Community Economic Development: A Shift Toward Reliance on Private Investment Monitored by Government Regulators

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This paper explores a fundamental shift in viewpoint toward community economic development efforts during the Clinton Administration. Part One of the paper examines the reliance in earlier administrations first on direct government investment and later on government incentives (e.g. tax breaks) to encourage private investment. Part two of this paper then examines the fundamental shift in viewpoint manifested in the Community Reinvestment Act. It was an approach that relied on private efforts for community economic development but not on voluntary private efforts or even on government incentives to encourage private action. Instead it relied upon a government mandate imposed on financial institutions to meet the needs of their communities including low and moderate-income communities. However, the general governmental mandate was coupled with a reliance on private parties to determine the manner in which they would meet their legal obligation, subject to government sanction for insufficient efforts or outcomes. In other words the model was one of reliance on private action that was triggered by government mandate and post facto review. This model was introduced in the Carter Administration with the enactment of the Community Reinvestment Act in 1977. However, the model required executive action by the regulatory agencies for its effectiveness. During the Reagan and Bush Administrations the regulators demonstrated little commitment to enforcement of the Act and therefore it produced small dollar commitments by financial institutions. All of this changed in the Clinton Administration. The Clinton Administration pressured the regulators to vigorously enforce the Act. The private response was overwhelming. In the first ten years of the Act, 1977 to 1988, the financial services industry committed approximately $5 billion to loans and other economic development efforts in low and moderate-income communities. In the five-year period between 1993 and the end of 1998 the financial services industry committed more than one trillion dollars.