COVER ARTICLE

Enhancing the Competitiveness of North Carolina Communities

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To thrive and prosper in the new economy, North Carolina municipalities will have to adapt to the federal government's recent policy shift toward letting free enterprise solve pressing urban and rural problems.

Providing businesses with access to high-speed communication links like fiber optic cable is key to communities competing successfully in the economy of the twenty-first century.

Keith Green / News & Observer

Several recent socioeconomic and demographic trends threaten the future health and competitiveness of North Carolina and other states.[1] Despite enormous economic growth and wealth generation, the gap between the haves and the have-nots in North Carolina widened during the 1990s. This continues a three-decade national trend of growing inequality.[2]

Preliminary analyses of the 2000 census results reveal that this trend is undergirded by an increasing "balkanization" of the U.S. population (that is, an increasing division of Americans into smaller groups).[3] Over the past decade, the state and the nation have both become racially and ethnically more diverse, but only as a whole. Confirming the findings of earlier research, the 2000 census indicates that non-Hispanic whites are increasingly concentrated in economically prosperous communities, while blacks and other people of color are clustered for the most part in declining or economically marginal communities.[4]

These two developments—growing inequality and population balkanization—have had a devastating impact on the youth of North Carolina and the nation. Segregation along racial lines in the public schools has worsened during the 1990s, paralleling growing disparities in black-white achievement.[5]

The two developments also have exacerbated race relations in the nation and the state. Throughout the 1990s—especially in U.S. cities that were left behind in the economic boom but experienced population growth fueled by immigration—tensions, conflicts, and confrontations with racial or ethnic overtones have triggered protest demonstrations and civil unrest.[6] In North Carolina, which became a major magnet for immigration during the 1990s, the schisms to date have been limited to isolated incidents of violence against immigrant newcomers and hostile verbal exchanges between them and the state's long-term white and black residents over access to housing, jobs, and other scarce resources. However, if history serves as an accurate barometer, the situation might worsen in the current statewide economic downturn.[7]

To thrive and prosper in the new economy, North Carolina municipalities, particularly those with substantial populations in economic distress, will have to adapt to the federal government's recent policy shift toward letting free enterprise solve pressing urban and rural problems.[8] They also will have to adjust to the philanthropic community's increasing preference for funding entrepreneurship and socially responsible undertakings.[9]

In view of these dramatic policy shifts, I propose in this article a conceptual model for understanding, evaluating, and enhancing community health and competitiveness in the twenty-first century's knowledge-based economy. The model identifies six types of "community capital"—*polity, physical, finan-*

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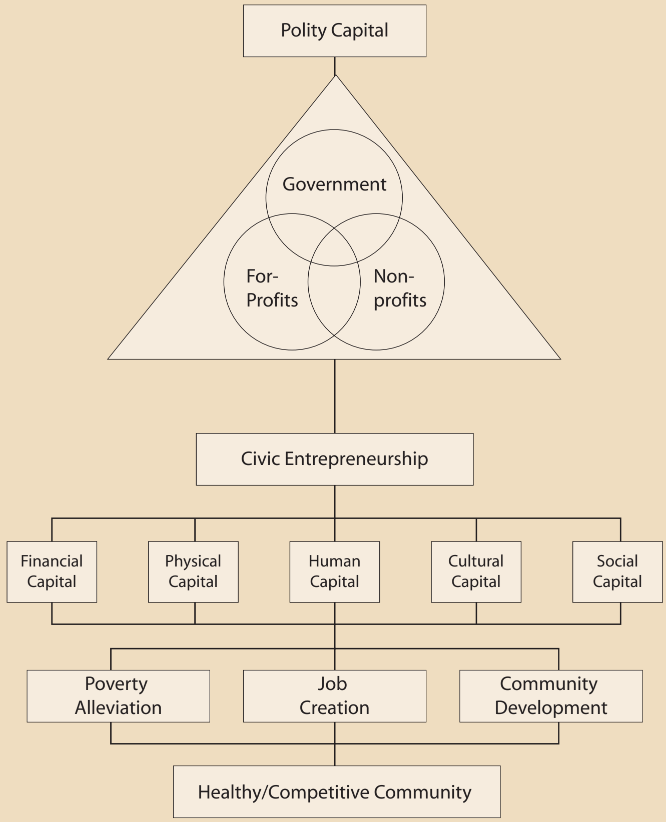
cial, human, cultural, and *social*—that North Carolina communities will have to develop in order to thrive locally in the global economy.[10]

In the following sections, I describe the six sources of capital and present manifestations of each in selected highly competitive communities of the new economy. I also discuss what North Carolina municipalities must do to develop the full complement of capital assets that are known to exist in highly competitive communities. Finally, I outline a three-step action plan that North Carolina municipal leaders can pursue to improve the health and the competitiveness of their communities in the marketplace of the new economy.

Figure 1. **A Civic Entrepreneurship Model for Enhancing Community Health and Competitiveness**



Description of the Model

The proposed model for enhancing communities' health and competitiveness (see Figure 1) is predicated on the ability of municipal government leaders to leverage their polity capital to forge mutually beneficial entrepreneurial relationships with for-profit (business) and nonprofit institutions. From that basis they can aggregate the other five sources of community capital to foster strategies for reducing poverty, creating jobs, and developing a healthy and economically competitive community. I discuss each component of the model in detail in the following sections.

Polity Capital

To compete in the new economy, North Carolina communities, especially those that are severely distressed, may need to re-engineer how they go about developing their polity capital. For present purposes, "polity capital" is the resources and the tools that local governments and other institutions have at their disposal to improve or enhance the health, the socioeconomic well-being, and the overall competitiveness of their community in the global marketplace.[11]

In many communities, especially those that have been left behind in the current economic boom, two elements of polity capital, the business climate and regulatory structures, often deter community stakeholders from pursuing innovative strategic alliances and entrepreneurial or business-oriented approaches that can generate revenue. Such approaches can, in turn, be used to resolve those communities' seemingly intractable social and economic problems.[12]

For example, Philadelphia's tax structure is driving high-tech entrepreneurs to the suburbs.[13] Commenting on the problem, the president of a Philadelphia e-commerce business organization said,

> *[T]he tax structure, I think, has caused a lot of business owners to think more seriously about where they locate, and a lot have moved to the suburbs. . . . [I]nformation technology in general is all intellectual capital. And intellectual capital has feet—it's easy to move.*[14]

When asked to identify the most important barriers to success for the technology community in Philadelphia, 68 percent of 100 people surveyed at a technology conference in that city "mentioned city taxes, twice as many as the next factor."[15] More specifically, the conference attendees indicated that the city's taxes on wages, stock options, and gross receipts were deterring companies from locating in the city.[16]

To secure the resources needed to compete, new-economy communities have moved toward a "network governance model—a coalition of business, government, and community leaders who skillfully blend new business models of venture capital and networking with the job of solving public problems."[17] In such cities the local government actively and aggressively pursues strategic alliances with businesses and nonprofits—domestically and internationally—that will lead to the development of cultural ties and profit-centered activities. These ties and activities will, in turn, generate revenue, create jobs, and enhance the cities' overall image and attractiveness as places to live and do business.[18]

