OPPORTUNITY FOR GROWTH

How reducing barriers to economic inclusion can benefit workers, firms, and local economies

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EXECUTIVE SUMMARY

Inclusive growth remains the exception rather than the rule in most of America's metropolitan areas. Local communities will have a better chance of addressing today's defining economic challenge if it is reframed as one affecting both employers and workers. This report aims to do that by exploring the connection between economic inclusion and growth in U.S. metro areas, the implications for businesses and workers, and how regional economic strategies can eliminate barriers that are hindering inclusive growth. It makes the following points:

- **The economy is not working for all people and places, and cities and regions are a critical scale at which to address the challenge.** While nearly every part of the United States has regained the jobs lost during the Great Recession, only 11 of the nation's 100 largest metropolitan areas have been able to match their employment recoveries with expanding labor productivity and broad-based income gains. Cities and regions are a critical scale to address this challenge. First, communities have different economic and social conditions that macroeconomic policies alone tend to miss. Second, regions can offer a coalition of firms, governments, and civic institutions to tailor inclusive growth strategies.

- **Reducing barriers to economic opportunity in U.S. metro areas can enhance economic growth.** New evidence suggests that cities and metro areas that offer greater equality of opportunity experience higher aggregate growth. Why? Because more inclusive regional economies can maximize the talent and entrepreneur bases on which their growth and productivity depend. In doing so, they minimize the fiscal and social costs of exclusion, and foster environments that allow for better collective decision-making to shape their economic future.

- **Growth is necessary to make regional economies more inclusive.** Faster-growing economies create tight labor markets that make broad wage gains more likely. The way regions grow also matters: Elements of the advanced economy, especially innovative industries and tradable sectors, offer better pay and opportunities for upward mobility. And economic growth generates the wealth and tax revenues needed to support public goods on which lower-income households disproportionately rely.

- **Growth actors—employers and the economic development organizations (EDOs) that represent them—have an important role to play in joining *inclusion actors*—community development, workforce development, and social justice organizations)—to reduce the barriers that prevent firms, workers, and communities from meeting their productive potential.** Economic development at its broadest and most ambitious seeks to do what markets alone cannot by coordinating action to address barriers hindering workers and firms. At one level, this involves addressing **dynamism** barriers that inhibit firm creation and expansion, processes that fuel employment and productivity growth. At another level, this demands addressing **skills** barriers that prevent workers from gaining the knowledge and capabilities to fill good-paying jobs and reach economic self-sufficiency. Finally, strategies must acknowledge **access** barriers that physically and socially isolate individuals in particular communities from economic opportunity.

INCLUSIVE ECONOMIC DEVELOPMENT LEARNING LABORATORY

The argument in this paper was tested through Brookings' **Inclusive Economic Development Learning Laboratory** (the Lab), a six-month intensive engagement launched in 2017 in partnership with stakeholders in Indianapolis (Indy Chamber), Nashville (Nashville Area Chamber of Commerce), and San Diego (San Diego Regional Economic Development Corporation). The purpose of the Lab was to help regional economic development groups "make the case"— to their business members, boards, and other economic and community development organizations – that inclusive economic development should be a core component of their work because it is a growth and competitiveness imperative.

This paper argues that growth and inclusion are mutually dependent and seeks to make that case, in particular, to business and economic development leaders. In so doing, it draws on compelling arguments made by our partners in Indianapolis, Nashville, and San Diego to reach that audience.

A second Brookings report, ***Committing to inclusive growth: Lessons for metro areas from the Inclusive Economic Development Lab,*** documents the lessons from the Lab that can help EDOs translate their growing recognition of the need for more inclusive growth into a wider understanding and institutional commitment. It describes the three organizations' process to develop their narrative, including successes and challenges, and suggests ways that other EDOs can launch similar actions.

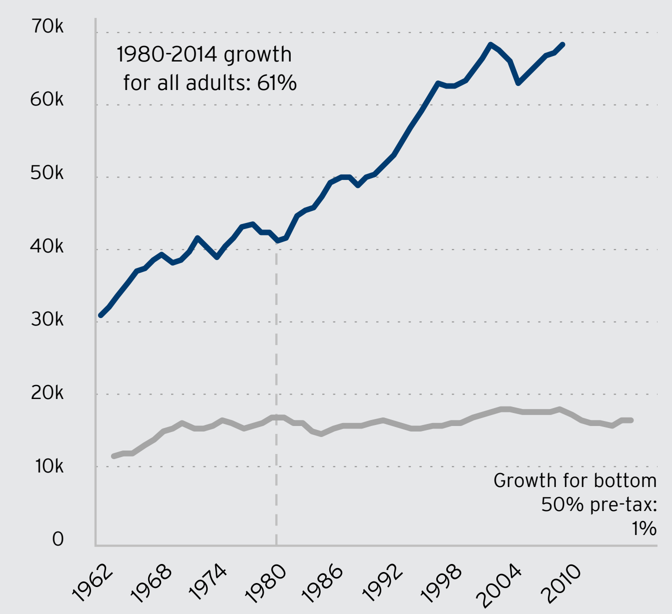
I. AN ADVANCED ECONOMY NOT WORKING FOR ALL

The U.S. economy has not raised living standards for most residents for several decades. Since 1980, the bottom 50 percent of earners—half of American workers—have experienced zero income growth before taxes and transfers.[1] Moreover, the once-assured prospect that children would enjoy higher incomes than their parents has diminished. While nine out of 10 children born in 1940 had higher earnings at age 30 than their parents at the same age, for those born in 1980, the number dropped to one in two. Although the overall slowdown in U.S. economic growth partly explains why many are not doing better than their parents, rising income inequality is an even more important factor.[2]

Diminished mobility and rising inequality are grounded in the nation's cities and metro areas. While just about every part of the country has regained the jobs lost during the downturn, only 11 of the 100 largest metropolitan areas have matched their employment recoveries with expanding labor productivity and broad-based income gains.[3] A series of disruptive forces are challenging cities and regions to deliver inclusive growth (see sidebar.)

Figure 1. The economy is not generating income growth for the bottom 50 percent of U.S. earners

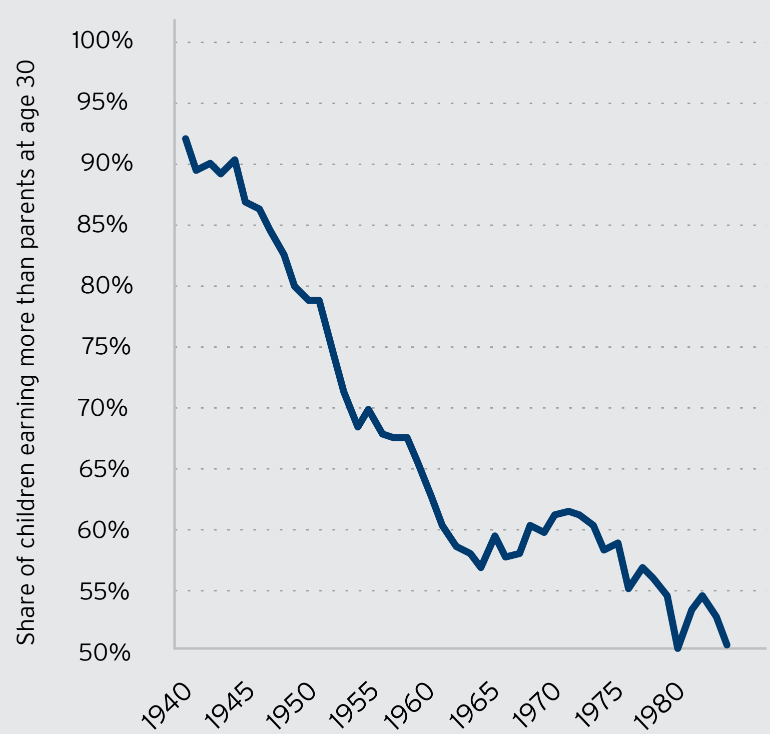
Average national income for all adults and adults in the bottom 50 percent of the income distribution, 1962-2014



Source: Piketty and Zucman, 2016

Figure 2. Absolute upward mobility has declined over the past few decades

Share of children earning more at age 30 than their parents did at age 30



Source: Chetty et al. 2016

DISRUPTIVE FORCES ARE CHALLENGING CITIES AND REGIONS TO DELIVER INCLUSIVE GROWTH

A series of longer term structural forces, combined with short-term political disruptions, are challenging cities and metropolitan areas to deliver shared prosperity for their residents.

Technological change is restructuring the U.S. labor market. Technology has profoundly changed labor market demand. In manufacturing, Ball State's Michael Hicks and Srikant Devaraj estimate that 88 percent of job losses are due to productivity gains of the information technology revolution.[4] As breakthroughs spawn new products and solutions, they may displace workers with obsolete skills. While few occupations have been completely mechanized, a recent McKinsey Global Institute report estimated that half of all work tasks could be automated by 2055.[5] This digital revolution is revaluing the workers with the cognitive abilities and technical training to complement new technologies. Due in part to his trend, the earnings gap between the typical college and high school graduate has increased from 38 percent in 1980 to 73 percent in 2015.[6]

Global competition continues to expand. The same technological forces changing labor market demand have promoted globalization. In the 1970s and 1980s, low and medium-skilled jobs moved overseas. As multinational companies launched or expanded their foreign operations, this global workforce increased by 1 billion, tripling from 1980-2000.[7] While the global trade from these supply chains created new opportunities for U.S. firms and workers, it also sparked job losses, especially for workers and communities that specialized in export industries which relocated to emerging markets.[8]

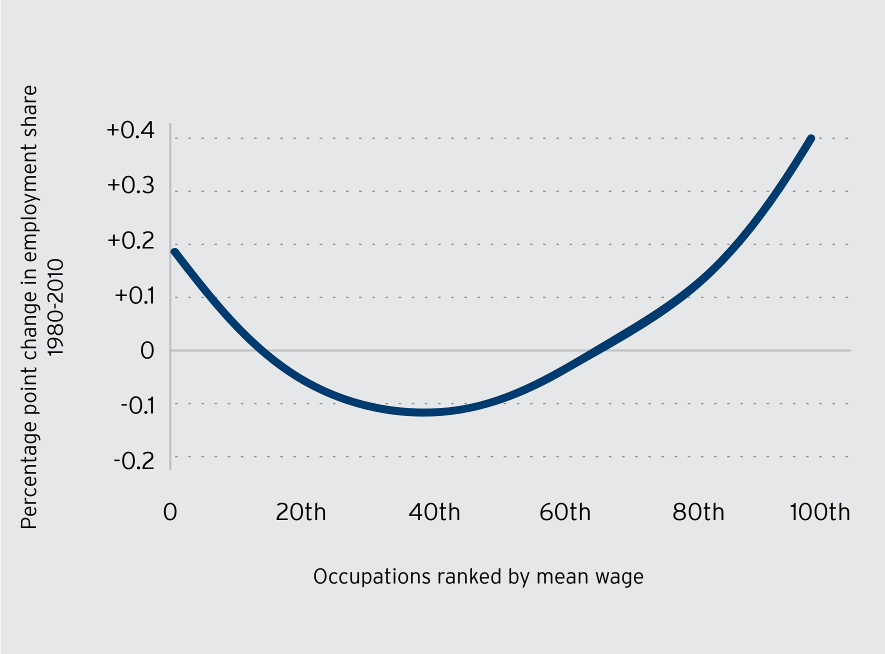
The modern economy does not reward places equally. The economic restructuring from globalization and technological change has favored knowledge-intensive sectors that reward skilled workers and the types of communities where they want to live. Thriving regions also need a basic level of physical infrastructure and connectivity to be relevant globally, which many smaller cities and towns lack.[9] Larger cities, mid-sized innovation hubs, and university towns fare well, while many industrial regions, smaller metros, and rural areas struggle to preserve jobs and economic activity.[10] Small counties (with fewer than 100,000 residents) accounted for only 9 percent of new jobs in the 2010-2014 recovery, down from 27 percent in the 1992-1996 recovery.[11]

Demographic shifts are diversifying the U.S. workforce. At the same time that technology and enhanced global competition forced the American workforce to do better, the country's demographics have changed massively. The United States will become a majority-minority nation in 2044, as the nation's white population declines with the aging of the Baby Boomer generation while the population of Asians, Hispanics, and multi-racial persons increases rapidly. Today, whites make up over 80 percent of Americans who are 65 or older, but just under 55 percent of those who are 17 or younger.[12] This change is advantageous when compared to Europe and parts of Asia, but only if the younger, more diverse generation has the education and skills needed to meet the demands of the advanced economy.

