



CENTER FOR CIVIC INNOVATION
AT THE MANHATTAN INSTITUTE

This Works: Encouraging Economic Growth

Alen Amirkhanian

Alen Amirkhanian is Vice-President for Research and Strategy at the Initiative for a Competitive Inner City.¹

Introduction

Economic revitalization of our inner cities, urban areas affected by high levels of unemployment and poverty, is one of the priority challenges for the nation.² The challenge and the opportunity are to enable more of our citizens to participate in, and benefit from, the market economy. The goal should be no less than equalizing job, income, and wealth-creation opportunities for inner city residents with those of the region.

The 31 recommendations in this Bulletin provide a blueprint to each mayor on inner city revitalization. The recommendations offer ways in which under-utilized economic resources can be placed back into productive use and help build the city's tax base. They suggest ways in which growth and increased competitiveness can be achieved while including people traditionally excluded from city growth opportunities.

To improve inner city competitiveness and resident economic health, all sectors of the economy—public, private, and nonprofit—must focus their efforts on this task. Improvements must be made in education, housing, health care, and business conditions. These four pillars of a well-functioning community are each necessary and

mutually supportive in spurring sustained inner city economic growth.

While education, housing, and health care benefit from persistent focus by numerous organizations around the country—and much more still needs to be done in each of these areas—business growth is the least understood of our economic development efforts. This Bulletin offers strategies that can help mayors accelerate business and employment growth in inner cities.

As many visionary leaders realize, business vitality is not only important in its own right, but also works to anchor, reinforce, and leverage the success of virtually all other efforts. Job and income opportunities resulting from a strong business base can positively influence educational attainment levels and health outcomes, leading to a virtuous cycle of sustainable economic development. Conversely, without a healthy business base and a sense of economic opportunity, social investments will never truly pay off.

With the publication of “Competitive Advantages of Inner Cities” (*Harvard Business Review*, May–June 1995), Harvard Business School Professor Michael Porter, founder and CEO of ICIC, transformed the national debate on inner city revitalization.

He pointed out that real and sustained economic growth in inner cities will come through business investment and employment growth that are based on competitive advantages of inner cities. Businesses locating in inner cities must have real economic gains, not artificial advantages created by public subsidies. Based on Porter's theory and ICIC's subsequent research, many inner cities have competitive advantages that are increasingly valuable in the regional and national economy. While individual inner cities may have some or altogether different competitive advantages than the four discussed below, ICIC research has shown that these four are frequently present in many inner cities:

Business growth in the inner city and employment growth among inner city residents requires building on these existing or latent competitive advantages. While strengthening the business base of inner cities must be primarily the province of the private sector, governments at all levels have a critical and complementary role to play.

Strategic Location—Inner cities are at the core of major urban areas, with highways and communication nodes as potent logistical advantages, particularly valuable in an economy relying on just-in-time delivery of goods and services. ICIC's most recent research also shows that inner city locations are as broadband-enabled as downtown and suburban areas.³

Underserved Consumer Markets—Conservative estimates place the annual retail purchasing power of America's inner cities at \$85 billion. In the mid-to late 1990s, retailers in the inner city were meeting less than 75 percent of that demand. While there has been an influx of retailers to inner cities since ICIC's initial research, these markets are far from being fully served; they continue to represent a large domestic emerging market.

Underutilized Workforce—Inner cities have a large underutilized workforce amid a long-term tight

national labor market. More than 54 percent of workforce growth over the next 10 years will come from minority communities, which are heavily concentrated in cities and inner cities.

Opportunities to Leverage Urban Clusters—Inner cities are home to more than 500,000 enterprises ranging the spectrum of industries. Better integrating these companies into the regional markets would increase the growth and efficiency of the regional economy. Inner cities are also home to major academic, medical, and cultural institutions.⁴ Colleges and universities alone represent 1,900 institutions in the urban core, many in or near inner cities.⁵ Unlike mobile corporations, these institutions are largely guaranteed to stay in their present locations.

Business growth in the inner city and employment growth among inner city residents requires building on these existing or latent competitive advantages. While strengthening the business base of inner cities must be primarily the province of the private sector, governments at all levels have a critical and complementary role to play.

Local governments and mayors specifically can enable business and employment growth by adopting a comprehensive business-based economic strategy. The major components of such a strategy are:

- Forming focused leadership
- Creating a supportive business environment
- Enabling competitive business clusters
- Fostering a competitive inner city workforce
- Creating a positive, yet balanced, image of the inner city
- Encouraging savings and wealth accumulation

The subsequent sections will outline principles and action recommendations for each of these major components. While many mayors may be doing

some or most of these activities, the recommendations may help mayors think about (a) how their activities fit within a comprehensive framework and (b) how they can build on their existing initiatives. Importantly, almost all of the recommendations require no new funding and at times very little funding at all. Most of the recommendations suggest ways in which the city can leverage its partnerships with businesses and nonprofits.

Forming Focused Leadership

The public sector can work with business, community, and institutional leaders to bring concerted focus to inner city economic growth. Facilitating business and institutional leadership to focus on inner cities can leverage resources far greater than those available to local governments. Also important, such a leadership focus will help make inner city economic growth a regional—as opposed to a local, special interest—concern.

Overall Leadership Recommendation

1. Mayors should convene business and anchor institution leaders regularly to identify and further inner city opportunities and economic development partnerships.