In such strategic alliances, the government employs sound and socially responsible business principles to enhance the efficiency and the effectiveness of its operations, while creating policies that encourage others to act responsibly.[19] For-profit entities act in a socially and environmentally responsible manner while continuing to operate in the best interest of shareholders. Nonprofits strive to create social-purpose ventures that address pressing local needs and the financial needs of their organizations.[20]

Communities and organizations that embrace such approaches are engaging in "civic entrepreneurship."[21] That is, they have attempted to transform their government culture from a social welfare–oriented model of operation to a business-oriented one, with an eye toward enhancing the community's stock of financial, physical, human, cultural, and social capital. In turn, these assets are deployed in innovative ventures designed to alleviate poverty, create jobs, and foster community development.[22]

Financial Capital

How do highly competitive communities create the financial capital needed to promote their growth and development? Such communities have a strong entrepreneurial spirit and orientation, as well as a can-do attitude toward resolving their own problems.[23] Also, their economic development policies encourage innovation and adaptation, with an eye toward shaping the "evolution and ongoing change in a way that maintains [the] essential character and values [of the community]." "Unless a society and a community [are] open to the development of new ideas, they are unlikely to see much development."[24]

In a highly competitive community, the "government does not treat business with hostility or suspicion, but like a partner where both sides are expected to keep their part of the bargain." Further, highly competitive communities exemplify an "openness-to-new-ideas attitude, that is, a try-it-and-see if-it-works rather than a let's-go-check-with-the-authorities" attitude.[25]

These communities also have a healthy attitude toward failure. In Nashville, Tennessee,

> *[f]ailure . . . is an important part of the learning process; it sorts successful approaches from losing ones. Failure also makes change possible. Without failure, established companies are not forced to accept the painful processes of improvement.*
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> . . . .
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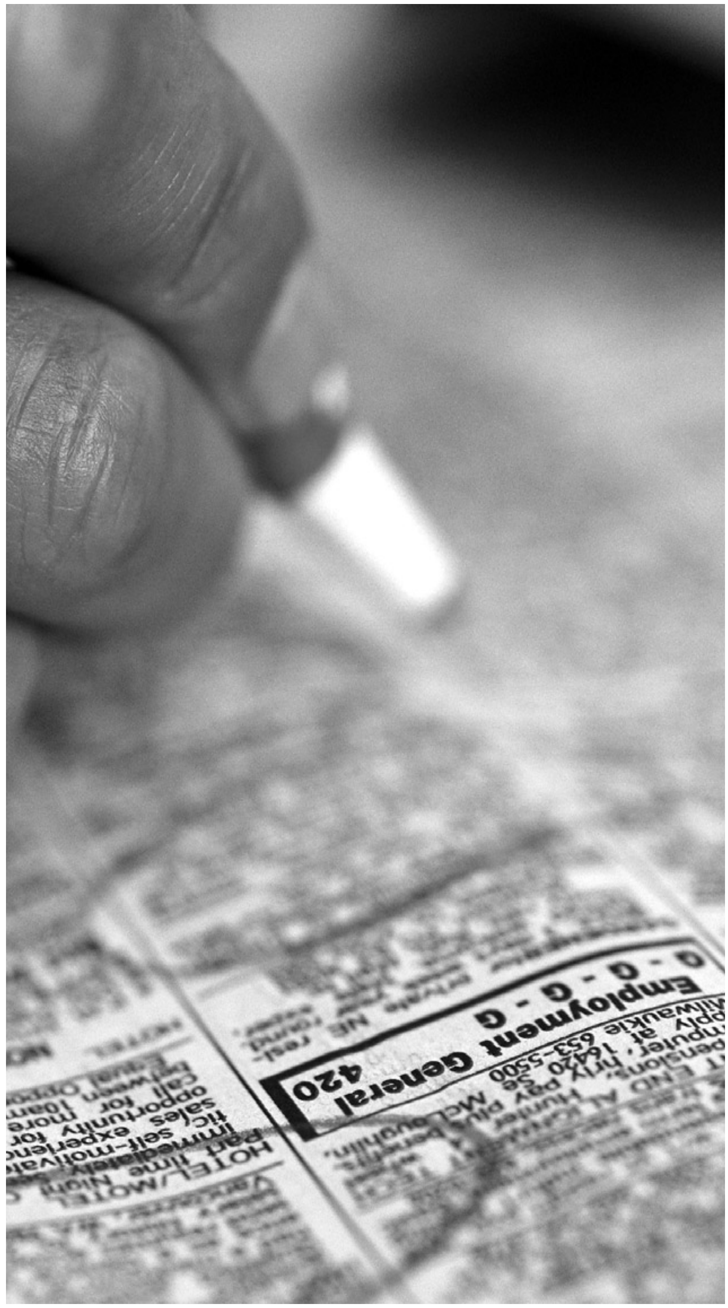
> *In an entrepreneurial culture, business failure is not a kiss of death, as it can be in more rigid economies. . . . [I]n a highly competitive community, investors, bankers, lawyers, and accountants expect some new ventures to fail, and also expect that failure to be followed by new efforts.*[26]



An aggressive business culture finds the necessary financial capital to generate growth and create jobs.

Silicon Valley's success relative to that of other high-tech nodes "stemmed from much more receptive attitudes about entrepreneurship and risk taking and a much greater tolerance and lower social stigma for business failure."[27] The key to the economic revival of Dallas, Texas, following the collapse of its energy and banking sectors in the 1980s was "a powerful, extremely aggressive business culture":

> *[A]t each stage of its development the primary impetus for growth . . . has come not from outsiders like New York bankers or Silicon Valley venture capitalists, but from local folks captivated by the restless, sometimes relentless entrepreneurial spirit that seems indigenous to the community.*
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> . . . .
>
> *[T]he seemingly laid back demeanor and the slow, southern drawls of Dallasites are deceiving. . . . Dallas is a very sophisticated place. . . . [T]here's just this tremendous "can do" spirit here. You are judged on your character, and capable people can have a real effect.*[28]

For the foregoing reasons, a wealth of both traditional and nontraditional sources of financial capital is available to foster business and community development in highly competitive communities. Typically, such communities "have strong traditional financial sectors that advise and nourish young companies, long before they have become profitable and can win a standard bank loan."[29]

Nashville, known for decades as the Wall Street of the South, epitomizes this spirit:

> *Ten venture capital firms with a combined investment portfolio worth hundreds of millions are based in Nashville. Since 1990, J. C. Bradford and Company, Nashville's most prominent investment banking firm, has helped entrepreneurs raise over $12 billion in initial public stock offerings, as well as more than $3 billion in private investments.*[30]

Reflective of the healthy attitude that investors have about risk in highly competitive communities, in Nashville,

> *[r]ich people . . . are willing to spin the big wheel a few more times, rather than clip coupons. . . . Investors here understand that most start-ups will go under. Perhaps six out of ten fail—and another three limp along. But the tenth one will blaze to the top, leaving fantastic earnings in its wake. Meanwhile, in some cities, investors are looking for guarantees, a sure thing.*[31]