Political and budget realities constrain Washington's investments in growth and opportunity. America's rapidly-changing economy and society are roiling our politics. Both within and across regions, the 2016 election revealed high divisiveness, fueled by divergent economic fortunes and social and cultural views. This polarization is being expressed in our national politics, which means that major legislative compromises between the two major parties appear unlikely. And, as entitlements and interest on the debt absorb more of the federal budget (a projected 77 percent by 2025), the federal government's inability to invest in the main drivers of inclusive growth will place more burden on local and state actors.

Figure 3a. Middle-wage jobs are shrinking as a share of the labor market

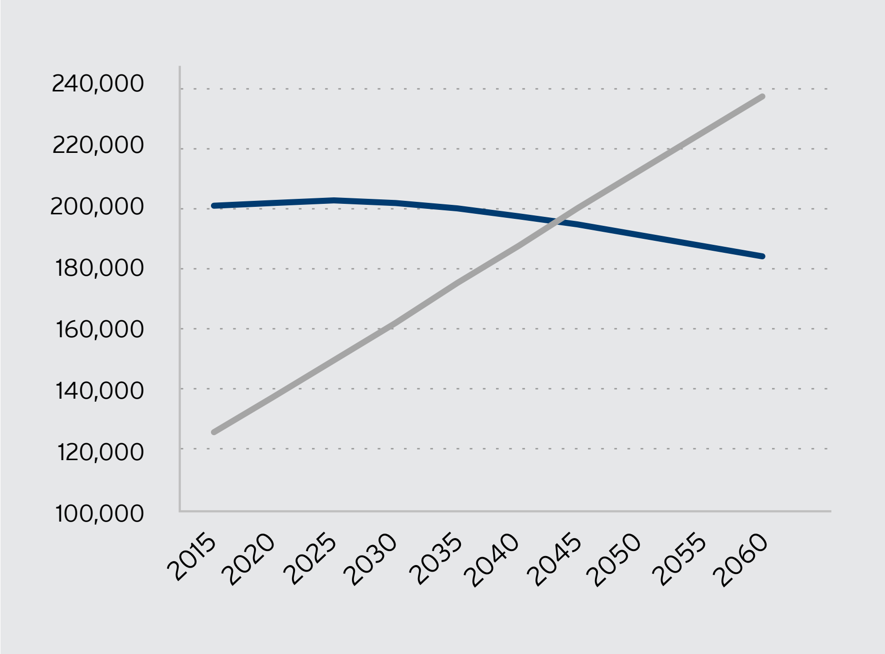
Occupational structure of U.S. labor market, 1980-2010



Source: Mandelman, 2013

Figure 3b. The U.S. workforce is rapidly diversifying and will reach majority-minority status by 2044

U.S. white and minority populations, 2015-2060



Source: U.S. Census Bureau's 2014 National Population Projections

In nearly every major metro area, insufficiently inclusive growth is a challenge in need of addressing, but who is responsible for doing this? Travel to any city and region and one will find public, civic, and increasingly business leaders that feel the pressure to act. Skeptics of local and state solutions may note that the forces contributing to higher inequality are national and even global issues, and thus tax, trade, competition, and monetary policy is the proper point of intervention. Of course, nationally scalable solutions in these areas would be ideal, particularly ones that enable local and state flexibility. This presumes, of course, that the national government can build enough consensus to enact such policy reforms, which seems politically untenable in the near term.

But national political dynamics are not the only force necessitating local engagement. Cities and regions also represent an appropriate scale at which to create the conditions that foster inclusive growth. Two realities bear this out.

First, varied economic and social conditions across cities and metro areas indicate that the major forces shaping the global economy affect local communities quite differently. That Raj Chetty and his colleagues have found rates of income mobility differ so greatly across different U.S. communities, for instance, suggests that there is something about the local opportunity structure that matters in a country as large as the United States[13] In a recent speech, former Federal Reserve Chairman Ben Bernanke noted that macroeconomic policies alone cannot address this diversity[14]

Second, the coalitions that can ensure inclusive growth operate locally. For decades, workforce development boards, community development organizations, social service agencies, faith groups, and other civic and public institutions (sometimes called *inclusion actors*) have led the nation's bottom-up fight against social inequities, person by person, block by block.

As noted in a 2012 Regional Prosperity Project report, *inclusion actors* were complemented by a separate set of organizations (*growth actors*)—employers and chambers of commerce, business leadership groups, and EDOs that represent them—that focus on the overall growth of local economies. These groups have led on efforts to create jobs, develop industries, promote economic growth, and attract businesses. The growth and inclusion camps usually operate on separate tracks, driven by different cultures and politics, pursue distinct goals, and respond to non-overlapping metrics.[15]

However, their paths may now be converging. A wave of academic research and political commentary has documented the widening disparities by class, race and place; and, public displays of social unrest have signaled the consequences.

Many growth actors now realize they need to engage anew in advancing inclusive growth, which my colleague Amy Liu defines in the following way:

"To put a regional economy on a trajectory of higher growth (growth) that increases the productivity of firms and workers (prosperity) and raises standards of living for all (inclusion), thus achieving deep prosperity—growth that is robust, shared, and enduring."[16]

Ensuring growth is more inclusive is an *economic* challenge, so the addition of growth actors—led by a growing group of forwarding-looking EDOs and chambers of commerce recognize these trends and want to act—is a sensible and welcome development. And recent reports from the Association of Chamber of Commerce Executives and the International Economic Development Council have highlighted strategies their members are launching to promote inclusive growth.[17] But many unanswered questions remain about whether or why these organizations should channel their knowledge, resources, and networks to more explicitly support economic inclusion, and whether they can succeed.

A growing body of literature—from international organizations, think tanks, and academics—reveals that inequality and poverty are drags on the economy and taxpayers. But few of those reports target local employers and economic development leaders, and why it is in their self-interest to address barriers to economic inclusion. This report seeks to fill that gap by examining the following:

- ***Why inclusion matters to growth.*** It describes the growth case for inclusion: why and how extending equality of opportunity across a rapidly diversifying population is both just and critical to the competitiveness of metro areas and the health of our civil society.
- ***Why growth and the advanced economy matters to inclusion.*** It explains why, amid rising inequality, the pursuit of greater economic inclusion depends on harnessing the growth and dynamism of the advanced economy.
- ***A framework for action.*** It provides a rationale for action and explores how economic development leaders and local partners can integrate inclusive growth into their mission and strategies.

WHAT IS A METRO AREA?

This report uses the terms *city, metropolitan (metro) area, urban area* and *region* interchangeably to describe jurisdictions that form a unified labor market and are often defined statistically by the commuting patterns of their residents between home and work.

II. WHY PROMOTING INCLUSION CAN ENHANCE REGIONAL ECONOMIC GROWTH

Economic development organizations (EDOs) have historically defined regional economic success as the number of local jobs created or the amount of new investment entering a region. A local *win* resembles the deal Wisconsin recently negotiated with Foxconn, a Chinese manufacturer, where the state provided $3 billion in tax subsidies to attract a new production facility. While the scale of the Foxconn deal is unique, the spirit of it is quite common. But because corporate expansions and relocations declined by 50 percent from 2000-2012, according to Conway Data, EDOs must now focus more on their homegrown businesses and talent base to drive growth.

This same evolution applies to business success. Although firms are judged primarily by their revenues and profits, now—when innovation and human capital are the primary advantages of U.S. businesses in the global economy—there is a growing recognition that a company's success will depend highly on the quality of the local workforce.

Viewed against these new success metrics, it is notable that cities and regions that offer greater equality of opportunity achieve greater subsequent economic growth. Why? Because they maximize the potential of the talent and entrepreneurship bases on which their growth and productivity depend. In so doing, they also minimize the fiscal and social costs of exclusion, and foster environments that allow for better collective decision-making to shape their economic future.

New research suggests that cities and metro areas that offer greater equality of opportunity have higher aggregate growth.

The most basic measure of an economy is its output—the total value of the goods and services it provides. Expanding that output—achieving economic growth—is a typical goal of economic policy, and can be achieved in one of two ways. First, it can add more inputs like land, labor, and capital. This can involve attracting new investment capital from outside the region to fuel a firm's expansion or attracting workers from outside the labor force, a path traditionally favored by many *growth actors*. The second path involves increasing the amount of output generated per input, or increasing productivity.

Increasing productivity is critical to achieving inclusive growth, but is a complex process with high demands. Economies become more productive when firms continuously innovate, typically through new technologies. This requires workers with the capabilities to create and commercialize value from those innovations, and a certain baseline quality of physical infrastructure, institutions, and laws to support the process.[18]

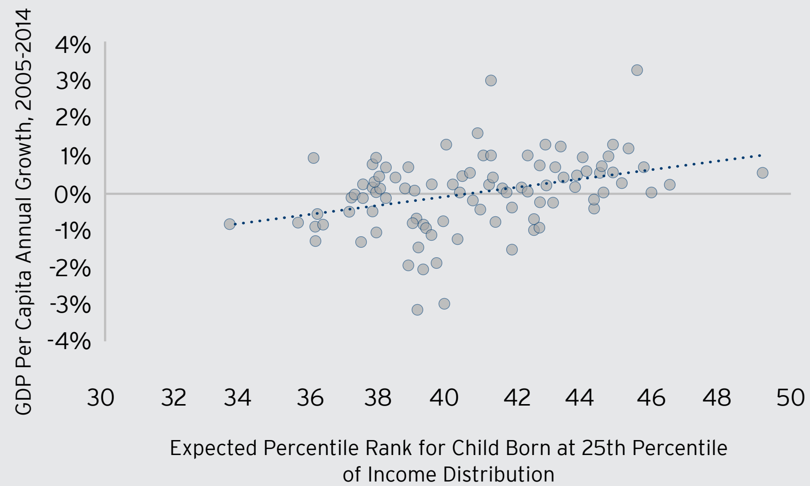
As regions become wealthier, growth becomes more difficult (which is why developing nations grow faster than developed economies), and it is hard to predict where the next growth-enhancing breakthroughs will emerge. Given this uncertainty, regions that extend opportunity across all people and communities are building a diversified investment portfolio for their economic future. By contrast, regions that fail to maximize the talents of their young people impair their productive potential.

Recent research by Katharine Bradbury and Robert Triest confirmed the connection between equal opportunity and local economic growth.[19] Controlling for other factors that influence it, they found that metro areas where low-income children experienced higher upward

"Given this uncertainty, regions that extend opportunity across all people and communities are building a diversified investment portfolio for their economic future."

Figure 4. Metro areas with higher equality of opportunity experience faster economic growth

Upward mobility vs. GDP per capita growth, 100 largest metro areas



Source: Brookings analysis of data from Moody's Analytics, Chetty et al. 2013

mobility—their chosen measure for equality of opportunity—achieved faster per capita income growth.

What is the magnitude of this effect? Based on the authors' estimates, increasing the rate of upward mobility in Atlanta (a relatively low-mobility region) to that of Washington, D.C. (a relatively high mobility region) could have increased regional Atlanta's economy by at least $18 billion in 2013, or by about $3,000 per person.