Regular interaction between mayors and business and anchor institution⁶ leaders is the exception, rather than the rule. These interactions can be formal convenings or informal get-togethers. Where such interactions take place, payoffs are great. Chancellor Wayne Watson of the City Colleges of Chicago meets every month with Mayor Richard Daley to discuss the status of education and workforce needs in the city. As Dr. Watson pointed out in an interview, “We don’t talk about politics, we talk about education and workforce needs of the city.” The mayor inquires about the companies that City Colleges offer specialized training for. He asks, “I want to work with such and such company, how can you [City Colleges]

help?” These regular interactions are invaluable in identifying opportunities and making important connections between the city’s resources.

Engaging CEOs

2. Work with CEOs and CEO leadership groups to focus on the interdependence of inner city economic growth and regional competitiveness.

Many cities and regions have CEO groups committed to the competitiveness of their regional economy. Some of these groups, such as Cleveland Tomorrow, have seen the interconnectedness of the inner city and the regional economies and the urgency of focusing business and civic resources on inner city revitalization. Chicago’s Metropolis 2020, for instance, has embarked on a policy agenda, examining the long-term impact

The public sector can work with business, community, and institutional leaders to bring concerted focus to inner city economic growth. Facilitating business and institutional leadership to focus on inner cities can leverage resources far greater than those available to local governments.

of the jobs-housing mismatch in the Chicago metro area on the region’s ability to grow economically. The CEO-led civic group is working with legislators, other state elected officials, and corporate leaders to direct the flow of investments toward better land-use planning, improved public transit, and more inclusive housing policy region-wide. These initiatives run counter to 50 years of federal and state investment that has forced regional sprawl. The impact on the inner city will be to lessen the likelihood of concentrated poverty, some social consequences of which make inner cities less competitive for business location and job creation. Mayors should work with their regional CEO leadership to help them focus on the interdependence of the inner city economic conditions and regional competitiveness.

Engaging Local Anchor Institutions

3. Incorporate anchor institutions in short-term and long-term economic development strategy and establish a liaison office to advance collaboration.

Anchor institutions—such as colleges, universities, medical centers, museums, and zoos—are often missing from a local government’s inner city economic strategy. Mayors should incorporate these institutions’ future plans and bring to bear their institutional resources. Colleges and universities, for instance, have considerable purchasing, employment, real estate development, business incubation, advising, and workforce development resources that can have a substantial impact on local economies.

Many public-sector resources have been concentrated on meeting the consumption needs of inner city residents, rather than on creating sustainable job and business opportunities for them. While consumption spending, such as on social services, is very important, long-term economic growth in inner cities will come only from a strong base of businesses.

In addition, mayors should establish anchor institution liaison offices and charge them with identifying and acting upon economic development opportunities. For instance, Boston’s Mayor Menino recently established a Liaison to Schools of Higher Education office to ensure continuous dialogue and collaboration with the city’s colleges and universities. Such an office must be led by an influential leader who is also part of the mayor’s cabinet.

Engaging Inner City Community Leaders

4. Encourage greater interaction between inner city community leaders and regional business leadership.

Mayors can encourage networking between inner city community leaders and regional business leaders, particularly those concerned with regional

economic growth and competitiveness. The social networks created can be invaluable for community leaders to identify growth opportunities for their constituencies. Conversely, these networks will help regional leaders not from the inner city form a better understanding of inner city economies.

5. Support local community development organizations to find “win-win” partnerships with anchor institutions.

Local government can help community leaders identify partnership opportunities with anchor institutions. These opportunities should acknowledge the institutions’ economic interests, instead of approaching them only for charitable contributions. For instance, local governments can support community groups to create land-use partnerships, identify capable local vendors to meet institutions’ purchasing needs, and screen and refer local residents to fill open positions at these institutions.

Creating a Supportive Business Environment

Regions and cities compete by offering the most productive firms and places to conduct business.⁷ Prosperous areas are characterized by high and rising levels of firm productivity. Along with internal firm characteristics, such as operational efficiency and company strategy, productivity of firms can be strongly influenced by factors external to the firm. These include availability of land, capital, transportation or telecommunications infrastructure, taxes, regulations, local government business friendliness, and local demand conditions,⁸ to name a few.

6. Make inner city business development and competitiveness a central vision of the mayor’s administration.

Many public-sector resources have been concentrated on meeting the consumption needs of

inner city residents, rather than on creating sustainable job and business opportunities for them. While consumption spending, such as on social services, is very important, long-term economic growth in inner cities will come only from a strong base of businesses. Public leaders must incorporate a vision of inner cities as business locations, where businesses serve local unmet consumer demand, take advantage of proximity to public infrastructure and economic centers, employ available labor productively, and find ways to link into the larger regional economy. Mayors should:

- Identify the competitive advantages and disadvantages of their inner cities; namely, how could the inner city locations add to the competitiveness of firms locating there and what would prevent these firms from locating there?
- Incorporate these into the central vision of where they want to take the city during their term.

7. Facilitate regular flow of information on inner city business concerns.

Local governments should align their business development strategies with the concerns of businesses. To obtain regular and quality information on inner city business concerns:

- Partner with local academic institutions to conduct periodic surveys of inner city businesses;
- Encourage formation of local business trade groups that can bring together and create a unified voice for local businesses; and
- Hold periodic “listening sessions” with inner city companies.