In highly competitive communities, community development venture capital funds (CDVCFs) and other nontraditional sources of financial capital also are typically available. Traditional venture capital funds are professionally managed pools of equity capital typically sought for growth and expansion. CDVCFs are modeled after them but allow managers to seek a double bottom line—that is, both social and financial returns.[32]

Finally, in highly competitive communities, nonprofit organizations tend to be very enterprising. For example, some engage private-sector companies in mutually beneficial strategic partnerships that generate revenue:

- Cause-related marketing alliances—say, BMW donating money to the Susan G. Komen Breast Cancer Foundation each time a person test-drives one of its cars
- Affinity programs—alliances forged between major corporations and trade and professional associations
- Exclusive agreements—for instance, Huntington Beach, California, recently giving Coca-Cola exclusive "pouring rights" in all city-owned facilities, which will generate $6.7 million in new revenue for the city
- Selling of space—communities marketing a wide array of public spaces, including airports, transit systems, and sports venues, to private-sector companies to generate sorely needed revenue

Others operate for-profit arms, often referred to as "social-purpose ventures," that generate revenue. Still others pursue some combination of these strategies.[33]

The revenue accumulated via these efforts is called "community wealth," as opposed to personal or corporate wealth. This terminology is used because the revenue supports a wide range of activities designed to improve the overall health and well-being of communities and the people who live in them. The activities include improvements in infrastructure, within- and after-school programs for socially and economically disadvantaged youth, employment and training programs, and more.[34]

Physical Capital

To maintain and enhance their comparative advantage in the new-economy marketplace, highly competitive communities invest heavily in their physical capital—what is referred to as their "logistical infrastructure." This includes the network of highways, railways, airports, and telecommunications systems (telephone, Internet, etc.) connecting them to the regional, national, and global economy.[35] A community's physical capital also includes vacant and abandoned parcels of land that can be developed or redeveloped to make the community more attractive as a place to live and do business.

To attract entrepreneurs and new-economy businesses as well as to maintain connections to the regional, national, and global economy, a city's bridges, tunnels, rail lines, ports, and highways must be modern and in good repair. Nashville has consciously and purposefully invested in its transportation infrastructure so that it can benefit economically from its strategic location at the geographic crossroads of the country, a point where three interstate highway systems converge.[36]

> *Half the U.S. population lives within 600 miles of Nashville, and those people can be reached by a spider's web of rail lines, river routes, and highways that emanate out of Nashville. Small wonder that strategically located Nashville is a major shipping and distribution center for books, Bibles, and manufactured goods—it is the perfect home for a manufacturer's shipping center. That is one reason Ingram Inc., the world's largest distributor of books, has long been based in Nashville. Across town is Thomas Nelson, the world's largest publisher of Bibles. Nashville is also home to the world's largest sheet music publishers.*[37]

Dallas has pursued a similar strategy. After the collapse of its banking and energy sectors, it attempted to shed its detested "middle of nowhere" image by aggressively pursuing federal funding to develop I-35. This interstate highway now serves as the "main conduit between the American industrial heartland and Mexico's northern manufacturing centers." In part because of this investment in ground transportation, Dallas is known in some circles as the "capital of capitalism," a city where, in the 1990s, the growth of high-tech industry was greater than it was in Silicon Valley.[38]

However, strategic investments in airport facilities and broadband technology probably have been the most important factors in positioning new-economy cities to compete in the twenty-first century marketplace. For example, "'[l]ike the seaport, river and canal, train, and highway systems before them, air travel networks, particularly for air cargo, are now the leading logistical factor behind urban growth.'"[39] Nowhere has this been more apparent than in

GARY ALLEN / NEWS & OBSERVER

Transportation systems, such as railways, that link a community to the world around it constitute its physical capital.

Dallas, where leaders made a conscious decision to invest in three airports: Dallas–Fort Worth International, which ranks with Chicago's O'Hare as one of the nation's busiest air centers; Love Field, conveniently located near downtown; and Alliance Airport, developed and financed by Ross Perot as an industrial airport—the world's largest.[40]

To maintain and enhance their comparative advantage in the new-economy marketplace, highly competitive communities invest heavily in their physical capital.

Broadband technology is an equally important element of infrastructure:

> *[A]s cities of the past were built along railroads, waterways and interstate highways, cities of the future will be built along information highways—broadband communication links to homes, schools and offices, hospitals and cultural centers, and through the World Wide Web to millions of other locations all over the world.*[41]

However, when it comes to attracting new-economy businesses and jobs, the future is now for municipalities, since "access to broadband technology—T1, DSL, cable and the like—is key to competitiveness."[42] Today, in making decisions about location, businesses are asking three critical questions: How wired is your community? Can you get high-speed access to the Internet? What will it cost?[43]

The actions of Tacoma, Washington, illustrate the impact that wiring a community can have on a local economy:

> *In Tacoma, Washington, long a step-sister of glamorous Seattle, the municipally owned electric utility installed a fiber-optic network that covers 180 square miles and in the process brought new businesses and economic vitality to a place that was once bleakly described as "postapocalyptic."*[44]

Elaborating on the role of broadband technology in competitiveness, one business official noted, "We will soon be at a point where tenants expect bandwidth just as they do air conditioning."[45]

That municipalities cannot compete for new-economy business without the logistical infrastructure of highways, railways, airports, and telecommunication systems is best captured in the observation that "'the Web cannot move a box.'"[46] The problems that e-commerce businesses faced during the 1999 Christmas season illustrate the point.[47] Because of their failure to establish a network of distribution centers and a strategy for delivering products to customers in a cost-efficient and timely manner, many e-tailers had a disastrous 1999 holiday season. In the absence of such a logistical infrastructure, Toysrus.com and a host of other e-tailers accepted orders for products that already were out of stock. This meant that the purchased items could not arrive in time for Christmas. Angry parents filed lawsuits, and some of the e-tailers were eventually fined $1.5 million each by the U.S. Federal Trade Commission. An attorney who filed one of the lawsuits said,

> *There are lots of things in life that are excusable, but ruining Christmas for thousands of children isn't one of them. The thought that Toysrus.com had full knowledge they couldn't*

Customers may purchase items in cyberspace, but trucks and like vehicles are necessary to deliver the items.

keep the Christmas Eve date but continued to accept orders makes it even worse. To thousands of kids, Toysrus.com is the e-grinch that stole Christmas.[48]

In preparation for the 2000 holiday season, e-tailers invested large sums of money in logistical support and customer-service systems.[49] Municipalities with the necessary physical capital were the primary beneficiaries of these investments.

For communities that are striving to be more competitive in the emerging e-commerce economy, success will hinge on their ability to develop a bulletproof logistical infrastructure:

> *[T]he most important part of an online transaction occurs not in cyberspace, but rather at the customers' door. . . . [D]espite all the discussion about pure-play [cyberspace shopping "malls"] versus brick-and-mortar [traditional shopping malls], it is steel and rubber—in the form of vans, trucks and the occasional bicycle—that ultimately rules.*[50]

In addition to ensuring that new-economy businesses have the logistical infrastructure that they will need to compete, highly competitive communities employ the new technologies to enhance their own *polity capital*.[51] That is, they strive to make government more cost-efficient and -effective by bringing a wide array of services online. As the director of IBM's Institute for Electronic Government points out, in the fierce competition for new-economy employers,

> *[g]overnment has to move at the speed of business. . . . If it takes 12 weeks to get a permit to renovate office space, and a venture capitalist says the business needs to be up and running in 90 days, you lose out. That business is going to go where the process is timely.*[52]

By proactively and aggressively making the transition to e-government, or "smart government" as it is called, highly competitive communities send a signal to both start-up companies and established ones looking for a place to locate or relocate that their local business climate is highly supportive. Making this transition also substantially reduces the cost of doing the business of government. In highly competitive communities, the resulting cost savings are being channeled into efforts that address pressing social and economic needs that otherwise would go unmet.

