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Revitalizing inner cities: Connecting research and practice

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America's inner cities are often depicted as socially and economically dysfunctional places, ridden with crime, lacking investment, and with limited opportunities.[1] For decades, however, researchers have been noting the heterogeneous nature of inner cities. Inner cities often have particular advantages, including a strategic location near central business districts, proximity to transportation infrastructure, communication nodes and other regional assets, a relatively young population, and a strong entrepreneurial drive among residents, all of which position them to compete and integrate successfully with their economic regions.[2]

More information on the summit is available at http://www.icic.org/urban-economic-development/2015-inner-city-economic-summit.

Understanding the sources of job growth, competitiveness, and economic integration of inner cities has become an important priority for policymakers and community development practitioners. On September 15–16, 2015, the Upjohn Institute for Employment Research, *Economic Development Quarterly* (EDQ) and Sage Publications, in partnership with the Federal Reserve Bank of Chicago and the Initiative for a Competitive Inner City (ICIC), convened researchers and practitioners at a conference entitled Revisiting the Promise and Problems of Inner City Economic Development to examine these questions. The conference was an outgrowth of and a precursor to a special edition of *Economic Development Quarterly*, a journal that strives to bridge the gap between academic research and hands-on experience in work force and economic development.[3] The conversations centered around the relationship of the inner city to the rest of the region, the implications of cluster-based industrial development strategies, and the scaling of efforts to improve human capital and access to financing for entrepreneurs in lower-income neighborhoods. The forthcoming special issue of *Economic Development Quarterly* will examine the competitive advantages of inner cities and feature research on clusters and inner-city growth. This *Chicago Fed Letter* presents a brief overview of the research and practices highlighted at the conference.

In his keynote address, Michael Porter, professor at Harvard Business School and founder of the Initiative for a Competitive Inner City, noted that structural changes in the U.S. economy over the past 20 years have added to the challenges of strengthening inner cities. In 2000, poverty in inner cities accounted for 19% of U.S. poverty and 31% of U.S. minority poverty.[4] By 2013, inner cities accounted for 23% of U.S. poverty and 34% of U.S. minority poverty.[5] From 2003 to 2013, net jobs in the inner city declined by 0.4%, compared with a 0.7% increase in the central cities. Thus, central city employment growth in many instances has not translated into job expansion in the inner city.

Some inner cities are economic success stories, however, and much has been learned about what works in revitalizing economically underperforming areas. According to Porter, decades of research have established that a cluster-based growth strategy is one of the key levers for inner city economic growth. Clusters may be either local or traded—local clusters provide services or products mostly for the local market; traded clusters provide services or products to other regions or countries. Some of the local clusters in inner cities, such as health services, education and training, local utilities, logistics, and commercial services, added close to 645,000 jobs between 2003 and 2013. In some inner cities, traded clusters, such as apparel, water transportation, environmental services, and education and knowledge centers added more than 110,000 jobs during this period. Mercedes Delgado, visiting professor at the MIT Sloan School of Management, noted that 44% of inner cities have strong clusters and 40% of inner cities are connected to strong regional clusters.[6] In line with Porter's view, Delgado said that the presence of strong clusters in inner cities, especially if the clusters are also strong in the nearby region (central city, metropolitan statistical area [MSA]) leads to statistically significant increases in employment growth in the inner cities.

Cluster-based development initiatives

The conference featured several community-based organizations that are using cluster-based strategies to generate economic activity and employment. Dan Carmody, president of Eastern Market Corporation, discussed the food cluster in Detroit. Food clusters have been gaining traction in some former Rust Belt cities like Detroit, where vacant or idle properties have been repurposed for food production, distribution, or commercialization. For example, FoodLab Detroit and Detroit Kitchen Connect, in partnership with Eastern Market, offer classes and access to low-cost commercial kitchen space to help connect the various components required for a thriving food ecosystem. Food clusters have also become a way to address food deserts in inner cities and promote healthier communities through urban agriculture, grocery stores, and other green economy tools. Local food clusters offer opportunities for entrepreneurs and existing businesses to grow their firms and a platform for work force training and job creation. More than 4 million people are employed in local food clusters in the United States, and close to 1 million work in traded food processing and manufacturing clusters.[7]

Also in Detroit, TechTown, a business innovation hub, opened its doors in 2004 as a way to capitalize on the region's long-established pool of engineering and design talent. Paul Riser Jr., managing director of technology-based entrepreneurship at TechTown, discussed TechTown's role in the technology and small business ecosystems of Detroit, connecting start-ups and established businesses to trainers and coaches, experts from nearby universities, and funders. TechTown is now part of a network of business accelerators serving technology and manufacturing companies in the region. TechTown also provides entrepreneurial assistance in Detroit's historically underserved neighborhoods through partnerships with community and economic development organizations.

