LIVING CITIES

CHANGING THE TRAJECTORY OF AN URBAN ECONOMY

LIVING CITIES ROUNDTABLE

MARCH 5, 2010

LIVING CITIES
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CHANGING THE TRAJECTORY OF AN URBAN ECONOMY

Living Cities Roundtable | March 5, 2010

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AGENDA
(to be distributed)

PARTICIPANT BIOS

CURTIS JOHNSON (MODERATOR)

Curtis Johnson is the president of the Citistates Group which has produced reports on the strategic issues facing regions for leading newspapers in 26 regions over the past quarter century. Today he is also the managing partner of Education Evolving, a Minnesota-based organization with roots going back to the pioneering days of state policies on school choice, to the invention of the idea of chartering schools, and the start of the now spreading movement of teacher professional practices.

Curt Johnson's career itself crosses boundaries like they were streets. He's been a teacher, a community college president, the head of a public affairs research organization, a policy adviser and chief of staff to a Minnesota governor, chairman of the board of one of America's only two regional governments – and a co-author of two books about American regions and more than a hundred feature articles in more than 50 newspapers in 26 American regions. He and columnist Neal Peirce are also the authors of the 2008 book, Century of the City, based on a 2007 global conference sponsored by the Rockefeller Foundation..

Most recently he is a co-author of a book published in June 2008 with Harvard Business School professor Clayton Christensen, entitled Disrupting Class – explaining how the industry of schools is being disrupted by changing learning models and how both school districts and the chartered sector can respond. Disrupting Class has already won a number of book awards, and was named by Newsweek as #14 on its 2009 list of 50 must-read books.

Johnson has a BA in history from Baylor University and a PhD from the College of Education at the University of Texas. He was born in the Atlanta, Georgia region, grew up in Texas, and has lived in Minnesota since 1972.

LIZABETH ARDISANA

Lizabeth Ardisana is the co-founder, principal owner and Chief Executive Officer of ASG Renaissance, an international professional services firm with nearly 200 employees and offices in Michigan, California, South Carolina, Washington D.C. and Ontario. As the CEO, Lizabeth is responsible for the company's strategies, overall direction and financial management. Lizabeth also directs the company's marketing, supplier development and environmental consulting operations and provides consulting services to clients on several projects.

Ardisana's interests are far-reaching, reflecting deep social concern and solid professional achievement. Ardisana was elected chairperson of the Michigan Hispanic Chamber of Commerce in 2003, becoming the first woman to chair the chamber's 30-member board. She also serves on the Kettering University Board of Trustees, Citizens Bank Board of Directors, Ford Hispanic Supplier Council and the Board of Directors for Focus: HOPE - a civil and human rights organization dedicated to overcoming racism, poverty and injustice.

Before founding ASG Renaissance, Ardisana held a variety of engineering and product planning management positions in Ford Truck Product Development. While working at Ford, she owned numerous race cars that raced all over the U.S. and Canada. Ardisana earned her Bachelors Degree in Mathematics from the University of Texas, her Masters Degree in Mechanical Engineering from the University of Michigan and her MBA from the University of Detroit.

CAROL COLETTA

Carol Coletta is president and CEO of CEOs for Cities and host and producer of the nationally syndicated public radio show Smart City.

Previously, she served as president of Coletta & Company in Memphis. In addition, she served as executive director of the Mayors' Institute on City Design, a partnership of the National Endowment for the Arts, U.S. Conference of Mayors and American Architectural Foundation.

Carol was a Knight Fellow in Community Building for 2003 at the University of Miami School of Architecture. She is a highly sought after speaker on the success formula for cities and creative communities and is frequently interviewed as an expert on urban issues by national media.

In 2008 she was named one of the world's 50 most important urban experts by a leading European think tank. Most recently, she was named the recipient of the Lamda Alpha International 2009 International Journalism Award for her work with CEOs for Cities and Smart City, and as one of the top 50 urban thinkers of all time by readers of PLANetizen.com.

JOHN COLM

John is the chief executive of the organization and is responsible for leading and managing WIRE-Net's strategic plan and staff. He also supports the Board of Directors and leads the organization's fundraising efforts

John is WIRE-Net's founding director, which he has led since 1986. He grew up in Washington, DC and in Taiwan (where he learned Mandarin). Mr. Colm is a graduate of the State University of NY at Buffalo, where he completed his undergraduate studies in Environmental Design and Planning. John won his Certified Economic Developer status (CEcD) from the International Economic Development Council in 2006, and certification in the Appreciative Inquiry method from Case Weatherhead School of Management in 2004. The National Development Council certified him as an Economic Development Finance Professional in 1994.

John is a member of the Board of the Cleveland Citywide Development Corporation, which provides below-market financing to Cleveland businesses and policy support to the Cleveland Department of Economic Development. Under John's leadership, WIRE-Net was instrumental in forming the NE Ohio Campaign for American Manufacturing (NEOCAM) in 2004, and the Great Lakes WIND NetworkTM in 2007.

MARK E. COTICCHIA

Mark E. Coticchia is Vice President for Research and Technology Management at Case Western Reserve University (CWRU) where he directs CWRU's research agenda and technology commercialization priorities, including research administration, technology transfer, Case Technology Ventures, and CWRU's West Campus Project. He also serves as the Senior Economic Development Advisor to the University System of Ohio, and is an international expert for the World Intellectual Property Organization (WIPO), a specialized agency of the United Nations.

Prior to joining CWRU, Mr. Coticchia was Senior Director of Redleaf Group, Inc., an early stage venture capital firm. His responsibilities included the development and management of a global University Technology Innovation / Incubator Operation that included seed-level investment activities.

From 1997-2000, Mr. Coticchia served as Director of Technology Transfer at Carnegie Mellon University and served as an adjunct professor of entrepreneurship. He received his M.S. and B.S. degrees in Industrial Engineering and Management, and Civil Engineering from the University of Pittsburgh; and has subsequently been honored by his alma mater for outstanding achievement and exceptional leadership ability.

He serves on the board of directors and advisory boards of several high technology companies and not-for-profit organizations and is a co-founder of Lycos, Inc.

Mr. Coticchia is the author of several books on technology management and is a frequent speaker to international audiences from industry, government, and academia.

JOHN DEARBORN

John brings 25 years experience in software, Internet and mobile technologies, along with senior management experience leading entrepreneurial companies to JumpStart. Most recently, John was the CEO and a board member of 3Guppies, Inc., a mobile social networking company in Seattle, Washington. Since returning to Cleveland, John has been acting as board adviser to several startups in the areas of strategy development, fundraising and product development.

Prior to 3Guppies, John was the Senior Vice President and General Manager for New Ventures in the Interactive Division for American Greetings, where he was an Entrepreneur-in-Residence. In that role, he led new product and business development activities, partnering with leading companies, including MSN, to develop content offerings aimed specifically at the mobile and instant messaging audiences. John also started a self-funded company that developed the first image editor for the PC, which was later sold to a NASDAQ-traded company, Micrografx.

In addition, John has held senior management positions for a variety of venture-backed, public and privately-held companies, leading marketing, operations, business development, and sales organizations. John holds a BA in Administration from the University of New Hampshire, Durham. Read John's posts on the IdeaExchange blog.

DAVID EGNER

David Egner was named executive director of the New Economy Initiative in 2009. In addition, Egner continues to serve as president and CEO of the Hudson-Webber Foundation, a position he has held since 1997.

Egner previously served as president and CEO of the Michigan Nonprofit Association, executive assistant to the chairman and CEO at the W.K. Kellogg Foundation, and as director of operations for Junior Achievement, Inc.

CECILIA V. ESTOLANO

Cecilia V. Estolano is the Chief Strategist of State and Local Initiatives for Green for All.

Ms. Estolano oversees the work of the Cities and States Program and the Capital Access Program and is charged with spearheading Green For All's effort to scale public-private partnerships as a means to grow family-supporting, green jobs in cities across the United States, particularly in under-served communities. She also promotes policies and practices that support green-construction and clean-tech manufacturing jobs.

Prior to joining Green For All, Ms. Estolano was CEO of the Community Redevelopment Agency of the City of Los Angeles (CRA/LA), the largest redevelopment agency in California. While at CRA/LA, Ms. Estolano oversaw a budget of over $700 million in 32 redevelopment project areas. During her tenure, CRA/LA adopted a landmark local hiring policy for construction projects that receive financial support from CRA/LA. The agency also created a Healthy Neighborhoods policy that serves as a blueprint to integrate sustainability principles throughout CRA/LA's practices, programs, and projects.

Additionally, Ms. Estolano served on President-elect Obama's Transition Team as the Deputy Chair of the Environmental Protection Agency Review Team.

TIM FERGUSON

Tim Ferguson is the founder, chair and managing partner of Next Street, a merchant bank providing a range of management and advisory services and customized finance to urban small businesses and entrepreneurs across the US. Prior to founding Next Street, he served as Head of Investments at Putnam Investments, as CEO of HSBC Asset Management, and as CEO of County NatWest Securities.

Tim serves on the leadership council of the Brookings Institution's Metropolitan Policy Program, and on the board of directors for the Initiative for a Competitive Inner City and for the School of Social Science, Urban Affairs and Public Policy at Northeastern University. He is a trustee of the Institute of Contemporary Art, and a director of the Boston Center for Community and Justice and of the Boston Children's Chorus. Tim holds a B.A. in Politics, Economics and Law from the University of Buckingham.

BRIAN FREDERICK

Brian Frederick became the President and CEO of the Community Foundation of Lorain County in 1998. Brian received a Masters of Social Work from Western Michigan University in 1980. He served as Program Evaluator for the Spoon River Center in Galesburg Illinois and relocated to Lorain County in 1983 to serve as Associate Director for the Lorain County Board of Mental Health. Brian founded and operated a private consulting business, BAK Data Solutions Inc., for six years prior to his involvement with the Community Foundation.

Brian is involved in many local and regional civic efforts including the Governance Committee Chair of Team Lorain County and Co-Vice Chair for the Fund for Our Economic Future, a collaboration of 100 foundations in northeast Ohio. He serves on several committees for the Ohio Grantmakers' Forum and the Council on Foundations. Brian is a founding Board member of the Community Foundation National Standards Board, serves as Vice Chair of the Midwest Community Foundation Ventures and is on the faculty of the Center for Community Foundation Excellence. He is one of eleven U.S. Ambassadors with the Transatlantic Community Foundation Network and was a founding member of the Advisory Committee to the German Marshall Fund for the Community Foundation Transatlantic Fellowship.

The Community Foundation of Lorain County is one of the 100 largest foundations of its kind in the United States and is certified in compliance with National Standards for U.S. Community Foundations. A twenty member Board of Directors and eleven staff work hard to promote this tax exempt organization's mission to "Connect People Who Care with Causes that Matter". The foundation manages over 500 endowment funds and awards $3.8 million in grants and scholarship annually. While only thirty years old, the Community Foundation of Lorain County has earned an international reputation for quality and innovation. Lorain County has a diverse population of 300,000 people and is located on the "north coast" of Ohio, directly west of Cleveland.

BOB GILOTH

Bob Giloth oversees Casey's Center for Family Economic Success, which combines the Foundation's economic opportunity and community change work. Prior to joining the Foundation in December 1993, Bob managed community development corporations in Baltimore and Chicago and was Deputy Commissioner of Economic Development under Mayor Harold Washington. Bob has a Ph.D. in City and Regional Planning from Cornell University. He edited Jobs and Economic Development: Strategies and Practice (Sage Publications, 1998), Workforce Intermediaries for the Twenty-first Century, (Temple University Press, 2004), and Workforce Development Politics: Civic Capacity and Performance, (Temple University Press, 2004).

AMY K. GLASMEIER

Dr. Glasmeier holds a professional masters and PhD in City and Regional Planning from the University of California, Berkeley. In spring 2009, she became the Department Head of Urban Studies and Planning at MIT. She simultaneously serves as a professor of economic geography and regional planning. She has two books on policies to develop and expand technology industries. Her book, Manufacturing Time: Global Competition in the World Watch industry, 1750-2000, provides considerable perspective on how different modes of industrial organization and varieties of capitalism yield varying levels of competitive success of national systems of industrialization. In addition, she has written two books focused on the special development problems of rural areas and has worked closely with academics and policy makers around the country to fashion programs designed to assist in formulating sustainable development strategies for rural areas. Her most recent book, published fall 2005 by Routledge Press, An Atlas of Poverty in America: One Nation, Pulling Apart 1960-2003 examines the experience of people and places in poverty since the 1960s, looks across the last four decades at poverty in America and recounts the history of poverty policy since the 1940s.

Over 1997-2007, she served as an adviser to and researcher for the Appalachian Regional Commission, and was reappointed four times as the John Whisman Appalachian Scholar of the Commission. She has worked with numerous federal agencies, and international development organizations in constructing development policies to alleviate poverty and promote economic opportunity. Glasmeier has been the proud and appreciative recipient of several grants from the Ford Foundation. She is currently developing a series of reports for the Ford Foundation on the utilization of energy as a catalyst for community, economic, business, and workforce development in low-wealth communities. The project examines the potential to rapidly deploy energy efficiency and renewable-energy investments to achieve economic security for families and business.

In Pennsylvania, she is the professional development coach for regional planning organizations building a statewide energy efficiency program. This effort serves schools, hospitals, municipalities, and non-profits. As part of this effort, she is working with resources from the Ford Foundation to train professionals and public officials about the value of energy efficiency policy and action.

Previously, as professor at the Pennsylvania State University, Dr. Glasmeier organized research projects on the economic implications of wind, solar and biofuel industries.

STEPHEN GOLDSMITH

Stephen Goldsmith is the Daniel Paul Professor of Government and the Director of the Innovations in American Government Program at Harvard University's Kennedy School of Government. He is also the Vice-Chair of the Corporation for National and Community Service. He previously served two terms as Mayor of Indianapolis, America's 12th largest city where he earned as a reputation as one of the country's leaders in public private partnerships, competition and privatization. As mayor, he reduced government spending, cut the city's bureaucracy, held the line on taxes, eliminated counterproductive regulations, and invested over 1B$ in infrastructure including a transformation of downtown Indianapolis that has been held up as a national model.

The Wall Street Journal has called Mayor Goldsmith a "pioneering privatizer of city services." Goldsmith was the chief domestic policy advisor to the George W. Bush campaign in 2000. His publications include: Unlocking the Power of Networks: Keys to High Performance Government; Governing by Network: The New Shape of the Public Sector; Putting Faith in Neighborhoods: Making Cities Work through Grassroots Citizenship; and The Twenty-First Century City: Resurrecting Urban America. His next book on civic entrepreneurship is expected out next year.

MARIA GOTSCH

Maria is the President and CEO at the New York City Investment Fund. Prior to joining the Fund in 1999, Maria was a Managing Director at BT Wolfensohn (now part of Deutsche Bank), providing strategic and financial advice related to mergers, acquisitions, dispositions, joint ventures and the development of business strategies. Before starting with Wolfensohn, Maria worked at LaSalle Partners in the New York area and for Merrill Lynch Capital Markets in New York and London. Maria has an MBA from Harvard Business School and a B.A. from Wellesley College.

EDWARD (NED) HILL

Edward W. (Ned) Hill is Dean and Professor in the Maxine Goodman Levin College of Urban Affairs, Cleveland State University. He is also a Nonresident Senior Fellow of the Metropolitan Policy Program at The Brookings Institution, an independent public policy research organization in Washington, D.C. and a Nonresident Visiting Fellow of the Institute of Urban and Regional Development at the University of California at Berkeley. He is affiliated with the Faculty of Economics at the University of Rijeka in Croatia. Hill edited Economic Development Quarterly from 1994 to 2005. Economic Development Quarterly is dedicated to publishing research on the development of the American economy.

Ned chairs the National Advisory Board of the National Institute of Standards and Technology's Manufacturing Extension Partnership (MEP). He was a trustee of the Cleveland Zoological Society from 2000 until 2008, a member of the Board of Directors of JumpStart, NorTech, and WIRE-Net. He has assisted the United Way of Cleveland's strategic planning committee since 2005. He was a member of the Board of Directors of the Urban Affairs Association where he was the treasurer in 2003 and 2004. Hill is a member of the board of advisors of the Generation Foundation (2001) and advised the Knight Foundation on economic development investments. Ohio's Governor Taft appointed Hill to Ohio's Urban Revitalization Task Force in the fall of 1999. He was a member of Leadership Cleveland's Class of 1997.

Hill and Harold Wolman were awarded the Robertson Prize from the editors of Urban Studies in 1994. Ned was awarded Cleveland State University's Distinguished Faculty Award for Research in 1998 and merit award for research in 2002. Hill is author of two books, co-editor of five books, and author of over 90 articles, book chapters, and columns. He was a lead in a joint Deloitte Consulting-Cleveland State University team that wrote Industry-based Competitive Strategies for Ohio: Managing three portfolios in 2005 and Manufacturing Pennsylvania's Future in 2004. Ohio's Competitive Advantage: Manufacturing Productivity was released in 2001. Ohio's Competitive Advantage has been credited with starting a five-year statewide conversation that resulted in fundamental business tax reform in the state of Ohio. The Cincinnati Enquirer referred to Hill as the "godfather of tax reform" in the summer of 2005.

In 2005 the Russell Sage Foundation published Hill's analysis of the impact of the terrorist attacks of 9/11 on Manhattan and the New York region as a business location; the Journal of the American Planning Association published his study of the competive position of America's major central cities in the competition for jobs in Autumn 2005. His most recent work on city-state relations was released by the Fannie Mae Foundation in 2007 and in Urban Studies. His work with Iryna Lendel on the impact of doctoral programs in the bio-life sciences and engineering on regional development appeared in Economic Development Quarterly in August of 2007. Work on the determinants of metropolitan regional growth will be published in Urban Studies in March 2009.

He earned his Ph.D. in both economics and urban and regional planning from the Massachusetts Institute of Technology in 1981 and began his career at Cleveland State University in 1985. He is a resident of Lakewood, Ohio.

DONALD R. HINKLE-BROWN

Mr. Hinkle-Brown joined TRF in 1991. Presently, Mr. Hinkle-Brown directs all of TRF's lending operations, including housing, community facility, and commercial real estate lending. Before joining TRF, Mr. Hinkle-Brown worked in the local banking industry in real estate finance. He holds an MBA from Temple University in real estate and urban planning as well as a BA in economics.

David Hochman

David Hochman is a consultant in technology-based economic development, serving clients in the government and non-profit sectors. In the New York area, he serves as founding Executive Director of the Business Incubator Association of New York State, Inc. As a national consultant, he has played key roles in landmark studies such as Battelle's biannual survey of statelevel programs for the Biotechnology Industry Organization (BIO), and a recent study for the Association of University Research Parks (AURP).

Earlier in his career, he served as Deputy Director of the New Jersey Commission on Science and Technology, where he managed a $125 million program of capital investment and annual operating grants in a dozen academic/industrial research centers, and where he created a network of associated business incubators and technology-commercialization programs. In the early 1980s, he co-founded and served as COO of a software venture based in New York City.

He holds an A.B. in the history of science from Princeton University and an MBA in finance from NYU's Stern School of Business. He has also taught strategic management to MPA students in NYU's Robert F. Wagner School of Public Service, as an adjunct associate professor. He has been honored for contributions to community development by the Mayor and City Council of Philadelphia while a resident of that city in the early 1990s.

Incubator Association website: http://bianys.com

Personal/professional website: http://tbed.org

SAUL KAPLAN

Saul Kaplan is the founder and Chief Catalyst of the Business Innovation Factory. He also is the chair of the non-profit's Board of Directors. Kaplan started BIF in 2005 with a mission to enable collaborative innovation. The non-profit is creating a real world laboratory for innovators to explore and test new business models and system level solutions in areas of high social importance including health care, education, energy independence, public safety, and quality of life.

Kaplan also is a member of the Board of Directors for Family Services of Rhode Island and The Big Picture Company. Kaplan was appointed to the Rhode Island Science and Technology Advisory Council and is a member of the Board of Overseers for Roger Williams University.

Prior to focusing on business model and system level innovation at the Business Innovation Factory Kaplan served as the Executive Director of the Rhode Island Economic Development Corporation and as the Executive Counselor to the Governor on Economic and Community Development. Kaplan created Rhode Island's unique innovation @ scale economic development strategy aimed at increasing the state's capacity to grow and support an innovation economy, including an effort to turn the state's compact geography and close knit public and private sector networks into a competitive advantage.

Kaplan also served as the Chairman for the Board of Directors of the Quonset Development Corporation and the Slater Technology Fund.

Prior to his state leadership role in economic development Kaplan served as a Senior Strategy Partner in Accenture's Health & Life Science practice and worked broadly throughout the pharmaceutical, medical products, and biotechnology industry. His work focused on assisting organizations in the design and implementation of global strategies to bring new products to market faster and increase the profitability of existing products. In addition to his client-focused work, Kaplan held many practice leadership roles within the organization and was instrumental in the formation and rapid growth of Accenture's pharmaceutical and medical products practice.

Earlier in his career, Kaplan spent eight years working for the Pharmaceutical Division of Eli Lilly and Company. As a Marketing Plans Manager, Kaplan assisted in developing the launch strategy and successful introduction of Prozac into the U.S. market.

Kaplan holds an MBA from Rensselaer Polytechnic Institute focusing on the strategic management of technology and a BS in Pharmacy from the University of Rhode Island.

SHILPA KEDAR

Shilpa Kedar works closely with city leaders, civic groups, and foundation staff to support ongoing economic development efforts and develop new ones benefiting Greater Cleveland. Before joining the Cleveland Foundation, she was director of business attraction for Team NEO, where she collaborated with other Northeast Ohio development groups to identify and secure business opportunities for the region. Previously she coordinated grantmaking and projects to strengthen area nonprofits for Cleveland Social Venture Partners and was a researcher for the Indian Institute of Management, Ahmedabad, a top business school in India.

Shilpa earned a master's degree in management of nonprofit organizations from Case Western Reserve University, a post-graduate diploma in management from India's Som-Lalit Institute of Management Studies, and a bachelor's degree in business studies from Delhi (India) University. She has authored several published articles and was a member of the Crain's Cleveland Business "40 Under 40" class of 2007. She is co-chair of the Fund for Our Economic Future's business attraction, retention, and expansion committee.

AMY LIU

Amy Liu is the Deputy Director and co-founder of the Metropolitan Policy Program at the Brookings Institution. The program produces trend analysis, research, and policy ideas that advance the health and prosperity of cities and metropolitan areas. The program focuses on the role of federal, state, and local policies, in partnership with the private sector, to achieve prosperity in these communities.

Ms. Liu is a frequent speaker to national, state and local elected, business and non profit leaders on reforms that advance the competitiveness of metro areas. These include the intersected policies leveraging innovation, infrastructure, human capital and quality places.

Ms. Liu also serves as a co-author of select Brookings publications, including "Moving Beyond Sprawl: Toward a Broader Metropolitan Agenda" which appeared in The Brookings Review; she was the principal author of A Region Divided: The State of Growth in Greater Washington, D.C. She has also been a frequent speaker and commentator on the rebuilding efforts in New Orleans and southern Louisiana post-Hurricanes Katrina and Rita. She is the co-author of the frequently cited "The New Orleans Index: Tracking Recovery of New Orleans & the Metro Area." She has authored several other papers related to the post-disaster rebuilding effort including: "Building a Better New Orleans: A Review and Plan for Progress One Year After Katrina," and "Housing Families Displaced by Katrina: A Review of the Federal Response to Date."

For Brookings Opportunity 08 initiative, Ms. Liu wrote "Pathways to the Middle Class: Ensuring Greater Upward Mobility for All Americans" with Hugh Price, which puts forth ideas on how best to help working families achieve and maintain the American dream of middle-class prosperity.

Prior to Brookings (1993-1996), Ms. Liu was Special Assistant to Secretary Henry Cisneros at the U.S. Department of Housing and Urban Development, where she served as the principal aide on a number of public housing and other reform efforts. Ms. Liu has also worked for the U.S. Senate Banking, Housing and Urban Affairs Committee and the Metropolitan Planning Council in Chicago. Amy Liu currently serves on the Advisory Board of the Alexandria Community Trust, a community foundation in Northern Virginia and on the Board of the Hopkins House, a pre-school and comprehensive education center that serves low- and moderate-income children and families.

TERESA LYNCH

Teresa Lynch is a Senior Vice President at the Initiative for a Competitive Inner City (ICIC) where she is responsible for designing and overseeing a research agenda to promote investment and economic development in US inner cities. The current research agenda includes making federal policy recommendations for distressed urban economies; identifying growth and market opportunities in inner city areas; uncovering the capital gaps and barriers facing inner city firms; and formulating economic development strategies for distressed urban areas.

Prior to joining ICIC, Teresa was a senior economist at a Boston consulting firm. She was a member of the MIT research team that produced Global Taiwan and How We Compete: What Companies Around the World Are Doing to Make it in Today's Global Economy; and the AIA Sustainable Design Assessment team that produced Leaner, Greener Detroit.

Teresa has published work on globalization and corporate strategy, foreign direct investment in the automotive industry, infrastructure investments and economic development, and the use of economic models and methods in environmental policy making. She holds undergraduate degrees in Economics and Public Policy from UNC-Chapel Hill and a master's degree in Regional Science from the University of Pennsylvania.

NELL MERLINO

Nell Merlino is Founder, President and CEO of Count Me In for Women's Economic Independence, the leading national not-for-profit provider of resources for women to grow their micro businesses into million $ enterprises. She is author of "Stepping Out of Line: Lessons for Women Who Want It Their Way in Life, in Love, and at Work," from Broadway Books, which is available from Amazon.com.

Throughout her career, Nell Merlino has been inspiring millions of people to take action. She is the creative force behind Take Our Daughters to Work Day, which moved more than 71 million Americans to participate in a day dedicated to giving girls the opportunity to dream bigger about their future.

Through Count Me In, Nell is now inspiring women entrepreneurs to dream big and achieve even more. She is leading a global movement to empower women entrepreneurs to grow their businesses to a million dollars and beyond by providing tools, resources, and a supportive community of their peers. Count Me In's Make Mine a

Million $ Business program reaches women entrepreneurs in communities around the country through events and on-line community. This movement will not only add millions of jobs and billions of dollars of economic activity, but take women to new levels of independence, empowering them to act as economic leaders.

Nell is also the founder and President of Strategy Communication Action, Ltd. (SCA) in New York City, a firm specializing in the creation of public education campaigns that motivate people to act. She is a member of the U.S. Department of State Advisory Committee on International Policy (ACIEP), and appointed a Pathways Envoy by the U.S. State Department to promote women's business growth through South and North America. Prior to founding Count Me In, Merlino created campaigns like the YWCA's The Week Without Violence, the United Nations' Fourth World Conference on Women in Beijing, worked in two state governments, was an advance woman in presidential politics, a union organizer and a Fulbright Scholar.

Merlino lives in Manhattan with her husband, Gary Conger.

REY RAMSEY

Rey Ramsey is President & Chief Executive Officer of TechNet. TechNet is the preeminent bipartisan political network of Chief Executive Officers and Senior Executives of leading U.S. technology companies. Our members are the nation's drivers of innovation in the fields of information technology, e-commerce, clean technology, biotechnology, venture capital and investment banking representing two million employees and $800 billion in revenues.

Mr. Ramsey was previously Chief of Executive Officer of One Economy Corporation, a nonprofit organization that leverages the power of technology and information to connect low-income people to the economic mainstream by bringing broadband into their homes, producing public-purpose media, and training and employing youth to enhance communities' technological capacity. He led the organization's growth from four employees working in basement to a global organization that has taken root on four continents.

Since 2000, One Economy has helped bring broadband access into the homes of over 300,000 low-income Americans. More than 17 million people have visited One Economy's multilingual web properties. Mr. Ramsey has been on the forefront of driving the creation and distribution of public purpose media, most notably through the Public Internet Channel (www.pic.tv), which he founded. Through One Economy programs, hundreds of youth have delivered nearly 50,000 hours of service to their communities.

Mr. Ramsey has spent years creating innovative partnerships between nonprofits, government and the private sector. Mr. Ramsey is the author, with Ben Hecht, of the book ManagingNonprofits.org: Dynamic Management for the Digital Age (John Wiley & Sons).

Prior to the founding of One Economy, Mr. Ramsey served as president and chief operating officer of the Enterprise Foundation. Before joining Enterprise, Mr. Ramsey served in the cabinets of two governors of Oregon as the state's director of housing and community services and practiced law.

Mr. Ramsey serves on many boards, including the Schnitzer Investment Corporation, the Local Initiatives Support Corporation (LISC), and the Washington Jesuit Academy, where he is vice-chairman. He was also chairman of the NAACP's Futures Commission and served on the Knight Commission on the Information Needs of Communities in a Democracy. He was also the chairman of Habitat for Humanity International from 2003-2005.

Mr. Ramsey holds a bachelors degree in political science from Rutgers University and is a graduate of the University of Virginia Law School.

CHARLES ROTHSTEIN

Charles Rothstein is the founder and senior managing director of Beringea LLC, the largest venture capital firm headquartered in Michigan. The Firm has more than 60 portfolio companies in a range of sectors including health care, clean tech, media, Internet technologies and consumer products. Among its many initiatives, Beringea is co-manager of the $175 million InvestMichigan! Growth Capital Fund, which provides venture and expansion-stage capital to emerging businesses located in the state of Michigan.

Mr. Rothstein serves on the Board of Directors of the Michigan Strategic Fund, one of the State's leading economic development and finance authorities. He also is a board member of the Venture Michigan Fund, a fund-of-funds targeting Michigan-based venture capital firms.

VICTOR RUBIN

Victor Rubin is Vice President for Research at PolicyLink, a national nonprofit institute for policy change. He has been an urban planning researcher, teacher, and consultant for more than 30 years. He is the author of the recent PolicyLink reports, All Aboard! Making Equity and Inclusion Central to Federal Transportation Policy, and Safety, Growth and Equity: Infrastructure Policies that Promote Opportunity and Inclusion, as well as "The Roots of the Urban Greening Movement," a chapter in Growing Greener Cities: Urban Sustainability in the Twenty-First Century (2008, Birch and Wachter, eds.) He has also written several recent reports documenting the evolution of efforts across California to improve community health through a focus on the built environment, including health impact assessments, health elements in general plans, and coordination between planners and public health leaders.

Victor joined PolicyLink in 2000 after serving as Director of the HUD Office of University Partnerships. Rubin served as Director of the University-Oakland Metropolitan Forum, a partnership for community revitalization based at the University of California, Berkeley. He is a member of the California Planning Roundtable and was formerly Adjunct Associate Professor of City and Regional Planning at the University of California, Berkeley. His masters and doctorate are in City and Regional Planning from UC Berkeley.

SAM SINGH

Sam Singh is senior consultant to the New Economy Initiative. He is also a senior policy consultant with Public Policy Associates in Lansing. In his role with NEI, Singh will be responsible for working with NEI grantees, developing a policy framework for NEI and leveraging NEI's work with state and federal entities.

Singh previously served as the president and CEO of the Michigan Nonprofit Association for 10 years. He also served as the mayor of the city of East Lansing. In 2008-2009, Singh took a 16 month, self-funded sabbatical in which he traveled to 46 counties to examine international nonprofit groups. His experiences are documented at www.singharoundtheworld.com

BILL TESTA

Bill Testa is vice president and director of regional programs in the economic research department at the Federal Reserve Bank of Chicago. Testa has written widely in the areas of economic growth and development, the Midwest economy and state–local public finance. He directed a comprehensive long term study and forecast of the Midwest economy, Assessing the Midwest Economy: Looking Back for the Future, and has fashioned a series of conferences on school reform.

Testa currently serves as economics editor of the Chicago Fed Letter and on the editorial board of Economic Development Quarterly. His weekly "Midwest Economy" web column, which can be found on the Federal Reserve Bank's web site, has become a widely read and nationally quoted feature.

Testa also serves in an advisory or director's capacity to a variety of professional journals, nonprofit organizations, advisory boards and economic development initiatives in the Midwest. He chairs the Board of Trustees of the Illinois Council on Economic Education and serves on the boards of the Global Chicago Center of the Chicago Council on Global Affairs and the Economic Development Council of Chicago.

Prior to joining the Chicago Fed in 1982, Testa was a visiting faculty member in the economics department at Tulane University in New Orleans and a graduate research fellow at the Academy for Contemporary Problems in Columbus, Ohio. He currently lectures at DePaul University's College of Commerce. A native of Cleveland, Ohio, Testa received his undergraduate degree from Northwestern University in 1975 and a Ph.D. in economics from the Ohio State University in 1981.

ANTHONY WILLIAMS

Anthony Williams is the Executive Director of the Government Practice at The Corporate Executive Board. In addition to his role at CEB, Mayor Williams is also the Director of the State and Local Practice at Arent Fox LLP and the William H. Bloomberg Lecturer in Public Management at Harvard University's Kennedy School of Government.

Mayor Williams served as the fourth mayor of the District of Columbia from 1999 to 2007. During his two terms, he is widely credited with leading the comeback of Washington, restoring the finances of the District and improving the performance of government agencies, all while lowering taxes and investing in infrastructure and human services. Before his election as mayor, he was the independent Chief Financial officer of the District from 1995 to 1998, working with and on behalf of local officials, the D.C. Financial Control Board, and the U.S. Congress. Before his service in the District, Mayor Williams worked in a variety of positions in federal, state, and local government, including as the first CFO for the U.S. Department of Agriculture, appointed by President Bill Clinton and confirmed by the U.S. Senate.

In addition to his work on company boards, Mayor Williams devotes his attention to education and the environment, serving on the board of Fight for Children and the Chesapeake Bay Foundation. He holds a B.A., magna cum laude, from Yale University, an M.P.P. from the Harvard Kennedy School, and a J.D. from the Harvard Law School, as well as numerous honorary degrees and awards, including Governing Magazine's Public Official of the Year in 1997. He is a fellow of the National Academy of Public Administration and former President of the National League of Cities.

TIM WILLIAMSON

Tim Williamson is the Co-Founder and CEO of The Idea Village, a private, independent 501(c) (3) non-profit organization founded in 2000 with a mission to identify, support and retain entrepreneurial talent in New Orleans.

With support from a global network of over 600 individuals, corporations, foundations, universities, Greater New Orleans, Inc., the City of New Orleans, and the State of Louisiana, The Idea Village has provided direct support to over 250 entrepreneurs who have retained over 1019 jobs and generated over $100 million in revenue for the community.

An entrepreneur by trade and by training, Mr. Williamson has successfully started and operated five entrepreneurial ventures in four different cities and has been a steadfast advocate for making New Orleans a vibrant entrepreneurial community. Mr. Williamson is a frequent speaker on innovation and entrepreneurship.

Mr. Williamson's entrepreneurial passion and persistence is contagious as in leadership roles that include the State of Louisiana Small Business and Entrepreneurship Commission, City Year Board of Directors, the National Conference for Community and Justice Advisory Committee, among others.

A graduate of the Stanford University Executive Program for Non-Profit Leaders, New Orleans Regional Leadership Institute, and CABL's Louisiana Leadership program, Mr. Williamson was honored among CityBusiness" Power Generation" ,Gambit "40 under 40" and 2009 YLC Role Model. Mr. Williamson also earned the Junior Achievement Rising Star Award and received "Heroes of the Storm" award in 2008.

Mr. Williamson received a B.S.M. in Finance from Tulane University in 1987.

RESPONDENT BIOS

TONYA ALLEN

Tonya Allen, vice president of program at The Skillman Foundation, is the architect of the Foundation's 10-year $100-million Good Neighborhoods program, and oversees all three of the Foundation's main programs.

A native Detroiter, Allen attended Cass Tech High School, and has a bachelor's degree in sociology, and master's degrees in social work and public health, from the University of Michigan in Ann Arbor. Crain's Detroit Business named Allen a 2007 40 Under 40 winner, an annual award that recognizes Detroit's emerging leaders. In 2008, Allen won the Michigan Neighborhood Champions award, which is given annually by the committee of the Michigan Neighborhood Partnership. Allen was also recognized for her dedication to changing the lives of children and families by St. John Health's Open Arms program .

Allen, who joined The Skillman Foundation in 2004 as a program director, has also worked for the Charles Stewart Mott Foundation and the Plymouth-based Thompson-McCully Foundation. She was also the executive director of Detroit Parent Network.

Allen lives in Southfield with her husband, Louis, and their daughters Phylicia, Brianna and Alanna.

DON CHEN

Ford Foundation

CHRISTINE AMER MAYER

Born and raised in Akron, Christine Amer Mayer has deep ties to the Foundation's home community. She received her bachelor's degree in English from Duke University in Durham, North Carolina and her law degree from The Ohio State University Moritz College of Law. For eight years, following law school, Ms. Mayer practiced commercial litigation and business law with the firm of Buckingham, Doolittle & Burroughs. She has worked with the GAR Foundation since 2001. Ms. Mayer has a special interest in regional economic development and has been heavily involved in The Fund For Our Economic Future, a philanthropic collaboration focused on improving the economic trajectory of Northeast Ohio. She also serves on several not-for-profit boards and initiatives. Ms. Mayer and her husband, Richard, live in Solon with their three young children.

DOUGLAS BITONTI STEWART

For the past 22 years Doug Stewart has dedicated his career to philanthropy. He has served organizations such as Michigan State University, Michigan Nonprofit Management Institute, Botsford General Hospital, the Arthritis Foundation, and Children's Hospital of Michigan. Most recently, Doug worked at the University of Michigan Health System as the Director of Development for Children's and Women's Health.

In early 2007 Doug became the first Executive Director of the Max M. & Marjorie S. Fisher Foundation. In his position Doug has the privilege of helping the Fisher family further their philanthropic legacy by working with nonprofit partners making the most meaningful impact to strengthen families and communities. He is a member of a number of nonprofit boards and serves the philanthropic field through his work on the Family Philanthropy Committee of the Council on Foundations, the Committee to Transform Michigan Philanthropy through Diversity and Inclusion of the Council of Michigan Foundations, and on the Development Summer Internship Advisory Board at the University of Michigan where he also is a guest lecturer in the Org Studies program.

KIMBERLEE CORNETT

Kimberlee Cornett is Director of Innovative Capital at the Kresge Foundation, a national foundation based in Troy, Michigan. Ms. Cornett is responsible for Kresge's social investment strategy which includes program related and market rate investments. Prior to joining the Foundation in 2009, Kimberlee was Vice President of National Equity Initiatives at Enterprise Community Investment where she led business development efforts for the company's financial products. From 2000-2007, she led Enterprise's Investment Management division and closed over $1 billion in equity for investment in affordable housing projects. Earlier in her career, Kimberlee worked at a shelter for homeless women and children in Washington, D.C, led a start up affiliate of Habitat for Humanity and, was appointed a White House Fellow by President Clinton. She lives in Bloomfield Hills, Michigan with her husband and three children.

TIFFANY S. DOUGLAS

Tiffany S. Douglas is Market Development Manager for Bank of America, Michigan. Her responsibilities include overseeing Bank of America's charitable giving in Michigan and supporting the Market President Organization that serves to increase revenue, support associate engagement and outreach and build brand awareness.

Prior to her formal role with Bank of America, Tiffany served as Manager of Corporate Contributions in the Community and Sustainable Development department for LaSalle Bank. Her responsibilities were to receive, analyze, budget for, track and respond to all corporate contributions requests, including understanding funding trends in the market place, sponsorship opportunities, and economic position and how to leverage the LaSalle Bank brand.

Prior to her position with LaSalle and Bank of America she held positions with the United Negro College Fund in Michigan and Minnesota as Executive Director. She, her staff, donors and volunteers widen the doors of opportunity to a college education for students by keeping tuition costs at one half that of other private colleges in the country and writing and implementing programs that support this access.

Tiffany's professional experience includes positions in Public Relations, Communications, Event Coordination and non-profit management. She is proud of her volunteer work as a professional development coach; her outreach to students of the metropolitan area and her many accomplishments for youth and with UNCF.

A native of the Twin Cities of Minneapolis and St. Paul, she received a bachelor's degree in Communications from the University of Wisconsin at Madison. She is also a member of Delta Sigma Theta (DST) Sorority, Inc., director of DST Detroit Foundation Inc., a trustee member of Henry Ford Health System Community Care Services Board and CATCH. She serves as a mentor to the Rhonda Walker Foundation for Girls and is active in her community – reaching out to many organizations for support on development. She is a strong family woman, sister and friend and is married to Mark Douglas, president, Avis Ford in Southfield, Michigan. They have two children, Jaxson Mark and Jamesyn Marie and are proud to make their home in Detroit.

EDWARD EGNATIOS

Skillman Foundation

PHILLIP FISHER

Mr. Fisher is currently focused on concepts designed to accelerate social change. As an investor and philanthropist, he believes there are a ways to create meaningful change in society by connecting, collaborating and exploiting the opportunities currently presenting themselves in philanthropy. Formally, he is a Board member of the Max M. and Marjorie S. Fisher Foundation located in Southfield, Michigan.

Mr. Fisher has served as a principal of The Fisher Group for over a quarter-century. The Fisher Group is a single family office serving the asset management needs for the Max M. and Marjorie S. Fisher family. He served as the Chief Executive Officer of the firm for the period after his Father's death from March, 2005 to August, 2007. Mr. Fisher additionally serves as Chairman of Edcor Data Services (www.edcor.com), a business process outsourcer headquartered in Pontiac, Michigan. For over twenty-five years Edcor has managed the learning certification and tuition administration needs of Fortune 1,000 corporations in the United States.

Mr. Fisher's philanthropic involvements are varied. He is a Board and Investment Committee member of the Community Foundation of Southeast Michigan. He also serves as an Executive Committee member of the New Economy Initiative, an initiative of CFSEM. He is a board member and officer of the United Jewish Foundation/ Federation of Metropolitan Detroit and serves on the Investment Committee. Mr. Fisher additionally serves on the Investment Committees of the United Jewish Charities in New York City, The Fisher Group in Southfield, Michigan and Detroit Country Day School in Beverly Hills, Michigan. He also serves as Vice Chairman of Starfish Family Services and Chairs the Governance Committee for this agency focused on strengthening families and creating bright futures for children. Mr. Fisher is a member of the board of Detroit Symphony Orchestra in Detroit, Michigan. In addition, Mr. Fisher is a member of the Dean's Advisory Council of the Fisher School of Business at The Ohio State University.

Mr. Fisher was a Board Member of Detroit Country Day School for almost two decades serving on the Executive Committee and chairing the Development and Long Range Planning Committees. During the 1990's, he served as Chairman of Durakon Industries located in Lapeer, Michigan and was a Board Member of Charter One Bank, headquartered in Cleveland, Ohio.

Mr. Fisher is married to Lauren Thomas Fisher and they are the proud parents of five incredible children. Mr. Fisher's hobbies include flying, motorcycling, tennis, and golf.

WENDY LEWIS JACKSON

Wendy Lewis Jackson is a Senior Program Officer at The Kresge Foundation, a member of the Detroit Program team. The Detroit Program is a major, comprehensive effort to strengthen the long-term economic, social and cultural fabric of the city and surrounding region. Most recently, she is heading the foundation's efforts to combat the city's foreclosure crisis. Jackson also serves on the Community Development team, which is national in focus.

"Wendy's reputation as a creative problem solver and caring grantmaker preceded her arrival at Kresge," says Rip Rapson, president of the foundation. "We salute the association for recognizing her in this public way and are deeply proud of our colleague and friend."

Prior to her arrival at the Kresge Foundation, Jackson served for 14 years as a program director and executive director for education initiatives at the Grand Rapids Community Foundation in her hometown of Grand Rapids, Michigan. During that time, she was active on several local, state and national boards and committees, and gained extensive experience in fostering and sustaining community collaborations. Much of her work focused on using philanthropy to improve programs and conditions for children and families in African-American neighborhoods.

The Association of Black Foundation Executives is dedicated to promoting effective, responsive philanthropy in black communities; its members serve as catalysts for advancing practices that build on a tradition of self-help, empowerment and excellence to solve the challenges facing those communities.

The award was presented during the James A. Joseph Lecture and Awards Ceremony. The lecture, which began in 1991 and is named in honor of James A. Joseph, a distinguished leader in philanthropy and the co-founder of the Association of Black Foundation Executives, offers recipients a forum for discussing philanthropy's role in social change.

Jackson received her undergraduate and master's degrees in social work from the University of Michigan, where she concentrated in community organization and social policy and planning. She is an American Marshall Memorial Fellow of the German Marshall Fund of the United States. She and her husband, Carlton, have two daughters.

CHRISTINE KAGEFF

Christine Kageff is Vice President of Philanthropy & Community Relations at Chase, based in Detroit. As the bank's ambassador to the community, she serves Michigan's charitable needs, managing JPMorgan Chase Foundation grants and bank sponsorships. She has over 25 years of experience in Michigan banking and financial services organizations with responsibilities including: project management, marketing, investment operations, mortgage lending and public relations. Kageff earned a bachelor's degree in Public Administration from Michigan State University, completed the Graduate School of Banking program at the University of Wisconsin and has a certificate in Corporate Community Involvement from Boston College. She currently serves on the advisory board of the Detroit International Jazz Festival and as treasurer of the Greening of Detroit's Board of Commissioners.

BENJAMIN KENNEDY

Benjamin is a Program Officer on the Detroit/Community Development team at The Kresge Foundation. In addition to grant-making, Benjamin is responsible for originating and structuring program-related investments that support and advance the strategic goals of the program. Prior to joining the Kresge Foundation, Benjamin worked at JP Morgan Chase in Johannesburg as an associate on the Sub-Saharan African Mergers & Acquisitions team. Benjamin also spent time as an economic and political analyst within IHS Global Insight's Sub-Saharan Africa group. His responsibilities there included sovereign credit risk analysis, policy research, and macroeconomic forecasting. Benjamin received an MBA from Harvard Business School and a BA in Economics from Morehouse College

JONATHAN LAW, McKinsey & Company

Jonathan K. Law is an Engagement Manager in McKinsey & Company's New York Office and an affiliate with the Philanthropy Practice of the Firm's Social Sector Office. Since joining the Firm in 2001, he has worked with senior clients in the social sector and in financial services. Recent projects have included:

- Leading a research initiative and collaborating with leading U.S. foundations and sector thought leaders to develop McKinsey's approach to social impact assessment.
- Developing the grant strategy for the corporate foundation of a leading U.S. insurance company.

- Leading a research initiative to develop a framework on how to engage the public in social issue advocacy. Also worked in collaboration with McKinsey's Marketing Practice to develop cutting edge marketing approaches to motivate the public to take action on social issues.
- Developing comprehensive strategic plans for local non-profit social service organizations as part of McKinsey's pro bono efforts in New York City.
- Identifying and executing opportunities to improve the operational efficiency and organizational effectiveness of a leading U.S. financial service's firm's insurance product division.
- Developing the operating model for an innovative new retirement product for one of the largest U.S. financial advisory and asset management firms.
- Designing a central corporate function for a leading global financial institution to accelerate the offshoring of its operations and technology resources.

Prior to joining McKinsey, Jonathan has worked at the United Nations, the New York City Economic Development Corporation, and the law firm of Cravath, Swaine & Moore. Jonathan obtained a JD from Columbia Law School and an AB in Social Studies from Harvard College.

MARY KAY LEONARD

Mary Kay Leonard is the President and CEO of the Initiative for a Competitive Inner City (ICIC). She is responsible for managing ICIC's strategic direction and increasing ICIC's impact on inner city economic development across the U.S. She also directs ICIC's efforts to engage new corporate and foundation partners, expand recognition and education programs for inner city businesses, and leverage the underutilized assets of America's urban communities to maintain the country's competitiveness internationally.

Mary Kay's background is well-suited to advance ICIC's mission with businesses; city, state, and national governments; and the foundation community. Prior to joining ICIC, Mary Kay served as the Senior Vice President for The Community Builders (TCB), one of the nation's leading developers for low-income housing areas. Under her leadership, TCB successfully launched a program to double the earned income level of residents living in affordable and mixed income housing. Previously, Mary Kay was the Interim CEO and Chief Operating Officer of United Way of Massachusetts Bay (UWMB), and later the Vice President of Investor Relations for the United Way system where she was responsible for raising more than $1 billion in annual revenue.

Before her tenure with the United Way system, Mary Kay was the Senior Vice President for Work/Family Directions (WFD), a privately held company that designed and delivered work/life and employee assistance programs for Fortune 500 companies. She was instrumental in growing WFD from $20 million in annual revenue to $70 million before its sale to Ceridan. From 1985 to 1990, Mary Kay served as the Commissioner for the Massachusetts Office for Children and is credited with doubling the agency's budget during her tenure.

Mary Kay is a graduate of Colgate University with a degree in Urban Studies and holds a J.D. from Northeastern University School of Law. She has completed senior executive programs at Yale School of Management, Harvard Kennedy School, and Harvard Business School.

KIRK LEWIS

Integrated Supply Chain Solutions

JACQUELINE MORRISON

Jacqueline Morrison is a highly versatile professional with extensive leadership experience in the non-profit sector. She possesses a significant Community Development background including far-reaching expertise in all components of contract, grant and program management, community-based research, advocacy and public policy development.

As a servant-leader, she had worked to improve the quality of life in Detroit for more than 25 years – first as a researcher at Wayne State University, then Sr. Vice President of the Detroit Urban League, CEO of Planned Parenthood of Southeast Michigan, Associate State Director of AARP where she led advocacy for Economic Security and Work issues, and now Sr. Manager of State Operations responsible for statewide Social Impact and Member Value initiatives with AARP.

Jacqueline earned a Bachelor of Science degree from San Diego State University and a Masters in Public Health from The University of Michigan. She has served on various boards and commissions and was recognized as one of the most influential Black Women in Detroit by the Women's Informal Network. She is a member of ASA, ASAE and serves on the board of 10,000 Girls, a group dedicated to educating girls in developing countries. Jacqueline is motivated by the possibilities existing within the 50+ generations to redefine aging and make life better for our children and grandchildren.

ANNE B. MOSLE

Ms. Anne Mosle is vice president for programs at the W.K. Kellogg Foundation of Battle Creek, Michigan. In this role, Anne serves on the executive team that provides overall direction and leadership for the Foundation and provides leadership for Civic and Philanthropic Engagement, Family Economic Security programming as well as place-based programming in New Mexico. In addition, she manages the implementation of mission-driven investing programs utilizing a small portion of the Foundation's endowment to achieve both financial and social returns. Anne is responsible for leadership, capacity building and fostering collaboration and teamwork in the development and implementation of programming, organizational policy and philosophies, human and financial resource allocation management, and internal and external communications.

Anne has more than 19 years of experience in philanthropy, community advocacy and collaboration-building. She is an exceptional program planner, partnership creator, and media spokeswoman, and recently has conducted leading research on giving patterns and motivations of women of color.

Prior to joining the Foundation, Anne was president of the Washington Area Women's Foundation in Washington, D.C. During six-and-a-half years there she developed the organization into a leading women's foundation with accomplishments that include the creation of the Portrait Project, a comprehensive community organizing and research study on the status of women and girls in the Washington area, and Stepping Stones, a nationally recognized initiative to build the financial independence of low-income women and their families. Anne was honored in 2006 by The Washingtonian as Washingtonian of the Year for her efforts to successfully improve the lives of the people who live there. Previously, Anne was with the Center for Policy Alternatives where she held the positions of senior president, leadership initiatives; vice president, policies and program; and director, women's program. Earlier, she gained experience at the Women's Foundation of Colorado, Council of Energy Resource Tribes (CERT), and the Paul H. Nitze School of Advanced International Studies at The Johns Hopkins University.

Throughout the years Anne has served on various nonprofit boards, including Women & Philanthropy, Washington Grantmakers, and the National Conference of State Legislatures Foundation. She presently serves on the boards of the Chasdrew Family Foundation, Washington Area Women's Foundation, Philanthropy for Active Civic Engagement, and Women's Funding Network.

Anne holds a bachelor's degree in political science from the University of Richmond in Virginia, and has completed graduate coursework in international public policy and economics in the Paul H. Nitze School of Advanced International Studies at The Johns Hopkins University in Washington, D.C.

Established in 1930, the W.K. Kellogg Foundation supports children, families and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society. Grants are concentrated in the United States, Latin America and the Caribbean, and southern Africa.

MARIAM C. NOLAND

Mariam C. Noland became the first president of the Community Foundation for Southeast Michigan, Detroit, Michigan, in 1985. The Community Foundation has assets of more than $560 million and in its 25 year history, has distributed more than $390 million through more than 34,000 grants to nonprofit organizations throughout Wayne, Oakland, Macomb, Monroe, Washtenaw, St. Clair and Livingston counties.