These estimates should be viewed as exactly that, and of course we cannot magically change the economic and social conditions in Atlanta to match those of Washington. But the result affirms Chris Benner and Manuel Pastor's hypothesis that many U.S. metro areas "have gone beyond a sort of 'optimal' level of inequality."[20] Some inequality is probably necessary to advance growth because it incentivizes risk-taking and hard work, but inequality of opportunity is so deep-rooted in some U.S. communities that it is hindering their long-term competitiveness.

These findings lend credence to a reasonable hypothesis: When individuals in families with lower incomes have access to networks and resources that improve their upward mobility, the overall economy benefits. When they do not, it underperforms compared to its potential. Equality of opportunity reflects the social contract individuals make with each other and their governments, and is justified on moral and ethical grounds. But it is also an economic imperative that justifies intervention since it can improve productivity and competitiveness. There are at least three mechanisms through which greater equality of opportunity can produce greater economic growth (or conversely, inequality can limit economic growth).

Inequality of opportunity limits employers' ability to find talent and a regions' supply of new businesses.

UNDERSTANDING THE DISCONNECT BETWEEN WORKERS AND EMPLOYERS

Many of the barriers workers face to employment and the barriers businesses face to productivity and profitability can be understood through worker and employer profiles. Indianapolis created these profiles to understand the disconnect between what firms want and what employees want. Many of the barriers overlap.

Figure 5. Indianapolis Narrative

Source: Indy Chamber.

An emerging body of research indicates that failing to maximize the talents of all Americans constrains the entire economy by impairing its productive potential. Why? At a simple level, employers need skilled, productive workers to maintain their profitability (see sidebar.) Indeed, nearly two-thirds of jobs now require at least some post-secondary degrees or credentials.[21]

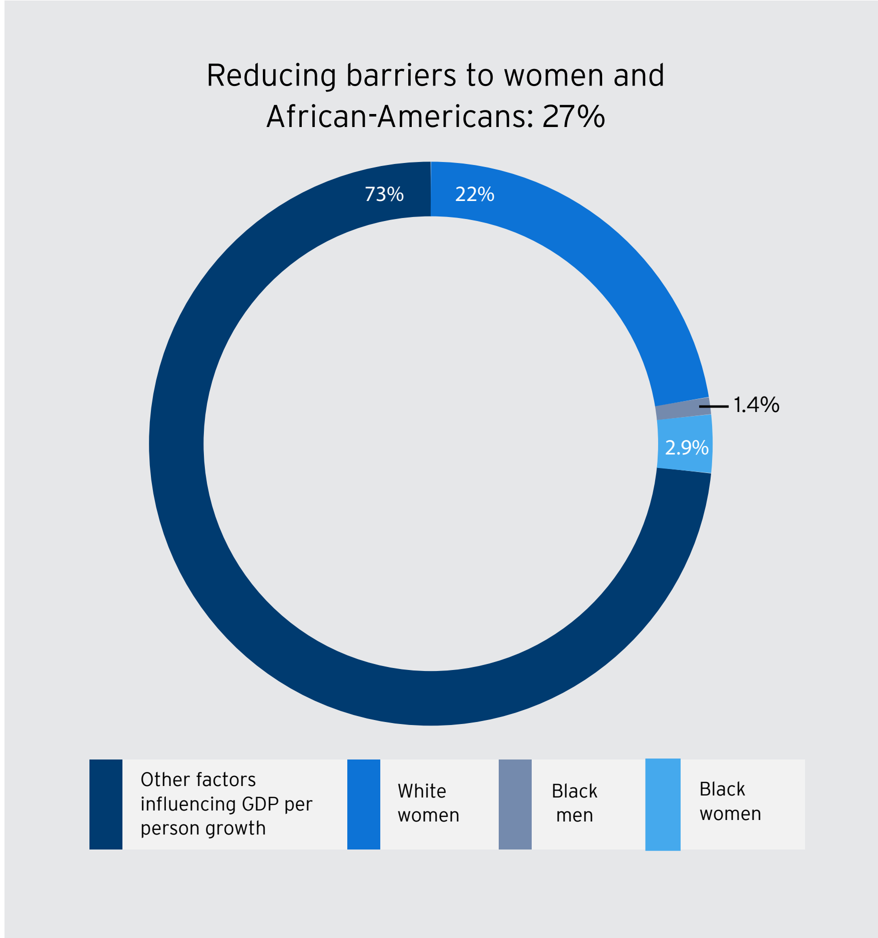
The existence and causes of the much-discussed *skills gap* are hotly debated. Whether hiring difficulties are due to a lack of worker skills or employers not offering high enough wages, or some combination of both, are subjects beyond the scope of this report. But whatever the cause, employers continue to report hiring difficulties. According to the Manpower Group, the share of U.S. employers reporting this in the last year increased from 32 percent to 45 percent, the largest increase of any large nation surveyed.[22]

Shortages of capable workers leave positions unfilled, poorly filled, or subject to high turnover, which all affect employers' costs. CareerBuilder estimates that each vacancy lasting more than three months costs firms an average of about $14,000.[23] Turnover is also costly: Companies typically pay about one-fifth of an employee's salary to replace him/her, according to a Center for American Progress research review.[24]

History provides a lesson on how bringing under-utilized talent into the economy spurs productivity growth. For much of the 20th century, gender and racial discrimination created barriers to labor market participation for nonwhite and female Americans. But lowering these barriers—by extending education, changing social norms, and reducing discrimination—has accounted for about one-quarter of the nation's per-person GDP growth since 1960.[25]

Figure 6. Reducing economic exclusion for women and African-Americans accounted for 27 percent of GDP per person growth between 1960-2010

Share of growth in GDP per person due to different factors, 1960-2010



Source: Hsieh et al. 2016

While economic exclusion may not be as explicit as it was 50 years ago, it still thwarts individuals' and the U.S. economy's potential in four areas:

- Education and skill development
- Innovation
- Entrepreneurship
- Access to housing, schools, and jobs

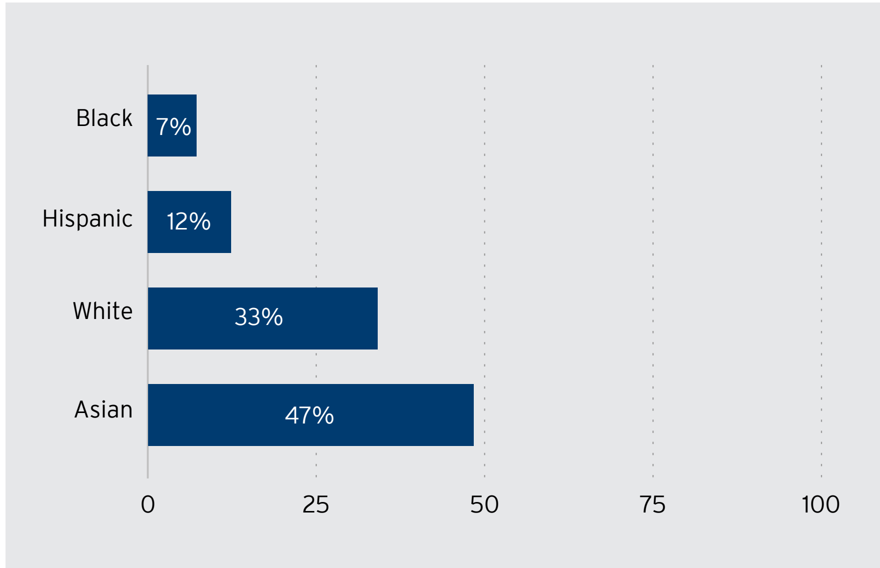
Education and skill development

In the 1980s, economists observed that educational attainment—the core metric for gauging knowledge and skills—was the best predictor for individuals', communities' and regions' economic success.[26] This is because employers continue to demand workers who have levels of skills and training beyond high school—prerequisites for a foothold in the middle class. As noted earlier, the earnings gap between the typical college and high school graduate soared from 38 percent in 1980 to 73 percent in 2015.[27]

Today's labor market demands and rewards high skills and creative capabilities, yet public systems prepare young Americans very unevenly to compete in the advanced economy, with race and class shaping the systems in powerful ways (see sidebar). For example, the share of Asian and white students who are proficient in mathematics is nearly four times that of Hispanic and black students. High school graduation rates differ markedly by race. In 2008, McKinsey estimated that closing these racial and ethnic gaps in educational attainment would have raised U.S. GDP by about $525 billion.[28]

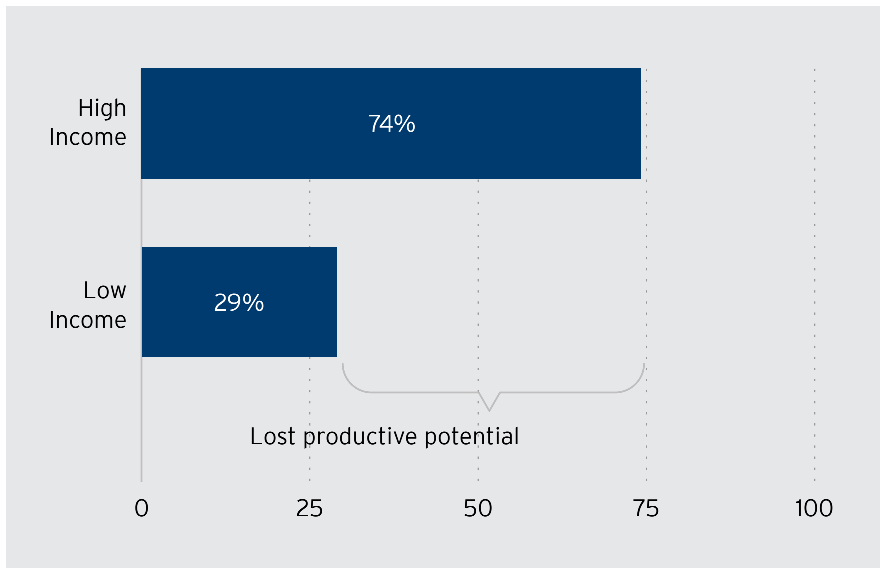
Figure 7. Race and income disparities hinder education and skill development

A. The share of 12th graders proficient in mathematics, 2013



Sources: U.S. Department of Education, Institute for Education Sciences, National Center for Education Statistics, National Assessment of Educational Progress (NAEP)

B. The share of 8th graders with top test scores that attain a bachelor's degree



Source: Youth Indicators 2005

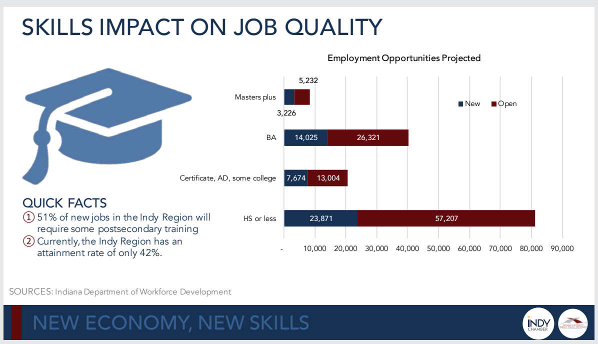
Parental income levels are also powerful predictors of children's educational success, which means they affect lower-income and working class whites, as well as those of color. One study found that in 1988, 74 percent of 8th graders from wealthier families with high scores on standardized tests obtained a four-year college degree by 2000, while only 29 percent of high-achieving lower-income children achieved it.[29] Interestingly, it also found that high-achieving poor children were less likely to complete college than low-achieving rich children. According to McKinsey, closing the gap between low-income students and their higher-income peers would have added $670 billion in U.S. GDP in 2008.[30]

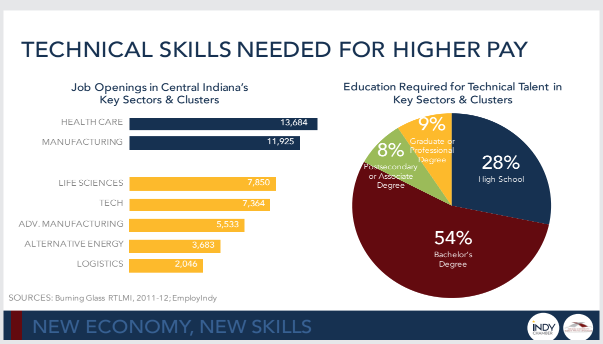
As employment rates among blacks and Hispanics significantly lag those of whites and Asians[31], eliminating the achievement gap would improve labor market prospects for less-educated Americans and promote growth.[32] And regardless of race, less educated working-age men are dropping out of the

EMPLOYERS NEED TALENT, TALENT NEEDS ACCESS

In Indianapolis and Nashville, the Chamber staff analyzed labor supply and demand to frame education and skills development as a shared challenge for workers and employers. By documenting future shortfalls in the availability of skilled workers and isolating the barriers individuals face to obtaining skills, each chamber could better determine how to overcome the problems that so often bedevil regional workforce development. In Indianapolis, for instance, 51 percent of newly created jobs will require some form of postsecondary education, reinforcing the need for more skills development. The region is utilizing data to better understand how automation will impact low skill jobs that will be coming open due to the graying of the workforce, at the same time skilling up to fill and create high skill, high wage jobs.