Researchers have noted that clusters often emerge organically, leveraging available resources or natural endowments and building on strengths of place-specific business environments. The development of a water cluster in Milwaukee illustrates this phenomenon. Scott Mosley, director of investment strategies at The Water Council in Milwaukee, noted that the strategic direction of that organization grew out of Milwaukee's proximity to the Great Lakes and the city's long history with water-related industries, such as brewing, water heating components, and wastewater treatment.[8] The water cluster brings together research entities, existing businesses, start-ups, and government agencies to commercialize technology, promote water entrepreneurship, and increase access to capital. Throughout the U.S., water technology clusters are being supported to create synergies and innovations that address the nation's environmental problems.[9]

Human capital development, infrastructure, and funding

One of the key levers for inner city economic growth, Porter noted, is a supportive business environment in which entrepreneurs are connected to capital, networks, and contracting opportunities, and workers are connected to the training that prepares them for high-wage jobs in expanding sectors. But many inner city residents lack the education to compete in emerging high-skilled and high-wage sectors. According to Porter's analysis of the 100 largest central cities, just 12% of the total population in their corresponding inner cities (25 years or older) have attained a college degree, compared with 24% of the U.S. population.[10] Kevin Stolarick of the India Institute for Competitiveness in Toronto and his co-authors explored the relationship between human capital skills in the city compared with the suburbs. They found that a critical mass of human capital in cities, measured in terms of population share and geographic density, is correlated with stronger regional economic performance in larger population centers. Stolarick noted that the implications for inner-city competitiveness are that clusters of economic activities also work through an agglomeration of knowledge, ideas, skills, and information.

In other research, T. William Lester, assistant professor at the University of North Carolina at Chapel Hill, and his co-authors tracked inner cities that were competitive as defined by their increasing share of metropolitan-area jobs. Lester explained that environmental factors and public policies targeted to inner cities have an impact on how competitive an inner city can be. Greater accessibility to transportation is correlated with faster employment growth. He also noted that some place-based public policies correlate positively with increased competitiveness in inner cities, such as the presence of low-income housing tax credits and areas designated as empowerment zones.

The conference highlighted several examples of practices to support entrepreneurs and inner city residents along these dimensions.[11] Rashida Thomas, director of education and work force development at Focus: HOPE in Detroit, explained how her organization offers education and job training for positions in firms in local clusters, such as health care, retail, and hospitality, as well as skills training for higher-paying jobs in computer science and engineering at firms in traded clusters. Ray Leach, chief executive officer of JumpStart Inc. in Cleveland, described his organization's evolution from providing investment capital for early-stage tech companies, which JumpStart identified as a gap in the Northeast Ohio market, to helping to create a regional entrepreneurial ecosystem for inner city businesses of all sizes, including venture capital, bank debt, mission-based economic development, and technical assistance through a coalition of private, philanthropic, and public sector organizations.

Timothy Bates, distinguished professor emeritus at Wayne State University, discussed the issue of access to capital for minority entrepreneurs, a particular concern for inner cities. Bates noted the apparent inconsistency in the fact that banks are meeting their obligations in low- and moderate-income neighborhoods as per the Community Reinvestment Act, yet black and Latino entrepreneurs are still less likely than white entrepreneurs to receive bank financing. Further, his co-authored analysis showed that these entrepreneurs fail to access financing in the inner cities or elsewhere, even when they qualify, because they don't expect to be successful in securing a loan. Bates said that efforts aimed at measuring place-based economic development may fail to identify the economic and financial obstacles that affect the people who actually live in those places. He recommended demand-side strategies that encourage minority business owners to seek loans, as well as improved training for bank loan officers.

