Economic Inclusion: Advancing an Equity-Driven Growth Model

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Abstract

People of color represent the fastest growing segments of the American workforce, yet communities of color, low-income communities, and workers of all races without advanced degrees have lost ground for decades, were hit hardest by the economic downturn, and have regained employment, income, and wealth more slowly—or not at all—through the recovery. To secure a prosperous future for this generation and the ones to follow, the nation must implement a new growth model that embraces equity, opportunity, and fairness as an economic imperative. Economic inclusion tools—strategies that explicitly connect vulnerable groups to new jobs and economic activity and ensure that new jobs offer family-supporting wages, benefits, and growth opportunities—are essential for implementing this growth model and securing American competitiveness in the global economy. This paper provides a framework to help policymakers and leaders in the business and community sectors pursue inclusive job creation by outlining four ways to integrate economic inclusion into large-scale economic development and job creation strategies:

1) growing "high-opportunity" industry sectors;
2) leveraging the economic power of anchor institutions;
3) starting and expanding minority-owned businesses; and
4) maximizing job creation through public investments.

These four strategies represent complementary parts of an overall equitable job creation strategy, and while some of them can result in immediate hiring, other will take several years to be fully realized but could create a solid foundation for long-term employment growth. Cities and regions would benefit from proceeding with all four strategies to maximize opportunities for the current and future workforce.

Introduction

America's economic growth model is broken. Three years after the official end of the recession, the jobs crisis continues: Nearly 13 million workers remain unemployed, another 11 million are underemployed, and 4 million are stuck in jobs that pay at or below the minimum wage (Bureau of Labor Statistics, 2012). The bubble economy masked patterns of slow and unequal growth set in place decades before the recent crisis. Policies emphasizing deregulation, privatization, a shrunken safety net, and weakened labor laws led to slow job growth, stagnant wages, increasing racial and income inequality, and a withering middle class. Policy choices, globalization, and technological change have worked in concert to drive away many of the blue- and white-collar jobs that provided pathways to the middle class. This left the nation with a polarized economic structure that has a burgeoning low-wage sector and growing high-wage sector, but a hollowed-out middle.

These changes to the economy have made it even harder for all but the highest-wage earners to get ahead, and communities of color, low-income communities, and workers without advanced degrees have felt the greatest pains as the economy has shifted and stagnated. Jobless rates for African Americans are consistently more than twice those of whites, and rates for Latinos are about one and a half times those of whites (Bureau of Labor Statistics, 2012). Native Americans face perennially high unemployment (Austin, 2011), and despite a low overall unemployment rate for Asians, aggregate numbers mask much higher rates for specific subgroups such as Samoans, Laotians, Hmong, Bangladeshi, and Cambodians (Jin Rho, 2011). Beyond the challenge of finding work, most communities of color are also disproportionately concentrated in low-wage jobs that are less likely to provide health benefits and opportunities to move up the economic ladder (Austin, 2009). These persistent inequities fly in the face of economic research showing that greater income equality corresponds with sustained economic growth at the national level (Berg & Ostry, 2011), and greater economic and racial equity translates to more robust growth at the regional level (Pastor, 2006; Eberts et al., 2006).

At the same time, the United States is undergoing a dramatic demographic transformation in which the same groups being left behind are growing in number and population share. Latinos, Asians, and other racially and ethnically diverse groups are driving population growth in nearly every city, region, and state across the country. Almost all of our population growth in the past decade (92 percent) came from people of color; many states and cities would have lost population were it not for their growing communities of color. Half of all babies born in this country are now people of color, and the U.S. Census Bureau predicts that the majority of all youth will be people of color by 2018, and that we will be a majority people-of-color nation by 2043 (U.S. Census Bureau, 2012). The workforce will diversify even faster than the overall population, and as the baby boomer generation enters retirement, it is this cadre of diverse young workers who will take their place.

Increased diversity can be a tremendous economic asset. America's transformation into a world nation inside its borders can help it better connect to—and succeed in—the global marketplace. Diverse perspectives help teams solve problems and create stronger organizations, and can foster the innovation needed to grow the economy (Page, 2007). Research also shows that companies with a more diverse workforce perform better than less-diverse companies (Herring, 2009; Slater et al., 2008). Diverse communities also create new markets by developing new enterprises and providing a significant consumer base for existing businesses.

To seize the opportunity of diversity, public and private sector leaders must remove the multiple barriers that prevent communities of color from participating in the economy and implement proactive strategies that connect communities of color to economic opportunity. Lack of educational opportunity is a critical barrier. The jobs of the future will require increasingly higher skill levels, but our educational systems are not preparing children of color for success. While 45 percent of all jobs in 2018 will require at least an associate's degree, only 27 percent of African-American workers, 26 percent of U.S.-born Latinos, and 14 percent of Latino immigrants have this level of education (Carnevale et al., 2010; Treuhaft et al., 2011). In addition, racial discrimination, weak social networks, disproportionate incarceration, and the distance between where jobs are located and where people of color can afford to live (combined with poor transportation options) all conspire to reinforce racial inequities in the labor market.

The nation needs a new growth model, what we call an "equity-driven growth model," that prepares the workforce, especially the coming majority, to compete in the global economy, produces good jobs, rebuilds the middle class, and ensures economic mobility for all.

Economic inclusion—strategies that explicitly connect vulnerable groups to new jobs and economic activity and ensure that new jobs are high-quality ones that offer family-supporting wages, benefits, and growth opportunities—is essential for implementing this growth model and securing American competitiveness in the global economy. Since the civil rights era, communities, policymakers, and industry leaders have developed a variety of economic inclusion tools, such as targeted hiring and minority contracting strategies, which connect low-income people, people of color, and minority- and women-owned businesses to economic opportunities.

