send them to prison. The first option runs the risk of rewarding crime by neglecting to punish it. The second option runs the risk of turning "soft" criminals into

⁴³Magnet, "America's Underclass: What To Do?," p. 132.

⁴⁴Ibid., p. 144.

"hard" ones. Unfortunately, neither choice seems to make much difference as far as future behavior is concerned:⁴⁵

- In California, a comparison between ex-convicts and criminals who received probation rather than a prison sentence showed a disheartening rate of failure for both.
- On the average, each ex-convict committed an additional 20 crimes and each probationer committed 25 additional crimes.

Another study by the Justice Department focused on recidivism rates for young adults (ages 17 to 22) released from prison in 1978:⁴⁶

- The study, covering 22 states, found that 69 percent of young adults released from prison were arrested within six years -- each committing an average of 13 new crimes.
- Furthermore, there was no consistent relationship between the length of time spent in prison and the proclivity to return to a life of crime.

Rehabilitation That Works

In the 1950s and 1960s, the prevailing opinion among intellectuals (many of whom had never met a criminal) was that the only legitimate purpose of prisons was to rehabilitate, not to punish. After millions of dollars of spending on countless pilot projects, the intellectual community has now come full circle to realize what common sense should have suggested anyway: Prisons can't rehabilitate.

There may be a very simple reason for this fact. People who run prisons are paid to warehouse criminals. They have never been paid to reform them. If released prisoners become model citizens, the income of prison officials does not go up. If released prisoners go out and commit more crimes, the income of prison officials does not go down. On the theory that people usually do whatever they get paid to do, why should anyone ever have expected prisons to rehabilitate prisoners?

Where people are paid to rehabilitate, and where their income is commensurate with success, rehabilitation actually works. An example is VisionQuest, a Tucson-based, for-profit rehabilitation firm. The company operates 12 camping programs where youngsters in trouble receive counseling and training

⁴⁵Stephen Klein and Michael Caggiano, The Prevalence, Predictability, and Policy Implications of Recidivism, (Santa Monica, California: The RAND Corporation, 1986); and Joan Petersilia, Susan Turner and Joyce Peterson, Prison Versus Probation in California: Implications for Crime and Offender Recidivism, (Santa Monica, California: The RAND Corporation, 1986.)

⁴⁶Allen Beck, "Recidivism of Young Parolees," Bureau of Justice Statistics, Washington, D.C., May, 1987.

for up to a year or more. As many as 70 percent of the young people who go through the program never return to the criminal justice system.⁴⁷

There are scores of examples of indigenous self-help groups that have established successful track records in rehabilitating youngsters in trouble with the law. The Youth Enterprise Society (SAY YES) in Los Angeles is one example; Youth-in-Action in Chester, Pennsylvania is another.⁴⁸ Sister Falaka Fattah, who founded the House of Umoja in Philadelphia, pioneered the concept of the group house -- a living environment with strict rules and designated areas of responsibility for each inhabitant. The project has been so successful that Philadelphia's criminal justice system frequently sends delinquent youths to Sister Fattah rather than banning them to reform schools and detention centers.⁴⁹

There are many other success stories across the country where community members are involved with their youth. Rehabilitation of inner-city youths works best when there is properly channeled peer pressure and positive moral reinforcement emanating from the environment in which the young people live. That is a major reason why crime has gone down dramatically in every case where resident management corporations have succeeded in taking over public housing projects.

Case Studies in Youth Enterprise

In general, the alternative to income from crime is income from work. Yet for many unemployed young blacks, the problem of attitude is far more serious than the problem of a lack of job opportunities. For example,⁵⁰

- In a 1980 survey, Harvard University's Richard Freeman found that more than 70 percent of unemployed inner-city black youngsters said that they could easily find a job.
- In one instance, a renovation project in Newark, New Jersey had to import union labor from the suburbs because it could not attract nearby black youths with \$5 to \$6-an-hour jobs.

How can attitudes be changed? Some of the most exciting self-help projects underway manage this task by getting troubled youngsters involved in starting and running small businesses.

⁴⁷Michael R. Martin, "For-Profits Successfully Provide Human Services," Fiscal Watchdog, Reason Foundation, No. 127, May 1987, p. 4.

⁴⁸See Robert L. Woodson, ed., Youth Crime and Urban Policy, (Washington, D.C.: American Enterprise Institute, 1981).

⁴⁹See Hill, "The Black Family," in On the Road to Economic Freedom, p. 76.

⁵⁰Magnet, "America's Underclass: What To Do?," p. 132.