Human Capital

Although a state-of-the-art logistical infrastructure is necessary, it is not sufficient to enhance community competitiveness in the new economy. "[W]hat brings about transformation is the people who can create in innovative and creative ways."[53]

Thus, in terms of a community's human capital, there are two keys to success in the new economy. The first is cutting-edge research facilities and top-notch education institutions.[54] However, their mere existence is not enough. Within these institutions the climate must allow scientists to translate research into viable commercial uses that will enable high-tech businesses, their supplier networks, and the local economy to grow and thrive. To facilitate this type of economic activity, Indiana has established a 21st Century Research and Technology Fund, which provides $50 million for research for the state's universities and private companies. Ohio State University reportedly

Christobal Perez / News & Observer

In a West Virginia community, providing laptop computers to students—an investment in human capital—dramatically improved the state's performance on national achievement tests.

is considering using a small percentage of its $1.3 billion endowment as seed money to help small companies in Ohio grow.[55]

The second key is large-scale investments in the local education system (K–12, community college, and four-year institutions) to ensure the availability of education and training programs that will enable citizens to compete for new-economy jobs. For example, in Hundred, West Virginia, to strengthen the technological skills of the student population, business and government jointly developed a program that provided laptops to students. "[A]fter distributing 144 laptops to students for both home and school use, West Virginia has jumped from 33rd to 11th place on national achievement tests."[56] Such investments enhance a community's attractiveness to businesses.[57]

Discrimination often results in bias suits, and these create the impression that the environment does not tolerate diversity. Creating such an impression is unwise and counterproductive.

Cultural Capital

To ensure that the full benefits of a strong education and training system materialize, a highly competitive community invests heavily in its cultural capital—that is, in policies and procedures that undergird its citizens' values, attitudes, and beliefs about their current life chances and their future opportunities in the local community.[58] More specifically, a highly competitive community strives to manage its population diversity effectively, not solely for social or moral reasons (that is, because it is the right thing to do), but also as a form of enlightened self-interest (that is, because it is good for business). Communities that value rather than tolerate their cultural capital create a climate in which all citizens, regardless of race, ethnicity, gender, and so on, are fully able to maximize their potential to participate in the new economy and benefit from the fruits of their labor.

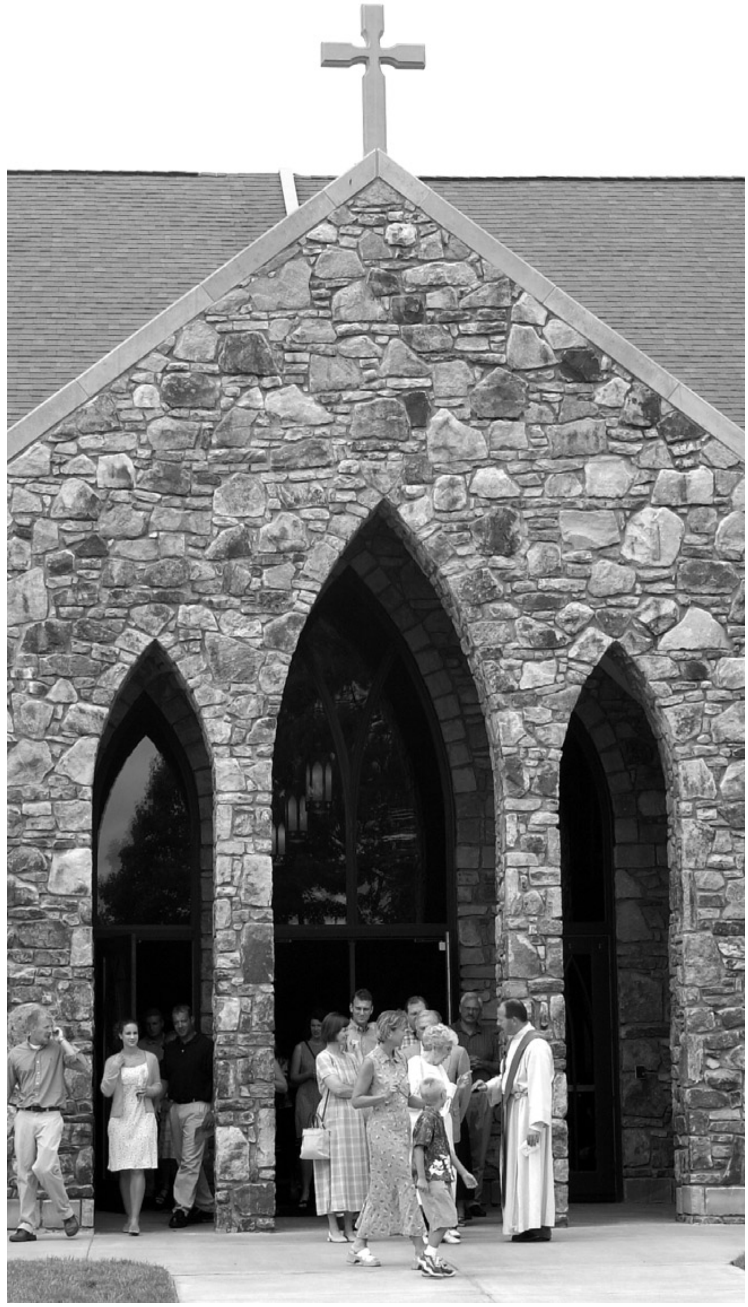
Dallas has long recognized the strategic importance of managing its cultural capital. Although its minorities have not benefited fully from the city's pro-business climate, Dallas has viewed racial strife as bad for business. In the 1920s, the city "waged a war against the Ku Klux Klan, noting that the Klan's presence deterred growth." "The kind of racial strife that decimated other cities, north and south, for the most part skirted Dallas. Largely, because it was bad for business."[59]

In a March 2000 speech, Federal Reserve Chairman Alan Greenspan put forth the same argument: "'Discrimination is against the interests of business. . . . Yet business people often practice it. In the end, the costs are higher, less real output is produced, and the nation's wealth accumulation is slowed.'" Also, as Massachusetts economist Cynthia Latta notes, "'Bias toward women, minorities, and the disabled is counterproductive[,] . . . a bit like shooting yourself in the foot.'"[60]

Discrimination often results in bias suits, and these create the impression that the environment does not tolerate diversity. Creating such an impression is unwise and counterproductive in the contemporary period, when international migration and interregional population shifts within the United States are dramatically changing the racial and ethnic composition and complexion of communities.[61] Moreover, new-economy entrepreneurs and workers are themselves a diverse group in terms of race and ethnicity, immigration status, and lifestyle.[62]