Noland has more than thirty years experience administering community foundations. She joined the staff of the Cleveland Foundation in 1975 where she served as program officer and secretary/treasurer. In 1981, she became vice president of the Saint Paul Foundation, Saint Paul, Minnesota. Prior to her work in the foundation field, Noland was on staff at Davidson College, Davidson, North Carolina, and Baldwin-Wallace College, Berea, Ohio.

Noland is currently a member of the board of trustees of the John S. and James L. Knight Foundation, Independent Sector, Detroit Riverfront Conservancy and is a vice chair of the board of the Henry Ford Health System. She has served as chair, board of trustees, Council of Michigan Foundations and a vice chair, board of trustees of the national Council on Foundations.

Noland obtained her Ed.M. from Harvard University and a Bachelor of Science from Case Western Reserve University. She and her husband, James A. Kelly, live in Grosse Pointe Farms, Michigan.

DEBORAH OLSON

Center for Community Based Enterprise

INDIA PIERCE LEE

India Pierce Lee has 20 years of experience in housing and community development. She helps lead the foundation's revitalization efforts in the Greater University Circle area, an initiative that involves everything from transportation and housing assistance to education, safety, community wealth, and economic inclusion.

Prior to joining the Cleveland Foundation, India served as senior vice president of programs at Neighborhood Progress Inc. (NPI), where she led several joint initiatives, including the Cleveland Neighborhood Partnership Program. She also spent time with the Northeast Ohio Local Initiatives Support Corporation, the City of Cleveland's department of economic development, and the Mt. Pleasant NOW Development Corporation. Prior to that, she worked as an air traffic control specialist.

India completed the prestigious Loeb Fellowship from the Graduate School of Design at Harvard University. She spent 10 months on the Harvard campus studying best practices in neighborhood revitalization, with a special interest in sustainability.

India has been recognized for outstanding service to Cleveland throughout her career, including receiving a key to the City of Cleveland from former mayor Michael White. She was named one of the 500 Most Influential Women in Northeast Ohio by Northern Ohio Live magazine and is both an alumnus of the Leadership Cleveland Class of 2002 and a Louis Stokes Fellow from the Mandel School of Applied Social Sciences at Case Western Reserve University.
India earned a bachelor's degree in management from Cleveland's Dyke College and a Master of Science degree in social administration from the Mandel School.

RIP RAPSON

Rip Rapson is president and CEO of The Kresge Foundation, a $3.1 billion national, private foundation based in metropolitan Detroit and founded by S.S. Kresge in 1924. He assumed leadership on July 1, 2006, and soon after began a multi-year transition to expand and recalibrate Kresge's grantmaking. Central to this expansion are nine values, which now serve as the centerpiece of the foundation's grantmaking criteria: advancing low-income opportunity, promoting community impact in ways most needed by residents, cultivating innovation and risk taking, supporting interdisciplinary solutions, fostering environmental sustainability, and encouraging diversity in board governance.

Kresge continues to award grants in the fields it has traditionally supported: health, the environment, arts and culture, education, human services and community development. Since Rapson's arrival, three new programs – the Health Program, the Environment Program and the Detroit Program – have been developed, representing a deepening of commitment for long-term impact in strategic areas. Rapson also has expanded Kresge's grantmaking methods from one based on exclusive use of its signature, facilities-capital challenge grant to a new approach that employs multiple tools based on the needs of the grantee organization, including operating support, program support, growth capital and program-related investments, as well as facilities capital. In 2008, the foundation awarded 342 grants, totaling $181 million.

Prior to joining Kresge, Rapson was president of the Minnesota-based McKnight Foundation, the private, $2 billion foundation governed by the descendents of William McKnight, one of the founder's of 3M Corporation. Under his direction, the foundation was recognized as a national leader on a variety of public policy issues, including early childhood development, metropolitan growth, open space protection, and wind energy. Rapson launched the Itasca Project, a private-sector led effort to develop a new regional agenda for the Twin Cities, and he advanced McKnight's work supporting arts and cultural activities, enhancing water quality and public enjoyment of the Mississippi River, and fostering economic development in rural Minnesota.

Rapson served as a senior fellow at the University of Minnesota before joining the McKnight Foundation. There he led a five-year, interdisciplinary project to help aging first-ring suburban communities address the challenges faced by declining tax revenues, changing economic and social demographics, and shifting political forces.

As the deputy mayor of Minneapolis under Mayor Don Fraser, Rapson served as primary architect of the pioneering Neighborhood Revitalization program, a twenty-year, $400 million effort to strengthen Minneapolis neighborhoods. He also directed a comprehensive redesign of the city's budgeting process and developed the mayor's initiatives to strengthen and support families and children.

Rapson came to the mayor's office from the Minneapolis law firm of Leonard, Street and Deinard, where he was a partner in the litigation division. He received his law degree from Columbia University.

Before entering law school, Rapson worked as a legislative assistant in then-Congressman Don Fraser's Washington, D.C. office and oversaw the development and passage of the Boundary Waters Canoe Area Wilderness Act of 1976, which brought full wilderness protection to the million-acre lake country of northern Minnesota.

Rapson is the author of two books: Troubled Waters, a chronicle of the Boundary Waters Canoe Area Wilderness Act legislation, and Ralph Rapson: Sixty Years of Modern Design, a biography of his father, the renowned architect Ralph Rapson. He sits on the boards of the Detroit Riverfront Conservancy, the Downtown Detroit Partnership, the Local Initiatives Support Corporation of New York, Living Cities, and the Environmental Law and Policy Center in Chicago. He and his wife Gail have an eleven-year-old daughter, Anna, and a fourteen-year-old son, Avery.

SCOT T. SPENCER

Scot Spencer is senior associate and Manager of Baltimore Relations for the Annie E. Casey Foundation in Baltimore. Since 2002, the Foundation's hometown work has largely been focused on a comprehensive and responsible redevelopment effort on the Baltimore's east side in an historic working class neighborhood. Scot's previous experience includes: Transportation Specialist for Environmental Defense; deputy director for Historic East Baltimore Community Action Coalition; and several years work in private architectural practice, community development and university relations in upstate New York. His volunteer activities include: chair of the Maryland State Commission on Environmental Justice and Sustainable Communities and member of the Baltimore Commission on Sustainability and the Commission on HIV/AIDS; board membership with Central Maryland Transportation Alliance, Center Stage and the Chesapeake Bay Trust; and chair of the Baltimore Neighborhood Collaborative. Beyond Baltimore, Scot is vice chair of the Funders Network for Smart Growth and Livable Communities and Smart Growth America. Scot holds a Bachelor in Architecture and a Masters in Urban and Environmental Studies from Rensselaer Polytechnic Institute.

DARCHELLE STRICKLAND LOVE

Darchelle Strickland Love has more than 20 years of experience in organizational development, training, strategic planning and process improvement. She developed and managed several major project implementations working in both the private sector, local government and the media.

Ms. Strickland Love's government leadership experience began when she was as an appointee of former Detroit Mayor Dennis W. Archer and was considered one of the "go to" people in the Archer administration. Her successful completion of challenging projects and process improvements resulted in annual savings of more than $2 million per year for the City of Detroit. Darchelle also served as the Deputy Director of the City's Human Resources Department. In this role, she developed and implemented the city's Workplace Violence Prevention System, a process that has remained in effect since 2001. After leaving the Archer Administration, she provided consulting services in the areas of organizational development, human resources and communications. In addition, she was a lead consultant with a Texas firm that specialized in development of strategic plans and performance measures for city and county governments. In 2008, Darchelle returned to the City of Detroit to serve as Chief of Staff for Interim Mayor Kenneth V. Cockrel.

Mayor Dave Bing retained Ms. Strickland Love when he was elected Mayor in May, 2009. Initially she served as the Group Executive for Health and Human Services. In that role, she was responsible for providing leadership to seven departments including Human Resources, Health, Labor Relations, Environmental Affairs, Health and Wellness and Recreation. She is currently responsible for Philanthropic Affairs and Special Projects. In this capacity, she represents Mayor Bing, by serving as a liaison and coordinating activities, projects and events involving the philanthropic community.

Darchelle is a graduate from the University of Detroit, earning a Bachelors of Science degree. She earned the Certified Manager designation in 1992 and is a graduate of the Detroit Regional Chamber of Commerce Leadership Detroit program (Class XIX).

ELIZABETH SULLIVAN

Elizabeth C. Sullivan joined the Community Foundation for Southeast Michigan in September 2008 as vice president, Community Investment, where she oversees the program development and grantmaking activities. Ms. Sullivan brings a strong commitment to southeastern Michigan, a deep understanding of the nonprofit capital marketplace, and a wealth of experience in local and national philanthropy to the Community Foundation.

Ms. Sullivan currently chairs the board of the Nonprofit Finance Fund, a national leader in social enterprise development that operates offices throughout the U.S. She also chairs the Board of Trustees of the University Liggett School an independent day school located in Grosse Pointe Woods, and is a member of the LISC Local Advisory Council. Sullivan has also served on the board of the Council of Michigan Foundations, Michigan AIDS Fund, and

Family Service of Detroit and Wayne County.

Prior to joining the Community Foundation for Southeast Michigan, Ms. Sullivan was the senior vice president of program for The Kresge Foundation. She holds a Masters of Public Administration and Bachelor of Arts, both from Michigan State University.

SARAH SZURPICKI

Sarah is a Detroit resident and the Director of GLUE, the Great Lakes Urban Exchange, a growing network of young leaders who are committed to revitalizing the cities of the Great Lakes region through storytelling, community-building, and political advocacy. Sarah co-founded GLUE in 2007 with Pittsburgher Abby Wilson, and the project was incubated for one year within the Great Lakes Economic Initiative of the Brookings Institution. GLUE pursues its goals through: the production of research and educational materials, conferences and other peer-learning opportunities, public awareness campaigns, and policy advocacy.

Sarah has written and spoken frequently on regional cooperation, community engagement, and why the solutions to combating the “brain drain” are in fact that same solutions that will help our cities become equitable, sustainable, and healthy urban cores. She was recognized as a Crain’s Detroit Business “20 in their 20s” in 2009. In January 2010, Sarah was a member of a coalition that released the Detroit Declaration, a set of 12 principles and a call to action that will fundamentally remake Detroit as a prosperous city.

Prior to starting GLUE, Sarah had “boomeranged” back to metro Detroit after eight years in Boston, DC, and New York. She has worked on various political campaigns, and as the Director of Finance and Operations of the Harlem Success Academy Charter School in New York, where she oversaw the operational startup of the school’s first year.

Sarah graduated from Harvard University with a BA in Environmental Science and Public Policy in 2003, where her honors thesis focused on public participation and activism in environmental science.

LAURA J. TRUDEAU

Laura J. Trudeau, Senior Program Director, leads The Kresge Foundation’s Detroit Program and Community Development Team and is a member of the foundation’s Management Team.

Prior to joining Kresge in 2001, Ms. Trudeau was employed by Bank One and its Detroit predecessor, NBD Bank, serving in a number of roles in Public Affairs, Trust, and Corporate Banking, most recently as Vice President and Midwest Region Head of Philanthropy and Community Relations. She has served as a volunteer on many civic and community boards , including the non-profit Eastern Market Corporation, City Connect Detroit, City Year Detroit, the Local Advisory Committee for Detroit LISC; the Corporation for Supportive Housing, ArtServe Michigan and the Gleaners Community Food Bank. Ms. Trudeau has a Bachelor of Science degree in Community Development from Central Michigan University.

ALI WEBB

Ali Webb is a program officer for the Family Economic Security and Civic Engagement work at the W.K. Kellogg Foundation in Battle Creek, Michigan. She was most recently the deputy director for the Michigan team, in support of the vice president for programs in providing overall coordination of the teams’ programming efforts in support of the Foundation’s mission. She joined the Foundation 12 years ago as a Communications Manager working in food system and rural development issues.

Her passion is creatively using communications and policy as levers for social change. Ali has 27 years of communications experience with nonprofit and governmental organizations. Previously, she was director of communications for The Nature Conservancy, an international conservation organization. She also served as director of communications for the U.S. Department of Agriculture in Washington, D.C.,

She received her bachelor’s degree in journalism at Stanford University, and a master’s degree in public administration from the Kennedy School of Government, Harvard University. Ali also has a PhD in Mass Media from Michigan State University in East Lansing.

Established in 1930, the W.K. Kellogg Foundation supports children, families and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society. Grants are concentrated in the United States, Latin America and the Caribbean, and the southern African countries of Botswana, Lesotho, Malawi, Mozambique, South Africa, Swaziland and Zimbabwe.

NEW ECONOMY INITIATIVE, SOUTHEAST MICHIGAN

OVERVIEW

The New Economy Initiative (NEI) is a joint program of 10 national and local foundations that have committed $100 million to an eight-year effort designed "to foster economic growth by accelerating the transition of southeast Michigan to an innovation-based economy." An important founding principle of the Initiative is to increase prosperity for all residents and communities in the region with an emphasis on expanding opportunity for all. Grants awarded through the Initiative support the efforts of nonprofit organizations and public agencies to foster innovation and entrepreneurship in new and existing industries and to prepare the region's workforce to succeed in an information-based economy. NEI sponsors and supports activities in three strategic areas: talent, innovation, and culture change.

Geographic Scope

NEI focuses on the seven-county Detroit MSA.

Formation

Ten local and national foundations launched the NEI in the spring of 2007 with funding of $100 million. The catalyst for the Initiative was the recognition that Detroit's heavy dependence on a shrinking automotive industry had led to a spiral of economic decline and that restoring the region's economic position would require a fundamental transformation to a more dynamic, entrepreneurial, and knowledge-based economy that developed and mobilized the talents of all its residents. The Community Foundation of Southeast Michigan played a leadership role in convening the member foundations and developing the Initiative. In spite of these developments, it took more than one-and-a-half years for the Initiative to solidify itself and achieve an effective level of operation.

Structure of the Collaborative

The 10 participating foundations include eight Michigan foundations and two national foundations. Community Foundation for Southeast Michigan, Detroit; Max M. and Marjorie S. Fisher Foundation, Southfield; Ford Foundation, New York; Hudson-Webber Foundation, Detroit; W.K. Kellogg Foundation, Battle Creek; John S. and James L. Knight Foundation, Miami; The Kresge Foundation, Troy; McGregor Fund, Detroit; C.S. Mott Foundation, Flint; Skillman Foundation, Detroit.

The work of the Initiative is governed by an 18-member *Governing Council* consisting of representatives of the 10 foundations and eight community leaders from southeast Michigan. There is also an *Executive Committee* that is made up of eight members who meet by telephone every two to three weeks and make immediate and timely decisions.

NEI also draws on the advice of a *Council of Economic Advisors*, six national experts in economic and urban and regional policy who provide expertise, a national perspective, and direction to the staff and Governing Council. This group meets quarterly by telephone to provide expertise and input into concepts under development. It also meets with the Governing Council at least once each year.

NEI has a four-member staff consisting of an executive director, senior consultant, senior program officer, and administrative assistant. The executive director is president of the Hudson-Webber Foundation and splits his time between the foundation and NEI. The senior program officer is an employee of the Community Foundation and the senior consultant is under contract with NEI at 75 percent time.

Development of Grantmaking Strategy

Soon after its formation, NEI initiated a formal strategic planning process that culminated in articulation of the Initiative's goal, a theory of change, operating assumptions, guiding values, and objectives and strategies.

Goal: accelerate the transition of metro Detroit to an innovation-based economy that expands opportunity for all.

Theory of change: talent, innovation and culture change are keys to the economic transformation of the region.

Operating assumptions: 1) the Initiative must have a regional focus; 2) attracting and retaining talent and fostering innovation and entrepreneurship are key to regional success; 3) public policy must support economic transformation; 4) the Initiative must be entrepreneurial, creative, and adaptable.

Guiding Values: 1) inclusiveness; 2) commitment to fundamental transformation and sustainable growth; 3) encouragement of innovation and entrepreneurship in all aspects of regional life; 4) enabling all residents to develop their talents; 5) fostering a welcoming atmosphere for people of all backgrounds; and 6) collaboration.

Objectives: 1) prepare, attract, and retain skilled workers; 2) encourage innovation and entrepreneurship in new and existing enterprises; and 3) change the region's culture regarding learning, work, and innovation.

Three to four specific strategies were developed for each objective.

As NEI evolved and learned from its initial grantmaking, the NEI staff and Governing Council focused on a framework for ongoing implementation that employs three modules of activities. Each of these modules targets the original NEI areas of talent, innovation, and culture change, but also works to include and connect to the existing work of foundations in the Detroit metropolitan region. The three modules are:

1. Promote a successful entrepreneurial eco-system through: a) entrepreneurial training and education; b) connecting entrepreneurs to needed resources; c) university technology transfer; d) improved access to capital; and e) promoting an entrepreneurial culture.

2. Capitalize on existing regional assets and resources (i.e., areas of comparative advantage). NEI leadership considers this module the research and development arm of NEI. If the research is supported by existing infrastructure and regional leadership and shows promise, NEI may fund strategic planning and provide seed and project funds for strategies that show exceptional promise in creating or attracting talent and new jobs or advancing economic inclusion.

3. Build and employ a more skilled and educated workforce. Currently, a team of funders and partners is working with NEI staff to develop an enhanced framework for the workforce module. Several focus areas are under consideration including: a) coordinating or contributing to the existing work of funding partners; b) funding sectoral employment models; c) community college remediation and training programs; d) pathways and education programs that introduce and prepare individuals for employment in high demand jobs; and e) retention of university and college talent.

NEI has developed a series of specific metrics to gauge progress toward the Initiative's objectives. Metrics have been established at three levels: 1) regional economic progress related to NEI's overall goal (e.g., per capital income growth, growth in educational attainment); 2) objectives and strategies; and 3) individual grants.

INVESTMENT ACTIVITIES

Since its launch, NEI has distributed more than $24 million in 21 grants. However, $22 million of the $24 million in grants has only been awarded in the last 12 months. Grants have been as small as $5,000 and as large as $5 million, but generally range between $150,000 and $3 million. NEI also has an R&D fund that is flexible and tries to focus on areas where there seems to be an opportunity to bring an existing activity to scale.

Module 1: Promote a successful entrepreneurial ecosystem

These grants cover a wide range of entrepreneurial activity, including technology-based, creative, urban/minority, youth entrepreneurship, commercial district development, and new product and market development.

- *Creative Cities Summit*. Small grant to support the Creative Cities Summit, held in Detroit, primarily to help stimulate thinking in the early stages of the Initiative about what redevelopment activities may be possible for the region.
- *Argonaut Project.* Support for a $145 million initiative of the College for Creative Studies to transform the General Motors Argonaut Building in Detroit's

New Center district into an integrated educational complex devoted to creativity. The project will result in an additional 2,000 people learning and working in the New Center area, a new Design Research Center to partner with creative firms in developing new products and technologies, and expanded community educational programming.

- *Bizdom U.* Support for doubling the enrollment in this entrepreneurial training program whose mission is to train talented young adults as entrepreneurs and help them launch new businesses in the city of Detroit.
- *Creative Corridor Incentive Fund.* Grant to the Detroit Economic Growth Association to create the Creative Corridor Incentive Fund to attract and retain creative businesses in Detroit's Creative Corridor.
- *Detroit Business Innovation Development Fund.* Grant to ShoreBank Enterprise Detroit to create the Detroit Business Innovation Development Fund. This Fund is providing equity and equity-like financing for early-stage growth enterprises located in the city of Detroit that meet economic growth and social purpose objectives.
- *Michigan Initiative for Innovation and Entrepreneurship.* Grant to a 15-member public university consortia working to commercialize research of member universities with Michigan-based companies. Through its Technology Commercialization Gap Fund, the Michigan Initiative for Innovation and Entrepreneurship (MIIE) identifies promising research ideas and provides resources for prototypes, business plans, market analyses, and other early-stage functions that prepare ideas and technologies developed in universities to be positioned for commercialization. MIIE also has launched an Industry and Economic Engagement Fund and a Talent Retention and Entrepreneurship Education Fund to support promising university and business partnerships and entrepreneur education activities.
- *Michigan Life Science Research and Innovation Center.* Grant to the Ann Arbor SPARK Foundation to launch a life sciences incubator. The project will provide physical space and support services for more than 20 life sciences startup companies.
- *NEI Entrepreneur Fellowship.* Grant to the Kauffman Foundation to support the inclusion of a Michigan-based fellow in Kauffman's Entrepreneur Postdoctoral Fellowship Program. Fellows learn how to evaluate their research for commercial potential and how to take promising research forward to commercialization.
- *Sugar Hill Arts District.* Grant to the University Cultural Center Association (UCCA) to leverage $34 million in funds from governmental and private sources for the revitalization of the Sugar Hill Arts District in Midtown Detroit. This is part of a larger effort by UCCA to help revitalize Midtown Detroit.
- *TechTown.* Grant to the Wayne State University Research and Technology Park, known as TechTown, to implement a comprehensive entrepreneur training and support program in partnership with the Kauffman Foundation and other regional entrepreneur and economic development support organizations.

- *Urban Entrepreneur Partnership Detroit.* Grant to Urban Entrepreneur Partnership, Inc. to assist targeted southeast Michigan suppliers to transition their core businesses from automotive to selected growth industries.

Module 2: Capitalize on existing regional assets and resources

- *Alternative and Renewable Energy Economic Development Initiative.* Grant to the Detroit Economic Growth Association to facilitate an Alternative and Renewable Energy Economic Development Initiative for Detroit with DTE Energy. The initiative will identify and define target opportunities, develop and communicate a business case for industry development, and facilitate business deals.
- *Michigan's Advanced Energy Economy Initiative.* Grant to the Council of Michigan Foundations to support Michigan's Advanced Economy Initiative. The Council will assist the state of Michigan to obtain federal stimulus funding for energy efficiency and renewable energy generation by providing the short-term services of a consulting firm.
- *Michigan Security Network.* Grant to the Michigan Security Network (MSN) to pursue immediate opportunities and advance longer-term strategies related to southeast Michigan's role and asset base in homeland security. MSN has identified three key areas offering the greatest growth potential for the state: cyber security, border security, and biodefense. It will focus on helping Michigan businesses identify critical technology needs and coordinate a virtual business accelerator with existing university R&D centers.
- *Assessment of Michigan's Supply Chain Assets*. Grant to Michigan State University to assess southeast Michigan's supply chain assets in partnership with the Detroit Regional Chamber and Wayne State University. The grantees are examining the viability of actively retooling and expanding the global transportation and logistics industry locally.
- *Great Lakes Economic Initiative*. Grant to the Brookings Institution to support research and policy development as well as the implementation of key research and policy recommendations to improve the economic vitality of the Great Lakes region. The grant will be used to develop and disseminate economic research, analysis, and public policy recommendations; organize and network southeast Michigan leaders; and ensure that southeast Michigan is a full partner in advancing multi-state and federal economic policies and reforms.

Module 3: Build and employ a more skilled and educated workforce

- *Health/Life/Bioscience research strategy.* Grant to Business Leaders for Michigan to support a process to engage primary life science leaders and stakeholders and to build a health/life/bioscience initiative. The initiative will establish a working group to identify key assets, common goals, and potential leaders and begin developing a strategy.

- *Intern in Michigan Program.* Grant to the Detroit Regional Chamber to support the development and implementation of a statewide system to place 25,000 students in Michigan-based internships. The first phase of the initiative includes the design and launch of a statewide web-based tool.

Other Strategies and Activities

Culture Change

In addition to grants under the three modules, NEI made a grant to Business Leaders of Michigan to promote culture change in the region through establishment of the *Detroit Regional News Hub,* a regional media relations organization. Activities will include: 1) communication of under-reported information about the region's growth, diversity, employment opportunities, and quality of life; 2) development of relationships with national and international media to communicate Detroit developments, trends, and relevance; 3) implementation of new forms of social media to reach young, targeted audiences and 4) development of a grassroots network to serve as ambassadors and message carriers.

LEARNINGS TO DATE

David Egner, the executive director of NEI, noted some of the following key learnings associated with the work to date.

1. **The commitment of a large national foundation, like Ford, was essential to getting NEI started and gaining the involvement of local foundations.** The Community Foundation had been thinking about an initiative like this, but the critical step was the involvement of the Ford Foundation. If Ford had not committed to investing $25 million, the initiative may not have happened. Once Ford came in, Kellogg, Kresge, and others followed. The local foundations had to get through their own processes, but they came on board after the national foundations.

2 **A core group of engaged and actively involved foundation leaders is critical.** The leadership skills and style of the chair and a few other foundation leaders were essential ingredients to the keeping the Initiative cohesive and effective.

3. **The structure of NEI works because it is not overly complex and bureaucratic.** The Initiative is overseen by the **Governing Council,** which meets quarterly. The **Executive Committee (EC)** meets every two or three weeks and makes the more immediate and timely decisions, particularly around funding. The EC can act literally within days of getting a request or can respond quickly to a funding decision.

4. **The Council of Economic Advisors lends a great deal of credibility that NEI could not get otherwise.** The Council is a group of five to seven national experts with an understanding of economic issues and data. This is a critical component to the structure of the NEI.

5. **The first year of the Initiative was quite challenging.** The initial staff lacked foundation experience and, therefore, struggled to understand how the foundation culture and the grantmaking system worked. Too many projects were given consideration, and several of the initial programs presented for grants were not fully conceived. Also, the focus of the Council meetings was not as sharp and prioritized as it could have been, and the members were not as effectively as engaged as they could have been.

6. **The hybrid staffing system, involving loaned staff and contracted staff, has been effective.** Hudson-Webber and the Community Foundation have contractual arrangements with the NEI. Balancing staff time between the foundations and NEI is a challenge, but everyone has been flexible. Also, staff who come out of the foundation world understand the culture and protocols of grantmaking and investments.

> *"It's a hybrid, and we could not have foreseen all of the issues that developed. But, we evolved."*

7. **The "Beyond the Money" role is critical to the work.** Beyond the Money means being on the ground and playing an entrepreneurial role with people and businesses and organizations in the community. This has been essential in the work.

> *"We spend tons of time with grantees. Our role on the streets is to help connect people, businesses, and organizations to the various networks in the city and region — this helps to mitigate risk and advance progress."*

8. **The programs work because they grew out of research and analysis.** NEI undertook considerable planning to identify those activities that it believed could be transformative and that would directly address the specific challenges and opportunities in the region. Some research was undertaken by area universities and the Council of Economic Advisors played a key role. Also, the "Dashboard" that was developed by the Fund for Our Economic Future was helpful in understanding what NEI could/should focus on.

9. **Race and poverty have to be addressed, but this is a long-term and complex challenge.** Nonetheless, every grant proposal has to address the question, "What's the impact on race and poverty?" In some cases, there is not an answer, or the answer is nothing at all.

10. **Patience and flexibility are paramount to any initiative like this.** Transformation will take decades and results will not show for several years. Also, building a culture of innovation and entrepreneurship takes time. NEI's approach is to be patient, to be flexible, and to be entrepreneurial in it approach and behavior. Also, its strategies of today might look different from those of next year or the years ahead.

> *"We're erring on the side of funding 'good' projects instead of trying to get 'perfect' projects, and going with what we think is right."*

11. **Entrepreneurial Development is one program area that holds significant promise.** In spite of the need to take a long-term view, the TechTown program at

Wayne State and the pending Micro Loan program connected to FastTrac have the potential to make a significant difference in Entrepreneurial Development. The number of people who have been involved in these programs is substantial and could lead to new businesses and enterprises.

12. **Two other areas also have potential.** The Intern in Michigan Program could lead to a scaling up of Talent Retention, and NEI could capitalize on its proximity to Canada by engaging in cross-border trade and commerce. Again, each of these programs will not see quantifiable results in the immediate term, but over time they could push the economic transformation process along.

FUND FOR OUR ECONOMIC FUTURE, NORTHEAST OHIO

OVERVIEW

The Fund for Our Economic Future is a regional collaboration of Northeast Ohio foundations "formed to encourage and advance a regional competitiveness agenda which will lead to long-term economic revitalization that strengthens our region's core cities, encourages inclusion and enhances the region's quality of life." Established in 2004, the Fund has raised more than $60 million from almost 100 foundations and other member organizations, and has made grants in excess of $50 million. Most of its grantmaking has focused on business development, including entrepreneurship, business recruitment, manufacturing retention, minority business development, and technology cluster development. It has also funded workforce development initiatives and efforts to strengthen collaboration among local governments. In addition to its grantmaking, the Fund has organized extensive civic engagement activities and funded research to support the development of goals and funding priorities.

Geographic Scope

The Fund covers a 16-county region that includes five metropolitan statistical areas — Cleveland, Akron, Canton, Youngstown, and Mansfield — and four micropolitan statistical areas.

Formation

In April 2003, the community foundations from Cleveland, Akron, Canton, and Lorain as well as the GAR Foundation convened a group of foundation representatives to discuss how they might collaborate to more effectively make grants for the purpose of strengthening the region's economy. The foundations agreed that they could make a greater impact by directing their individual grantmaking resources to a small number of high-quality organizations rather than through a scatter-shot approach of funding many organizations in isolation from one another. They also viewed the initiative as a way to demonstrate to the foundation community the benefits of collaborative funding efforts.

When the Fund was initially established, funders made a three-year commitment. It was understood that the Fund would assess its progress and impact before deciding whether to ask funders to make a follow-on commitment. Toward the end of the three-year period, the Fund developed and circulated a Phase 2 strategy proposal that summarized accomplishments to date and charted out a course for the following three years, now formally defined as "Phase 2." Virtually all of the funders agreed to commit to Phase 2, which will be completed on February 28, 2010. A similar process was undertaken to determine whether a Phase 3 should be initiated. While all but three funders have committed to this third round of funding to date, the Cleveland Foundation, the Fund's largest supporter, decided to dramatically scale back its commitment, citing the Fund's expansion to a 16-county footprint as too geographically broad for its traditional

Cleveland focus and over a desire to direct its grantmaking. At the same, the Cleveland Foundation publicly committed to supporting the grantees of the Fund. The Fund expects to raise about $16 million in Phase 3, little more than half what it raised in Phase 2; however, the Fund anticipated a reduction in Phase 3 resources and anticipates a budget that is roughly 20 percent lower than Phase 2. Between the work of the Cleveland Foundation and the Fund, the net impact on the grantees of the work should be negligible.

Structure of the Collaborative

The Fund is comprised of almost 100 organizations. Since its formation in 2004, the vast majority of Fund participants have been foundations based in the region, but a number of business groups, corporations, and individuals have participated. In Phase 2 (2007-2010), its membership expanded to include several foundations representing healthcare and higher education institutions. Participants in the Fund actively manage its work through three levels of participation:

1. Committees, known as Action Area Teams, which evaluate grantmaking opportunities, monitor the performance of grantees, translate research into recommendations, and identify opportunities to engage the region in new initiatives. There are five Action Area Teams aligned with the Fund's four priority areas: Business Growth & Attraction (two separate action teams, one focused on innovation and entrepreneurship and the second on business attraction and growth serve this action area), Talent Development, Racial & Economic Inclusion, and Government Collaboration & Efficiency.

2. A Steering Committee, which is responsible for reviewing the recommendations of the Action Area Teams and deciding which funding initiatives will move to the Funders Committee for consideration. The committee consists of members who have contributed $1 million or more to the Fund, plus four at-large members.

3. A Funders Committee, which is the decision-making body of the Fund. The Funders Committee consists of members who have committed at least $100,000 for a three-year phase of the Fund.

The Fund began as an informal collaboration established through a memorandum of understanding. Fund staff were loaned from some of the larger constituent foundations. By the beginning of the Fund's second three-year phase in 2007, members added a small paid staff and decided in 2009 to become a formal entity and the Fund was granted 501(c)3 status in December 2009. The Fund has a full-time staff of five, including its president, director of operations and finance, director of marketing, communications, and civic outreach, a Fund fellow, and an administrative assistant. The Fund also relies heavily on the contributions of professional staff from some of its constituent organizations.

Development of Grantmaking Strategy

The initial grantmaking strategy was developed prior to the formal initiation of the Fund by a small team consisting of representatives of five foundations and the Ohio Grantmakers Forum. The team identified three areas of strategic focus, all related to business development:

- support competitiveness of established firms;
- create new high growth industry clusters through technology innovation; and
- foster entrepreneurship and business formation/acceleration.

After the Fund was established, it undertook two research and civic engagement initiatives that helped it to both broaden and sharpen its strategic focus.

First, it assembled a Council of Regional Economic Advisors and hired a team of economic researchers to develop what became the Dashboard of Economic Indicators. The research team identified key measures of regional economic health (i.e., employment growth, per capita income growth, regional change in gross metropolitan product, and change in productivity) and identified a set of quantitative indicators that was strongly correlated with these measures (e.g., workforce skills, locational amenities, levels of entrepreneurship). It then benchmarked Northern Ohio MSAs against other similarly sized MSAs according to these indicators. It continues to publish the Dashboard annually to show changes in Northeast Ohio's position relative to other MSAs.

Second, it organized a major community engagement process called Voices and Choices. This involved conducting an extensive public outreach and education effort and organizing a series of small meetings and larger forums throughout the region. Approximately 20,000 residents participated in this initiative, which culminated in a report laying out priorities for regional economic development based on participant input.

These two initiatives had an important impact on the Fund's strategic focus as it entered its second three-year phase. First, it helped the Fund more clearly identify "what matters" in regional economic development, both in terms of statistical measures and community aspirations. This led the Fund to identify four priority areas that would be the focus of its work: business growth and attraction, talent development, racial and economic inclusion, and local government collaboration to increase the efficiency of public service delivery and reduce wasteful competition for business growth. Second, the Dashboard helped the Fund more clearly articulate its economic development goals, refine its grantmaking criteria, and establish more rigorous metrics for grantee performance. Third, Voices and Choices provided a basis for launching Advance Northeast Ohio, an effort to persuade a larger group of stakeholders to endorse the Fund's goals and to align regional economic development activities around these goals. Over 80 organizations, institutions, and regional leaders have endorsed the priorities that emerged from Voices and Choices. The Fund views Advance Northeast Ohio as a potential vehicle to carry out its agenda over the long term.

INVESTMENT ACTIVITIES

Most of the Fund's large grant investments have gone to six organizations involved in business development. These six organizations have received between $2 and $9 million each. Four of the organizations were established before receiving their initial Fund support; but those four (BioEnterprise, JumpStart, NorTech and Team NEO) were either very young or were going through significant transitions when the Fund was formed and each of them relied heavily on the Fund for core funding. The Fund's other large investment, more than $3 million, was in Voices and Choices.

Traded Sector Cluster Development

- *BioEnterprise.* A collaboration of the region's major biomedical research institutions, BioEnterprise provides biomedical firms with business assistance, connects them with technical and financial resources, and works to attract risk financing and research funding to the region. It has worked with over 150 companies, helping them to raise approximately $900 million in financing.

Innovation Promotion

- *NorTech.* NorTech's mission is to lead, link, and leverage the region's technology and innovation assets. It has either led or supported the development of a number of collaboratives to promote research and technology commercialization in areas of regional technology strength, including polymers, electronics, fuel cells, and nanotechnology. Presently, it is focused on expanding the region's advanced energy and flexible electronics industry clusters. It was a primary driver in the development of the state of Ohio's multi-billion dollar Third Frontier technology development program.

Business Climate and Marketing

- *Team NEO.* A partnership of several county-level economic development organizations, Team NEO plays the lead role in regional industry marketing and recruitment. Since 2007, Team NEO has helped attract about 30 companies with more than $130 million in payroll and 3,000 jobs. By working in partnership with local economic development groups, it has also helped reduce intra-regional competition.

Entrepreneurial Development, Microbusinesses, and Small Business Support

- *JumpStart.* JumpStart's mission is to accelerate the growth of early-stage businesses and ideas into venture-ready companies through financing and technical assistance. By late 2009, the organization had directly invested in 45 companies that had raised more than $100 million in follow-on capital. Other companies assisted by JumpStart had raised more than $30 million in growth capital.

- *Minority Business Accelerator 2.5+.* The MBA 2.5+ is a startup collaboration organized by the Fund. It works with minority-owned enterprises to increase their capacity and create new business opportunities so that they can boost sales and employment. Its primary focus has been to increase procurement opportunities with large firms and institutions. In its first two years of operations, it assisted 16 companies to secure contracts totaling more than $55 million.

Business Retention/Business Competitiveness

- *Manufacturing Advocacy and Growth Network (MAGNET).* MAGNET assists manufacturers with new product innovation, plant expansions, and productivity initiatives. The Fund worked with the region's manufacturing community to create MAGNET from the region's longstanding, but more limited, advanced manufacturing program. MAGNET is working with BioEnterprise to assist more of the region's manufacturers to serve the medical manufacturing sector and recently launched a program to assist automotive manufacturers to diversify into growing markets and an Eco-Smart manufacturing program to help manufacturers adopt environmental measures.

Workforce Development

- *The Regional Talent Network.* The Regional Talent Network is an employer-led regional collaboration to revamp the way workers are trained and prepared for employment. Its objectives include better aligning workforce and economic development, developing a stronger industry sector focus, and promoting the adoption of national best practices. Partners include the state of Ohio, higher education institutions, chambers of commerce, and workforce development entities.
- *Education Works.* Education Works is a regional group of leaders in education, policy, and business promoting the adoption of curricula grounded in the 21st century learning principles that emphasize critical thinking, problem solving, communication, global awareness, and other "soft" but essential skills. The group supports pilot innovation initiatives.

Government Collaboration and Efficiency

- *Regional Prosperity Initiative.* The Northeast Ohio Mayors & City Managers Association is leading this initiative to develop a framework to implement regional infrastructure planning that will promote balanced growth and establish revenue sharing mechanisms to reduce intra-regional competition and discourage sprawl.
- *EfficientGovNow.* This competitive grant program is designed to encourage the region's local governments to collaborate to deliver services and to increase public support for government collaboration. The collaborations that receive the grants are determined by a public vote.

Other Strategies and Activities

Research

The Fund sponsors research to inform the development and implementation of regional economic development initiatives. In addition to the Dashboard of Economic Indicators, the Fund supports the Barometer of Economic Attitudes, a survey designed to measure the public's perception of the region's general economic progress as well as opinions on regionalism and economic development initiatives. Other research supported by the Fund has included studies on the cost of local government, municipal revenue sharing, and the feasibility of wind energy development.

Civic Engagement

In addition to sponsoring Voices and Choices, the Fund is now building a new resident-led process to advance policy changes that strengthen the region's economic competitiveness. This new effort will be driven by civic journalism and social media programs that will employ both online tools and more traditional grassroots efforts.

Inclusion

The Fund places a strong emphasis on racial and economic inclusion with all its grantees. This involves requiring grantees to establish goals and metrics for minority participation in their activities and requiring reporting on performance relative to metrics. The Racial and Economic Inclusion Team is charged with overseeing goal development and grantee performance in this regard.

LEARNINGS TO DATE

1. **The structure of one foundation, one vote is hugely important**. There are nearly 70 voting members of the Fund. Rather than weighting votes based upon size, each foundation has an equal voice on all decisions. This structure has had an extraordinary value in a number of ways. Most importantly, it has helped to broaden the network that the Fund touches. Each of the members has his/her own boards. So through the process, the Fund is able to connect with a broad set of stakeholders from throughout the region.

2. **The role the Fund plays beyond grantmaking is extremely important and as such requires appropriate resource allocation**. Over time, the Fund has learned that the role it plays in the region goes well beyond its ability to make grants. Initially, it did not fully recognize the importance of its convening and networking activities and so did not appropriately staff the organization. The original model of working with loaned staff did not provide the capacity that was really needed. A loaned staff model can work for a short time, but over the longer term it is important to appropriately staff the collaborative and to recognize the level of staffing needed to effectively play the "beyond the money" role.

   > "It is critical to put significant effort and resources into sustained engagement and communication. Initially, the Fund under-resourced the communications and engagement effort. The Fund is fundamentally about getting people and institutions to connect in new ways. We are trying to get the city rewired. This requires a lot of work on the connective tissue."

3. **The work needs to take place at two levels: developing a portfolio of projects and using that portfolio as a jumping off point for intervening in the larger system.** Transforming an economy in the end requires changing a wide variety of "systems," for example, the educational, entrepreneurial, and governmental systems. The Fund's portfolio of grants is the entry point into understanding these systems, becoming part of the networks in these systems, and identifying strategies for system improvements.

   > "One must move beyond "cool projects" and look to transformational impact. The Fund is not just investing in innovative projects; it is seeking to have a more sustainable impact."

4. **In promoting system change, it is important to focus on creating an "army of the willing" rather than spending time and resources trying to convince naysayers**. The strategy of the Fund is to work with and build a strong network of individuals involved in each of the "systems" who understand the challenges and are committed to change. If the focus is on this group, over time the others will come along. Spending a considerable amount of time trying to convince those who are stuck or negative is unlikely to yield results.

5. **An effective collaborative operates more like an investment banker than a mutual fund — making deals happen and helping to structure deals.** The Fund plays a very proactive role in structuring its investments and working with its grantees once the investment has been made. Many of its grantees have gone through leadership changes and restructuring and the Fund has had to play a role in this process.

6. **Creating a more fertile entrepreneurial environment is a critical part of its "transformational" strategy.** The investments in JumpStart and BioEnterprise are just part of this larger strategy. It is in creating a more entrepreneurial environment, as measured through increased venture activity, that the Fund sees one of its more transformational outcomes.

7. **Intervening in the talent area to address the inefficiencies and ineffectiveness of the workforce system has been the most difficult, but necessary, area of work.** The Fund struggled to find the appropriate point of intervention in the talent area. While it recognized how important this issue was, it found the systems difficult to penetrate. For example, in the workforce area, while the system had a lot of money flowing through it, most employers had opted out of participating in the government controlled bureaucracy that drives workforce training. The Fund's initial efforts to support further workforce-related planning proved ineffective. In response, the focus now is on how to get the employers back into the system and to bring to scale some of the existing good practices by replicating these efforts throughout the region.

8. **Working with universities is critical, but the focus needs to be on areas of mutual interest.** The Fund did not try to change how the institutions of higher education in the region operated. Instead, it focused on where the intersection was between the interests of the community and the interests of the institutions. The Fund identified two areas of intersection — innovation/commercialization and talent development. While there is also a potential intersection around "place-making," the Fund did not focus on this area.

9. **Embedding the idea of regionalism is one of the more important outcomes that the Fund has achieved, but success requires ongoing investment in networking and communications.** The Fund believes that it has embedded the idea that regionalism represents a collaborative way to address the economic challenges and opportunities facing individual communities and has been somewhat successful in getting the concept of regionalism more into the collective consciousness. The Fund made a significant investment in this area, first with Voices and Choices and then with Advance Northeast Ohio. It also funded regional intermediaries who have strengthened the message. In short, there has been a steady drumbeat and the fact that it is the funders who are beating the drum is very powerful.

10. **Making the case that a broad, transformative, regional approach is critical to addressing urban poverty and racial inequities requires a strong communication and engagement strategy.** The Fund strongly believes that it can most effectively address poverty in the region by addressing the regional land use and governance issues. The most important thing it can do is to put in place the kind of regionalism that serves the community's collective desires vs. the ad hoc regionalism that prevails today. In this context, the Fund believed strongly in strengthening the urban core. However, there were many skeptics who believed that the Fund was spatially agnostic and were concerned that the foundation money going for regional efforts would mean less money going to the cities. The Fund now notes that it did not put sufficient efforts into a sustainable communication and engagement process to address these types of concerns.

> *"Our strong central belief is that saving the core requires strengthening the whole. Our efforts around land use planning and regional revenue sharing are the most important things that we can do for poor people."*

11. **The issue of government reform has become increasingly important, yet a continuing struggle.** Working on government reform is very challenging given the number of players. And, the Fund has not yet cracked the code on whom to work with at the local governmental level. While there are a number of great leaders, there are so many local governmental players that it is difficult to develop an effective reform strategy.

12. **It is important to pay to get the best talent.** The Fund believes that to be an innovative and effective organization requires the top talent, and that you need to pay appropriately for this talent. The Fund encourages its grantees to pay the wages needed to get the talent that is necessary. This has paid off.

13. **One has to be prepared to fail.** The Fund does not expect every investment to succeed. If it were not prepared to have failures, it would also be less likely to experiment and support innovative thinking.

14. **Often the most important transformative work is also the most difficult to measure.** Foundations are often overly concerned with short-term, quantifiable metrics. The Fund has found that some of its most important outcomes involved changing the way people and organizations in the region think, creating new networks and relationships, and leveraging change in systems. These activities are not easily quantified.

OVERVIEW OF BACKGROUND MATERIALS

What follows are documents that we think are valuable reading in preparation for our March 5 roundtable, "Changing the Trajectory of an Urban Economy: What Can Large Scale Flexible Funding Do?"

We have grouped these documents into five categories:

- Economic Development – General
- Entrepreneurship/Innovation
- Workforce Development
- Clusters, Anchor Institutions and Other Strategies
- Cleveland/Detroit

We hope you'll find these thought-provoking and that they form a good basis for our discussions. In addition to the articles and reports themselves, we've included quick summaries and links to each document for your perusal.

In addition, we suggest you read the briefing papers, found in Section 2, that describe the New Economy Initiative in southeast Michigan and the Fund for Our Economic Future in northeastern Ohio.

GENERAL ECONOMIC DEVELOPMENT

"WHAT WORKS IN STATE ECONOMIC DEVELOPMENT?"

This solid if a touch dry overview reviews the various strategies that government can employ to spur economic development. The document offers quick explanations and evaluations of tactics from incentives to lure in new businesses, to programs to support entrepreneurs, to sectoral development strategies.
By Timothy Bartik, Senior Economist, W.E. Upjohn Institute for Employment Research, 2009
http://www.familyimpactseminars.org/s_wifis27c02.pdf

"THE INNER CITY 100: A TEN-YEAR PERSPECTIVE"

This statistical snapshot of the most successful inner-city companies over the past decade starts with a portrait of which businesses succeed and grow. It then offers insights into what these companies need to expand further, bringing even more jobs into their neighborhoods. The report offers quick and interesting facts about the businesses, such as the facts that they tend to be in the service sector, contract with government, have young CEOs, and offer better benefits packages to their workers than peer firms.
The Initiative for a Competitive Inner City (ICIC), 2010
http://bit.ly/aIH0Bj

"THIS WORKS: ENCOURAGING ECONOMIC GROWTH"

This bulletin from a right-of-center think-tank makes a thoughtful case for investing in business growth as a central solution for entrenched poverty in urban centers. The report offers 31 solid if occasionally-vague recommendations for policymakers: from developing an "early-warning" system to find out when existing businesses may be in trouble to expanding access to the Earned Income Tax Credit.
Center for Civic Innovation, Manhattan Institute. 2003.
http://www.community-wealth.org/_pdfs/articles-publications/anchors/paper-amirkhanian.pdf

ENTREPRENEURSHIP/INNOVATION

"ENTREPRENEURSHIP SUMMIT EXECUTIVE SUMMARY"

Supporting local entrepreneurs is tricky work for government, which has tended to be more comfortable doing things like giving tax breaks to large companies. This brief and readable summary is full of examples and recommendations for

cities that want to dive into it. Their recommendations are provocative, as they urge government to focus on helping entrepreneurs make connections and build networks.
The Ewing Marion Kauffman Foundation and the International Economic Development Council, 2008.
http://www.kauffman.org/uploadedfiles/entrepreneurshipsummitpaper9-03.pdf

"ON THE ROAD TO AN ENTREPRENEURIAL ECONOMY: A RESEARCH AND POLICY GUIDE"

The Kauffman Foundation is unique among philanthropic institutions in focusing on promoting and supporting private enterprise. In this engaging report, it shares insights it has learned from successful entrepreneurs as to what they needed to succeed. The conclusions straddle political ideologies, urging reforms in health care, education, torts and regulation.
The Ewing Marion Kauffman Foundation, 2007.
http://www.kauffman.org/uploadedFiles/entrepreneurial_roadmap_2.pdf

"A WORLD OF OPPORTUNITY"

This through report makes a strong case for investing in immigrant entrepreneurs: The data clearly shows that in many cities, from New York to Los Angeles, immigrants have driven local economies even more than native-born residents. The report mostly focuses on New York City, where CUF argues that the impact of newcomers could be much stronger, if policymakers instituted policies to support immigrant businesspeople.
The Center for an Urban Future, 2007
http://www.nycfuture.org/images_pdfs/pdfs/IE-final.pdf

WORKFORCE DEVELOPMENT

"THE ECONOMIC DEVELOPMENT AND WORKFORCE DEVELOPMENT SYSTEMS: A BRIEFING PAPER"

If there is a consensus among funders and policy makers about anything, it's that you have to simultaneously stimulate job growth while preparing people for jobs. Doing economic development without workforce development, and vice-versa, just doesn't work. This primer offers a rundown on each system, looks at the key players in each, and makes brief recommendations on how to better coordinate the two.
Mt. Auburn Associates, 2009
http://bit.ly/6xAlc9

"A TALE OF TWO SYSTEMS: LINKING ECONOMIC DEVELOPMENT AND WORKFORCE DEVELOPMENT"

Despite their obvious connections, the systems that encourage businesses to grow and offer job training to workers have typically had little to do with each another. Until recently. This report ably details an ongoing policy transformation, in a thorough study of three states that have embraced innovation: North Carolina, Illinois and Pennsylvania. Its conclusion? Links between employers and job training are laudable, but not easy.
Seedco Policy Center, 2009
http://www.seedco.org/documents/publications/Seedco_ED_WD_PolicyReport.pdf

CLUSTERS, ANCHOR INSTITUTIONS AND OTHER STRATEGIES

"THE GEOGRAPHY OF INNOVATION: THE FEDERAL GOVERNMENT AND THE GROWTH OF REGIONAL INNOVATION CLUSTERS"

New businesses don't just spring up in random places, but they tend to clump together in particular areas, often called regional innovation clusters, like the high-tech industry in Silicon Valley and biotechnology in greater Boston. Metro areas seeking to boost their economies and add jobs must work to develop the infrastructure to support such clusters, this report argues.
By Jonathan Sallet, Ed Paisley, and Justin Masterman, 2009
http://www.scienceprogress.org/wp-content/uploads/2009/09/eda_paper.pdf

“BUYING LOCAL ON A LARGE SCALE”

It’s becoming increasingly clear that anchor institutions – universities, hospitals and the like – play an essential role in urban economies. Most recently, city leaders are seeking to encourage these institutions to buy local, to procure their goods and services from urban firms. This article profiles several of those efforts – including a new worker-owned laundry in Cleveland that is washing uniforms and bedclothes for local institutions.
By John Tozzi, Business Week, Feb. 2010
http://www.businessweek.com/print/smallbiz/content/feb2010/sb20100212_832582.htm

CLEVELAND/DETROIT

“THE DETROIT PROJECT”

This compelling article starts out with the dismal facts about Detroit’s current reality, but quickly points out that cities in equally tough situations have recovered before, from Belfast to Turin. It then argues that Detroit too can turn around – with federal help and a commitment to grow smaller and smarter.
By Bruce Katz and Jennifer Bradley, The New Republic, December 2009
http://www.tnr.com/print/article/metro-policy/the-detroit-project

“A MIDWESTERN MARSHALL PLAN? WELL, SORT OF”

A short primer that calls for rebuilding the Midwest around emerging industries, from clean-water to nanotechnology. To get there, the author argues, will require not just federal support – but regional cooperation.
By Richard Longworth, Global Midwest Policy Brief, 2009
http://bit.ly/bLUrl4

“MICHIGAN – THE “CAR CAPITAL” AS CRUCIBLE OF MIDWEST ECONOMIC TRANSFORMATION”

The diminishment of the auto industry isn’t a death sentence, but an opportunity, this policy brief argues. The Midwest has a great base to build off of, including leading research universities and a skilled workforce, as it seeks to develop 21st Century industries.
By John C. Austin, Global Midwest Policy Brief, 2009
http://bit.ly/XexBg

“RESTORING PROSPERITY: TRANSFORMING OHIO’S COMMUNITIES FOR THE NEXT ECONOMY”

This report takes all of the more general calls for transforming Rust Belt economies and puts detail to it, in a detailed and thorough set of policy recommendations. The report touches on everything from waterfront development to school district administration.
The Greater Ohio Policy Center and The Brookings Institution, 2010
http://greaterohio.org/files/quick-downloads/restoring-prosperity-report.pdf

What Works in State Economic Development?

by Timothy Bartik
Senior Economist
W.E. Upjohn Institute for Employment Research

Timothy Bartik

To raise per capita earnings requires a dual focus on labor demand and labor supply. To improve labor demand, entrepreneurship training has the most rigorous evidence of effectiveness. Incentives for large corporations work better if focused on up-front, in-kind supports. Small and medium-sized businesses benefit from assistance with planning, marketing, technology, and government regulations. To improve labor supply, job training programs like Career Academies are effective because they incorporate the needs of employers and connect trainees with job vacancies. To get the most "bang for the buck," effective policies focus on people and businesses already in the state, particularly those in more malleable stages of their own development. For example, new start-ups or companies facing significant competition are often more responsive to policy interventions. Universal preschool provided early in life has, in the long run, over twice the projected annual impact on jobs of business subsidies.