Case Study: Educational Training and Enterprise Center (Camden, New Jersey).⁵¹ Camden has been described as one of the 10 most depressed cities in the U.S., with an average teenage unemployment rate of about 50 percent. This program helps young people who have been in serious trouble to get an education and acquire living skills, job training and job placement. A major vehicle for transmitting real world skills to youngsters is through the formation of small businesses.

One successful business is The Lunch Box, a restaurant and outdoor dining patio that has trained 30 young people in food service. Another business is a commercial greenhouse, which the youth built with their own hands. They planted 2,000 poinsettias, which they market and deliver. A third business is Perfect Pastries, a specialty baking company providing training for youngsters who are marketing fruitbread and nutbread. Starting with local boys' clubs, they plan to expand to regional and national markets.

Case Study: Youth Futures (Minneapolis, Minnesota).⁵² Started in 1982, Youth Futures is a nonprofit corporation designed to create economic opportunities and to provide business education and services to disadvantaged youths. It works with young people between the ages of 14 and 20, 60 percent of whom have juvenile court records and 60 percent of whom are minorities. Among other things, the organization employs youngsters to manage and operate two businesses: Dukes Dogs (which uses push carts to sell hot dogs) and Skywalker's Courier Service. The hot dog push cart service also sells advertising for the City Tavern Restaurant and plans are being made to sell health foods, fruit, and yogurt.

Case Study: Inner City Roundtable of Youth (New York City).⁵³ There are about 70 leaders of youth gangs in New York City who, along with their gang members, were believed to have been responsible for a significant percentage of the crimes in the city. Many of these gang leaders now sit on the board of Inner City Roundtable. They determine the policies, functions and operations of the organization. They have worked with the National Center for Neighborhood Enterprise to develop free-enterprise approaches to the problems of the poor, and they have been recognized by major print and broadcast media in the United States and abroad. Among other projects, the Roundtable operates drama workshops, operates a creative writing workshop, has produced audiovisual slide documentaries (seen by more than 25,000 viewers) and publishes a quarterly magazine with a circulation of 7,500.

⁵¹"When It's Worth the Risk," in Youth Enterprise: Creating Jobs for High Risk Youth, (Washington, D.C.: National Center for Neighborhood Enterprise, 1985), pp. 13-14.

⁵²"Creating Opportunity," in Youth Enterprise, pp. 15-16.

⁵³"Inner City Roundtable of Youth, New York," in Youth Enterprises, pp. 19-21.

Crime prevention is another important Roundtable activity. The organization was the first in the nation to develop community and senior citizens safety patrols manned totally by gang members. Its success has been internationally recognized.

Case Study: Juvenile Education and Awareness, Inc. (Passaic, New Jersey). Volunteer firemen originally organized twenty "street corner" youth into a construction crew, purchased a vacant building, employed the youth, and rehabilitated the building. Today, the formerly dilapidated building houses six low-income, working families and the program is currently in the process of acquiring its fifth building in a neighboring community.

Public Policy Proposals

Low-income blacks are the most frequent victims of crime. Accordingly, the low-income black community has a proprietary interest in low crime rates. Effective crime prevention must draw on the fact that the victims of crime have a personal stake in preventing it and frequently have developed crime prevention techniques that work. In particular,

1. We should support community-based and neighborhood crime prevention programs that have successfully reduced crime in poor neighborhoods and public housing projects.
2. We should support black law enforcement administrators, organizations and police officers who have marshalled the trust and confidence of the black communities. An example is the National Organization of Black Law Enforcement Executives (NOBLE).
3. We have spent millions of dollars on programs run by middle-class criminologists, psychologists, and sociologists who have little understanding of the problems they seek to solve. This money could be better spend by using it to strengthen neighborhood institutions that give potential victims of crime the ability to solve the problem.
4. Overall, we should move away from support of large-scale criminal justice bureaucracies as the primary agent of reform and concentrate on grassroots efforts that have proved effective.

PRIVATE SECTOR SOLUTIONS: WELFARE

Of all the economic and social changes that have occurred in recent years, none has been more debilitating to the black community than the growth of means-tested entitlement programs. In general, these programs subsidize and reward the condition of poverty and do little to encourage welfare recipients to improve their lot.

The Failure of the Welfare State

Along with the growth of the welfare state, America has witnessed a steady, almost unbroken, increase in the percentage of people living in poverty. Scores of academic and scholarly studies have documented a cause and effect relationship: We have increasing poverty because the welfare state has made it increasingly attractive to be poor.⁵⁴ Moreover, poverty is more than a lack of income. For many, it has become a way of life -- in general, the longer a person remains on welfare, the greater the probability that person will make permanent dependency a way of life, as the welfare state succeeds in robbing its clientele of their self-discipline and their self-respect. The AFDC program for welfare mothers provides a clear and tragic example of this cause and effect relationship.⁵⁵

- Of all women who receive welfare in any given year, about 60 percent will receive welfare the next year.
- Among women receiving welfare for two consecutive years, about 70 percent receive it a third year.
- Among women receiving welfare for four consecutive years, about 80 percent receive it a fifth year.
- At any one time, about one-half of the mothers receiving AFDC will continue to receive or will have received assistance for a period of eight years or more.