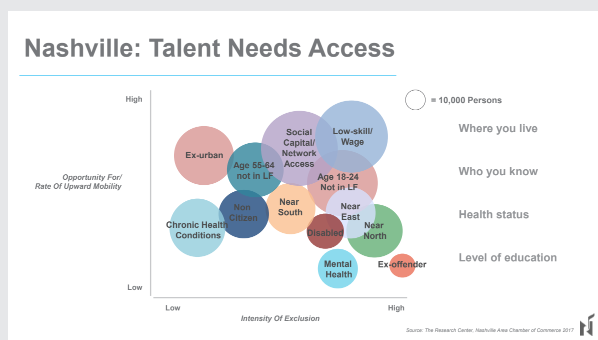
Figure 8a. Indianapolis Narrative





Source: Indy Chamber

Figure 8b. Nashville Narrative



Source: Nashville Area Chamber of Commerce

labor force at a historic clip, a trend that again signifies how disparities are shaped by, but not entirely explained by, race alone.[33]

Disparities are even greater among youths. Martha Ross and Nicole Prchal Svajlenka estimate that approximately 3 million low-income Americans aged 16-24 with less than an Associate's Degree are neither enrolled in school nor employed, what they call *disconnected youth*. In some metro areas, young blacks and Hispanics are three to six times more likely to be disconnected than young whites.[34]

As a result, educational disparities hinder overall economic growth by reducing both the supply of workers (limiting inputs) and the quality of their skills (limiting productivity).

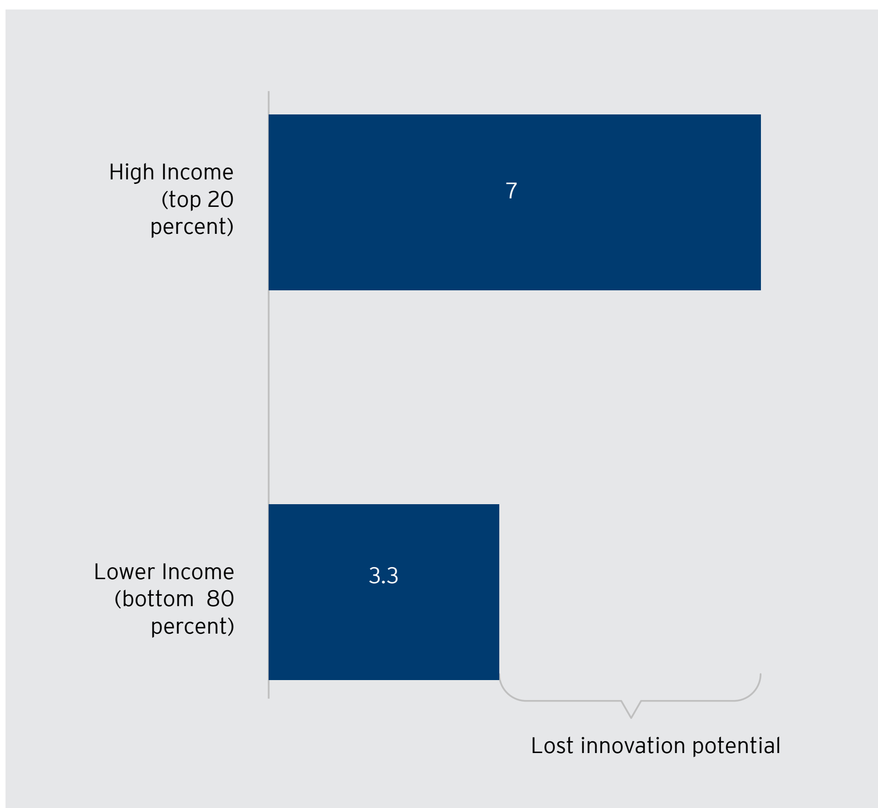
Innovation

Inequality of opportunity not only limits workers' prospects but likely the innovation potential of regional economies as well. Beyond intelligence and skills, socioeconomic status and social exposure to invention increase the chances that children will invent later in life. Overall, children who are white, rich, male, and exposed to invention early in life are much more likely to invent than children who are non-white, poor, female, and socially and geographically isolated from innovation.[35] A recent study led by Alex Bell and Raj Chetty found that among children with elite math abilities, those from families in the top 20 percent of the income distribution are twice as likely to file a patent later in life as those from the bottom 80 percent. Effects of the racial gap are similarly stark: In an Information Technology & Innovation Foundation survey of 900 people "who have made meaningful contributions to technology-intensive industries," native-born blacks and Hispanics, who represent 23 percent of the U.S. population, accounted for under 2 percent of responses.[36] America clearly wastes a lot of potential talent, compelling those authors to ask: *"How many lost Einsteins could there be due to inequality of opportunity?"*

The limited supply of innovators is worrisome for regional economies. Higher rates of local invention are associated with greater productivity growth and lower unemployment. One study estimates that closing the gap between the average low-patenting metro area and the average high-patenting one could add over $4,300 more per worker to its regional economy over a decade.[37]

Figure 9. Inequality of opportunity impairs innovation potential

Patent rates as adults among 3rd graders with mathematics test scores in top 10 percent, by parental income



Source: Bell et al. 2016

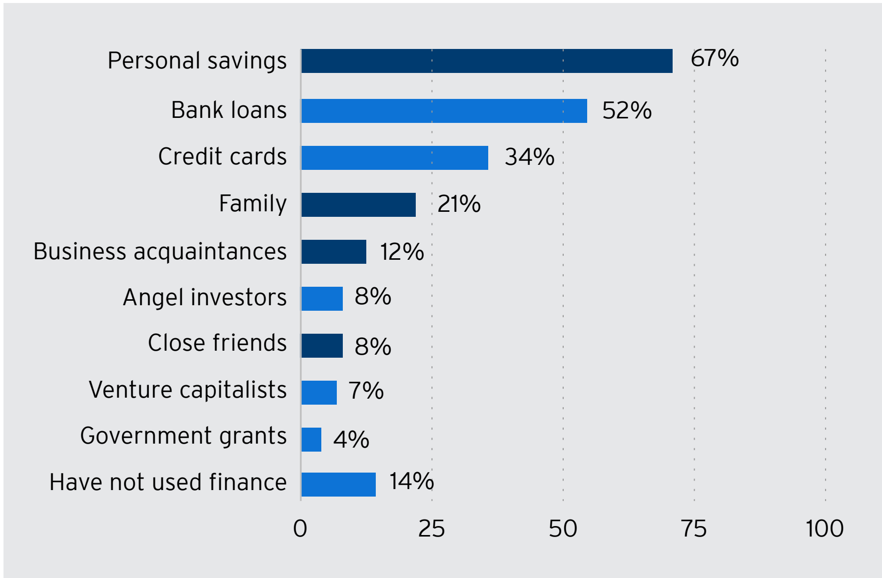
Entrepreneurship

Inequities may also impede the next generation of entrepreneurs. At its core, the economy creates jobs when individuals start and expand businesses. From 2005-2010, just 1 percent of business establishments created 72 percent of new jobs. On average, they grew from 10 to 30 employees.[38] Thus it is troubling that the rate at which new businesses are started has slowed in recent years.[39]

Many factors affect this slowdown, but one is the concentrated nature of access to capital.[40] Entrepreneurs need a worthy and actionable business idea, but successfully starting and growing a firm also requires access to capital and social connections. Entrepreneurs typically depend on existing wealth, family, friends, and business ties to fund their new venture.[41] Yet the wealth gap remains quite large, and people from similar socioeconomic backgrounds tend to cluster together in the same social networks, exacerbating the divide.[42]

Figure 10. Entrepreneurs rely on personal wealth and social networks to finance new businesses

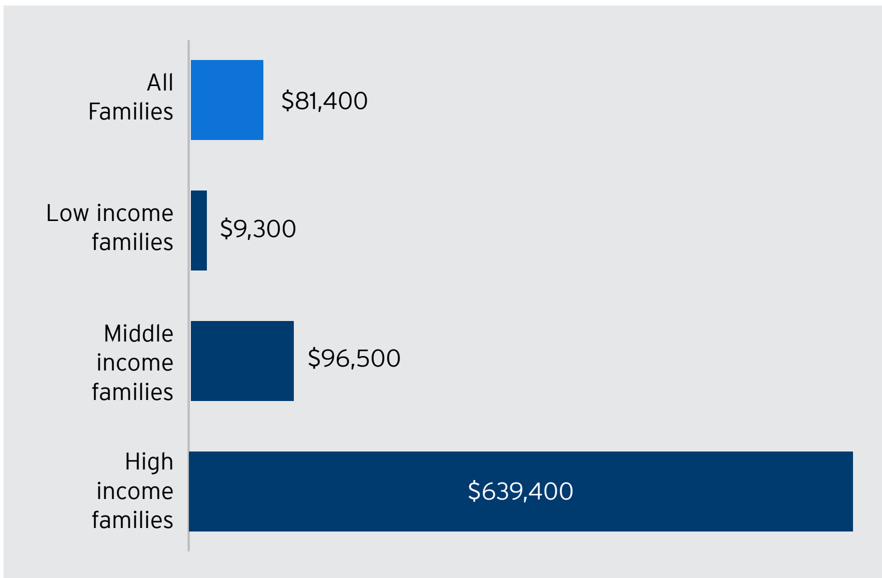
INC. 5,000 fastest growing firms, sources of funding



Source: Kauffman Foundation, "How Entrepreneurs Access Capital and Get Funded."

Figure 11. Wealth inequality means potential entrepreneurs have uneven access to capital

Median household net worth by income, 2013 dollars



Source: Fry and Kochhar, 2014

Black and Hispanic entrepreneurs, for instance, start businesses that experience similar growth and create jobs that pay similarly to those at non-minority-owned firms. Yet, they become proprietors at a lower rate than non-minorities due to wealth disparities and reduced access to finance. If minorities owned firms at the same rate as non-minorities, their firms would have employed over 16.1 million workers (compared to the 4.7 million reported), and grossed over $2.5 trillion in receipts (compared to a reported $661 billion).[43]

Access to housing, schools, and jobs

The way Americans access skills and financial resources depends partly on the communities in which they live, the personal relationships they form, and the social environment in which they operate. In other words, where one lives matters for accessing opportunity—for two reasons.

The first involves the issue of which metropolitan areas people can afford, while the second involves the neighborhoods within regions where they live. Regarding the first, housing costs are quite different across the U.S., even when controlling for incomes. Chang-Tai Hsieh and Enrico Moretti found that restrictive zoning policies that limit the supply of housing in very productive metro areas have been a critical driver of costs. Ultimately, many workers cannot afford these areas. This lost productivity constrains growth in both the regional and national economies: Hsieh and Moretti estimate the lost output may be as high as 15 percent of national GDP.[44] Thus, a lack of workforce housing serves as a drag on the regions' potential to match needed workers with local employers (see sidebar).