The economy is the preeminent issue in 2009. This is true both at the federal and state level. At the state level, economic policy discussions are dominated by debate over what is called "economic development policy." Why is state economic development so important? How will we know if we are successful in our development efforts?

We could give many definitions of what we mean by "economic development." For example, state economic development has been defined as increases in the productivity with which all resources in the state are used.

But such discussion can be made more concrete by defining state economic development by its economic benefits. Economic growth or other changes in the Wisconsin economy can produce the following benefits:

- gains in earnings for the residents of Wisconsin, due to becoming employed or moving up to better jobs,
- gains in profit for businesses located in the state,
- gains in the value of Wisconsin land and real estate,
- gains to state and local governments in Wisconsin, in the form of increased tax revenue exceeding incremental public service costs, or
- gains to in-migrants to the state.

Evidence suggests that the most important gain is the increase in earnings of state residents. Studies suggest that such earnings gains are likely to be 70% of the total gains from successful state economic development policies.[1] Therefore, the primary purpose of state economic development policies is to increase the per capita earnings of the original state residents.

The primary purpose of state economic development policies is to increase per capita earnings of original state residents.

Why distinguish between different types of gains? Doesn't all economic growth create gains in all these areas? Perhaps. But not all types of economic development have equal effects on resident earnings. So if we focus on increasing per capita earnings, we may choose different policies than if we valued growth and development in and of itself. Maximizing the earnings gains of state residents, versus maximizing state economic growth, are related but distinct goals. The policies that maximize per capita earnings gains may be quite different from policies that maximize economic growth.

Since our main goal is increasing per capita earnings, economic development is best understood in terms of the labor market. We can enhance per capita earnings by increasing the quantity and quality of both labor demand and labor supply. Therefore, promising interventions for state economic development fall into two categories: interventions to increase (1) labor demand, and (2) labor supply.

First, what happens to labor demand has large impacts on employment rates and wage rates throughout a state. Labor demand is the quantity of labor needed and the quality of jobs that are offered.

An estimated 60% to 70% of people stay in the same state over their working careers.

Second, policies that increase the quantity and quality of the labor supply can grow the economy. Contrary to what is sometimes thought, if policy invests in developing the skills of young people, many of those young people will stick around to augment the supply of skills for the area. Among all persons, somewhere in the range of 60% to 70% stay in the same state over their working careers.[2]

Importantly, labor demand and supply interact with each other. An increase in labor supply will help to stimulate labor demand. Evidence suggests that an increase in labor supply probably stimulates labor demand by at least two-thirds of the supply increase.[3] This is because additional labor attracts employers, and additional higher-skilled labor attracts employers with more skilled jobs. In this chapter, I first discuss selected strategies for increasing labor demand followed by strategies for strengthening labor supply.

Labor Demand Strategies

When states explicitly focus on growing their economies, they generally use labor demand policies: policies that increase the number or quality of jobs in a state. More available jobs in a labor market offer great potential for gains in per capita earnings. Stronger labor demand can also improve the distribution of income, meaning low-income groups gain proportionately more than upper-income groups.[4]

Explicit state labor demand policies generally take the form of "economic development programs." Economic development programs typically provide assistance to business that is, to some degree, customized or targeted to particular types of businesses or to business expansion or location decisions. This assistance to individual businesses may be some type of cash assistance, such as tax incentives. Or this assistance to individual businesses may take the form of customized services. The rationale for targeting business assistance is that such targeting may be more effective at inducing business expansions and increasing earnings for state residents.

The evidence regarding the effectiveness of a wide variety of "economic development programs" is reviewed here.

Business Attraction and Incentives

A persistent goal of many economic development efforts is to attract large corporations that pay good wages and have sizable multiplier effects. By multiplier effects, I mean increases in business for local suppliers and additional personal income spent at local retailers. An estimated 15,000 American economic development organizations are pursuing those 1,500 major location or expansion decisions in a given year, a 10 to 1 ratio.[5]

Many business incentives can be offered to large corporations to entice them to locate or expand in an area. By business incentives, I mean assistance that to some degree is discretionary or customized to the individual situation of the business and its location or expansion decisions. An estimated two thirds of incentives are financial (e.g., grants, loans, loan guarantees, and tax incentives). Of these, most are tax incentives,[6] such as property tax abatements or job tax credits tied to the number of workers hired.

Business incentives are typically targeted at what regional economists call "export-base businesses." In this case, "export-base" does not necessarily refer to exports to foreign countries, but whether the business attracts dollars from outside the state. For example, an export-base business in Wisconsin would be one that sold its goods (or services) to households or businesses in Minnesota, Illinois, etc. Export-base businesses would include businesses that sell their goods or services to tourists from other states or foreign countries. Export-base businesses also include cases in which the business's growth is substituting for goods or services that otherwise would be imported from other states. In all these cases, an increase in the business activity brings new dollars into the state. These new dollars, in turn, are respent by these businesses on business suppliers in the state, and by these businesses' workers on retailers in the state. This respending creates multiplier effects that expand the employment impact beyond the business that is providing the incentives.

The conventional wisdom in regional economics is that providing financial incentives to businesses that are NOT export-base businesses is a bad strategy. This is a bad strategy because any expansion at assisted businesses is likely to reduce employment at similar local unassisted businesses. For example, providing financial assistance to help a local restaurant expand may help that individual business. But it does little to increase total local demand for restaurants. As a result, any expansion in the assisted restaurant's sales and employment is likely to come at the expense of reduced sales and employment in other local restaurants.

Financial incentives have modest although possibly important effects on business location decisions, but at a large cost per new job.

Effects of Financial Incentives

Research suggests that financial incentives are likely to have modest although possibly important effects on business location decisions, but at a large cost per new job. A 10% reduction in state and local business taxes will increase the long-run business activity and employment in a state, or the number of new

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plants choosing the state, by about 2% or 3%. While this job creation may provide significant economic benefits for state residents, this growth will not pay for itself. That is, the expansion of the tax base is insufficient to offset the loss of revenue from the business tax reduction. Thus, creating a new job in a state or metropolitan area requires foregoing about $7,000 annually in business tax revenue.[7, 8, 9, 10, 11, 12]

Are there ways to increase the cost-effectiveness of incentives? One idea is to offer more of the incentive up front. The average executive locating a new plant is seeking to go into production quickly and meet profit targets; thus, a property tax abatement 10 years from now is close to irrelevant. If incentives are offered more up front, it becomes important to consider what to do if the plant subsequently relocates or closes. One option is to combine incentives with legally binding "clawback" agreements, under which a portion of the up-front incentive will be recovered from the company if it relocates or closes the plant, or does not meet other "performance goals." Or incentives can be shifted towards training and infrastructure incentives, which will remain behind even if the company leaves the state.

Targeting Incentives

Incentives can also be targeted on businesses likely to offer the greatest economic benefits, such as firms that pay higher wages, hire local workers who would otherwise not be employed, and are more likely to use local suppliers. In addition, incentives can be targeted on businesses offering the lowest environmental costs or greatest environmental benefits, such as cleaning up contaminated brownfield sites.

States can attempt to restrict incentives to firms for which the incentive will be decisive in tipping the location decision, although it is difficult to identify these situations. One way states have tried to do this is by requiring documentation from the firm. For example, the Michigan Economic Growth Authority tax credit program requires applicant firms to present financial data to the state showing that the credit is needed for a Michigan site to be superior to a non-Michigan site.[13] However, there are reasons to be skeptical that such requirements are effective. Because state economic development officials cannot read the minds of businesses making location decisions, it is difficult to tell whether the incentive is really needed to tip the location decision.

Training Incentives

Customized job training incentives are 10 to 16 times more effective in creating jobs than tax incentives.

States have also provided incentives in the form of customized job training. Under such programs, new or expanding businesses are provided with free training, typically provided by community colleges, that is customized to the individual business's needs for worker skills. Customized job training incentives are 10 to 16 times more effective in jobs created per dollar of incentive than tax incentives.[14, 15] North Carolina is probably the leading state providing such customized training services.[16, 17]

Customized job training programs are sometimes tied to efforts to encourage new or expanding businesses to hire unemployed local residents. "First source" programs help screen and train the unemployed workers so that they are relatively productive hires. This can be done with aggressive screening and training, accompanied by consultation with the employer about what skills are needed.

Examples of effective "first-source" programs include the Berkeley First Source Program, and the former JobNet program in Portland, Oregon.[18, 19]

Additional Incentive Options

Large corporations are frequently seeking to locate a plant and get it running as quickly as possible. Providing reliable information on sites, and helping overcome problems with permits and regulations, can help attract business prospects by allowing them to save time. Marketing to site consultants as well as business prospects is also important, because large corporations locating a new plant now use site consultants over 50% of the time.[20]

The highest business attraction incentives could be offset by wages that are 79¢ per hour cheaper.

In sum, there are limits to the power of incentives. Small variations in wages from place to place can offset the largest incentives offered by governments. The highest incentives that are typically provided could be entirely offset by a competing area that had no incentives, but had labor that was 79¢ per hour cheaper in wages.

Business Retention

A focus on business retention makes sense for at least two reasons. First, the decisions of existing state and local businesses about expansion, contraction, or closing can have huge effects on a state's economy. Many plant expansions and contractions are large. Almost three fifths of the jobs created in manufacturing by expansions are due to a business establishment that is increasing its employment by 25% or more.[21]

Second, local businesses often are tied to the state by the advantages of using the local labor force, local suppliers, and local institutions they have become familiar with. For this reason, an output increase by a state firm may have larger multiplier effects than the same increase from a similar newly attracted firm. The state benefits more from employing existing residents than from attracting new residents, who typically consume more in public services than they pay in state and local taxes.

Retention Strategies

Business retention programs involve gathering information on the needs of local businesses, and then encouraging government actions to better meet those needs. Business visitation and surveying programs gather information from businesses using mail surveys, visits conducted by trained volunteers, visits conducted by permanent paid economic development staff, or some combination of all three.[22, 23] Few formal evaluations exist on business visitation programs, but anecdotal evidence suggests such programs can be effective in helping businesses deal with complex government regulations and programs.

More specialized business assistance can also be provided to smaller manufacturers through manufacturing extension programs (MEPs). These programs provide smaller manufacturers with information to improve their productivity through new technologies and better methods of workplace organization, business planning, and marketing. MEP staff can provide services, or play the role of an honest broker to private consulting services or faculty at local universities and community colleges.

Extension services are sometimes funded by state governments and, since 1989, have been funded by the Manufacturing Extension Partnership (MEP) of the National Institute for Standards and Technology (NIST). Also, extension services typically receive support from business user fees, which provide a "market test" of the usefulness of these services.

Each dollar spent on manufacturing extension services reduces business costs by over $3.

Evaluations suggest that manufacturing extension services are effective in improving business productivity. About 64% of MEP business clients reported that the assistance had led to productivity improvements,[24] averaging sales increases of $143,000 and cost savings of $50,000. Additionally, seven regional centers funded by the state of Pennsylvania increased the annual productivity growth of assisted firms by 3.6% to 5% compared to unassisted firms.[25] Research at a national level by Jarmin[26] has found that assisted firms, compared to unassisted firms, significantly increased their productivity. Finally, research in Michigan suggests that each dollar spent on manufacturing extension services reduces business costs by over $3.

New Business Development (Entrepreneurship)

Will increases in small business start-ups expand the state economy? Small businesses disproportionately sell locally, but may still expand the economy if these sales replace "imports" from other states. The new small businesses may also expand the local economy by hiring persons who are hard to employ. Programs for new small businesses include entrepreneurship training, small business advice, business incubators, and capital market programs.

Entrepreneurship Training

Entrepreneurial programs provide training in developing business, marketing, and financing plans. This training is often aimed at disadvantaged groups, such as the unemployed, women, and minorities. Research suggests that these programs increase business start-ups.[27] In fact, entrepreneurship training has more scientifically rigorous evidence of effectiveness than any other economic development policy, as these research findings are based on random assignment of potential entrepreneurs to a treatment group that was assisted, and a control group that received no assistance.

Small Business Advice

Small business advice is most prominently provided by Small Business Development Centers (SBDCs). Over 1,000 centers and subcenters are financially supported by the federal Small Business Administration, with the other half of funding from state and local sources.[28] SBDCs provide counseling to small businesses on business development issues, as well as training in start-up and operation. Surveys suggest their advice is useful.[29]

Business Incubators

Start-up businesses can also be assisted via business incubators, which provide cheap space, shared office support, and business development advice. In surveys, two thirds of firms say that the incubator assistance was important to their business success.[30] Questions remain about whether incubators actually improve the local economy, or whether they merely boost the success of some businesses at the expense of others.

Capital Market Programs

Capital market programs can increase the supply of capital to new small businesses using several methods. Direct loans to small businesses from local revolving loan funds (RLFs), created with public subsidy, are the most prevalent and growing method. Many RLFs began with grants from federal agencies, such as the Economic Development Administration, but increasingly receive investments from state governments and banks. A recent and growing capital market program is Capital Access Programs. Under Capital Access Programs, the government subsidizes a "loan loss reserve" for banks lending to businesses with above-normal risk. Currently, 20 states and two cities run Capital Access Programs.[31]

One issue in capital market programs is whether increased activity by assisted businesses reduces the activity of other local businesses. Political pressures can also make management difficult. These pressures can lead governments to avoid all risk (who wants to take political heat for a loss?), which is inappropriate because non-risky loans can be made by the private sector. Also, programs can be pressured to finance businesses with political clout. These political problems can be reduced by setting up independent financial entities or subsidizing private sector financing.

Less than 1 in 10 loans from revolving loan funds encourage new business activity.

Some, but not all, evaluations of capital market programs are positive. Small Business Association loan guarantees go to firms that grow faster than similar-looking firms that do not receive such guarantees.[32] Revolving loan funds (RLFs) have a default rate of 5% to 15%, which suggests that the industry serves firms unlikely to receive bank financing.[33] On the other hand, counties with higher growth of RLFs do have faster employment growth than counties with slower RLF growth. Yet the magnitude of these effects imply that less than 1 in 10 RLF loans encourage new business activity.[34] Capital Access Programs appear to encourage banks to make loans with moderate loss rates exceeding typical small business lending standards, which is the intent of the program.[35]

High Technology Development

High technology industry is usually defined as industries, both manufacturing and nonmanufacturing, that produce goods or services or use production processes that involve intensive use of new scientific and technical knowledge.[36] Future high tech employment growth is expected to be over 50% greater than average employment growth for all industries, and high tech production growth is expected to be over twice the all-industry average.[37] High tech industries also pay higher salaries than the all-industry average, although they also have higher educational requirements. Finally, many high tech firms have fewer environmental pollution issues than many non-high tech manufacturing firms.

What can economic development programs do if they wish to encourage high tech development? All the economic development strategies listed thus far can be used. Recruitment can be targeted at high tech industries, for example. Much extension service advice is technology related and useful to small high tech firms. Policies to foster new business growth can focus on high tech businesses; for example, 40% of business incubators have a high tech focus.[38]

High tech industries depend on the quality of local universities, and a state's ability to attract workers with advanced skills.

So what differentiates high tech development from general economic development? High tech growth depends more on having access to the knowledge produced in universities. High tech industries will be more sensitive to the quality of local universities, both as providers of knowledge and educators of very high-skilled workers. In addition, high tech growth depends more on being able to attract and keep personnel who have advanced skills. Thus, high tech industries may also be more sensitive to the quality of life, so that very high-skilled workers from elsewhere can be hired.[39] High tech industries also have some special infrastructure needs, such as broadband telecommunications. Finally, high tech goods or services frequently require a longer development time than non-high tech goods or services, so high tech development requires some ability to generate equity capital or other "patient capital."

State governments can develop research centers at local universities that move beyond conducting basic research to supporting technology transfer to local industries. Additionally, in rural areas, governments can try to aggregate the broadband demands of local users in order to attract broadband investment by telecommunication companies. The alternative of direct public investment in such infrastructure is expensive and risky, given rapidly changing telecommunications technology. Finally, local efforts to promote high tech industries should be accompanied by local training programs for entry level jobs in high tech industries and their suppliers.

Few evaluations have been conducted of high tech strategies. One exception is the evaluation of the Ben Franklin Technology Partners (BFTP), a system of regional centers in Pennsylvania. The BFTP's investments in start-up firms significantly increased their employment growth by five employees per year compared to similar firms without such investments.[40] One case study presents evidence that San Diego's high tech development efforts may have contributed to the city's success in adding over 40,000 high tech jobs in the 1990s.[41] In both cases, the high tech strategy was comprehensive, including university research, technology transfer, business advice to start-up companies, and efforts to increase venture capital availability. Comprehensive high tech strategies may be more effective than a single program or policy.

Brownfield Development

Government can increase the effective supply of land for business development if it redevelops land that would otherwise be vacant. "Brownfields" are idle or underused industrial/commercial property sites with real or perceived environmental contamination problems.

Brownfields face both cleanup and legal barriers to redevelopment. Brownfield redevelopment efforts, to be successful, require action both to clean up the site and provide some limits on future cleanup liability for new landowners.

The redevelopment of brownfield sites requires federal or state involvement given the cleanup costs and the requirements of environmental law. State government can provide financial support for cleanup and redevelopment, and set appropriate cleanup standards that balance protection of public health against keeping costs reasonable.

Labor Supply Strategies

Surveys suggest that availability of skilled labor is a key barrier to local economic development.[42] Economic development can be promoted by increasing the quantity or quality of the labor supply; an improved labor supply, in turn, can help attract additional and better employment.

Role of Community Colleges

Community colleges can play an increasing role in trying to meet local labor market needs for worker skills. Research suggests that job training is more effective if it is oriented toward the needs of employers.[43] Thus, training must focus on jobs that are in demand by involving employers to ensure the training is relevant and up-to-date, and by working actively with employers to place successful training graduates.

Timothy Bartik

Job training is more effective if it is oriented towards the needs of employers.

Work Supports

Evidence suggests that workers with more disadvantages may need some considerable period of work support. This can be provided by on-the-job training or by supportive public employment such as Milwaukee's New Hope Project of the late 1990s. Private employment can be similarly subsidized to help disadvantaged workers juggle work and home lives, which are often troubled. Evidence suggests such programs can be successful.[44, 45]

Early Childhood Education

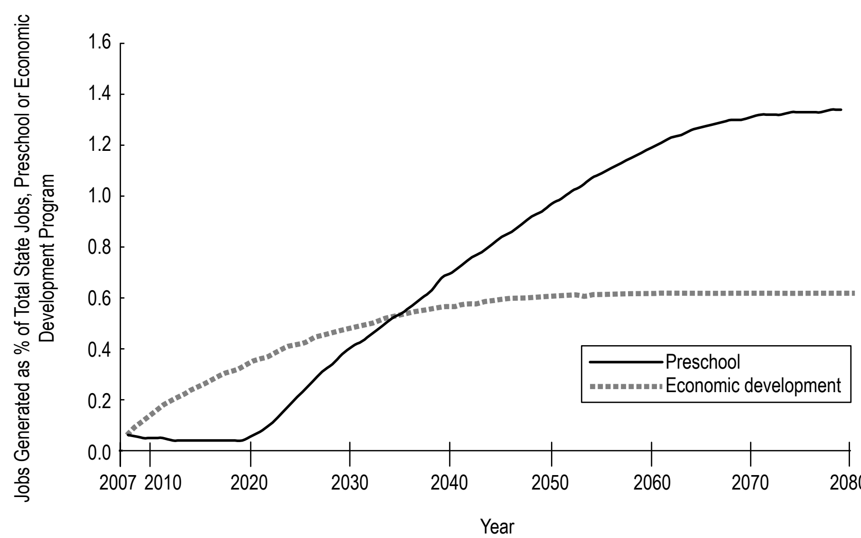
High quality preschool has been shown by rigorous research studies to significantly raise the adult earnings of former preschool participants. These economic development benefits occur because high-quality preschool increases both the soft and hard skills of preschool participants; also, preschool enhances participants' ability to benefit from later education, thereby increasing their future employability and productivity in the labor market. This is important for states because preschool participants quite often remain in the state they grew up in. In fact, over three fifths remain in the typical state, so early childhood education programs can significantly improve the quantity and quality of labor in a state's economy. A high quality labor supply stimulates business to create new jobs and expand output.

My own research has shown that a variety of childhood programs can increase the present value of local earnings by two to three times the cost of the program.[46] Exemplary programs include the Perry Preschool program, the Chicago Child-Parent Center Program for preschoolers and early elementary school students, the Abecedarian full-time child care and preschool program from birth to age 5, and the Nurse Family Partnership program, that provides nurse home visits to needy first-time mothers from the prenatal period to age 2.

In the long run, the annual jobs impact of universal preschool is over twice that of business subsidies.

The effectiveness of these programs is roughly comparable to the cost effectiveness of tax incentives to large corporations in increasing local economic development. In fact, in the long run after former preschoolers have pervaded the entire age distribution of workers, the projected annual jobs impact of universal preschool on a state economy is over twice that of business subsidies (see Figure 1). Even using the most rigorous studies and the most cautious and conservative estimates which considerably scale back participant effects, universal preschool still yields large benefits for state economies and the national economy as well. In about 70 years, universal preschool would add over 3 million jobs to the U.S. economy, almost $300 billion in annual earnings, over $200 billion in annual government tax revenues, and almost $1 trillion in increased annual value of the Gross Domestic Product.

Figure 1. Jobs Generated for State Residents by Permanent Universal Preschool Program, Compared to Jobs Generated by Economic Development Subsidy Program of Same Cost



Source: Bartik (2006).
Note: The jobs generated for the preschool program show effects due to all avenues of influence of preschool programs on job generation, of which the largest is effects on participants and peers, but also including the balanced budget multiplier and labor supply effects on parents. The jobs generated as % of baseline employment compares jobs generated to total state baseline employment, which is assumed to grow at 0.3% per year. Both programs are assumed to start in 2007.

K-12 Education

Within the K-12 system, there is less consensus on how student achievement can most effectively be increased. More time devoted to student learning, either through a longer school year or more in-school time for core subjects such as reading for students who are behind, seems to be one cost-effective way of increasing results.[47, 48]

At the high school level, student achievement that is relevant to the labor market can be boosted by Career Academies, which integrate academic studies around themes related to particular business sectors, and build up student and teacher awareness of and links to careers. In rigorous experiments, Career Academies can boost long-run earnings of disadvantaged students, without harming their educational attainment.[49]

Finally, there are some promising experiments that use internships to link local college students with local employers. Anecdotal reports suggest that such programs may help encourage more college-educated students to remain in the area after graduating, and also help local employers find skilled new workers.[50]

For both early childhood education and K-12 education, economic development benefits may be quite long-term. For example, improving the quality of early childhood or early elementary education does not improve the quality of the local labor supply until these children grow up and enter the labor market. However, some evidence indicates economic effects even in the short-term, due to parents recognizing the advantages of higher school quality. For example, there is evidence that higher elementary test scores are capitalized into higher property values. Parents are willing to pay more for housing that gives access to higher-quality schools.

How do we Deliver Policies and Programs that Provide "Bang for the Buck?"

For any of these policies to be cost effective, they require high-quality implementation. High quality means that these programs have to be implemented with integrity to leverage large effects relative to their costs. Policies with high "bang for the buck" tend to share some common principles.

- Effective policies often focus on businesses and people already in the state, and encourage these businesses and people to stay and improve the quantity and quality of their economic activity. Existing businesses and households in an area are easier to persuade to expand their economic activity in the state.
- Effective policies often target businesses and households at some particular stage of their life cycle where development and decisions are more amenable to interventions. For example, human capital policy that focuses on early childhood education is particularly effective, because young children's skills are more malleable. On the business side, new start-ups or companies facing significant competitive challenges are often more responsive to policy interventions.
- Policies are often more effective if they directly link labor demanders seeking to expand jobs with labor suppliers seeking to expand the quantity and quality of workers.
- Policies that provide reliable information are often cheap and effective. Among the more effective economic development policies are programs that provide existing businesses with information about government

Policies that provide reliable information are often cheap and effective.

regulation and taxes, and programs that provide businesses with information about state-of-the-art ways to improve productivity.

- Any economic development policy that provides detailed services to businesses or households will require tweaking. This tweaking should be based on informed monitoring and evaluation that provides useful feedback to policymakers.

Even if we are imitating a program that has some good evidence of success in some settings, there still is the issue of whether the program can be replicated in a high-quality way and if it will be equally effective in a different economic context. Therefore, any strategy for revitalizing state economies should include provisions for regularly providing some feedback and evidence on effectiveness.

Summary

In conclusion, there are many ideas for revitalizing state economies. To improve the per capita earnings of the residents of the state, we need to pursue two complementary goals: 1) increasing the quantity and quality of overall labor demand in the state, and 2) increasing the quantity and quality of the labor supply of state residents. What policies will most effectively achieve these two goals?

Entrepreneurship training has the most rigorous evidence for effectiveness of any economic development strategy.

To improve labor demand, entrepreneurship training has the most rigorous evidence for effectiveness of any economic development strategy. In addition, information is cheaper to provide than financial incentives. Incentives for large corporations may be most effective if they focus on up-front, in-kind incentives that provide customized job training and infrastructure support. This assistance can be linked to efforts to encourage these businesses to hire more disadvantaged workers, and to use abandoned or underused land. Small and medium-sized businesses can be provided with information and expertise in a variety of areas: business planning, marketing, technology, and help in dealing with government regulations and programs. Government can use its resources in universities, community colleges, and regulatory agencies, as a reliable source for some types of information.

To improve labor supply, educational interventions work best when they focus on skills relevant to the labor market and at times where they can make the most difference. Early and high-quality interventions work. In fact, high-quality preschool programs are twice as effective over the long run as providing business incentives to large corporations. Later labor supply interventions, in the high school and adult years, require workforce development programs to incorporate the needs of higher-wage employers and connect program graduates with job vacancies. This philosophy is reflected in high school Career Academies, high-quality community college programs, customized job training programs, and supported work and other employment experience interventions for the disadvantaged.

Policymakers can work with researchers to develop useful methods to track policy and program accountability. If done right, economic development strategies can benefit businesses and families in the state.

ICIC

1999-2009 The Inner City 100: A Ten-Year Perspective

Key Findings

The Inner City 100 is a national competition to identify, celebrate and support the one hundred fastest-growing inner city companies across the U.S. These successful companies and their CEOs demonstrate the important role that a robust and vibrant business sector plays in creating healthy urban communities. By examining the business practices and characteristics of these growing firms and the entrepreneurs who run them, ICIC has identified several themes and best practices that could ultimately be utilized to support and encourage further business growth and job creation.

Over the past decade, 557 different companies have earned positions on the Inner City 100 list. ICIC's analysis of firm-level data reveals certain distinguishing factors about these high growth firms:

- **Inner City 100 firms have achieved some scale and longevity.** The median firm is 11 years old with $8 million in annual revenue, 60 full-time employees and a five-year compound annual growth rate (CAGR) of 41%.
- **Inner City 100 CEOs are more diverse and educated.** Thirty-one percent of Inner City 100 CEOs are minorities and 18% are women, versus the national average of 10% for each. More than three-quarters of these CEOs have an advanced degree.
- **Inner City 100 firms create jobs in challenging environments.** Inner City 100 firms created more than 63,000 new jobs, while the inner city overall lost 50,000 jobs in a decade.
- **Inner City 100 firms have a substantial impact on their communities.** Almost 75% of Inner City 100 CEOs have lived in an inner city at some point in their life. They predominantly cite a commitment to their urban community as the reason for choosing their location. They also hire nearly twice as many local inner city residents as other inner city firms, and six times as many as the regional average.

While Inner City 100 firms are not the typical companies operating in the inner city, they can provide insights into key success factors, as well as highlight challenges that even highly successful firms face.

- **Inner City 100 firms' limited access to capital affects their growth trajectories.** Inner city firms start with 44% less capital and obtain 31% less growth capital than the average U.S. firm. Inner City 100 firms are more conservatively capitalized and rely more heavily on debt and personal assets. As a result, inner city firms are often impeded from achieving the same scale and growth as comparable U.S. firms.
- **Inner City 100 firms utilize government contracts and public programs for growth.** Nearly one-third of firms report the government as their primary customer. Many of these firms have successfully leveraged government contracts to achieve greater scale. More than half of the Inner City 100 firms received Small Business Administration (SBA) loans, and 46% have taken advantage of at least one government program such as job creation tax credits or employee training grants.
- **Inner City 100 firms invest in the local workforce and generate greater loyalty and productivity among their employees.** These firms invest more in training and provide health and other employee benefits more frequently than the average U.S. firm. They also experience lower employee turnover rates (16%) than the national average (50%). As a result, Inner City 100 firms are more productive than their national peers across all sectors.

I. Introduction

Inner cities play a critical role in growing the U.S. economy and maintaining competitiveness internationally. Our nation's inner cities represent areas of both great need and great opportunity and offer businesses distinct competitive advantages unlike any other areas of the country. Understanding the opportunities and challenges urban businesses face is vital to generating economic prosperity for our inner cities.

Launched in 1999, the Inner City 100 program recognizes successful inner city companies and their CEOs as role models for entrepreneurship, innovative business practices and job creation in inner city communities. For more than a decade, this annual ranking of the one hundred fastest-growing inner city companies in the U.S. has spotlighted firms whose achievements are changing perceptions about our inner cities and demonstrating the possibilities that exist within our urban communities.

The annual list, published in *BusinessWeek SmallBiz* magazine, receives substantial national and local media attention. Past winners have benefited from networking opportunities, recognition from local government and increased access to capital as a result of being selected for the Inner City 100 list. Participants have also cited meeting major investors, winning multi-million dollar contracts and gaining increased credibility. Winning company CEOs take part in a free executive education day at Harvard Business School with case studies led by Harvard Business School professors and sessions led by industry experts.

In the decade since the first annual ranking, 557 different companies have earned positions on the Inner City 100. These companies have collectively generated almost $25 billion in revenue during their time on the list and experienced a median compound annual growth rate (CAGR) of 41%. They have created more than 63,000 new jobs and demonstrated their commitment to their communities through volunteer work, philanthropic investments, mentoring and other business and civic engagements. Together, the successes of Inner City 100 firms prove that sound investment opportunities exist within our nation's inner cities. Moreover, growing inner city firms can have a profound impact on their communities, creating a sustainable path for the economic prosperity of local residents.

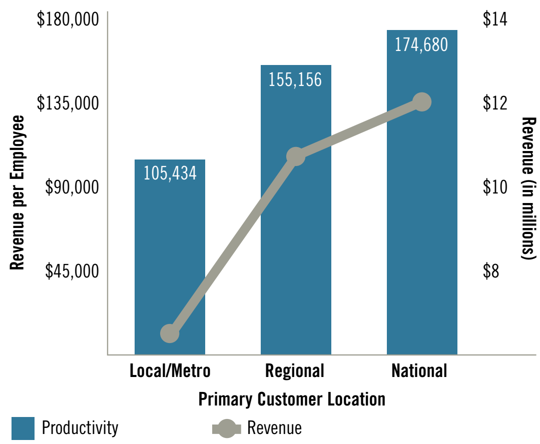
The Inner City 100 database offers an unprecedented learning opportunity: ten years of firm level data on nearly 600 companies. This analysis provides initial insights into many of the characteristics of these successful inner city firms and the factors influencing their growth. In addition, this assessment briefly examines the impact of the Inner City 100 on job creation and community involvement. It is important to recognize that Inner City 100 firms are selected for their outsized growth, and as such, they are not representative of all inner city firms. However by examining their unique best practices and the challenges they face, we can shed light on the steps that other inner city firms can take to be successful, as well as the obstacles policy makers need to address to support and encourage further job creation. ICIC will continue to collect and analyze additional data to better explain the factors influencing inner city business success.

II. Methods

In order to qualify for the Inner City 100, a company must be headquartered in or have 51% or more of its physical operations in economically distressed urban areas. It must be an independent, for-profit corporation, partnership or proprietorship. It must have ten or more employees and a five-year sales history that includes sales of at least $200,000 in the base year and at least $1 million in the current year with no decrease in sales over the two most recent years.

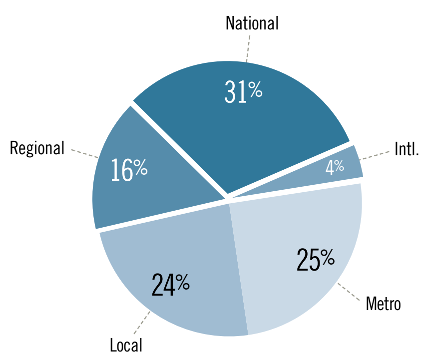
The Inner City 100 database is comprised of ten years of consistent data from each participating firm. It includes self-reported survey responses from 286 unique questions. Of these, 80 questions had at least 200 respondents. Throughout this report, we will compare the Inner City 100 with benchmark data from the following sources: the Kauffman Firm Survey (KFS) which represents 5,000 U.S. firms and three years of longitudinal data; ICIC's proprietary State of the Inner City Economies (SICE) database; and secondary sources including the U.S. Census and Bureau of Labor Statistics.

Inner City 100 Productivity and Revenues, 1997-2007



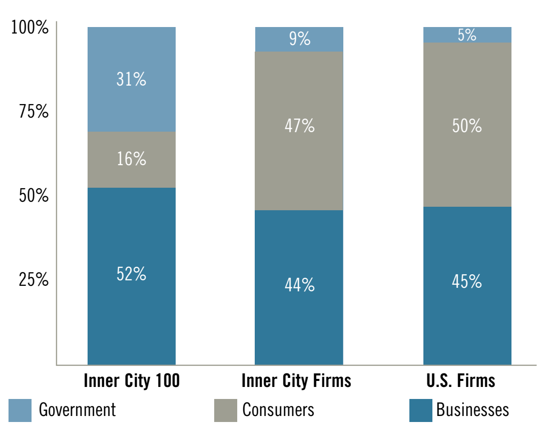
Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007, n=283.

Primary Sales by Customer Location (Percentage of Respondents)



Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007, n=445.

Primary Sources of Revenues



Source and notes: ICIC analysis of Inner City 100 survey data, 2004-2006, n= 250. Kauffman Firm Survey Data, 2004-2006, n=301 for IC firms and n=3,594 for U.S. firms.

III. Snapshot: Fast-Growing Inner City Firms

Inner City 100 firms help dispel the myth that all inner city businesses are small, young and unstable firms. Our winners are fast-growing companies by any standard, but they are also strong, stable businesses. The typical Inner City 100 firm is eleven years old and has a median compound annual growth rate of 41%. They are more productive and faster growing than their sector peers inside and outside the inner city; they also experience lower failure rates.

Size: The median Inner City 100 firm earns $8 million in annual revenue. Revenue growth of Inner City 100 firms has dramatically outpaced national averages across all sectors. Firms in the inner city tend to be larger overall, employing an average of 20 people compared with an average of 16 employees for U.S. firms. The typical Inner City 100 firm is substantially larger than both, employing a median of 60 people.

Productivity: Successful inner city firms have developed ways to leverage the inherent advantages of their location. Across all four sectors, Inner City 100 firms were more productive than their sector peers throughout the U.S., according to U.S. Census data. This can be partly explained by the fact that many of these firms have already achieved some size and scale and are able to better leverage some of their overhead costs. There are also firm-specific factors at work which will be discussed later in this report.

Customer mix: While inner cities are dominated by firms that serve the immediate local area, Inner City 100 firms derive a little more than half of their revenues from regional, national and international customers. This ability to establish a broader customer base across geographies has also contributed to the higher productivity of Inner City 100 firms. Inner City 100 firms that identified national customers as their primary customer base reported revenues that were nearly twice as high as firms whose revenues primarily came from local and metro area customers and productivity that was 65% greater.

Many Inner City 100 firms rely heavily on government contracts as a source of revenue. Nearly one-third of Inner City 100 CEOs reported that their primary revenue comes from government sources. This figure is significantly lower for all inner city businesses (10%) and the

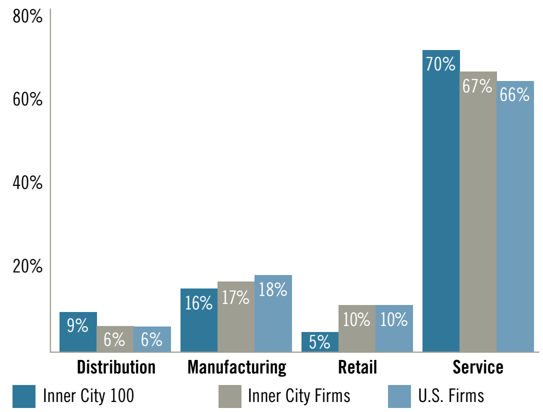
U.S. (6%) as a whole. Virtually all of the Inner City 100 firms that identified government contracts as a primary revenue source are from the service sector – 30% coming from construction services alone. Government contracts provide stability for many inner city businesses. These contracts can generate several millions of dollars in sales and last for many years, serving as a reliable, steady stream of revenue. They can also help a firm grow to scale more quickly, opening the door for other large contracts with both government and non-government organizations. In fact, Inner City 100 firms who reported government as their primary source of revenue had median revenues that were 13% higher than the rest of the Inner City 100 firms.

Geographic distribution: Inner City 100 firms are fairly evenly distributed throughout the U.S. with winners from 41 states and 142 cities. A comparison of the distribution of firm headquarters location reveals only minor differences between Inner City 100 firms and all U.S. firms.

Sector breakdown: Similar to the U.S. economy, the overwhelming majority of inner city firms are in the service sector. Likewise, Inner City 100 firms have a higher representation in this sector and are somewhat underrepresented in the manufacturing sector, which requires greater access to outside capital. Inner City 100 firms are also overrepresented in the distribution sector, with many of them capitalizing on the infrastructure density within inner cities. The underrepresentation of retail firms among the Inner City 100 is likely due to physical capacity limitations on growth, as retailers traditionally rely on new square footage to supplement same store growth.

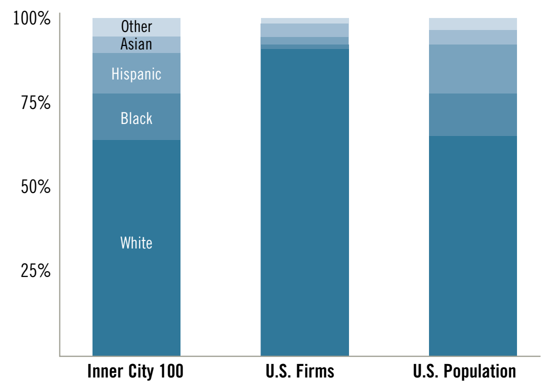
Leadership: The average Inner City 100 CEO founded his or her company when he or she was 32 years old. This is younger than the median founding age of 40 for the typical business owner, according to a recent analysis sponsored by the Kauffman Foundation. Importantly, these CEOs have strong connections to the inner city: 71% have lived in the inner city and a third of them still do. Almost 80% of these CEOs have a bachelor's degree or higher, a figure significantly greater than 40% of degree holders among all U.S. small business owners. Moreover, 60% of Inner City 100 CEOs had a close relative during their childhood who ran his or her own business. This early exposure to entrepreneurship has had an impact on business success. Inner City CEOs with a family history of business ownership generate 28% higher revenues.

Sector Distribution



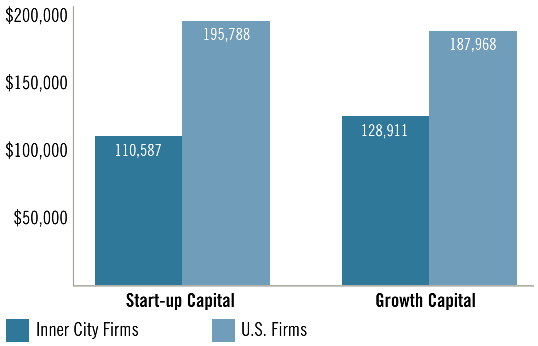
Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007, n=134; Kauffman Firm Survey Data, 2004-2006, n=426 for IC firms and n=4,920 for U.S. firms.

Ethnicity of Inner City 100 CEOs vs. U.S. Firms and Population



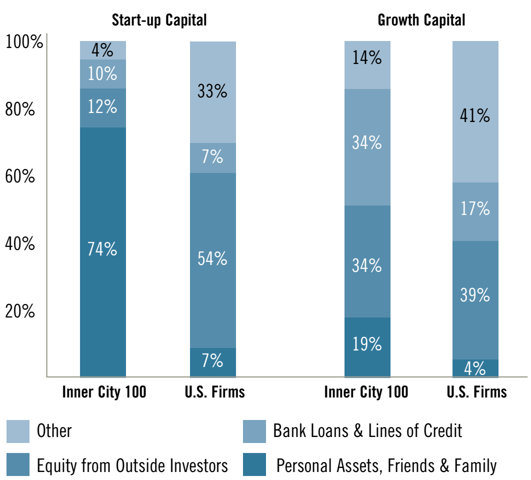
Source and notes: ICIC analysis of Inner City 100 survey data, average values 1997-2007, n=557; U.S. Census, Survey of Business Owners, 2002.

Start-up and Growth Capital



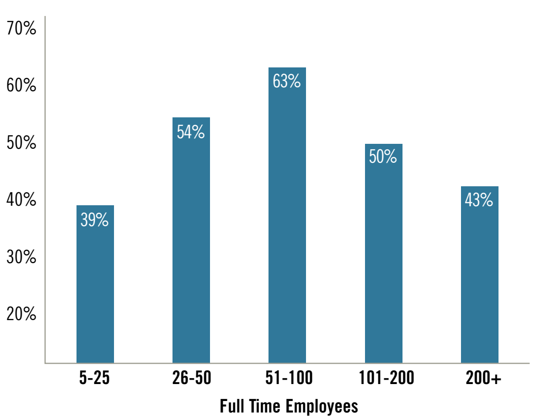
Source and notes: ICIC analysis of Kauffman Firm Survey Data, 2004-2006, n=393 for IC firms and n=4,920 for U.S. firms. All numbers represent averages.

Sources of Capital



Sourcs and notes: ICIC analysis of Inner City 100 survey data, 2006, n=64; Kauffman Firm Survey Data, 2004-2006, n=393 for IC and n=4,920 for U.S. Other represents government sources for Inner City 100 firms and other companies for U.S. firms.

Use of SBA Programs by Inner City 100 Firms



Source and notes: ICIC analysis of Inner City 100 survey data, 2007, n=92.

Inner City 100 firms have nearly twice the percentage of women-ownership (18%) compared to the corporate national average (10%). The CEOs of these fast-growing firms are also more ethnically diverse, with demographics that closely mirror those of the overall U.S. population. Hiring patterns seem to be influenced by these demographics. Minority CEOs typically hire a more diverse workforce (65% minority), while non-minority CEOs hire workforces that are 28% minority.

IV. Factors Influencing Growth of Inner City Firms

Limited access to capital: Our survey of the Inner City 100 revealed that "access to capital" is one of the most frequently cited barriers to growth. Inner city firms begin operations with 44% less start-up capital than U.S. firms and receive 31% less growth capital as their businesses expand. Inner city firms also tend to be more conservatively capitalized, relying heavily on personal assets in the start-up phase and bank loans as they grow. More than 70% of an Inner City 100 firm's start-up capital is from personal assets, friends and family, as opposed to less than 10% for a typical start-up firm.

This capital profile has a significant impact on business growth strategies of inner city firms which frequently run their businesses for cash flow rather than for growth. This has implications for the growth trajectory of inner city firms. In a 2009 ICIC interview, the chief strategy officer for an advertising and marketing firm explained, "Capital access is a vicious cycle; without money, it is almost impossible to get money. We took out a $50,000 line of credit with a bank, but we use this as more of a convenience, rarely relying on the debt and paying the balance off immediately so as not to accrue interest charges." This more conservative style has one important benefit. Failure rates of Inner City 100 firms are remarkably low, with only 16 firms out of 557 companies going out of business over the last decade. This compares with an average failure rate of 20% for U.S. firms overall.

Use of government programs: Forty-six percent of Inner City 100 firms reported using at least one public program including empowerment zones, job creation tax credits and employee training grants. However, the impact of tax credits and wage subsidies was questionable. Job creation tax credits and wage subsidies did not generate higher job growth among the Inner City 100 firms who used them. In fact, those companies not participating in tax credit and wage subsidy programs reported a slightly higher five-year employee CAGR (21%) than those companies that did participate (16%).

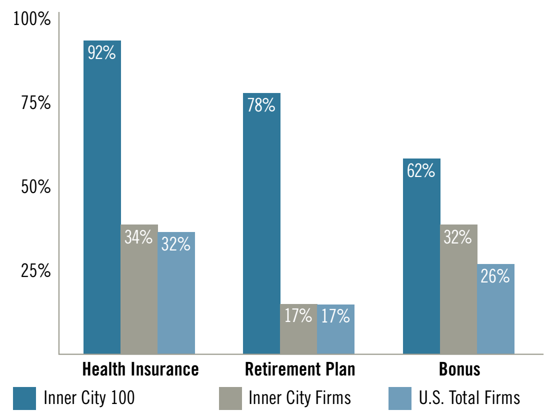
Inner city firms tend to use SBA loans more frequently than firms outside the inner city. This is overwhelmingly true of the 53% of Inner City 100 firms who reported taking advantage of SBA loan programs. The use of these programs varied based on firm size. Mid-range firms, in terms of revenue and total number of full-time employees, were most likely to use SBA programs. Smaller firms reported greater difficulty taking advantage of SBA loan programs as a result of a lack of internal company resources to navigate the red tape of the programs, as well as the transaction costs associated with them.

Higher level of benefits and training: One key factor separating Inner City 100 winners from the average business inside and outside of the inner city is employee benefit offerings. In studies comparing employee health insurance, retirement plans and employee bonuses, Inner City 100 firms were two and three times as likely to offer employee benefit packages than peer firms in inner cities and throughout the U.S. For example, 92% of Inner City 100 firms offered health insurance plans to their employees, as compared to barely one-third of inner city firms and other U.S. firms. Another differentiating factor is training. Inner City 100 firms spend about 4% of payroll on training, a number twice as much as the typical U.S. firm. Interestingly, while Inner City 100 firms embraced the use of SBA loans and other public programs, they rarely utilized public training programs. Instead these fast-growing firms relied on their own proprietary training.

These factors coupled with the higher salaries offered by successful firms help to explain the substantially greater employee loyalty that Inner City 100 firms experience, with 16% average annual employee turnover versus the national average of more than 50%. This also contributes to the higher employee productivity reported by Inner City 100 firms. In certain sectors, revenue per employee is tens of thousands of dollars greater than the typical U.S. firm.

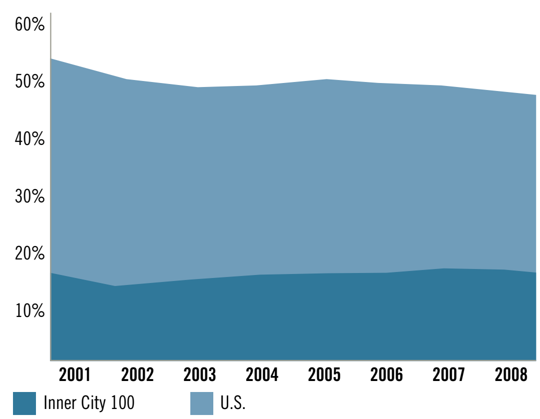
Business environment: Inner cities are among the most valuable locations in their regions, convenient to high-rent business centers, entertainment complexes, public transportation and more. Inner City 100 CEOs cited a number of advantages to working in the inner city, including access to public transportation and proximity to customers. Infrastructure density, particularly the location of transportation assets, was viewed as one of the

Percentage of Firms Offering Employee Benefits



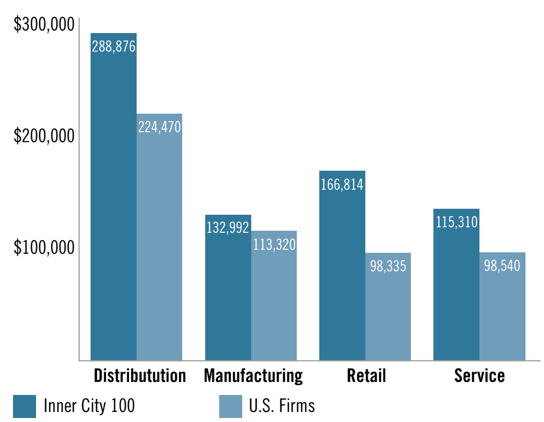
Source and notes: ICIC analysis of Inner City 100 survey data, 2001-2009, n=440; Kauffman Firm Survey Data, 2006, n=404 for IC firms and n=4,928 for U.S. firms.

Average Annual Employee Turnover Rate



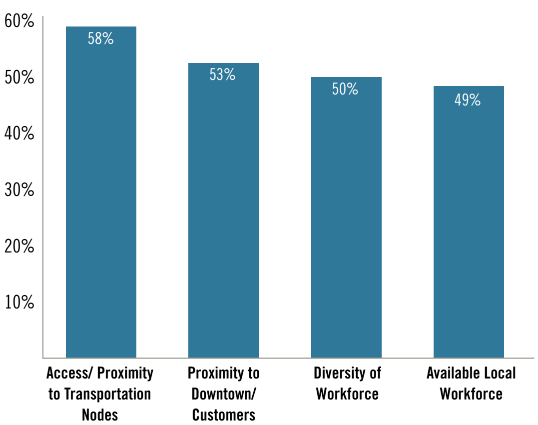
Source and notes: ICIC analysis of Inner City 100 survey data, 2001-2008, n=796; U.S. data from Bureau of Labor Statistics, 2001-2008.

Revenue per Employee By Sector



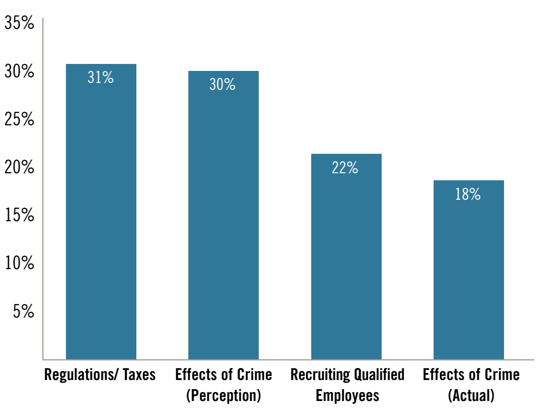
Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007, n=1,100. U.S. firms calculated using BizMiner Market Research Reports, 2005-2007, n=9,443,644.

Most Cited Advantages of an Inner City Location



Source and notes: ICIC analysis of Inner City 100 survey data, 2004-2009, n=504. Respondents chose up to 3 factors out of 10 (2004-2006) or ranked 1 or 2 on a scale of 1 to 7 (2008-2009).

Most Cited Disadvantages of an Inner City Location



Source and notes: ICIC analysis of Inner City 100 survey data, 2004-2009, n=504. Respondents chose up to 3 factors out of 10 (2004-2006) or ranked 1 or 2 on a scale of 1 to 7 (2008-2009).

most important advantages offered by the inner city. The advantages of infrastructure proximity for inner city firms are numerous: shipping is faster and cheaper and transportation is more convenient. In addition, this proximity means higher customer traffic. These advantages are not surprising given that the majority of intermodal facilities and water ports, as well as nearly half of the 200 largest airports, are concentrated in inner city locations. Although the inner city's infrastructure density is considered an asset for many businesses, this competitive advantage is eroding, as the quality of infrastructure, as measured by bridge quality, is declining significantly.

Inner city CEOs also cited a number of disadvantages of their inner city location, including crime, regulation and taxes. Interestingly, these CEOs felt that perception of crime is a bigger obstacle than actual crime. Many Inner City 100 firms have reached out to local law enforcement to work together to ensure the safety of their employees.

Inner City 100 companies have discovered ways to succeed in both advantageous and disadvantageous environments. Surprisingly, a higher percentage of Inner City 100 firms are actually located in the 50 slowest growing inner city locations. While the overall business environment certainly matters, much of these firms' successes are tied to their own business decisions.