Although most people who go on welfare manage to get off welfare in a relatively short period of time, the problem of permanent dependency is growing. Increasingly, it is becoming a black problem.⁵⁶

⁵⁴See Martin Anderson, Welfare, (Stanford, California: Hoover Institution Press, 1978), Chap. 2.; George Gilder, Visible Man: A True Story of Post-Racist America, (New York: Basic Books, 1981); George Gilder, Wealth and Poverty, (New York: Basic Books, 1981); John C. Goodman, "Welfare and Poverty," Policy Report #107, National Center for Policy Analysis, Dallas, Texas, 1985; Charles Murray, Losing Ground, (New York: Basic Books, 1984); Charles Murray, "White Welfare, White Families, White Trash," in National Review, March 28, 1986, pp. 30-34; and Lowell Gallaway and Richard Vedder, "Paying People to be Poor," Policy Report #121, National Center for Policy Analysis, Dallas, Texas, 1986.

⁵⁵Martin Rein and Lee Rainwater, "Patterns of Welfare Use," Social Service Review, No. 52, pp. 511-534, cited in Greg Duncan, Years of Poverty, Years of Plenty, (Ann Arbor, Michigan: Institute for Social Research, 1984), p. 78.

⁵⁶Mary Jo Bane and David T. Ellwood, "Slipping Into and Out of Poverty: The Dynamics of Spells," unpublished manuscript, August, 1985, pp. 16, 25.

- Among people who currently are poor, more than half will remain in poverty for 10 years or more.
- About 60 percent of these people are black.
- As a consequence, the average black child in poverty today will remain in poverty for almost two decades.

When the War on Poverty was started, it was widely believed that its purpose was to provide a social safety net -- to provide relief and aid to people who had failed to find help from private sector organizations. Yet there is overwhelming evidence that the federal welfare system is not serving as a social safety net. Indeed, to an astonishing degree, there is very little relationship between the welfare dollars spent and the degree of actual need. For example,⁵⁷

- Only 41 percent of all poverty families receive food stamps. Yet 28 percent of food-stamp families have incomes above the poverty level.
- Only 40 percent of all poverty families are covered by Medicaid. Yet 40 percent of all Medicaid beneficiaries are not poor.
- Amazingly, 41 percent of all poverty families receive no means-tested benefit of any kind from government. Yet more than half of all families who do receive at least one means-tested benefit are not poor.

Private Sector Success

Where do people turn when they aren't getting help from government? They turn to the private sector:⁵⁸

- A study in Detroit found that 80 percent of low-income people, when faced with a crisis, turned to individuals and agencies within their own neighborhood for help, rather than to government agencies.
- Similar findings were reported in a study conducted by the University of Southern California.

⁵⁷Census Bureau, Characteristics of Households and Persons Receiving Selected Noncash Benefits: 1983, (Washington, D.C.: U.S. Department of Commerce, 1985), Series P-60, No. 148, pp. 1-5 and p. 103.

⁵⁸See Robert L. Woodson, "The Importance of Neighborhood Organizations in Meeting Human Needs," in Jack A. Meyer, ed., Meeting Human Needs: Toward a New Public Philosophy, (Washington, D.C.: American Enterprise Institute, 1984), p. 136.

Increasingly, it is the private sector, not government, that is providing speedy help to those in emergency situations. Take the problem of homelessness, for example:⁵⁹

- Ninety-four percent of all shelters for the homeless in the U.S. are operated by churches, synagogues, non-religious groups, and other voluntary organizations.
- Only six percent are operated by city and county governments.

The private sector provides the genuine social safety net for people who are really in need, and it invariably does a better job than government. Private sector charitable activities are diverse and widespread in cities and counties throughout the country. As more research is done, evidence mounts that the private sector outperforms the government in area after area:

- Private foster care agencies have shown they can outperform government agencies.⁶⁰
- Private agencies engaged in job training for teenagers⁶¹ and for the mentally and physically handicapped⁶² have shown that they can outperform government agencies.
- Public housing placed in the hands of tenants costs less and is of higher quality than when owned and maintained by government.⁶³

⁵⁹S. Anna Kondratas, "A Strategy For Helping America's Homeless," (Washington, D.C.: The Heritage Foundation, 1985), p. 10.