Examples provide strong evidence that these tools can effectively link people to jobs, raise wages, foster economic mobility, and grow new businesses.[2] But although important and inspiring, these success stories have not yet fundamentally transformed inequitable systems or changed the odds for most poor people and people of color. To begin to turn the tide, these strategies must be more thoroughly integrated into large-scale job creation, economic development, and public investment strategies being pursued by cities, regions, and states. Leaders focused on growing their local, state, and regional economies need to recognize that racial and economic inclusion are not aspirational goals but are actually the path to long-term economic prosperity.

This paper provides a framework to help policymakers and leaders in the business and community sectors pursue the inclusive job creation strategies they need to thrive in the 21st century. It outlines four ways to infuse economic inclusion and job creation into large-scale economic development, including: 1) growing "high-opportunity" industry sectors; 2) leveraging the economic power of anchor institutions; 3) starting and expanding local- and minority-owned businesses; and 4) maximizing job creation through public investments.

For this paper series, we focus on strategies that would improve employment and outcomes for vulnerable populations within three to five years. There are plenty of such opportunities under the present system to create and target jobs. But we cannot attain the level of inclusion needed to overcome the nation's challenges without also implementing longer-term strategies and systemic reforms, so we briefly discuss complementary but longer-term inclusion strategies in the last section. Some strategies take longer because they involve the emergence of new enterprises providing new products and services, and the process of moving innovations to market and to scale has a number of steps which cannot be skipped. Other strategies take longer because they require fundamental improvements to our education and workforce training systems to provide those currently being left behind with the skills that lead to good jobs.

Integrating Economic Inclusion at the Core of Major Economic Development and Job Creation Approaches

Economic inclusion tools have achieved important gains for low-income communities and communities of color—but they are far from sufficient to match the scale of the problem. Too often, economic inclusion is a small add-on to a fully developed economic development strategy, incorporated because of legal requirements or resulting from community pressure, organizing, and advocacy. Other times, economic inclusion programs are ineffective, uncoordinated, or weakly enforced. Leveraging increasing diversity as an economic asset and dismantling barriers to economic participation requires a new strategy. Economic inclusion needs to be seen as central to the overarching goal of building a prosperous economy, and thoroughly integrated into economic development and growth efforts. Innovators in a number of cities are more firmly embedding inclusion into economic development and job creation strategies, showing how leaders can begin implementing a new growth model that has equity and inclusion at its core.

Below, we present four such approaches, which we chose for several reasons. First, they are important job creation strategies in their own right, most of which are described in other policy papers in this series. Second, they offer large-scale opportunities for economic inclusion in terms of the potential number of people who could be connected to jobs or the number of firms that could be connected to growth opportunities (that lead to greater job creation). Third, they have the potential to change the system in which they are being implemented, engaging multiple stakeholders and leading to shifts in how economic development is pursued at the regional level. And fourth, while there are few well-established models of these innovative strategies, the local innovations show great promise.

Growing High-Opportunity Industry Sectors

Regional development strategies aimed at increasing economic competitiveness and employment have traditionally been pursued apart from efforts to ensure that the region's workers are prepared for those jobs and have access to them, leading to disjointed efforts and missed opportunities to build stronger, more inclusive economies. Focusing economic development strategies on growing "high-opportunity" industry sectors and clusters that provide good employment and business development opportunities for low-income residents and community of color is a promising way to bring together a region's jobs and workforce imperatives and create a more equitable employment structure for the long term. A recent study of Baltimore's regional economy by the Brookings Institution estimated that growing five of Maryland's high-opportunity industries (manufacturing, information technology, bioscience, the clean economy, and transportation and logistics) by 15 percent would create 43,500 new jobs, 62 percent of which would require an associate's degree or less (Vey, 2012).

"High-opportunity sectors" can be defined as industry sectors that can both drive economic growth within a region and can have the potential to deliver good jobs to a region's most vulnerable residents. Each region needs to identify its unique high-opportunity sectors, since economic assets and conditions for growth are regionally specific. Economic development practitioners have various methods for analyzing industry data to identify the industries and clusters (groups of related businesses, entrepreneurs, researchers, investors, and infrastructure that benefit from co-location) that show promise of growth or competitive advantage in the regional economy. To identify the high-growth sectors that are also high-opportunity, analysts also need to look at the employment structure within growth industries to assess whether they provide good wages, benefits, and opportunities for career advancement for vulnerable workers. A good way to do this is to examine the share of jobs that go toward workers who do not yet have advanced degrees and their associated wage levels (see Vey, 2012, for an example of this approach). The industries and occupations with large shares of jobs that pay above-average wages to workers without bachelor's degrees are good candidates. In most cases, these are "middle-skill" jobs: They require some education or training beyond high school (such as an apprenticeship or an associate's degree) but not a four-year college degree. It is also important to look at the age structure of the current workforce, to identify sectors where large portions of workers are set to retire.

Once regions have identified their high-opportunity sectors, they can orient their economic development and workforce development strategies to nurture their growth and competitiveness. Successful regional economic development approaches work with multiple stakeholders to craft a coordinated regional vision for the future and take other steps to foster sector/cluster growth, such as facilitating the innovation commercialization process, helping entrepreneurs start new firms and then expand them, and providing support for research and development. Sectoral employment initiatives, which seek to improve labor market outcomes for the poor while helping firms within specific sectors find qualified employees, are a well-developed strategy to build a strong pipeline of skilled workers ready for jobs in high-growth sectors (Marano & Tarr 2004). Efforts to grow a region's high-opportunity sectors can also apply economic inclusion tools such as local hiring and contracting with minority-owned businesses.

