LEVITICUS FUND

Faith Capital for Building Communities

Widener University Commonwealth Law School
Annual Dean's Forum
Topic: "Economic Justice: Dignity through Opportunity."

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It's a pleasure to be here today and to participate in this year's forum. To those of you with Irish heritage, and even those without it, happy St. Patrick's Day! Whether you are an Irish immigrant or a descendant of Irish immigrants like me, it's an appropriate day to celebrate what immigrants have contributed to this great nation.

I have a long affinity with this Commonwealth. I married a young woman from Cleveland and after moving to New York we've visited Ohio often to see her family. I've had the opportunity to drive the length of Pennsylvania on I-80 at least forty times. More personally, Chris Casey and his brother Bob, one of your U.S. Senators, are friends from my college days. Through them I also got to know their father, Governor Bob Casey, Sr. Irrespective of where you stand on issues you should be proud of the integrity this family has brought to public service in Pennsylvania.

I want to begin by telling my own journey to the law students in the audience. I'm a law school graduate, having attended St. John's University in Queens. My first four years out of school I worked in a small firm where I was the sole associate supporting the work of four partners, each practicing in a different area. After four years I knew two things: I liked real estate, but was not finding the work personally fulfilling.

One morning I picked up the NY Times – some today might say the failing NY Times – and read a story about a previously abandoned building in the Bronx that had been completely renovated using a new tool called the low-income housing tax credit. The story described how two nonprofits helped finance and provide technical assistance to get the project done. Now that seemed intriguing! Could this be a way to combine my interest in real estate with the principles of social justice that had taken root at Holy Cross?

But there was a problem: neither the Yellow Pages nor "Information" had an address for one of the nonprofits. This was 1990, so the Internet was years away. I decided to call the reporter, who was gracious enough to spend half an hour explaining the NYC affordable housing scene and providing me with addresses and contacts at several organizations.

Luckily one of the nonprofits, LISC, happened to be looking for an in-house attorney. I landed the job, in part because my four years learning a wide range of law in that law firm set me up for practicing in the interdisciplinary field of community development. I spent sixteen years there as in-house counsel. In 2006, I became restless, and got another lucky break. I was able to move into the Senior VP for Lending role, newly created at that time, and spent seven years overseeing LISC's national lending efforts.

Three and a half years ago I was ready for a move, and decided to throw my hat into the ring for the Executive Director position at the Leviticus Fund, where I am now. Leviticus was founded in 1983 as the upshot of a commitment to economic and social justice. Twenty-seven religious communities, primarily orders of Catholic nuns in New York, New Jersey and Connecticut, were outraged by apartheid. They divested their collective holdings of companies doing business in South Africa, and with $360,000 founded Leviticus. Their goal was to make direct investments to nonprofits who were tackling poverty in low-income communities.

1983 fell during a period of ongoing disinvestment in cities as post-war industrial jobs steadily eroded. White flight from many urban neighborhoods was continuing unabated; redlining – which was the Federal Housing Authority's institutional decision to not lend in communities of color – was only beginning to be addressed by the community reinvestment act, or CRA; crime was on the rise; and the crack epidemic was beginning to take hold. Amidst this landscape community development corporations were rising organically to address problems of housing abandonment and urban blight that no one else was tackling. Many of these efforts grew out of church congregations and ecumenical efforts of residents who remained in the neighborhood. The Ford Foundation and the federal government provided support to these nascent organizations in rural and urban places.

Many community revitalization groups, particularly in rural areas, focused on economic development and jobs as much as on the physical stabilization of their communities. They saw, as Dr. Martin Luther King, Jr. had, that economic justice was a foundational component to social justice. Shortly before he died, speaking in Memphis, Dr. King asked:

"Do you know that most of the poor people in our country are working every day? And they are making wages so low that they cannot begin to function in the mainstream of the economic life of our nation. These are facts which must be seen, and it is criminal to have people working on a full-time basis and a full-time job getting part-time income. Now our struggle is for genuine equality, which means economic equality."

It's remarkable how relevant those words still are.