Within metropolitan areas, the connection between zoning, land use, and education further demonstrate how location factors contribute to economic exclusion. Accessing a high-quality public education is costly in large cities and metro areas, and housing near a high-performing public school costs on average 2.4 times more than that near a low-performing public school.[45] Because American schools are financed locally through property taxes, homeowners have an incentive to zone their communities in ways that maximize the property tax base, typically by favoring housing types that attract other higher-income households. Since the best school districts are also the most expensive communities, lower-income households—which are disproportionately households of color—are forced to buy into more affordable neighborhoods with lower performing schools.[46]

Since many high-opportunity communities are unaffordable for workers, low-income individuals concentrate more in neighborhoods of concentrated distress. Five million more Americans live in high-poverty neighborhoods today than before the Great Recession. In fact, concentrated poverty increased in two-thirds of the 100 largest metro areas, most rapidly in the suburbs; and, black and Hispanic Americans are twice as likely to live in high-poverty neighborhoods as whites.[47] A wide body of social science literature reveals the harmful effects that poor neighborhoods have on children and adults, including lower upward mobility, poor health outcomes, more exposure to violence, and lower community cohesion.[48]

Further, when workers are geographically separated from work, it reduces the productive potential of the regional economy by undermining efficient matching of openings with workers who would provide the best fit. Conversely, individuals' geographic proximity to employment centers increases their likelihood of employment.[49] Yet jobs continue to move further from workers, especially those with lower-incomes. Elizabeth Kneebone and Natalie

WHY AFFORDABLE WORKFORCE HOUSING MATTERS TO BUSINESSES

Nashville and San Diego have both experienced strong economic growth in the post-recession period. But their strong labor markets have also made housing unaffordable for many—which may limit future growth. As part of their participation in the Lab, the Nashville Area Chamber of Commerce and San Diego Regional Economic Development Corporation analyzed the way that housing costs were influencing working- and middle-class residents; they then talked to local firms about their employees' experiences with the housing market.

Findings were similar. In Nashville, 26 of the top 50 occupations, which together accounted for 40 percent of jobs in the region, did not pay wages that allowed workers to afford fair-market rent. And the number of workers who spent over 30 percent of their income on rent could fill five Nissan stadiums.

In San Diego, the EDC calculated that a third of working families could not make ends meet, since the region has the nation's second highest median home price and fourth highest rent among the 50 largest metro areas. Poor households struggle to find affordable housing in the market, but affordable housing is not simply a problem for lower income communities. In fact, local firms acknowledged that San Diego's high cost of living is a barrier to attracting and retaining highly educated workers as well, even in the region's high-flying biotechnology industry.

Figure 12. Nashville Narrative

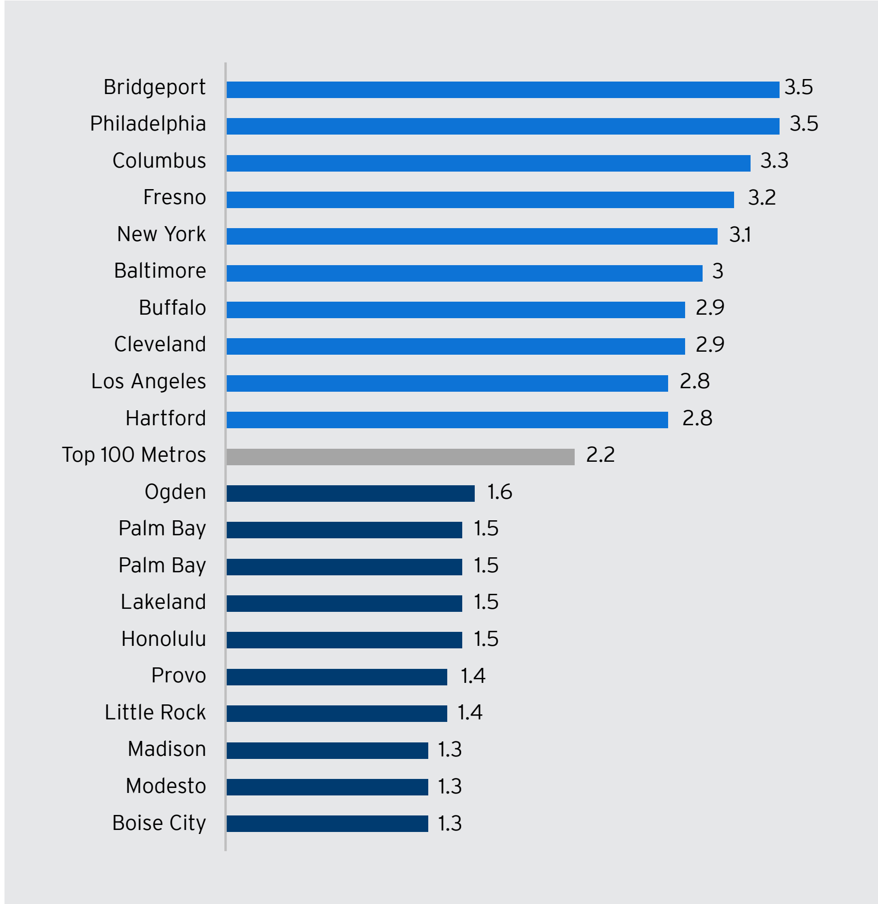
Source: Nashville Area Chamber of Commerce

Figure 13. San Diego Narrative

Source: San Diego Regional Economic Development Corporation

Figure 14. Housing costs are 2.2 times as much near high-performing schools as near low-performing ones

Ratio of housing costs in areas near high-performing schools vs. low-performing schools



Source: Rothwell, 2012

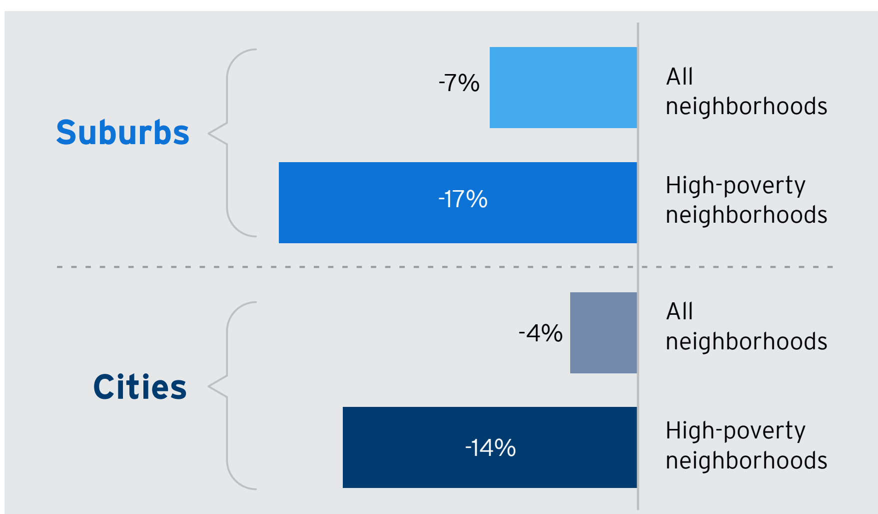
Holmes found that access to jobs within an average commute distance dropped faster for poor Americans than for the population as a whole from 2000-2012.[50]

The spatial mismatch between jobs and workers has been a long-documented inefficiency:

For example, a major logistics employer in Indianapolis told us the company has 400 unfilled jobs, and prospective employees, some of whom would have two-hour commutes on public transit, say access to transportation is a major barrier.

Figure 15. Jobs are becoming less proximate to low-income neighborhoods

Change in job proximity by neighborhood, 2000 to 2012



Source: Kneebone and Holmes, 2015

A great deal of evidence shows that advanced economies sustain long-term growth by improving productivity, but policies that exacerbate economic exclusion limit them by curbing the supply of skilled workers, breakthrough ideas, innovations, and businesses. Empirical research is beginning to confirm a growth case for inclusion, in which easing barriers to opportunity yields significant market dividends for metro economies—with faster growth, higher incomes, and greater consumer spending.

Inequality of opportunity creates social and fiscal costs that hurt local economies and undermine basic services that are a prerequisite for retaining households and businesses.

The prior section described the potential upsides of economic inclusion for economic growth. Yet economic exclusion not only limits the productive potential of excluded groups—and the economy as a whole—but also raises social and fiscal costs that absorb scarce resources that could support investments in areas such as education and training, infrastructure, and economic and community development.

These costs are significant. Childhood poverty—one outcome of insufficiently inclusive growth—costs the U.S. economy an estimated $500 billion a year, or 4 percent of GDP, due to lost productivity, higher crime and incarceration, and larger health expenditures. Clive Belfield and his colleagues found that the annual social cost of a young person being disconnected from work and education is nearly $38,000, or nearly $530,000 over a lifetime.[51]

The direct costs to government are felt most acutely in states and localities because they must provide the systems—public safety, criminal justice and social welfare—that correct for the problems spawned by exclusion. The city of Indianapolis, for instance, spends 60 percent of its budget on public safety and criminal justice, absorbing funding for infrastructure, parks, libraries, and other quality of life amenities. Such costs are compounded by dwindling tax revenues due to the decades-long flight of high-earning families from central cities to surrounding jurisdictions. Yet while suburbs may have once been able to avoid the challenges of exclusion, many first-ring suburban jurisdictions are now seeing their poverty rates rise as well. Meanwhile, parts of urban counties are experiencing a population renaissance. Richard Florida calls this the "patchwork metropolis," an opportunity structure that suggests regions will no longer be able to sprawl away from addressing the costs of exclusion.[52]

By acknowledging these costs, city and regional leaders can restructure investments in lower-income communities as part of a sound fiscal strategy. After all, the current costs of the status quo are borne by local firms and residents who foot the tax bill. While the price tag will probably be more expensive in the short-run, cities are exploring how up-front investments can link more residents to productive work, lessen dependence on public welfare systems, and prevent criminal activity.

Inequality of opportunity provokes hostilities that fray social and political cohesion and good governance, which affects economic growth.

The final cost of unequal opportunity gets beyond the numbers. In recent years, cities such as Baltimore, Ferguson and Milwaukee have experienced public protests, each sparked by police brutality/killing of young African-American residents. But as Brookings' Alan Berube argues, each tragedy reflects the deeper tensions about race, place, and economic opportunity in American cities.[53] And in the wake of the 2016 election, declining economic opportunity and hopelessness among the white working class has emerged in the public consciousness as well.

These two dynamics arise from different histories and causes, but the incidents arising from them reveal the different realities in which Americans from different backgrounds operate, and the difficult task of our political and civic institutions to mobilize collectively behind shared decision-making and investments in future prosperity. Powerful geographic differences perpetuate the barriers to each group understanding the needs of the others. Why should a wealthy entrepreneur pay higher taxes for public schools his children will never attend? Why should a resident who has never been on a plane care about expansions at the international airport? For a youth that has been given every signal that college is out of reach, why would debates about expanding funding to the local research university have any relevance?

Such political and social divisions separation is associated with less sustained economic growth. Chris Benner and Manuel Pastor found that metro areas with greater political segregation—where Democrats and Republicans sort into different counties in a region—were less likely to have extended periods of economic growth when compared to less segregated areas. Raj Chetty and his colleagues show that both lower levels of geographic segregation and higher levels of social capital—a term that includes the civic capacity and strength of social networks in a region—are associated with greater upward economic mobility.[54]

None of these studies present clear causal links between these factors, but it is reasonable to conclude that regions less divided by race, income, and ideology are more likely to arrive at a shared vision and invest in collective resources related to education, innovation, and infrastructure.[55] Further, without economic security—and publicly provided safety nets—it is hard for Americans to open themselves to the dynamism and creative destruction required to fulfill future growth.[56]

Some in the business community now seem to recognize the political and social consequences of Americans' declining confidence in their economic mobility. In a survey of Harvard Business School graduates, over 70 percent of respondents thought rising inequality and limited economic mobility were problems for their businesses, noting the lack of consumer demand for their products, backlash against company success, and declining social stability.[57] The last two reasons suggest that companies have assigned, perhaps intuitively, a dividend to social trust and political stability. The same survey found that two-thirds of business leaders—both Democrats and Republicans—think the federal government obstructs the nation's competitiveness by failing to invest in drivers of growth and enact much-needed policy reforms, with high levels of political polarization as one cause. In a vicious cycle, inequality can create political discontent and polarization, which in turn limit government's ability to invest in inclusive growth, further entrenching economic inequities.