Examples of cities that have not effectively managed their cultural capital abound. Because of their inability to manage their growing population diversity and its accompanying challenges, several cities, Los Angeles, Miami, and New York among them, have been sites of major civil disturbances, which have destroyed existing jobs and deterred new business development (including tourism).[63] For instance, nearly 100,000 jobs were lost in Los Angeles as a consequence of the 1992 civil unrest, and two years later, only 26,000 jobs had been created in the rebuilding process, resulting in a net loss of 74,000 jobs. The job loss was concentrated among people of color, and the newly created jobs mainly benefited non-Hispanic whites, so the rebuilding effort served to exacerbate racial and ethnic divisions in the city. This, in turn, further tarnished Los Angeles's image.[64]

In other instances, local officials' cultural or racial insensitivity has triggered the exodus of businesses. For example, on March 31, 2001, Delta Airlines discontinued its Asia Pacific Gateway services at the Portland (Oregon) International Airport after repeated instances of foreign visitors on its flights from Japan being mistreated by Immigration and Naturalization Service officials (for example, being subjected to strip searches without just cause). In terms of economic impact, local officials estimate that this insensitive and inappropriate behavior, which strongly influenced Delta's decision to discontinue the services, could cost the state $900 million a year in lost revenue. It also has tarnished the city's image, especially among foreign travelers from Asia, and earned it a new name, DePortland (a play on the word "deportation").[65]



Chris Seward / News & Observer

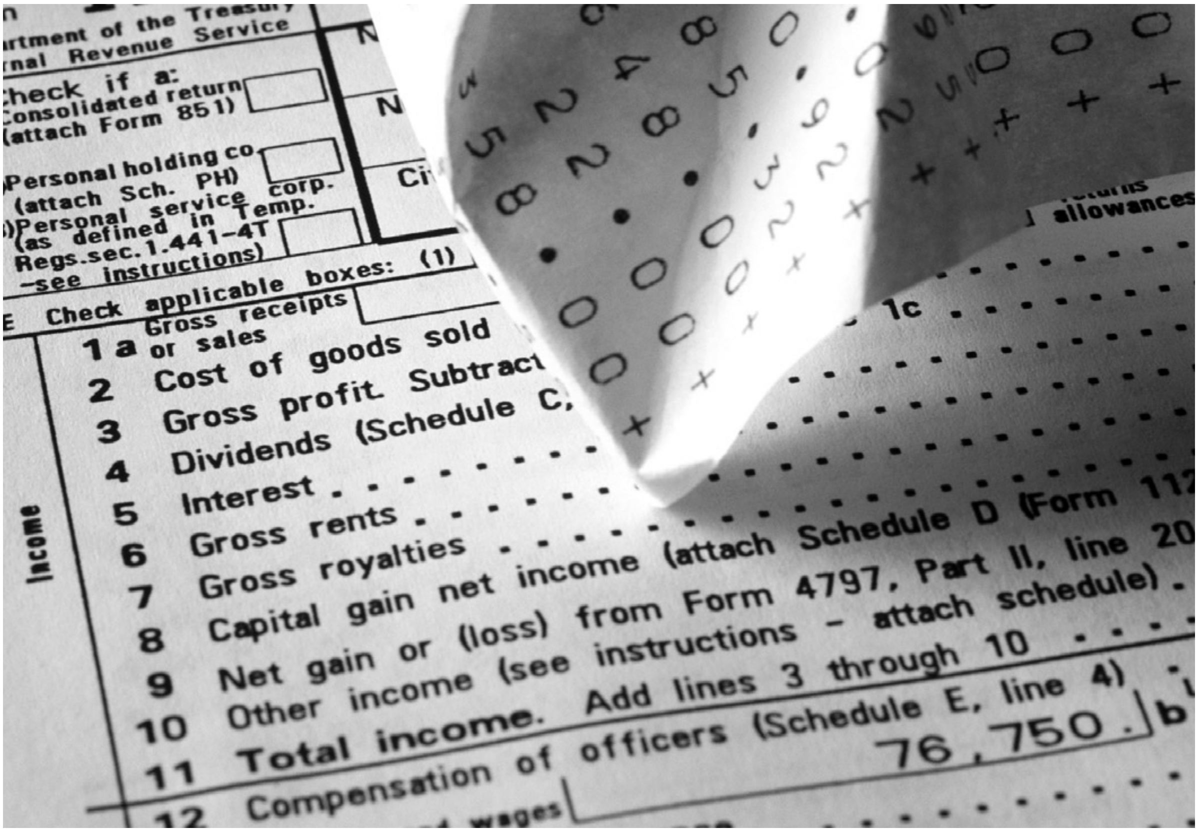
Churches and other places of worship are part of a community's social capital, offering social identity, emotional support, and human contact.

Social Capital

Highly competitive communities also invest in their stock of social capital. For present purposes, "social capital" is the contacts through which people maintain their social identity and receive emotional support, material aid and services, information, and new social contacts.[66] Such support can be obtained from individuals (for example, immediate and extended family members, friends, and fellow members of one's ethnic group) and institutions (for example, churches and community-based organizations). Highly competitive communities make substantial investments in an array of "bridging" institutions, such as the YMCA, the YWCA, and the Boys and Girls Club, which seek to knit a community together and provide links to social capital for residents, especially those who are socially and economically disadvantaged.

Highly competitive communities seek to build or rebuild social capital in an effort to reverse the growing inequality in U.S. society.[67] Most of their efforts are designed to overcome the social and personal isolation that undergirds this inequality.[68]

How do they do this? The government funds local institutions whose responsibility is to boost community involvement. Also, along with private-sector employers, it advocates policies that promote civic engagement and



A community's tax structure significantly affects its attractiveness to entrepreneurs.

enable citizens to balance work, family, and community life better.[69]

In addition, highly competitive communities that use their *polity capital* to promote and facilitate strategic alliances among government, industry, and universities create a special kind of *social capital*. Such alliances facilitate the sharing of knowledge across organizational boundaries and promote the formation of trusting relationships, which, in turn, lead to transorganizational "communities of innovation."[70]

To ensure that the full complement of capital is present, a municipality's polity capital has to be dynamic and flexible, not static or bureaucratic.

Discussion and Proposed Action Plan

The absence of any one of the six types of community capital discussed earlier can seriously encumber the ability of a municipality to compete in the new economy. Philadelphia has many of the necessary ingredients. On the positive side,

> *[t]here are thousands of highly skilled workers, many first-class universities and secondary schools, and large reservoirs of wealth to finance a growing class of entrepreneurs. The region is, moreover, thick with small and medium-sized businesses, enterprises of practically every classification, with untold opportunities for additional growth. And there is capital—billions of dollars held by banks, venture firms, pension funds and others, available to finance good ideas.*[71]

However, most of the Internet business "winds up in Philadelphia's suburbs." Why? Because, as noted earlier, "Philadelphia's taxes and business climate send most entrepreneurs across the city line."[72] Even where there are empowerment or opportunity zones, in which tax breaks are offered to lure new firms, those tax breaks are offset by high rents for space.

