Exogenous Capital
By Byron A. Ellis - August 22, 2013

In communities without a financial structure, the rate of decay of physical capital stock is higher than its replenishment or renewal. In these communities, there is seldom an addition to net investment. The results are a lack of present and future capital formation and employment.

Exogenous capital is critical to revitalizing decaying rural and central city communities. However, financial intermediaries, such as banks and insurance companies, seldom provide exogenous money to depressed communities, even when community members are stakeholders.

These communities are capital-starved with a limited financial return, if any, on existing physical structures. Thus, their available physical capital cannot support community labor, leading to increase unemployment.

Additionally, often scarce community capital is not available in the form of manufacturing facilities. Thus, these communities cannot produce new goods; instead, their physical structures are available as decaying shelters (housing).

Furthermore, in financed-deficit communities, the educational system is incapable of producing technological progress.

When exogenous capital flows into these communities, it is often not under the control of community dwellers. Generally, financial institutions provide the funds to outside investors, and in many instances, it gentrifies the community.

Economic progress requires the addition of exogenous capital. But how do impoverished communities obtain exogenous money?

Many economists argue that financial capital is a result of historical investment decisions. However, it is also a consequence of community visioning and leadership.

Impoverished communities could use credit unions to pool funds for provident means.

Credit unions provide financial services to members; they are unique nonprofit depository institutions. Thus, red-lined communities can set up credit unions to overcome mainstream economic biases.

Interested parties can find information on credit unions at the National Credit Union Administration, and TJP can assist.