Such strategies admittedly take more time than other job creation approaches before they generate substantial new employment, since innovative products or services do not come to market and to scale until an array of prior steps have been completed. Nonetheless, unless these efforts to generate new firms in high-opportunity sectors are initiated in a systematic way, they have little chance of success, and unless these efforts build in equity criteria from the start, they are not likely to do so later.

To be inclusive, those implementing sector and cluster strategies need to consider their geographic impacts with respect to where low-income communities and communities of color live. When the industries and firms are located in poor communities, in addition to making sure that job and business opportunities are available to residents, it is important to seek to improve (and not degrade) the physical and social environments of communities and ensure that low-income residents are not displaced as strategies begin to generate economic activity. When industry clusters are located far from poor communities (for example, many manufacturing jobs are now located in outer suburbs) planners and economic development stakeholders should address and mitigate the transportation and housing barriers that workers face in accessing jobs.

Several regions are taking steps to grow their high-opportunity sectors:

- **Chicago** has implemented several strategies to build a strong, inclusive manufacturing sector. After analyses found that manufacturers were shifting toward high-technology production processes requiring highly skilled workers, while much of the workforce was nearing retirement, the city launched a workforce program to build its manufacturing workforce pipeline. Since 2005, ***ManufacturingWorks*** has connected more than 3,100 workers with barriers to employment to good manufacturing jobs paying $12.65 an hour on average. Of current workers placed by the program, 65 percent are African American (compared to an industry average of 14 percent).[3] And in 2009, the Chicago Manufacturing Renaissance Council partnered with local manufacturers, the school district, the teachers' union, and the Austin community to launch ***Austin Polytechnical High School*** to train the next generation of advanced manufacturing industry leaders. Located in a low-income, African-American neighborhood, Austin Polytech provides students with a strong education in science, technology, engineering, and math, as well as leadership skills and job training through internships and certification programs. It has graduated 150 students to date, with more than 70 percent going on to pursue college degrees (Center for Labor and Community Research, 2011).

- The Baltimore region is one of the leading areas of the country for applied and basic research in biological sciences, with clusters of firms and universities in two neighborhoods of Baltimore city and several suburban areas. The *BioTechnical Institute* has developed several training programs specifically designed to prepare people who have not had advanced education for good entry-level technical jobs in life sciences laboratories, including a 240-hour "BioSTART" training program for highly motivated unemployed and underemployed high school graduates, which is followed by a nine-week "Lab Associates" program that culminates in a 100-hour paid internship. The Institute works in partnership with the Johns Hopkins Medical Center, the University of Maryland-Baltimore, and dozens of private employers. The Institute's combination of "classroom instruction, hands-on training, and on-the-job experience" (BioTechnical Institute, 2012) works effectively for inner-city residents who had not previously thought of a technical career as being within reach. The relationships with employers have produced strong employment and retention results for a racially diverse group of graduates in this growing sector. Since 1998, 265 students have graduated from the Lab Associates program, and three out of four of them secured jobs in the bioscience industry within three months of graduation at a total of 35 Maryland companies (Office of Governor Martin O'Malley, 2012).

- Pittsburgh is taking important strides to link its most underserved communities to the knowledge- and technology-driven economy. The *Pittsburgh Central Keystone Innovation Zone (PCKIZ)* seeks to increase the number of high-growth startup businesses and relocated firms within the zone and leverage this economic activity to benefit residents of the historic African American Hill District community, who have been disconnected from the region's economic resurgence led by the innovation economy. The initiative is a consortium of universities, community organizations, businesses, foundations, and government agencies started by Duquesne University in 2007. The PCKIZ focuses on information technology, advanced manufacturing, nanotechnology, biotechnology, energy, health care IT, and medical devices. Since 2008, 41 startups have opened in the zone, creating or retaining 225 jobs. African Americans own one-fifth of the companies (compared to one-tenth of all companies in the region), and one-fifth of the companies are woman-owned. PCKIZ has placed 137 interns with these and other area companies. In the fall of 2011, PCKIZ and its partners received a $1.95 million federal Jobs and Innovation Accelerator competitive grant to continue this work, with a focus on the region's energy and healthcare clusters (Urban Innovation21, 2012).

Leveraging the Economic Power of Anchor Institutions

Anchor institutions, including hospitals, universities, government agencies, and cultural institutions such as museums, are important regional economic actors. They are major employers, own significant amounts of land, spend millions of dollars on goods and services, and play key roles in producing the innovations and skilled workers that are integral to driving growth in the knowledge-based economy. Anchors are also rooted assets in urban centers—they cannot easily relocate their offices and operations, and their identities are tied to the cities and communities in which they are located. All of these characteristics make anchors key strategic partners in regional economic development, and leveraging their vast economic power is an important approach to consider when it comes to economic inclusion.

As described in a paper in this series by Steve Dubb and Ted Howard, anchor institutions are largely untapped resources for equitable economic development. While universities and hospitals procure more than one trillion dollars of goods and services every year (Detroit's three largest anchors, for example, spend $1.7 billion annually), little of it is spent locally. (ICIC, 2012)

Cleveland's Evergreen Cooperatives exemplifies how anchor institutions can orient their considerable spending power to spur business development in distressed communities and connect low-income residents (including ex-offenders) to good careers that pay family-supporting wages and enable the resident-employees to build wealth through their ownership stake in the business. The community-based enterprise development model launches new employee-owned businesses (three to date: Evergreen Cooperative Laundry, Evergreen Energy Solutions, and Green City Growers Cooperative) to supply goods and services to the large anchor institutions in University Circle. The businesses have created dozens of good jobs with benefits and ownership opportunities for local residents, over half of whom have felony records. The longer-term goal is to produce 5,000 new jobs for Cleveland residents. Several communities—including Amherst, Amarillo, Atlanta, Pittsburgh, Richmond (California), and Washington, D.C.—are currently seeking to replicate the Cleveland model.