8. Organize coordinated and focused delivery of business support services.

The flow of economic development resources is highly fragmented at all levels of government.

A 1999 study by ICIC and PricewaterhouseCoopers showed that there were more than 90 Federal programs across 14 Federal agencies impacting urban business development.⁹ Local governments are often ineffectively organized to channel these resources to improving the competitiveness of their inner city economies. The multiplicity of programs and funding sources leads to redundancies and wasted efforts. Local governments need to identify effective ways of delivering their business support services. The city of Boston offers examples of effective organizing. After successfully supporting the Main Streets program across the city, Boston is now adding to its focus a “Back Streets” program. While Main Streets channeled economic development resources to retail districts, Back Streets funnels similar resources to retaining and growing Boston’s viable industrial/commercial businesses. This program creates a clear entry and outreach point at City Hall to deliver land, workforce, and financial resources to Back Streets businesses.¹⁰

Investments in the business environment offer far greater leverage and effectiveness than offering incentives to specific companies. Investing in the business environment makes the inner city a more attractive location for all companies and generates positive spillover effects for all businesses.

9. Limit programs that subsidize individual companies.

The most effective government investment in economic development is in improving the overall business environment. Better transportation systems, improved capital markets, and better market information will improve the capacity of all existing and new firms to compete. Investments in the business environment offer far greater leverage and effectiveness than offering incentives to specific companies. Investing in the business environment makes the inner city a more attractive location for all companies and generates positive spillover effects for all businesses.

City governments should cut back on programs targeting companies piecemeal and redirect those resources to general improvements in the business environment.

There may still be occasions where working with individual firms is justified, especially to catalyze the development of private markets. However, this should be done in a highly targeted manner. Today, many public-sector programs that provide direct assistance to individual firms do so on a first-come, first-served basis, which is often an inefficient use of government resources. Moreover, these resources are often focused on assisting businesses that have no prospect of significant revenue and job growth. When assistance to individual firms is necessary, it should be justified in terms of its impact on the overall business environment.

Over the past several years, ICIC's research across the country has shown that the primary reasons for companies leaving their inner city locations were inadequate land to expand into and unfriendly local government.

10. Focus not only on attracting new businesses to inner cities but also on retaining the existing ones; implementing an "early warning" system is a key step to achieving this.

Inner cities are home to more than 500,000 enterprises employing 7 million people and generating a trillion dollars in revenues every year. These enterprises are a major part of a city's economy. The St. Louis inner city is home to 7,800 companies accounting for 168,000 jobs. The 6,000 Boston inner city companies employ 130,000 people. Keeping and growing these businesses is much less costly and risky than attracting new ones. Over the past several years, ICIC's research across the country has shown that the primary reasons for companies leaving their inner city locations were inadequate land for expansion and unfriendly local government. However, many of

the local governments we interviewed had no adequate understanding of the reasons for these business departures. Along with improvements in business service delivery and the business surveys suggested earlier, local governments should institute "early warning systems" that can detect high-growth firms that may soon confront space constraints. With an advanced warning system, local governments can organize in time to assist companies in finding alternative sites in the inner city or other parts of the city.

11. Encourage the private sector to undertake business-environment improvements.

Entrepreneurs running and growing companies can be very innovative in addressing business environment concerns. Many business districts in the country have formed Business Improvement Districts (BIDs) that organize businesses and property owners to participate in improving the street maintenance, crime prevention, and customer friendliness of their neighborhoods. Businesses not in a BID can also be proactive about solving business environment concerns. In one example, companies frustrated by the local government's unresponsiveness to their calls for street improvements took it upon themselves to finance and fix the potholes and cracked sidewalks. The outcome would have been much less frustrating for everyone if the local government encouraged, and perhaps even rewarded, businesses to address these problems themselves.

12. Take a comprehensive view of available resources for business development and incorporate these resources in mayors' inner city economic development strategy.

Mayors have at their disposal resources from a great number of Federal, state, and local sources. While some of these resources flow directly to City Hall, many do not. For instance, local banks and lending institutions make frequent and

sizable use of U.S. Small Business Administration loan or investment guarantees. Sound economic development strategy should bring these financial institutions into the fold of local economic development. In another instance, city governments can provide invaluable information to inner city businesses about contracting opportunities made available through the Federal Historically Underutilized Business Zone (HUBZone) legislation. The program gives procurement advantages to companies that are located in HUBZones, which include inner city areas.

13. Work to place inner city land back into productive use.

Research across the country shows that a primary reason for companies leaving inner cities is the lack of quality land or facilities for expansion. Lack of ready-to-use land forces many inner cities to lose their “winners” (that is, companies that are growing). Perceived risk of and actual environmental contamination has posed a great barrier to urban land reuse. Fragmentation of land into small and disjointed parcels has also been a barrier. As a consequence and ironically, there is a chronic shortage of business sites in the inner cities, a significant competitive disadvantage and a drag on the local tax base. Governments should target inner city sites for expedited remediation, and try to ease land-assembly difficulties for potential entrepreneurs or expanding businesses.