The community development financial institution, or CDFI, movement, which the Leviticus Fund is part of, grew out of support for these community-based efforts to address the social and economic dislocation that took root in the 60's. It has benefited from CRA, which became law in 1977 as a way to combat redlining, and is still the wellspring of the industry. CRA requires banks to meet the credit needs of places where they accept deposits, but allows them to do so prudently and within their lending policies. Each bank is rated by its regulator on how well it does. That matters when it wants to acquire another bank or its branches, or is looking to build more branches of its own.

Despite CRA – which is in need of an overhaul due to internet banking, which is breaking the tether between neighborhoods and bank branches – the capital needs of many small housing and social service agencies and small businesses were not being met by the conventional sector.

Hence the rise of nonprofit and for-profit community development lenders. Shore Bank in Chicago, founded in 1973 as the nation's first community development bank, was an early example. At the time, one third of all apartment buildings in Chicago's South Shore were tax-delinquent and in danger of abandonment by landlords. A group of local activists, angered by racist lending policies they believed were to blame, bought South Shore Bank, which became Shore Bank. The bank extended credit where traditional banks would not. It expanded its products and footprint, including into Arkansas. Its influence on then Governor Clinton led him to sign into federal law the Community Development Financial Institutions Act in 1994. This was the birth of CDFIs.

CDFIs are meant to compensate for shortcomings in the traditional capital ecosystem by filling funding gaps not addressed by traditional sources. Organizations like Leviticus support rental, supportive and for-sale housing projects; new and expanded health centers; charter public school facility development; healthy food-access retail projects; and loans for small business growth. Some CDFIs make consumer loans and end mortgage loans for first-time homebuyers. All provide free technical assistance to the nonprofits and for-profits they work with.

We lend early when banks won't. We provide subordinate construction financing. We lend to unconventional sectors like public charter schools and federally qualified health centers. We lend to businesses the banks take a pass on. In a rural area, we may take the place of absent bank capital. Our industry loss rate over the last 30 years is less than 2%, including during the Great Recession.

CDFIs make taxpayer dollars go far. How? Each $1 of *federal* grant money from the CDFI Fund must be matched by $1 of *private* grant money. Then up to $8 of *private* capital can be borrowed, creating a pool of $10 to lend. But it doesn't stop there. The public grant dollars in each loan are repaid and cycle back into communities in the form of new loans. This recycling happens again and again, literally for decades, creating an enormously powerful use of each public dollar awarded to the CDFI. [As an aside, President Trump's budget outline proposes that CDFI Fund appropriations be all but eliminated].

All of the activities we support create jobs. Construction jobs, management jobs, jobs for teachers and healthcare workers. Jobs preserved or expanded for small business owners. Jobs that might not be created or saved if a CDFI did not step in to fill holes in the system. What have been the results?

- Justice in the recognition of the creditworthiness of a person, a business, or a nonprofit that a conventional source may have said no to as falling outside "standard" lending policies.

- A safe, decent, affordable new home or apartment that provides dignity to a family that may have lived in substandard conditions or been homeless. There is dignity to the stabilizing impact that a safe, decent home has on family members, on children who have a better place to live and do homework.

- Justice in providing access to high quality primary and preventive care to a low-income head of household who is the chief breadwinner. Such care can lead to better long term health and less threat of personal bankruptcy, leading to more days on the job.

- Dignity when a child sits in a fertile school learning environment with high expectations of teachers and students. The results can alter a child's life forever, and increase their chances of landing that first job.

- Dignity in seeing a low-income resident in a rural area receive a responsible loan to buy or repair a used car so they can continue working and not fall into economic turmoil.

- Dignity in seeing that budding entrepreneur of any age receive a loan they thought they wouldn't get to pursue their dream of opening a business or expanding something they already have.

Currently Leviticus is making a five year, $2 million loan to a nonprofit called RUPCO, which is acquiring the last remaining vacant warehouse in Kingston, NY, a low-income city. RUPCO will completely renovate the building and lease half the space to a new film production business. The balance of the building will be for "maker space." Leviticus is lending very early in the project. No bank could consider this, particularly not a five year term loan, as there is no construction financing committed and no leases yet signed. The tenants will be encouraged to hire locally.