Dubb and Howard propose that the Cleveland approach can be taken further by systematically shifting "the procurement and investment of many diverse anchor institutions not simply in one neighborhood, but as a coordinated and integrated multi-targeted strategy for a municipal area as a whole." Because this approach is thoroughly treated in the Dubb and Howard paper, we will not review it here, except to share some illustrative examples of how anchors can, with thoughtful planning and policies, align their resources toward building inclusive local economies:

- The ***University of Pennsylvania*** is the classic model for anchor local procurement and supplier diversity. Since 1999, it has nearly doubled its purchasing from local companies and has tripled its purchasing from minority- and women-owned companies. In 2011, Penn spent $96 million in West and Southwest **Philadelphia** and purchased $114 million worth of goods and services from diverse businesses (University of Pennsylvania, 2012). Its supplier diversity program also works with minority- and women-owned companies to help them access contract opportunities. For example, it helped a small, local, minority-owned office supply company grow from being a subcontractor to a prime contractor, and the company increased its employees from three to 22 (ICIC, 2011).

- ***Henry Ford Health System*** in **Detroit** has committed to purchasing more from Detroit businesses and runs a supplier development program to increase minority purchasing and contracting. To make it easier for small local businesses to contract with them, the hospital pays them a month in advance. Henry Ford also has a "transparent sourcing policy" requiring that all bidding processes of $20,000 or more involve minority- and women-owned businesses, and mentor minority-owned businesses. On the employment side, the hospital incentivizes local hiring and links 7 percent of executives' bonuses to meeting diversity goals.

Starting and Expanding Minority-Owned Businesses

Helping entrepreneurs of color launch businesses and expand their existing operations presents a tremendous opportunity for inclusive job creation. Because entrepreneurs of color are more likely than other firms to hire people of color (Bates, 2009; Council of Urban Professionals, 2008) and locate their firms in communities of color (EuQuant, 2007), their growth leads directly to more job opportunities for the groups that need them the most. A survey of black business owners, for example, found that two-thirds of their employees were black (Gazelle Index, 2012).

Minority-owned businesses also demonstrate high potential for growth. In 2007, 31 percent of adults were people of color, but entrepreneurs of color owned only 22 percent of businesses and employed 10 percent of workers. If business development among people of color was proportional to their population share, there would have been 2.3 million more minority-owned firms and nearly 12 million more jobs in minority-owned companies (Minority Business Development Agency, 2011). Despite their underrepresentation and the numerous barriers they face to accessing the capital, information, and networks essential to business development, minority-owned businesses have grown exponentially in recent years. Between 2002 and 2007, firms owned by African Americans, Latinos, and Asians grew twice as fast as white-owned businesses. They also created more jobs in the same time period, increasing their number of employees by 24 percent compared to a decrease in employment of 1 percent among white-owned firms (U.S. Census Bureau, 2010).

Minority-owned firms are also twice as likely to export, providing evidence that more diverse business ownership can help the nation connect to global markets and meet its goals to increase exports (Minority Business Development Agency, 2011).

There are many ways to support entrepreneurs of color. Access to capital is fundamental, as presented in the paper in this series by Timothy Bates, the leading national expert on minority business development and growth (Bates, 2011). Business-support organizations and accelerators can also help entrepreneurs throughout the life cycle of a new venture: from idea to prototype, to commercialization, to financing, to mergers and acquisitions. These support organizations may offer training, technical assistance, mentorship, or networking, as well as access to space and capital. Several longstanding community-based models, including lending circles, mutual associations, and hometown associations, have helped communities of color build capital to start businesses or purchase large asset for decades, and are still relevant today.

Business support organizations that are maximizing inclusive job creation tend to fall into two different camps. One type focuses on business starts, assisting people of color living in distressed and underserved neighborhoods with starting their own businesses. Another type emphasizes business growth and job creation by helping entrepreneurs of color succeed in high-growth areas of the economy connect to larger-scale market opportunities and expand their businesses – eventually creating more jobs.

The first type of entrepreneurship development programs – which provide residents of low-income communities of color with training, technical assistance, and access to capital and business space – play an important role in building the pipeline of entrepreneurs of color. These programs expose people to the concepts of entrepreneurship, provide training on how to start and run a business, and link budding entrepreneurs to resources to allow them to execute their business plans. The Neighborhood Development Center, described below, is an excellent example of this type of program.

The second set of programs, which focus on helping minority-owned businesses grow and break into new sectors, are also integral to building an equitable economy. According to a fall 2011 report, high-tech, health care services, and energy-related businesses are the strongest sectors of the economy, accounting for 35 percent of the 1.8 million jobs added since February 2010. In particular, small service businesses that are intensive information technology users contributed disproportionately to new job creation (Jones Lang LaSalle, 2011). But too many minority-owned businesses remain in low- or no-growth sectors of the economy, such as food stores and restaurants, and are disconnected from high-growth sectors that provide greater opportunities for market expansion and revenue generation (Boston Consulting Group, 2005). Entrepreneurs of color are vastly underrepresented in high-technology businesses. For example, African Americans and Latinos own only 4 percent of technology-intensive growth industries (Brown et al., 2012).