14. Align tax and regulatory policy so that it is competitive with the rest of the region.

Relatively high tax burdens or cumbersome regulations can be disincentives for companies operating in the inner city. ICIC research, however, shows that while taxes may often be obvious targets of business complaints, they are usually secondary irritants. Businesses may in fact be unhappy because they don’t see their taxes translating into improved public services. They may also be

unhappy because local government is unresponsive to their concerns. While this may often be the case, there are instances of poorly designed tax and regulatory policy. Local governments should ensure that their tax and regulatory policy is competitive with that of other municipalities in the region. For instance, the State of Illinois required trucking permits for single items exceeding 80,000 pounds. Moreover, both the City of Chicago and the State of Illinois require trucking permits. This puts companies in Chicago at a competitive disadvantage to companies located in the neighboring municipalities of Indiana where truck weight limits are higher and more multiple-item permits are issued. The manufacturing and trucking companies most affected by this regulatory imbalance are located in Chicago’s inner city.

Local governments should ensure that their tax and regulatory policy is competitive with that of other municipalities in the region.

15. Streamline business permitting processes.

Businesses can often be frustrated by the lack of one-stop shops that can assist them in understanding the regulatory process and compliance requirements. Joint Venture: Silicon Valley Network, a public-private regional partnership, has worked with municipalities in Northern California to improve their regulatory environment. The City of Sunnyvale in the Silicon Valley area was among the first cities to take on the streamlining improvements offered by Joint Venture’s Regulatory Council. Prior to partnering with Joint Venture, Sunnyvale had already established a “One-Stop Permit Center” for construction-related requests and processed 80 percent of plans through a one-day express plan check. The City joined forces with Joint Venture to continue improving its building-permit process. The continued improvements have already eliminated 79 steps from the original process flowchart, increased overall efficiency 67 percent,

assigned a Customer Service Representative to handle strategic permitting issues, along with a number of other outcomes.¹¹ While such service improvements benefit businesses or projects anywhere in the city, they can offer specialized services to expedite development and business growth in inner cities.

16. Invest in local market information.

The attractiveness of a location for business can be substantially enhanced if accurate and timely information is available on local market conditions. Studies have shown that proprietary business data sources can severely under-represent or often even misrepresent the market characteristics of inner city areas. Cities should encourage partnerships between local businesses, academic institutions, and proprietary data providers to improve the availability and quality of inner city market data.

First, industry clusters help member companies be more productive. When companies in the same industry co-locate, they have easier access to specialized labor, specialized suppliers, shared transportation infrastructure, and relevant market intelligence.

17. Encourage collection of information that can be used to advocate for the interests of inner city consumers.

Demanding customers exert vital pressure on firms to improve the quality of their goods and services. In inner city areas with insufficient competition from other firms, consumer advocacy groups can exert pressure on local companies to better satisfy customer needs. Aside from its direct pressure, such consumer advocacy information can create indirect pressures as well. Clear articulation of the local customer expectations can signal competitors about opportunities for entering the market. The consumer advocacy information does not have to be only negative or critical; it can also be a rating of the best the neighborhood has to offer.

Enabling Competitive Business Clusters

Industry clusters—geographic concentrations of industry competitors, as well as their suppliers and supporting institutions (such as trade organizations, marketing boards, and research institutes)—have a positive impact on local and regional economies in two ways.

First, industry clusters help member companies be more productive. When companies in the same industry co-locate, they have easier access to specialized labor, specialized suppliers, shared transportation infrastructure, and relevant market intelligence. Physical proximity allows for more frequent face-to-face interaction among competitors, their suppliers, and their support institutions. This leads to more rapid transfer of knowledge on operational and strategic best practices. All of these help increase the productivity of a company that operates in a cluster compared with that of a company that is not part of a cluster.

Second, because of these advantages, clusters also lead to a higher rate of business formation. More companies start or decide to locate where there is a cluster. The cluster creates a competitive advantage for companies. The cumulative effect of clustering and its higher productivity is an increase in wages and ultimately the local tax base.

There are two broad types of clusters: local and traded.¹² Local clusters are concentrations of businesses that serve local demand for goods and services. These include companies that meet local consumer demand for personal and retail services (such as auto mechanics, plumbers, grocers, and food and beverage establishments). Local clusters also include businesses that meet local business demand (such as accountants, lawyers, and facilities maintenance companies). These companies account for the lion's share of employment in cities and their inner cities. Nationally,

local clusters account for 64 percent of jobs in the country. These are also the companies that make a place attractive. People do not want to live, work, or play in a place where there are no good restaurants, grocery stores, or entertainment businesses.

Traded clusters, on the other hand, are concentrations of businesses and their support institutions that sell their products and services to markets outside of the region. Examples of traded clusters include furniture making in Grand Rapids, medical devices in Minneapolis, and information technology in Silicon Valley and Boston. Traded clusters are the “breadwinners” of the region. They bring the “export dollars” into the region and play a critical role in the long-term viability of the regional economy. Parts of these traded clusters can be found in inner cities. Health care, education, manufacturing, and transportation/logistics tend to be disproportionately concentrated in inner cities.

All clusters are important to the local economy. The following are a set of recommendations to local governments for fostering cluster growth and competitiveness, particularly traded clusters. (Supporting local clusters is also discussed in recommendation No. 7 above.)