⁶⁰Robert L. Woodson, "Child Welfare Policy" in Meeting Human Needs, pp. 455-465.

⁶¹Sean Sullivan, "Youth Employment" in Meeting Human Needs, pp. 215-257.

⁶²V. Ruth McKinnon, Patricia W. Samors, and Sean Sullivan, "Business Initiatives in the Private Sector" in Meeting Human Needs, pp. 53-91.

⁶³"The Grass is Greener in Public Housing: From Tenant to Resident to Homeowner," a report submitted to the U.S. Department of Housing and Urban Development by the National Center for Neighborhood Enterprise, Washington, D.C., October, 1984.

- Private sector crime prevention programs,⁶⁴ alcohol and drug abuse programs⁶⁵ and neighborhood preservation programs⁶⁶ also have proved superior to public sector programs.

From Welfare Rolls to Payrolls: Some Case Studies

The private sector not only does a better job at providing genuine charitable relief for those who need it most, but it also is paving the way in developing workable programs to get people off welfare and into the job market.

The "Let's Get Off Of Welfare" Campaign. Lupe Anguiano, a former nun, is president of National Women's Employment and Education, Inc. -- an organization that has trained thousands of welfare mothers and helped to place them in private jobs. The organization has an astonishing 88 percent success rate and has received national recognition, including coverage on the CBS program Sixty Minutes. In 1973, Anguiano quit her job with the Department of Health, Education, and Welfare out of frustration and despair. She began her "Let's Get Off Of Welfare" program in San Antonio, Texas. Unlike federal programs, this was a private sector program that worked:⁶⁷

- Working with the Continuing Education Center at San Antonio College, she managed to get 42 women off of welfare and into jobs within three weeks.
- After six months, 500 women were off welfare and working.

Subsequently, Anguiano exported her highly successful program to Dallas, El Paso, New York City and other cities around the country.

Resident Management Corporations. As previously noted, when public housing projects are managed by the residents, welfare dependency drops and employment rises. RMCs succeed by reuniting fathers with their families, by discouraging teenage pregnancies, by encouraging education and job training, and by creating businesses and offering jobs to the residents. For example,⁶⁸

⁶⁴McKinnon, Samors, and Sullivan, "Business Initiatives in the Private Sector," in Meeting Human Needs, pp. 53-91.

⁶⁵Andrea M. Haines, V. Ruth McKinnon, and Patricia W. Samors, "Social Service Programs in the Public and Private Sectors," in Meeting Human Needs, pp. 421-454.

⁶⁶Ibid.

⁶⁷Lupe Anguiano, "Let's Get Off Of Welfare," in Revitalizing Our Cities, pp. 53-55.

⁶⁸Linda Chavez, "A View From the Federal Government," in Revitalizing Our Cities, p. 29.

- At the Kenilworth-Parkside development in Washington, D.C., 25 percent of the families went off welfare shortly after the residents took control of the development.
- The number of families who were completely dependent on welfare decreased by 50 percent.

The Role of Black Churches. Historically, the church has played a more central role in the black community than in the white community. In the 1700s and 1800s, the church was typically the only major building owned by blacks in their community. It became the focal point of black life. The church also was a family stabilizer, providing guidance and direction from the cradle to the grave. Today the black community continues to draw on this important institution:⁶⁹

- Black churches now boast a membership of 20 million people and weekly collections of \$10 million.
- In all, 65,000 black churches own assets with a total value in excess of \$10.2 billion.

Much more so than in the white community, these churches are providing constructive self-help alternatives to the welfare state. For example,⁷⁰

- The Congress of National Black Churches, representing 14 million members, is establishing a nationwide collective banking and cash management program designed to stimulate new minority businesses and jobs.
- Lenders Energizing Neighborhood Development (LEND), organized by officers of the African Methodist Episcopal Church, has begun a security training program targeted for 13 cities to create employment and combat crime in low-income areas.
- The United House of Prayer for All People, with 146 churches in 22 states, has launched a major low-income housing program that will soon expand to 11 states.

The Illusion of Workfare

Throughout the 1970s, there was a continuous political battle at the national level over whether workfare should be tied to welfare. A fascinating account of the politics of this battle has been written by Lawrence M. Mead, who has documented the great lengths to which the welfare bureaucracy lobbied

⁶⁹Bill Alexander, "The Black Church and Community Empowerment," in On the Road to Economic Freedom, p. 45.