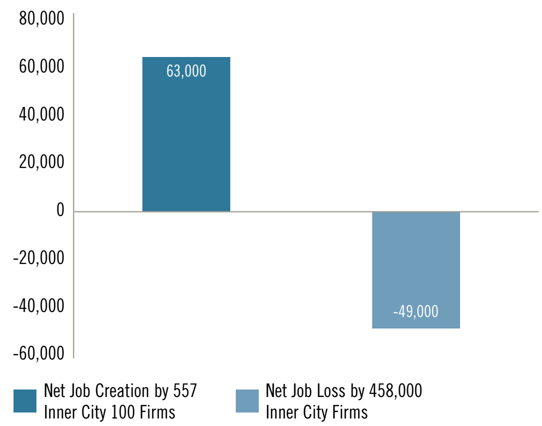
V. Inner City 100 Impact

Inner City 100 firms are creating jobs at an astonishing pace, with an employment rate that is significantly greater than the national average. From 1998 to 2007, more than 450,000 inner city firms experienced a net loss of almost 50,000 jobs, while the 557 Inner City 100 firms created more than 63,000 new jobs. A relatively small number of highly successful firms can have a significant impact on total inner city employment. Providing small inner city firms who have yet to fulfill their true growth potential with the tools necessary to expand from 10 employees to 50 employees could generate roughly 2 million more jobs.

Inner City 100 firms also have a disproportionate impact on the economic well-being of the local population, employing a percentage of inner city residents that is two times greater than the average inner city firm. In fact, Inner City 100 firms report great success in hiring from the local community through neighborhood newspapers and employee referrals. The latter is the most heavily utilized method of recruiting new employees. As the CEO of one California-based consumer company explained, "When so much of your employee base is from the inner city and they feel ownership of the company, they become the recruiters." Ultimately, Inner City 100 companies have generated tremendous loyalty from their workforce by providing access to training and benefits, as well as participating in community-based events. This has created a win-win scenario for both inner city companies and their employees.

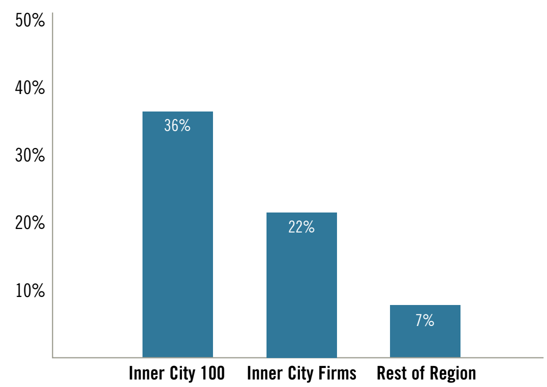
Despite all of the competitive advantages of inner city locations – the access to infrastructure, available local workforce, customers, and many more – the number one reason that Inner City 100 CEOs cite for selecting their location is to give back to the community. Each of these successful CEOs has a story to tell about how he or she is committed to civic leadership. Interviews with the CEOs of these companies reveal a laundry list of philanthropic activities from mentoring local inner city youth to disaster relief for the local community. Inner City 100 firms have become a source of jobs and pride for inner city communities.

Job Growth, 1998-2007



Source and notes: ICIC analysis of Inner City 100 survey data, 1998-2007; State of Inner City Economies (SICE) database, 1998-2007.

Workforce: Percentage of Employees Residing in the Inner City



Source and notes: ICIC analysis of Inner City 100 survey data, 1997-2007; State of Inner City Economies (SICE) database, 2005.

ICIC

ICIC's Mission is to promote economic prosperity in America's inner cities through private sector engagement that lead to jobs, income and wealth creation for local residents.

Civic Bulletin

No. 33 March 2003

CENTER FOR CIVIC INNOVATION
AT THE MANHATTAN INSTITUTE

This Works: Encouraging Economic Growth

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Introduction

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

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

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

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

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

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

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

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

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

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

Underutilized Workforce—Inner cities have a large underutilized workforce amid a long-term tight national labor market. More than 54 percent of workforce growth over the next 10 years will come from minority communities, which are heavily concentrated in cities and inner cities.

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

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

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

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

The subsequent sections will outline principles and action recommendations for each of these major components. While many mayors may be doing some or most of these activities, the recommendations may help mayors think about (a) how their activities fit within a comprehensive framework and (b) how they can build on their existing initiatives. Importantly, almost all of the recommendations require no new funding and at times very little funding at all. Most of the recommendations suggest ways in which the city can leverage its partnerships with businesses and nonprofits.

Forming Focused Leadership

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

<u>Overall Leadership Recommendation</u>

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

Regular interaction between mayors and business and anchor institution[6] leaders is the exception, rather than the rule. These interactions can be formal convenings or informal get-togethers. Where such interactions take place, payoffs are great. Chancellor Wayne Watson of the City Colleges of Chicago meets every month with Mayor Richard Daley to discuss the status of education and workforce needs in the city. As Dr. Watson pointed out in an interview, "We don't talk about politics, we talk about education and workforce needs of the city." The mayor inquires about the companies that City Colleges offer specialized training for. He asks, "I want to work with such and such company, how can you [City Colleges] help?" These regular interactions are invaluable in identifying opportunities and making important connections between the city's resources.

<u>Engaging CEOs</u>

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

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

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

Engaging Local Anchor Institutions

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

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

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

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

Engaging Inner City Community Leaders

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

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

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

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

Creating a Supportive Business Environment

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

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

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

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

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

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

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

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

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

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

9. Limit programs that subsidize individual companies.

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

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

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

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

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

Inner cities are home to more than 500,000 enterprises employing 7 million people and generating a trillion dollars in revenues every year. These enterprises are a major part of a city's economy. The St. Louis inner city is home to 7,800 companies accounting for 168,000 jobs. The 6,000 Boston inner city companies employ 130,000 people. Keeping and growing these businesses is much less costly and risky than attracting new ones. Over the past several years, ICIC's research across the country has shown that the primary reasons for companies leaving their inner city locations were inadequate land for expansion and unfriendly local government. However, many of the local governments we interviewed had no adequate understanding of the reasons for these business departures. Along with improvements in business service delivery and the business surveys suggested earlier, local governments should institute "early warning systems" that can detect high-growth firms that may soon confront space constraints. With an advanced warning system, local governments can organize in time to assist companies in finding alternative sites in the inner city or other parts of the city.

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

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

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

Mayors have at their disposal resources from a great number of Federal, state, and local sources. While some of these resources flow directly to City Hall, many do not. For instance, local banks and lending institutions make frequent and sizable use of U.S. Small Business Administration loan or investment guarantees. Sound economic development strategy should bring these financial institutions into the fold of local economic development. In another instance, city governments can provide invaluable information to inner city businesses about contracting opportunities made available through the Federal Historically Underutilized Business Zone (HUBZone) legislation. The program gives procurement advantages to companies that are located in HUBZones, which include inner city areas.

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

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

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

Relatively high tax burdens or cumbersome regulations can be disincentives for companies operating in the inner city. ICIC research, however, shows that while taxes may often be obvious targets of business complaints, they are usually secondary irritants. Businesses may in fact be unhappy because they don't see their taxes translating into improved public services. They may also be unhappy because local government is unresponsive to their concerns. While this may often be the case, there are instances of poorly designed tax and regulatory policy. Local governments should ensure that their tax and regulatory policy is competitive with that of other municipalities in the region. For instance, the State of Illinois required trucking permits for single items exceeding 80,000 pounds. Moreover, both the City of Chicago and the State of Illinois require trucking permits. This puts companies in Chicago at a competitive disadvantage to companies located in the neighboring municipalities of Indiana where truck weight limits are higher and more multiple-item permits are issued. The manufacturing and trucking companies most affected by this regulatory imbalance are located in Chicago's inner city.

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

15. Streamline business permitting processes.

Businesses can often be frustrated by the lack of one-stop shops that can assist them in understanding the regulatory process and compliance requirements. Joint Venture: Silicon Valley Network, a public-private regional partnership, has worked with municipalities in Northern California to improve their regulatory environment. The City of Sunnyvale in the Silicon Valley area was among the first cities to take on the streamlining improvements offered by Joint Venture's Regulatory Council. Prior to partnering with Joint Venture, Sunnyvale had already established a "One-Stop Permit Center" for construction-related requests and processed 80 percent of plans through a one-day express plan check. The City joined forces with Joint Venture to continue improving its building-permit process. The continued improvements have already eliminated 79 steps from the original process flowchart, increased overall efficiency 67 percent, assigned a Customer Service Representative to handle strategic permitting issues, along with a number of other outcomes.[11] While such service improvements benefit businesses or projects anywhere in the city, they can offer specialized services to expedite development and business growth in inner cities.

16. Invest in local market information.

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

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

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

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

Enabling Competitive Business Clusters

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

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

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

There are two broad types of clusters: local and traded.[12] Local clusters are concentrations of businesses that serve local demand for goods and services. These include companies that meet local consumer demand for personal and retail services (such as auto mechanics, plumbers, grocers, and food and beverage establishments). Local clusters also include businesses that meet local business demand (such as accountants, lawyers, and facilities maintenance companies). These companies account for the lion's share of employment in cities and their inner cities. Nationally, local clusters account for 64 percent of jobs in the country. These are also the companies that make a place attractive. People do not want to live, work, or play in a place where there are no good restaurants, grocery stores, or entertainment businesses.

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

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

18. Conduct cluster analyses.

The first step in an attempt to promote clusters-based economic growth is identifying the clusters that exist and the potential for new ones. To do so, cities should commit meaningful funding to conducting cluster analyses, which will enable meaningful investments in the city and inner city economy. Conducting these analyses in cooperation with chambers of commerce, local academic institutions, and private-sector experts allows local governments to leverage their resources. In 1997, the City of Oakland, California, analyzed its economy, along with regional economic trends, to identify clusters that have growth potential and to tap into Oakland's competitive advantages. The clusters identified include business services, health services, printing and publishing, transportation, tourism and entertainment, and food processing. The emerging clusters included software and multimedia, environmental technology, biotechnology, and telecommunications. After identifying these clusters, the city helped organize cluster councils and then organized its services around them.

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

19. Promote cluster councils and cluster networks.

For business clusters to achieve their full potential as engines of economic development in the inner city and in the region, close contact and cooperation between the private and public sectors—and within the private sector itself—are essential. A valuable tool in ensuring that this occurs is the promotion of cluster councils and cluster networks. Cluster councils are official groups of cluster business leaders, whereas cluster networks are less-formal information exchange networks among cluster businesses. Cluster councils provide an important structure for public-private communication and partnership, keeping local governments informed about the competitive opportunities and challenges of their respective clusters. Networking within the cluster can help identify shared concerns, joint purchasing opportunities, joint training initiatives, and areas of common interest. Cluster councils and networks can also identify a set of business environment improvements that can be used to focus and coordinate local governments' business support activities. This can be done in addition to Main Streets or Back Streets programs for business service delivery (see recommendation No. 7).

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

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

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

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

Any cluster may prove to be a "winner." The public sector is not in a position to pick winners. The market decides which firms and clusters succeed and which ones lose. There is a tendency by local and state governments to focus on emerging industries such as biotech and information technology as linchpins of local economic growth. Only a few parts of the country are poised to meaningfully compete in these industries. Economic development professionals focusing heavily on these industries must recognize that they may be neglecting their existing business base, a business base that offers far greater jobs or revenues than these emerging industries. Moreover, mature clusters may provide the most immediate growth opportunities for inner cities or regions.

Fostering a Competitive Inner City Workforce

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

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

The U.S. Department of Labor estimates that 60 percent of today's jobs require skills possessed by only 20 percent of today's employees. Even high school and college graduates often lack the basic skills necessary to keep pace with technology and competitors. To ensure that employees are prepared for their jobs, more and more companies are providing incentives for their workers to upgrade their skills. On-Target Supplies and Logistics, an inner city-based company and one of the fastest growing enterprises in Dallas, requires all workers to further their education at the company's expense. Al Black, the company CEO, credits his company's record revenues, profitability, and client satisfaction with his unrelenting focus on educational attainment. Mayors and local officials should encourage their local companies to offer similar opportunities to their workers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mayors and local governments can:

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

Encouraging Savings and Wealth Creation by Inner City Residents

During the 1990s, the employment gap between inner city and non-inner city residents has been steadily closing. The income gap is still large, but slowly shrinking. The wealth gap, however, has remained disturbingly wide: in 1995, the median net worth of a typical white American household was $49,000, while the net worth of typical black and Hispanic American households was just over $7,000. There are no inner city-specific statistics on this gap, but one can reasonably assume that the net worth of inner city residents is even lower than the national median for blacks and Hispanics. A comprehensive economic development strategy must set out to bridge this gap.

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

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

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

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

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

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

29. Encourage homeownership, including employer-assisted homeownership.

Building equity in a home is the largest form of saving for American households. Of the $49,000 in median net worth of white households, 70 percent ($35,000) is accounted for by the households' equity stake in homes. Moreover, since World War II, this equity stake has been a significant source of wealth accumulation over an individual's lifetime. While increasing the homeownership rate in inner cities requires a concerted Federal and state government effort, employers and local governments can play a critical role in encouraging homeownership among inner city residents. Such programs must be accompanied by financial literacy initiatives because low-income households' ownership stake is highly sensitive to the households' economic stability, as well as day-to-day decisions on spending.

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

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

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

31. Develop a cautious approach to promoting entrepreneurship.

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

Conclusion

The enormous wealth gap between inner city and non-inner city residents is not an economic inevitability. The way we deal with this inequality is perhaps the greatest challenge in the country, a challenge that mayors are in a position to address head on. Even in an economic recession, much can be done to leverage the competitive advantages of inner cities, and importantly, to position inner cities to meaningfully participate in the next economic upturn.

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

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

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

ENTREPRENEURSHIP SUMMIT
EXECUTIVE SUMMARY

KAUFFMAN FOUNDATION AND
THE INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL

September 2008

Ewing Marion
KAUFFMAN
Foundation

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ABOUT THE SUMMIT'S SPONSORS

The Ewing Marion Kauffman Foundation, a private, nonpartisan foundation, works to harness the power of entrepreneurship and innovation to grow economies and improve human welfare. Through its research and other initiatives, the Kauffman Foundation aims to open young people's eyes to the possibility of entrepreneurship, promote entrepreneurship education, raise awareness of entrepreneurship-friendly policies, and find alternative pathways for commercializing new knowledge and technologies. It also works to prepare students to be innovators, entrepreneurs, and skilled workers for the twenty-first century economy through initiatives designed to improve learning in math, engineering, science, and technology. Founded by the late entrepreneur and philanthropist Ewing Marion Kauffman, the Kansas City, Mo.-based Foundation has more than $2.4 billion in assets. More information is available at www.kauffman.org.

The International Economic Development Council (IEDC) is a nonprofit membership organization dedicated to helping economic development professionals do their jobs more effectively and raising the profession's profile. With more than 4,500 members in the United States and beyond, IEDC's mission is to provide leadership and excellence in economic development for its communities, members, and partners. IEDC's programs and services provide educational opportunities, analyze and disseminate information, and improve decision makers' responsiveness to economic development needs. The organization's Five-Year Strategic Plan for 2008–2013 addresses the challenges and opportunities of the twenty-first century and focuses on the three main themes of globalization, sustainability, and entrepreneurship to help its members create more high-quality jobs, develop more vibrant communities, and generally improve the quality of life in their regions. IEDC is based in Washington, D.C. More information is available at www.iedconline.org.

EXECUTIVE SUMMARY

Entrepreneurship support programs are designed to help generate innovation and stimulate U.S. economic growth by providing resources to potential and active entrepreneurs: education, training, and even funding. However, there currently is a dearth of information about the nature and effectiveness of these programs.

On April 1, 2008, the Ewing Marion Kauffman Foundation and the International Economic Development Council (IEDC) convened a meeting at the Kauffman Foundation to discuss how to improve knowledge about these programs' effectiveness and impacts. The meeting brought together forty experts, including heads of entrepreneurship programs and economic development professionals, to share their experiences and ideas for supporting potential high-growth firms. This document summarizes the insights and conclusions from this meeting.

The participants concentrated on four questions:

- What are the core components of an effective entrepreneurship support program?
- What is the essential infrastructure of an entrepreneurial eco-system?
- What are new avenues for research?
- What steps should be taken next to facilitate high-growth entrepreneurs?

Participants determined that effective entrepreneurship programs should structure their services to address entrepreneurs' core needs: providing relevant market knowledge, access to talent and capital, and participating in networks. Effective support programs build bridges between entrepreneurs and their peers, community organizations (such as schools and universities), arts and cultural entities, hospitals, businesses, and local governments. These bridge-building efforts ideally should be part of a broader regional vision, which public policies can promote.

Research on the value of these entrepreneurial support programs would be useful, especially to determine their impacts on local and regional economic development. The participants agreed it also would be beneficial to identify ways in which far-flung support programs might better connect with one another.

Participants further agreed that policymakers and other stakeholders need greater awareness about the importance of entrepreneurship to economic growth, and—to the extent that the research demonstrates it—the importance of entrepreneurial support efforts to facilitate entrepreneurial growth.

INTRODUCTION

Entrepreneurship plays an essential role in generating innovation and stimulating U.S. economic growth. Entrepreneurship support programs are designed to foster those entrepreneurial ventures and enhance local communities' economic vibrancy. These programs provide various resources—access to education, training, and funding to budding entrepreneurs—to support entrepreneurs and to help nurture an entrepreneurial culture.

As widespread as they are, however, very little is known about the nature and effectiveness of entrepreneurship support programs and practices in states, regions, cities, and towns. To begin to fill this gap, the Ewing Marion Kauffman Foundation and the International Economic Development Council (IEDC) convened an April 1, 2008 meeting of forty experts drawn from economic development organizations, entrepreneurship support programs, and foundations and associations that focus on entrepreneurship.

To focus the discussion, the participants concentrated on four issues:

- What are the core components of an effective entrepreneurship support program?
- What is the essential infrastructure of an entrepreneurial eco-system?
- What are new avenues for research?
- What additional steps should be taken to foster entrepreneurial growth?

KEY COMPONENTS OF AN EFFECTIVE ENTREPRENEURSHIP SUPPORT PROGRAM

U.S. entrepreneurship programs serve entrepreneurs with different goals—from high growth to "lifestyle" businesses—in different industries or sectors, and serving different markets. To be effective, therefore, support programs must provide something of value to a wide range of "customers." Programs or support centers that have limited resources must concentrate on particular segments of the entrepreneurial population. Other programs that have greater financial support may be able to serve a broader base of entrepreneurs.

At bottom, regardless of *who* they serve, all entrepreneurial support programs must structure *what* they provide to meet the most important needs of their entrepreneurial customer base: *providing relevant market knowledge, access to talent and capital, and participation in networks.*

To help diagnose problems and connect entrepreneurs to the resources they need, effective support programs should function as brokers in the community, building bridges between entrepreneurs and local organizations, such as schools and universities, arts and cultural entities, hospitals, and local government.

For example, when an entrepreneur needs funding, the support program should provide links to sources of capital that match the entrepreneur's financing requirements at various stages of development, from seed capital to loans to equity. Or, if the entrepreneur feels overwhelmed by the demands of starting a business, the program can provide opportunities for the new business owner to form strategic alliances with peers or mentors who can help with business planning.

Participants noted three essential features that enhance the effectiveness of any entrepreneurship support program:

- Ability to efficiently facilitate networks
- Management of peer-to-peer and mentoring programs
- Strength of the program's leadership

Facilitating Networks

Albert-Laszlo Barabasi, a University of Notre Dame physicist and one of the nation's leading experts in the science of networks, believes that networks, including social ones, determine our ability to succeed in virtually every aspect of life.[1] Support programs, such as KCSourceLink, that foster such networking among entrepreneurs and with industry, universities, and financial providers not only benefit entrepreneurs, but also are valuable to the local economy because they leverage knowledge and increase the capacity for wealth creation.[2]

Peer-to-Peer Networking and Mentoring

Researchers have identified the linkage of entrepreneurs with effective mentoring and coaching as one of the top "best practices" entrepreneurship support programs should pursue. Many believe that so-called "peer-to-peer" mentoring and coaching—advice provided by other entrepreneurs—is especially effective,

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[1] Publications by Barabasi on this topic include, *Linked: How Everything Is Connected to Everything Else and What It Means* (Plume, 2003), and *The Structure and Dynamics of Networks*, with Newman, M., and Watts, D.J. (Princeton University Press, 2006).

[2] KCSourceLink connects emerging, startup and established small businesses throughout the greater Kansas City region, with 140 nonprofit resource organizations that provide business-building services. This model and service have been replicated in Charlotte, N,C.; Jacksonville, Fla.; Atlanta, Ga.; Toledo, Cincinnati, and Cleveland, Ohio; Milwaukee, Wisc.; and the West Alabama-East Mississippi region.

often helping entrepreneurial services candidates ascertain their own commitment levels and their abilities to sustain the implicit challenges of taking a startup to the marketplace.[3]

Peer-to-peer mentoring or coaching relationships require trust and commitment. Peers help identify entrepreneurial opportunities, influence perceptions about entrepreneurship as a career choice, and serve as good substitutes for direct experience.

The participants identified and discussed several successful peer-to-peer mentoring and coaching programs, which most often are provided for "second stage" entrepreneurs, or those with some track record:

- The Edward Lowe Foundation (www.edwardlowe.org) created and licensed the PeerSpectives Roundtable System as an innovative peer-to-peer tool that focuses on sharing experiences rather than giving advice. The foundation targets "second-stage" entrepreneurs and focuses on peer learning derived from the experiences of its founder, entrepreneur Edward Lowe, who yearned for a mentor when he started his business ventures. The foundation trains each PeerSpectives facilitator during a two-day training session. Roundtables typically comprise ten to twelve individuals from non-competing companies and are offered in Florida, Michigan, and Wisconsin, where programs were established through an exclusive statewide license.

- Spark (www.annarborusa.org) in Ann Arbor, Mich., has developed a Boot Camp Program that condenses the usual three-month learning curve to move a great business to the next level into two intensive days of learning. Startups learn how to improve their business plans and design effective investor presentations, as well as network and share ideas with fellow entrepreneurs and experienced business executives. The mentoring provided by established business leaders supplies Boot Camp participants with one-on-one advice from seasoned experts, many of whom have already traveled the path from startup to success.

- The St. Louis Enterprise Center's Seminars for Success mentor program comprises a series of eight special seminars, each focusing on a specific discipline and/or topic of interest to mentors from the region. The program provides entrepreneurs with tax advice, legal direction, marketing strategies, and other valuable information to enhance their success. The center serves as an incubator for startup businesses in the region and is part of the St. Louis Development Corporation (www.stlouis.missouri.org).

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[3] The Foundation defines a second-stage entrepreneur as a) privately held, b) past the startup stage and focused on growth, c) generating between $750,000 and $50 million in annual revenue or having working capital in place from investors or grants, and d) employing ten to ninety-nine full-time-equivalent employees.

Leadership

Successful entrepreneurial support programs also must have the “right” leadership. Ideally, the head of the support program should be an entrepreneur or have entrepreneurial experience.

Successful entrepreneurship program leaders serve as brokers and have knowledge of both the private and public sectors. These individuals must be sufficiently savvy to influence people over which they have no authority or control.

Many economic development professionals lead entrepreneurial support programs, although they may not have been entrepreneurs in the traditional sense. The key to success is that the leader must have an entrepreneurial spirit and be experienced in working with others across different sectors and industries. For example, Michael Finney’s drive and economic development background have made him instrumental in advancing innovation-based business development in the Ann Arbor region. As Spark’s president and CEO, he directs programs, resources, and support to firms at every stage, from startups to large organizations looking for expansion opportunities. A former vice president of the Michigan Economic Development Corp.’s emerging business sectors division, his experiences in providing seed and grant money to bolster the state’s life science research and commercialization efforts have been critical to his success at Spark.

Participants cited several examples where successful entrepreneurs also have helped lead or create successful entrepreneurial support programs.

Edward Lowe created a billion-dollar industry with Kitty Litter, which established the cat as the nation’s most popular pet. Once his business was successfully established, he started a new venture: fostering and nurturing entrepreneurs. As a result, Lowe committed a good part of his fortune to create a campus for entrepreneurs at a private 2,500-acre complex outside his boyhood hometown of Cassopolis, Mich. In 1991, he donated this estate for the headquarters of the Edward Lowe Foundation.

Steve Radley**,** founding director of the Kansas Center for Entrepreneurship, began his career in the private sector as an employee of a startup technology company that grew from $6 million to more than $175 million during his tenure. Radley went on to co-own two businesses, one that was sold to Champion Enterprises. His work experience has been vital in steering the Kansas Center for Entrepreneurship.

Maria Meyers, KCSourceLink’s first director since 2003, also has an entrepreneurial background. Meyers has developed small business ventures and served as an advisor to other new business operations. Before joining KCSourceLink, she was chief operating officer for a Nebraska biotech company. Her varied professional experiences were critical in her making the idea of the resource network become a reality.

Ewing Kauffman applied his business experience and skill in forming the Ewing Marion Kauffman Foundation, which is devoted to advancing entrepreneurship and education. For over two decades, the Kauffman Foundation has supported a wide range of efforts to advance entrepreneurship throughout the United States.

The staff of the successful entrepreneurial support programs tends to be small due to funding constraints. However, participants noted, that, in each case, staff members were highly motivated. A strong and driven board of directors with connections in the community also was cited as important for support program success. Board members not only offer credibility, but often serve as mentors to potential entrepreneurs.

ESSENTIAL INFRASTRUCTURE OF AN ENTREPRENEURIAL ECO-SYSTEM

Entrepreneurs cannot do everything themselves. Like all of us, entrepreneurs must rely on a basic infrastructure to support their activities.

An entrepreneurial infrastructure ensures that knowledge, capital, talent, and networks to other entrepreneurs are easily accessible. Entrepreneurial support programs can be an important part of this infrastructure. The participants broadly agreed that these programs work best if they are part of a wider regional vision that promotes partnerships among key community players to sustain competitiveness in the global marketplace. Those players include K–12 schools, community colleges, adult education centers, universities, regional businesses, and economic development organizations.

Continued innovation is essential to economic growth. Thus, how can local policymakers, and entrepreneurial support programs in particular, best promote innovative entrepreneurship? The participants identified the following steps:

- Engage in partnerships with key community stakeholders
- Provide support in regulatory and business assistance
- Cultivate human capital for workforce development
- Facilitate access to capital
- Promote the commercialization of invention
- Create organizations as part of a wider regional vision

Engage in Partnerships

Partnerships with key community stakeholders are essential if entrepreneurship support leaders are to play an effective brokering role for entrepreneurs. In some respects, the most effective partnership strategies resemble the approaches that economic development professionals use in their Business Retention and Expansion (BRE) strategies.

BRE programs identify companies that are at risk in a community and help them overcome economic difficulties that could result in shutdowns or relocations. The economic development professional collaborates with service providers in the region, including those in local, state, and federal government, as well as private and nonprofit actors who have a stake in maintaining and growing a robust business climate. Partnerships with educational institutions and other businesses in the region can help determine the industrial sectors that would enhance a region's competitive advantages and steer resources toward it. The combination of these measures not only may help at-risk existing firms but, in the process, also may help facilitate new companies' formation and growth.

Ease the Regulatory Process

Streamlining regulatory and licensing processes can be the most cost-effective and quickest approach a region can take to support entrepreneurial activity. Regulatory and liability-related costs, such as liability insurance, typically are more burdensome to entrepreneurs as a percentage of revenue than for larger existing enterprises. In addition, entrepreneurs rarely have the personnel to cope with bureaucratic red tape and delay.

Cities and economic development organizations can play a role in easing regulatory burdens. Developing simple Web sites and online processes, creating a one-stop shop for license applications, and decreasing the wait for approvals and permits to thirty days or fewer are good solutions. In San Antonio, Tex., for example, the city has facilitated the process by placing all regulatory offices in the same building. The Arlington Economic Development Commission in Virginia is discussing ways to make its permitting process more accessible by providing "customer service," which would make the process feel more like a visit to the neighborhood hardware store than to a regulatory center.

Developing Human Capital

One of the most often-cited challenges entrepreneurs face is finding talented and skilled employees who have the flexibility and drive to succeed in an entrepreneurial environment. Meeting this challenge depends on improving the educational system, starting at the K–12 level and focusing more on a STEM (science, technology, engineering, and math) curriculum.

Recent data indicate that U.S. students lag behind other countries in math and science, ranking twenty-eighth in math literacy and twenty-fourth in science literacy among the forty countries participating in the 2003 Program for International Student Assessment (PISA). Embracing youth as a source of economic growth and exposing them to innovation is an important approach for cultivating future entrepreneurs.

Project Lead the Way (PLTW) offers one promising approach for imparting STEM skills and encouraging interest in STEM-related careers. PLTW is a high school-based engineering curriculum combining STEM instruction with hands-on experiences with real world problems. The PLTW curriculum now is offered in more than 2,000 schools in forty-eight states and the District of Columbia. The Kauffman Foundation, with matching funds from local businesses and philanthropies, has brought PLTW to Kansas City-area high schools. In addition, in 2007, the Boeing Company provided funds to the University of Missouri–Rolla to support the university's efforts to introduce engineering to Missouri's middle and high schools.

School-based entrepreneurship programs also can play a significant role in enhancing a community's entrepreneurial culture. The National Federation for Teaching Entrepreneurship program offers entrepreneurship instruction and experiences to at-risk youth in high schools around the country and in other selected countries. Similarly, The Enterprise Center (TEC) in Philadelphia, which offers business education opportunities for residents of all ages, concentrates on harnessing youth entrepreneurship. Each year, TEC trains hundreds of aspiring young entrepreneurs through its award-winning youth program, YES (Youth + Entrepreneurship = Success), which features in-school, after-school, and camp classes. The curriculum enables participants to learn how to write a business plan, network with established entrepreneurs, access startup capital via the Angel Network, and receive credit toward graduation.

Universities and colleges are a principal source of high value-added human and intellectual capital. Serving as growth engines, university-related initiatives that foster entrepreneurship can help budding entrepreneurs develop viable and successful business ventures. Consider these examples:

- The Donald W. Reynolds Governor's Cup Oklahoma (www.okgovernorscup.org) is one of the largest cash award pools in the United States. The Governor's Cup is designed to encourage Oklahoma university and college students to act upon their ideas and talents. The Governor's Cup has drawn entries from nineteen campuses statewide and has attracted more than one hundred innovative ideas. More than 300 students have tested their entrepreneurial skills and knowledge while competing for more than $300,000 in cash prizes. To date, seven teams are exploring commercialization of their technology-based business concepts, which include bio-markers for identifying prostate cancer, and preventative vaccinations for gingivitis and periodontal disease in small animals. In addition, community experts have provided nearly $150,000 in in-kind commercialization services in finance, legal, marketing/branding, Web hosting, and human resource management.

- The Voinovich School of Leadership and Public Affairs at Ohio University (www.voinovichcenter.ohio.edu) combines programs and partnerships to increase Appalachian Ohio's economic competitiveness. Professional staff from the Appalachian Regional Entrepreneurship Group and students in the Integrated MBA Program provide operational and technical assistance to both startup and existing businesses in the region, helping fill the expertise gap. In addition, through partnerships, including those established through the Southeast Ohio Third Frontier Entrepreneurial Signature Program, the Voinovich School is helping expand business assistance and early-stage investment funding for businesses. A recent economic impact study conducted by the Voinovich School revealed that Ohio University's Innovation Center firms created an estimated 344 jobs and generated $12.6 million in labor income in Athens County in 2006.

Some universities are acknowledging the importance of the connection between economic development and higher education. The University of Arizona, Cleveland State University, and George Mason University recently created positions of vice president for economic development. George Mason University and Prince William County in Virginia have combined the university's academic and research needs with the county's innovation-led growth strategy. This university-centered economic development program encompasses workforce development in both creating new jobs and targeting educational offerings (bioinformatics) to industry's workforce needs.

Entrepreneurial education and training are not confined to the formal educational system. Entrepreneurship support programs also have a role to play. Community Capital Development (CCD) (www.seattleccd.com) in Seattle, Wash., which focuses on minority and women business development, concentrates its efforts on education and training before providing any financing. CCD has partnerships with other business education providers, including local community colleges and universities. Startup entrepreneurs receive counseling and business plan development instructions that include tax and finance information, and help in understanding business legal structures. Existing business owners receive counseling related to developing marketing or growth plans for their firms based on results they already have achieved. CCD has provided more than $22 million in loans to entrepreneurs, and has educated and trained more than 12,000. Entrepreneurs who have received CCD assistance have created more than 1,600 jobs to date.

Raising Capital

Raising capital is a key challenge for any entrepreneurial venture. The most common external sources of small business financing include direct lending, revolving loan funds, micro-loan programs, and state and federal financing programs. Other sources can be found through the conventional banking system or through city governments that provide economic development professionals with bond and creative tax incentive funding options.

Several federal programs, including the Small Business Administration's 7(a) and Small Business Innovation Research (SBIR) programs, provide startup financing that encourages research and development efforts, and targets the entrepreneurial sector, providing support for commercializing innovation. SBIR funds a company's critical startup and development stages and is the single largest source of seed funding in the United States, but it is very competitive: only 10 percent of the proposals are funded. An entrepreneur has to choose the type of capital funding that is most appropriate for his or her firm, whether debt or equity capital. Appendix 1 provides more information on types of business finance.

At some point, high-growth companies typically require a significant injection of funds to sustain that growth. Although "venture capitalists" seem to get most of the media attention for providing these funds, in the participants' view, "angel investors"—wealthy individuals or groups of such individuals—tend to be more common suppliers of outside equity. Having a strong entrepreneurial support program in a city or region can provide comfort to either funding source and, thus, increase the chances that it will be provided.

One concern the participants expressed about venture capitalists is that they concentrate too much of their attention and money on the two coasts, overlooking the entrepreneurial opportunities in the country's vast middle. For this reason, in part, some states have launched their own venture funds in an effort to stimulate innovation and increase employment:

- In Mississippi, where the lack of access to capital is widely believed to inhibit local economic growth, especially in the high-tech sector, the state legislature in 2007 approved a package authorizing five new state funds to support early-stage, high-tech companies and to build an in-state market for private equity investment. The Mississippi Technology Alliance, a nonprofit organization that works closely with the state to provide services to investors and entrepreneurs, will administer the funds.

- Pennsylvania's Ben Franklin Technology Partnership has successfully facilitated public-private investment collaboration to drive early-stage opportunities.

- The Texas Emerging Technology Fund (www.emergingtechfund.com) provides early-stage financing and business development support to increase the likelihood of emerging firms' long-term success in Texas.

- The Detroit Renaissance in Michigan is leveraging the connection between innovation and entrepreneurship through a $100 million venture capital fund. By investing in venture capital firms to support their investments, rather than making direct investments in the companies, the fund helps generate an increased mass of funding for technology startups and university spin-offs. The initiative functions together with the state's Twenty-First Century Jobs Fund, which fosters growth in life sciences, alternative energy, and advanced automotive technologies, with funding focused on emerging technology sectors.

The trend toward state-funded venture funds is relatively new and, thus, little is known about their performance in generating returns on investment or fostering job growth. This is an important topic for future research.

Commercializing Innovation

Technology commercialization fosters economic growth by linking university research and development to entrepreneurs and established firms that have the ability to commercialize them. Effective regional economic development plans should facilitate this process. But universities bear primary responsibility for effectively commercializing their faculty's discoveries, by virtue of the Bayh-Dole Act of 1980, which enabled universities (and their faculties) to retain intellectual property rights to commercial applications developed from federally funded research.

Universities since have centralized many of their commercialization activities. Participants expressed concern, however, that too often universities have become overly bureaucratic, hindering rather than facilitating commercialization of useful technologies. In particular, businesses have complained about the delays and difficulties in negotiating licensing agreements—one reason that economic development professionals encourage their clients to seek SBIR grants to conduct research themselves in lieu of, or as a supplement to, dealing with universities. Technology matched to local entrepreneurs should be the goal. Therefore any programs that cross-fertilize entrepreneurs and university researchers should strengthen local economies.

States and localities are taking other measures to foster university commercialization. In Texas, Governor Perry has proposed that all public universities make research commercialization one of the several factors considered when granting tenure to professors. State officials also requested that the words "technology commercialization" and "economic development" be added to university and college mission statements. In 2006, Texas A&M University[4] became what is believed to be the first public university in the United States to formally incorporate commercialization (as measured by deal flow) into its criteria for granting tenure.

[4] The Texas A&M System includes nine universities and a statewide health science center.

Incorporating Entrepreneurship in a Regional Strategy

The participants strongly agreed that entrepreneurship support programs should be part of a wider regional plan. One such example is the Kansas Center for Entrepreneurship (www.networkkansas.com), created as a component of the Kansas Economic Growth Act of 2004 to establish entrepreneurship and small business as economic growth and community development priorities. Known as Network Kansas, the Center interacts with key stakeholders in the state to help entrepreneurs locate various resources.

Network Kansas' unique database enables counselors to research the network and provide tailored information to match entrepreneurs' needs, referring them to partners within the network. The Center also tracks entrepreneurs' progress through a software program called Biz-Trakker, developed by the Kauffman Foundation and KCSourceLink. Via the Center, entrepreneurs from rural and distressed communities can access grant or loan funding from Startup Kansas by working with local nonprofit business support providers. The Center also cooperates with Wichita State University's Center for Entrepreneurship to inventory the entrepreneurial education being taught in the state.

Kansas is also seeking to facilitate technology-based entrepreneurs through its KTEC PIPELINE program. PIPELINE identifies potential high technology entrepreneurs, and then matches them with best-in-class training, resources and mentors.

The Ben Franklin Technology Partnership (BFTP) (www.benfranklin.org) in Pennsylvania, established in 1982, also operates statewide, fostering entrepreneurial development as its main economic development strategy. Through its statewide network, supported by the Pennsylvania Department of Community and Economic Development, BFTP provides capital and expertise in technology, finance, and business that help entrepreneurs and established businesses overcome challenges and plan for growth. The BFTP operates through a regional structure, allowing the program to respond to its constituents' needs and to partner with other regional organizations with common goals, creating an interactive network of programs and services. According to one study, between 1989 and 2001 alone, every dollar invested in BFTP yielded nearly $23 of additional income to the state, and BFTP boosted Pennsylvania's economy by $8 billion.

One of the most successful of the BFTP partners is Innovation Works in Pittsburgh, Pa. In its 20-plus years of activity, Innovation Works has helped create some of the most successful technology companies in Southwestern Pennsylvania. Headed by a former entrepreneur, Rich Lunak, Innovation Works provides expertise (through its staff with extensive private sector experience) and financing to aspiring technology entrepreneurs.

JumpStart, based in Cleveland, Ohio, performs related functions for potential and actual entrepreneurs in Northeast Ohio. In particular, it not only assists new companies with funding and expertise, but has a range of networking and educational programs to give individuals who are thinking about taking the "entrepreneurial plunge" information to enable them to make an informed decision about whether or not to do so. Like Innovation Works, JumpStart has a team of experienced former or current entrepreneurs available to advise entrepreneurs and their companies.

Future Research

Given the fact that many entrepreneurial support programs have been established relatively recently, there so far have been insufficient data to evaluate them and specifically identify the services and strategies that appear to be the most cost-effective. Nonetheless, it is clear that research of this kind is necessary.

The participants believed it is especially important not to limit measurement of the entrepreneurship support programs' impact to the number of jobs that program clients may create. This narrow focus ignores the intangible aspects of entrepreneurial growth: the demonstration of the effects of one or several successful entrepreneurs on others who are thus encouraged to launch their own companies, or the possible long-lasting change in the local "entrepreneurial culture" effects that may benefit an entire area, which is totally apart from any additional jobs the support efforts may "create" at the firms that may be helped.

A key challenge for both researchers and those actively engaged in providing entrepreneurial support is to develop other metrics for measuring the impact of programs in this area. This is important not only for those operating the programs, but also to help educate elected officials, local governmental executives, and the broader public about these programs' nature and impact.

A new study, sponsored by the Appalachian Regional Commission (ARC), provides recommendations. The study, which assessed the impact of the ARC's Entrepreneurship Initiative, details program results and also provides suggestions and guidelines for measuring such programs—beyond traditional economic development measures such as new job creation—in the future. The recommendations include assessments of entrepreneurship investments' impact on community attitudes, business operations, and overall regional economic prosperity.

Future Action

Conference participants expressed a need for entrepreneurship support programs to communicate more and share more information. This should both help the programs and build inter-community networks that can help entrepreneurs.

One helpful measure would be to devise a collaborative software program that could help organizations and entrepreneurs connect across communities. This sort of program should be created in a language that facilitators and entrepreneurs universally understand. Organizations then could connect, share best practices, and maintain a database on current resources that cross borders and industries. It is possible that a resource center currently being developed by the Edward Lowe Foundation would serve this purpose.

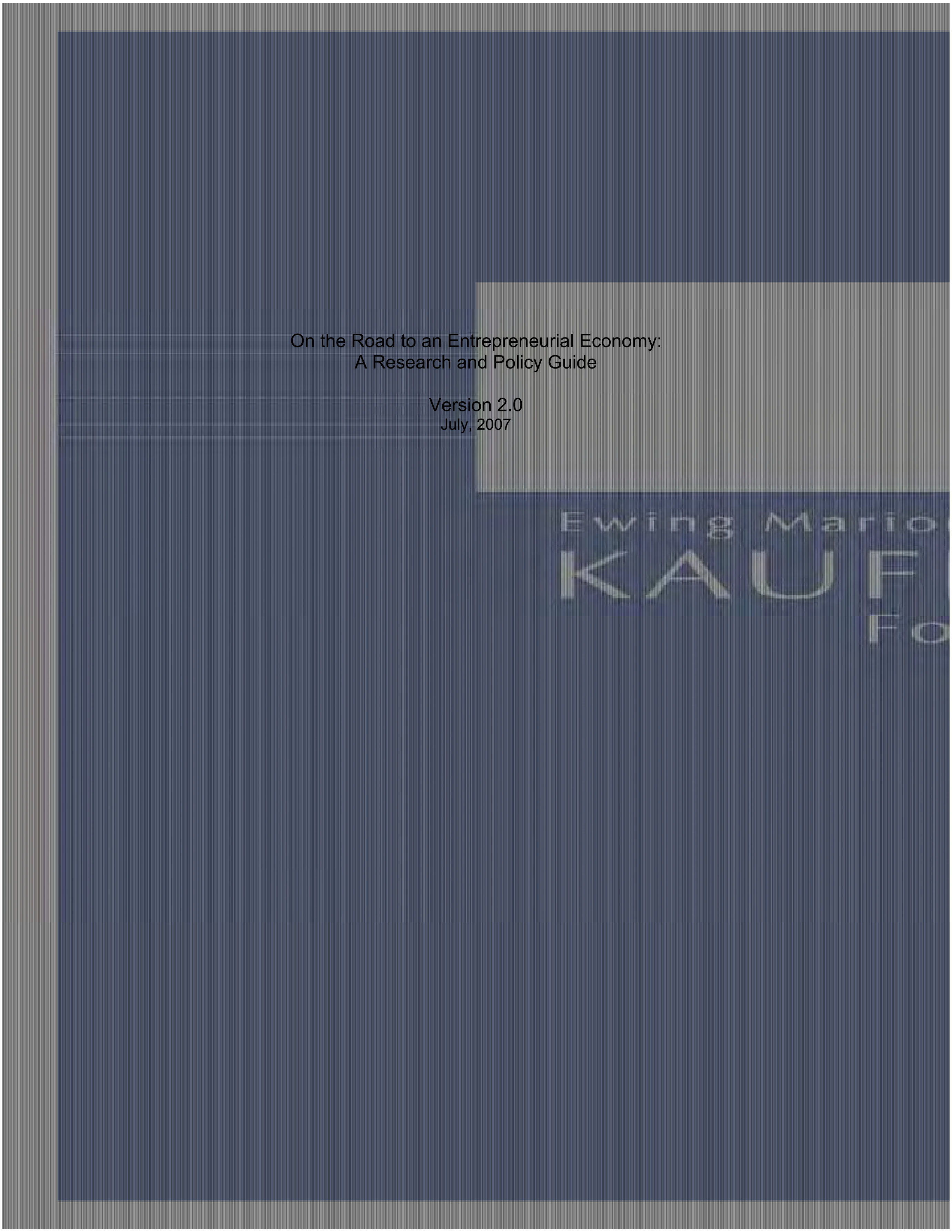
The escalation of globalization increases the importance for U.S.-based entrepreneurs to have a network with global reach. Indeed, some existing entrepreneurial support programs already provide information and contacts that extend outside the United States. One such example is the Larta Institute (www.larta.org), which serves as an entrepreneurial hub for high-tech and life sciences companies worldwide. With an extensive network of experts, the Larta Institute has facilitated approximately $1.6 billion in outside funding on behalf of the entrepreneurs it has assisted.

Another concept discussed at the conference was “economic gardening,” an innovative, entrepreneur-centered strategy developed in 1989 by Littleton, Colo., which since has emerged as a prototype for economic development professionals looking for additional methods to stimulate economic growth for their communities. Economic gardening focuses on facilitating innovative firms’ formation and growth by making use of and strengthening a community’s conventional infrastructure (notably, transportation and education), as well as intangible assets and services, such as financial resources and business cultures that support entrepreneurship. Appendix 3 discusses economic gardening in greater detail.

CONCLUSION

Fostering entrepreneurship is essential to continued economic growth. Economic development professionals support entrepreneurs and raise awareness of the importance of entrepreneurial development as a key factor in strengthening local economies.

As more experience and information are gained about who entrepreneurial programs serve and what services they provide, researchers in the future should be better able to evaluate these programs’ effectiveness and determine how they might be improved to further strengthen entrepreneurial growth.


On the Road to an Entrepreneurial Economy:
A Research and Policy Guide

Version 2.0
July, 2007

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Ewing Marion
KAUFFMAN
Foundation

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EXECUTIVE SUMMARY

Among the factors contributing to the success of the U.S. economy over the past decade—as reflected in the doubling of productivity growth compared to the preceding two decades—is the continued transformation of the U.S. economy toward a more entrepreneurial form of capitalism. In such a system, innovative new firms play an unusually central role in developing and commercializing the radical technologies that provide the underpinnings to whole new ways of doing things and enjoying life. In the last century, innovations which have changed the social and economic landscape in the United States and in much of the rest of the world, such as the automobile, airplane, air conditioner, the personal computer and its operating system, and, most recently, many of the leading Internet-based business models, all were commercialized by entrepreneurs.

The United States and other countries face daunting challenges in this century. Aging populations and the retirement and medical needs they require, global warming, and new security concerns—to name just a few—all demand the resources that can come only from continued rapid economic growth. Economic growth, in turn, will require continued entrepreneurial innovation. Ideally, much of that innovation and entrepreneurship will take place here in the United States, where it historically has occurred.

How best can this outcome be assured? For over a decade, the Ewing Marion Kauffman Foundation has been supporting basic research into this and related questions surrounding entrepreneurship. The officers and staff of the Kauffman Foundation are in constant touch with all elements of the entrepreneurial community.

In the essay that follows, we distill what we've been learning through the research we sponsor and the feedback we receive from entrepreneurs, both about the specific challenges to continued innovative entrepreneurship that confront the United States in the coming years, and how those challenges might be addressed. In particular, we outline some of our views on policies that we believe the best research suggests are likely to be most conducive to innovative entrepreneurship, as well as those subject areas that could benefit from future research.

We concentrate primarily on the following four policy subjects that innovative entrepreneurs have been telling us are of uppermost importance to them.

1. **Ensuring a Skilled Workforce**: Entrepreneurs tell us that perhaps the most significant constraint on their future growth, and on the growth of future entrepreneurs, is the difficulty finding and attracting "talent"—highly skilled, entrepreneurial workers. This also looms as one of the more important challenges facing the U.S. economy. Meeting this challenge will require major, entrepreneurially driven improvements throughout our educational system (K–12 through graduate school) that allow more choices for students and their families; improved schools from which to choose; accelerated learning opportunities; increased funding for college and graduate-level training; and research and development in engineering and the physical sciences. In addition, the nation could benefit from more enlightened immigration policies, designed to attract and retain highly skilled foreign workers and potential entrepreneurs to start and work for new businesses here.

2. **Reforming Health Care**: The continued escalation of health care costs, coupled with the uncertainties about future trends in these costs, rank high on entrepreneurs' lists of concerns, as well as on those of American business generally. In addition, the fear of losing health care insurance compounds workers' anxieties about job loss itself, and most likely deters some employees from leaving their current jobs to launch new enterprises. The most entrepreneurial approach the federal government could take to address these problems would be to untether health insurance from employment, a system that stems from an accident of history (explained in the text). The current administration has proposed one way of doing that: extending tax deductibility of health care insurance to those who purchase health insurance on their own, funded by an effective cap on the tax deduction for employer-provided health care coverage. Other approaches are surely possible. However accomplished, a new health care system should be one in which individuals buy insurance for health care as they currently do for other types of events (such as damage to their personal property, homes, or businesses), although they might do so through any number of non-employer groups or associations. Meanwhile, for their part, insurers should not be permitted to deny coverage or discriminate in setting their premiums on the basis of individuals' preexisting health conditions.

3. **Promoting Innovation**: Innovative entrepreneurship cannot occur unless the innovation pipeline is full and incentives for commercializing innovation are in place. Historically, the United States has done well on both these counts. But continued and ideally enhanced success requires even more: shifts in the patent system that reduce the likelihood that overly broad legal protection of "intellectual property" will inhibit the entry of innovative, new firms; improvement in the ways that university-developed ideas are commercialized; and monitoring of ideas and inventions developed abroad, just as foreign companies have been doing with U.S.-based inventions for decades.

4. **Limiting Overly Burdensome Regulation and Liability Litigation**: Because of their size, entrepreneurial firms often bear a disproportionate cost of regulation and liability litigation. Accordingly, entrepreneurs have the most to gain from generally sensible reforms that would require all major federal (and state) regulations to be implemented only if their estimated benefits exceed costs, and further that any regulations that pass this test also be designed to minimize costs in achieving their objectives. In addition, although progress has been made in reducing uncertainties associated with liability costs, further reforms would be useful (without reducing incentives for companies to make safe products). Three ideas in particular are worth serious consideration: enacting a federal product liability law to establish more uniformity and thus less uncertainty in liability rules for products sold in interstate commerce; adopting the "English rule" on attorneys' fees (loser pays) for litigations involving commercial interests on sides; and limiting the award of punitive damages where defendants have complied with prevailing regulatory standards.

At the conclusion of this essay, we briefly discuss two other policy subjects—taxes and regulation of the capital markets and corporate governance—that are likely to be important to promoting innovative entrepreneurship, but where we believe further research is required before offering policy recommendations.

This document is the second iteration of one released initially on February 26, 2007. It reflects comments on that first version received during several expert panels convened in Washington, D.C. during EntrepreneurshipWeek USA, as well as other comments transmitted to the Foundation via our Web site.

We continue to invite readers' views on the subjects advanced here. Are there other topics you believe are as or more important than those we concentrate on here for promoting the formation and growth of innovative entrepreneurial enterprises? Within any of these subject areas, are there particular questions you believe require further research? We'd like to hear from you. Comments can be emailed to research@kauffman.org or posted online at www.kauffman.org/policy. Periodic updates to this document will be posted online at this location.

Center *for an* Urban Future

www.nycfuture.org FEBRUARY 2007

A World of Opportunity

Immigrant entrepreneurs have emerged as key engines of growth for cities from New York to Los Angeles—and with a little planning and support, they could provide an even bigger economic boost in the future

This report was written by Jonathan Bowles with Tara Colton. It was edited by David Jason Fischer and designed by Caroline Jerome, D.C. Joel Kotkin, a senior fellow with the Center for an Urban Future and an Irvine Senior Fellow with the New America Foundation, worked as a consultant on the Los Angeles and Houston portions of this project. Additional research by Mirvlyne Brice, Lindsey Ganson, Jennifer Gootman, Andrew Gounardes, Rachel Greene, Steven Josselson, Tanushri Kumar, Migi Lee and Suman Saran. We also acknowledge the helpful support we received from Thomas Tseng, New American Dimensions; Andrew Segal, Boxer Property Management; Isabel Duran, Community Financial Resource Center and many others.

This report was made possible by support from The F. B. Heron Foundation, Garfield Foundation and J.M. Kaplan Fund.

General operating support for City Futures has been provided by Bernard F. and Alva B. Gimbel Foundation, Booth Ferris Foundation, Deutsche Bank, The F.B. Heron Foundation, The M&T Charitable Foundation, The Rockefeller Foundation, Rockefeller Philanthropy Advisors, The Scherman Foundation, Inc., Taconic Foundation and Unitarian Universalist Veatch Program at Shelter Rock.

The Center for an Urban Future is a New York City-based think tank dedicated to independent, fact-based research about critical issues affecting New York's future, including economic development, workforce development, higher education and the arts. For more information or to sign up for our monthly e-mail bulletin, visit www.nycfuture.org.

Cover photo: Dominick Totino

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A WORLD OF OPPORTUNITY

Immigrant entrepreneurs have emerged as key engines of growth for cities from New York to Los Angeles—and with a little planning and support, they could provide an even bigger economic boost in the future

AS THE STAKES OF ECONOMIC COMPETITION GROW EVER-HIGHER in America's cities, mayors have sought to kick-start local economies by embracing everything from artists and biotechnology companies to sports arenas. For many of the nation's urban centers, however, a more rewarding—if decidedly less glamorous—answer is hiding in plain sight: tapping their growing immigrant populations.