We also made a loan last year with two other CDFIs to support development of a new, 46,000 square foot multi-service facility in Lewistown, PA, which will house a federally qualified health center. The proposed expansion significantly increases the center's care capacity from approximately 3,400 patients to upwards of 15,000 patients. New construction and permanent jobs will be created by the project.

CDFIs like the Leviticus Fund are not, of course, immune from the big picture, the macro trends that continue to rapidly reshape our economy.

What is that picture? For one, income and capital wealth have become more concentrated in a few hands. Perhaps the starkest measure of this was Oxfam's report in January that eight men now own the same wealth as the 3.6 billion people who make up the poorest half of humanity. This has deep implications none of us can fully understand.

Contrary to common belief, America's industrial output has not diminished in the last twenty years, even if the means of livelihood for many Americans in the last generation has changed. Automation continues to eliminate more existing jobs than new ones it creates. An election-day article in Fortune noted:

> "The U.S. has lost 5 million factory jobs since 2000, and [while] trade has indeed claimed production jobs – in particular when China joined the WTO in 2001 – there was no downturn in U.S. manufacturing *output* (italics mine). As a matter of fact, U.S. production has been *growing* over the last decades. From 2006 to 2013, 'manufacturing grew by 17.6%, or at roughly 2.2% per year,' according to a report from Ball State University. The study reports as well that trade accounted for 13% of the lost U.S. factory jobs, while 87% of the jobs were taken by robots and other factors at home.

> The Boston Consulting Group predicts that ‘the share of tasks performed by robots will rise from a global average of around 10% across all manufacturing industries today to around 25% by 2025.’ Researchers at Ball State calculated that if 2000-levels of productivity are applied to 2010-levels of production, the U.S. would have required 20.9 million manufacturing workers instead of the 12.1 million actually employed.’”

The pace of this change appears unabated. Otto is a company owned by Uber and its technology could threaten the livelihood of up to 1.7 million truck drivers over the next ten years. In October Budweiser successfully tested a self-driving truck that delivered beer 120 miles to a warehouse in Colorado. Bank of America opened branches in January in Denver and Minneapolis that have one employee along with ATMs and video terminals.

This is corporate America at work, and on one level it is very impressive. But it’s also scary for many of us. Unless businesses large and small unilaterally decide to de-automate in order to re-introduce labor as a replacement for machines – something that has never happened in history – it appears less industrial labor will be needed in the years ahead.

What are the implications to finding political consensus on solutions to this challenging reality when higher paying jobs are concentrated in a relatively small number of geographies? Hillary Clinton won less than one-sixth of all U.S. counties, for example, but these counties accounted for 64% of America’s economic activity as measured by total 2015 output.

So a key question is how do we as a society preserve the dignity that flows from economic justice – which includes access to a decent paying job – when job opportunities seem so at risk in the future? For one, I think we need to be more open and explicit about the strong linkage between work and dignity – the dignity of knowing you can use your talents and work ethic to support yourself and your family. There is a core sense of self-worth that comes from that for most of us.

That dignity has been lost in many communities. The means of livelihood that previously sustained so many working men and women has been steadily dismantled, particularly for older workers, without their input, control or consent. This is deeply frustrating and disempowering for many Americans. Obviously, this sense of powerlessness, while sometimes masquerading as other grievances, played a central role in the election of President Trump.

I am not an economist, and I know there are no silver bullets for this problem. Nonetheless here are some ideas from what I’ve seen and read:

1) Small-scale, specialized manufacturing. The NY Times recently featured the Marlin Steel Factory in describing small scale manufacturing that is still prevalent. “Out of 252,000 manufacturing companies in the United States, only 3,700 had more than 500 workers.”

   Marlin Steel is one of these, nestled in a neighborhood in Baltimore. “It is a maker of specialized metal baskets used by much bigger manufacturers like Ford Motor, Boeing and Merck.” The company has survived for 50 years, but had to evolve in the last fifteen to focus on value-added goods, “products more specialized and sophisticated than what the Chinese are making.”