⁷⁰Ibid., p. 47.

against any workfare requirements.⁷¹ It appeared the welfare bureaucracy lost the battle when Congress passed the Work Incentive (WIN) program and the Community Work Experience Program (CWEP). However, because it administers these two programs, the bureaucracy which lost the battle won the war:⁷²

- In the WIN program, only 20 percent of adult AFDC recipients were found by the welfare bureaucracy to be suitable for workfare. Most of these adults went into training or school activities rather than into job positions. Only two percent actually entered jobs.
- In the CWEP program, only 39 percent of adult AFDC recipients were found by the welfare bureaucracy to be suitable for workfare, and only seven percent participated regularly.

More recently, the concept of workfare has been revived again. The nation's governors have unanimously endorsed workfare over welfare and at least 28 states have tried workfare experiments. Many grandiose claims have been made for these programs -- especially in California and Massachusetts. Yet careful inspection of what is actually happening reveals a disappointing record. The well-publicized claims, it turns out, are based on the total number of jobs taken by former welfare recipients. But many former welfare recipients were leaving welfare and getting jobs long before there was workfare. The real test is whether workfare has resulted in any net job gains -- employment over and above what would have happened anyway. By this measure,⁷³

- Massachusetts' highly touted "ET" program has resulted in a net increase of only 6.8 percent additional full-time jobs.
- In San Diego, the net gain in full-time jobs was less than six percent.

The continuing problem is that the workfare programs are being administered by a welfare bureaucracy that has a vested interest in continuing -- not eliminating -- the welfare system. For workfare that really works, one has to look to private sector programs -- usually run and administered by the community in which the welfare recipients actually live.

Public Policy Proposals

Currently, about \$130 billion is spent annually by the federal government on means-tested welfare programs. If only a fraction of this money were transferred out of public programs that do not work and into private sector programs that do work, the nation would be immeasurably better off.

⁷¹Lawrence M. Mead, Beyond Entitlement, (New York: The Free Press, 1986).

⁷²Ibid., pp. 122, 125.

⁷³Kaus, "The Work Ethic State," p. 26.

1. One proposal is to spend less on traditional welfare programs (AFDC, Medicaid, Food Stamps, etc.) and use the savings to support good private sector programs with a proven track record. Currently, many effective private charitable organizations receive some federal funding. A disadvantage of this approach is that private organizations that receive federal money must comply with the federal government regulations and often adopt inflexible, bureaucratic approaches to welfare rather than the approach that made the organization successful in the first place.
2. Wherever possible, control over welfare dollars should be placed in the hands of welfare recipients, rather than in the hands of the welfare bureaucracy. This means that welfare recipients themselves should be able to control and direct the spending of welfare dollars to the greatest extent possible.
3. About two-thirds of all "welfare dollars" currently end up in the hands of people who are not poor and the welfare bureaucracy has been the principal force which shapes and molds the U.S. welfare system. We should begin immediately to involve welfare recipients themselves in the process of designing a welfare system that gives assistance where needed without encouraging permanent dependency.

PRIVATE SECTOR SOLUTIONS: JOBS⁷⁴

One of the greatest problems of contemporary economic life is the incredibly high rate of unemployment among blacks:⁷⁵

- Only 60 percent of all black heads of households and only 50 percent of black female heads of households were employed in 1983.
- The official unemployment rate for black adults in 1983 was 17 percent, and if discouraged workers (those who have quit looking for work out of discouragement) are included, the unemployment rate that year may have been as high as 29 percent.

If the unemployment rates for black adults are at Depression levels, the rates for black teenagers have soared to levels unheard of in American economic history.

⁷⁴This section is based largely on Paul Pryde, "Investing in People: A New Approach to Job Creation," in On the Road to Economic Freedom, pp. 27-44.

⁷⁵National Urban League Research Department, "Fourth Quarter, 1983," Quarterly Economic Report, February, 1984. Cited in Hill, "The Black Family," p. 75.

- In 1948 the unemployment rate among black teenagers was less than 10 percent, and below that of white teenagers.⁷⁶
- By 1969, after the War on Poverty was well underway, the black teenage unemployment rate had climbed to the Depression level of 24 percent.⁷⁷

Since 1969, conditions have gotten steadily worse:⁷⁸

- Between 1969 and 1983, the unemployment rate for black teenagers who remain in the labor market rose from 24 to 49 percent.
- If discouraged workers are counted, the jobless rate for black teenagers in 1983 reached an astronomical 69 percent.

Federal Government Job Training Programs

In response to the problem of hard-core unemployment, the federal government has initiated at least 14 different job training programs. The most highly visible of these was the Comprehensive Employment Training Act (CETA). This was a Ford-Carter-era program that is today almost universally condemned as a colossal boondoggle. CETA failed for the same reasons that any similar government-run training program is likely to fail. In the first place, precisely because it was run by government, CETA was subjected to the normal special interest group pressures that affect every government bureaucracy. Construction workers' unions insisted on restrictions that basically kept CETA trainees from building anything. The American Federation of State, County, and Municipal Employees Union resisted any work that might infringe on the territory of civil service workers. As a result, CETA trainees were effectively stopped from learning to produce anything useful. Thus,⁷⁹

- Many CETA trainees worked in experimental film workshops and mime troupes.
- In California, they took a dog and cat census.