18. Conduct cluster analyses.

The first step in an attempt to promote clusters-based economic growth is identifying the clusters that exist and the potential for new ones. To do so, cities should commit meaningful funding to conducting cluster analyses, which will enable meaningful investments in the city and inner city economy. Conducting these analyses in cooperation with chambers of commerce, local academic institutions, and private-sector experts allows local governments to leverage their resources. In 1997, the City of Oakland, California, analyzed

its economy, along with regional economic trends, to identify clusters that have growth potential and to tap into Oakland’s competitive advantages. The clusters identified include business services, health services, printing and publishing, transportation, tourism and entertainment, and food processing. The emerging clusters included software and multimedia, environmental technology, biotechnology, and telecommunications. After identifying these clusters, the city helped organize cluster councils and then organized its services around them.

Business clusters and buyer-supplier relationships cut across city and county boundaries. A cluster analysis will identify the clusters and their geographic dispersion, as well as opportunities for inner city companies to connect to them. Government assistance in creating such connections between the inner city and the regional clusters can jump-start growth.

19. Promote cluster councils and cluster networks.

For business clusters to achieve their full potential as engines of economic development in the inner city and in the region, close contact and cooperation between the private and public sectors—and within the private sector itself—are essential. A valuable tool in ensuring that this occurs is the promotion of cluster councils and cluster networks. Cluster councils are official groups of cluster business leaders, whereas cluster networks are less-formal information exchange networks among cluster businesses. Cluster councils provide an important structure for public-private communication and partnership, keeping local governments informed about the competitive opportunities and challenges of their respective clusters. Networking within the cluster can help identify shared concerns, joint purchasing opportunities, joint training initiatives, and areas of common interest. Cluster councils and networks can also identify a set of business environment improvements that can be used to

focus and coordinate local governments' business support activities. This can be done in addition to Main Streets or Back Streets programs for business service delivery (see recommendation No. 7).

20. Connect inner city companies in traded clusters to the regional, national, and international customers.

Business clusters and buyer-supplier relationships cut across city and county boundaries. A cluster analysis will identify the clusters and their geographic dispersion, as well as opportunities for inner city companies to connect to them. Government assistance in creating such connections between the inner city and the regional clusters can jump-start growth. Mayors and local governments can do this by promoting joint marketing by inner city companies or promoting the inner city businesses through the city's national and international marketing activities.

On-Target Supplies and Logistics, an inner city-based company and one of the fastest growing enterprises in Dallas, requires all workers to further their education at the company's expense. Al Black, the company CEO, credits his company's record revenues, profitability, and client satisfaction with his unrelenting focus on educational attainment.

21. Avoid investing in new, "fad" clusters at the expense of existing ones.

Any cluster may prove to be a "winner." The public sector is not in a position to pick winners. The market decides which firms and clusters succeed and which ones lose. There is a tendency by local and state governments to focus on emerging industries such as biotech and information technology as linchpins of local economic growth. Only a few parts of the country are poised to meaningfully compete in these industries. Economic development professionals focusing heavily on these industries must recognize

that they may be neglecting their existing business base, a business base that offers far greater jobs or revenues than these emerging industries. Moreover, mature clusters may provide the most immediate growth opportunities for inner cities or regions.

Fostering a Competitive Inner City Workforce

A superior K-12 educational system is fundamental to the competitiveness of inner city residents. Businesses can play a great role in improving the K-12 system in inner city neighborhoods. The national program of School-to-Work was premised on this. Many organizations throughout the country are diligently working to improve the quality of K-12 education. These laudable efforts must continue with utmost persistence and commitment. This section, however, focuses on strategies that can enable adult and young-adult residents of inner cities to become more competitive in securing and keeping jobs and getting promoted. Some of the recommendations apply to "incumbent" workers (that is, people who are already employed, but may be underutilized). Other recommendations apply to first-time entrants into the workforce.

22. Encourage companies to support their inner city employees in upgrading their skills and education.

The U.S. Department of Labor estimates that 60 percent of today's jobs require skills possessed by only 20 percent of today's employees. Even high school and college graduates often lack the basic skills necessary to keep pace with technology and competitors. To ensure that employees are prepared for their jobs, more and more companies are providing incentives for their workers to upgrade their skills. On-Target Supplies and Logistics, an inner city-based company and one of the fastest growing enterprises in Dallas, requires all workers to further their education at the

company's expense. Al Black, the company CEO, credits his company's record revenues, profitability, and client satisfaction with his unrelenting focus on educational attainment. Mayors and local officials should encourage their local companies to offer similar opportunities to their workers.

23. Organize local workforce spending to reward success, leverage existing capacity, and link to the city's business service delivery.

The Federal Government spends more than \$6 billion a year on job training and placement programs. In addition, billions are funneled into vocational schools and community colleges. Almost all of this funding is ultimately delivered through regional Workforce Investment Boards and local governments. Mayors have control or influence over a big portion of this funding. They should use this influence to:

- Set performance goals, such as sizable increases in the wages of the program graduates, and continue funding those efforts that meet these goals.
- Leverage existing workforce development initiatives (such as those sponsored by national and community foundations) and existing capacity in community and technical colleges.
- Link funding to the city's business service delivery, such as Back Streets and clusters.

Project QUEST, operating in San Antonio, Texas, is a celebrated example of a training program that uses several of the above principles. It offers cluster-based (sometimes called "sectoral") training and placement programs. The training content is based on the skill needs of the clusters in the San Antonio region. Project QUEST also works through the existing educational infrastructure in the region, including community colleges. This program is funded by the local government and is seen as one of the city's key economic development activities.

24. Ensure that small and medium-sized enterprises have adequate information about publicly funded job training and placement resources.