III. WHY ENHANCING REGIONAL GROWTH MATTERS TO INCLUSION

Economic expansion has not always led to shared prosperity, but it will be hard to achieve inclusion without sustained overall growth. In other words, growth can probably be characterized as a necessary but insufficient condition for broad-based prosperity. Yet often, for very legitimate reasons, organizations devoted to social equity have questioned economic development's contribution to their aims. This section presents three reasons why those concerned with economic inclusion should also support a growth agenda aligned with the demands of the advanced economy.

Faster growing economies create the tight labor markets that make broad-based wage gains more likely.

A city's labor market involves the supply of local workers and the demand of local firms. When firms thrive and create new jobs, labor demand increases and pulls in unemployed workers, as at the end of the post-recession period. If labor markets are tight, firms must compete for existing workers, typically by raising wages. This happened in 2015, when the national labor market tightened, and the United States recorded its fastest median income growth ever.

Tim Bartik found that a 10 percent increase in metropolitan employment raises average real earnings per person by around 4 percent, gains that are greater in percentage terms for African-Americans, lower-income individuals, and workers with less education.[58] The regional aggregate unemployment rate also influences the local poverty rate; and, when workers are in a growing metro area, low-income neighborhoods are likely to experience significant income growth.[59] Conversely, when local demand drops, workers are more likely to see wages erode—particularly those of lower-skilled, minority, and younger workers.

Key segments of the advanced economy offer better pay and opportunities.

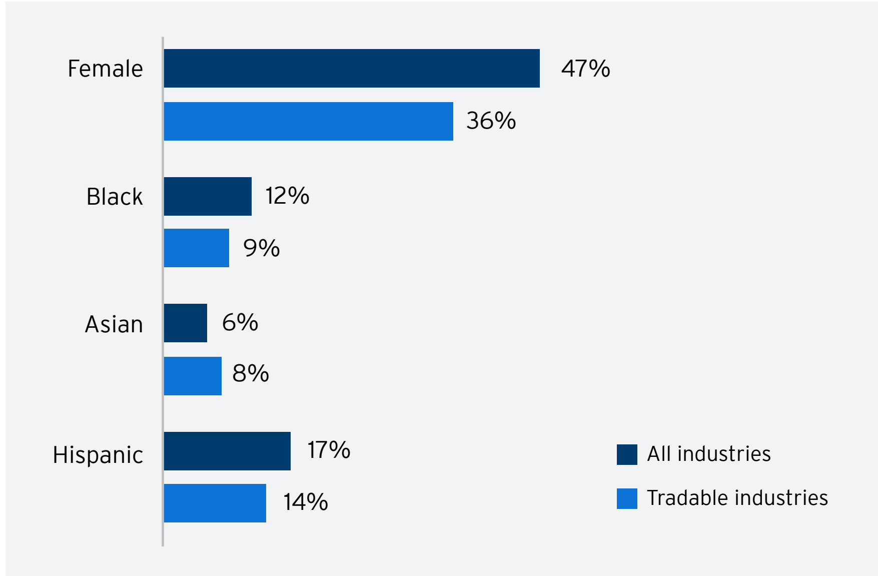
The people and firms thriving in today's advanced economy have been able to master its global scale, technological complexity, and social and networked nature. It will be difficult to grow incomes without preparing more people to benefit from these drivers of the advanced economy.

This starts with connecting more Americans to the fruits of globalization. Every economy, whether local or national, has a set of tradable industries in which it has a competitive advantage. The firms in these industries must compete outside of the local economy, and tend to be more productive and innovative to stay in business. As a result, they pay their workers between 17 and 20 percent more depending on the sector, controlling for other factors that affect wages.[60]

Yet, while all Americans benefit from globalization as consumers in the form of higher quality products at lower prices, only a minority of firms and workers directly benefit from globalization as producers. In fact, many have lost jobs as the result of competition.[61] The International Trade Administration finds that only 1 percent of the 30 million registered companies in the United States sell abroad, much lower than in other advanced economies.[62] Roughly one in four Americans workers is employed in tradable industries. Yet, compared to the economy overall, disproportionately few female, African-American, and Hispanic workers work in tradable industries; while white and Asian male workers are disproportionately overrepresented.[63]

Figure 16. Female, black and Hispanic workers are underrepresented in tradable industries

Group's share of employment, all industries vs. tradable industries, 2016



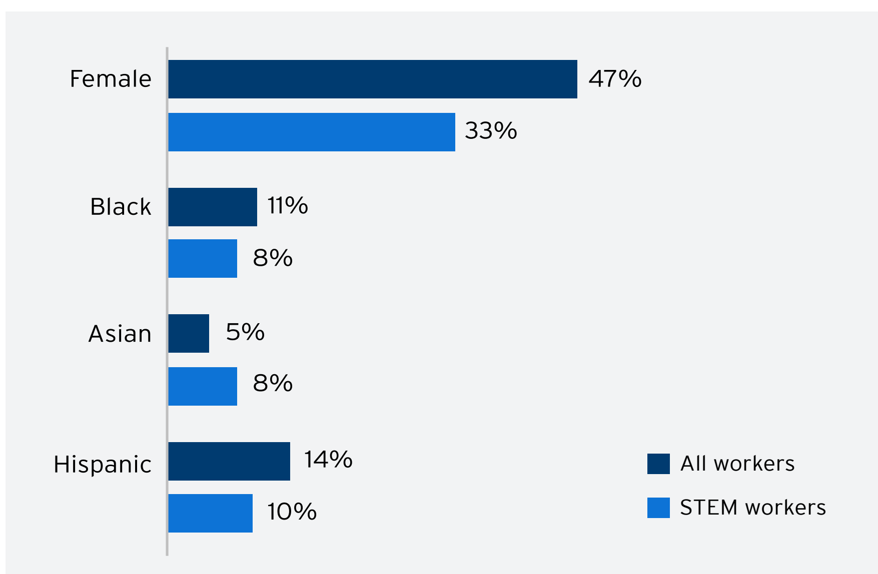
Source: Brookings analysis of Bureau of Labor Statistics data

A similar dynamic exists in *advanced industries,* a subset of tradable industries across manufacturing, services, and energy that drives the American innovation economy given their reliance on research and development (R&D) and science, technology, engineering, and mathematics (STEM) workers. Because they have the skills to complement new technologies, workers in advanced industries are highly productive and earn nearly twice as much, on average, as workers in the rest of the economy.

Many skills that make STEM workers productive can be acquired without four-year degrees, since 50 percent of jobs that require high-level STEM knowledge do not require them.[64] While the STEM economy can be accessed through different educational paths, it still employs a demographically narrow set of American workers. As with the tradable economy, STEM workers are more likely to be white, Asian and male. Only one-third are female, and blacks and Hispanics are disproportionately under-represented. While it is hard to characterize the STEM economy as non-diverse, given its high reliance on non-white and foreign-born workers, it is equally hard to say it includes major parts of America's workforce (see sidebar.) [65]

Figure 17. Female, black, and Hispanic workers are under-represented in the STEM economy

Group's share of employment, all workers vs. STEM workers, 2011



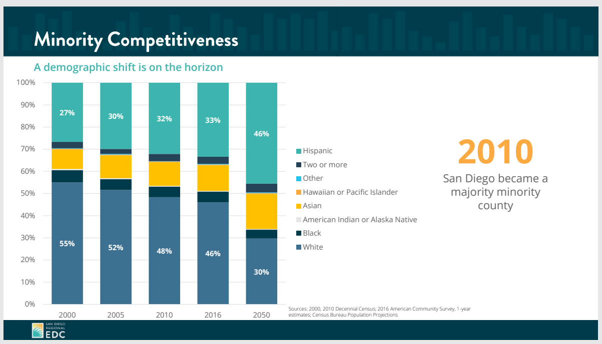
Source: Rothwell, 2011

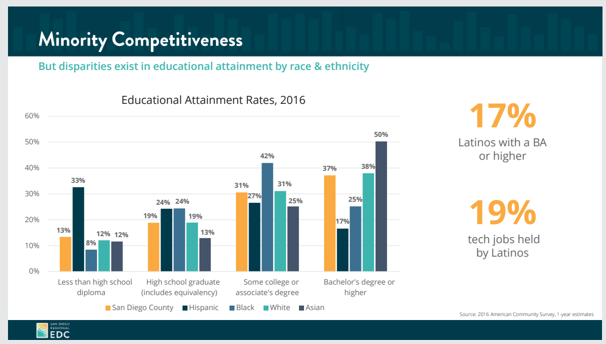
HOW DEMOGRAPHICS SHAPE THE TECH WORKER PIPELINE IN SAN DIEGO

San Diego is a region uniquely reliant on the innovation economy, and thus demands high levels of technical talent. Yet the region's fastest growing groups have the lowest educational rates. By 2050, 46 percent of San Diego's population will be Latino.

But only 17 percent of Latinos currently have at least a four-year college degree and 19 percent of local tech jobs are held by Latinos. San Diego's future competitiveness in the innovation economy will be linked to educating this diversifying, homegrown talent pool.

Figure 18. San Diego Narrative

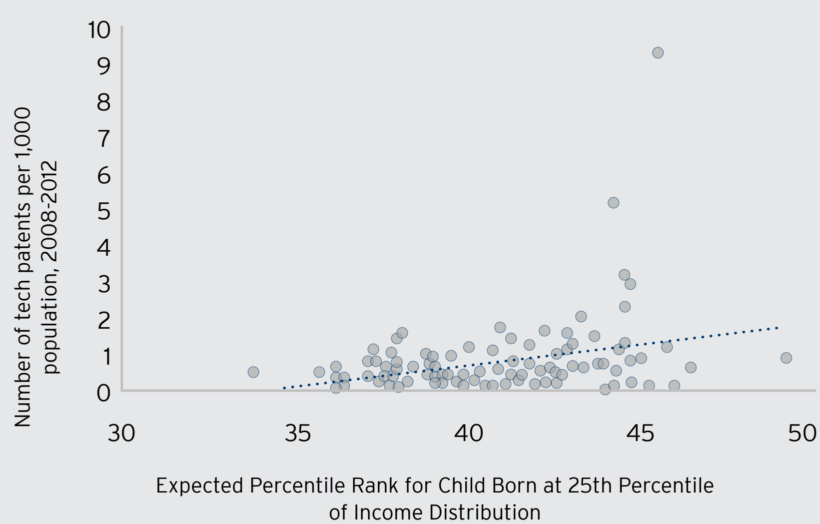




Source: San Diego Regional Economic Development Corporation

Figure 19. More innovative metro areas have higher upward mobility

Upward mobility vs. patenting intensity, 100 largest metro areas



Source: Brookings analysis of data from OECD REGPAT and Equality of Opportunity Project

By various measures, the innovation economy is not particularly inclusive, at least for women and some racial minorities. But emerging evidence suggests that lower-income individuals are more likely to experience high social mobility if they live in innovative areas. For example, Harvard economists found that regions with higher innovation levels, as measured by patenting output, have higher social mobility.[66]

Rodney Sampson, an Atlanta-based entrepreneur, noted three ways the innovation economy can build wealth quickly in lower-income and minority communities. These are (1) inheriting money, (2) starting a high-growth business or (3) investing in a high-growth business. However, these are basically not feasible for most low-income individuals. If the aforementioned barriers related to technical skill building and entrepreneurship can be overcome, the innovation economy provides unique opportunities for the latter two paths to wealth-building.[67]

To overcome the exclusivity of the globally integrated, technologically sophisticated parts of the American economy, we must not only invest in education and training, but also extend social capital. If human capital is *what you know,* then social capital is *who you know*. It is a somewhat elusive concept that includes a community's norms, values, capabilities, and networks. Social capital mixes with human and financial capital to create wealth. One reason entrepreneurs move to Silicon Valley is to draw on the social capital that partly determines access to financing, talent, and knowledge that is hard to transmit across distances.[68]

High-growth parts of the economy could be a path to reduce economic disparities but too often, the social capital gap favors the already-advantaged: For example, as of 2010, less than 1 percent of venture capital-funded companies are led by an under-represented minority and only 8 percent by women.[69]

Further, the way Americans sort themselves into work opportunities in different firms seems to drive inequality. In a recent Harvard Business Review article, Nicholas Bloom likened firms that have been able to master global markets, technological complexity, and coordinated networks to a rocket ship that is pulling away from the rest of the economy.[70] He says this emerging inequality "illustrates the role that firms play in our economic fates. If you do get the chance to join a rocket ship, you absolutely should take it. But as a society, we need to become more aware of how much of the growing gap between the haves and the have-nots is driven by the advantages that accrue to the lucky few who get seats—and consider doing more to equalize things for those who are left behind on the launch pad, choking on smoke."