The CETA program also was destined for failure for a more fundamental reason. In a dynamic, growing economy the composition of the labor market

⁷⁶Walter Williams, The State Against Blacks, (New York: McGraw-Hill, 1982), tables 2 and 3, pp. 37-38.

⁷⁷Hill, "The Black Family," in On the Road to Economic Freedom, pp. 75-76.

⁷⁸Ibid.

⁷⁹Kaus, "The Work Ethic State," p. 32.

changes too rapidly for any cumbersome bureaucracy to predict continuing changes in the demand for new labor:⁸⁰

- On the average, communities across the country lose about 10 percent of their jobs every year.
- Over a five year period about half of all new jobs will be lost.

In a growing economy, more new jobs will be created than the number that are lost. But the implications for change are amazing. On the average,

- At the beginning of any five-year, period one out of every two jobs in existence will be lost by the end of the period.
- At the end of any five-year period, one out of every two jobs in existence is a new job.

The rapidity with which jobs are being created and destroyed makes it virtually impossible for any public sector agency to plan a workable job training program.

The Role of Small Business

Two central factors dominate economic life in the American labor market. First, the majority of workers receive most of their job training on the job -- not in some other institutional environment. Second, in order for job training to be useful, there must be employers willing to use those skills. These two facts virtually dictate that any successful job-training and job-creation program must work through private industry. Where in the private sector are jobs being created? They are being disproportionately created by small business:⁸¹

- About 60 percent of all new jobs in the U.S. are being created by firms with 20 or fewer employees.
- In addition, these small firms are creating about 80 percent of all new jobs employing minority workers.

⁸⁰Analyses of David Birch, MIT, reported in the National Commission on Jobs and Small Business, Making America Work Again: Jobs, Small Business and the International Challenge, (Washington, D.C.: The National Commission on Jobs and Small Business, 1987), p. 13.

⁸¹Analysis of David Birch, MIT, reported in Making America Work Again, p.3; and Jack Kemp, "Foreword," in Marc Lipsitz, ed., Revitalizing Our Cities: New Approaches to Solving Urban Problems, (Washington, D.C.: The Fund for the American Renaissance and the National Center for Neighborhood Enterprise, 1986), p. xiv.

Moreover, among small businesses, younger firms create jobs at a faster rate than older firms. Small businesses in their teenage years (ten to 20 years) have employment growth rates that are 20 to 40 times higher than mature firms (older than 20 years).⁸² By contrast, the nation's oldest and largest firms have been net job losers, even in an era of unprecedented economic expansion:⁸³

- Between 1983 and 1984, about 3 1/2 million new jobs were created in the U.S.
- Yet during this same period, the Fortune 500 companies lost 1 1/2 million jobs.

Small businesses are not just proving to be the most effective engine for job creation -- they also are disproportionately responsible for new innovation and technological change. According to the National Science Foundation:⁸⁴

- Small businesses create about half of our "most significant industrial products and processes;" and
- Small, young companies produce 24 times more innovations per dollar spent on research and development than large ones.

Finding Risk Capital for Small Business Ventures

Precisely because they are small and because they take risks, the biggest problem faced by small businesses is finding investment capital. Interestingly, only a small fraction of start-up capital used to finance small firms comes from conventional lending sources or from government. By one estimate,⁸⁵

- About 90 percent of the risk capital needed by entrepreneurs to start new businesses comes from personal savings, friends, family members and business associates.
- By contrast, only one percent of such funds comes from the Small Business Administration.

A major problem with government lending programs such as the Small Business Administration is that the loans rarely go to the most promising

⁸²Study by the American Electronic Association reported in Pryde, "Investing in People," in On the Road to Economic Freedom, p. 34.

⁸³Stuart Bulter, "The Elements of Entrepreneurship," in Revitalizing Our Cities, p. 35.

⁸⁴Study by the National Science Foundation reported in Pryde, "Investing in People," in On the Road to Economic Freedom, pp. 34-35.

⁸⁵Pryde, "Investing in People," in On the Road to Economic Freedom, p. 25.

investment prospects. These programs operate like a series of bank teller windows with rules and regulations governing how much can be withdrawn, who may withdraw it and how the funds may be used. Unfortunately, those at the head of the line tend to be those who are most skilled at manipulating the system rather than those who are most skilled at running a business.