During the past decade, immigrants have been the entrepreneurial sparkplugs of cities from New York to Los Angeles—starting a greater share of new businesses than native-born residents, stimulating growth in sectors from food manufacturing to health care, creating loads of new jobs, and transforming once-sleepy neighborhoods into thriving commercial centers. And immigrant entrepreneurs are also becoming one of the most dependable parts of cities' economies: while elite sectors like finance (New York), entertainment (Los Angeles) and energy (Houston) fluctuate wildly through cycles of boom and bust, immigrants have been starting businesses and creating jobs during both good times and bad.

Two trends suggest that these entrepreneurs will become even more critical to the economies of cities in the years ahead: immigrant-led population growth and the ongoing trend of large companies in many industries moving to decentralize their operations out of cities and outsource work to cheaper locales. But despite this great and growing importance, immigrant entrepreneurs remain a shockingly overlooked and little-understood part of cities' economies, and they are largely disconnected from local economic development planning.

Although much of the recent national debate over immigration has focused on the impact of immigrants on America's labor market, this report concentrates squarely on immigrant entrepreneurs. The report documents the role that immigrant entrepreneurs are playing in cities' economies, the potential they hold for future economic growth and the obstacles they encounter as they try to start and expand businesses. The study predominantly looks at immigrant entrepreneurs in New York City, yet also considers in detail immigrant-owned businesses in Los Angeles, Houston and Boston.

Based on 18 months of research, this work is built upon extensive data analysis, focus groups conducted with immigrant business owners and economic development experts, and roughly 200 interviews with business owners, immigration experts, ethnographers, local economic development officials, banking and microfinance specialists and government officials.

Immigrant entrepreneurs have made decisive contributions to the U.S. economy for more than a century. Their legacy of entrepreneurship runs the gamut from the hundreds of Chinese laundries opened in San Francisco in the mid-19th century to the swarm of Eastern European pushcart vendors that lined the streets of New York's Lower East Side early the following century. Although their place in the popular imagination is connected with small mom-and-pop businesses, first-generation immigrants founded many of the country's most enduring corporations: a short list includes Warner Brothers, Anheuser Busch, Goya Foods, Goldman Sachs, Paramount Pictures, Fortunoff, Max Factor and Sbarro.

Although immigrants to the U.S. during the past few decades largely come from different parts of the globe than those who entered during the country's first great waves of immigration, today's new Americans still tend to be far more entrepreneurial than native-born residents. In 2005, an average of 0.35 percent of the adult immigrant population (or 350 out of 100,000 adults) created a new business each month, compared to 0.28 percent for the native-born adult population (or 280 out of 100,000 adults), according to a recent study by the Ewing Marion Kauffman Foundation. Moreover, the percentage of immigrants starting businesses has generally been on the rise: between 2002 and 2005, the average annual rate of entrepreneurial activity among immigrants was 0.3825, up from 0.324 between 1997 and 2001.[1]

This trend isn't new. In every U.S. Census since 1880, immigrants have been more likely to be self-employed than the native-born population.[2] What's different now is that the U.S. has been experiencing a prolonged burst of new immigration, at levels not seen since early in the 20th century. True to form, this phenomenal growth has been accompanied by a concomitant explosion in immigrant-run businesses.

Nationwide, the immigrant population grew by 57 percent in the 1990s, bringing the share of the U.S. population that is foreign-born to a higher level than anytime since 1930.[3] But the biggest impact has occurred in cities. Foreign-born individuals accounted for 97 percent of the overall population growth in Los Angeles between 1980 and 2000, 128 percent in New York City, 101 percent in Houston, and 357 percent in Boston.[4]

Nowhere is the impact of immigrants on urban economies more visible than in New York City. Over the past 10 to 15 years, immigrant entrepreneurs fueled much of the overall growth in new businesses across the city and triggered dramatic turnarounds in neighborhoods all over the five boroughs. The number of self-employed foreign-born individuals in the city increased by 53 percent during the 1990s, while the number of native-born self-employed people *declined* by 7 percent.[5] Over the same period, neighborhoods where immigrants own the lion's share of businesses—including Jackson Heights, Sunset Park, Flushing, Sheepshead Bay, Brighton Beach and Elmhurst—created jobs at a significantly faster rate than the city as a whole. Several of these communities even added jobs in the two years after September 11th, a time when the city's overall economy was shedding massive numbers of jobs.

Immigrant-run businesses are also helping the city recapture tax revenue from suburban shoppers. That's because ethnic retail strips like 74th Street in Jackson Heights, St. Nicholas Avenue in Washington Heights, Liberty Avenue in Richmond Hill and Main Street in Flushing have become destination shopping districts throughout the region, routinely attracting second- and third-generation immigrants who live outside the city to eat at local restaurants and shop for everything from saris to plantains and mangoes.

"These entrepreneurs are the future of New York," says Eduardo Giraldo, owner of Abetex International Brokers, an insurance company in Jackson Heights, and president of the Hispanic Chamber of Commerce of Queens. "These people are taking risks, putting their savings on the line and growing businesses."

Foreign-born entrepreneurs are having a similar impact in Los Angeles. They provided an important boost to the economy in the early 1990s following the devastating riots and earthquake that rocked LA, and have since become an even more potent catalyst for growth. According to one estimate, immigrants are starting as many as 80 percent of all new

Who Is an Immigrant?

The Merriam-Webster dictionary defines an immigrant as an individual "who comes to a country to take up permanent residence." In this report, we use the word "immigrant" to refer to individuals who were born in another country and subsequently moved to the U.S. with the intention of living here permanently. Our definition includes people who relocated to the U.S. this year as well as those who moved here several decades ago. We also include those who were born in another country and came to the U.S. as children. However, our definition does not include children of immigrants who were born in this country. It also does not include individuals born in Puerto Rico or other commonwealths and territories of the U.S. ❖

businesses in LA. While this includes thousands of taco trucks, carnicerías and other microbusinesses, immigrant entrepreneurs in LA have founded nationally renowned firms such as El Pollo Loco, Panda Express, LuLu's Deserts and Forever 21. Incredibly, at least 22 of LA's 100 fastest growing companies in 2005 were started by first-generation immigrants.[6] Los Angeles County has more Asian-owned firms and Hispanic-owned businesses than any county in the U.S.[7] It also boasts 36 of the country's 500 largest Hispanic-owned businesses, according to *Hispanic Business*.[8]

In Houston, a telecommunications firm started by a Pakistani immigrant topped the 2006 Houston Small Business 100 list, a ranking of the city's most successful small businesses compiled by the *Houston Business Journal*. Additionally, a Houston-based energy company started by a Nigerian immigrant was recently named the second largest black-owned firm in the U.S. by *Black Enterprise* magazine.

In Boston, between 1997 and 2002, the number of Hispanic-owned firms increased by 97 percent and the number of Asian-owned firms grew by 41 percent.[9]

While large corporations still play a key role in the economies of all of these cities, small businesses are fueling much of the growth, thanks in large part to the explosion of immigrant-run firms. In LA, for instance, the number of firms with fewer than five employees increased by 67 percent between 1994 and 2004, even as the number of businesses with more than 500 employees decreased by 12 percent.[10] In New York City, the number of firms with less than 10 employees increased by roughly 20,000 between 1990 and 2005, a 13 percent jump, but the number of companies with over 500 jobs declined slightly.[11] In Houston, 94 percent of the growth in businesses between 1995 and 2005 occurred among firms with fewer than 50 employees.[12]

Immigrant entrepreneurs are already making valuable contributions to the economies of cities, but there's little doubt that they could make an even larger contribution to economic growth in the future. "We haven't even tapped a little of the potential that's out there [in LA]," says Jose Legaspi, a Los Angeles-based real estate developer.

A large part of the reason why is that none of the cities studied for this report have incorporated immigrant entrepreneurs into their overall economic development strategies in any meaningful way. In most cases, immigrant-run businesses aren't even on the radar of local economic development officials. And when these cities have structured programs to support small businesses, too often these efforts have failed to reach immigrant entrepreneurs. Similarly, many local chambers of commerce and community-based economic development organizations that exist to support entrepreneurs and small firms haven't effectively connected with immigrant communities.

Many immigrant entrepreneurs could use the help. They often encounter stiff obstacles as they try to start and grow businesses—challenges that keep some from getting out of the starting gate, inhibit countless others from growing beyond the mom-and-pop stage and prompt a number of the most successful companies to expand elsewhere.

Cities like New York and Los Angeles often are difficult environments for any entrepreneur. But, as this report documents, many immigrants must contend with challenges that go above and beyond those faced by other business owners, from language and cultural barriers to difficulty accessing financing and a lack of understanding about local rules and regulations.

MAJOR FINDINGS

Immigrant entrepreneurs are having an increasingly powerful impact on the economies of cities such as New York, Los Angeles, Houston and Boston.

NEW YORK CITY

- In 2000, foreign-born individuals comprised 36 percent of New York City's population, yet they accounted for nearly half (49 percent) of all self-employed workers in the city.
- Immigrants drove all of the growth in the city's self-employed population between 1990 and 2000: the number of foreign-born individuals who were self-employed increased by 64,001 (a 53 percent jump) while the number of native-born people who were self-employed decreased by 15,657 (a 7 percent decline).
- Citywide, 9.27 percent of foreign-born workers are self-employed, compared to 7.71 percent of native-born workers. In Queens and the Bronx, self-employment rates for foreign-born individuals in the workforce are nearly twice those of native-born workers—9.98 percent to 5.74 percent in Queens, and 7.31 percent to 3.98 percent in the Bronx.
- Neighborhoods across the city in which many, if not most, businesses are immigrant-owned have seen an explosion of new enterprises over the past decade, far surpassing the number of firms created citywide. Between 1994 and 2004, the number of businesses citywide increased by 9.6 percent, while the number of firms grew by 54.6 percent in Flushing, 47.3 percent in Sunset Park, 33.7 percent in Sheepshead Bay-Brighton Beach, 17.8 percent in Washington Heights, 14.3 percent in Jackson Heights and 10.8 percent in Flatbush.
- Job growth in immigrant-dominated communities also far outpaced overall employment gains: between 1994 and 2004, overall employment in the city grew by 6.9 percent, but rose by 27.9 percent in Jackson Heights, 23.2 percent in Sunset Park, 13.3 percent in Sheepshead Bay-Brighton Beach, 12.1 percent in Flushing and 10.2 percent in Elmhurst.

LOS ANGELES

- First-generation immigrants created at least 22 of LA's 100 fastest growing companies in 2005.
- Immigrant entrepreneurs in LA have founded nationally renowned firms such as El Pollo Loco, Panda Express, LuLu's Deserts and Forever 21.
- Los Angeles County has more Asian-owned firms and Hispanic-owned businesses than any county in the U.S.

HOUSTON

- Houston ranks third among all American cities in the number of Hispanic-owned businesses (41,753) and sixth in the number of Asian-owned firms (15,966). It is also home to 16 of the largest 500 Hispanic-owned firms in the country.
- A telecommunications firm started by a Pakistani immigrant topped the 2006 Houston Small Business 100 list. Meanwhile, a Houston-based energy company started by a Nigerian immigrant was recently named the second largest black-owned firm in the U.S.

BOSTON

- The number of Hispanic-owned firms in Boston increased by 97 percent between 1997 and 2002 while the number of Asian-owned businesses grew by 41 percent.
- Immigrant entrepreneurs have provided a major boost in the resurgence of neighborhoods such as Fields Corner, East Boston, Allston Village and Jamaica Plain.

With immigrants continuing to fuel the population growth of these and other American cities, foreign-born entrepreneurs have the potential to be an even more dynamic engine of growth for cities in the years ahead.

- In every U.S. Census since 1880, immigrants have been more likely to be self-employed than the native-born population. What's different now is that the U.S. has been experiencing a prolonged burst of new immigration, at levels not seen since early in the 20th century.
- Between 1980 and 2000, foreign-born individuals accounted for 128 percent of the overall population growth in New York City, 97 percent in Los Angeles, 101 percent in Houston, and 357 percent in Boston.

Unlocking the potential of immigrant entrepreneurs will require more attention and support from policymakers, business advocacy organizations and community development organizations.

- Immigrants often encounter formidable challenges as they attempt to start and grow businesses, which keep some from getting out of the starting gate and inhibit others from growing beyond the mom-and-pop stage.
- Some of the obstacles they face are common to all entrepreneurs, but many others are much more daunting for immigrants—including language and cultural barriers, a lack of awareness about local regulations, limited financial literacy and, often, no credit history.
- Immigrant entrepreneurs remain largely disconnected from cities' local economic development planning.
- Too few of the established nonprofit organizations that support entrepreneurs and small business owners—from chambers of commerce to local development corporations—have managed to effectively connect with businesses in immigrant communities. ❖

TAPPING IMMIGRANT ENTREPRENEURS FOR ECONOMIC GROWTH

Immigrant entrepreneurs could be an even more powerful economic driver for New York City in the years ahead. But unlocking their potential will require addressing the many obstacles immigrants face as they attempt to start and grow businesses in the five boroughs

IMMIGRANT ENTREPRENEURS HAVE BEEN AN EXTRAORDINARY CATALYST FOR ECONOMIC GROWTH IN New York City during the past decade. But with the right planning and support, immigrant entrepreneurs could provide an even bigger boost to the city's economy in the years ahead.

It doesn't take a wild imagination to see that immigrant-run firms are likely to become even more integral to New York's economy in the future. Immigrants now make up 36.6 percent of the city's population, accounting for 115 percent of the city's population gain during the 1990s and 130 percent from 2000 to 2005.[46] (See Charts 8 and 9, page 27) Demographers project that immigrants will continue to drive the city's population growth over the next 25 years. These trends bode well for the local economy, since immigrants have been starting businesses at a significantly higher rate than native-born New Yorkers.

The stakes are high: with the city expected to add as many as 900,000 new residents by 2030, New York undoubtedly needs new job generators.[47] And in today's global economy, many of the city's traditional sources of employment growth, such as the securities industry, haven't been creating large numbers of new jobs. In fact, several of the largest corporations based in New York have been creating the bulk of their new jobs elsewhere.

What will it take for New York City to tap the full potential of its growing population of immigrant entrepreneurs?

First, policymakers and community leaders will have to find ways to address the formidable obstacles immigrants encounter when attempting to establish or expand businesses in New York.

Some of these factors, like the skyrocketing cost of real estate and insurance, are common to all entrepreneurs but pose particular difficulties for small businesses with limited profit margins. These costs drive many immigrant-owned enterprises in New York out of business and constrain countless others from ever growing beyond mom-and-pop size. They've also prompted numerous successful immigrant entrepreneurs to relocate out of New York City to less expensive locales like Florida, North Carolina and Georgia—states that have fast-rising immigrant populations.

Immigrant entrepreneurs, however, face a number of additional problems that most other fledgling businesses do not, from a lack of understanding about the rules and regulations businesses in New York must obey, to difficulty accessing financing for lack of a credit history.

Language and cultural barriers exacerbate these problems. Unable to communicate effectively, immigrant entrepreneurs are less likely to attempt to sell goods and services in markets beyond their own ethnic communities, or to seek help from government agencies and nonprofit economic development organizations. Without such help, many immigrant business owners take bad advice from friends, family or accountants, and make costly mistakes. Others turn to professionals who speak their language but take advantage of them.

CHART 8: IMMIGRATION POPULATION GROWTH IN NYC, 1990-2000

	Overall Population Change 1990-2000	Foreign-Born Population Change 1990-2000	Foreign-Born Share of Population Growth 1990-2000
Bronx	128,861	111,034	86.2%
Brooklyn	164,662	259,200	157.4%
Manhattan	49,659	68,574	138.1%
Queens	277,781	321,186	115.6%
Staten Island	64,751	28,107	43.4%
New York City	685,714	788,101	114.9%

Source: 1990 and 2000 U.S. Census

CHART 9: IMMIGRATION POPULATION GROWTH IN NYC, 2000-2005

	Overall Population Change 2000-2005	Foreign-Born Population Change 2000-2005	Foreign-Born Share of Population Growth 2000-2005
Bronx	24,225	51,829	213.9%
Brooklyn	19,989	27,776	139.0%
Manhattan	52,416	3,920	7.5%
Queens	12,833	66,018	514.4%
Staten Island	20,802	19,404	93.3%
New York City	130,265	168,947	129.7%

Source: 2000 American Community Survey, Supplementary Survey and 2005 American Community Survey

Harnessing the potential of immigrant entrepreneurs will also require greater attention and support from city economic development officials and the many nonprofit community organizations, chambers of commerce and business assistance groups that work with small businesses around the five boroughs. These entities should be well positioned to help immigrant entrepreneurs overcome these challenges and develop systems that enable them to grow. Unfortunately, too few of the city's established economic development entities have effectively connected with immigrant populations. Meanwhile, immigrant entrepreneurs remain mostly detached from the city's overall economic development strategy.

The sections that follow detail the specific challenges facing immigrant entrepreneurs in New York and analyze what government agencies and nonprofit business assistance groups currently are and are not doing to support this part of the city's economy. ❖

SMALL BUSINESS BLUES

In a town with high costs and fierce competition, immigrant businesses in New York often have no margin for error

IN NEW YORK TODAY, THE MOST DIFFICULT challenge for nearly every small business is staying afloat amid rising costs for real estate, health care, energy and insurance. But according to microenterprise experts, immigrant-owned firms are more likely to operate with razor-thin profit margins and less apt to set up accounting and management systems to help them deal with these costs.

Of course, New York has always been a relatively expensive place to do business. But small firms today are feeling particularly squeezed by a series of cost increases that have hit in recent years, from the 18.5 percent property tax increase enacted by the city in 2002 to sharply higher heating bills and insurance rates. Many immigrant entrepreneurs report that the greatest single obstacle has been the stratospheric rise in real estate costs.

Not long ago, entrepreneurs in ethnic neighborhoods like Flushing, Jackson Heights and Brighton Beach had little trouble finding relatively affordable retail and office space. In a sense, though, new entrants into these local markets are the victims of the successes their predecessors have enjoyed: today, real estate prices in these and other immigrant neighborhoods aren't far off from what businesses located in midtown Manhattan are paying. Firms located along these strips that signed long-term leases five or ten years ago might have been able to lock in moderately-priced rents, but newer firms are paying top dollar and often struggle mightily just to break even.

These sky-high real estate prices are a big reason why so many immigrant-owned firms go out of business. "The rents are so expensive that some of our guys are deciding not to renew their leases," says Luis Salcedo, executive director of the National Supermarket Association, a group predominantly made up of Dominican entrepreneurs.

According to neighborhood leaders, high real estate costs also explain why some immigrant entrepreneurs are relocating to cheaper locations in other states. For instance, Vasantrai Gandhi, who owns a jewelry store in Jackson Heights, says that rents along 74th Street are now as high as $125 to $150 per square foot and are forcing some business owners to consider relocating out of the city. "Landlords are asking for higher and higher rents," says Gandhi. "When the time for renewal comes up, sometimes those rents are so high that immigrants or any small business have very limited options. Many have gone out of business. Some say it's better to do business somewhere else. One jewelry store closed recently and is moving to Los Angeles, where the rents are quite low."

Olga Djam, a Colombian-born entrepreneur, adds that a number of Spanish-speaking entrepreneurs have left the city in the last year or two for Florida, North Carolina, Georgia and other places where immigrant populations are growing and real estate is more affordable. "Many of my clients have moved out of New York in the past year or two," says Djam, who owns an insurance company in Jackson Heights and advises a number of immigrant entrepreneurs. "They can't keep up with the costs of New York. They've decided to move out and try a place like Florida. Quite a few people have moved."

The high cost of real estate has had an even bigger impact in industries such as food manufacturing, where companies hoping to grow require significantly more space. Even as many ethnic food manufacturers are thriving, several have been forced to relocate to the surrounding region. "I know of a bakery where they started off by importing goods and now they are building a factory in New Jersey," says Walther Delgado, executive director of the Audubon Partnership for Economic Development, a Washington Heights-based local development group. "They can't expand here because it's too costly."

Other costs have gone up as well. For instance, insurance prices are now so expensive that some immigrant-owned firms are taking their chances without it. "There's this whole population of uninsured business people," says Joyce Moy. "They either do without it or it's the first thing to go when business costs go up. There was this fire in Sunnyside. The first thing the owner had cut was insurance. Their store burned down the next day."

Similarly, local business leaders say a shockingly high share of immigrant entrepreneurs can't afford health insurance for themselves or their employees. "Eight out of 10 of the businesses I see would probably not have health insurance," says Djam. "A lot of them will go back to their home country, to Colombia in my case, and that's when they'll go see the dentist or get a checkup from a doctor. It turns out to be cheaper."

The state's Healthy New York program is designed to make health insurance more affordable for small businesses, but observers say that few firms are taking advantage of it. "Most business owners don't know about it," says Diane Baillergeon, CEO of Seedco. "For some, it's still beyond their reach financially. And sometimes the application process is beyond what they're able or comfortable to do."

UNDERSTANDING RULES AND REGULATIONS

New York's regulatory environment is a headache for most entrepreneurs, but language and cultural barriers make it particularly difficult for many immigrants

MANY IMMIGRANT-OWNED BUSINESSES THAT manage to generate enough revenue to survive New York's high-cost environment get tripped up navigating the city's complex system of rules and regulations. Others must put so much effort into staying in compliance with the city's myriad laws that they are unable to take advantage of opportunities to grow.

New York's tough regulatory environment poses a daunting challenge to nearly every business owner, but it creates far deeper problems for immigrant entrepreneurs since large numbers of them—mainly due to language and cultural barriers—aren't aware of local regulations or are unfamiliar with the basics of running a business. Many immigrant entrepreneurs end up getting penalized for failing to comply with rules they didn't even know about, from the need to incorporate with the state to paying a specific business tax or applying for a permit that enables them to have a sign.

Cristina Alvanos, a Colombia native, says it's all too common for immigrants to start businesses without finding out about the laws they need to comply with. When she started a money transfer business a few years ago, she knew that she had to register the company, get a tax ID number, purchase liability insurance and apply for unemployment insurance and workers' compensation because she had worked for another firm for 11 years. "A lot of people don't know this," she says. "I get calls from people telling me they got fined because they didn't know they needed workers' compensation. They don't know that when you have a sign, you have to have a permit and make it visible."

Brian Singer, program manager for business and community economic development at CAMBA (formerly known as the Church Avenue Merchants Block Association), adds that a number of the immigrants he's worked with have had no idea what a credit report is, or how bad credit can impact their ability to get financing down the road. But an even more common problem, Singer says, is a failure to understand which taxes need to be filed. Undoubtedly, numerous immigrant-owned businesses knowingly evade or under-report taxes. But as Singer and other small business experts point out, immigrants generally have a more difficult time than other entrepreneurs getting all the facts about taxes.

No Place to Park

Major ethnic shopping districts like Jackson Heights, Richmond Hill, Flushing, Brighton Beach and Washington Heights have become incredible assets for the city's economy and undoubtedly have potential for additional growth. Yet these rising commercial centers also face significant challenges to their continued success. The biggest problem has to do with convenience and accessibility.

Every one of these shopping districts depends on a large number of shoppers to arrive by car from Long Island, New Jersey, Westchester and Connecticut. Yet they all have a serious shortage of metered parking spaces and only some of them have municipal parking lots nearby. Not surprisingly, most are also plagued by intense traffic congestion.

"There's not enough parking and traffic here is horrendous," says Raymond Ally, speaking about the bustling commercial strip on Liberty Avenue in Richmond Hill.

The situation is just as bad in Jackson Heights, according to Vasantrai Gandhi, chair of Queens Community Board 3, which represents Jackson Heights, East Elmhurst and North Corona. "There is no affordable parking lot or municipal parking lot, not only on 74th Street but in the entire Community Board 3 area," says Gandhi, himself a longtime entrepreneur on 74th Street. "There are as many as 23 municipal parking lots in Queens, but not one in [this] area. We convinced one landlord to convert his vacant lot on 75th Street into a parking lot, and that has provided some relief. But it is a small parking lot, and cannot accommodate more than 56 cars. And when customers come here to buy bulkier items, like groceries, they cannot carry all their purchases with them."

Compounding the problem, some of these neighborhood retail strips are beginning to face competition from malls as well as emerging ethnic shopping areas in the suburbs that are typically less congested and more convenient for suburban shoppers than their counterparts in the five boroughs. Ally, for instance, worries that people who in recent years have done much of their shopping on Liberty Avenue eventually will get fed up with having to drive around in search of a parking space and go to one of the newly built malls off the Belt Parkway. In a similar vein, South Asian immigrants today can find many of the ethnic goods they need in Hicksville, Long Island and Edison, New Jersey.

"About 10 or 15 years ago, there were businesses [on 74th Street] who would tell you that their customers were coming from all over the tri-state area and they would travel quite a bit to shop in Jackson Heights to buy their bulk groceries or buy their gifts if they were going to India," adds Madhulika Khandelwal, a Queens College professor and director of the school's Asian/American Center. "That has changed somewhat since there are now more ethnic shopping areas. [Among] the reasons why customers don't want to come to Jackson Heights are the parking problems and the crowded streets. They would rather go to New Jersey or a place on Long Island where parking is not a problem. New York City should think about how to make these places more welcome and user friendly," she says. ❖

One immigrant Singer worked with recently had run a deli for seven years but hadn't realized that he wasn't filing taxes properly. "He came to us because he needed to renew his cigarette license, but the government wouldn't do it because his corporation was inactivated because he hadn't paid a franchise tax," says Singer. "I'm sure he would have paid the $200 a year if someone had told him this. His accountant obviously didn't do it. Now, he has to pay the franchise tax and all these penalties. For this guy, it was a franchise tax. The next one, it'll be something else."

To a large extent, problems like these stem from the fact that many immigrant business owners have been in the United States for only a short time and are not completely familiar with local laws. Additionally, many immigrants plunge into starting a business after seeing a friend or relative do so without bothering to learn about the regulations with which they must comply.

Cultural barriers also contribute to the problem. In some cases, for instance, entrepreneurs make mistakes here because they hail from countries where they sought to avoid any contact with the government from fear of harassment and exploitation. "In the majority of the cases the reason [immigrants] left their country is because of non-trust of the government," says Maria Castro, chief executive of the Manhattan Hispanic Chamber of Commerce and a longtime business owner. "Therefore, they're not used to paying taxes and they now have to. And that stumps them for growth, in terms of banking and procurement opportunities."

For many immigrants, however, the biggest obstacle is a limited ability to speak and understand English. To be sure, scores of immigrants are able to operate successful businesses without having a strong command of English, serving a customer base predominantly made up of immigrants who speak their native tongue. Yet, limited language skills prevent many from fully understanding local requirements, make it near impossible for others to correctly file applications for loans or contracts and intimidate some from seeking help from government agencies or nonprofit service providers.

The language gap is a big reason why so many immigrants end up relying on friends, relatives and improperly equipped professionals for advice on running a business. Too often, this ends badly. Most commonly, immigrant entrepreneurs get faulty information about how to file their taxes, advice that frequently hurts them down the line when they're ready to grow. But in some instances, immigrants get taken for a ride.

"I had a client who owned a good Colombian restaurant," says Olga Djam, a Queens-based entrepreneur. "Because she didn't know how to write it out, she would pay taxes every quarter to her accountant and he would file for her. But it turned out the accountant was [using her money] to file taxes for another business instead. It took years for her to correct this. These things happen because of the language barriers. Unfortunately, they will be taken advantage of."

Language barriers also deter numerous immigrant-owned businesses from marketing their goods and services to a larger audience, thereby stifling their growth potential. For instance, Djam points to a friend who's been hugely successful selling traditional Colombian cakes and other desserts that she makes out of her home. The woman, however, has never learned English and probably never will. While there's nothing wrong with this, Djam says, it also puts a pretty low ceiling on the baker's potential for growth.

Wellington Chen sees the same thing occurring in downtown Flushing, where many Chinese-owned businesses near the Main Street subway station in Flushing only attempt to sell to people from the Chinese community, even though a majority of those passing by the storefronts there aren't Chinese. "No businessman would deliberately chase away 67 percent of customers, but that's exactly what's happening," says Chen. "Over 100,000 people pass through every day, but if you only cater to yourselves, you lose many customers."

Bursting the Bubble on Coney Island Avenue

Several dozen immigrant entrepreneurs from Pakistan and the Middle East had to contend with a problem far more serious than gaining access to financing or learning city regulations: the economic consequences of the deportation and detention of hundreds of local residents shortly after the tragic events of September 11, 2001.

Pakistani-owned firms were instrumental in helping revitalize a several-block stretch of Coney Island Avenue in Brooklyn during the late 1990s. But many of the entrepreneurs lost a significant chunk of business when the U.S. Immigration and Naturalization Service (INS) implemented the Special Registration program following 9/11, as several hundred neighborhood residents were deported and thousands more fled the city voluntarily.

Mohammed Razvi, an entrepreneur and community leader who is originally from Pakistan, estimates that 30 firms along Coney Island Avenue shut down in the months after 9/11, sometimes because the business owner was deported, but more often because of the huge drop in customers. "The people who used to come every day to these stores packed up and left," says Razvi. "20,000 people left Brooklyn because of fear of Special Registration. It caused these immigrants to flee to other states, like Maryland and Massachusetts."

The repercussions have been felt by a number of businesses across the city. For example, Shaheen Sweets, the city's oldest Indian and Pakistani sweets company, laid off about half of its 42 employees and closed its Brooklyn manufacturing operations, in part because of the loss of Pakistani customers after 9/11. "What happened after September 11th is that a lot of people started leaving, especially businesses that we were supplying—Indian, Pakistani and Bangladeshi grocery stores and restaurants," says Tariq Hamid, the owner of Shaheen Sweets, which now does all of its manufacturing at a Jackson Heights facility.

Razvi says he understood the need to investigate terrorist threats after 9/11, but believes that federal and local law enforcement agents overreacted, deporting—or threatening to deport—large numbers of immigrants for minor immigration violations. He argues that New York is worse off as a result. "These people have given legs to these neighborhoods and the city abandoned them," he says. ❖

DISCONNECTED

Lacking credibility in immigrant communities, established business development organizations struggle to reach foreign-born entrepreneurs

NEW YORK CITY HAS NO SHORTAGE OF organizations that work to educate entrepreneurs about how to start a business and overcome obstacles to growth. But only a small share of these local development corporations, business improvement districts, chambers of commerce and other nonprofit business assistance organizations have managed to effectively connect with immigrants.

Too often, immigrants looking to start or grow a business in New York either don't hear about existing programs, don't trust the established organizations that offer seminars and one-on-one technical help or encounter language and cultural barriers when attempting to access services from these entities. "There are so many nonprofits which don't have the trust," say Mohammed Razvi, a Pakistan-born entrepreneur who now runs the Brooklyn-based Council of People's Organizations. "Some of the nonprofits, they never realize that all of a sudden the whole community has changed."

Entrepreneurs and community leaders interviewed for this report say that too few of the city's mainstream economic development organizations have made genuine attempts to reach out to immigrant entrepreneurs. For instance, large business organizations around the five boroughs rarely hold their events and meetings in immigrant communities, opting instead to use the same catering halls they've used for generations. One elected official in Queens, who wished to remain anonymous, says that 99 percent of Hispanic business owners there have never heard of the borough's major economic development organizations. Meanwhile, many community-based development groups target their services primarily at businesses that have been around for decades without simultaneously trying to make connections with immigrant-run firms that have arrived on the scene more recently.

Undoubtedly, it isn't always easy for established business assistance organizations to deliver services to new immigrant communities. It requires leadership and a willingness to expand programs and membership. It also necessitates building trust by getting to know community leaders, hiring multilingual staff, offering seminars and other programs in languages other than English, marketing programs in ethnic newspapers and partnering with community-based entities that have more credibility among immigrants. "You can't expect these business owners to come to you. You need to get out to these businesses," says Queens College professor Tarry Hum, whose extensive research about Chinese-owned firms in Sunset Park found that very few immigrant business owners in the neighborhood were members of the local business organizations.

Many nonprofits have limited resources to take on these new challenges, especially since federal, state and city governments have reduced funding for these groups in recent years. A number of others don't even know where to begin.

Of course, immigrants themselves are often ambivalent about working with these organizations. "Even when we refer clients out to outside organizations, they are hesitant to go," says Jacob Massaquoi, a Liberia native and founder of African Refuge, a Staten Island-based organization that provides social services to the borough's large Liberian refugee community. "One of the reasons is trust. People who have suffered trauma are mistrustful of others. Another reason is language barriers. We speak English, but have an accent. If you have an accent, you have a very difficult time of articulating and negotiating your needs."

Since some immigrants will always have this insular mentality, it's important that New York's ethnic communities develop strong nonprofit institutions of their own to assist foreign-born entrepreneurs. In some cases, this has already happened (See "Empresarias," page 33). For the most part, however, the immigrant-run nonprofits around the five boroughs have neither the expertise nor the capacity to provide needed services to entrepreneurs and small

Empresarias Helping Empresarias

Liliana Carrillo owned a clothing company and a marketing business in her native Colombia. But today, Carrillo puts her entrepreneurial skills to work as the head of Empresarias Hispanas en Liderazgo (Hispanic Women Entrepreneurs in Leadership), a Jackson Heights-based organization devoted to helping Hispanic women in Queens launch and grow businesses. Carrillo co-founded the organization in 2004 with three other seasoned entrepreneurs after seeing that many of the South and Central American immigrants living in Jackson Heights, Elmhurst, Corona and other parts of Queens didn't have a place where they could access Spanish-language information about running a business.

At the time, several other Queens organizations were offering workshops and other support services to entrepreneurs and small business owners, including some in Spanish. But Carrillo says that many immigrants living in the area were unaware of these programs, and numerous others didn't feel comfortable going to them. "[Many Hispanic immigrants] feel more comfortable going to small local organizations that are run by Hispanics who speak their language and have been going through the same problems as them," Carrillo says, through an interpreter. "Whether it's because of language, lack of self-esteem or documentation issues, they feel more comfortable with their own people.

Carrillo's group appears to be filling a need: overall membership has climbed to more than 400, and the organization's monthly breakfast meetings now routinely attract between 70 and 100 women—up from 20 when the group first met in October 2004. Importantly, they seem to be reaching foreign-born entrepreneurs and business owners that, for a variety of reasons, never sought assistance from government agencies or higher profile economic development organizations. Attendees of recent meetings include owners of restaurants, beauty parlors and spas; a woman who bakes cakes out of her home and sells them to local stores; a jewelry designer; individuals who import food, clothing and other products from their home country; and several Mary Kay Cosmetics saleswomen.

The organization's monthly breakfast meetings are conducted in Spanish and feature a mix of networking and education. At each meeting, a few entrepreneurs make brief presentations about the businesses they own or are planning to open, and receive feedback from those in attendance. At some meetings, representatives from ACCION New York, NYANA, the Queens Economic Development Corporation (QEDC), and other local organizations speak about their programs or upcoming workshops. Veteran entrepreneurs often share insights about lessons they have learned or minefields to avoid. ❖

businesses. Most concentrate on providing social services and legal assistance.

Microenterprise organizations like the Business Outreach Center (BOC) Network and the New York Association of New Americans (NYANA) and some of the city's federally-funded small business development centers—such as the one at LaGuardia Community College—have been aggressive in trying to work with immigrant entrepreneurs. Yet, these groups generally aren't as well-funded as the more mainstream business assistance organizations. Many immigrant communities aren't served by these organizations at all. In Queens, the city's most diverse borough, there is only one certified Community Development Financial Institution (CDFI), a designation given to credit unions, groups that operate microenterprise loan funds and other specialized financial institutions that promote community and economic development. There are 27 in Manhattan, 11 in Brooklyn and 4 in the Bronx.

Going forward, it's critical for groups with sufficient expertise and funding to assist business owners in figuring out ways to penetrate immigrant communities. On this front, the last few years have seen some progress: for example, classes offered by the Queens Economic Development Corporation (QEDC) on how to start a business, formerly offered only in English, are now held in Spanish and Chinese, and they are usually overbooked. Similarly, Seedco, one of the city's largest economic and workforce development organizations, recently hired an account executive who speaks Mandarin, Fukienese and Cantonese to work with entrepreneurs in Manhattan's Chinatown. "It made a huge difference in our ability to engage that business community," says Diane Baillergeon, Seedco's CEO. "The issues of cultural competence are big."

While hiring culturally competent staff and offering multi-lingual classes are helpful steps, immigrant experts say that the best thing traditional nonprofits can do is partner with grass-roots groups that are run by or have the trust of immigrants. "That is crucial because community organizations serve as a bridge between mainstream outside organizations and the people in need of services," says Massaquoi.

CAPITAL CRUNCH

Unable to secure financing from banks, a large share of immigrant entrepreneurs struggle to access financing to start and grow their businesses

FOR GENERATIONS, NO ISSUE HAS PROVEN MORE frustrating to would-be entrepreneurs and small businesses than gaining access to the capital needed to pay for salaries, rent, equipment, raw materials and other basic expenses. But while nearly every entrepreneur has a difficult time obtaining sufficient financing to start and grow a business, the hurdles are often far higher for immigrant entrepreneurs.

The core of the problem for every entrepreneur, including immigrants, is that most banks have never been especially receptive to making loans to start-ups or small firms. Banks have long shied away from these loans because new ventures have a high rate of failure, something anathema to risk-averse financial institutions. Banks also earn smaller profit margins on small loans, even though making a $50,000 loan is often as much work for banks as handing out $5 million.

Many industry experts say that large banks in particular tend to avoid the small business marketplace, a problem for cities like New York since the flurry of recent bank mergers has resulted in fewer banks overall and a higher percentage of very large banks (See "Declining Number of Banks," page 36). "Big banks don't think they can make money there, because it's time-consuming and costly to do small business lending," says John Tear, a former senior vice president of Brooklyn's Community Capital Bank. "Your margins are a little smaller, because there is a lot of work that goes into [making small business loans]. The borrowers are a little less sophisticated, so there is more hand-holding. And a lot of banks don't want to be bothered with hand-holding."

Immigrant entrepreneurs confront all the challenges of other small business owners when seeking bank financing, but they often face additional obstacles that make obtaining a loan even more difficult. "It's virtually impossible to get start-up capital for anybody at the local level," says one community development expert. "But it's certainly almost out of the question for immigrants."

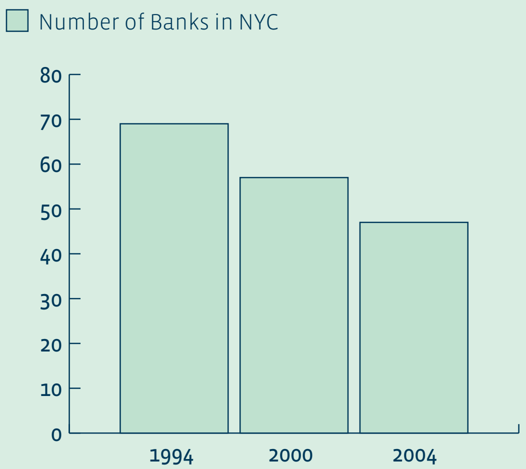
Microenterprise experts and banking officials say that immigrants are less likely than other entrepreneurs to have the collateral necessary to secure a loan. They're also significantly less likely to have established a credit history. Indeed, many foreign-born individuals—including numerous longtime U.S. residents and business owners—simply never bother to open a checking or savings account or otherwise develop a banking relationship. Having no credit record doesn't carry the same stigma of having bad credit, but it nevertheless precludes them from being considered for virtually all bank loans. "There are Liberians trying to open businesses on Staten Island, but they have problems getting loans and credit, because they have nothing to show," says Jacob Massaquoi of African Refuge. "They don't have bank accounts. They are used to the old way of doing things in Africa."

Worse, a significant number of immigrant entrepreneurs have developed bad credit, often as a result of maxing out credit cards, unaware that doing so affects their ability to get loans down the road. Additionally, scores of immigrant business owners operate off the books and don't keep the detailed accounting records that banks require.

Part of the problem is that many immigrants are

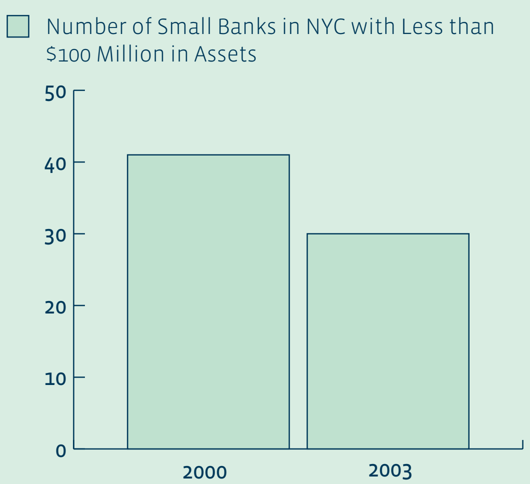
Industry experts say that large banks tend to avoid the small business marketplace, a problem for cities like New York since recent bank mergers have resulted in fewer banks overall and a higher percentage of very large banks.

CHART 10: DECLINING NUMBER OF BANKS



Source: SBA Office of Advocacy, Office of Economic Research, from Call Report Data Collected by the Federal Reserve

CHART 11: DECLINING NUMBER OF SMALL BANKS



Source: SBA Office of Advocacy, Office of Economic Research, from Call Report Data Collected by the Federal Reserve

intimidated by banks, either because they're not financially literate or because they had bad experiences with banks in their native countries. Indeed, in some countries, banks are notoriously corrupt or completely inaccessible for low-income people. Language barriers undoubtedly contribute to this problem; even some immigrants who speak English relatively well may not feel confident in their ability to discuss—or understand—detailed financial issues with loan officers. Whatever the case, large numbers of foreign-born entrepreneurs avoid the banking system, and many of them end up taking bad advice from accountants, friends and other contacts.

"Most of my clients did not have savings or checking accounts," says Doug Sudell, the former small business development manager for St. Nicholas Neighborhood Preservation Corporation, a North Brooklyn-based community development organization. "They are unfamiliar with [the banking system]. They think it's expensive. And they're scared of banks."

It doesn't help that banks' lending officers almost always come from different backgrounds and live in different neighborhoods than the immigrants applying for business loans. Far more often than not, they are unfamiliar with buying patterns in immigrant neighborhoods and underestimate the profit potential of businesses—and this often leads them to reject loan applications from these firms.

Joyce Moy, director of economic development at LaGuardia Community College, says that a Chinese entrepreneur once came into the college's Small Business Development Center frustrated because no bank would lend him money to import bear gall bladders. While seemingly an odd request, bear gall bladders are a critical ingredient in some Chinese herbal medicine and something many in the city's growing Chinese community would pay money for. "He had gone to some of the other conventional banks and they said 'What, are you crazy?'" Moy says. "Well, we took him to an Asian bank who understood that there was a market for this in the medicinal/herbal area and it's legal. They lent him the money."

Ecuadorian immigrant Jose Trinidad had similar trouble securing a bank loan for a bakery he wanted to open in Corona. Trinidad had years of experience working in bakeries, both in his native country and in New York. He had also been a successful entrepreneur, selling empanadas on the street in Queens. But the banks he visited didn't find him a risk worth taking. "He went to banks, but they just take a quick look at your credit score," says Laura Kozien, communications manager for ACCION New York, a microlender that eventually gave Trinidad a small loan. "He had years of experience, but none of it showed up on paper."

Trinidad has proved the banks wrong. His bakery, which opened in 2003, is still going strong and now has five employees. He's also purchased a Mexican

Declining Number of Banks

Small businesses and entrepreneurs usually benefit when a number of banks are engaged in fierce competition to win slivers of the market. Unfortunately, the reverse has been happening in New York: a series of mergers has shrunk the overall number of banks, and the ones that remain tend to be behemoths with little motivation to serve fledgling businesses, which generally look to borrow smaller sums and often involve greater risk.

The number of banks in New York City has been shrinking for at least a decade, declining from 69 in 1994 to 57 in 2000 and 47 in 2004—a 32 percent drop over the 10-year period.[48] Many of the casualties have been small- and mid-sized banks, the types of institutions most likely to target the small business market. Statewide, there were 41 banks with less than $100 million in assets in 2000; three years later, only 30 remained.[49]

The dominance of mega-banks in the city undoubtedly has had an impact on small business lending. In 2004, only 5 of the top 20 (and 7 of the top 30) small-business-friendly banks in the state were based in the five boroughs, according to an annual Small Business Administration analysis using data collected by the Federal Reserve Board.[50] Similarly, only three New York City institutions were among the 29 best banks for "microbusiness lending."

The seven city banks with good records of lending to small firms were all small- or medium-sized: Woori American Bank (#5); Great Eastern Bank (#6); Community Capital Bank (#10); Banco Popular North America (#15); Marathon National Bank of New York (#18); Atlantic Bank of New York (#23); and First American International Bank (#26).[51] ❖

The Unbanked

Nationwide, only 63 percent of immigrant household heads have a checking account, compared to 76 percent of native-born household heads, according to a May 2006 report by the Brookings Institution and the Federal Reserve Bank of Chicago. The share of those with a checking account varies widely by country of origin: 65 percent of immigrants from India have a checking account, versus 56 percent of those from Korea, 48 percent from China and 27 percent from Mexico. ❖

restaurant in Astoria, which employs many additional New Yorkers.

Adding to the problem, a growing number of banks in New York now underwrite most of their business loan applications in other states. As a result, a significant number of loan applications are now judged by officials hundreds of miles away, who often don't know the first thing about immigrant communities in New York City. If loan applications don't meet banks' preset criteria, there's virtually no room for flexibility.

"Banking is one-size-fits-all, and that is a problem with the immigrant community," says Walther Delgado, executive director of the Audubon Partnership for Economic Development. "Often, the underwriting criteria is being made by someone out in Texas, so there is no local input. They don't understand the context of a travel agency that has been around for 20 years, has three or four stores, but still, 20 years later, is having cash flow problems."

A final problem is that many of the city's immigrant neighborhoods are underserved by mainstream financial institutions. While there is no shortage of banks in several of the busiest ethnic business hubs, bank branches are noticeably absent from many other immigrant communities. A 2006 report by the Neighborhood Economic Development Advocacy Project (NEDAP), a Manhattan-based economic justice organization, found that bank branches were in short supply in 33 of 41 city neighborhoods in which at least 40 percent of residents are foreign-born.[52] According to the report, nine ZIP codes averaged fewer than 0.5 branches per 10,000 residents while 24 other ZIP codes averaged just one branch per 10,000 residents. In contrast, Manhattan's Upper East Side has a branch for every 3,000 residents in the blocks below 80th Street.

Large numbers of immigrants handle their basic financial transactions at check-cashing establishments, money transfer shops and rent-to-own stores—all of which charge higher fees than banks and do not help individuals develop credit histories.

Despite all these concerns, however, community development experts point to a few positive signs. For one, several banks in New York recently have begun to target the small business market, in many cases focusing on opportunities in immigrant communities. "I think banks are starting to reach down a little further and do more [small business lending] and be more flexible in their underwriting," says one banking expert.

SMALL LOANS, BIG DREAMS

A handful of "microlenders" are helping New York City's immigrant businesses survive and flourish—but demand far outstrips supply

NONPROFIT MICROFINANCE ORGANIZATIONS have become an indispensable source of capital for thousands of foreign-born entrepreneurs in New York who haven't been able to secure traditional bank financing. These groups, ranging from giants like ACCION to small credit unions and community development organizations, have sharply increased the number of microloans made to immigrant business owners over the past 5 to 10 years. Yet despite the gains, even the most prolific microlenders are still barely tapping into the enormous demand for capital from immigrant-owned businesses. In addition, there is evidence that some of New York's microenterprise organizations may have reached a ceiling in the number of microloans they are able to make each year—a cap caused not by insufficient demand but because they lack the capacity to serve additional clients.

Microlending first achieved prominence abroad, as a tool to spur self-sufficiency and economic growth in the developing world. But in recent years it has become an essential way to get seed capital into the hands of immigrants, refugees and others in the U.S. who are seeking to start or grow a business but don't meet banks' strict lending requirements. And by helping individuals start and grow businesses, it's also provided a big boost to the economies of neighborhoods and cities.

Although the loans are typically very small—ranging from a few hundred dollars to $50,000—they furnish immigrants with both needed resources and valuable financial experience, helping to prepare them to seek traditional bank financing down the road. Microloans also offer a much cheaper alternative to loan sharks, which still serve as the primary source of loans in some ethnic neighborhoods despite charging astronomical interest rates.

Clearly, microlenders have found a receptive audience. In the past five to ten years, the number of microloans has increased significantly. For instance:

- ACCION New York, the nation's largest microfinance institution, increased its loan portfolio by more than 150 percent between 2001 and 2005, from $5.2 million in 2001 to $13 million in 2005.[53] The number of loans it made each year jumped from 754 to 1,440 during the same period.
- In 2000, the New York Association of New Americans' (NYANA) served just 11 clients through its microloan program, lending a modest $178,000 overall. By 2005, NYANA was making 85 microloans in a year, totaling $848,000.[54]
- The number of individuals in New York City receiving seed capital grants from Trickle Up, a microenterprise organization that works with low-income entrepreneurs across the world and in the U.S., has increased from 55 in 1997 to 186 in 2005.[55]

A significant portion of microlending in New York goes to immigrant entrepreneurs. For example, in 2005, all of the microloans made by NYANA went to foreign-born individuals—42 to immigrants and 43 to refugees.[56] Similarly, 67 percent of the microloans handed out by ACCION New York in 2004 went to Latinos/Hispanics and 11 percent to Africans. Meanwhile, 57 percent of those receiving Trickle Up grants between 2004 and 2005 were born outside of the U.S.[57]

Microlending has been on the rise in cities across the country, in large part because microfinance organizations have aggressively targeted fast-growing immigrant communities and tailored their services accordingly. They typically have offices in ethnic communities and employ loan officers who speak multiple languages and understand the cultural backgrounds of their borrowers. For instance, NYANA can provide services to loan applicants in Spanish, Russian, Bosnian, French, Creole, Tibetan, Nepali, Arabic, and Hindi. The Business Outreach Center (BOC) Network, another source for microloans, has offices in Corona, Flatbush, Hunts Point, Chinatown,

Giving Immigrant Entrepreneurs a "Second Look"

Small businesses and entrepreneurs weren't a major focus of New York State's economic development strategy during the 12 years of Governor George Pataki's administration. Under Governor Pataki's watch, however, the State Banking Department launched a small-scale initiative that could have big-time benefits for immigrant and minority entrepreneurs.

Initiated by the late State Banking Superintendent Neil Levin, the effort started off by simply assembling a mix of bankers, microlending officials and technical assistance providers into a networking group. It then included a series of meetings in neighborhoods across the city, bringing together front-line lending officers from banks located in those areas with leaders of local nonprofits that were making microloans and providing technical assistance to entrepreneurs. Given the large untapped market for credit in many New York neighborhoods, the goal was to get banks comfortable enough with microlenders that they would regularly refer them their clients—the ones who had solid prospects, but either didn't have a credit history, hadn't been in business for two years or otherwise failed to meet their strict lending criteria.

These "second look" referrals, as they are commonly known, were rarely made in New York prior to the Banking Department's initiative. That has started to change, as the walls begin to come down between banks and microfinance organizations. George Gardes, director of small business banking for Atlantic Bank of New York, says the networking group was his first introduction to groups doing microlending in the city. "We didn't know they existed, the microlenders," says Gardes. "Now, if I can't make a loan, I'm calling either NYANA or ACCION and I refer the customer to them."

What helped hook Gardes and officials at several other institutions is that it's in banks' interest to make these referrals. After all, if they help a client get a microloan, the client is likely to set up various accounts with the bank. There's also a good chance the client will be in good shape to come back for a traditional bank loan in a year or two, after developing a good credit history with the microlending organization. "It makes good business sense," says Darlyne Bratton, vice president of HSBC Bank USA and one of the early supporters of the department's effort to increase "second look" referrals. "Since we are able to refer them [to a microlender], hopefully when they need a checking account or other financial services, they would come to us. And in years to come, ideally they'll be bank ready. Whatever reasons they were declined [for a bank loan], those things would have been resolved by getting the [loan with the] alternative financial lender." ❖

Washington Heights, Fort Greene, Harlem and West Brighton on Staten Island.

Microfinance organizations also generally aren't as rigid with their lending guidelines as banks. Like banks, most microfinance organizations are focused on lending to individuals who have the capacity to repay. Yet, they do not automatically reject applicants who haven't lived in the U.S. for a long time, have no credit history or haven't been in business for a couple years. And they allow borrowers to use untraditional sources of collateral, like stereo equipment or a television, which is key since many immigrants don't own homes or other typical sources of collateral.