Thus, to ensure that the full complement of capital is present, a municipality's polity capital has to be dynamic and flexible, not static or bureaucratic. To foster and enhance community competitiveness, the local government must assume the role of managing partner. It must be prepared —almost on an ad hoc basis—to foster networks among key community stakeholders to address both long-term and emerging issues that affect the health and the competitiveness of the community in the economic marketplace.

Depending on the nature of the problem, these networks may be industry- or sector-specific, ethnic based, or regional in composition.[73] In some instances they may involve business leaders who are staunch competitors in the local marketplace. In highly competitive communities, leaders of competing businesses often work together to solve local problems because they recognize that their "co-opetition" or "competitive collaboration" will ultimately redound to the benefit of their respective companies.[74] In other words, it is a form of enlightened self-interest.

This type of collaboration has been most clearly manifested in Charlotte, North Carolina. The former chief executive officers of Bank of America (Hugh McColl) and First Union National Bank (Ed Crutchfield), who were otherwise fierce competitors in the financial services industry, over the years worked together to improve the health of the city and the quality of life of its people. In large part because of their collaborative efforts, Charlotte has been a magnet for people and jobs. Of course, both banks have benefited enormously from this growth.[75]

For North Carolina municipalities, developing their full complement of community capital is no longer an option; it is a strategic imperative. On the basis of the successful application of the model presented in this article in two locations (Gary, Indiana, and Grand Forks, North Dakota), I believe that North Carolina municipalities can profitably pursue the following three-pronged action plan.[76]

First, they must critically assess the strengths, the weaknesses, the opportunities, and the threats (SWOT) inherent in their existing stocks of polity, financial, physical, human, cultural, and social capital. On the basis of the results of these community-level SWOT analyses, they can develop coherent strategies to enhance the attractiveness of their communities as places to live and do business.

Second, since inadequate financial assets will be major obstacles to implementing the recommendations likely to have the greatest impact on their future competitiveness, local government and community leaders will have to acquire training and skills in civic entrepreneurship. Such training will equip them with the tools to pursue a wide range of entrepreneurial approaches (cause-related marketing alliances, affinity programs, and so on) that might generate new streams of revenue. They then can use this revenue to implement the recommendations that emanate from the community-level SWOT analyses.[77]

Third, to level the playing field for community and economic development, North Carolina municipalities must develop and implement strategic plans that will allow them to take better advantage of the emergence of information technology. Specifically, they must strive to develop a state-of-the-art technology infrastructure and viable plans and processes for creating knowledge workers, for making the transition to smart government, and for forging strategic electronic partnerships that link them to the regional, national, and global economy.

To launch this threefold action plan successfully, North Carolina municipalities, particularly the most economically distressed communities, will need financial support from both state and national foundations. They also will need managerial and technical assistance. The Institute of Government and the Kenan-Flagler Business School at The University of North Carolina at Chapel Hill, and the North Carolina Rural Internet Access Authority, can help provide the necessary technical support. If the necessary resources are strategically mobilized, this three-pronged action plan might serve as a national prototype for assessing and enhancing community competitiveness in the twenty-first century's knowledge-based economy.

Model for Rural Communities

With support from the Golden Leaf Foundation, the Institute of Government and UNC–Chapel Hill's Kenan-Flagler Business School are creating a model of economic development that rural communities can use to enhance their competitiveness. The model follows the steps outlined in the accompanying article. For more information, contact Anita Brown-Graham at (919) 962-0595 or brgraham@iogmail.iog.unc.edu.

Notes

1. Anne Adams Lang, *Behind the Prosperity, Working People in Trouble*, The New York Times on the Web, Nov. 20, 2000, available at www.nytimes.com; *The Prosperity Gap*, Business Week, Sept. 27, 1999, p. 162.

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3. Scott Martelle & Daniel Yi, *Diversity Comes with Division*, Los Angeles Times, Apr. 15, 2001, p. B1.

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5. Christopher Jencks & Meredith Phillips, *America's Next Achievement Test: Closing the Black-White Test Score Gap*, in The American Prospect, No. 40, pp. 44–53 (Sept.–Oct. 1998); Eric Schmitt, *Segregation Growing among U.S. Children*, The New York Times, May 6, 2001, § 1, p. 20.

6. Cincinnati, Ohio, and Irvington, New York, where white police officers have been accused of killing unarmed African-American males, serve as the most recent examples, but Los Angeles, Miami, and New York have all been tinderboxes of racial and ethnic strife during the past decade. *Angered by Shooting, 200 March in Irvington*, The New York Times on the Web, May 6, 2001, available at www.nytimes.com; James H. Johnson, Jr., & Walter C. Farrell, Jr., *The Fire This Time: The Genesis of the Los Angeles Rebellion of 1992*, 47 North Carolina Law Review 1403 (1993); James H. Johnson, Jr., et al., *Immigration Reform and the Browning of America: Tensions, Conflict, and Community Instability*, 31 International Migration Review 1055 (1997); James H. Johnson, Jr., et al., *The Los Angeles Rebellion of 1992: A Retrospective View*, 6 Economic Development Quarterly 356 (1992); Eric Schmitt, *Finding Embers in the Ashes*, The New York Times, May 6, 2001, § 1, p. 20.

7. James H. Johnson, Jr., et al., *Newly Emerging Hispanic Communities: A Spatial Analysis of In-Migration Fields, Settlement Patterns, and Social Receptivity*, in IMMIGRATION AND OPPORTUNITY 263 (F. Bean & S. Bell-Rose eds., New York: Russell Sage Foundation, 2000); James H. Johnson, Jr., et al., *A Profile of Hispanic Newcomers in North Carolina*, 65 POPULAR GOVERNMENT, Fall 1999, at 2.

8. ANDREW CUOMO, NEW MARKETS: THE UNTAPPED RETAIL BUYING POWER IN AMERICA'S INNER CITIES (Washington, D.C.: U.S. Dep't of Hous. and Urban Dev., July 1999).

9. Mario Morino, Venture Philanthropy: Leveraging Compassion with Capacity in the National Capital Region, Address to the Washington Reg'l Ass'n of Grantmakers Annual Meeting (June 21, 2000); Bill Shore, *The Other Lost World*, WHO CARES: THE TOOL KIT FOR SOCIAL CHANGE, Sept.–Oct. 1997, p. 16.

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11. L. SCOTT MILLER, AN AMERICAN IMPERATIVE: ACCELERATING MINORITY EDUCATIONAL ADVANCEMENT (New Haven, Conn.: Yale Univ. Press, 1995).

12. Esmonde, *Hard to Fathom*; McLaughlin, *Cities Prosperity Has Passed By*; Steelman, *The City the Boom Left Behind*; Von Sternberg, *Booming Economy*.

13. Bob Warner, *Trouble? Spell it T-A-X: Philadelphia Structure Driving Entrepreneurs to the Suburbs*, PHILADELPHIA ONLINE, Feb. 29, 2000; Bob Warner, *Taxes Are Not the Only Reason for Flight Out of the City*, PHILADELPHIA ONLINE, Feb. 29, 2000; both available at www.philly.com.