A second problem with government lending programs is that they are invariably subject to special interest politics. The larger the size of the program, the stronger the special interest pressure will be. Although small business promises to be the innovating, job-creating engine of the future, the strongest vested interests can be counted on to resist such change. Those who have climbed to the higher rungs of the income ladder invariably tend to resist change by turning back the economic clock. It is in their self-interest to resist the flow of capital out of the traditional areas of the economy into new areas that offer promising opportunities to others. For these reasons, any successful program designed to generate new risk capital for small enterprises must not be run by government.

The Potential Role for Black Entrepreneurs

Despite a long and enduring legacy of entrepreneurship in the black community, the number of businesses owned and operated by blacks is pitifully small, as is the rate at which new black businesses are being formed.

- Although blacks account for about 12 percent of the U.S. population, black-owned firms account for less than two percent of all U.S. businesses.⁸⁶
- While economically healthy communities generate about 2.5 businesses per year per 1,000 people, in some areas of the black community the business formation rate is only 0.03 per 1,000.⁸⁷

Blacks also fare poorly in comparison with other ethnic groups. For example,⁸⁸

- About 30 percent of all Japanese Americans are in business for themselves.
- By contrast, only 8 percent of black Americans own their own business.

⁸⁶Ibid., p. 28.

⁸⁷Linda Chavez, "A View from the Federal Government," in Revitalizing Our Cities, p. 26.

⁸⁸Pryde, "Investing in People," in On the Road to Economic Freedom, pp. 28-29.

Among ethnic groups, blacks have the highest unemployment rate and are near the bottom of the income scale. Nonetheless, most black entrepreneurs are positioned in the area of the economy that is growing the fastest: the small business service sector.

- More than 99 percent of all black firms have gross receipts of less than \$1 million; and
- About 68 percent of all black firms operate in personal services and retail trade.

The possibility of combining the black, small business service sector with large numbers of job-seeking, unemployed black workers is one which could prove to be a profit-making bonanza.

Regulatory Barriers Faced by Small Business

Next to the problem of finding the capital to start a new business, the single biggest problem faced by would-be entrepreneurs is the erection of government barriers to new entrants into markets. Often these regulations exist for no other purpose than to protect existing firms from competition with outsiders. Invariably, they impose huge burdens on blacks and other minorities. The field of medicine is one example:⁸⁹

- In 1910 there were seven medical schools that specialized in training black physicians, and by 1920, two percent of all physicians were black.
- Yet because of government regulations, by 1944 the number of black medical schools was cut from seven to two and, despite progress by blacks in many other fields, the percentage of physicians who were black that year was no higher than it was in 1910.

Nationwide, there are currently about 1,000 occupations that require a person to be licensed before they practice a trade. Frequently, the cost of obtaining a license is prohibitively high for low-income people. Yet scholars can find no evidence that these licensing restrictions improve the quality of services customers receive.⁹⁰ In many cities and states around the country,⁹¹

⁸⁹See John C. Goodman, Regulation of Medical Care: Is the Price Too High?, (Washington, D.C.: Cato Institute, 1980), pp. 30-31.

⁹⁰Stanley J. Gross, Professional Licensure and Quality: The Evidence, (Washington, D.C.: Cato Institute, 1986).

⁹¹Robert L. Woodson, "Preface," in Youth Enterprise.

- Licensing fees to operate a taxi cab can cost thousands of dollars, even though financial resources have nothing to do with one's ability to drive safely.
- Regulations of day care centers frequently favor people with degrees in early childhood education (regardless of whether they have ever raised a child of their own) and penalize a less-educated mother in a housing project who may have successfully raised many children and sent them to college.
- Black and Hispanic truck drivers often must gain the approval of those who already are on established trucking routes before being allowed to compete.

Private Sector Proposals

According to the General Accounting Office, about \$400 billion of taxpayer's money was spent to support the welfare state, broadly defined, in 1984.⁹² If only 10 percent of this amount were redirected away from the anti-work sector of the economy and into the job-creating sector, as many as two million new jobs could be created each year.⁹³ What follows are some proposals on how to motivate the private sector to move in this direction.

1. **The Creation of Business Development Districts.** Specially designated areas, similar to enterprise zones, should be singled out for special treatment under the tax code and for special treatment under federal, state and local regulatory law. These are depressed areas where there is an abundance of vacant and unused property and a large, unemployed work force available.
2. **Tax Incentives for Risk Capital.** To create economic incentives to supply risk capital, individuals should be allowed liberal tax deductions for amounts invested in a Business Development District.
3. **Tax Incentives for Hiring and Training Workers.** In a manner similar to the Reagan Administration proposals for enterprise zones, employers should be given tax incentives for hiring and training disadvantaged workers in Business Development Districts.
4. **Regulatory Relief.** Burdensome regulations should be eased and simplified for firms established in Business Development Districts. If necessary, the federal government should consider overriding state and local regulations that unduly inhibit the development of new enterprises.