- The *Neighborhood Development Center (NDC)* in St. Paul, Minnesota, is a model business development program that helps emerging entrepreneurs from low-income communities of color start their own businesses and contribute to the economic revitalization of their neighborhoods. Since 1993, NDC has collaborated with community-based organizations to implement business-training programs that are tailored to the cultures of diverse residents. The center's 16-week course has been conducted in five languages and has targeted African-American, Hmong, Latino, Native American, Oromo, and Somali communities. The center follows up with business startup and expansion loans, ongoing business support and technical assistance, and low-cost commercial space through its seven business incubators (which are also revitalizing neighborhood commercial corridors). More than 4,000 residents—90 percent of them low-income people of color—have completed the training and 500 graduates are currently operating businesses: sustaining 2,200 jobs and returning $64 million to their communities in payroll, taxes, and rent each year. In several neighborhoods of Detroit and surrounding towns, *PROSPER-US*, a new consortium of community-based organizations began adapting the NDC model of entrepreneurship training to their circumstances in 2012, and will include Bangladeshi, Nigerian, Arab, Latino, and African-American communities.

- For the past ten years, *JumpStart, Inc.* has been working with NorTech—a network of 20 incubators, accelerators, and investors—to grow and develop firms with high-growth potential in Northeast Ohio, with a specific focus on entrepreneurs of color. Since 2005, JumpStart has worked with nearly 1,400 entrepreneurs and created or retained nearly 2,700 jobs. Its Inclusion Advisors program provides a pipeline of services to entrepreneurs of color with high-growth potential including technical assistance, direct and indirect access to capital, networking, and access to potential clientele. The program offers three modules for companies based on their stage of development. Launch 100 targets firms owned by entrepreneurs of color that have the potential to earn $15 million in revenue and employ 50 people within five to seven years, providing them with up to 15 hours per month of intensive technical assistance on topics such as developing strategic pitch presentations to investors. First Client introduces companies to established corporations or large institutions that can act as the "first client" and run beta tests of their products. And the Emerging Market Fund provides capital for early, post-pilot stage business development for minority and female entrepreneurs. While still in its early stages, the Inclusion Advisors program has already created 251 direct jobs and another 178 indirect jobs (at supplier, servicing, or other strategic alliances as a result of the new businesses), with more jobs projected to be created as the companies reach their sales and revenue projections in 2013 (Redus, 2012). *JumpStart America* has begun the process of replicating the approach to inclusive enterprise development developed in Northeast Ohio in six other metropolitan areas.

Recession, Credit Crunch

Credit market conditions since 2008 have enormously complicated MBE borrowing efforts, both from banks and informal sources. There is a downside to being heavily indebted to outside creditors (banks), which became particularly apparent as credit availability tightened. Although greater capitalization characterizes surviving small firms generally, heavy indebtedness often is a cause of firm closure when recessionary conditions reduce sales revenues and lessen (or eliminate) profitability. The combination of tightening credit and falling sales has destroyed many heavily indebted firms — small and large — in recent years. Since MBEs are rarely heavily indebted to banks, they were less likely than other small-business borrowers to be forced out of business by these particular circumstances.

Tightening credit nonetheless has weakened many stronger MBEs, lessening their growth and profitability. Loans from friends, family and other informal loan sources — in addition to bank loans — became less available as falling household incomes and employment levels, along with tightening consumer credit, lessened the ability of these credit sources to extend loans to MBEs. Reduced credit access complicates firms' efforts to take advantage of opportunities and it is often accompanied, during recessionary periods, by slow payment of outstanding bills by clients. Thus, even strong MBEs selling to public sector clients and stressed corporate sectors (auto companies, for example, especially General Motors in 2009) risked having their businesses destroyed by the combination of reduced credit access, slow payment and selective nonpayment for goods and services sold to their major clients.

Maximizing Job Creation through Public Investment

Public investment plays a key role in fostering economic growth and competitiveness—and presents a major opportunity to link communities that have been left behind to jobs and economic opportunities. Federal, state, and local governments contribute significant resources to building the nation's basic physical infrastructure (e.g., roads, bridges, rail lines, and water and sewer pipes), shifting to a clean energy economy, producing the research that drives innovation, and educating the workforce. These investments greatly increase private-sector productivity: After comprehensively assessing the research, the Economic Policy Institute estimated a 30 percent rate of return on public investments (Bivens, 2012). Public investment is also one of the most effective job creation strategies: The Center for American Progress estimates that the federal government needs to invest $130 billion annually over the next 10 years to maintain and upgrade our infrastructure, and that this would create more than two million new jobs (Cooper, 2012). Infrastructure investments also create jobs more efficiently than other common strategies: $1 billion investment in infrastructure creates about 18,000 jobs, while the same size tax cut would generate 14,000 jobs—without creating any new public assets (Heintz et al., 2009).

While new investment is needed, much more can also be done to ensure that existing investments generate the maximum possible employment and economic opportunities for vulnerable communities. The amount of new investment planned is significant. In the coming year, for example, California will spend $18 billion on new transportation equipment (Surdna Foundation, Brookings Institution, and LAANE, 2002). Many communities are planning for large public works projects, and some are taxing themselves to pay for them. Los Angeles county voters, for example, passed a sales tax in 2008 that will generate $40 billion for transportation investments (80 percent of which will go to transit projects) and is expected to create half a million jobs over 30 years.

States and localities can implement four key strategies to ensure their public investments foster economic inclusion:

1) **Choose investments that maximize job creation and other community and environmental benefits.** Public works projects vary a great deal in the number and types of jobs they will generate. Investments in public transit, for example, generate 31 percent more jobs per dollar than building roads and bridges, while at the same time increasing mobility for transit-dependent populations and reducing greenhouse gas emissions (Nelson, 2009).