Small and medium-sized enterprises (SMEs) often do not have the resources to retain expertise that can inform them on, or guide them through, the labyrinth of publicly supported job training and placement programs. However, the economies of scale may tip in their favor if they organize collectively to access existing resources. Mayors should:

- Encourage SMEs to organize such collective action.
- Promote job training and placement resources to SMEs.

Successful programs not only tailor their curricula to regional cluster needs and lay out strict performance expectations from trainees but they also offer long-term support in placing and networking their trainees. Career networking services enable the program participants to identify career advancement opportunities.

25. Support job training and placement programs that not only focus on hard and soft skills but also provide career networks and career-ladder training for inner city residents.

Successful programs not only tailor their curricula to regional cluster needs and lay out strict performance expectations from trainees but they also offer long-term support in placing and networking their trainees. Career networking services enable the program participants to identify career advancement opportunities. STRIVE, initiated in East Harlem, is among the most successful programs in the country that offer long-term support to program participants. Mayors and local economic development officials should channel their scarce job training and placement resources to such effective programs.

26. Support employers in adopting retention tools for inner city employees.

For those inner city residents who have entered the workforce for the first time, the day-to-day challenges of coping with the work environment may prove daunting. Some employers offer services to help their workers through this. Employee Assistance Programs (EAPs), for instance, are common tools for providing these services. EAPs provide a toll-free telephone number or individual counseling that employees can access to receive advice on family problems, stress management, financial and legal difficulties, and psychological and workplace conflicts. Mayors should help companies that hire inner city workers entering the workforce for the first time to access EAP-type services. Supporting services that multiple firms can access will allow for efficiencies of scale.

Inner city economic development will not fully take hold unless people and businesses see opportunities that override the costs of locating in inner cities. A comprehensive economic development strategy must look to transform the public's perception of the economic opportunities in inner cities.

Creating a Positive, Yet Balanced, Image of the Inner City

Business interviews reveal that perception of high crime rates is a greater competitive disadvantage for inner city businesses than actual crime. These exaggerated perceptions are created by mass media's consistent propagation of negative stereotypes about inner cities. A 1996 analysis by The Boston Consulting Group and ICIC showed that over an 11-month period, the *Boston Globe* published nine times more articles for every non-inner-city-based Boston business than every inner-city-based one.

Inner city economic development will not fully take hold unless people and businesses see opportunities that override the costs of locating in inner cities.

A comprehensive economic development strategy must look to transform the public's perception of the economic opportunities in inner cities.

In working to improve the image of inner city areas, there is a danger of appearing Pollyannaish about successes and opportunities. Excessive optimism may erode the credibility of the message. A communication strategy that seeks to maintain long-term focus on inner city economic opportunities should strike a balance between inner city economic assets and the challenges of building on these assets.

27. Use the platform of the mayor's office to bring attention to inner city business opportunities and economic assets.

Not all mayors effectively use the powerful platform of their office to bring citywide and regional focus to inner city businesses and market opportunities. Focusing on inner city business opportunities and economic assets will allow mayors to build a wide and diverse political constituency around inner cities.

Inner cities are replete with business and workforce successes that mayors can use to bring attention to their opportunities and assets. The ICIC-*Inc Magazine Inner City 100* has identified hundreds of inner city gazelles (that is, companies with phenomenal growth rates) that are succeeding *because* of their inner city location, not in spite of it. Companies on the 2002 *Inner City 100* list had an average five-year growth rate of 540 percent and average sales in 2000 of over \$19 million. These companies alone created 8,000 new jobs in five years. These companies are creating jobs, stabilizing neighborhoods, and creating wealth in distressed urban areas.

Economic development organizations and academic institutions can identify success stories, compile lists of successes (such as *Inner City 100*), and uncover economic assets of the inner cities.

Mayors and local economic development officials should work with local media to place these success stories on the forefront of their coverage. Several mayors have effectively used their *Inner City 100* companies, for instance, to bring local attention to these inner city assets. Mayor Richard Daley of Chicago has held celebratory and nomination events for the past three years. Chicago has been No. 1 on the list in the past three years for having the highest number of *Inner City 100* winners. Mayor Daley nominates between 50 and 100 companies each year. The event has received coverage in both major Chicago dailies (the *Tribune* and the *Sun-Times*), *Crain's Chicago Business*, and many of the neighborhood papers. National Public Radio and many local radio and TV stations have covered the event, as well.

Mayors and local governments can:

- Encourage local economic development organizations and academic institutions to identify inner city business and workforce successes.
- Identify fast-growing inner city companies and encourage them to participate in the national *Inner City 100* list.
- Encourage business organizations or media to sponsor or create local inner city business lists.
- Work with local and regional media to highlight the successes and assets of the inner city.

Encouraging Savings and Wealth Creation by Inner City Residents

During the 1990s, the employment gap between inner city and non-inner city residents has been steadily closing. The income gap is still large, but slowly shrinking. The wealth gap, however, has remained disturbingly wide: in 1995, the median net worth of a typical white American household was \$49,000, while the net worth of typical black and Hispanic American households was just over \$7,000. There are no inner city-specific statistics

on this gap, but one can reasonably assume that the net worth of inner city residents is even lower than the national median for blacks and Hispanics. A comprehensive economic development strategy must set out to bridge this gap.

While the most immediate step to higher savings is higher income (more precisely, an increase that outpaces any increase in consumption), there are steps that local government can take to encourage and inculcate savings and asset building among inner city residents.