⁹²Of this amount, \$75 billion was spent on housing programs, \$300 billion was spent on income transfer programs and \$25 billion was spent on economic development.

⁹³Calculated at \$20,000 per job.

5. **Enterprise Allowances.** Recipients of public assistance should be able to use their funds to invest in a new business or in a job-training program. For example, in France any citizen who is entitled to unemployment compensation may collect six months of benefits in a lump sum for the purpose of investing in a new business. A similar program has been launched in England.

CONCLUSION

TOWARD A NEW PUBLIC POLICY

The success of neighborhood-based organizations has been recognized by community residents, documented by statistics and given official sanction when city agencies contract with these groups for services. Experts have studied community programs and projects for years. Yet when a major social crisis erupts, such as riots or drug epidemics, rarely if ever are the neighborhood's most valuable human resources involved in the analysis. Nor are community leaders asked to help formulate research agendas or develop public policy. Grants for major policy research on crime, racial violence, gang warfare, drug abuse, teen pregnancy and the like usually go to universities and large, white-controlled research firms. Such grants rarely go to qualified black or other minority firms and organizations. Thus, it is no surprise that top-down programs and policies designed by "professionals" frequently falter and fail when they meet the realities of the community.

What is needed is not the continuation of a public policy framework that virtually guarantees maximum frustration for everyone. Instead, we need a radical, new approach that places at the center of public policy those mediating groups and structures essential to the life of a neighborhood. In poor neighborhoods throughout the country, there are formal and informal groups and structures that hold neighborhoods together in crises and work to improve the quality of daily life. The purpose of social policy should be to recognize the existence of these structures, to remove barriers that hinder them, and to use these structures more creatively.

New public policy should be based on the conviction that the best interests of people cannot be determined by outside experts, however benevolent. Benevolence and compassion are insufficient premises for public policy. The poor should not serve the purpose of providing therapeutic outlets for the compassionate aspirations of other classes. Nor should they serve as the power base of those who profess to represent their interests or as the subjects of social experiments. Public policy must be founded on trust among people as well as on their innate capacity to help themselves.

Unfortunately, the benchmark of compassion for the poor has been the amount of money spent on traditional social service programs that benefit their providers far more than the earmarked recipients. Top-heavy bureaucracies with their expensive administrative budgets are bilking both taxpayers and citizens who need economic relief. What we have built is a "Poverty Pentagon," the principal

beneficiaries of which are not the poor but those who make their living off the poor. In New York City, for instance, the Community Service Society (a 100-year-old social work agency) examined how money intended to meet the needs of that city's 1.4 million poor (one-fifth of its population) was actually spent. The study found that,⁹⁴

- Of the \$14.5 billion spent on the poor in 1983, 74 cents of every single dollar went to the welfare service industry;
- Only 26 cents went toward rent, food, clothes and other items of personal choice.

Under our current system of perverse incentives, the only way an individual can receive help is to exhibit some kind of deficiency. If you are an alcoholic, there is a program; if you are a pregnant teenager, there is a program; if you are a drug addict, there is a program; if you are a psychotic, there is a program. But if you are law-abiding, hardworking and trying to lead a productive life, there are few programs to support you. Meaningful reform must include ways to reinforce positive behavior.

We must return to the original intent of the "Great Society" programs -- not controlling the poor, but providing temporary assistance to facilitate their maximum participation. We must cease shaping welfare policy to accommodate the providers of services. Instead, we must empower the poor with the mechanisms to shape and determine their own destinies.

Note: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any bill before Congress.

⁹⁴David Grossman and Geraldine Smolka, New York City's Poverty Budget, (New York: Community Service Society, 1984), pp. 1-17.

ABOUT THE AUTHOR

Robert L. Woodson is president of the National Center for Neighborhood Enterprise, a nonprofit research institute in Washington, D.C.

At age 17, Robert Woodson dropped out of high school and joined the Air Force. After finishing his hitch, he returned to his Philadelphia home to study full-time at Cheyney State. By 1965 he had earned his master's degree in social work from the University of Pennsylvania, and later worked in a variety of community and civil rights programs in the Philadelphia area. After stints with the Unitarian Universal Service and the National Urban League, he joined the American Enterprise Institute as a fellow in 1976.

Robert Woodson founded the National Center for Neighborhood Enterprise in 1981.

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Public Affairs Department
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7701 N. Stemmons, Ste. 800
Dallas, Texas 75247