Economic growth generates the wealth and tax revenues necessary to support public goods.

The pathways to opportunity are highly dependent on the provision of quality public services. Yet, in many communities, public goods are eroding after decades of underinvestment and mounting fiscal pressures.

Public, private, and philanthropic investments—for schools, universities, roads, bridges, public transit, affordable housing, parks, libraries, recreation centers, and cultural amenities (concert halls, stadiums, museums, etc.)—were made as cities grew wealthy and their tax bases expanded. In the Northeast and Midwest, many of these were built in the late 19th and early 20th centuries, while in the Sunbelt metros, the assets were constructed more recently.

Their quality and distribution affects economic opportunity, but many cities now have investment constraints as their mandatory expenditures, like pensions and health costs, have grown and their fiscal bases have shrunk.[71]

Indeed, some local governments now face nearly impossible choices on how to distribute scarce resources. For example, Chicago is dealing with enormous public investment issues—from school closures to transit underfunding to public safety concerns—due to its under-financed pension system.[72] In contrast, fast growing cities like Denver have seen their property tax revenues increase significantly in the post-recession period, which has allowed them to make investments in the city's housing, infrastructure, and social services.[73]

Implementing any agenda to enhance economic inclusion will likely require financial resources beyond government. Chicago's public fiscal base, for instance, is buttressed by a large business and philanthropic community. Major corporations and philanthropies like the MacArthur Foundation and Chicago Community Trust help translate private wealth, much generated in previous generations of the city's growth, into community-based initiatives. In Detroit, the Ford Foundation and the Kresge Foundation have led transformational investments in the wake of that city's bankruptcy. Of course, significant pockets of economic distress still exist in both cities, but absent these investments conditions would undoubtedly be worse.

When a region's industries are expanding, public, private, and philanthropic resources are more plentiful. Reinvesting those gains in the determinants of broad-based prosperity is by no means automatic, and demands civic stewardship and debate to arrive at good choices. But without an expanding economy, local governing is more likely to devolve into divisive battles over scarce resources.

IV. A FRAMEWORK FOR ADDRESSING BARRIERS TO INCLUSIVE GROWTH IN CITIES AND REGIONS

Many leaders in U.S. cities and regions have been convinced by moral and civic arguments that inclusive growth is needed, but there is another rationale for creating conditions in which all people, communities, and businesses can meet their productive potential. Regions that fail to do this impair their future competitiveness.

Growth actors—EDOs, chambers of commerce, and cluster and industry groups—are now wrestling with how they can contribute more fully to an inclusive growth agenda. Recent reports from the Association of Chamber of Commerce Executives and the International Economic Development Council highlight strategies their members are implementing in this regard,[74] complementing analyses from international organizations like the OECD, World Bank, World Economic Forum, and Asian Development Bank to inform governments. Philanthropies and corporations have also started boosting inclusive growth, while think tanks, such as the Urban Institute and PolicyLink, are promoting long-term economic growth and racial equity to local governments.[75]

In 2017, the Brookings Metropolitan Policy Program launched an Inclusive Economic Development Learning Laboratory (The Lab) with economic development groups in Indianapolis, Nashville, and San Diego. The three took part to determine how they can advance growth and inclusion in their regional economies, and it was clear that several questions needed to be answered if the concepts were to move to the mainstream of regional economic policy and practice.

- Can a common set of goals and outcomes be created to form a regional agenda for inclusive growth?
- On what barriers to economic inclusion should economic development actors focus?
- How should these institutions organize their efforts?

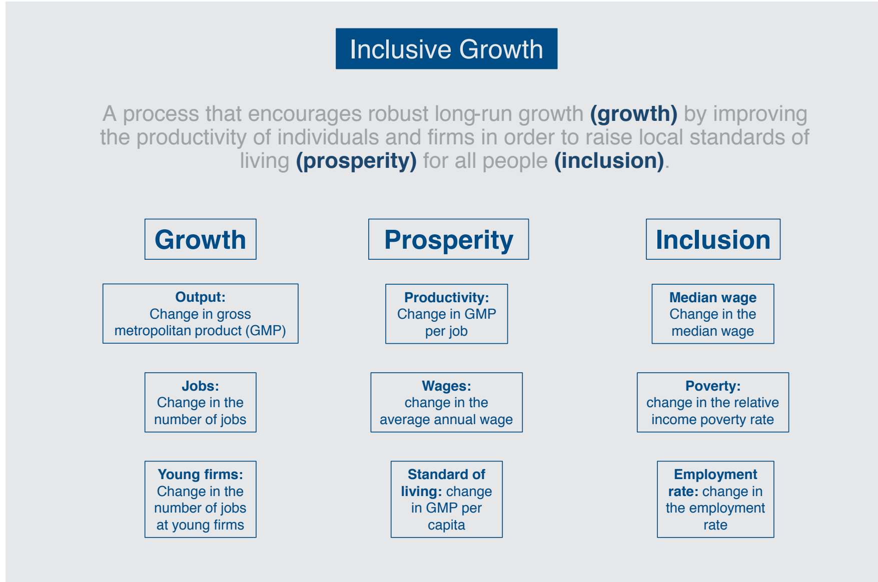
The goal: Defining inclusive growth outcomes

Organizing different stakeholders around an inclusive growth trajectory requires metrics that reflect the core aspects of inclusive growth. Brookings' Metro Monitor defines inclusive growth as a process that encourages long-run growth (growth) by improving the productivity of individuals and firms in order to raise local living standards (prosperity) for all (inclusion).

Using this definition, Chad Shearer and Alan Berube track metro performance through nine metrics measuring growth (size of the economy), prosperity (productivity and standards of living), and inclusion (broad-based opportunity and narrowed economic disparity). From 2010-2015, only 11 of the nation's 100 largest metro areas—Albany, Austin, Charleston, Columbus, Dayton, Denver, Oklahoma City, Omaha, San Antonio, Tulsa, and Worcester[76]—improved growth, prosperity, and inclusion.[77]

Few U.S. metro areas are achieving inclusive growth, and it remains difficult to disentangle why these specific metro areas remain the exception. Shearer and Berube conclude they shared a job-creation trajectory that combined employment growth in innovative, high-skilled sectors like technology and middle-skill sectors like manufacturing and transportation. As these tradable sectors expanded, so too did hiring in lower paying, local services like retail. This recipe is rare, but it offers a path for how economic development actors can set strategies that lead to broad-based prosperity.

Figure 20. Measuring inclusive growth



Source: Shearer et al. 2017

The route: addressing inclusive growth barriers

Identifying and lessening barriers to inclusion is an approach consistent with economic development's function: to do what markets alone cannot by coordinating action and correcting local market failures to facilitate economic growth. Drawing on the review of evidence in the previous sections we focus on three sets of barriers:

1. **Dynamism barriers** that inhibit the process of firm creation and expansion that fuels employment and productivity growth;

2. **Skills barriers** that inhibit individuals from gaining the knowledge and capabilities to fill good-paying jobs and reach economic self-sufficiency; and

3. **Access barriers** that isolate individuals in particular communities from economic opportunity.

Viewed another way, an inclusive economy offers a dynamic business climate in which firms can create good-paying jobs, a supportive education and skills system in which workers can fill those jobs, and a physical environment that connects all communities to regional opportunity.

Of course, national actions matter greatly for all three of these paths. Dynamism in the U.S. economy rests on national policies related to tax, trade, R&D, regulations, and competition. National investments in education, training, and workforce development set the context in which cities, regions, and states prepare their residents for work, and policies related to the safety net, health care, and criminal justice influence incentives for and access to employment. And federal transportation, housing, and tax policies shape the spatial geography of opportunity in the nation's metro areas.

Besides national and state policies, inclusive growth strategies require actions from local government, the private sector, and civil society—the three pillars of regional leadership. Economic development actors must be important contributors to these coalitions, but they will depend on each group's tool set, the efforts underway in their region, and the nature of the problems their regions face.

Dynamism

Creating dynamic regional economies is core to achieving inclusive growth. Dynamism measures the rate at which new firms are formed, a critical part of the creative destruction process that allows regional economies to evolve. And, because net job growth disproportionately occurs in young firms, dynamic economies will offer more labor market opportunities to local workers. However, this dynamism—as measured by the firms' start-up rate—has declined in every U.S. state since 1992.[78] This is likely to impede the creation of good jobs, limiting economic opportunity for workers and communities.

Dynamism begins with support for Americans who have business ideas to start and grow companies. It can be seen in the expanding organizations that ***promote entrepreneurship***, whether national networks of technology accelerators such as *TechStars* or localized hubs such as 1871 in Chicago, or Durham's Startup Factory. Some of these, such as San Diego's CONNECT ALL, Chicago's Inclusive Entrepreneurship Challenge, and Atlanta's TechSquare Labs, explicitly target communities that have not historically been engaged in high-growth entrepreneurship; this includes providing greater access to growth capital to those who may not be able to obtain financing from personal networks.[79] Detroit's New Economy Initiative represents one the most comprehensive local efforts to promote entrepreneurs. It supports the entire entrepreneurship ecosystem, from business owners in high-growth sectors and locally serving industries.

Other policies help firms start and expand. Ed Glaeser has argued that cities should experiment with targeted, community-based ***entrepreneurship zones*** that help startups through one-stop permitting, business training, and firm-to-firm mentoring.[80] Evaluations of these programs are limited, but the small number examined show positive results.[81]

Beyond motivating entrepreneurs, a second set of strategies focus on providing ***business acceleration services*** that help small and medium-sized businesses become more productive. Such support policies are justified on the basis that the private sector, especially small and mid-sized businesses, under-invest in research and technological development, workforce training, and international business expansion (which affect their growth).

Research suggests that customized services offer a better return on investment than traditional economic development interventions such as tax incentives. Evaluations of the Manufacturing Extension Partnership, which provides customized services that advance management processes and technological development in small and mid-sized manufacturers, generated a two-to-one return on investment within a year.[82] Similarly, customized job training for firms has offered returns of nearly 1.8 times the programs' costs.[83] The third set of customized services, used in areas such as Syracuse, help firms navigate the regulations and laws connected with exporting.[84] Technical assistance services that allow more companies to adopt modern technologies raise the skills of their workforce, and once they enter global markets, can yield more and better-paying jobs.

Organizations like the Ohio-based JumpStart have helped new businesses start and existing small businesses expand. In the group's first 10 years, JumpStart and its partners in the Northeast Ohio Entrepreneurial Signature Program Network have helped more 1,000 companies that have generated $2 billion in revenue and create more than 10,000 jobs.[85] It is important to note how few economic development organizations currently provide

“An inclusive economy offers a dynamic business climate in which firms can create good-paying jobs, a supportive education and skills system in which workers can fill those jobs, and a physical environment that connects all communities to regional opportunity.”

these customized firm-level services related to worker training, technological development, and export support. These services have been shown to have a positive impact on the dynamism of businesses, and are consistent with the high-road development that places the productivity of workers at the center of economic growth. And with a wave of business owners approaching retirement, there is a source of Baby Boomer entrepreneurs that could serve as "business coaches."