The Federal EITC lowers the tax liability of low-income working families and can result in tax refunds. According to a Brookings Institution report, 11 million families received a total of \$17.5 billion in EITC refunds in 1998, an average of \$1,600 per family.¹³ The Los Angeles metropolitan area was the largest recipient of EITC dollars, receiving \$1.3 billion of EITC refunds.

28. Support efforts to provide financial literacy, including outreach for the use of Earned Income Tax Credits.

Earning a regular paycheck is not a guarantee of financial security. Employees often do not possess the skills and knowledge necessary to effectively manage their earnings. Employers reap the benefits of financially educating their employees. Researchers at Virginia Tech found that employers who provide financial education in the workplace are repaid up to three times the cost of their efforts through reduced absenteeism, less time spent at work dealing with personal financial matters, and increased productivity. Mayors and local economic development officials should encourage employer-initiated and other types of financial literacy initiatives.

In addition to general financial literacy, mayors can mobilize outreach efforts to low-income families to help them benefit from the Earned Income Tax Credit (EITC). The Federal EITC lowers the tax

liability of low-income working families and can result in tax refunds. According to a Brookings Institution report, 11 million families received a total of \$17.5 billion in EITC refunds in 1998, an average of \$1,600 per family.¹³ The Los Angeles metropolitan area was the largest recipient of EITC dollars, receiving \$1.3 billion of EITC refunds. The tax refunds can vary by family size and income. A family with two children earning about \$10,000 a year can receive a refund of \$3,900—an equivalent of \$1.90 per hour of full-time work. The Brookings report also cites studies that demonstrate that very-low-income families, former welfare recipients, and people with language barriers are not filing for the EITCs. Mayors in Chicago, Los Angeles, Tulsa, and other cities have organized outreach efforts to increase access to refunds by eligible families. These outreach efforts have been done in partnership with local businesses and nonprofits, as well as the state and county governments. The Brookings report suggests a number of concrete actionable steps to organize such outreach efforts.

The “rent-to-own” company allows workers to put down 5 percent of the cost of a house, rent the home for a year, and then use part of the year’s rent plus the 5 percent initial payment as a down payment for the purchase of the home. Taking this program even further, Allegheny lends its employees the 5 percent down payment.

29. Encourage homeownership, including employer-assisted homeownership.

Building equity in a home is the largest form of saving for American households. Of the \$49,000 in median net worth of white households, 70 percent (\$35,000) is accounted for by the households’ equity stake in homes. Moreover, since World War II, this equity stake has been a significant source of wealth accumulation over an individual’s lifetime. While increasing the homeownership rate in inner cities requires a concerted Federal and state government effort,

employers and local governments can play a critical role in encouraging homeownership among inner city residents. Such programs must be accompanied by financial literacy initiatives because low-income households’ ownership stake is highly sensitive to the households’ economic stability, as well as day-to-day decisions on spending.

Inner city companies can offer innovative practices that may be replicable in the city. Allegheny Child Care Academy, a \$15 million ICIC-*Inc* Magazine *Inner City 100* company in Pittsburgh, partners with a “rent-to-own” company to help Allegheny’s 640 employees own homes. The “rent-to-own” company allows workers to put down 5 percent of the cost of a house, rent the home for a year, and then use part of the year’s rent plus the 5 percent initial payment as a down payment for the purchase of the home. Taking this program even further, Allegheny lends its employees the 5 percent down payment. This program has significantly helped Allegheny to stabilize its workforce.

30. Encourage firms to offer equity ownership and other savings plans to their inner city employees.

One out of every 10 workers owns stock through an Employee Stock Ownership Plan (ESOP), according to the National Center for Employee Ownership (NCEO). An ESOP enables employees to become stockowners in the companies for which they work. An ESOP can be a highly effective tool for boosting employee retention and company loyalty. Although recently there have been some widely publicized cases of corporate governance failures that have led to losses by employees in their stock options, these cases are the exception, not the rule. Mayors should encourage their local companies to consider offering equity ownership to their employees. Inner city employees can also begin to save through Individual Development Accounts (IDAs), as well as 401(k) and other retirement plans.

31. Develop a cautious approach to promoting entrepreneurship.

A winner of the ICIC-*Inc* Magazine *Inner City 100* list once cautioned, “Entrepreneurship may be one of the greatest destroyers of wealth among inner city residents.” While striking it rich is an entrepreneur’s reward for the risk of starting a business, the financial and emotional cost of starting one is very large. In selling a dream of entrepreneurial prosperity, mayors and local economic officials must develop a policy that targets those most likely to succeed. These could include people already employed in an industry who can realistically see opportunities in that or a similar industry and know what it takes to tap into them.

Conclusion

The enormous wealth gap between inner city and non-inner city residents is not an economic

inevitability. The way we deal with this inequality is perhaps the greatest challenge in the country, a challenge that mayors are in a position to address head on. Even in an economic recession, much can be done to leverage the competitive advantages of inner cities, and importantly, to position inner cities to meaningfully participate in the next economic upturn.

Realizing this potential will require mayors to be guided by a clear vision of how best to foster prosperous inner city economies. This vision must place inner city competitiveness and productivity growth at its core. It must also position inner city residents as primary beneficiaries of increased competitiveness. To make this vision real, mayors must collaborate with all levels of government and across all sectors—public, private, and nonprofit. These collaborations will begin to channel our scarce public and private resources into inner city revitalization.