2) **Target investments in communities that have historically been underinvested.** Many inner-city areas have significant existing infrastructure, but decades of neglect and underinvestment have created a missed opportunity to maximize the economic potential of these areas, both for businesses and local residents. Poor infrastructure quality in inner-city areas has cost an estimated one-quarter of a million jobs in these areas (ICIC, 2010), while repairing existing infrastructure could create 16 percent more jobs per dollar compared to new construction (Nelson, 2009).

3) **Hire locally for both construction and permanent jobs.** Targeted hiring provisions and community workforce agreements can link unemployed and low-income workers from hard-hit communities to good jobs and lifelong careers. Meeting the federal Department of Housing and Urban Development's 30 percent local hiring goal for all HUD-funded projects (Section 3), for example, would create about 100,000 jobs for low-income residents (Carr & Mulcahy, 2010).

4) **Create opportunities for local and minority-owned business development along the supply chain.** Ensuring that contracts go to local and minority-owned firms, and ensuring that contractors buy their supplies locally, will help businesses grow and increase the total number of local jobs created

through public investments. Prioritizing job creation in the criteria for public contracts is a promising strategy: An analysis of two recent rail car contracts in California found that if job creation had been prioritized, different companies would have won the bids and 2,000 more jobs would have been created (Janis, 2012).

Recent policies and projects exemplify how public investments can maximize job creation for the most vulnerable:

- In December 2010, the **city of San Francisco** passed a groundbreaking new ***local hire ordinance*** that replaced the previous voluntary policy with a mandatory local hire requirement. The ordinance applies to all construction labor on city-funded projects within 70 miles that cost at least $400,000 (including the municipally owned system carrying water to the city). It mandates that 20 percent of all project hours within each trade be performed by local residents, and that percentage rises 5 percent every year until reaching 50 percent in 2017. It also requires that economically disadvantaged workers perform at least 10 percent of all project work hours within each trade, eventually rising to 25 percent. This policy victory came on the heels of years of organizing by community-based organizations. Based on an analysis of San Francisco's Ten Year Capital Plan, Brightline Defense Project estimates over $13.5 billion in new infrastructure investments will fall under this new local hire requirement, generating 25,000 jobs for local residents (Chinese for Affirmative Action & Brightline Defense Project, 2012). The first year of implementation covered $45 million in projects total, and 75,000 work hours. Compared to the prior year's local hire outcomes, more than 10,000 additional work hours went to local residents, nearly two-thirds of whom live in one of five low-income zip codes in the south and southeast portions of the city. Since the law was passed, local hiring is up 70 percent, with increases across all departments and nearly every trade (San Francisco Office of Economic and Workforce Development, 2012).

- **Portland's *Clean Energy Works*** pilot project to help 500 local homeowners finance and install energy efficiency upgrades was guided by a landmark community workforce agreement requiring that 80 percent of the jobs go to local residents; 30 percent of the trades and technical work hours go to historically underrepresented groups; and wages equal to at least 180 percent of the state median. People of color filled almost half of the work hours on the project (48 percent). The pilot's success led to a $20 million award from the U.S. Department of Energy to support the Clean Energy Works Oregon project to retrofit 6,000 homes and create 1,300 jobs across the state by 2013. To date, people of color have completed 43 percent of the work hours (Clean Energy Works Oregon, 2012).

Conclusion: Making Inclusion Happen

This paper outlines four ways to integrate economic inclusion into large-scale economic development and job creation strategies: 1) growing “high-opportunity” industry sectors; 2) leveraging the economic power of anchor institutions; 3) starting and expanding minority-owned businesses; and 4) maximizing job creation through public investments. Of these strategies, it is the expansion of sectors and businesses that is mostly likely to result in net new jobs. The other strategies do not grow the pie, but redistribute it—thereby building the foundation for an inclusive growth model.

The examples throughout this paper illustrate that economic inclusion is not a black box: Many strategies exist to connect vulnerable workers and businesses to jobs and economic opportunities, and emerging approaches show how economic inclusion can be integrated into large-scale economic development and job creation efforts. When it comes to inclusion, the biggest challenge is not figuring out what works—it is convincing decision-makers to adopt these proven or promising strategies.

The strategies are most often not undertaken in isolation. In fact, they can collectively become the cornerstones for more comprehensive approaches to equitable economic revitalization, approaches which blend “people-based” and placed-based” strategies and develop both stronger enterprises and healthier communities. This is starting to happen in the cities described above. For example, in the same Midtown Corridor of Detroit where the Henry Ford Health System is intensifying its “hire local, live local, buy local” anchor initiatives, Henry Ford is also part of the Innovation Network. This cluster of universities, hospitals, and other organizations, funded by The New Economy Initiative for Southeast Michigan, seeks to develop new firms out of the commercial potential of intellectual property in medicine, alternative energy, information science, and other high tech sectors. It focuses on equity and racial inclusion for its participant entrepreneurs and the employment and community impacts of its new enterprises. The model pioneered in Cleveland by JumpStart will be adapted for the Innovation Network as well. In Baltimore, the Biotechnical Institute described above is related to the Science and Technology Park at Hopkins, which, when completed, should house a critical mass of life sciences commercial and laboratory endeavors generated by proximity to Johns Hopkins Medical Center, within a mixed-income, mixed-use community. The equity-focused goals of training and employment for the residents of the surrounding low-income community, including those relocated to make room for the project, are central to the project’s mission and plans. While in both Midtown Detroit and East Baltimore it is too soon to tell how these strategies will turn out, it is encouraging that they have considerable resources behind these equity goals and these comprehensive approaches.