"Banks won't lend to a person who has been in the country for less than a year; we will," says Robert Espaillat, president and CEO of ACCION New York. "We have limits on risks we can take, but we have very creative underwriting guidelines." According to Espaillat, ACCION New York receives about 400 inquiries each month from individuals looking for financing and ends up making loans to roughly 20 percent of them.

Another critical factor is that microfinance organizations usually put as much or more emphasis on providing technical assistance as they do with lending money. They help foreign-born business owners and would-be entrepreneurs—many of whom have limited financial literacy—to write business plans, develop marketing plans and understand everything from commercial leasing agreements and contracts to government regulations. Nearly as important, many microenterprise groups continue to mentor and advise their clients after providing a loan.

Banks simply don't have the time or incentive to work with potential borrowers in this way. Yet, this individual coaching and hand-holding is critical in preparing many foreign-born entrepreneurs to qualify for a microloan. "We work on business plans for relatively recent immigrants, and we virtually have to hold them by the hand and walk them through the process, right up to the desk of the loan officer," says Walther Delgado of the Audubon Partnership for Economic Development.

Finally, microfinance organizations got a huge boost from the federal government during the mid-1990s, when the Clinton administration created critical funding streams to support their microlending programs—particularly the Community Development

Financial Institutions (CDFI) Fund, administered by the Treasury Department, and the Microloan program run by the Small Business Administration (SBA).

Microfinance organizations undoubtedly fill a need by providing financing and technical assistance to underserved entrepreneurs. And there is evidence that they are achieving impressive results. For instance, 69 percent of ACCION New York borrowers who responded to a 2004 survey said that they would not have been able to expand their business, or would have had to pay higher interest rates to expand, without their microloan. Of equal note, the proportion of ACCION New York borrowers who sought financing from loan sharks and other informal lenders decreased from 26 percent to 3 percent after receiving an ACCION loan.[58]

Unfortunately, microfinance organizations still serve only a relatively small share of immigrants who own or want to start a business. "It's no stretch to say that there's a huge untapped market for credit," says Dan Delehanty, economic and community development officer for North Fork Bank and former director of the community affairs unit at the New York State Banking Department. "The volume [of microloans] is still pretty low."

ACCION New York is far and away the largest microlender in New York. Yet, according to Espaillat, ACCION's entire outstanding loan portfolio—about $14 million—is not quite as large as that of a typical small bank branch in Queens. Microlending at some of the smaller microfinance groups in the city has actually declined slightly in the last year or two. At the same time, thousands of immigrants still turn to loan sharks—or prestamistas, as they are commonly known in Latino communities—for loans, even though they often must pay about 25 percent interest *per month*. Microenterprise experts have suggested that loan sharks account for about $10 million in financing deals each year in Washington Heights and as much as $15 million in the Queens neighborhoods of Corona, Jackson Heights and Elmhurst.

Part of the problem is that large numbers of immigrant entrepreneurs simply don't know about microfinance organizations or the services they offer. With limited resources even to do their core work, microfinance organizations have little or no money in their budget for marketing or advertising, and thus remain unknown to most immigrant entrepreneurs. Since banks typically decline about 40 percent of the applications they receive for small business loans, they could provide a pipeline of clients to microfinance groups. Unfortunately very few banks in New York regularly refer the loan applicants they turn down to microlenders (See "Second Look," page 38). Indeed, only seven percent of ACCION New York's microloan clients found out about the organization from a bank; 37 percent were referred by other microborrowers.

The larger issue is that many of the groups that offer microloans are understaffed and lack the resources to expand upon the work they do with mentoring, pre- and post-loan counseling and other technical assistance. Instead, most of their funds are dedicated for loan pools. This is certainly understandable, since the banks, foundations and government agencies that support microenterprise organizations obviously want to keep overhead low and maximize the amount of money flowing to entrepreneurs. But these funders sometimes fail to grasp a fundamental tenet of microlending: the upfront hand-holding and technical assistance is critical to making loans. "The loan funds can't grow beyond a certain point if the capacity of the organization to work with borrowers

President Bush has dramatically scaled back funding to the Community Development Financial Institutions (CDFI) Fund and the SBA's Microloan program, both of which provide key support to microenterprise organizations in New York and other cities, and help fund hundreds of small loans to entrepreneurs. The CDFI Fund's budget has shrunk from $118 million to $55 million, while the annual allocation for SBA's Microloan program has declined from $19 million to $13 million.

doesn't grow along with the capital," says Nancy Carin, executive director of the citywide BOC Network.

Several microfinance groups actually leave money sitting on the table, because they lack the capacity to get loans out the door. According to Carin, the BOC Network has about $100,000 that they could still deploy. The problem is that BOC's sole loan officer also provides technical assistance to business owners and manages a portfolio of about 40 outstanding loans; he can't easily take on many new clients. Carin asks, "How many more loans can one person manage?"

Banks, philanthropic foundations and the government could help allay these problems by increasing operating support or allowing microenterprise lenders to spend a larger share of their existing funds on technical assistance, staff training and marketing. Unfortunately, key sources of funding for microenterprise groups are actually being reduced.

Most notably, President Bush has dramatically scaled back funding to the Community Development Financial Institutions (CDFI) Fund and the SBA's Microloan program, both of which provide key support to microenterprise organizations in New York and other cities, and help fund hundreds of small loans to entrepreneurs. The CDFI Fund, which had an annual budget of $118 million as recently as 2001, was allocated just $55 million in the 2006 fiscal year. Meanwhile, federal funding for the SBA's Microloan program dropped from $19 million in fiscal year 2000 to $13 million in 2006. Last year, in his budget proposal for fiscal year 2007, President Bush proposed eliminating the Microloan program altogether and slashing the CDFI Fund's annual allocation to just $8 million.[59]

The Microloan program provides relatively small loans to start-up or growing small businesses, and has been particularly useful to small business owners who cannot access the SBA's traditional loan program—the 7(a) loan—due to the small scale of their operations. According to the SBA, the program funded 159 small loans in the New York City region in 2005. The CDFI Fund program, which helps coordinate commercial banks' partnerships with low-income communities by providing training and private sector matching loans to foster community development, has been useful in addressing the market failures that exist in commercial lending in low-income neighborhoods.

Given the increasing importance of immigrant entrepreneurs to the economy of New York and so many other cities, many microenterprise experts argue that funding for these two programs should be increased, not cut. "The only other source of lending other than the Microloan and CDFI programs for [most immigrant entrepreneurs] are loan sharks, as many of them do not bank," says Dennis Reeder, executive director of the Washington Heights and Inwood Development Corporation.

New York State has a valuable CDFI program of its own, dispersing about 25 grants each year to community development financial institutions around the state that offer microloans to minority- and women-owned businesses. The grants, typically between $25,000 and $100,000 each, primarily help cover the cost of providing technical assistance to loan applicants but also can fund organizations' loan pools or loan loss reserves. The state funds are a lifesaver for several microenterprise groups, but the program's meager annual budget of just $1.5 million limits its impact. "The state program has enabled a number of CDFI's in the city to significantly increase what they are able to do, but it's still a drop in the bucket," says Cathie Mahon, an advisor to the New York CDFI Coalition, which advocates on behalf of community development financial institutions around the state.

Over the years, microenterprise groups have also received critical financial support from a number of banks. But experts say that some of the banks that traditionally funded microenterprise development in New York have reduced their support in recent years, sometimes simply because a bank merged and adopted the other institution's community development priorities. Meanwhile, community development officials assert that the foundation community overall has been relatively slow to support microlending in the U.S., even though several foundations support overseas microloan programs. "The banking foundations and the corporate foundations were the major way that microenterprise programs got some discretionary funds in the past," says the head of one microfinance group. "It wasn't, for us, the mainstream foundations, which were more focused toward a lot of social issues that didn't always include small business. I would encourage the foundation community and the corporate funders to look at the social and community development impact of microenterprise [programs]. Microenterprise is the place where wealth is created and where assets are created in communities."

The Economic Development and Workforce Development Systems:

A BRIEFING PAPER

Prepared for

SURDNA FOUNDATION

By

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December 14, 2009

PREFACE

In October 2009, the Surdna Foundation announced new programs to support its mission to help create just and sustainable communities: sustainable environments, thriving cultures, and strong local economies. To help inform its grantmaking to build strong local economies, the Foundation commissioned Mt. Auburn Associates to prepare a white paper on the current structure and challenges of the nation's workforce and economic development systems. This paper was originally presented as part of a November 9th- 10th, 2009 Board of Trustees meeting.

INTRODUCTION

Today our nation's communities are being affected by powerful trends that impact their economic health and sustainability. These trends, by now well-known, include:

- globalization of the economy, which leads to outsourcing, the movement of capital, and plant closures;
- decline in the availability of quality jobs, which is reflected in lower wages, shrinking benefits, and less permanent and secure employment;
- growing inequality in income distribution, with the top one percent of the households capturing an increasingly higher proportion of our nation's wealth;
- expansion of economic opportunity in suburban and exurban areas, at the expense of older inner-cities;
- erosion of the safety net contributing to a 75 percent increase in the number of children living in extreme poverty since 1995[1];
- demographic changes leading to a labor force with an increasing proportion of immigrants and older workers;
- growing gaps between white and minority students both in the college going rate and the degree completion rate;
- changes in work organization that is requiring more skilled workers;
- a skills mismatch, resulting both in employers having difficulty accessing the workers needed to remain competitive and a surplus of low-skilled workers in many geographic areas; and
- mergers, buyouts, and increased concentration of financial and nonfinancial corporate assets among fewer firms.

The implications of these trends for most Americans and for the communities in which they live are profound; and the recent economic crisis has only magnified them. Communities face economic uncertainty. Many individuals are concerned with their basic survival. With most economists fearful of a jobless recovery, the need for strategic and innovative action becomes imperative. Those concerned about the well-being and future prospects of poor individuals and communities are beginning to focus greater attention on jobs.

As Surdna considers its own future, and a new mission of fostering just and sustainable communities distinguished by *strong local economies*, it may seek to identify the strategies being used to help low- and moderate-income people find, keep, and advance in jobs that pay enough to support a family. It also could consider how its work can help create a sustainable and more environmentally sound economy through the creation and retention of quality jobs. What strategies can best accomplish the twin goals of helping prepare disadvantaged individuals for careers and assuring that there are adequate and appropriate employment opportunities available?

In thinking about this question, it is helpful to consider two sides of the labor market: ***demand***—building strong economies that lead to employment opportunities in the private, public, and nonprofit sectors; and ***supply***—developing workers with the skills necessary for the 21st century economy. Two interrelated, but distinct, fields of activity currently address these issues. Broadly speaking, labor demand issues are addressed through *economic* *development* policies and programs and labor supply issues are addressed as part of the *workforce development system.*

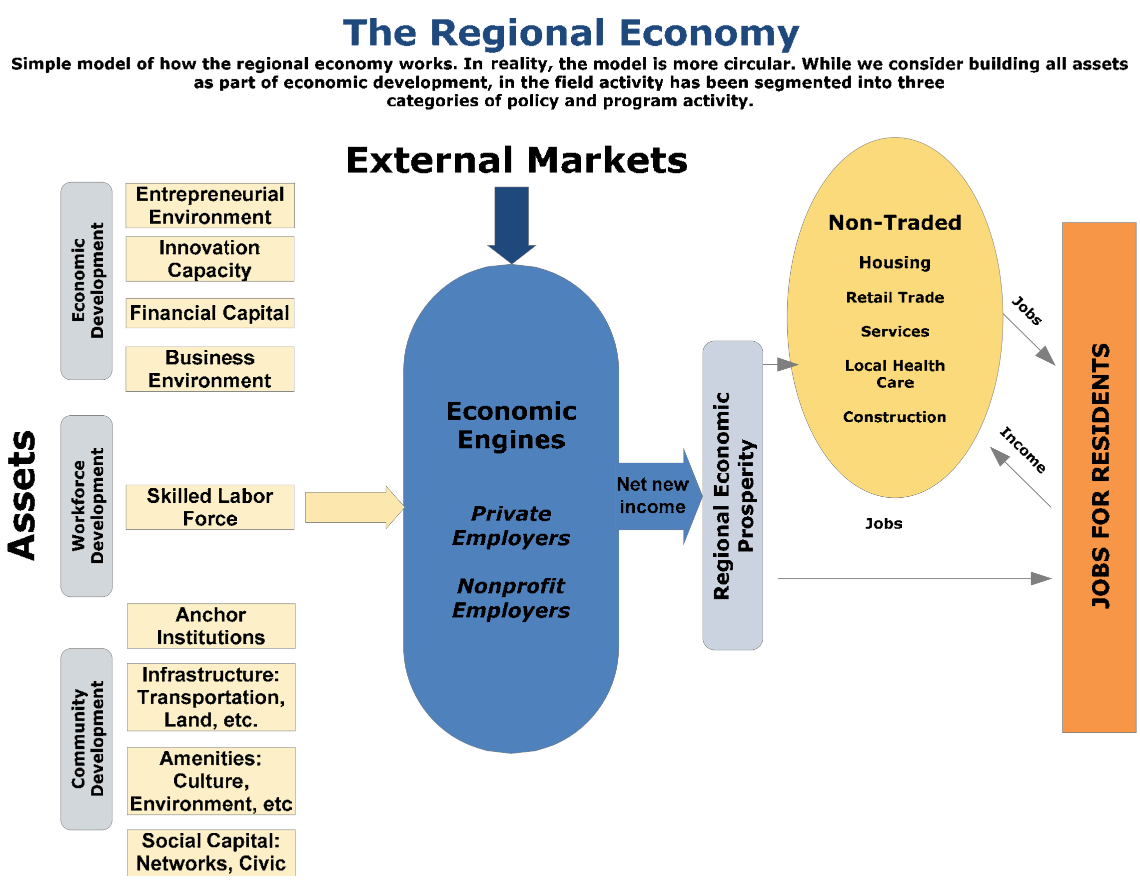
This paper provides an overview of the how these two policy areas currently operate in the United States and summarizes the goals, the key stakeholders, the public policy environment, the primary strategies being utilized, and the major challenges that are faced by practitioners in each of these areas. The purpose is to describe the current system, not to prescribe a set of actions for Surdna to pursue, nor to evaluate the effectiveness of the current system. Moreover, it cannot cover all of the innovative activities and models currently being pursued. Understanding the current context is a first step in identifying leverage points for action as well as a strategic approach to grantmaking.

ECONOMIC DEVELOPMENT POLICY AND PRACTICE

I. Economic Development Overview

Goals. The ultimate goal of economic development is to improve the economic well-being of a specific geography, typically a city, region, or state.[2] Historically, the primary emphasis has been on job creation via private business sector expansion. In recent decades, however, the field is increasingly concerned with building and improving the underlying *assets* that contribute to a region's economic strength, focusing on the *economic engines*, those "traded" clusters (a geographic concentration of interconnected businesses, suppliers, and associated institutions) that sell their goods and services to external markets. Through exporting goods and services outside of a region, traded clusters import income into the region that is then circulated throughout the regional economy. This, in turn, creates the resources needed to support the "*non-traded" industries*—those parts of the economy whose market is primarily local. While non-traded activity also creates significant job opportunities for residents, the long-term vitality of this component of the regional economy depends upon strong regional economic engines. (See Figure 1.)

FIGURE 1



3

Historical Perspective. Through the 1970s, most economic development organizations focused on attracting new businesses and industries to their region ("smokestack chasing"), often an attempt to lure branch plants of large corporations. During the 1980s, the field expanded in many directions. More attention was given to the role of small firms and entrepreneurs in the economic development process, which led to state and local small business financing and development programs. Cities pursued place-based strategies, most notably large development projects and business improvement districts, to revitalize and reposition their downtowns. State governments, following the severe recession of 1980 to 1982 and the decline of traditional manufacturing, took the lead in seeding the development of new industries, primarily through technology-based "centers of excellence" programs. Such programs sought to spur innovation and leverage the research and technology assets of universities. These economic development actions have endured in the field and have widened the strategies and tools employed. In the past decade, new attention is given to developing economies through clusters of related industries and on retaining and growing the region's talent base. These are considered to be critical to create and maintain vibrant economic regions in the 21st century.

Geographic Focus. Economic development organizations and programs operate on all geographic levels, from neighborhoods to multi-state regions. The majority of activity is built around governmental units at either the municipal (town, city, or county) or state level. Economies, however, do not operate or develop around political boundaries and this poses a challenge — most economies are integrated in metropolitan areas, which include extensive workforce and transportation systems and a network of suppliers and services. Many rural economic development organizations operate regionally; unfortunately, political and institutional barriers make strong regional economic development institutions difficult to establish and sustain, especially those in proximity to urban regions.

II. Who are the Key Players in Economic Development?

The economic development field is rather complex with no one agency charged with planning and coordinating economic development services. This is probably due to the ambivalence, particularly at the federal level, in intervening in the private marketplace. Programs operate across multiple agencies at the federal, state, and local levels.

Federal. *The Economic Development Administration (EDA),* part of the U.S. Department of Commerce, is the federal agency formally charged with supporting and funding regional economic development. Some of the funding is through EDA designated regional Economic Development Districts, however, these organizations are not found throughout the U.S. and tend to be more prevalent in rural communities. EDA provides grants for planning to create regional strategies (Comprehensive Economic Development Strategies), which are required to receive EDA funds. In addition, EDA funds a wide range of economic development-related programs and projects at the state, regional, and local levels including land use-related development, economic adjustment assistance, and a Trade Adjustment Assistance program that focuses on firms impacted by trade-related factors. Its small annual appropriation has been around $300 million in recent decades.

As one might expect, beyond the EDA, the federal level presents an alphabet soup of entities that provide resources. (See Figure 2.)

FIGURE 2

Federal Funding Related to Economic Development

Agency	Programs	Target
Department of Housing and Urban Development (HUD)	Community Development Block Grants	Projects benefiting low- and moderate income individuals
The Small Business Administration (SBA)	Direct Loan and Guarantee Programs Small Business Development Centers Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR)	Small Businesses
Department of Health and Human Services (HHS)	Office of Community Services Community Economic Development Job Opportunities for Low Income Individuals (JOLI)	Grants for community corporations targeting low-income individuals Nonprofit institutions focusing on job creation for individuals living below the poverty level
National Science Foundation (NSF)	Provides funds for Science and Technology Centers (STC) The Industry/University Cooperative Research Centers (I/UCRCs) Engineering Research Centers (ERCs)	Universities Industry/University/Government Partnerships
Department of Commerce National Institute of Standards and Technology (NIST)	Manufacturing Extension Partnership Technology Innovation Program	Manufacturers University, consortia, and industries involved in research and technology
Department of Commerce Minority Business Development Agency (MBDA)	Minority Business Enterprise Centers (MBECs and NABECs)	Minority entrepreneurs and businesses
Department of the Treasury	Community Development Finance Institution Fund New Market Tax Credits	Community Development Finance Institutions Firms and development projects in low-income areas
Department of Agriculture	Rural Development Business and Cooperative Programs (BCP) and Business Program The Community Development Program (CDP)	Businesses and community in rural regions Rural communities
Department of Energy	Loan Guarantee Program State Energy Programs Technology Transfer related to DOE Federal Labs Office of Energy Efficiency and Renewable Energy (EERE)	Eligible projects related to commercializing renewable energy and to modernize the grid Funds can be used for a range of economic development efforts including revolving loan funds for energy businesses Business Higher education/government/business

State. State governments are major players and investors in economic development. State economic development agencies often are charged with formulating a state economic development strategy; marketing the state to attract new businesses and investment; assisting existing businesses to access resources to grow and thrive (e.g., permits and finance for expansion training for incumbent and new workers); assisting firms with exporting and conducting business overseas; providing grants for local economic development projects and programs; and, in some cases, providing direct financing to firms and projects.

Many states also have quasi-public organizations that provide gap financing to firms and development projects and also undertake large-scale projects (e.g., military base reuse, large scale urban renewal). Some state and local port authorities are active in economic development through associated real estate development, financing, and international trade assistance. States also promote technology-based economic development through innovation and centers of excellence programs as well as via the research and development assets and technology commercialization policies of state universities.

Regional. Regional economic development organizations tend to focus broadly on building the region's economic assets, marketing the region, and supporting business growth and competitiveness. Regional scale economic development organizations include:

- economic development partnerships between business and government that market the region and attract new investment;
- regional planning agencies that may be involved in business finance, transportation, real estate development, workforce development, and regional fiscal issues;
- private sector civic organizations involved in economic development through planning, policy advocacy, and financing;
- regional CDFIs and economic development finance organizations, in some cases also including associated entrepreneurial and business development services, which cover a multi-county, state, or multi-state region (e.g., The Reinvestment Fund, Cascadia Revolving Loan Fund, Pacific Coast Venture, and Coastal Enterprises); and
- regional chambers of commerce that have economic development programs or an affiliated economic development corporation with a city or regional focus.

Local. In general, at the local level, economic development tends to be more "place-based," with a focus on land use issues related to businesses, downtown and commercial district development, and working with anchor institutions. Most local governments with populations of over 50,000 have economic development departments or corporations that provide some combination of business attraction, permitting assistance, business financing, and real estate development (e.g., industrial and office parks, redevelopment/urban renewal, small business incubators). Many large cities also initiate planning and development programs for new or for the redevelopment of key areas of the city that have suffered extensive disinvestment. For example, programs might be created for brownfields redevelopment or to support neighborhood scale economic development by revitalizing commerce, assisting small businesses, and/or developing neighborhood commercial real estate development.

Neighborhood Organizations. Some organizations focus on neighborhood or sub-city scale economic development, typically small business development and commercial district revitalization. These include community development corporations with economic development programs, business improvement districts, nonprofit Main Street organizations, and some business, neighborhood, or civic associations.

Anchor Institutions. Colleges and universities, hospitals, large arts and cultural institutions, and other major nonprofit institutions are critical economic development assets for cities and regions. Some of these institutions have explicit economic development activities, such as research parks, business incubators, and small business development centers. Those without formal economic development activities, nevertheless, contribute significantly to an area's economic development through workforce and talent development, innovation and technology development, anchoring investment and activity to spur reinvestment and business activity, and providing valuable amenities.

Foundations. Regional funders, in particular community foundations and corporate foundations, have been key players in regional economic development efforts. These funders are often critical outside "conveners" in their community and have supported public-private partnerships that have focused on a wide range of economic development strategies. Examples of regional foundations with a strong economic development focus include The Heinz Endowments in Pittsburgh and the multiple funders involved in the Fund for Our Economic Future in Northeast Ohio. While there are some national foundations that have focused on specific economic development strategies (i.e., the entrepreneurial focus of the Kaufman Foundation), for the most part, the national funders have not been major players. Over the past few years, however, the Ford Foundation Fellowship for Regional Sustainable Development has supported a learning and peer support effort by the American Chamber of Commerce Executives that has helped to strengthen regional economic development activities in many communities.

III. What are the Primary Strategies Used for Economic Development?

Most economic development efforts have employed the following strategies:

Traded Sector Cluster Development. This strategy supports the competitiveness and growth of interrelated firms in economic clusters that are central to an area's economy, that have strong growth prospects, and/or that provide good quality jobs or jobs for a target population. Activities include: (a) developing cluster organizations; (b) creating specialized cluster services around finance, job training, research and development, and exporting; (c) marketing and gaining recognition of the cluster for policy and business attraction purposes; and (d) advocating for supportive regulatory and public policies. Promoting the life sciences cluster has been a major area of focus in many major cities. There is growing interest in many localities in supporting alternative energy or other so-called "green"-related clusters and clusters of creative or cultural industries.[3]

Innovation Promotion. This strategy leverages and enhances those area assets that support innovation. Activities include: (a) funding technology development and commercialization "centers of excellence" of specific technologies; (b) funding industry-university partnerships to commercialize existing technologies and/or undertake applied research to support key industry needs; (c) creating university/research center technology, licensing policies, and specialized entities that promote private sector commercialization; and (d) providing funding and technical assistance to support business' use of federal research and development programs. There is also increasing interest in the application of design to competitiveness and the role of creativity in the innovation process.

Business Climate and Marketing. The goal of this strategy is to improve the recognition, perception, and environment of an area for business investment and growth. This may occur through advocacy to change policies affecting business costs. It may also occur through marketing a region to attract new investment as well as creating site finder databases and services to help firms and consultants locate and evaluate sites for new facilities.

Talent Retention/Attraction. This strategy ensures and nurtures the human capital assets. It is based on the growing evidence that firms will go where the most talented and skilled workers are located and that talented people are the ones who start successful businesses. Emerging efforts include: (a) creating programs to retain college graduates in an area through internships, mentoring, and career development efforts with local employers; (b) fostering networking among young professionals; (c) improving housing options and amenities desired by young talented professionals; and (d) focusing on developing amenities (environmental and cultural) that are attractive to knowledge workers.

Entrepreneurial Development and Small Business Support. This strategy supports the creation and growth of new and small businesses as a critical engine for economic development and job creation. Activities include: (a) training and technical assistance on how to start a business; (b) training and technical assistance on business management issues; (c) mentoring programs; (d) creation of entrepreneurial support networks; (e) small business incubators that combine space, shared services, and mentoring for new businesses; (f) financing targeted to start-up businesses through microloan and seed capital funds; and (g) programs for small, minority businesses, such as small business set-asides, and vendor development. An area of growing activity has been in promoting and supporting entrepreneurship and small business development amongst immigrant groups.

Commercial District Strengthening and Revitalization. This strategy seeks to expand neighborhood business and employment opportunities as well as improve the image, amenities, and quality of life in disinvested neighborhoods by creating revitalized and strong commercial districts. Activities include: (a) efforts to coordinate and manage a commercial district; (b) public safety initiatives to address real and perceived crime; (c) facade, cleanliness, and physical improvements to make the area more attractive and improve its image; (d) events and marketing plans to improve the district's image and strengthen the district's role as a community center; and (e) real estate development and business recruitment to reuse vacant properties, bring new businesses to the district, address key retail/service gaps, and strengthen existing business niches.

Development Finance/Community Development Finance Institutions. This strategy seeks to expand the supply of capital and address capital market gaps to finance business start-ups, expansions, real estate development, and community facilities. Activities include: (a) offering revolving loan funds and business finance programs within existing economic development agencies; (b) creating a community development financial institution or separate quasi-public agency that can raise and manage capital to address an area's financing needs; (c) instituting regulations or incentives for private investment to address capital gaps (examples include: tax incentives for investment in local venture capital firms, linked deposit programs that target public sector deposits, and financial services to institutions that address local banking service and credit need); and (d) organizing and advocacy for bank services and lending for economic and community development in low-income communities.

Business Retention/Business Competitiveness. Business retention involves providing a range of services to existing employers to help them remain more competitive and retain employment in the community. State and local economic development organizations have come to realize that retaining the existing jobs in their communities is at least as important as trying to create new jobs. A range of tools has been utilized to reach out to local employers to identify challenges that they are facing and to provide support services to address these challenges. Outreach often takes the form of business calling and using data analysis to identify at-risk firms. Services often involve referrals to a wide variety of business assistance services and incentives. Specialized programs, such as the national Manufacturing Extension Partnerships, provide specialized training and support to help the nation's manufacturers remain competitive. Finally, technology transfer programs have sought to utilize the resources of universities to solve business problems.

Targeting Benefits and Ensuring Accountability. For the most part, there is not a great deal of focus in economic development on whom is getting the jobs being created, nor the quality of the jobs being created. However, there are some exceptions. For example, at the federal, state, and local levels some public contracts involve set-asides or preferences for minority businesses, women-owned businesses, or businesses of a certain size. Community benefit agreements (CBAs), typically negotiated at the local level around specific development projects, usually require set-asides for the local community as well as hiring targets for local residents. There are also broader public policies that may seek to ensure more accountability associated with development projects or economic development incentives. For example, some states and cities have "clawback" clauses that involve some type of penalty if proposed economic benefits are not achieved. Other communities negotiate "first source agreements" requiring businesses benefiting from economic development financing or incentives to target employment opportunities to low- and moderate-income residents.

IV. What are the Key Challenges Facing Economic Development?

The field of economic development faces several pitfalls and challenges that hamper overall impact and the capacity to improve the well-being of low- and moderate-income individuals and communities. Some of these key challenges include the following.

The Next "Silver Bullet." Many cities and states are tempted to invest in very risky, large-scale, high visibility, "brick and mortar" projects. These so-called silver bullet projects often include casinos, convention centers, stadiums, and large downtown commercial projects. Such projects, while highly visible and usually able to garner political support, do not address the fundamental problems of large-scale disinvestment, middle-class flight, concentrated poverty, and the attendant fiscal stresses plaguing many cities. In contrast, the types of long-term investments that are needed for more sustainable economic development activity often do not attract the necessary political support.

Lack of Strategic Thinking. There is a strong tendency in the economic development field to follow the latest fad without a strategic understanding of its appropriateness to that community. There are many examples of this challenge. Almost every major metropolitan area thinks that because it has a major healthcare institution it can have a competitive biotechnology cluster. Richard Florida's work on the "creative class" has led to a proliferation of talent attraction strategies, often without a realistic understanding of the regional demographics and position of the community in competing for the younger demographic. Finally, while there is widespread talk about green jobs in the economic development field, few regions have looked strategically at their assets and competitive strengths in growing this type of industry.

Public Subsidies to Influence Locational Choices. The primary way in which the public sector, particularly states, attract and retain businesses is by using a range of incentives and other public subsidies. They do this in spite of the fact that considerable evidence indicates that such subsidies do not significantly influence firm behavior and that even if successful the costs may outweigh the benefits. Many studies have shown that the decision by firms about where to invest is complex, with tax-related costs often not the overriding issue. Moreover, for firms that are going to make decisions based upon low costs, many global locations are more competitive than even the lowest cost location in the U.S.

Parochialism. For many public officials, economic development is primarily about generating new tax revenues in their community. While the growth of an employer might mean new jobs for residents of a larger region, the fiscal benefits will accrue to only one city or town. As a result, there are disincentives for municipalities to work together on economic development.

Institutional Capacity. Many economic development organizations, especially at the neighborhood and municipal levels, are small with only one or two staff. Consequently, they lack capacity to implement effective programs, to form partnerships, to provide the range of activities required to be effective, or to grow their programs significantly and have impact. One example is the proliferation of local and nonprofit revolving loan funds, most of which have less than $1 million in capital and make less than 20 loans per year.

Benefits to Low- and Moderate-Income Residents. The economic development field historically has focused on business growth and job creation without concern for who is employed, the quality of the jobs, and who benefits from this growth. Aside from some progressive local governments and the CDCs and CDFIs, reducing poverty and expanding the employment, assets, and earnings of low- and moderate-income people have not been a concern of the field.

Environmental Sustainability. While there is now a flurry of interest in the interplay between the environment and economic development, the field has not typically concerned itself with the land use and environmental impact of how and where new economic development occurs.

Dominant Business Agenda. With their focus on business growth and the needs of the private sector, economic development practitioners and organizations often align their thinking with the business community. This can lead to an emphasis on policies to reduce business costs at the expense of public investment; viewing environmental regulations and concerns as anti-economic development; and ignoring the important role labor unions can play to improve the quality of jobs and worker incomes and the value of labor-business-community partnerships to sustain a region's long-term competitive and economic well-being.

WORKFORCE DEVELOPMENT THEORY AND PRACTICE

I. Workforce Development Overview

Goals. With a jobless recovery and unemployment rate hovering at about 10 percent, governments and organizations have given considerable attention to projects and programs that will create new jobs and ensure that people are not being trained for jobs that do not exist. Yet, even in this economy, jobs go unfilled because individuals lack the skills needed to obtain them. In fact, many experts wonder whether this "skill gap" will constrain long-term employment growth. Concerns about the long-term competitiveness of the U.S. economy and about the relationship between skills and family-sustaining jobs have resulted in considerable attention on educating and training; that is, paying attention to the nation's workforce development system.

Few people question the seriousness of our workforce-related problems.

A significant number of adults in the U.S. labor force lack the basic skills needed to succeed. Eighty-eight million Americans have at least one educational barrier, such as no high school degree, deficient English language skills, or no postsecondary training; 30 million score below basic literacy skill levels; and an additional 63 million can perform only simple literacy tasks.[4] Many of the nation's dislocated workers are finding that their skills are not at the level needed to access the jobs that remain or the new jobs being created.

Moreover, the pipeline of new workers is very "leaky." A large proportion of our young people continue to drop out of high school. In 2007, 6.2 million individuals between the ages of 16 and 24 dropped out of school. For some groups, the proportions are staggering—27.5 percent of Hispanics and 21 percent of African-Americans in this age group have dropped out of school.[5] Moreover, many who do earn a high school diploma are not prepared for postsecondary education. Current estimates are that 58 percent of two-year college students must take at least one remedial class.[6] Finally, a large number of students who do make it to college never graduate. For example, only 27.8 percent of students entering community colleges graduate within three years.[7] A recent study in Boston found that only 35 percent of Boston Public School graduates who had entered college earned a degree after seven years.[8]

Those individuals who are falling through the cracks face a bleak economic future. The percentage of the workforce requiring some college or above grew from 28 percent in 1973 to 59 percent in 2007 and is expected to increase to 62 percent by 2018.[9] Moreover, it will be virtually impossible to achieve a family-wage job without some type of postsecondary training. Today, the average wage for someone with less than a high school diploma is $426 a week compared to $736 a week for someone with an associate's degree.[10] And, in November 2009, the unemployment rate for individuals with less than a high school diploma was 15 percent as compared to only 7 percent for those with an associate's degree and 4.9 percent for those with a bachelor's degree or higher.[11]

These workforce-related issues are becoming more and more critical due to changing demographics.

In 2008, approximately 15.6 percent of the civilian labor force was foreign born and 26.4 percent of foreign born individuals over the age of 25 did not have a high school degree.[12] The U.S. Department of Labor is projecting further growth in the diversity of the workforce. For example, in 2018, Hispanics alone are projected to account for 17.6 percent of the labor force as compared to only 14.3 percent in 2008.[13] There is also concern that the retirements of those in the Baby Boom generation, while potentially delayed due to the recent economic crisis, may lead to significant workforce-related skill shortages.

In short, the economic future of many individuals, not to mention the economic competitiveness of our country, is at risk unless we are able to enhance the skills of our residents.

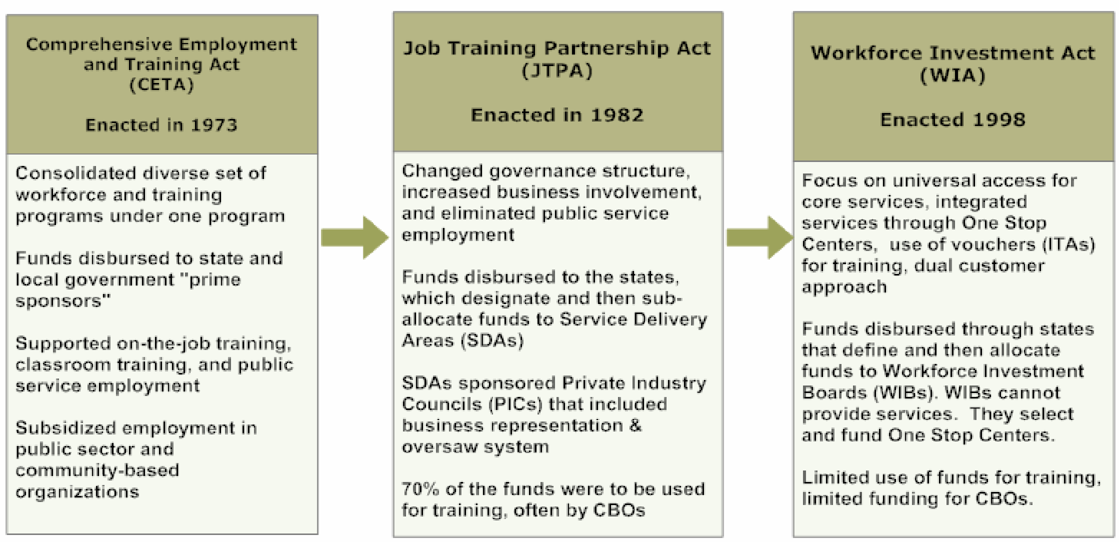
At its most basic level, the goals of workforce development are to address these difficult challenges and create an effective system that ensures that residents have the skills needed to attain and keep family sustaining employment and that employers have access to the skilled workforce needed to remain competitive.

The System. There is no clear consensus on what is the workforce development "system." Many think in a relatively limited way and focus on the federal funding stream that directly supports workforce training. Others think more broadly and include "*all of the public and private investment and activities undertaken to ensure that individuals both are employable and have jobs and, simultaneously, to ensure that companies can find and develop the skilled workforce they need to be successful in the world marketplace." (Corporation for a Skilled Workforce.)*

Historical Perspective. Federal policy to support the workforce and training needs of the nation's disadvantaged and dislocated individuals has evolved considerably from its earliest inception, the Manpower Development and Training Act of 1963 (MDTA), to the current system as defined by the Workforce Investment Act (WIA). Major changes have included how the system is governed, the role of business in the system, and the types of services being supported. Most importantly, in terms of the system's current status, the total funds for workforce development have declined significantly. A recent study estimated that federal funding for workplace training in real 2003 dollars declined from $27 billion in 1981 to $3 billion in 2007.[14] In 2009, total funding for the WIA system was about $3.2 billion. The shift in focus from preparing the workforce for jobs through training and skill development to an emphasis on job placement, regardless of the quality or appropriateness of those jobs, is another critical shift in the evolution of the system. (See Figure 3.)

FIGURE 3

Evolution of Federal Workforce Development Policy



II. Who are the Key Players and Programs in Workforce Development?

Federal

The Federal Workforce Investment Act (WIA), enacted in 1998, is the foundation of the nation's workforce development system. It provides services for adults, dislocated workers, and youth between the ages of 14 and 21. Some of the core principles of the WIA include the following:

- *Universal Access:* Unlike in the past, the WIA system is not targeted to low-income and disadvantaged individuals, but is by design open to any individual needing employment-related services.
- *Dual Customer Approach:* The WIA system considers both businesses and individuals as "customers" of the system. The system has a "business services" component that is intended to help businesses address their workforce needs.
- *Integrated Services through One-Stop Centers:* WIA requires the establishment of One-Stop Centers and, to that end, designated 17 mandatory federal partners that were supposed to help provide integrated services to individuals. In practice, mandatory partners have provided minimal support for the One-Stop Centers. Local Workforce Investment Boards (WIBs) select the operator of a center through a competitive process or designate a consortium of not less than three One-Stop partners to operate the centers. Funding the "infrastructure" costs of these centers is a serious challenge in the system.
- *Workforce Investment Boards as Regional Intermediaries in the System:* WIA money flows through the states according to a formula. Each state designates a State Workforce Investment Board, appointed by the governor, to oversee the system, develop state performance measures, establish local workforce investment areas, develop allocation formulas, and design procedures for certifying training providers. Funds from the state then flow through regional WIBs, which are responsible for developing a local plan, selecting and entering into agreements with mandatory partners, identifying eligible training providers, developing a budget and administering grants, overseeing the system, and reporting on performance measures. Under WIA, the WIBs are prohibited from providing services to participants; they contract out for these services.
- *Job Attachment rather than Training:* Services at One-Stop Centers are divided into three categories: (1) Core Services—access to job listings, information on careers, and job search assistance; (2) Intensive Services—case management, assessments, access to workshops, and development of individual employment plans; and (3) Training—aimed at individuals who have not found viable employment through core and intensive services. The vast majority of users of the system are involved in core services, which are usually self-directed. Any funding for training is disseminated through vouchers, (Individual Training Accounts, or ITAs), which individuals can use at certified training institutions. WIBs have discretion about how much to spend on training, so the amount of training provided varies significantly across the country.

WIA expired in 2003 and since that time Congress has continued to appropriate funds on an annual basis. For the past few years, the federal government has considered reauthorizing WIA. Many in the workforce development field are interested in seeing WIA changed to give greater emphasis to training as well as other reforms in governance. Currently, reauthorization is on hold, and disagreements among the interested parties are likely to delay the much-needed reforms to the system.

While WIA provides the basic framework for the federal workforce development system, the actual funding through WIA is only a small portion of the total federal funding for education and training services. Figure 4 shows most of the federal departments and funding streams that support workforce development. Each stream has its own set of restrictions and limitations, creating, what many complain, is the "siloed" nature of the system.

FIGURE 4

Additional Federal Funding Related to Workforce Development

U.S. Department of Education	U.S. Department of Labor	U.S. Department of Agriculture	U.S. Department of Health & Human Services	U.S. Department of Housing and Development	U.S. Department of Energy
Adult Education funding for adult literacy distributed to states on formula basis **Pell Grants** provide financial aid for low-income students **Carl D Perkins Act** funds vocational training post-secondary educational institutions **Vocational Rehabilitation** state grants for training for the disabled	**Wagner-Peyser funds** support employment services such as job search and job referral **Competitive grants such as WIRED, Regional Innovation Grants, etc.** **Trade Adjustment Assistance** helps workers displaced due to import-related layoffs or closures	**Food Stamp Education and Training (Now SNAP- ET)** provides funding for training for eligible food stamp recipients	**Temporary Assistance for Needy Families (TANF)** state block grants that replaced welfare & provides support for training with significant limitations **Social Service Block Grants** to states could be used for limited education and training services **Community Service Block Grants** to CAPs agencies could be utilized for education and training	**Community Development Block Grants** to cities could be utilized for education and training services for low-and-moderate income individuals	**Green Collar Job Training** through 2007 Green Jobs Act including Pathways Out of Poverty program for low income individuals **Energy Efficiency and Conservation Block Grant Program (EECBG) can be used for workforce development** **State Energy** Program (SEP) funding can be utilized for education and training

State Government

Although most of the funding for workforce development originates at the federal level, the use and distribution of the funding to individuals and businesses is decided primarily at the state and regional levels. The amount of integration between the WIA system and other federal and state workforce-related programs varies significantly both across and within states.

Beyond the federal funding streams, many states also have their own funding streams that are relevant to the workforce development system. States most often use such funds for customized training programs for businesses, incumbent worker training, sector workforce training, or career pathway activities. Some states, such as California and Massachusetts, fund some of this activity through a special surcharge on the unemployment insurance rate charged to businesses. Other states utilize their general funds (e.g., Minnesota) or bonding authority (e.g., Iowa) to raise resources for this purpose.

Perhaps the most significant role of the states in workforce development is funding their K-12 and higher education systems. States play a critical role in the educational pipeline, from pre-school to the public postsecondary systems. Within this broad pipeline, community colleges, in particular, are seen as central to the workforce development system. Community colleges often serve nontraditional students through their degree and certificate programs and are often involved in efforts to provide training for "middle skill" jobs (those requiring more than secondary school but less than a bachelor's degree). The role of community colleges, their governance, and the level of funding differ significantly from state to state.

Regional and Local

As noted, the Workforce Investment Boards are designed to be regional workforce intermediaries. Thus, unlike the economic development system, there is a formalized institutional structure in place in the workforce system that operates regionally and conforms, to some degree, to labor markets. However, states define the geographical boundaries of the WIBs. A few states have only one statewide WIB (e.g., New Hampshire), while others (e.g., Indiana) have consolidated the WIBs so that they operate in a very large geographical area.

In terms of local government, the most significant role it has is in overseeing the K-12 educational system. Of particular relevance to the workforce development system is its role in supporting vocational and technical high schools. These schools emphasize hands-on learning and career training. There is wide variation across the U.S. in how these schools are funded, as well as their governance structure and their geographic scope. In some communities, vocational education is provided as part of large, comprehensive high schools. In others, there are larger, regional vocational high schools that span a number of school districts and provide specialized occupational training. In many large, urban districts, the focus has been on creating specialized "career academies" that are sometimes structured as small, learning communities within a larger high school.

Beyond the K-12 education system, cities and towns play a very limited role in workforce development. In some states, the chief elected officials of the major cities play a role in how WIA funds are used. Beyond the flow of WIA funds, only the larger cities play any significant role in the workforce development system. For example, New York City plays a major role in postsecondary education through the CUNY system. Some cities have developed their own workforce development programs by using linkage funds (developer payments tied to real estate projects). In Boston, developers are required to pay into both a Neighborhood Jobs Trust (NJT) and Housing Trust. The NJT uses the linkage fees to connect residents with adult education, English as a Second Language (ESOL) services, and job training. Cities may also use some of their Community Development Block Grants for specialized education and training services. For example, Portland, Oregon, is using CDBG funds to provide support services to help low-income residents succeed in career advancement programs.

Other Players

Beyond the public sector, thousands of **nonprofit community-based organizations** and **social service organizations** provide workforce-related services to their constituencies. These services range from conducting outreach, screening, and assessment of program participants; running adult literacy and ESOL classes; operating training programs; and providing case management and career coaching for low-income individuals. The capacity of these organizations varies significantly, as does their relative importance in various cities.

In terms of postsecondary training, as noted, the **community college system** is frequently defined as a major player in the nation's workforce development system. Other four year colleges and universities, both public and private, offer relevant specialized certificate and degree programs. These higher educational institutions also provide a range of specialized training services to employers. Large, national **distance learning institutions,** such as the University of Phoenix, are also playing an increasingly important role in offering degree and certificate programs that are more readily accessible by nontraditional students. In addition, there are a large number of **private proprietary schools** throughout the U.S. that offer specialized vocational training. These for-profit schools, minimally regulated by states, have a mixed record. There is considerable concern about their overall outcomes given the high default rates on loans taken out by their students.

Unions have historically been important players in the workforce development system, most notably in the construction trades through apprenticeship programs. Some unions continue to be key stakeholders directly through their training role. For example the AFL-CIO Building Construction Trades has 1,100 training centers across the U.S. that are funded by unions and employers. Workforce development activities of unions also take place through affiliated organizations established as a result of negotiated training funds. For example, New York's SEIU Local 32BJ is taking a lead role in green jobs training, and SEIU 1199's Training and Upgrade Fund is an important player in healthcare sector training program in many communities. In Boston, UNITE HERE! Local 26, a union representing 5,000 hospitality workers, has created a training fund to provide the skills needed for career advancement amongst its members.

Finally, **both national and regional foundations** are strong supporters of particular components of the workforce development system. Regional funders have played a very critical role in supporting the work of community-based and nonprofit organizations that want to provide employment-related services to low-income residents. Increasingly, both national and regional funders have been supporting workforce and training activities that are targeted to specific sectors. Most noteworthy are the national funders, including the Annie E. Casey Foundation and the Ford Foundation, which have formed the National Fund for Workforce Solutions (NFWS) to invest in workforce-related collaboratives in communities around the country. In addition, several national funders are playing a strong role in improving access and success in postsecondary education. For example, MetLife, Ford, Lumina, and Gates have all funded major initiatives focused on the nation's community colleges.

III. What are the Primary Strategies Used for Workforce Development?

Traditional workforce development strategies include pre-employment training and job placement that help low- and moderate-income individuals access employment; occupational training through certificate and degree programs; and incumbent worker training and retraining, often undertaken in collaboration with employers. Beyond these approaches, much workforce development activity in the U.S. focuses on the skills gap and on promoting changes in funding and delivering services. Following are some of the major areas of strategy currently being pursued.

System Change/Reform. Given the issues facing the WIA system and the multiple silos that support workforce development, considerable interest is being given to creating a more effective workforce system that aligns multiple sources of funding and programs and that builds system capacity. Strategies to promote system change have included public policy advocacy efforts at both the federal and state levels, as well as considerable research, particularly into best practices. As noted above, attention is being given to the reauthorization of WIA at the federal level. Several states and WIBs are also trying to find ways to create a more integrated and effective system within the context of the current federal system. States have established task forces to improve how adult education and workforce development efforts can work together; have promoted increased training, particularly for so-called "middle skill jobs"; and have been trying to improve the effectiveness of the WIBs and One-Stop Centers in their states. However, the deep "cultural" barriers within the public system, higher education, and community-based organizations often impede system change.

Sector Workforce Development. In the past, most workforce development activities have focused on occupations and have rarely involved employers. The current trend, however, is a dual customer approach. This approach focuses on specific sectors of the economy and tries to create a "win-win" by providing both family-wage jobs for low- and moderate-income residents and a more skilled workforce for employers. These sector workforce efforts often involve multiple employers within an industry, are led by a workforce intermediary with credibility in the industry, and attempt to create new pathways for low-income workers in that industry. Tools used in this strategy include coaching (case management, career development, and academic), pre-college and remedial training, and occupational training. This work has been supported by national funders and has led to the development of new organizations such as the National Network of Sector Partners, a nationwide membership organization, and the National Fund for Workforce Solutions. A large proportion of the sector workforce projects has focused on the healthcare sector. Currently, interest and support are growing for sector workforce projects focused on green jobs.

Standards and Credentials. Most occupations in the United States lack clear standards or certification of skills. In contrast, many other countries have developed national standards for a wide range of occupations and use apprenticeships to ensure that individuals have the skills required for a specific occupation. Fortunately, there are currently both state and national efforts to develop new standards and a new approach to credentials. At the national level, the new National Work Credential is intended to provide a universal, transferable, national standard for work readiness. Both Ohio and Minnesota are focusing on creating state-level "stackable credentials" for low-skilled adults that integrate adult literacy, non-credit occupational training, and credits for postsecondary degrees.

Many states are also seeking to ensure that public funds used for education and training result in the attainment of a degree or certificate relevant to job placement.

Career Ladders/Pathways. Related to credentialing and sector strategies is the broader strategy focusing on career pathways. This strategy often involves mapping out likely career advancement paths in a particular industry or occupation, and helping individuals access the education and training they need to advance. Also included here is aligning programs across academic institutions, providing educational skills that are contextualized to a specific employer or industry, and providing a range of support services, such as career coaching and case management, which can help individuals advance.

Educational Pipelines. At both the federal and state levels, there is increased focus on the full educational pipeline—ensuring that the entire system is geared towards helping students progress successfully from kindergarten through college. Many states and regions have formed P-16 (or K-20) task forces that try to plug many of the leaks in the system—such as high dropout rates—and better align the multiple levels of education. Tools and strategies include dual enrollment in high school and college, early college programs, public awareness efforts, aligning secondary and postsecondary requirements, and a renewed focus on college success. Multiple pathways efforts, such as those supported by the Irvine Foundation in California, integrate academics with career and technical education and work-based learning at the secondary level.

Postsecondary Education and Training. Improving access to and ensuring success in postsecondary education has become a major strategy throughout the country. While most of this activity focuses on community colleges, it could also include the full range of occupational credential programs through proprietary schools, industry associations, distance learning, and four-year higher educational institutions. Tools include policy and financial aid system reform, new accountability mechanisms, remediation, student support services, and efforts to promote institutional culture change.

IV. What are the Major Challenges Facing Workforce Development?

Skill Levels. As previously noted, the skill levels of a relatively large proportion of the adult population of the United States are low. Many lack a high school degree, and many who have completed high school lack the minimal level of literacy and numeracy skills required for admission to college or to vocational training programs. The low level of skills and English language proficiency for the growing number of immigrants in the labor force is a particular skill-related challenge. The result is that it can take a very, very long time for lower-skilled individuals to advance along any career ladder leading to a family-wage job. Consequently, the greatest challenge in the workforce system today is developing effective remedial education, developmental education, and bridges to college programs that can help low-skilled individuals quickly achieve the basic competencies needed to qualify for postsecondary education or occupational training programs.

Effectiveness and Efficiency of the Public System. In many ways, the current workforce system is no system at all. As described earlier, it involves a wide range of federal and state funding streams with limited alignment, lack of common standards, and minimal accountability. Declines in federal resources and fiscal stress at the state and regional levels have created significant resource challenges. This is compounded by the fact that the current system does not provide sufficient support for training.

Financial Aid for Postsecondary Training. The current federal system for student financial aid is problematic in terms of workforce training. Most resources continue to be directed at traditional students. Part-time students have limited access to financial aid, Pell grants cannot be used for non-credit courses, and eligible programs must meet threshold requirements.

Capacity of Training Providers and Community-based Organizations. A significant number of pre-employment programs, pre-college training, and remedial education are being provided by organizations with limited capacity. As a result, there are quality, quantity, and other issues plaguing the effectiveness and scale of these services.

Career Literacy. One of the often ignored challenges in the workforce system is that many Americans have limited understanding of career pathways and opportunities. Information sources on careers, competencies needed, and training availability are not consistently accessible. More importantly, many individuals and their families do not fully grasp the imperative for postsecondary training in the current economy.

Employer Investment and Engagement. In reality**,** employers are the most important actors in the workforce development system. The American Society for Training and Development estimates that U.S. employers spent $134 billion on employee learning and development in 2007. A large portion of this training, however, is given to higher earning employees, not lower wage employees. Many employers do not appropriately value the impact of human capital investments on their bottom line. Many lack knowledge about or have negative perceptions of the public workforce system. Developing methods to induce demand for increased investments in low-skilled workers could provide incentives to employers to develop these low-skilled workers and, thereby, have a dramatic effect on the workforce system.