2) The “Maker Movement” is based on local, craft-based manufacturing. It can use either cutting technology like 3D printers or older machinery. I recently took a tour in Newburgh, one of NY’s poorest cities, given by a small company named Thornwillow, which has acquired late 19th century printing and engraving machines that it uses to create high-end books, stationery, invitations and accessories. Thornwillow has acquired several buildings for a planned “Makers Village,” and has hired and trained local residents to fill several positions.

3) The so-called “Creative Place-making Movement” uses artists to start the engine of economic activity. Artists looking for affordable, open studio space hard to find elsewhere can be a leading edge in revitalizing urban and rural communities. They can bring new investment and economic activity and can lead to stabilization of surrounding buildings. Art districts in Detroit, Peekskill, NY and Seymour, CT, are examples. These districts were blighted thirty years ago.

4) Older towns have civic assets that can be anchors for investment and tourism. Lower-income communities have challenges, but many also have civic and cultural assets like libraries, theaters, universities and hospitals as well as architecturally distinctive buildings and public spaces that newer suburbs do not. They also have a story to tell.

Local governments should consider supporting these economic initiatives when possible with special purpose grants, state tax credits or temporary tax abatements.

In addition, several policy initiatives can better support the income that is received by the lower-paying service jobs that *are* being created:

- First, bring capital gains tax rates in-line with tax rates on labor and dedicate the additional federal revenue toward expanding the earned income tax credit or providing block grants to make community colleges and state universities more affordable.

- Second, continue to focus on raising local minimum wage laws at the state and local levels. As the New York Times reported last month, “old jobs are not coming back, but there is another way to address the crisis brought about by deindustrialization, which is to pay all workers better. Activists have succeeded in passing living-wage laws in more than a hundred counties and municipalities since 1994.” In NY the minimum wage has been raised to $15, but is taking effect gradually. Faster in New York City, and a bit slower in metro NY counties. It will top out at $12.50 an hour in rural counties.

- Third, focus federal income tax cuts on low and moderate income households. Forbes reported in 2015 that Owen Zidar, an economist at the University of Chicago, has found you get the biggest bang for the buck by focusing your tax relief on the poor and middle class. Cutting taxes for “job creators” might seem sensible, but reductions for “job takers” are actually more powerful. As Zidar stated:

  > “…Rich people tend to save a lot. That’s good for some purposes, but not when you’re trying to create jobs…less-than-rich people tend to spend most of their income [in order to cover basic living expenses]. Overall, tax cuts for the bottom 90% tend to result in more output,

employment, consumption, and investment growth than equivalently sized tax cuts for the top 10% over a business cycle frequency."

- Fourth, modestly reform the mortgage interest deduction subsidy. The "United for Homes" campaign proposes two simple reforms. First, reduce the amount of a mortgage eligible for a tax write-off from $1 million to $500,000 (which would impact less than 6% of mortgage holders). Second, convert the deduction into a nonrefundable 15% credit. These changes would generate $241 billion in savings over 10 years, which could be reinvested in affordable rental housing for the lowest-income families who could spend less on rent and keep more of their income.

Many institutions of government are being pulled and stretched right now. Laws pertaining to immigration, bank regulation and healthcare coverage are being challenged. Irrespective of our political orientation, we all need to stay vigilant, engaged and active. The Trump presidency has forced a sharper spotlight on, and appreciation of, the balances within our constitutional system and its protections, including for the powerless and those living on the margins.

I don't want to be a Pollyanna. Hope alone is not a strategy for achieving justice. But the opposite of hope is despair, not where any of us want to be. We *should* remain hopeful that our goals, including economic justice, can be more fully realized in the future, and that we can form a more perfect union over time. I choose to believe there is more justice and dignity on the horizon for all Americans, despite our differences, because I still see access and opportunity, coupled with steadfast effort, as hallmarks of the American experiment. If we remain focused on facts, honest listening, the common good, and fairness, progress is within reach.