To build the equity-driven growth model that the nation needs to secure its future, leaders in the private, public, and community sectors will all need to stretch outside their comfort zones, expand their knowledge, and adopt innovative approaches. Private-sector leaders will need to recognize that racial and economic inclusion will help them achieve their primary goals of growth and competitiveness, and they will need to embrace and prioritize equity concerns. Equity advocates, who have traditionally focused on how the benefits of growth are divvied up, will need to focus more on generating job growth, choosing strategies that work with market forces to reach their equity goals. Public-sector leaders need to take a leadership role in formally adopting equity-driven growth strategies by convening diverse leaders and stakeholders to build a vision for the community's future; setting goals for racial and economic inclusion; adopting economic inclusion approaches; and tracking whether the community is meeting its equity goals.

While this paper has focused on strategies that would connect vulnerable workers and businesses to jobs and economic opportunities within three to five years, longer-term strategies are also needed to achieve full participation and inclusion. Retooling our education and workforce development systems is essential to prepare today's workers—and tomorrow's—to succeed in a continually changing, knowledge-driven, globalized economy. Our public education system must equip all children, including low-income children and children of color, with the reading, math, and critical thinking skills to become the next generation of innovators and leaders. Every child should be able to obtain some form of post-secondary education or training that leads to a job that pays family-supporting wages and opportunities for growth. The workforce development system also needs revamping to provide the coordinated services needed to effectively connect the most vulnerable workers to career pathways.

Another important arena for ensuring inclusion over the long haul is planning and community development. States, regions, and localities must all produce long-term plans that lay out a vision for the future and align public investments toward attaining that vision. These plans need to address the spatial barriers to job access for low-income communities and communities of color by building transportation systems that create access to jobs across the region, revitalizing distressed neighborhoods, and zoning for affordable homes in communities that are rich in jobs and economic opportunity. At the local level, plans need to promote equitable development—ensuring that low-income residents are not displaced from their neighborhoods after public investments spur market activity (this is particularly important for transit-oriented development). Local plans also should emphasize preserving industrial land, which is critical for growing the local manufacturing sector and keeping good manufacturing jobs accessible to residents. Working from the bottom as well as the top, in the short-term as well as the long-term, we can restore opportunity to America's growth model.

Appendix

Table 1. Economic Inclusion Tools

	Description	Extent of Adoption/Use	Range of Program/Policy Elements	Example
Targeted Hiring				
Minority and Women Hiring Policies	Establish goals or requirements for hiring minorities and women for publicly subsidized projects.	The federal government establishes goals for minority and female hiring at the regional level for all federally funded construction contracts; states and localities may set higher goals.	Federal hiring targets cover contracts over $10,000 and hiring goals for minorities can range from 0.5 percent (Lewiston-Auburn, Maine) to 87.3 percent (Laredo, Texas). (U.S. Department of Labor, Office of Federal Contract Compliance Programs, 2009)	Since 1985, Minnesota's Department of Human Rights has issued goals for minority and female employment in state-funded construction projects for each metro and county. The goals apply to contracts in excess of $100,000 and to employers with more than 40 full time employees. Current goals for Ramsey and Hennepin counties target minority participation at 32 percent and female participation at 6 percent. (Minnesota Department of Human Rights, 2012)
Local Hiring Policies or Ordinances	Establish goals or requirements for hiring local residents on publicly subsidized projects.	More than 10 cities have passed local hiring ordinances.	• Target area may be citywide or a defined sub-area within a jurisdiction or around a development. • Thresholds include: the dollar amount of the subsidy or project; the size of the project; and whether it covers construction jobs only, or also the permanent jobs that follow. • May include First Source policies, which require or incentivize businesses to hire residents from local training programs.	The City of East Palo Alto passed a local hiring ordinance in 2000 that covers all redevelopment that receives more than $50,000 in city subsidy. The ordinance calls for 30 percent local hiring for both construction jobs and permanent retail jobs, or at least a "good faith effort" to hire locally. In 2007, local residents filled 23 percent of 84 construction jobs. At the end of 2010, local residents filled 35 percent of 1,241 permanent retail/service jobs. (City of East Palo Alto).
Community Benefits Agreements (CBAs)	Legally binding contract (usually between a developer and community groups) outlining the community benefits on a publicly funded project.	28 CBAs are currently in effect.(Communit y Benefits Agreements Blog)	• Common provisions include local and minority hiring, living wage, job training, minority contracting, and affordable housing. • Minority hiring goals have ranged from 20 percent (Peninsula Compost CBA) to 35 percent (Atlantic Yards CBA). (Community Benefits Agreements Blog)	The Hollywood and Highland CBA, negotiated by the Los Angeles Alliance for a New Economy (LAANE) for the development of the Kodak Theatre in 1999, set construction and permanent local hire goals that resulted in 70 percent of all permanent jobs being filled by local residents and 19 percent of all construction work hours being filled by local residents. Nearly half of the permanent positions provided living wages. (Mulligan-Hansel, 2008)
Community Workforce Agreements (CWAs) / Project Labor Agreement (PLA)	Project-specific agreements that set the terms and conditions of employment, including wages, benefits, schedules	More than 100 CWAs/PLAs have been negotiated in the past 80 years (for both public and privately-funded	Local hiring provisions on CWAs typically range between 20 percent (Cleveland University Hospital CWA) and 50 percent (Port of Oakland CWA).	The CWA for the Clean Energy Works Portland pilot project to retrofit 500 Portland homes with energy efficiency upgrades, required that 80 percent of jobs go to local residents, 30 percent of the work hours go to underrepresented groups, and that wages are at least 180