A COORDINATED JOB STRATEGY

To effectively address the economic challenges facing most communities in the United States means going beyond economic development and workforce development; it means creating a coordinated and effective jobs strategy. Some of the challenges and opportunities Surdna might consider as it develops its strategy in this area include:

1. **Breaking Down Silos.** The most effective means for creating a sustainable and vital regional economy is to develop a comprehensive and **holistic** approach. To successfully adopt this approach, one must break down traditional silos—the focus has to be on building a pipeline of qualified workers, addressing the competitive challenges of businesses, supporting innovation and the research and development capacity in the region, and ensuring that the regional infrastructure, such as the transportation system, is adequate.

2. **Integrated Cluster Strategies**. Currently, the economic development world is focusing on "cluster development," while the workforce development world is focusing on "sector development." Both want to address the needs of employers in the same industry, but they are working on parallel tracks. In addition, sometimes the economic development agencies at both the city and state levels are developing and implementing cluster strategies, with minimal collaboration. The result is a fragmented system in which key businesses might be approached about different competitiveness issues by multiple agencies and institutions. Creating an integrated approach that involves both economic development and workforce development and engages the state, the region, and the cities may lead to more effective efforts to build strong regional clusters.

3. **Thinking about Scale.** While small "boutique" and innovative projects or programs may improve the economic lives of some low- and moderate-income individuals, they do little to address the major economic challenges of many communities, particularly the weak market cities. Effective training programs that serve 100 or 200 residents a year, or social ventures that create 50 jobs, are important. The key, however, is to bring these efforts to scale.

4. **Taking a Long-term Approach.** Rebuilding a regional economy takes a long time. Progress is measured in decades, not years. Efforts to invest in a region's economic assets may not have short-term direct impacts on the lives of low- and moderate-income residents, but may, in the long-term, provide pathways to an environmentally sustainable and more equitable economy.

5. **Ensuring Economic Development and Workforce Strategies Promote Equity and Sustainability.** While the challenges of the work are many, there is a real opportunity, in part because of the economic downturn, to advance many of these issues. The addition of the Surdna Foundation into this field can provide an important new voice that fosters new innovative strategies and tools designed to help build sustainable economic assets, nurture the environment for job growth, and target this growth to the many low- and moderate-income individuals looking for new economic opportunities.

The U.S. economy is currently facing a series of challenges that will likely last for the next several years. The recession, the problems with our financial institutions, and the need to respond to global climate change, will present formidable obstacles to our economic recovery and a more resilient economy. This will mean ongoing problems in our competitiveness, especially in our manufacturing base, fiscal challenges for our state and local governments, and continued job losses. Although there are policies, programs, and organizations in place to deal with our national economic challenges, the scale of the problems puts enormous pressure on our economic and workforce development systems. These "systems" are all straining under the weight of our economic difficulties.

National foundations, like Surdna, can make a significant difference to responding to these challenges, with the right kind of strategic investments. Foundations can contribute to the work of rebuilding our regional economies and making them more economically and environmentally sustainable. They can also play an important role in helping low- and moderate-income individuals secure the training and education they need to participate fully in the 21st century economy.

MAY 2009

A Tale of Two Systems

LINKING ECONOMIC DEVELOPMENT AND WORKFORCE DEVELOPMENT

Neil Kleiman, Emma Oppenheim and Carl Vogel with Luke Weisberg

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EXECUTIVE SUMMARY

Initiatives aimed at linking economic development and workforce development have emerged across the country, offering governments the opportunity to boost their economic competitiveness and increase their workers' skills simultaneously. These efforts have achieved varying degrees of success, and many programs have resulted in limited tangible outcomes. Using in-depth case studies of regions in three states, Pennsylvania, North Carolina, and Illinois, this report details opportunities—and cautions against pitfalls—commonly encountered by those attempting to link two complementary but very different systems.

INTRODUCTION

With crisis comes opportunity. The fundamentals of our economy are in turmoil, creating a moment in which we can move away from short-sighted growth strategies and reshape our investments in regions and workers. As governments, philanthropists, and nonprofits react to the economic crisis, we need to lay the foundation for healthy regions and productive workers; crafting smart business and human capital development strategies is key to that goal.

Even before we found ourselves in a crisis, the public sector had begun to experiment with business development practices by aligning economic and workforce development efforts. In response to the needs of businesses in new growth industries, such as green development and biotechnology, and in more traditional labor-intensive industries, such as healthcare and manufacturing, policymakers initiated efforts to coordinate investments in business with investments in the local labor force.

On paper, it all draws up very nicely. Businesses need employees, especially in industries that have trouble attracting and maintaining a skilled and reliable workforce. Workers need jobs, and need help becoming prepared for and finding good job opportunities. Customized job training and initiatives designed to work with specific economic sectors can simultaneously serve the needs of business and of workers. The two fields dedicated to helping businesses and helping workers—economic development and workforce development—should work together, the thinking goes, maybe even be merged.

Key changes in the economic and policy worlds have fueled this connection: the "end" of welfare, the decline of factory jobs and the rise of the knowledge-based economy, federal mandates for workforce to serve both workers and employers equally. At all levels of government, policymakers have been experimenting with ways to unite economic development and workforce development—call it ED/WD. The U.S. Department of Labor (DOL) launched Workforce Innovation in Regional Economic Development (WIRED) and the Community-based Job Training Initiative to more directly link businesses and workers within regional economies. State and local agencies have drafted new plans, held statewide summits, selected priority economic sectors, and even merged their employment and business agencies. Behind all of it has been a bevy of policy reports urging legislators and administrators to link the two systems.

We are past the point of imagining this type of linkage—it is here. These efforts are a cornerstone strategy for localities, regions, and states seeking to build a strong economic foundation. Now is the time to ask hard questions about this approach: how well it currently works, how it should work, and how to ensure that it is implemented in the best way possible.

We set out to do just that in this report. Here we examine, in depth, how these ideas are playing out on the ground. We looked at key regions in three states—Pennsylvania, North Carolina and Illinois—that had a history and reputation for innovative links among job-training, employment strategies, and economic planning. Over the course of two years we interviewed more than 150 practitioners and policymakers in those states with the goal of describing how ED/WD programs do their work—and what the results of those efforts were.

OUR PROCESS

Our research revealed an absence of wholly integrated economic and workforce development systems. Without fully formed models to tout, we decided to document the practices and approaches that work in economic and workforce development, with on-the-ground examples at the state, regional, and local levels.

In-depth case studies of initiatives in Pennsylvania, Illinois, and North Carolina—three states recognized for leading the field—formed the core of our research. We focused on creative programs including sector-based initiatives, customized training, regional efforts, and partnerships with institutions of higher learning, especially community colleges. We interviewed dozens of experts and administrators in each state to ascertain the key opportunities, challenges, successes, and failures of every program.

Of course, we are examining a moving target; the research, conducted from 2006 – 2007, offers us a broad sketch rather than a precise snapshot. Programs are bound to evolve and change, but while some of the details we outline below may have changed, the lessons they offer others in the field have not.

Brief overviews of the states studied are included below, with 16 case studies included as an appendix to this report.

PENNSYLVANIA

Pennsylvania has been reeling from a series of economic setbacks for nearly a century. Controlled by the strong business interests of steel, coal, and the railroads in the 19th century, Pennsylvania was in a poor position to emerge from the era of industrialization. The Keystone State experienced an economic depression that lasted from 1928 to 1965, with an unemployment rate during these decades that was higher than any other state except West Virginia. Throughout the 1990s, the state ranked near-last in population growth and employment, and number one for absolute loss of young workers.

As a result, few states in the union have been as fixated on economic development; workforce development largely did not register until recently. While Pennsylvania's last three governors prioritized aligning workforce efforts with economic development, the state did not see tangible results until the current administration. Most notably, the state created a $20 million initiative that funds worker training programs in high-growth fields. Pennsylvania has since become a recognized innovator in ED/WD programming and attracted substantial private foundation dollars to support these efforts. Despite its progress, though, not all areas of the state have been able to benefit from the new programs, and much of the success is occurring in isolated pockets.

STATES FEATURED IN THIS REPORT

NORTH CAROLINA

During the first half of the 20th century, North Carolina's economy depended on agriculture and manufacturing including furniture, cigarettes, and textiles. These jobs demanded little education, and North Carolina ranked near the bottom of the states in terms of residents' educational attainment. For decades, though, the state's politicians overwhelmingly supported education and training as essential tools of economic development.

North Carolina has taken a long-range and strategic approach to its economic growth. The state made a series of deliberate investments in its workforce over the last half-century, including the creation of the nation's first community college system in 1957; the creation of Research Triangle Park, a public-private research park in the Raleigh-Durham area; and the Golden LEAF Foundation, created with tobacco settlement funds, to fund economic and workforce development projects. Parallel to these sound investments, North Carolina also has a track record of costly expenditures on business recruitment as it competes to lure business investment to the state.

ILLINOIS

The fifth-most populous state in the nation and home to Chicago, the third-largest city in the U.S., Illinois is sometimes seen as a microcosm of the United States. With Chicago as a transportation hub and financial center, and economic sectors throughout the state ranging from agriculture to industry to natural resources, Illinois has long had both a diverse economy and a diverse workforce.

Illinois' pioneering efforts to link economic and workforce development have been innovative, but plagued by problems. Although the state was ahead of the curve, launching new ED/WD programs before most other states, the efforts have not been overwhelmingly successful. Moreover, many initiatives were launched in parallel to the state's continued investment in traditional economic development rooted in large infrastructure. Recent initiatives to support the development of local and regional efforts hold more promise.

THE VIEW FROM THE GROUND

We found connecting economic and workforce development is not as easy as it sounds. Even in these stand-out states, programs that promoted ED/WD policies were not universally successful. In some cases they have not worked at all.

Linking economic development and workforce development takes years and must take root regionally or locally in order to succeed. In states that have tried agency unification, frustration is typically the end result. Even at metro or regional levels, most attempts to unite economic development and workforce development have failed to reach a notable scale in any industry other than healthcare or manufacturing.

Economic development and workforce development need each other like never before and can work exceedingly well together. It just isn't foreordained.

Creating a successful ED/WD program requires overcoming many difficulties: under-funding, a lack of a committed constituency, clashing philosophies, and institutional inertia all pose problems. But the biggest challenge is simply that economic development and workforce development have different cultures, missions, performance measurements, and histories. Connecting them is much harder to do than it would appear in theory.

Programs linking economic and workforce development can—and do—work under the right conditions. To succeed, policymakers need to understand the barriers to success, take these barriers into account, and provide the necessary supports to overcome them. The greater misfortune in seeing other programs fail would be to abandon the entire concept. Economic development and workforce development need each other like never before and can work exceedingly well together. It just isn't foreordained.

This report reveals that if done well ED/WD can lead to an improved economic climate and more and better jobs. It is also a call to understand how to better align economic development and workforce development. We have focused on programs that provide worker training and job-placement as a tool to help specific firms or sectors, benefiting both workers and companies. Certainly there are other types of economic and workforce development programming (e.g. first-source agreements on economic development incentives), but they are not part of this report.

TWO GOALS THAT MATCH

Finding, training, and then upgrading a workforce are challenges faced by the increasing numbers of firms that cannot rely on low-skilled or mis-skilled workers for the kind of production or services they provide. A convenient, steady pipeline of prepared workers is a benefit to many companies, and regions or cities that can provide it have an advantage in attracting and retaining firms.

Training and education are currently the best hope for workers to find a well-paying, career-bound job,[1] but without local firms that are hiring, workforce development doesn't have much of a chance. With firms increasingly willing and able to change locations, a strong local or state economic development program is an essential component of programs designed to assist workers.

A number of activities can directly serve both workers and businesses. Customized training, like that done by a local college, helps businesses design training programs for open positions and helps workers access training that will lead to a job. Sector initiatives can focus on the needs of businesses in a specific industry, including labor shortages, and can help workers address issues of skill development and career mobility.

TWO SYSTEMS THAT CLASH

There are distinct differences between economic development and workforce development, historically, in their missions and in their goals. Understanding how these two fields don't fit together is as important as seeing how they do if any true ED/WD program is to succeed.

Workforce development has historically sought to help disadvantaged individuals better compete in the labor market. Job-training programs prepare people for employment and job-matching programs act as a search and referral service; both are ultimately intended to enhance an individual's economic and social prospects through employment.

Federal policy has usually driven workforce development. The first incarnations of modern employment programs trace their roots to the antipoverty programs of the New Deal, created explicitly as a social benefit intended to relieve the suffering of needy individuals. Building on these programs, the federal government's antipoverty movement of the 1960s used the Manpower Development and Training Act and other employment policies to serve the chronically unemployed.[2]

Economic development, on the other hand, has traditionally focused on attracting, supporting, and growing businesses to bring jobs, tax dollars, leadership, philanthropy, and all the other civic benefits that come with a thriving regional or local economy. The nation's vibrant post-World War II economy succeeded with a hands-off approach to economic development from the federal government. Typically driven by individual states, economic development has often focused on luring firms from old industrial areas to growing regions of the country with subsidized loans, tax breaks, and even direct payments to companies that might relocate.[3]

Since the 1980s, both economic and workforce development have reflected fundamental shifts in the economy and policy. Technological advances in the global marketplace intensified the pace of innovation—and increased the penalties for industries and regions that failed to keep up.[4] In economic development, states launched a vast array of entrepreneurial economic development programs, including loan funds, small business assistance centers, film offices, foreign trade offices, business incubators, and early versions of empowerment zones. In many states, economic development agencies grew in importance and their budgets and access to various pots of money increased significantly.

Two Systems with Two Perspectives

	WORKFORCE DEVELOPMENT	ECONOMIC DEVELOPMENT
ORIGINS	War on Poverty	Local Competition for Business
FUNDING	Federal	Local/State
CULTURE	Human Services	Business
OBJECTIVES	Access and Equity	Economic Growth
ACCOUNTABILITY	Highly Regulated	Loose Regulation
PROGRAMMING	Case Management Model	Sales Model
MEASUREMENT	Job Placement	Job Creation

At the same time, funding for workforce development programs dropped dramatically. Policy overhauls at the federal level severely limited the field's ability to design flexible and responsive programming. Both Ronald Reagan and Bill Clinton, faced with allegations of mediocre outcomes from existing training programs, attempted to improve workforce development performance and accountability and to bring employers into the picture with business-controlled oversight boards. Under welfare reform in 1996 and the 1998 overhaul of federal workforce programs through the Workforce Investment Act, federal policies mandated a strict "work first" orientation. States and localities were expected to quickly place the disadvantaged in jobs; there was little time or money available for longer-term training or employment assistance.

THE CASE FOR LINKING ECONOMIC AND WORKFORCE DEVELOPMENT

Many states and localities began to look for new, creative workforce programming more closely tied to business concerns. Industry organizations such as Public/Private Ventures, Jobs for the Future, and Workforce Strategy Center have written about how to assist employers as a means to improve the economic prospects of workers. By engaging with local businesses, many workforce agencies sought to ensure that the programs they were designing culminated in real-world jobs.

At the same time, hiring and training issues were coming to the fore among those working to serve business. Companies, especially desirable technology and science-based firms, increasingly needed skilled, educated workers. The economic boom of the mid-1990s and the accompanying growth in demand for skilled jobs made this trend undeniable. Governments at all levels realized they needed to develop skilled labor to boost their competitive edge.[5]

Often, the goals of serving businesses and those of serving workers align imperfectly.

States and cities began to explore new ways to link the two fields. Today, nearly every state in the union has made changes based on this new paradigm, and organizations such as the National Governors Association have advocated the linkage.[6] Many states and municipalities have merged their employment and business agencies, created new programs to train workers in high-growth areas, and established planning commissions to identify and address industry workforce needs.

THE CASE FOR A MEASURED APPROACH TO LINKING ECONOMIC DEVELOPMENT AND WORKFORCE DEVELOPMENT

Problems often arise when linking economic development and workforce development. The two systems operate under different cultures, and often strive for different goals. Yet, the underlying issues are more substantial than a culture clash, and aren't likely to be erased with just time and trainings. Throughout our research, we did not find a single example of a completely integrated, fully-functioning economic and workforce development system. A closer look at regions that have attempted to merge or align functions reveals that the two fields still act in many ways in independent silos. Even more telling, both fields have not changed all that much: most economic development organizations are still about deal-making with businesses, and workforce development is still primarily focused on placing people in any available job.

For example, Michigan and Minnesota are often cited as examples of states that have attempted to fully integrate their economic development and workforce development agencies. Their experiences suggest that wholesale and top-down integration of the two areas is not as easy as it seems.

In Michigan, two successive governors attempted to address the state's substantial economic woes by merging the economic development and workforce development agencies, only to have to separate them again due to internal tensions and external pressures. Despite the merging and unmerging, there were modest successes, notably the creation of the Michigan Regional Skills Alliance, which offers seed funding to regional efforts to connect employers to workforce development efforts. The state has also won three WIRED grants from the federal DOL to encourage planning to link economic development and workforce development efforts at the regional level.

In Minnesota, Governor Tim Pawlenty merged the state's economic development and workforce development agencies, in hopes of bringing the nimble culture of the state's economic development agency to its workforce agency. Though the interaction is still at an early stage, economic development and workforce development professionals say that the two systems function separately, with little integration.

Traditional economic development does not always consider local workforce concerns. Economic development agencies are charged with wooing businesses, usually through benefits such as tax breaks, changes to zoning regulations, and new infrastructure. Economic developers may even lure companies by helping to bring in skilled workers from outside the local labor pool. Supporting and attracting businesses in these ways may eventually create jobs for local workers, but it does not do so directly. Similarly, while workforce activities such as adult basic education and job-matching for low-skilled workers may create a stronger labor force in the long run, these functions do not address businesses' immediate needs.

Furthermore, businesses and their workers sometimes find themselves at odds. Businesses are driven to maximize profitability in part by keeping expenses, including labor, low, while workers want to maximize their compensation. Economic development advocates try to help companies come, stay, and remain profitable, while workforce developers try to help workers make a good living. Although some businesses take a 'high road' approach to their labor force, offering higher wages and investing in workers' skills, they are the exception rather than the norm.[7] Often, the goals of serving businesses and those of serving workers align imperfectly.

LESSONS FROM THE FIELD

LEARNING FROM OTHERS

After looking at more than 16 ED/WD programs at the state, regional, local, and community levels in three states over two years, certain trends became apparent. This section captures what seems to work in successful collaborations between workforce and economic development programs and what common problems tend to undermine and even end programs.

Combining economic and workforce development does not follow one clear strategy. In fact, we found a wide variety of ways to approach the goal. In our research, we encountered programs initiated by state governors, local nonprofits, foundations, and city departments. We found programs that viewed merging or aligning economic and workforce programming as a primary goal and others that did so only as a means to an end. We saw programs that were open for a few years and some that have lasted decades.

Even among such a diverse set of economic and workforce development programs, we saw remarkably consistent factors that led to success or failure. In some instances, the program's architects clearly incorporated these ideas into their planning. In many other cases, the program found the right combination more by happenstance. As current programs operating around the country are tweaked and new ones launched, we suggest that paying attention to the following factors will increase the likelihood of an ED/WD program surviving and flourishing.

STATES' ROLE

State involvement tends to work best as a support, a "heat lamp" for promising opportunistic regional and local initiatives.

OVERVIEW

All three states we put under the microscope sought to bolster economic development through state-initiated planning for regional workforce programming, using a combination of incentives and mandates to push regions to link the two together. These programs tended to flounder on the same rocks: what states do best is provide funding and a policy structure for regional and local activity. Economic development and workforce development goals only work together in on-the-ground programming; state-mandated efforts rarely have enforcement mechanisms and are thus unable to push for deep, long-term change.

On the other hand, state government policies that encourage ED/WD programs and supply funding and direction, but leave the regional and local entities to design and implement effective programs, have succeeded in providing the resources and other supports to allow promising ground-level initiatives to flourish.

SUCCESSES

North Carolina's New and Expanding Industry Training (NEIT) program is the state's largest customized training program. NEIT provides training grants to companies in growth industries for which training will lead to new jobs. The program is implemented through the community college system, ensuring that most of the program's investment is retained within the state's colleges as increased capacity. Tri County Community College in a remote corner of the state used NEIT to revive its formerly defunct machinist training program, filled a demand for skilled workers from existing manufacturers, and ensured that the area's handful of industrial companies could stay and remain competitive.

In Illinois, the state's Critical Skills Shortage Initiative (CSSI), created in 2003, funded the implementation of Chicago's Regional Healthcare Initiative. The effort had already completed an action plan by the time CSSI funds were made available, but without additional dollars it had remained largely unimplemented. The CSSI funding allowed for the creation of 12 separate healthcare training efforts under the regional initiative aimed at improving the capacity and quality of the area workforce.

Pennsylvania's Industry Partnership (IP) program had supported nearly 80 initiatives across the state by January 2009. For example, IP grants have allowed Lancaster County's food manufacturers to offer their workers advanced training. The initiative brought together firms from eight different counties to discuss common needs and exchange best practices. Through this clustering, the IP funded trainings that cut across the industry, bringing the cost to train an individual employee down significantly and strengthening the industry, a cornerstone of the area's economy.

Programs that have flourished with encouragement and support from the state, have typically been in smaller communities. While our sample size was not large enough to truly weigh in on geographic differences, our findings suggest it may be easier for a smaller market to take advantage of state resources. Lancaster County's food manufacturing initiative or the training of machinists in North Carolina's Western Region may have been easier, for example, in areas where there is a narrower range of activities competing for attention and dollars.

CHALLENGES

Pennsylvania's IP programs were created in 2005 as a central part of the new gubernatorial administration's strategy to develop a skilled workforce and attract and retain business. The effort awards competitive grants to workforce projects whose applications show broad-based planning and participation of stakeholders such as industry associations, workforce agencies, and training providers. Importantly, the IP program eschews mandated collaboration among agencies. While IP favors projects in high-growth and high-wage industries, applicants define the parameters of their efforts and the geographic regions in which they operate. But because grant funding for ED/WD initiatives is competitive, not all regions have been able to take advantage of the funding.

North Carolina's state-level ED/WD initiative, on the other hand, carved the state into seven regional economic development partnerships. In 2003, the legislature asked each region to conduct a strategic planning process that involved representatives from economic development and workforce entities: higher education institutions, chambers of commerce, and more. The regions were asked to identify limitations in their economies, their labor forces, and their education and training resources—and to create a plan to bridge those gaps. North Carolina did not offer the regions additional funding to implement those plans, and many of the local entities such as community colleges, economic development agencies, and municipal governments have yet to follow the plan.

Illinois' CSSI similarly divided the state into ten regions, requiring each to engage community colleges, workforce agencies, and businesses in a planning process. The state made grant funding available for sector initiatives, but total funding was relatively small, and was made up of WIA discretionary dollars diverted from other workforce efforts. Furthermore, in areas where sector efforts arose primarily to take advantage of the new CSSI funds, few projects appear to be sustainable.

FUNDING

New and dedicated financial support can make the difference between intention and outcome.

OVERVIEW

In blending workforce development with economic development, the temptation is to simply reallocate funds already dedicated to each field into a merged program. Yet building a new system requires more than that, and our research has shown that extra funding provides the support to overcome the initial bumps of creating something truly new.

SUCCESSES

North Carolina's Golden LEAF Foundation, created with half of the dollars from the state's settlement with cigarette manufacturers, is an example of the impact that dedicated funds can have. The Foundation focuses its support on ED/WD projects, and has been integral to the success of many of the state's initiatives. For example, the North Carolina Biotechnology Center is a unique economic development organization created to support the growth of the life sciences industry beyond its existing concentration in the Raleigh-Durham Research Triangle region. With offices spread throughout community colleges and universities, the effort has supported the development of niche biotechnology clusters and the creation of specialized workforce training programs across the state.

Pennsylvania's IP programs' allotment of $20 million a year, part of the state's $100 million Job Ready PA initiative, goes to support cluster programs throughout the state. A crucial use of those funds has been the dedication of $5 million a year for intensive economic research and long-term planning to ensure that investments go toward high-wage and high-growth industries.

CHALLENGES

Meanwhile, in Illinois, the state has funded its CSSI program solely with diverted WIA funds, leaving it with a limited impact and few creative local initiatives in its portfolio. At its highest funding level, in 2005, there was about $9 million available to the state's 10 workforce areas. In an attempt to push the regions to directly fund their locally-grown programs, the state reduced that amount by half in the second year and dropped it to zero in the third.

BUSINESS INVOLVEMENT

The businesses being served must have a real need for workforce assistance.

OVERVIEW

Unless companies already need help with their workforce, and see it as something that makes them more competitive or profitable, economic development representatives are unlikely to prioritize workforce development issues. Successful ED/WD programs targeted industries that listed workforce issues as a primary issue for their continued operations. Importantly, employers can be valuable resources for guidance, but they rarely have the time or inclination to tackle the minutiae of operational challenges.

SUCCESSES

Healthcare programs were the number one example of an ED/WD effort that found traction in our research; every region we looked at had an ED/WD healthcare initiative. For example, Lancaster, PA's healthcare IP program had little trouble recruiting area healthcare employers. Many operated long-term care facilities with severe staffing shortages, and improved recruitment and management training were among their key concerns. The Pathways to Successful Healthcare Careers training program in Peoria, IL, was the only successful ED/WD initiative to emerge from the region's extensive TalentForce 21 planning efforts. Indeed, both Chicago's regional healthcare initiative and Philadelphia's 1199C training fund preceded any encouragement from government. In Philadelphia, area employers agreed to pool their resources and contribute a percentage of their payroll expenses toward training and education programs for their incumbent workers; in Chicago, area employers gathered to create a plan for attracting and training workers even before the state decided to support their programs with CSSI funds.

Manufacturing also has significant workforce needs—due largely to computerization and other technological improvements that make the work more complex as well as the assumption among potential workers that it is a dying sector. Chicago has focused on the area's industrial sector, establishing ManufacturingWorks, a One-Stop service center designed to serve manufacturing employers. The effort has moved beyond helping firms with hiring, and now helps businesses improve their practices and support long-term skill development for workers. A collaboration among economic development, workforce development, and community colleges in North Carolina's Piedmont Triad helped to enhance the region's training capacity when it created a customized training curriculum for Dell's new computer manufacturing plant. The college went on to develop an advanced manufacturing training program to serve the area's broad range of high-tech industrial employers in need of a skilled manufacturing workforce.

Successful initiatives often institutionalize the process of business oversight and feedback, recognizing that programs designed from afar by academics and workforce agencies may not be a good enough match to hire graduates. Lancaster, Pennsylvania's food manufacturing initiative brought business representatives together relatively infrequently, but just enough, to share high-level knowledge and air concerns. The work of the sector coordinator was directly informed by that information, which led to the development and implementation of well-designed and responsive trainings. A business advisory council helped pave the way for a new biotechnology degree at North Carolina's Forsyth Tech. The council guided the program's inception and helped the college understand the nature and scope of business' workforce challenges, but implementation was left to the college. Forsyth Tech cultivated its own internal knowledge of industry needs by hiring

Healthcare programs were the number one example of an ED/WD effort that found traction in our research; every region we looked at had an ED/WD healthcare initiative.

a department head and instructors directly from local firms; part of their job was to work through the daily details of building an effective program

CHALLENGES

Efforts to serve industries with less urgent workforce needs have been far less successful. When the Philadelphia Workforce Investment Board created an initiative to serve the financial services sector, the banks had expressed a strong interest in recruiting and training a more diverse workforce to better serve their diverse clientele. Bank officials had stated they would support the program by giving incumbent staff time off to attend trainings, paying a portion of the training costs, and hiring new program graduates. But because the service was an enhancement, not a necessity, they reneged on their commitment, choosing in the end to not contribute to the training costs and hiring very few of the program's graduates.

Without a natural institutional imperative to see a new program succeed, organizations are likely to lose interest in programs or divert resources to core activities.

LEADERSHIP

Program leadership that is strong, consistent, and committed makes a difference.

OVERVIEW

Every good program can use an effective leader, of course. But because economic development and workforce development are different systems with different goals, successful programs were often helped tremendously by an individual who had a true ED/WD vision, the savvy to find a way to make it happen, and the dedication to keep going when problems arose. Most important of all, successful leaders are able to speak the language of business while maintaining a commitment to workforce development goals.

SUCCESSES

In Pennsylvania, Sandi Vito, Governor Rendell's top workforce administrator, brought energy and vision to her position and quickly achieved significant agency reforms. An administrator with little background in workforce, Vito drove the state's bold and innovative strategy that both allocated significant new funds toward ED/WD initiatives and spurred local areas to develop creative initiatives to draw down those funds.

Bob Bowman's leadership of the Collegiate Consortium in Philadelphia brought together college presidents—usually territorial and defensive of their own campuses' resources—from across state lines in New Jersey and Delaware to create a unique collaboration that built new, industry-responsive educational programming. Bowman helped to transform a limited effort to retrain shipyard workers displaced by the closing of a naval yard into an ongoing collaboration among higher education institutions to respond to industry education and training needs.

In Chicago, Mayor Richard Daley's steadfast support of ED/WD fostered an environment in which agency heads and other stakeholders were encouraged to design and implement creative new ideas. With the cultivation of a skilled workforce a cornerstone of the mayor's economic agenda, Daley's workforce agency created ManufacturingWorks, a unique effort to utilize the infrastructure of One-Stop workforce centers to support the city's industrial sector. The mayor has more recently pushed city workforce agencies and schools, under the guidance of a business advisory council, to work together to holistically address the needs of four targeted economic sectors.

SHARED INCENTIVES

Ensure that the stakeholders have "skin in the game"—that agencies involved are truly invested in a program's success.

OVERVIEW

Partnering agencies' missions and goals must closely track the mission and goals of an ED/WD initiative. Without a natural institutional imperative to see a new program succeed, organizations are likely to lose interest in programs or divert resources to core activities. Given organizations' need to protect their self-interests, shared performance measurements and payoffs for workers served, job placement figures, businesses helped, and jobs created can help to push them to meet the needs of both the workers and the businesses. And if workforce agencies, economic development partners, and community colleges are given the institutional responsibility to work in concert, they will be far more likely to do so.

SUCCESSES

The various stakeholders participating in Chicago's Regional Healthcare Initiative may have had an institutional responsibility to respond to the community's needs, but those most actively involved also stood to profit from the venture. Businesses were desperate for skilled workers, and convened the effort themselves in order to find a solution to their constant challenges finding qualified candidates. Education providers would see a financial payoff from the increased enrollment of students in the new programs.

Similarly, the entities behind the construction of downtown Winston-Salem's new research park needed to innovate or risk suffering financially in the future. Wake Forest University sought to grow the research arm of its medical center as a strategy to boost the region's growth and prosperity because, as a medical provider, its long-term financial viability depends on a robust population that is able to purchase and pay for medical services.

CHALLENGES

In many cases without institutionalized incentives, local workforce boards or planning entities had difficulty mobilizing stakeholders to execute the region's plan for ED/WD activities. Many of the entities in North Carolina's Piedmont Triad only implemented the pieces of the region's strategic plan that were most relevant and useful to their existing mission and operations. The initial plan called for a total of 120 action steps to be taken in seven target industry sectors, but the only projects that moved were the ones that participating entities knew would benefit themselves. Guilford Technical Community College, for example, signed on to the Transportation and Logistics cluster and built an aviation center—but it had already been planning such a project, based on its existing relationship with area aviation employers.

INCUBATION

Do not judge a program too hastily; even successful programs take a while to mature.

OVERVIEW

Because they do require changes in culture, mission and programming, ED/WD programs should not be expected to blossom immediately. The programs with the most impressive results in our research are either longstanding initiatives or are operating in an environment that values ED/WD programming. Provided reasonable benchmarks are being met, policymakers should be willing to invest in creating a true ED/WD culture.

SUCCESSES

Chicago's ManufacturingWorks One-Stop center was built on longstanding and wide-ranging efforts to revive and restore the city's industrial sector. A wide range of actors had already prioritized the reinvigoration of the city's industrial economy, including the new Chicago Manufacturing Renaissance Council and the mayor himself, who charged the city's workforce development agency and others with supporting the effort. The workforce agency set out to put those ideas into practice, creating a center that serves the industry's hiring needs as well as pushes for improved business practices and long-term skill development.

North Carolina has a long and successful tradition of using workforce programs to support economic development, making it perhaps the strongest case for long-range ED/WD planning. The state's ED/WD model works well in large part because of the relationships built over time and longstanding policies with which everyone is familiar. Forsyth Tech's new life sciences degree program is a prime example of this, benefiting from a history and culture in the state's community college system that emphasizes industry relevance and worker preparedness. The college, already closely connected to the business community because of longstanding expectations for individual campuses set by the system office, knew that the small but growing cluster of biopharmaceutical companies in the area was struggling to find skilled laboratory technicians. It secured funding to develop the new academic program from the state's Golden LEAF Foundation, a funding stream dedicated to supporting long-range economic development projects. And it tapped a local entrepreneur who was a member of its business advisory council to act as the new head of the program, ensuring its relevance and responsiveness to business.

PUTTING LESSONS INTO ACTION

In the past months, the very structure of our national economy has been shaken to its core. While painful, the current crisis presents regions with the opportunity to get it right this time—the opportunity to invest in businesses and workers alike and support long-term strategic growth. The following recommendations are taken from the lessons learned through our extensive research on the topic.

FOR THE FEDERAL GOVERNMENT

- Encourage local and regional programming that links economic and workforce development through grant programs such as DOL's WIRED and Community College grant initiatives, the sector-focused initiatives included in the American Recovery and Reinvestment Act (ARRA), and the new Strengthening Employment Clusters to Organize Regional Success (SECTORS) Act recently introduced in Congress. These efforts should continue and be expanded, and the federal government can both provide guidance for structuring these initiatives as well as provide funding.
- Ensure the infrastructure for economic and human capital growth is in place by investing in programs and systems that benefit businesses and workers alike, especially higher education.
- Balance flexibility and accountability in the funding streams that support business and worker development. A variety of restrictions in federal funding streams currently make them difficult for states and regions to use when crafting programs that link economic development and workforce development; easing these difficulties would go a long way to encouraging innovative and effective programming.

FOR STATE GOVERNMENTS

- Focus on developing new sources of funding and pushing regions to prioritize only the most promising projects, and avoid agency mergers and grand planning. States have already begun to awaken to their responsibilities to set the stage for local and regional economic and workforce development programming with dedicated funding and program guidelines. As more and more states follow this path, they should heed the lessons of their pioneering peers.

FOR LOCAL GOVERNMENTS

- Be careful that ED/WD investments are wise ones and look for projects that are a true match for both businesses and workers, not a wish list. Involve business in the strategic vision and development of projects, and recruit partners with a vested interest in the project's success. Local leaders should take their responsibility to build a strong and sustainable economy very seriously; with or without the leadership and assistance of the Federal and state governments, it is localities and regions that will pay the price for disinvestment in businesses and workers.

PENNSYLVANIA: STATE REVIEW

On the surface, Pennsylvania would seem to possess significant economic development and workforce development connections. After suffering severe declines in its traditional industries of steel, coal, and railroads, the state aggressively pursued economic development and more recently workforce development. It has become a recognized innovator in both areas, and the last three governors made alignment of employment programs a top priority. Additionally, Pennsylvania has attracted a substantial share of private foundation dollars locally and nationally to support these efforts throughout the state.

Pennsylvania nonetheless reveals just how hard it is to truly link workforce and economic development. The state has taken incredible strides forward, but at considerable time and effort, and not all of the state's regions have benefited equally. Philadelphia created a number of innovative programs led by a set of dynamic workforce entrepreneurs. But without a citywide commitment to the field, many have faltered. The semi-rural region of Lancaster, on the other hand, has most effectively made the connection by maintaining a clear focus, linking with regional partners, and receiving an ongoing flow of state and federal dollars to support the work.

GOVERNORS RIDGE & SCHWEIKER

Pennsylvania has historically focused on economic development, but workforce development barely registered. That all changed with the election of Tom Ridge in 1994. In a 1999 strategy document, "A Unified Plan for Workforce Investment," the Ridge administration called for increased efficiency by coordinating the five major workforce agencies through a council of the agency chiefs. In addition, the plan recommended links for economic development to be better connected to the state's business growth programs.

The plan was considered bold and directed. "In Pennsylvania, economic development and workforce development are synonymous," claimed a 2000 report from the National Governor's Association. But on the ground, little of Ridge's plan came to fruition. There were virtually no linkages established between economic development and workforce development, and a scathing assessment of the strategic plan by the state's Auditor General in 2004 exposed a breakdown in coordination, concluding that workforce and economic development were no closer despite the reform's stated goals.

What happened? Certainly one contributing factor was Ridge's early exit from the state in 2001 to become the Secretary of Homeland Security in the Bush administration. But many observers believed the entrenched bureaucracies at the state level resisted coordination. "You cannot just will these folks to work together," noted one state official.

At the local level, agencies were now faced with a new set of state policies. But the localities tended to wait it out rather than shift operations. The Ridge plan came with no additional funding to support change and no way to penalize agencies that didn't comply. As one state official noted, "It's fine and good to say you want more coordination, but you have to make it happen. These agencies do not naturally move in that direction."

Ridge's replacement, Mark Schweiker, was in office for two years. He maintained a focus on workforce, including the creation of the Critical Job Training Grants, a sector-based training fund that was jointly administered by the labor, economic development, and welfare agencies.

THE CURRENT ADMINISTRATION

First elected in 2002, Pennsylvania's current governor, Ed Rendell, is the former mayor of Philadelphia. He was described in a recent Pew report as possessing, "guile, optimism, and ferocious energy," and was referred to as, "'America's mayor' long before New York's Rudolph Giuliani received that appellation."

In many respects, Rendell has achieved an incredible amount of reform around workforce development in a short time, driven in large part by a team headed and assembled by Sandi Vito, his head of workforce development at the state Department of Labor and Industry. Vito was charged with responsibility to make all workforce programs work effectively together. "We moved so fast because Sandi is so good and effective. She is very close to the governor, a real intellectual, and most importantly she is very good at operationalizing action steps," one state observer says.

As in the Ridge years, Vito's reform plan emphasized increased coordination between economic development and workforce offices. The core effort encouraged more workforce programming around ten high-priority sectors, including energy, life sciences, and communications services. But Vito's implementation strategy was different in two fundamental ways. First, significant new funds were put towards the effort under a $100 million campaign called Job Ready Pennsylvania. Second, instead of mandating collaboration between agencies, the administration chose partners where it made sense.

The state has allocated $20 million a year since 2006 for the new Industry Partnership program, which supports sectoral programs and training. Fully $5 million of the annual investment is spent on developing a deep understanding of industry to ensure that the most promising sectors are targeted with the smartest investments. And rather than parsing out funding by legislative district, the program allows promising initiatives from all over the state to apply for grants. Local workforce groups submit an initial strategy and are selected based on evidence of real industry need in high-growth and high-wage sectors, and then asked to continuously submit progress reports. By 2008, 89 new partnerships were formed with more than 6,100 businesses involved. More than 53,000 workers have been trained, with an average gain in wages of 13 percent, and businesses have reported an 85 percent retention rate.

Pennsylvania possesses one of the weakest community college systems in the nation. There are only 14 community colleges in a state of 12 million residents, and there is no governance structure. Vito crafted a series of programs around high-priority sectors, including $44 million in economic development stipends for community colleges that taught courses in high-demand sectors. This program now reaches more than 38,000 students enrolled in 734 community college programs.

Vito was initially more hands off with the economic development agency, choosing instead to lay the groundwork for future collaboration by first enhancing the strength of workforce agency internally. "That approach has paid off, and now in concrete ways they're building some links, tangible programs where connected," says one of Vito's top administrators. The Workforce and Economic Development Network of Pennsylvania, or WEDnetPA, gives existing or incoming businesses a point of contact within the state's education and training institutions through which to apply for and connect to customized training. The program is closely coordinated with the state's workforce development activities and Industry Partnership program.

The Rendell administration's efforts are having a genuine impact, but not consistently across the state. Many localities do not even pull down the funds or use them in ways that are not strategically aligned with broader economic development and workforce development goals. But for the areas that are primed to make the workforce and economic development connection, the funds and thinking behind them are critical to moving forward.

PHILADELPHIA

Philadelphia's economic transition has been dramatic. With the exception of pharmaceutical production, the city's manufacturing has suffered dramatic cutbacks. Meanwhile, financial services, transportation, utilities, insurance, real estate, healthcare, and business support services have risen to prominence.

The city is also home to some of the country's most innovative workforce programs. Philadelphia's Transitional Work Corporation is the country's largest transitional jobs program for public assistance clients. The city's 1199C training fund is the largest union-sponsored training initiative focused on both union members and local residents. Arbor Inc., the largest proprietary workforce organization in North America, is headquartered there. And in the public sector, Philadelphia's workforce agency uses the majority of its Workforce Investment Act dollars for customized business training—unheard of in any other major city—and leading local universities have partnered with the city around a strategy to retain a high-skilled workforce.

The city government itself, however, had not exhibited a strong or consistent commitment to either economic development or workforce development until recently. Its economic development approach was primarily deal-oriented, focusing on hotel and stadium construction, and City Hall had not been motivated to produce a workforce agenda. The vacuum around workforce and economic development policy at the municipal level also meant that the entrepreneurs behind each successful workforce initiative had rarely partnered or linked to a broader citywide agenda.

More recently, a number of Philadelphia's ED/WD initiatives have grown and matured to take on a broader region-wide and strategic focus. In addition, the mayor Michael Nutter has committed to workforce development as one his top three priorities, including pursuing greater partnership and collaboration among Philadelphia's formerly isolated agencies and programs.

PHILADELPHIA WORKFORCE DEVELOPMENT CORPORATION

- Innovative customized training program
- WIA dollars available directly to employers

In a major break from other large cities, Philadelphia's workforce agency, the Philadelphia Workforce Development Corporation (PWDC), allocated 75 percent of its federally funded workforce dollars for customized business training—some of which went directly to employers. Use of federal Workforce Investment Act dollars for such purposes is virtually unheard of; only a small portion of local regions—and no other major cities—have done so on any level.

More than 3,000 workers were trained annually between 2003 and 2006 through the program. About 30 businesses, ranging from large corporations to small businesses to public authorities, received services, and training programs ranged from large trainings for new hires of a TJ Maxx retail warehouse to training of four new exterminators for Steve's Bug Off. About half of the trainings were conducted in-house by the employer, and the rest delivered by a mix of local nonprofits, colleges, and private training providers.

To help ensure the funds went for true workforce benefit, rather than subsidizing costs the business would have paid for anyway, PWDC demanded that the business contribute to the training. Unlike most customized training which is typically oriented toward those already on the job, this was dedicated solely to new positions. The program allowed PWDC to directly place its typical client—someone transitioning off of welfare or recently laid off from work—in a job. One official notes, "Look, I am a social worker, but we did this because it was born of the frustration of not finding people work. This puts someone right into a job. It works."

Despite the program's popularity, it had no real link to other citywide efforts or vision of workforce or economic development. PWDC is a quasi-public agency with a history of being isolated from the city. Founded in the 1980s by its executive director to be distanced from the politics of the city, the agency can hire people faster than traditional government agencies and pay them closer to market value, and it has the ability to design and implement new initiatives with little outside interference. But its status has also given it a reputation for secrecy, operating its job training funds without much public oversight, and it is not well connected to other agencies.

More recently, however, the program has enjoyed stronger connections. Peter Longstreth, the Chairman of PWDC for the last two years, is also the head of the city's economic development agency, and there is a reinvigorated focus on collaboration and partnership.

1199C TRAINING FUND

- Large-scale, long-standing training program for healthcare workers
- Support from employers and union
- Both incumbent and new workers are served

The 1199C Training Fund is one of the most comprehensive and long-standing sector initiatives in the country. The fund trains nearly 20,000 union and non-union workers every year in healthcare occupations, including nearly 20 percent of the local's membership. 1199C's work in healthcare has become a national model, and its success is rooted in a single-minded focus on the industry, consistent leadership, and access to an ongoing source of funds that employers are required to provide.

The initiative was an outgrowth of a labor-management negotiation in 1974. Then, employers had a shortage of trained mid-level workers and workers had difficulty accessing traditional education and training providers. The trust is funded in part by a set-aside of 1.5 percent of gross payroll from the 55 healthcare employers spanning the Philadelphia and southern New Jersey region, managed by a board that is evenly split between the 1199C local of the National Union of Hospital and Health Care Employees and participating healthcare and human service employers.

Such a large pool is rare, but what makes it unique is that it also includes outside dollars. At the inception of the fund, its creators included a clear goal to serve a constituency beyond the union's membership. So foundation dollars and millions in government contracts have been procured to serve local residents and prepare them for jobs in healthcare. The fund has been a major beneficiary of the state's sectoral funding. It has received three separate Industry Partnership grants and recently was awarded a new contract to develop a career pathway for direct care workers.

The program can customize its offerings to meet industry demands as well as worker needs. Many workers need remediation to improve their basic education before they can enroll in college-level courses, for example, so the training fund has established a customized bridge program. 1199C also works with employers to develop industry-recognized intermediate career steps for those on the road to, but not yet ready for, formal training. All programs support workers with career coaching and supportive services.

"The model of 'Here's your course, sign up, and go,' doesn't work for our students," says 1199C Executive Director Cheryl Feldman. "They need supports: an information and resource broker and also a mentor. But you also need to hold students accountable to their responsibilities to the program. It's not an easy role. That balance is definitely an art."

PHILADELPHIA WORKFORCE INVESTMENT BOARD

- Sectoral programs in several different industries
- Entrepreneurial approach to identifying projects, with mixed results
- Promising work in life sciences and other industries

The Philadelphia Workforce Investment Board (PWIB) became active around sectoral programming before the state started funding such efforts. It has taken a uniquely entrepreneurial and experimental approach to its sectoral work, pursuing pilot projects in a wide range of industries. It then uses its initiatives to deepen its own understanding of the work and integrates those lessons into subsequent projects.

The WIB chose projects as they arose, pursuing those that made sense strategically. But it approached each industry project differently. In some cases, it dedicated only small amounts of funding and took on relatively small goals; in others, it launched ambitious and in-depth initiatives in industries with greater need and more promise.

For example, an early project targeted the restaurant industry, a sector with a number of employers who expressed a real need for assistance finding and keeping good workers. The WIB saw an opportunity to place workers with limited education in an industry that, although low-paying, allows employees to pursue continuing education outside of the workplace. Local One-Stop career centers screened candidates, and new hires were given training materials and a short orientation program. In the end, the program achieved its modest goals: It placed 100 people in jobs, and the new hires' job retention proved to be higher than those hired off the street.

The WIB did not apply for Industry Partnership funding for the project from the state because it knew that restaurant jobs would not meet the state's definition of a high-growth sector. But, as Sallie Glickman, CEO of the PWIB, explained, "This is a certain kind of sector work. Industry Partnerships are a much more mature and robust approach. This doesn't meet those requirements, but that doesn't make it any less valid." Although the WIB believed that the jobs could be ideal first steps for those with employment obstacles, the local career centers expressed concern that they were placing clients in dead-end jobs. "The restaurant field may make sense to employers, but it is not a career-ladder type of job that helps our clients," explained one administrator. The employers continue to meet occasionally, but the initiative has not grown in scope or scale, remaining a small project with modest goals.

The PWIB's efforts in the financial services sector proved to be far more frustrating. A number of regional banks had indicated they were interested in hiring entry-level workers from diverse backgrounds as well as in helping incumbent employees to move up internally. PWIB and the WIB from neighboring Montgomery County collaborated to create a six-week training program for candidates recruited from local One-Stop career centers. The banks committed to offering matching funds for workers to enroll in certificate programs and then Associate's Degree programs for those interested in moving into supervisory positions. In practice, though, the banks did not truly need a new crop of locally trained employees, and so hired very few of the trainees and did pay for additional training for incumbent workers.

A healthcare sector initiative, on the other hand, has been far more successful. In 2001, the Delaware Valley Healthcare Council and a five-county coalition of WIBs around Philadelphia began to strategize about the acute shortage of healthcare professionals in the area. Working together, the council and WIBs established the Life Science Career Alliance, and broadened the focus to include biotechnology and pharmaceuticals; the healthcare sector comprises one-third of the city's economy and 20 percent of the workforce. The Alliance hired its first executive director in 2002 and has since been engaged in a number of successful activities. For example, a $1 million grant from the Pennsylvania Department of Labor and Industry has supported incumbent worker training for more than 1,000 workers in small and emerging biotechnology companies in southeastern Pennsylvania since 2005.

This success may not be replicable in other sectors. The board members, some of whom are representatives from the businesses being served, collaboratively funded the entity's core operations because their need was so great. "I think other Philly cluster initiatives have faltered, and ours has done well because we have real needs, and the workforce issues are big," says Nadine Lomakin, executive director of the Alliance.

More recently, the PWIB has pursued new initiatives in the printing, advanced manufacturing, and hospitality industries with state Industry Partnership funding, building on the lessons learned from its earlier projects. The Print Consortium is a partnership with the local union to offer incumbent training to approximately 400 workers and union members. The Southeast Pennsylvania Advanced Manufacturing Initiative, managed by PWDC, focuses on providing training for incumbent workers within the local metal fabrication and manufacturing industry, and is also exploring the needs of local businesses that supply manufacturing companies at the Philadelphia Navy Yard. The hospitality initiative has established a partnership with the local union to develop a career ladder program for hotel employees, creating a way for workers to move up while building a pipeline of skilled workers for the hotels.

The PWIB is careful to emphasize that its sectoral efforts are just one piece of a much larger and more complex puzzle. Faced with an overwhelming number of workers with limited education, the WIB is well aware that its Industry Partnership grants can only serve a small portion of those in need. Glickman says, "There's a lot that someone needs before they can even go into an IP program. We have a lot of new learning around recruiting people into literacy programs. Ultimately our responsibility is to make sure the public workforce system is as good as it can be, and IPs are one way to inform that work."

THE COLLEGIATE CONSORTIUM

- Strong leadership and compelling circumstances united higher education institutions around workforce development
- The value proposition of a regional alliance appealed to employers over a very large region

The Collegiate Consortium is a partnership of five colleges—one research university and four community colleges—from three different states that have banded together to provide corporate training for major regional employers such as UPS, Sunoco, and Boeing, which pay out of pocket to train thousands of employees a year. Having colleges work together across state lines is extremely atypical; an ongoing consortium around job training is unprecedented.

The consortium was born out of crisis. In 1994, after 199 years of operation, the Philadelphia Naval Shipyard announced it was closing the following year, putting 6,000 people from Philadelphia, Delaware, and New Jersey out of work. A core group of colleges, the Philadelphia Community College, the Delaware County Community College, Camden County Community College, and Drexel University, formed a new partnership dubbed the Shipyard College. Drexel University taught classes in advanced engineering, and the community colleges offered more basic classes to retrain workers for new jobs.

The partnership could have ended once the 6,000 workers were retrained, but the schools saw the potential of continuing to work together, and by 1998 the nonprofit Collegiate Consortium was created. "It is critical to be seamless to the employer," explains Bob Bowman, the former executive director. "If you're a big company, rather than setting up training in one state and then another, with us you could just make one call."

Nonetheless the Consortium struggled. Many people in the region were simply unaware of its existence, and it operated in isolation. This was partly due to poor marketing, but even more so due to the fact that the Consortium exists outside of official regional or even sub-regional economic and workforce development planning efforts.

Now under new leadership, the Collegiate Consortium has become engaged in the strategy and planning of the region's training and education-based economic and workforce initiatives. The Consortium is involved in the planning of the regional life science initiative through the region's WIRED grant initiative, and is also contributing to the strategic workforce plan for the redevelopment of the now-closed Navy Yard in south Philadelphia. The Consortium has also developed an initiative to recruit and connect veterans of Iraq and Afghanistan to a wide range of career and training opportunities in industries that value veterans' soft skills and ability to work in groups.

"The Consortium allows us to look at big trends and see if there's a need for workforce solutions. We are trying to find out what the problems are, not waiting for them to happen," says Consortium Executive Director Joseph Welsh.

LANCASTER

Lancaster County is no Philadelphia. Nestled in south-central Pennsylvania, Lancaster is famous for its rural Amish population. But there are also a number of thriving industries, including craft-oriented wood production, healthcare, and the largest share of food manufacturing in North America. The region houses 60 percent of the state's 1,500 food processing companies and accounts for 10 percent of all manufacturing in the state. Nonetheless, despite recent initiatives to revitalize Lancaster's downtown and to redevelop large swaths of unused industrial land, the area has struggled with persistent unemployment and underemployment.