The author welcomes comments and suggestions from readers (alen@icic.org) . The ideas in this piece are solely those of the author and ICIC and neither the author nor ICIC received any money or indirect financial support from the Manhattan Institute or the Fannie Mae Foundation in the research or writing of this report. For more information on ICIC visit www.icic.org or call 617-292-2363.

Support for the research used as a basis for this publication was provided by the Fannie Mae Foundation. The opinions expressed in this publication are those of the authors and do not necessarily represent the views of the Fannie Mae Foundation, its officers, or directors.

Acknowledgments

For the business and economic insights the author is deeply indebted to Michael E. Porter. The author wishes to thank the following friends and colleagues for reviewing this article and sharing their invaluable insights: Anne Habiby, Alvaro Lima, Deirdre Coyle, Jim Miara, Monisha Kapila, Joanne LaSala, Sue Goldberger, Katherine Lampley, and Dennis Andrade.

Endnotes

1. ICIC is a national, not-for-profit organization founded in 1994 by Harvard Business School Professor Michael E. Porter. ICIC's mission is to spark new thinking about the business potential of inner cities, thereby creating job, income, and wealth opportunities for inner city residents.
2. ICIC defines "inner cities" as ZIP codes or census tracts with 1.5 times the unemployment and poverty rates as those of the region or at least a 20 percent poverty rate. Central business districts are generally excluded from ICIC definitions of "inner cities."
3. ICIC and The Boston Consulting Group, "America's Inner Cities Wired to Compete: A Report on Inner City Broadband Availability and E-Business Technology Adoption" (November 2002).
4. "Cultural institutions" include museums, zoos, botanical gardens, etc.
5. ICIC and CEOs for Cities, "Leveraging Colleges and Universities for Urban Revitalization: An Action Agenda" (April 2002).
6. "Anchor institutions" include colleges, universities, medical centers, museums, and zoos.
7. The theoretical discussion of competitiveness and productivity growth is from Michael Porter's writings and speeches. He discusses his ideas on this topic in *The Competitive Advantage of Nations* (Free Press 1990) and *On Competition* (HBS Press 1998).
8. "Local demand conditions" refer to the degree of local customer sophistication in demanding high-quality goods and services—demand that pressures companies to upgrade their goods and services.
9. ICIC and PricewaterhouseCoopers, "Inner City Business Development: Benchmarking Federal Spending and Guidelines for Action" (May 1999) (http://www.icic.org/research/pubs_and_studies.asp#Anchor-Pu-17101).
10. Visit <http://www.cityofboston.gov/bra/backstreets>.
11. For additional details and examples, visit <http://www.jointventure.org/initiatives/reg/reg.html>.
12. Definitions of clusters and related statistics are from Michael E. Porter's Cluster Mapping Project at Harvard. More information on the Cluster Mapping Project is available at the Institute for Strategy and Competitiveness website: <http://www.isc.hbs.edu>.
13. Alen Berube and Benjamin Forman, "A Local Ladder for the Working Poor: The Impact of the Earned Income Tax Credit in U.S. Metropolitan Areas" (Brookings Institution and National League of Cities, September 2001). For a copy of the report, visit www.brookings.edu/urban.

Would you prefer to receive this publication via e-mail? If so please supply us with your e-mail address by contacting us at mi@manhattan-institute.org or 212-599-7000. Previous publications are also available.

Civic Reports

32	EFFECTS OF FUNDING INCENTIVES ON SPECIAL EDUCATION ENROLLMENT	JAY P. GREENE AND GREG FORSTER
31	PUBLIC SCHOOL GRADUATION RATES IN THE UNITED STATES	JAY P. GREENE AND MARCUS A. WINTERS
30	COMPETITIVE CONTRACTING OF BUS SERVICES: A BETTER DEAL FOR RIDERS AND TAXPAYERS	E. S. SAVAS AND E. J. MCMAHON
29	DEJA VU ALL OVER AGAIN: THE RIGHT WAY TO CURE NEW YORK'S LOOMING BUDGET GAP	E. J. MCMAHON
28	WHAT DO TEACHERS TEACH? A SURVEY OF AMERICA'S FOURTH AND EIGHTH GRADE TEACHERS	CHRISTOPHER BARNES
27	HIGH SCHOOL GRADUATION RATES IN WASHINGTON STATE	JAY P. GREENE

Civic Bulletins

35	THIS WORKS: EXPANDING URBAN HOUSING	MICHAEL H. SCHILL, JERRY J. SALAMA AND RICHARD T. ROBERTS
34	THIS WORKS: IMPROVING URBAN EDUCATION	JAY P. GREENE
33	THIS WORKS: ENCOURAGING ECONOMIC GROWTH	ALEN AMIRKHANIAN
32	THIS WORKS: PREVENTING AND REDUCING CRIME	GEORGE L. KELLING AND RONALD CORBETT
31	THIS WORKS: MANAGING CITY FINANCES	WILLIAM D. EGGERS AND STEPHEN GOLDSMITH



MANHATTAN INSTITUTE FOR POLICY RESEARCH

52 Vanderbilt Avenue • New York, NY 10017
www.manhattan-institute.org

Non-Profit
Organization
US Postage
PAID
Permit 04001
New York, NY