	and work rules. CWAs also include targeted hiring, training and outreach programs.	projects). (PLAs Work)	(The Partnership for Working Families)	percent of the state median. People of color filled 48 percent of project work hours. The pilot was expanded to retrofit over 6,000 homes statewide by 2013, and 43 percent of project work hours so far have been performed by people of color .(Clean Energy Works Oregon, 2012)
Minority Business Development				
Procurement and contracting	City/state governments or anchor institutions (such as universities, health centers, etc.) make formal agreements to buy from or contract with local/minority-owned businesses.	15 states set explicit statewide numerical goals for MBE/WBE procurement and contracting.(Belkas, 2010).	State goals may range from 5 percent (state of Wisconsin) to 25 percent (state of Maryland). (Belkas, 2010)	In 2008, Rhode Island set its FHWA contracting goal for DBEs at 10 percent, and exceeded that goal by awarding 23 percent of FHWA contracts to DBEs. (Belkas, 2010)
Technical assistance and support for minority entrepreneurs	Public or private initiatives that help minority-owned businesses overcome barriers to start-up and growth.	There are approximately 1000 SBA small business development centers nationwide. (America's Small Business Development Center Network)	• Technical assistance might focus on for-profit models, non-profit models, or a combination of both. • Some initiatives support launching startups while others work with existing businesses, low-income, or minority entrepreneurs.	Since 1993, The Neighborhood Development Center (NDC) in St. Paul has partnered with community-based organizations to help historically underrepresented residents start their own business. The center teaches a 16-week entrepreneurship course, and then follows up with start-up loans and technical assistance. More than 4000 residents (90 percent are low-income people of color) have completed the course and 20 percent have successfully started a business. (Treuhaft et al., 2011)
Improving Job Quality				
Wage Standards	Include the minimum wage (set federally but can be exceeded by state or local minimums); living wage (for publicly funded projects, generally defined as above the poverty line for a family of four); and prevailing wage (set within particular industries).	• 18 states have a minimum wage higher than the federal minimum wage ($7.25 an hour). • 10 states index their minimum wage to adjust for inflation • At least 140 jurisdictions have living wage policies. (Partnership for Working Families)	• Washington State has the highest minimum wage of $9.04.	In 2004, Santa Fe, N.M. enacted a citywide minimum wage law that mandated an hourly wage of $8.50 for all private businesses within city limits employing 25 or more, and required annual indexing to adjust for inflation. On March 1, 2012 the minimum rose from $9.85 per hour to $10.29. When first enacted in 2004, the new minimum wage law affected approximately 17,000 workers. (Sonn, 2006)
Benefits	Provisions for workers such as paid sick time, health insurance, social security, retirement/pension plans, and workers compensation.			Effective on January 1, 2012, a state law in Connecticut requires all employers with 50 or more employees to provide paid sick leave annually. Approximately 200,000 to 400,000 service workers—including waiters, cashiers, fast-food cooks, hair stylists, security guards, and nursing home

				aides—will earn one hour of paid sick time for every 40 hours of work, up to a maximum of five paid sick days annually. (Applebome, 2011)
Workforce Development				
Career Technical Education (CTE)	Postsecondary programs that prepare students for jobs in specific industries by combining a college-prep curriculum with career technical education, and typically include work-based learning.	There were approximately 900 full-time CTE high schools (5 percent of all public high schools) in the United States in 2002. (National Center for Education Statistics)	Common vocational careers are computer programmers, licensed practical nurses, respiratory therapists, and paralegals. (Top Ten Reviews)	A.L. Brown High School in Kannapolis, N.C. offers more than 40 classes in eight career pathways including business technologies, commercial/artistic production technologies, construction technologies, health sciences, and culinary arts. According a recent study, its students outperformed students' statewide overall graduation rates and math during the 2010-11 school year. (Wilson, 2012)
Training and Placement	Provide workers who are out of employment and may face barriers to employment such as a criminal record with job skill training as well as placement.		The total number of participants in the 38 DOL Pathways Out of Poverty grants ranged from 200 (Alternative Opportunities, Inc.) to 3,600 people. (STRIVE/East Harlem Employment Services) (U.S. Department of Labor, Employment and Training Administration, 2010)	The Center for Employment Training (CET) trains unemployed, low-income, and underserved persons of all ethnic backgrounds and ages and places them in jobs. CET served 6,829 participants nationwide in 2010-2011. 37 percent were elementary/high school dropouts, 21 percent were limited English speakers, 47 percent were public assistance recipients, and 16 percent were migrant/seasonal farm workers. The average annual income before training was $6, 316, and after training was $27,548. (Center for Employment Training, 2012)
Career Ladders	Programs that provide workers with education and training linked to higher rungs of careers.			In 2000, the state of Massachusetts launched an effort to upgrade the quality of nursing home care by implementing career ladders and skills development for frontline long-term care providers. 160 nursing homes and home health agencies have implemented the training programs, partnering with 15 community colleges across the state. More than 7,500 workers have participated— most are certified nurse assistants who are seeking to become licensed practical nurses. Direct-care workers who completed at least one training module received a wage increase averaging $1.05 per hour. (Massachusetts Workforce Board Association)

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Endnotes

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[2] See the Appendix for a summary of economic inclusion tools including relevant examples.

[3] The industry average was calculated by PolicyLink/PERE using data from the 2007 American Community Survey

About the Big Ideas for Job Creation Project

Big Ideas for Job Creation, a project of the Institute for Research on Labor and Employment at the University of California, Berkeley, with the support of the Annie E. Casey Foundation, tapped into the innovative thinking of leading experts across the nation to develop job creation proposals. Every idea had to meet the following criteria: designed for implementation by cities and/or states and will lead to net new job creation in the short-term; practical, sustainable, scalable and already tested; and all jobs created should be accessible for low-skilled workers and offer some career opportunity. Taken together, these Big Ideas can create millions of new jobs for our country.

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