14. Warner, *Trouble?*

15. *Id.*

16. A Wharton Business School finance professor estimated that the city's wage tax was responsible for "the loss of more than 10,000 jobs between 1966 and 1986." Warner, *Taxes Are Not the Only Reason.*

17. Bill Bishop, *Austin's New Economy Outpacing Its Old Government*, AUSTIN AMERICAN-STATESMAN, Feb. 26, 2000, pp. A1, A1. Examples of new-economy cities are Austin and Dallas, Texas; Nashville, Tennessee; Chapel Hill, Durham, and Raleigh, North Carolina; and San Jose, California. Anne Fisher, *The Best Cities for Business*, FORTUNE, Dec. 20, 1999, p. 214; KOTKIN, THE NEW GEOGRAPHY.

18. Duluth, Minnesota, is an excellent example of a city that has transformed a program designed to promote cultural exchanges—the Sister Cities Program, which was inspired by President Dwight D. Eisenhower in 1956—into opportunities for business development. Duluth has four sister-cities partnerships (with Thunder Bay, Ontario, Canada; Ohara, Japan; Petrozavodsk, Russia; and Vaxjo, Sweden), which reportedly generated $10 million "in direct revenue over the last few years." William H. Honan, *Sister Cities of the World Find a Common Cause*, THE NEW YORK TIMES ON THE WEB, July 8, 2000, available at www.nytimes.com.

19. Stephen Goldsmith, *Can Business Really Do Business with Government*? HARVARD BUSINESS REVIEW, May–June 1997, p. 110.

20. Carl M. Cannon, *Charity for Profit: How the New Social Entrepreneurs Are Creating Good by Creating Wealth*, NATIONAL JOURNAL, June 17, 2000, p. 1898.

21. James H. Johnson, Jr., & Keenya Toney, *Fostering Entrepreneurship, Job Creation and Community Development*, 5 CAREERS AND THE MINORITY MBA 54 (1997).

22. JAMES H. JOHNSON, JR., ET AL., ENTREPRENEURIAL APPROACHES TO POVERTY ALLEVIATION, JOB CREATION, AND COMMUNITY DEVELOPMENT. FINAL REPORT PREPARED FOR THE ANNIE E. CASEY FOUNDATION (Chapel Hill: Urban Inv. Strategies Ctr., Frank Hawkins Kenan Inst. of Private Enter., The Univ. of N.C. at Chapel Hill, 2001).

23. Joel Kotkin, *Cities Need Leaders . . . and Businessmen Are Indispensable*, AMERICAN ENTERPRISE, Sept./Oct. 1998, p. 24; Philip Langdon, *Nashville Rides a Wave and Wonders Where It's Heading*, AMERICAN ENTERPRISE, Mar./Apr. 1998, p. 34; Richard Minter, *Why Do Boom Towns Boom*? AMERICAN ENTERPRISE, Mar./Apr. 1998, p. 40.

24. Joseph Cortright, The Economic Importance of Being Different: Regional Identity, Increasing Returns, and the Dynamics of Growth 11, 5 (unpublished manuscript, undated, Impresa, Portland, Ore.).

25. Minter, *Why Do Boom Towns Boom?* at 44.

26. *Id.* at 45.

27. Cortright, The Economic Importance, at 5.

28. Joel Kotkin, *Capital of Capitalism*, AMERICAN ENTERPRISE, Oct./Nov. 2000, p. 2.

29. Minter, *Why Do Boom Towns Boom?* at 43.

30. *Id.* at 42.

31. *Id.* at 44.

32. Social goals may include targeting minority-owned companies, creating jobs for and providing training to people living in distressed geographic areas, supporting environmentally friendly products, and meeting other socially conscious missions. Financial goals may range from earning enough money to support a particular program to achieving a market rate of return on investment. CDVCFs typically expect less return than traditional venture capital funds do.

33. JOHNSON ET AL., ENTREPRENEURIAL APPROACHES TO POVERTY ALLEVIATION.

34. Shore, *The Other Lost World*; Morino, Venture Philanthropy.

35. John D. Kasarda, *Transportation Infrastructure for Competitive Success*, 50 TRANSPORTATION QUARTERLY 35 (Winter 1996); *Aerotropolis: Airport-Driven Urban Development*, in ULI [URBAN LAND INSTITUTE] ON THE FUTURE: CITIES IN THE 21ST CENTURY 32 (Jo Allen Gause ed., Washington, D.C.: Urban Land Inst., 2000).

36. Minter, *Why Do Boom Towns Boom?*

37. *Id.* at 42.

38. Kotkin, *Capital of Capitalism*, at 4. In contrast to Dallas and Nashville, Boston, New York, Philadelphia, and Washington, D.C., have uneven highways, aging and crime-ridden ports, and railroad tracks in such poor repair that freight trains must travel at half speed. Minter, *Why Do Boom Towns Boom?*

39. John D. Kasarda as quoted in Kotkin, *Capital of Capitalism*, at 4; *see also* Kasarda, *Transportation Infrastructure* and *Aerotropolis*.

40. Kotkin, *Capital of Capitalism*.

41. John M. Eger, *Cities: Smart Growth and the Urban Future*, SAN DIEGO UNION-TRIBUNE, Feb. 13, 2000, pp. G1, G1.

42. Elaine Appleton, *E-Town, USA*, INC. TECH 2000, No. 3 (2000), pp. 58, 58.

43. *Id.*

44. *Id.* at 61.

45. Michael Hinkleman, *For the People, on the Net*, PHILADELPHIA ONLINE, Feb. 29, 2000, available at www.philly.com.

46. As quoted in Kotkin, *Capital of Capitalism*, at 4; *see also* Kasarda, *Aerotropolis*.

47. Mick Brady, *The Dot-Com Delivery Challenge*, E-COMMERCE TIMES, Aug. 7, 2000; Dan Gebler, *Avoiding E-Holiday Heartaches*, E-COMMERCE TIMES, Sept. 11, 2000; Paul Greenberg, *The Delivery Dilemma*, E-COMMERCE TIMES, Dec. 23, 1999; James M. Morrow, *Holiday E-Commerce Growth Slowing*, E-COMMERCE TIMES, Sept. 18, 2000; Keith Regan, *On the Road with E-Commerce,* E-COMMERCE TIMES, Sept. 15, 2000; all available at www.e-commercetimes.com.

48. Brady, *The Dot-Com Delivery Challenge*.

49. Brady, *The Dot-Com Delivery Challenge*; Regan, *On the Road*.

50. Regan, *On the Road*.

51. Drew Robb, *Plugging in to Electric Procurement*, GOVERNMENT TECHNOLOGY, Sept. 2000, available at www.govtech.net; Mark Roberti, *Government: The Stealth Market*, THE STANDARD.COM, June 12, 2000, available at www.thestandard.com.