Conclusion

The conference focused on clusters as important drivers of employment growth in inner cities, highlighting the fact that clusters are more likely to flourish in places where institutions support the business environment, workers are able to upgrade their skills, and entrepreneurs have access to capital. The research findings identified which clusters in inner cities are expanding, thereby providing information to help practitioners be more intentional and strategic in carrying out work force training programs or in supporting entrepreneurs in growth-oriented sectors. For their part, practitioners expressed interest in learning more about how social and demographic dimensions affect the economic life of inner cities, including the degree to which housing expansion results in mixed-income units and the degree to which residents are economically mobile over time. Both practitioners and researchers highlighted the need for economic development strategies that attract infrastructure investment into the neighborhoods where lower-income people live, to support good schools, address crime and related perceptions, and mitigate vacancies and blight, so that economic development in inner cities can be more inclusive. The conference identified opportunities for future research to isolate confluent factors that impact growth in inner cities and measure the effectiveness of specific policies and strategies.

[1] Inner city is defined by the Initiative for a Competitive Inner City (ICIC) as contiguous census tracts in central cities that are economically distressed as defined by having a poverty rate of 20% or higher, or of having two of three other criteria: poverty rate 1.5 times or more than in the metropolitan statistical area (MSA); median household income 50% or less than the MSA's; and unemployment rate 1.5 times or more than the MSA's. See box 1 for a brief profile of inner cities in the Seventh District.

[2] Michael E. Porter, 1997, "New strategies for inner-city economic development," *Economic Development Quarterly*, Vol. 11, No. 1, February, pp. 11–27.

[3] The special issue of EDQ will be in 2016: Vol. 30, No. 2, May.

[4] See 2011 presentation at http://www.icic.org/ee_uploads/publications/ICEF_MEP_Keynote_Presentation_Final.pdf.

[5] See 2015 presentation at http://www.icic.org/ee_uploads/pdf/Porter_-_2015_ICIC_Economic_Summit_FINAL_asPresented.pdf.

[6] The strength of a cluster is defined based on its measured location quotient (LQ). LQ measures the specialization of a cluster in a particular location (i.e., the metropolitan statistical area, county, or census tract level) relative to the national average. It is given by the ratio of an industry's share of total employment in a location relative to its share of total national employment. LQ > 1 suggests that there is a comparative advantage in a given local industry compared to the nation. A "strong cluster" is one where the relative employment specialization ranks in the top 25% of U.S. regions in their respective cluster category. LQ = 1 suggests the same local representation of this industry as the nation. LQ < 1 suggests weaker local representation of an industry than in the nation (i.e., a "weak cluster"). See http://clustermapping.us/content/cluster-mapping-methodology.

[7] Traded food clusters include specialty food and ingredients; local food clusters include food wholesaling, commercial and retail bakeries, and retail food stores. The food industry employed approximately 16.5 million people across the U.S., or 14.8% of the work force in 2010. See http://www.icic.org/ee_uploads/pdf/FinalReport_ICICBaltimoreIntegrationPartnership.pdf.

[8] U.S. Department of Labor Grantee: Milwaukee Area Workforce Board, 2015, "Embracing the Lake: Jobs and Innovation Accelerator Challenge," JIAC profile, Milwaukee, WI, May, available at https://etagrantees.workforce3one.org/view/2001513951899003627.

[9] See http://www2.epa.gov/clusters-program/clusters-map.

[10] See 2011 presentation at http://www.icic.org/ee_uploads/publications/ICEF_MEP_Keynote_Presentation_Final.pdf.

[11] Other examples of initiatives presented at the conference were Rock Ventures LLC and Midtown Detroit Inc.

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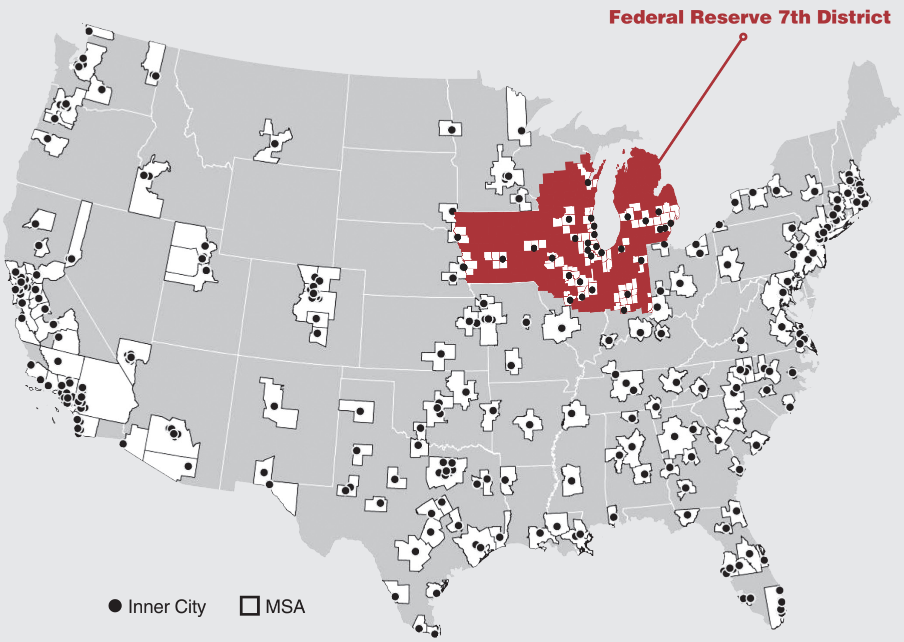
Box 1. Inner cities and industry clusters in the Seventh District