Finally, a third set of strategies could localize what Zeynep Ton calls a ***good jobs strategy,*** which involves companies' upgrading worker training and pay, obtaining higher labor productivity, and promoting worker empowerment to improve profits and business processes. ***A good jobs strategy*** runs counter to the cost-minimization course pursued by many American firms, but the idea has gained traction among large employers such as Costco and Trader Joe's. EDOs can socialize the approach across their members, testing whether it can resonate with small and medium-sized employers who may want to raise wages but are constrained by the market's competitive realities.[86]

Skills

At another level, inclusive growth must address the skill barriers that prevent workers from getting good-paying jobs and reaching economic self-sufficiency.

In theory, economic development actors should complement talent development systems. In practice, the alignment between talent development systems, economic development systems, and employers has been harder to achieve. Employers do provide on-the-job training, but often find local education and training systems difficult to engage. U.S. education and workforce policies are complex, cutting across local (e.g. municipalities, school districts, workforce investment boards, etc.) and state (e.g. k-12 education, higher education, workforce agencies, etc.) institutions, with some financing provided by federal agencies. But as education and training policies seek to be more **"job-driven," "work-based,"** and **"employer-relevant,"** economic development actors find themselves asked to help local firms meet their workforce needs, a task that many EDOs are acting upon.

Economic development's most direct involvement in skills development has been through **industry-led training** programs in which employers and educators attempt to align workforce development to labor market demand. These partnerships, often with local community colleges or workforce development organizations, require significant coordination and their success depends on accurate estimates of which industries and skills are most relevant—elements that can change. But the industry-led efforts generally respond more to employer needs than traditional job placement services provided by workforce investment boards. Recent evaluations of efforts in Cleveland, New York, San Antonio, and Tulsa indicate that sector-based training strategies did increase earnings for lower income participants.[87]

EDOs may be the best ones to help employers articulate the skills they need, drawing on the regular meetings they hold with local companies as part of their business retention and expansion strategies. For example, the U.S. Chamber of Commerce's Talent Pipeline Management program targets employers with the hope they can help human resources departments of local firms to identify their own skills' needs better and communicate them to the education system.

The Greater Houston Partnership, Milwaukee 7, and the Metro Atlanta Chamber of Commerce are EDOs attempting to develop skills in their areas. And city-based economic development departments, such as Cuyahoga County's SkillUp initiative, can help firms define their skill needs, create plans to train employees, and connect them with providers of training. The program has had promising results: Workers enrolled in it had a median wage increase of about $3,000, and the greater earnings contributed local tax revenues that were double those of the public investment in the program.[88]

Besides industry-led training efforts, employers are a critical partner in helping students transition from school to work, especially those not pursuing a four-year college degree. The most promising examples of ***career and technical education*** provide academic learning in project-based environments that more closely resemble employment, and private sector employers' involvement is crucial to bridge the transition from school to work. YearUp, Career Academies, Linked Learning, regional and state-level apprenticeships, and summer youth employment programs provide young people with stable employment without necessarily obtaining a four-year college degree.[89] Yet despite the success of these programs, the typical link between employers and the education system has been weak.[90] Economic development organizations have an opportunity to make work-based learning more common by recruiting firms to participate in these programs. In this way, the Rutherford County Chamber of Commerce combined its economic and workforce development functions under Rutherford Works. This group has joined with local councils to determine career paths in key sectors and offered work-based learning opportunities to students beginning in middle school. Employers engage students in each step of the process through facility tours, career events, onsite training opportunities, and mentoring.

One problem with these work-based learning programs is the significant educational disparity that exists in the ***k-12 and higher education system***. EDOs—as agenda setters and thought leaders—often play active roles in local education policy debates, and with good reason: The long-term effects of helping lower-income children gain access to early childhood development, good teachers, and safe school environments matter greatly for upward mobility and economic competitiveness.[91] Public higher education institutions, in particular, are significant engines for social mobility, and important determinants of regional economic success.[92] The obvious implication is that the success of local employers depends on a solid education system. And the business community, when organized behind campaigns such as San Antonio's universal early childhood education reform, is a forceful advocate for changing educational policies.[93]

Access

Finally, even when firms create good jobs and training systems prepare workers well, access barriers can isolate individuals in particular communities from opportunities.[94] Such barriers are the concern of institutions focused on transportation, land use, and housing. In many U.S. metro areas, lack of transportation is a critical barrier to employment, especially for residents who do not have cars. Firms, especially those at the periphery of metro areas, may miss out on potential workers because wages are too low to compensate for the long commute. While EDOs have no mandate to engage in these issues, access becomes critical when there is a mismatch between where workers live and where firms are located.

Local growth actors can and do influence debates about ***transportation, land use, and housing policy.*** For example, the Indy Chamber was an influential partner in a coalition that sought to expand high-frequency bus service, noting employer interests in lessening commuting times for workers without cars. While much still needs to be done to expand Indianapolis's transit system, the coalition brought together growth and equity stakeholders to make progress.[95]

Housing policy offers similar opportunities. Rising affordability concerns in Nashville have sparked intense debates about housing, specifically a new inclusionary zoning bill that offered a first step towards easing cost pressures. Ultimately, the Nashville Area Chamber of Commerce supported the ordinance, and has incorporated affordable housing into its policy agenda.[96] From a business perspective, plentiful affordable housing options for families with different incomes provides greater assurances that employers can attract and retain the local workforce.

At another level, the focus on place stems from the community development practice of trying to align with regional economic development policy. The Urban Institute's Marge Turner calls such efforts place-conscious strategies, since they seek to help lower-income individuals gain access to jobs and educational opportunities outside their neighborhoods and also invest in the quality of schools, jobs, and other amenities in low-income neighborhoods.[97]

EDOs can complement these ***community development*** efforts. First, they can share data on key regional industries and communicate regional priorities so community development groups can place neighborhood-level job training and small business support in the region's most opportunity-rich sectors. The Jacobs Center, a San Diego community change non-profit, used this approach to develop skills and support businesses along with economic growth groups. EDOs are important conduits to large employers and anchor institutions such as hospitals and universities. To varying degrees of success, ***anchor strategies*** have sought to extend their purchasing power to lower-income communities and businesses by buying goods and services locally.[98] Cities like Baltimore**,** Cleveland, and Philadelphia have pioneered these approaches.

Finally, EDOs need to recognize the link between metropolitan growth, school quality, and ***economic and residential segregation***. Because local schools draw their enrollees from the surrounding neighborhoods, the quality of schools is typically priced into the cost of housing. Thus, partly because of local zoning policies that restrict housing supply, only higher-income families can afford housing in the high-opportunity areas, entrenching inequalities across generations. Unfortunately, EDOs have few ways to address the challenges of segregation and affordable housing in these areas. But they can champion the cause and document its urgency. The business community can also confirm that segregation affects the economic fortunes of all local residents, as some members of the private sector announced in Chicago upon the release of a new study by the Metropolitan Planning Council. Employers could go further, helping to co-finance workforce housing in high-opportunity communities.[99] Finally, private sector leaders could advocate for more affordable housing and reforms to restrictive zoning policies that entrench racial and economic segregation.

Many EDOs serve a business attraction function by marketing the location and providing site selection for incoming firms, but these ***site selection*** decisions rarely factor in how workers and communities will access the new source of employment. Thus, EDOs can address this problem by explaining to local companies the costs and benefits of particular sites based on their accessibility to workers, or offer incentives tied to spatially-efficient locations. Finding new sites for corporate relocations or business expansions in the context of regional transportation, land use, and housing policies could bring more spatially efficient growth.[100]

Organizing for more inclusive growth

Moving inclusive economic development from theory to action will require deploying these organization's tools in service of firms, people, and communities. How those tools are deployed will depend on the organization's structure, mandate, and role within a network of other regional stakeholders.

There is no one way to accomplish this shift, but rather several sensible pathways. In the examples listed above, economic development organizations and other growth actors are addressing dynamism, skills, and access barriers in various ways. We outline those interventions below in three categories: practice, policy, and partnerships.

Yet, these examples remain the exception. Building inclusive growth coalitions will not be easy, or they would already exist. Thus, EDOs will need to address and sometimes develop the goals, norms, and incentives that drive their operations. To do so, they will need to convince their members, boards, and partners that this reflects their strategic interests, using compelling evidence.

In many ways, EDOs are ideal to anchor

Table 1. Moving inclusive economic development from theory to action

	Dynamism	Skills	Access
Practice	Support entrepreneurs and business acceleration services (productivity, exports, worker training)	Motivate employers to invest in workers Help employers determine the skills they need	Promote physically accessible locations
Policy	Streamline permit processes and regulations Occupational licensing	Promote pre K-12 education and workforce development Help eliminate other work barriers (e.g., childcare, criminal records etc.)	Promote helpful land use and zoning reforms Support transit investments
Partnership	Coordinate firms with accelerators/incubators, cluster groups and extension partnerships	Provide sector-based training partnerships Provide work-based learning opportunities for youth	Place-conscious strategies with community development organizations, metropolitan planning organizations, and transportation agencies

inclusive growth coalitions. They fill a distinct role as regional *agenda setters, conveners, or collaborator-generals.* At a time when information is provided in a more polarized political and media environment, EDOs can be much-needed *honest brokers* in local communities. Because they engage government, business and civic leaders, they are well-positioned to frame an evidence-based regional agenda and give it validity among different stakeholders, particularly the private sector.

Raising the issue of economic inclusion to the top of the regional agenda has been a core outcome of efforts in various regions, such as Northeast Ohio, Minneapolis-Saint Paul, and Syracuse. Combining research, data, and storytelling, the EDOs have promoted consensus and provided support for broader efforts to address the barriers. This similar process was undertaken with Indianapolis, Nashville, and San Diego as part of the Lab. A companion paper, Committing to inclusive growth: Lessons for metro areas from the Inclusive Economic Development Lab, documents the process the three EDOs carried out to develop their narrative—both the successes and challenges—and offers practical guidance to other EDOs to take similar actions. With these two papers, we aim to offer the information that can help metro leaders advance inclusive growth.

V. CONCLUSION

This paper argues that broad-based economic opportunity is not a *nice-to-have* characteristic of local economies, but rather a fundamental aspect of sustained economic growth and business success. For businesses to adapt successfully to rising competition from abroad and disruptive technological change, they must be able to draw from local communities that are adequately preparing people for the rigors of the modern economy, regardless of race or class. As our colleagues in Nashville said, "Employers need talent. Talent needs access."

Fully helping all American workers, firms and communities thrive in a challenging environment would ideally involve national solutions; but, Washington's agenda does not currently focus on inclusive growth. Thus, progress will need to be made locally, through a combination of government, civic, and business-led efforts.

Economic development actors can play a central role in advancing inclusive metropolitan economies, but EDOs will need to adopt new practices and set new agendas, advocate for local and state policy reforms, and be part of broader regional coalitions. Education and training organizations, community development groups, metropolitan planning organizations, and social justice organizations provide another important part of this local architecture. And employers themselves will be critical, and must come to the table with an enlightened self-interest.

Inclusive growth coalitions can address barriers by stimulating dynamism and job creation, endowing workers with the skills they need to fill good jobs, and ensuring all communities can physically and socially access job and educational opportunities. Often these coalitions do not yet exist and building them takes time and resources. But preparing a broader and more diverse set of firms, workers, and communities to reach their productive potential offers a compelling opportunity for growth. Metropolitan America should seize it.

“Preparing a broader and more diverse set of firms, workers, and communities to reach their productive potential offers a compelling opportunity for growth. Metropolitan America should seize it.”

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