52. Warner, *Trouble?*
53. Appleton, *E-Town, USA*, at 61.
54. *Building Regional High-Tech Industry Clusters Requires Top Research Facilities Nearby, Milliken Institute Study Finds*, Business Wire, Aug. 10, 2000, available at www.businesswire.com.
55. Mike Pramik, *Tech Sweepstakes: Midwestern Cities Compete to Be the Next Silicon Valley*, Columbus Dispatch, Apr. 30, 2000, available through LEXIS-NEXIS. How do communities that do not have cutting-edge research facilities and top-notch education institutions enhance their competitiveness? The National Commission on Entrepreneurship advocates "enterprise facilitation," a people-based approach that seeks to build on the passion that exists in these communities for building new businesses (*see Enterprise Facilitation: Bringing Entrepreneurship to the Heartland?* NCOE Update, No. 36, Aug. 6, 2001, available at www.ncoe@sso.org). I advocate a parallel approach for North Carolina municipal leaders, especially those in communities that lack research facilities and higher education institutions: that they be trained in civic entrepreneurship, which is designed to enhance their entrepreneurial acumen and business skills.
56. James M. Morrow, *Study: "Net Illiteracy" to Plague U.S.*, E-Commerce Times, Oct. 2, 2000, available at www.e-commercetimes.com.
57. Michael Elliot, *The Big Test*, Newsweek, Sept. 6, 1999, p. 54.
58. William J. Bennett et al., Body Count: Moral Poverty . . . and How to Win America's War against Crime and Drugs (New York: Simon & Schuster, 1996); Lawrence E. Harrison, Who Prospers? How Cultural Values Shape Economic and Political Success (New York: Basic Books, 1992); Thomas Sowell, Race and Culture: A World View (New York: Basic Books, 1994).
59. Kotkin, *Capital of Capitalism*, at 3.
60. Greenspan and Latta as quoted in Diane E. Lewis, *Stop Bias*, Boston Globe, Mar. 23, 2000, pp. D2, D2.
61. Johnson et al., *Newly Emerging Hispanic Communities*; Frey, *The New Geography of Population Shifts*.
62. Kotkin, The New Geography.
63. Johnson et al., *Immigration Reform*.
64. James H. Johnson, Jr., et al., *Assessing the Employment Impacts of the Los Angeles Civil Unrest of 1992: Further Racial Division*, 11 Economic Development Quarterly 225 (1997). Another Los Angeles incident illustrates the impact of a community's failure to manage its cultural capital effectively: Following the brutal murder of two Japanese students in a grocery store parking lot, shopkeepers on Rodeo Drive in Beverly Hills—twenty-odd miles away from the scene of the crime—were affected financially as Japanese tourists literally stopped visiting Los Angeles.
65. Chris Barnett, *Portland Forwarders Upset by Delta Termination of Japan Service*, Journal of Commerce Online, Mar. 30, 2001, available through LEXIS-NEXIS; Florangela Davila, *Hard-Line INS under Fire in "Deportland,"* Seattle Times, Sept. 11, 2000, p. B5; Delta Air Lines Inc/DE/ (DAL), Quarterly Report (SEC Form 10-Q), Nov. 14, 2000, available at http://sg.us.biz.yahoo.com/; Nancy Fonti, *Delta Disbanding Gateway to Asia from Portland, Ore.; Japan Flights to End: West Coast City Will Become a Destination Served from U.S. Hubs*, Atlanta Journal and Constitution, Sept. 7, 2000, p. 3G; Sam Howe Verhovek, *Portland Immigration Official Resigns amid Furor*, The New York Times on the Web, Sept. 20, 2000, available at www.nytimes.com.
66. Walter Kiechel, *The New New Capital Thing*, Harvard Business Review, July–Aug., 2000, p. 149; David Moberg, *Not Quite Bowled Over*, In These Times, Jan. 22, 2001, p. 27; Robert Putnam, The Collapse and Revival of American Community (New York: Simon & Schuster, 2000).
67. James H. Johnson, Jr., & Walter C. Farrell, Jr., *Growing Income Inequality in American Society: A Political Economy Perspective*, in The Inequality Paradox: Growth of Income Disparity (J. A. Auerbach & R. S. Belous eds., Washington, D.C.: Nat'l Policy Ass'n, 1998); Bobo et al., Prismatic Metropolis.
68. Sue Pleming, *Isolated Society Called a Blow to Community*, Houston Chronicle, Dec. 24, 2000, p. A1.
69. *Id.*
70. Elias G. Caragyannis et al., *Leveraging Knowledge, Learning, and Innovation in Forming Strategic Government-University-Industry R&D Partnerships in the U.S., Germany, and France*, 20 Technovation, No. 9 (2000), available through LEXIS-NEXIS. David Leonhardt states that, owing to Minneapolis's development of such alliances, if any American city can reverse the growing wage inequality of the past two decades, Minneapolis can. He goes on to describe training programs that the city has developed via university/private-sector partnerships, that are designed to enable people to get better jobs that pay higher wages—to reduce the gap between the haves and the have-nots. *Minneapolis Shows the Way*, Business Week, Sept. 1, 1997, available at www.businessweek.com.
71. Andrew Cassel, *The* Philadelphia Inquirer *Andrew Cassell Column*, Philadelphia Inquirer, Mar. 6, 2000, available through LEXIS-NEXIS.
72. *Id.*
73. Kotkin, *Cities Need Leaders*.
74. John K. Conlon & Melessa Giovagnoli, The Power of Two: How Companies of All Sizes Can Build Alliance Networks That Generate Business Opportunities (San Francisco: Jossey-Bass, 1998).
75. In a recent Charlotte Observer article announcing the retirement of a senior vice-president who headed Bank of America's Community Development Corporation, another bank official reaffirmed the bank's commitment to the local community by making the following observation about the new chief executive officer, Ken Lewis: "Ken is dedicated to building our cities throughout our franchises. . . . He understands that Bank of America grows best when we grow along with the communities that we serve." David Perlmutt, *Bank of America Executive to Retire after 23 Years*, Charlotte Observer, Jan. 31, 2001, available at www.charlotte.com. The new chief executive officer of First Union has made similar statements about its commitment to the local communities in which it does business. Both banks, for example, are major investors in a new CDVCF, the Economic Opportunities Fund, which has been established to foster rural economic development in North Carolina.
76. James H. Johnson, Jr., Assessing Community Competitiveness in Grand Forks, North Dakota. Report prepared for the John S. and James L. Knight Foundation (Chapel Hill: Urban Inv. Strategies Ctr., Frank Hawkins Kenan Inst. of Private Enter., The Univ. of N.C. at Chapel Hill, June 2001); James H. Johnson, Jr., & Walter C. Farrell, Jr., Assessing Community Competitiveness in Gary, Indiana. Final Draft Report Prepared for the John S. and James L. Knight Foundation (Chapel Hill: Urban Inv. Strategies Ctr., Frank Hawkins Kenan Inst. of Private Enter., The Univ. of N.C. at Chapel Hill, Feb. 2001).
77. The University of North Carolina at Chapel Hill currently offers such a training program, the Management Academy for Public Health. A joint venture of the School of Public Health and the Kenan-Flagler Business School, it trains hundreds of state and local public health managers in four states (Georgia, North Carolina, South Carolina, and Virginia) in the core functional areas of business (for more information, visit the program's Web site, www.maph.unc.edu). This program can easily be adapted to train local government and nonprofit officials throughout the state. For example, recognizing that there are state-imposed constraints on local governments' ability to be entrepreneurial, the program could be revised to address those constraints and identify the areas in which local governments have substantial leeway to be entrepreneurial.