There are 328 inner cities in the United States, accounting for 10% of the U.S. population, 9% of the national labor force, and 11% of employment.[1] In the Federal Reserve's Seventh District, which comprises portions of Illinois, Indiana, Wisconsin, Michigan, and the entire state of Iowa, 35 inner cities are associated with metropolitan areas. Figure 1 depicts metropolitan statistical areas (MSAs) and their corresponding inner cities in the nation and in the District. Each inner city is linked to one metropolitan area, but some metropolitan areas have multiple inner cities.

Inner cities vary by racial and ethnic concentration of the population. In Detroit and Chicago, for example, more than 90% of residents are members of minority groups based on 2000 U.S. Census and ICIC analyses. In Indianapolis, less than 60% are minority, and in Des Moines, less than 45% are minority. Across the District, inner cities have about twice the rates of poverty and unemployment as their states (figure 2).

Inner cities in the Seventh District also vary in terms of the concentration of particular industries in those locations relative to the U.S. For example, clusters with relatively large shares of employment in Chicago include educational and medical institutions, community and civic organizations, metal manufacturing, and food processing. In Detroit, the industry clusters with the greatest share of employment relative to the U.S. include automotive, entertainment, local health services, and locally sold industrial products and services. In Des Moines, the strongest clusters are traded and local financial services, local health, utilities, and publishing and printing. And in Indianapolis, the most important clusters are entertainment, local community and civic organizations, local financial services, local health services, and local utilities.[2]

Figure 1



Source: M. Delgado and K. Zeuli, 2015, "Clusters and regional performance: Implications for inner cities," paper presentation at the 2015 Inner City Economic Summit, Revisiting the Promise and Problems of Inner City Economic Development, Detroit, MI, September 16.

In the Seventh District, according to the ICIC's State of the Inner City Economies (SICE) data, in Illinois, inner cities are found in Aurora, Bloomington, Champaign, Chicago, Cicero, Decatur, Elgin, Joliet, Peoria, Rockford, Springfield, and Waukegan. In Indiana, inner cities are in Fort Wayne, Gary, Hammond, Indianapolis, and South Bend. In Iowa, inner cities are in Cedar Rapids, Davenport, Des Moines, and Sioux City. In Michigan, inner cities are in Ann Arbor, Dearborn, Detroit, Flint, Grand Rapids, Lansing, Sterling Heights, Warren, and Westland. And in Wisconsin, inner cities are in Green Bay, Kenosha, Madison, Milwaukee, and Racine.

Figure 2. State and inner city poverty and unemployment, 2011–13

	Poverty (avg. %)		Unemployment (avg. %)	
	State	Inner cities	State	Inner cities
Illinois	14	31	10	15
Indiana	16	32	9	18
Iowa	13	26	6	10
Michigan	18	33	10	19
Wisconsin	13	30	8	15
Seventh District	15	30	8	15

Sources: ICIC's State of the Inner City Economies (SICE) database and U.S. Cluster Mapping Project, Custom Region.

[1] See http://www.icic.org/ee_uploads/publications/ICEF_MEP_Keynote_Presentation_Final.pdf.

[2] See http://www.icic.org/urban-economic-development/city-profiles/inner-city-data/?city=31. Also, for an analysis of industry clusters and economic development strategies in the Seventh District, see R. Mattoon and N. Wang, 2014, "Industry clusters and economic development in the Seventh District's largest cities," *Economic Perspectives*, Federal Reserve Bank of Chicago, Vol. 38, Second Quarter, pp. 52–66, available at https://www.chicagofed.org/publications/economic-perspectives/2014/2q-mattoon-wang.