Pennsylvania as a state has received attention for its pioneering workforce programming, but to really see it in action, Lancaster is the place to look. The area has efficiently pulled together key stakeholders around a promising set of initiatives that link economic development and workforce development. The county's WIB director created a new organization with a business-rooted focus on clustering, which has led to a fairly strong set of training and job creation outcomes.

LANCASTER WORKFORCE INVESTMENT BOARD CLUSTER INITIATIVE

- Regional program that has funneled federal workforce dollars into multiple sectors
- Intense reliance on industry, including boards comprised entirely of business representatives
- Regional programming without regard to WIB boundaries
- Training tied rigorously to business needs

The Lancaster County Workforce Investment Board has engaged hundreds of companies in a regional strategy focused on the region's main economic sectors. There are now eight different Industry Partnership-funded initiatives up and running with thousands of workers being trained every year in Lancaster and adjoining counties. Employers speak glowingly about the immediate and long-term benefits they are receiving from the focus on workforce programming.

Scott Sheely, the founding Lancaster WIB director, hired one of the country's premier economists to conduct a labor trend review. Sheely took the data to state workforce officials in hopes of making training grants to entire industry clusters. “We tried selling the idea to the economic development officials, but they weren’t interested. But the workforce development officials in the new administration led by Deputy Secretary Sandi Vito were looking for a bold idea,” he says.

Sheely’s approach was distinct from most public sector initiatives. Rather than kick off the effort with a major summit, the pragmatic approach was developed and implemented quietly. While the WIB distributed the money and provided a framework for operations, businesses actually decided on the use of the funds with the help of project managers, often hired directly from the industry themselves, who typically saw their role as being responsive to the sector, not just to the WIB. Since most of the sectors were not tied to traditional county or WIB boundaries, most of the initiatives work in conjunction with the surrounding nine counties. And the convening bodies and boards were 100 percent populated by employers.

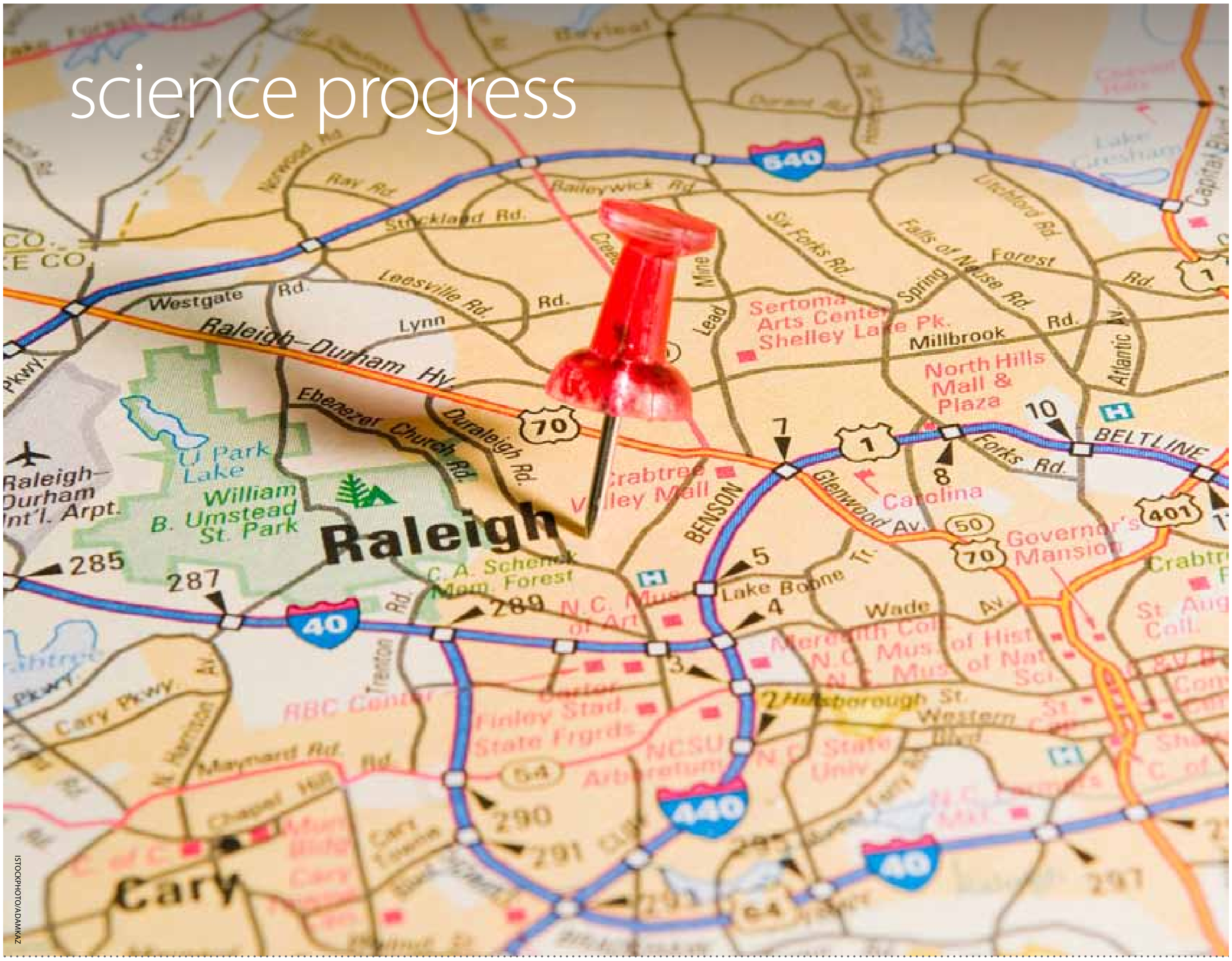
With a structure in place, work began simultaneously in healthcare, agriculture, food processing, communications, construction, biotechnology, automotive services, and metals. Sector priorities are flexible, creating different sets of deliverables. For example, healthcare initiated a broad advertising campaign to improve recruitment in the perennially under-staffed field and established a core set of supervisory trainings. Metals and metal fabricating initially focused on management training and has increasingly focused on traditional hands-on training of welding and machining.

Food manufacturing is a good case study. Launched by three WIBs representing eight different counties in 2004, the Consortium looks for commonalities among very different companies and builds trainings that cut across their different needs, including management training, product labeling, and industrial maintenance. “To be successful and self-sustaining, there’s got to be tangible benefits, otherwise there’s no reason to spend time and energy to attend meetings. And a [big attraction] is the cost of training, which has gone down from $10,000 to $3,000 per employee by working [in partnership],” says Glenn Wolf, technical training manager at Cadbury Schweppes near Gettysburg.

Primarily oriented to incumbent worker training, these sector activities have also connected to overall economic development efforts. The WIB is often consulted on economic planning and any major business retention or attraction deals, for example, and workforce issues became a cornerstone of the county’s major economic development strategic planning process in 2004.

Almost all of the larger sectoral initiatives have been regional in nature, due in part to natural advantages for collaboration: The regions are similar in demographics, economic potential, population density, infrastructure, and transportation, and local industries are relatively evenly dispersed geographically. It also helps that the various workforce leaders in each area found they could easily work together: No WIB directors were political appointees, and each was the founding director of a new structure focused on creating new programs.

Perhaps most important was the availability of new state funds for regional collaboration around cluster efforts. “The money surely helped bring us together,” says Bob Garraty, former executive director of the South Central Workforce Investment Board and now director of the Pennsylvania Workforce Investment Board. “One would like to think we saw the importance of regional cooperation, and that’s a part of it, but we knew that we had a better chance of gaining state dollars if we worked together, so we did.”



The Geography of Innovation

The Federal Government and the Growth of Regional Innovation Clusters

Jonathan Sallet, Ed Paisley, and Justin Masterman September 2009

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Introduction and summary

Innovation is the critical component of long-term economic prosperity, driving productivity growth and (if spread across key sectors of the economy) ensuring broad-based economic growth. Sparking innovation, however, requires capital (which is threatened by the current economic downturn), skilled-labor, scientific and technological advances, and creative collaboration between government and the private sector. Innovation cannot be dictated, but it can be cultivated.

In this paper, we focus on the importance of President Barack Obama's call for a new federal effort to support regional innovation clusters. We know now—from a solid record of state and local achievements and academic research—that regional innovation clusters are a critical component of national competitiveness. Geographic regions that are bound together by a network of shared advantages create virtuous cycles of innovation that succeed by emphasizing the key strengths of the local businesses, universities and other research and development institutions, and non-profit organizations. Think information technology in Silicon Valley, music in Nashville, manufacturing in the Pacific Northwest, or life sciences in Massachusetts.

The United States, we argue in this paper, requires innovation policies for which responsibility is shared between regional leaders and the federal government. Leadership must begin in the clusters themselves—with local understanding of competitive strengths and strategies to increase the shared advantages that economists recognize as "positive externalities." The federal government, however, can and should assume a vital role in which it frames critical national challenges, facilitates the flow of information and expertise to and between regions, and helps finance, in a competitive and leveraged fashion, valuable activities that clusters would otherwise be unable to undertake.

To that end, President Obama has requested that $100 million be appropriated in fiscal year 2010 for the Economic Development Administration of the Department of Commerce to support regional innovation clusters and associated business incubators.[1] That request is, by itself, a very small portion of the federal innovation budget. The U.S. government each year spends about $150 billion on basic scientific research and development. The EDA funding would help scientific breakthroughs resulting from this research find their way into new products and services that, in turn, could help foster broad-based economic growth.

We believe it is vitally important for Congress to appropriate this $100 million. After all, we devote less than 1 percent of our nation's basic R&D budget to programs that support regional clusters, unlike our most aggressive international competitors (see box on page 2). As this paper will demonstrate, a relatively small federal initiative can be managed so that it yields significant economic advantages.

Such support could help create the next powerhouse information technology company like Google or the next pioneering biotechnology company like Genentech—and these are only two of the thousands of new companies, large and small, that spawned their groundbreaking tech-

INTERNATIONAL CLUSTER INITIATIVES

Some of our strongest international competitors, including Japan, South Korea, and many European countries, have invested in significant national cluster initiatives, directing great amounts of money and resources toward making innovation clusters the main focus of their economic and innovation policies.[2] The irony is obvious—foreign innovation policymakers have come to the United States to study our successes and consult with our experts and yet the United States has conspicuously failed to embrace cluster initiatives as an explicit part of its own innovation policy.

France, for example, has a €1.5 billion program called *Pôles de Compétitivité* that is focused entirely on creating, supporting, and encouraging the growth of innovation clusters throughout the country.[3] In fact, 26 of 31 European Union countries have cluster initiative programs in place.[4] Japan has made similarly large investments in two cluster programs called the Knowledge Cluster Initiative and the Industrial Cluster Program, while South Korea has made innovation clusters the central organizing concept of its industrial policy. Numerous other countries in Europe and Asia, especially China, boast nation programs dedicated explicitly to promoting the development of specific regional innovation clusters.

The lesson is clear. As Harvard University economist Michael Porter, whose scholarship has been instrumental in our understanding of the nature and impact of regional clusters, explains it, strategic thinking "happens in other countries—Denmark and South Korea are just two where I have participated in serious efforts by national leaders, both public and private, to come together and chart a long-term plan."[5]

No reason exists for the United States government not to do the same. Our nation also needs to improve the economic competitiveness of our regional innovation clusters.

nologies on university campuses in Silicon Valley before becoming Fortune 500 companies. New businesses, in turn, create new jobs, bolstering the overall economic well-being of the nation.

This $100 million would be money well spent. The reason: Never before has the U.S. government devoted a single penny to a comprehensive national program *specifically* dedicated to supporting regional innovation clusters and business incubators that fuse the geographically shared resources of universities and other research organizations, companies, research centers, governments, and workers.

Federal involvement is needed. Although the United States boasts a series of successful clusters, their true potential has not been fully realized. Cluster initiatives, according to a recent Brookings Institution report, are "too few" and they are "thin and uneven in levels of geographic and industry coverage, level and consistency of effort, and organizational capacity."[6] Moreover, traditional clusters are under terrible stress. The automobile cluster in the Midwest is suffering not just from the perspective of the automobile manufacturers and their direct workers, but also with regard to the impact on the supply-chain, including specialized suppliers and local communities. Automobile parts manufacturers told the Treasury Department earlier this year that 130,000 jobs had been lost in eighteen months.[7]

Federal support to help innovation clusters improve their competitive strengths makes good economic sense. Begin by considering what regional economic clusters are and how they work. A simple, working definition is this: Clusters are geographic concentrations of companies, suppliers, support services, financiers, specialized infrastructure, producers of related products, and specialized institutions (such as training programs) whose competitive strengths are improved through the existence of shared advantages. So, for example, a successful cluster connects companies with academic institutions, research labs, and other nonprofit organizations in order to create the kind of virtuous cycle of competitiveness that creates jobs, stimulates business formation, and improves productivity.

What are the kinds of advantages shared by the participants in clusters? They could be a set of workers who boast particular skills, such as building boats in Maine. Or community colleges that offer training to manufacturing workers in places where advanced manufacturers are located. Or companies that decide to locate somewhere because of the presence of well-trained employees. Or research centers that conduct basic research into biotechnology close to start-up biotechnology companies. Anything, really, that creates what an economist would call a "positive externality," a benefit that is captured not just by a single company, but by entire communities.

Positive externalities are nothing new. Nor are high-tech innovation clusters. Some, like Silicon Valley or the Route 128 corridor outside Boston, boast world-class universities and research institutions anchoring fervent communities of networked high-tech information technology and biotechnology companies served by a critical mass of commercial, legal, and financial talent. And some, like Akron, Ohio, have leveraged historical expertise; Akron's rubber industry has spawned an innovation cluster anchored by companies committed to polymer science and advanced manufacturing innovation.

Here is what is new: The notion that regions can work closely with the federal government to consciously focus on the creation of shared advantages within clusters to create jobs, create businesses and, of course, stimulate long-term economic growth.

INNOVATION CLUSTERS GROWING APACE

A snapshot of three representative technology clusters in the United States

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School.

Job creation and business creation, the main economic benefits coming from innovative clusters, mostly spring from so called "high impact" companies (high-tech startups and established companies alike) that sell goods and services outside their clusters to both national and international markets, drawing revenue back into the cluster.[8] These "traded" services boost regional economic growth and national economic competitiveness. As measured by patent rates, productivity rates, and other innovation metrics, an innovation cluster creates new companies and new jobs in a helter-skelter but overall positive direction.

The federal government, of course, does spend money on a variety of innovation programs designed to help communities across our country create some of the ingredients necessary to replicate the success of thriving high-tech innovation clusters, such as the San Diego biotech cluster, the medical devices cluster around Minneapolis, and Research Triangle Park in North Carolina. These programs help fund the early commercialization of innovative products and services as well as regional workforce development and economic development efforts to provide the infrastructure necessary for innovative companies to flourish.

But these programs fall short of their true potential precisely because they are not organized in a systematic fashion to reap the advantages of an innovation cluster. The programs often fail to coordinate their work and leverage their unique strengths toward innovation cluster development as their central mission. That's why a modest federal investment in a national cluster development program would multiply the benefits of our existing federal innovation programs, coordinate these efforts, and match federal expertise to the weaknesses and needs of regional clusters.

Policymakers must absolutely ensure they maintain the serendipity, competition, and ad hoc collaboration that have characterized successful clusters in the United States. The importance of regional clusters to competitiveness, however, raises three interrelated policy questions:

- Do federal programs that fail to focus on *all of the ingredients* needed to create a successful innovation cluster lack the direction and heft to make a difference?
- Can a government program dedicated specifically to the creation of new innovation clusters make a difference?
- And are there other factors that account for the unique innovative qualities that make Silicon Valley and Route 128 a success yet doom efforts in other regions of the country to failure?

The answer is "yes" on all three counts, which presents policymakers with a troubling dilemma: how best to invest limited federal resources?

This paper offers policymakers a guide through this dilemma. In the first part of the paper, we will explore briefly the lessons learned by those who have both led and researched innovation clusters over the past several decades. We will reconfirm the observation that, first and foremost, "place matters."[9] Successful regional innovation clusters are not fungible—success rests upon differentiated competitive advantages that exist for different reasons in different parts of the country.

We will then demonstrate that access to finance matters, too. The greatest challenge that clusters need to bridge is the so-called "valley of death" financing gap that leaves young innovative companies with good ideas unable to fund the commercialization of those ideas due to the lack of seed-stage and early-stage financing. The current financial crisis has widened this valley, not just for young companies, but also for established companies that once could turn to more liquid debt and equity markets or to local or regional lenders and investors to fund their new ideas. Strategies to attract new private capital to regional innovation clusters are critically important.

There's also a similar dearth of human capital—both managerial and workforce—in many regions of the country that wish to create or expand vibrant innovation clusters. American workers are very productive and much of our nation's manufacturing sector could operate profitably in the United States if we took advantage of our global leadership in research and development, innovation, and process technologies to forge more competitive regional economies. The problem is we don't do that today in any nationally systematic way involving clusters. The result is a growing structural unemployment problem with seemingly few solutions to match our productive workforce to the needs of innovative regional businesses.

Overcoming all of these connected hurdles requires us to rethink how we go about supporting clusters. So, also in the first part of this paper, we will examine how forward-thinking state and metropolitan governments have adopted practices that foster strong clusters, creating jobs, helping established companies grow and, of course, providing opportunities for new businesses. The key lesson for regional governments: Patience and leadership are necessary in the creation of all clusters.

Cases in point: North Carolina's Research Triangle Park and San Diego's CONNECT cluster—two regions that focused on all the ingredients needed for success, including federal funding—took several decades to reach their current prominence among U.S. clusters and were piloted there by a coterie of forward-thinking government, university, and business leaders. Newer clusters that recognize the importance of patience, such as those budding around the Arizona State University in Tempe, the Washington, D.C. metropolitan region's many universities, and in rust belt cities in the Midwest such as Pittsburgh, are making headway.[10]

In the second part of the paper, we will discuss the reasons why Congress should support, and how the Obama administration should effectively implement, the president's proposal that the Economic Development Administration be appropriated $100 million to support regional innovation clusters and associated business incubators. We will demonstrate that the Obama proposal is the answer to the failures of federal support identified in our earlier discussion of federal efforts. And we will show how this new effort—alongside dedicated White House leadership—can simultaneously increase the effectiveness of other federal programs, such as Small Business Innovation Research and Small Business Technology Transfer programs, which are administered by a variety of government agencies in coordination with the Small Business Administration, and the efforts of other Commerce programs, including those housed at the National Institute of Standards and Technology and the National Science Foundation. (See Appendix for a summary of the main federal programs that could measurably increase the impact of a clusters approach).

Support for clusters through the Department of Commerce's EDA must be targeted at what matters most to innovation: The shared advantages that accrue to businesses, workers, and communities alike when the success of a cluster spawns a virtuous cycle of economic growth. Operating at the micro-economic level, the EDA must show a keen understanding of the ecosystem of innovation to ensure that its targeted innovation investments go where they can make a difference building cluster infrastructure and thereby do the most good for the longest time.

Specifically, we will explain how the Obama proposal provides the missing elements that are needed to support state and regional leadership. The federal government should leave leadership to the regional community, which knows best its own competitive advantages. But a bottom-up approach can reach the top level of government, with EDA supplying necessary funds to allow clusters to create shared resources, and with universities, community colleges, and research centers supplying a national framework against which the importance and success of clusters can be measured. Funding should be tightly connected to effective information exchanges, which will strengthen the ability of clusters to plot their own competitive strategy, and aligned with other federal programs through, for example, so-called "one-stop shops."

We conclude this paper by sketching out the critical program-design elements that should be endorsed in the appropriations process for the proposed $100 million for EDA to implement a federal clusters strategy. Specifically, in this paper we propose that EDA should:

- Administer a competitive matching-grants program, with established criteria used to ensure the greatest impact of federal funding, among them an emphasis on local leadership from the private and public sectors, including universities and other research institutions.
- Align the cluster selection process with national priorities such as energy-efficiency, advanced manufacturing, and new technologies when administering this matching grants program.
- Assist economically distressed areas of the country by pooling regional resources from within and outside of distressed areas in order to bring together a critical mass of university savvy, business acumen, and productive workers.

No single grant application should have to meet all these criteria, but having these three principal guidelines in place will help ensure transparency and effectiveness. Funding should be focused on building the common infrastructure of innovation in a region, which effectively lowers the cost of business growth and creation. Examples include program development plans for business incubators and research centers, worker-training programs, and technology-transfer efforts focused on small- and medium-sized companies. Where regions have no effective clusters, smaller planning grants should also be available for the creation of strategies based on comparative advantages.

Time to act

Support for regional innovation clusters and business incubators is good public policy—and good political leadership. Successful cluster policies have been implemented at the regional level by both Republican and Democratic officials alike because clusters represent a pragmatic approach that requires collaboration with the business community and that, when successfully implemented, benefits communities as a whole.

Similarly, pioneering research into the role of clusters by policy advisors to both Democrats and Republicans has created a bipartisan foundation that increases the chances that, once initiated, federal cluster efforts will be supported for a long time by members of both parties. This is important because, as we have noted before, patience matters and, therefore, federal clusters efforts must be able to garner long-term political support.

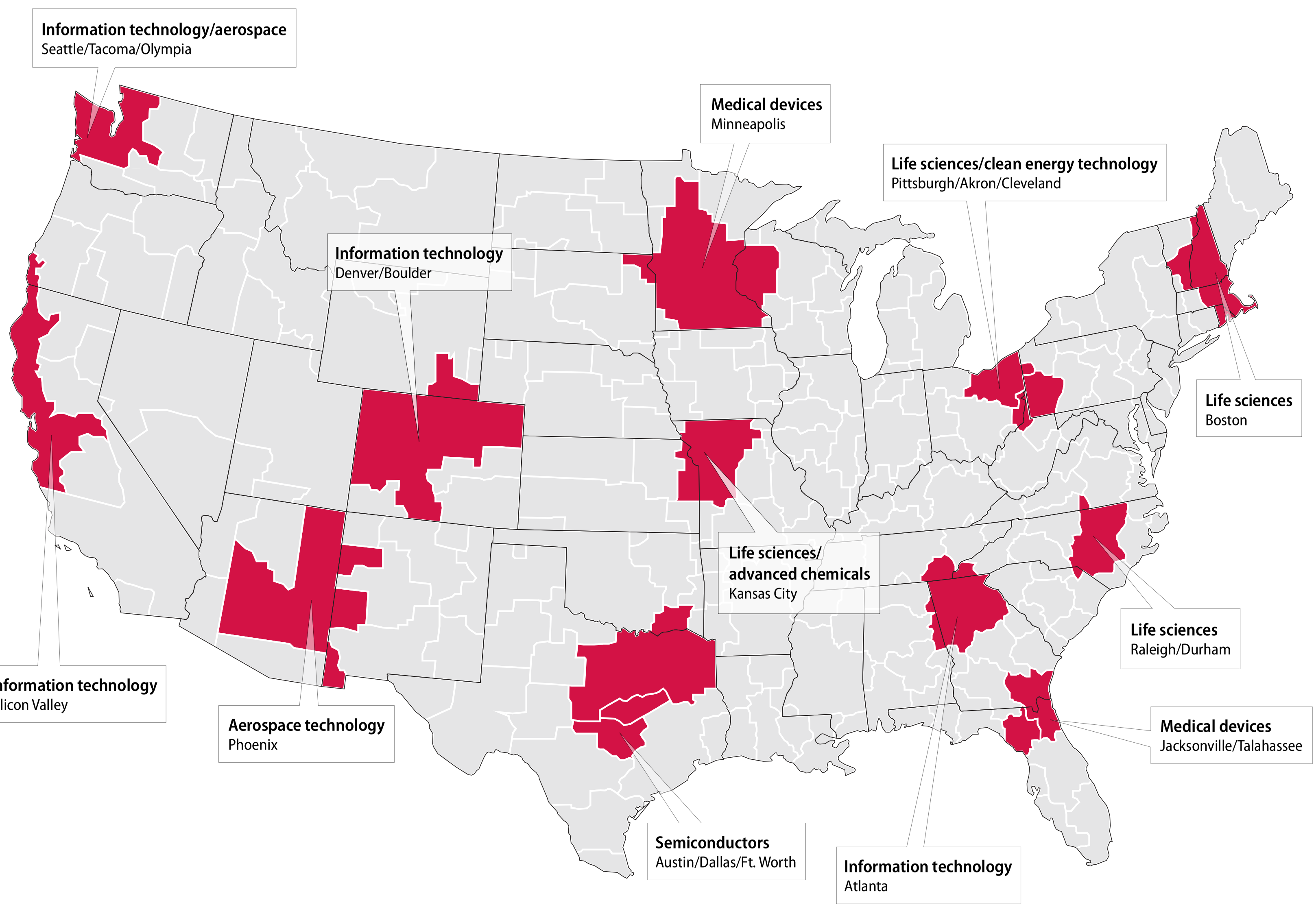
Moreover, in a coming time of budget austerity, the regional cluster initiative does not require large sums of funding. That's because federal support will be leveraged, providing resources that are not otherwise available but always contingent on regional governmental and private resources to amplify the impact of federal dollars. In fact, federal support in fiscal year 2010 budgets would come at an important time for state governments, which are under tremendous fiscal pressures. States including Ohio, Kansas, Connecticut, and Pennsylvania have either reduced economic development spending or encouraged large reorganizations of programs to control it.

Over time, the implementation of regional cluster strategies can increase the effectiveness of other federal spending. Just within the Department of Commerce itself, for example, export promotion and technology outreach programs at the International Trade Administration and NIST, respectively, would be strengthened by their links to effective cluster strategies, which in turn could supply valuable expertise to increase EDA's own effectiveness. Even more importantly, federal support for regional innovation clusters presents an important opportunity for EDA to forge a close partnership with the Small Business Administration, whose own programs reach deep into local communities.

In the pages that follow we will present our analysis, conclusions, and recommendations in greater detail. In the end, we hope the case is made that Congress needs to appropriate that first $100 million toward a national program for regional innovation clusters. We are confident this step will help ensure that the $150 billion taxpayers invest annually in basic scientific research and development can better deliver on the promise of more and better jobs, new businesses, and transformative technologies across our nation.

A SNAPSHOT OF U.S. INNOVATION CLUSTERS

A selection of high-tech clusters in different parts of our country



Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School.

Lessons learned about successful cluster creation

Let's consider first how businesses in clusters come into being. For a life sciences company like Genentech, for example, building a young company out of university-based research depends first on the university's willingness to invest in the concept of startup-based commercialization. That requires a sophisticated technology-transfer operation at universities and other basic research laboratories. Then the startup must find the early cash needed to start a new company to commercialize its yet-untested intellectual property, as well as gain some early business know-how from economic development agencies and solicit additional donations from federal research grants just to stay alive.

Such companies then need to attract angel investors, venture capitalists, and corporate strategic partners—themselves key developers of innovation—to build their businesses. If all goes well—no mean feat as the technology the company is commercializing has to prove to be not just safe and efficacious but also marketable—perhaps the company can make an initial public offering on a stock exchange, becoming a public company.

This process can take more than a decade, and chances are the company will still not yet be profitable. And along the way, the company needs to attract an array of business, marketing, and financial talent, especially expertise from business executives who have done it all before and succeeded or more likely failed a few times first before succeeding.

Each of these factors is also critical to creating new communities of regional innovation where startup companies succeed in traversing this difficult financing path. Yet the breadth of workforce skills and management skills needed to build these clusters are often missing in these communities, which are just starting to understand the power of their own competitive advantages.

This same dynamic is true for information technology companies like Google as well as for other startups in nanotechnology, alternative energy and green technologies, new materials, and other cutting-edge industrial and services technologies. The innovation growth cycle for these types of companies is not as lengthy as it is for biotech companies, but the problems are the same:

- Lack of commercialization expertise at many research universities
- Lack of access to enough seed-stage and early-stage venture capital
- Lack of management talent, workforce talent and industry-specific talent to create new local companies
- Lack of a "critical mass" of supportive individuals and businesses in these tech arenas in most university towns and cities

Without regional support for innovation, two threats dominate the landscape. First—and this is difficult to measure—some companies will simply fail to come into being or, if launched, fail to find fertile soil for their efforts. Second, innovative new companies may have to move to find success—perhaps far from the universities and federally funded labs where the innovations themselves were developed. And that, of course, means that regions are deprived of the new successful companies whose presence may improve regional competitiveness by clustering. Regional economies require vibrant business communities, but when the most innovative talent alights for other cities to build their businesses regional economies suffer.

In contrast, where clusters are supported by local businesses, universities and other educational institutions, and communities, advantages accrue to both established and new businesses—and their workers. Established businesses that sell their goods and services across a broader region or around the globe bring new dollars and employment opportunities that then expand the local economy. Fostering innovation among startup companies and established companies in clusters has a multiplier effect for both types of companies and purely local businesses, too, such as restaurants, dry cleaners, and other small retail businesses, all of which provide "non-traded" services that are created and consumed within the cluster.

In short, success in a sector creates spillover effects in the regional economy, as specialists look to the area for next generation of information technology, life sciences, or other form of innovation.

There are two sets of lessons that are crucial to remember when considering the creation of a successful cluster. The first set teaches us about the on-the-ground conditions that make a cluster successful—what inherent regional characteristics enhance the chance of cluster success. The second set identifies the governmental actions that improve the chances of cluster success—what the government can do to leverage endemic regional strengths to encourage success. For innovation policy to be fruitful it is vitally important to recognize the difference between these two sets of lessons as well as to consider how they can be combined to boost regional innovation across the country.

The on-the-ground conditions that make a cluster successful are first and foremost intrinsic to the cluster itself. Place matters. But the other key conditions are a pro-innovation environment (including the presence of research institutions and committed government, research and business leadership), management and workforce talent, risk capital and debt financing, and a regional innovation network of similar companies competing—especially in pre-competitive research—cooperating with each other. And even when all these ingredients are present, a final lesson learned about successful clusters is that patience is crucial. Clusters take time. Regional leaders need to understand this and work equally patiently at the development process.

Ideal government innovation policies should encourage local strengths, stimulate shared advantages, encourage the creation and development of human networks, and always galvanize public education and research institutions. Through these steps, governmental policy will base economic development on existing and nascent strengths, build regional infrastructure, convene businesses, finance, nonprofits and workforce participants, and encourage universities, research centers, federal labs and community colleges to develop their own long-term policies to help cluster stakeholders more effectively join together. Government action that improves the chances of a cluster becoming successful must be carefully attuned to conditions on the ground, and must complement these existing conditions rather than force the cluster into artificial strategies ill-suited to local strengths.

There is a crucial difference, however, between these two sets of lessons. The first—the ways that local advantage turn into self-sustaining forces of competitiveness—have been well enunciated through academic research, much of this based on Harvard Business School professor Michael

Success in a cluster creates spillover effects in the regional economy, as specialists look to the area for next generation of information technology, life sciences, or other form of innovation.

Porter's pioneering work in the field,[11] as well as new research demonstrating that areas with strong clusters have higher rates of innovation and entrepreneurship and better wages.[12] Recent studies[13] have established the real advantages of "clusters" for a growing economy, including strong correlations between:

- Per-capita GDP and cluster concentration
- Cluster strength and higher wages[14]

But the second set of lessons—which forms of governmental action can increase the chances for cluster success—have yet to be fully integrated into the theory of economic development that guides national and regional governments. In this section of the paper we will identify both sets of lessons through the examination of four principles for cluster success: Place matters, networks are critical, patience is necessary, and leadership is essential.

Place matters

Regional efforts to develop and encourage the growth of innovation clusters consistently run up against one inexorable fact: Place matters. Clusters cannot be instantaneously generated out of whole cloth. Many of the necessary regional ingredients need to be present stretching back decades.

Silicon Valley cannot be replicated in every location without regard for regional character, strengths and weaknesses, and stakeholders. Santa Fe cannot develop a world-class hydroelectric cluster, and it shouldn't try. But New Mexico is developing its advantages in solar, wind, and geothermal energy, as it should. Clusters develop depending on the unique mixture of local and regional strengths and stakeholders, including universities (and other knowledge-generating research institutions), businesses, government programs, and workforce skills.

In short, different regions have fundamentally different strengths that policymakers must recognize. Boston, Palo Alto, Omaha, Atlanta, and Phoenix each has very different indigenous businesses, universities and other research institutions, workers, and histories, all of which determines the viability of innovation cluster development and the flavor of any potential industrial agglomeration. Specifically, regions have:

- Distinct R&D institutions, including universities, federal labs, and industrial research centers, determining the degree to which, and the nature of, ideas that "spillover" into the local community, encouraging small business formation and commercialization.

- Workforces and management pools with varying skills and education levels, determining the ease and speed with which new companies can develop, hire employees, and produce new products.

- Different amounts and types of capital available for investment in new businesses and nascent industries, affecting the success that R&D spillover has in the creation of innovative companies.

Boston and Silicon Valley, of course, have powerful research universities, highly competitive local companies that make large annual R&D investments, a well-educated and highly skilled workforce, significant venture capital expertise and financing, and plenty of people with a range of critical business skills. The soil in these places was properly fertilized decades ago—including with federal research and development money and key support for such pioneering companies as chipmaker Fairchild Industries—just waiting for a seed or two to set off a chain reaction that led to the emergence of world-class centers of high-tech industrial agglomeration.

Now, this doesn't mean that regions without all the inherent pro-innovation characteristics of Silicon Valley can't develop into successful innovation clusters. Quite the contrary. Look no further than North Carolina's Research Triangle Park's now-thriving biotechnology cluster, the Dallas-Austin-San Antonio computer chip and computer software corridor, Seattle's booming software cluster, or the budding nanotechnology cluster in upstate New York. All four of these clusters had some but not all of the ingredients needed, such as strong research institutions, major industrial companies, nearby financial centers and key workforce and management talent. And they all required local leadership to coalesce the inherent cluster capabilities and attract the other ingredients that were lacking.

These clusters and others developed relatively successfully by building on their own inherent strengths. They took advantage of the makeup of their own soil, developing successful clusters of competing companies with distinctively local character. This is the takeaway message for policymakers: Regions are different and an embrace of these local differences is the key to encouraging the development of innovation clusters on the scale and in the image of the local environment. Effective regional cluster policy must, therefore, leverage existing strengths, competitive advantages, and local stakeholders to encourage development that fits the place. Ineffective regional cluster policy would attempt, for example, to build a biotech cluster in a region with little or no indigenous life sciences companies, research universities, or established technical workforce.

So what are some of the local ingredients that contribute to the development of a successful innovation cluster? We've already highlighted the need for institutions of knowledge creation, at least the beginnings of groups of similar businesses, industry-specific managerial and technical talent, a skilled workforce, and a budding network of ancillary businesses and legal and financial services to help the cluster grow. Then patience and leadership are required to bring this all together into an effective cluster. Let's briefly consider each of these ingredients in more detail.

"Gazelle" jobs

Jobs in gazelle companies (firms with annual sales revenue that has grown 20 percent or more for four straight years) as a share of total employment

The top five	Jobs in fast-growing companies as a percentage of total employment
1. Nebraska	20.8%
2. New York	12.3%
3. New Jersey	11.0%
4. Washington	10.2%
5. Minnesota	9.9%
U.S. Average	**8.0%**

Source: Robert Fairlie, 2007 data.

The top five movers	2002 rank*	2008 rank	Change '02-'08
1. Nebraska	36	1	↑35
2. Alaska	46	20	↑26
3. Arkansas	41	18	↑23
4. Nevada	33	13	↑20
5. Delaware	25	6	↑9

* 2002 state ranks have been revised for data comparability.

Source: Information Technology and Innovation Foundation.
All data from ITIF drawn from its "The 2008 New Economy Index"

The existence of institutions of knowledge creation

Innovative companies were once innovative ideas, many of which came from the scientists, professors, and engineers that work at universities, corporate R&D facilities, and government laboratories. The "spillover" of ideas from these knowledge-creation institutions (and their intellectual property practices) to the local community and network of entrepreneurs is the central process that takes place in fertile innovation clusters. As more and more ideas move from labs to eager individuals and their business partners, scores of innovative businesses are started, feeding an auspicious cycle.

Celebrated are the roles played by Stanford University in Silicon Valley and the Massachusetts Institute of Technology in Boston in knowledge creation. Less well-known but no less important are the roles played by the Rensselaer Polytechnic Institute in Albany, the University of Pittsburgh and Carnegie Mellon University in Pittsburgh, Columbia University in New York City, and the University of Texas in Austin.

These and other research universities boast technology-transfer operations that help create startups in their local and regional communities.[15] But other universities and research institutions have not yet developed their tech-transfer capabilities in ways that enrich the regions they inhabit, depriving their communities of the innovation spillovers necessary to build vibrant clusters.

The availability of capital

A good idea doesn't guarantee the development of a profitable company. Without significant, consistent, and affordable capital, the spillover of ideas from knowledge-creating institutions isn't enough to make innovative companies. Venture capital, angel investment, and public financing are integral to the creation and growth of the small companies that are the bedrock of innovation clusters.

The lack of seed-stage and early-stage capital financing, the so-called "valley of death," poses a significant challenge to growing companies and an exciting target for cluster policymakers. This valley of death has only been widened and deepened by the recent economic turmoil.

Angel investment dropped 28 percent in 2008, indicating a severe contraction in the availability of capital to help young companies get their start in business. [16] And the average investment by venture capital firms in 2008 was $8.3 million, with only about 4 percent of the capital going to early-stage companies.[17] In the first quarter of 2009, investment activity was down 47 percent in dollars and 37 percent in deals from the fourth quarter of 2008, which was itself a down quarter. These numbers represent the lowest venture capital investment levels since 1997.[18]

We must also remember that new companies aren't the only innovative companies in a cluster. A recent Small Business Administration study[19] showed that innovative companies are not just startup companies. There are about 375,000 so-called "high-impact" companies spread across the country, defined as those having "sales of which have at least doubled over the most recent four-year period and which have an employment growth quantifier of two or greater over the same period." Interestingly, these companies, which include high-tech startups, account for almost all of the private sector employment and revenue growth in the economy, even though they only constitute 2 to 3 percent of all companies. Yet only 2.8 percent of these companies are 10 years old or younger. These established businesses sometimes lead the innovation activities of a particular region, and are integral components in a region's economic geography.

The economic downturn of the past year or so has made credit exceedingly hard to come by for even these larger, more established companies. Banks have cut their lending to even the most strong and well-established innovative companies in response to tough economic conditions. All of these extraordinary credit difficulties have forced even large, deep-rooted companies to cut back on their innovation activities and product development. Finding ways to help established businesses overcome these financing hurdles will be critically important to the development of young innovation clusters.

Moreover, state financing is more difficult to come by. State governments, many of which have significant grant programs designed to encourage technology-based economic development by lending to innovative companies, are dealing with budget crises and have had to cut back drastically on their lending. As we noted above, states including Ohio, Kansas, Connecticut, and Pennsylvania, have either reduced economic development spending or encouraged large reorganizations of programs to control it.[20]

Fastest growing firms

The number of Deloitte Technology Fast 500 and Inc. 500 firms as a share of total firms

The top five	Percentage of firms that are fast growing
1. Massachusetts	0.037%
2. Virginia	0.035%
3. Utah	0.027%
4. Maryland	0.023%
5. New Jersey	0.021%
U.S. Average	**0.013%**

Source: Deloitte Fast 500, 2006 and 2007 data and Inc. 500, 2007 and 2008 data.

The top five movers	2007 rank	2008 rank	Change '07-'08
1. West Virginia	49	29	↑20
2. North Dakota	47	33	↑14
3. Wisconsin	38	27	↑11
4. Kansas	36	26	↑10
4. Rhode Island	42	32	↑10

Source: Information Technology and Innovation Foundation.

Venture capital

Venture capital invested as a share of worker earnings

The top five	Venture capital as a percentage of worker earnings
1. California	1.5%
2. Massachusetts	1.4%
3. Washington	0.8%
4. Colorado	0.6%
5. Maryland	0.4%
U.S. Average	**0.4%**

Source: PricewaterhouseCoopers/Venture Economics/NVCA, 2007–2008 data.

The top five movers	2002 rank*	2008 rank	Change '02-'08
1. New Mexico	44	8	↑36
2. Vermont	29	15	↑14
3. Tennessee	37	25	↑12
4. Mississippi	43	33	↑10
5. Oklahoma	39	30	↑9

* 2002 state ranks have been revised for data comparability.

Source: Information Technology and Innovation Foundation.

The presence of high-skill labor alongside programs to spur talent generation

Without employees with the skills necessary to do innovative, often high-tech work, new and expanded businesses could never get off the ground. That is why a region that is to become a more successful cluster must not only have lots of entrepreneurs who can start companies, but the availability of eager, dedicated, and talented workers who have the energy and skills to bring innovative ideas to life. Workforce development programs are crucial to the development and maintenance of a highly skilled workforce, and a smart policy choice for regions hoping to grow new companies.

These new companies in turn help boost job growth. Between 1994 and 2006, for example, high-impact companies with fewer than 500 employees created 58 percent of all new jobs.[21] Of course, many of these new companies failed or were acquired by others, resulting in plenty of jobs lost. But that "churn" represents a dynamic innovation economy in action. That's why states struggling with the downturn of the American manufacturing sector, especially the rust belt states of the Midwest, have begun to embrace workforce development programs to boost high-tech job growth.

Michigan, for example, awards startup grants and provides training to fill job vacancies in high-demand fields that will bolster further economic growth to more than 20 "regional skills alliances." Or consider Pennsylvania, which has an Industry Partnerships program that brings together employers and workers in the same industry cluster to discuss overlapping labor issues, encouraging hiring and the development of skilled workers. The Pennsylvania program has trained more than 70,000 employees since 2005, growing high-skill jobs in innovative companies.[22]

Highly skilled labor is essential to the growth of new companies and innovation clusters—workforce programs that encourage the development of highly skilled labor represent a prescient recognition of the importance of training and retraining our labor force for a new generation of American ingenuity.

Entrepreneurial activity

The adjusted number of entrepreneurs starting new businesses

The top five	Adjusted number of entrepreneurs as a percentage of population
1. Montana	0.47%
2. Georgia	0.43%
3. Vermont	0.42%
4. Mississippi	0.42%
5. Louisiana	0.39%
U.S. Average	**0.30%**

Source: Robert Fairlie, 2007 data.

The top five movers	2007 rank	2008 rank	Change '07-'08
1. Tennessee	41	12	↑29
2. Massachusetts	43	16	↑27
3. Louisiana	30	5	↑25
4. Kentucky	42	25	↑17
4. South Dakota	27	10	↑17

Source: Information Technology and Innovation Foundation.

Networks

Networks, physical and virtual, are integral to spurring the development of industry clusters. When companies, universities, workers, policymakers, and sources of capital are in close and frequent contact, clusters are strengthened. In the absence of these networks, clusters struggle to develop to their full potential.

Networks are important because collaboration is important. The first to comment on the relational networks between companies and entire industries was economist Alfred Marshall, who in his 1890 *Principles of Economics* highlighted the agglomeration of certain industries into districts across England. The impact of his ideas waxed and waned until the early 1990s, when Michael Porter and others gave birth to a wave of scholarship on the role of clustering in economic development, specifically examining the collaboration and exchange of ideas between companies with complementary and overlapping professional interests.

Scholars, policymakers, and others who study the origination and development of industry clusters have highlighted the importance of networks, of regional, multi-stakeholder relationships, on the success of a cluster. University of North Carolina professor Maryann Feldman, for example, notes that "as technology allows greater communication at long distance, we experiment with distant collaboration and knowledge sharing [because] there is simply no substitute for just being there—being at the place where exciting work is taking place, where high-content unstructured conversations take place, and where the unexpected may be explored and spark something new."[23]

Case in point: The state of New York, the city of Albany, the State University of New York, local and regional businesses, and labor leaders have networked together over the past 10 years or so to create the College of Nanoscale Science and Engineering and the Albany Nanotech complex, investing billions of dollars, attracting hundreds of high-tech companies from around the world to set up shop in their $5 billion nanotech complex, and spurring the creation of new products and new businesses. This has all been done through a collaborative web of staggering scale, with government, business, and university leaders; high school, college, and graduate students; labor leaders and venture capital and angel investment professionals utilizing each other's unique strengths and expertise to put Albany back on the cutting edge.[24]

Austin, Texas has also developed a remarkable regional economic stakeholder network, resulting in the area's dominance as a computer chip cluster. The city's leadership worked hard in the 1980s to land SEMATECH, the public-private non-profit consortium of semiconductor manufacturers formed to boost innovation in the U.S. chip industry, then under siege from Asian competitors. This critical network of companies spawned new start-up companies as SEMATECH developed.

In addition, Austin Ventures, a $3 billion venture capital firm, as well as several other financing firms, partnered with a regional policymakers, local entrepreneurs, and most prominently, the University of Texas' researchers and university leaders to build a cluster of profound success, commercializing university technology and forming companies. Networking Austin's stakeholders turned the city from a college town into an international chip hub.

As we consider regional innovation strategies to spur economic development and the growth of regional centers of innovation, we would be wise to make supporting the development and strengthening of regional networks a central focus. Targeted federal support has worked in the past and can work again.

Patents

The number of patents issued to companies or individuals per 1,000 workers

The top five	Adjusted number of entrepreneurs as a percentage of population
1. Idaho	2.66
2. Washington	1.71
3. California	1.35
4. Colorado	1.26
5. Delaware	1.22
U.S. Average	**0.74**

Source: Robert Fairlie, 2007 data.

The top five movers	2002 rank*	2008 rank	Change '02-'08
1. Massachusetts	17	7	↑10
2. Maine	42	32	↑10
3. Washington	8	10	↑2
4. South Dakota	48	41	↑7
4. Kansas	38	29	↑7

* 2002 state ranks have been revised for data comparability.

Source: Information Technology and Innovation Foundation.

Patience in the Creation of Clusters

Patience really does make perfect. Regional and national policymakers must realize that it takes time and a sustained effort to create innovation clusters. Policymakers who expect initiatives to sprout full-fledged industry clusters overnight will be disappointed and are likely to give up before their efforts actually yield promising results. The existing research shows that the evolution of clusters can take many years, often decades.

The experience of the North Carolina Research Triangle is a very useful case study, providing a hint to the significant investment of time and money that is required to create or strengthen an innovation cluster. In North Carolina, the explicit decision was made in the 1960s to invest heavily in universities and research infrastructure to develop a relatively rural area into a life sciences innovation cluster. Of particular importance: local leaders drew two key national labs, one from the Environmental Protection Agency and one from the National Institutes of Health, to locate near their universities.[25]

Today the Research Triangle employs thousands of people, houses more than 170 high-tech and high-paying companies, and has spurred over 1,500 startups since 1970. It can be argued that a cluster has successfully been created—but the process has taken a very long time, and required sustained levels of investment. And it was launched at a time when few other regions were aiming for the same position.[26]

So what can policymakers learn from the obvious success of the North Carolina Research Triangle? Namely, that a sustained and large investment of time, money, expertise and leadership is not only desirable but fundamentally necessary to the creation of research clusters across the nation. An analysis of biotechnology clusters across the United States by Joseph Cortright found that "the profile of the three metropolitan areas that have successfully developed a significant biotech presence in the past decade (Raleigh-Durham, San Diego, and Seattle) suggest the level of effort required. Each of these areas has had an average of $500 million annually in funding from the National Institutes of Health (in 2001 dollars) for more than a decade, and $750 million in new venture capital investment during the past six years. And each area also has one or more of the nation's 20 top-ranked medical research universities, and two or more of the nations' 50 principal biotechnology venture capital investment firms."[27]

Another example of a region taking this lesson to heart is the Greater Phoenix region, where the Arizona state government and Arizona State University have prepared a variety of educational, R&D, financing, business development, and workforce development programs centered around the state's comparative economic advantages.[28] Other examples include Pittsburgh and Philadelphia, where life sciences clusters are growing after state and local officials, businesses, and university leaders teamed up to develop comprehensive clusters policies.[29]

In all of these places, policymakers had to overcome the short-term political obstacles to investing in long-term innovation cluster development programs. Often times, local politicians don't see benefits of their investment during their terms in office, which leads them to look for more quick-fix solutions to economic development, such as tax breaks and other incentives to draw big employers to their communities.[30] This can result in state and local political leaders competing hard to attract new businesses with immediate job payoffs but with little long-term economic benefit to the region.

Cluster investment, lacking immediate payoffs for politically powerful constituencies, thus has historically had limited appeal compared to the alternative "locational" strategy of attracting large investments from elsewhere. This political reality presents a significant challenge to overcome, and is another piece of evidence that patience and thoughtful leadership is fundamental to cluster success. Yet the more academics and policymakers alike learn about clusters, the more it becomes apparent that growing existing clusters doesn't require the same timeline. Once a cluster's comparative advantages are understood, and all the potential players in a cluster connect in one or several different ways, providing the last necessary ingredients to foster success is an easier proposition economically, but also politically.

Once a cluster's comparative advantages are understood, providing the last necessary ingredients to foster success is an easier proposition economically and politically.

Leadership

Inherent in the concept of clusters is the notion of shared advantage—the regional co-location of positive externalities. It's not surprising, therefore, that collaboration is an important ingredient of cluster success. But collaboration and shared advantages do not spring full-bloom into being. Conscious leadership plays an important role.

Sometimes leadership can seem to be inherent in the local institutions themselves, as clusters develop on their own over decades without any particular set of individuals or institutions consciously thinking about their development. All that was needed were basic research and development money, strong research institutions and a comparative advantage in particular industries. Silicon Valley and the Route 128 corridor fall into this category, though over the years Stanford University and the Massachusetts Institute of Technology increasingly provided the intellectual leadership to champion the commercialization of technologies brewing on campus.

Other innovation clusters, however, required decisive local leadership to begin to flourish. Consider San Diego's CONNECT program. A number of business, educational, and political leaders in San Diego in the late 1980s, among them University of California, San Diego Chancellor Richard Atkinson, Daniel Pegg, chairman of the San Diego Regional Economic Development Corporation, the CEO of communications chip software pioneer QUALCOMM, Inc. Irwin Jacobs, and venture capitalist Buzz Woolley of Girard Capital, came together with the express purpose of refashioning San Diego to compete in the new "knowledge economy." Their hard work and leadership spurred the creation of the multi-dimensional CONNECT program that has supported the creation and development of over 1,200 companies, many new jobs, and led San Diego to be ranked as one of the top biotech innovation clusters in the country.[31]

Or consider Toledo, Ohio. The University of Toledo, recognizing its strong engineering and manufacturing science programs and the city's highly skilled workforce and economic infrastructure, led a 20-year effort to create a new photovoltaics and clean-energy cluster. UT has assembled a team of world-class faculty in photovoltaics and has built laboratories and support centers that have spun off dozens of businesses and reinvigorated the city. In partnership, the state of Ohio committed $18.6 million to UT in 2007 to spur the continued development of the photovoltaics cluster, generate new high-tech jobs, and to increase industry revenue.[32] From this university and government leadership, the Wright Center for Photovoltaics Innovation and Commercializiation is now an internationally recognized photovoltaics research and development center with infrastructure attractive to companies incubating the future generations of photovoltaic technologies.

These stories of leadership have played out all across the country, from the optoelectronics cluster in Boulder, spurred by the leadership of the University of Colorado, the National Science Foundation, and local business leaders, to the Minneapolis medical devices cluster, sparked by the leadership of officials at the University of Minnesota. The development of innovation clusters often results from the strong, decisive action of local institutions and their leaders.

So the upshot: Geographic differentiation, a critical mass of business and finance skills, innovation networks both physical and virtual, patience and leadership can combine to create competitive regional innovation clusters across the country. How do federal policies help catalyze the creation of these clusters? Or more accurately, how can federal policies be improved to catalyze the creation and growth of clusters? We now turn to these questions.

Bloomberg BusinessWeek

BUYING LOCAL ON A LARGE SCALE

From Cleveland to Tempe, economic developers are convincing institutions with big spending power to shift more dollars to small businesses in their communities

By John Tozzi

"Buy local" campaigns normally encourage consumers to shop at small downtown stores—the funky café, indie bookseller, or boutique grocer. Getting big institutions to switch to local suppliers has rarely been part of the equation.

But small business groups and economic developers are beginning to push big buyers like governments, universities, and hospitals to see what goods and services they can purchase locally. Advocates say a small shift in spending by these organizations can yield a profound benefit for small businesses in their communities.

In Cleveland, some of the city's largest institutions have committed to buying more of their goods and services from local suppliers. The plan, five years in the making, aims to build new businesses, jobs, and long-term wealth in the low-income neighborhoods that surround the Cleveland Clinic, Case Western Reserve University, and University Hospitals, a four-square-mile area known as Greater University Circle. Together, those institutions purchase $3 billion annually in goods and services, and most of that money leaves the neighborhood where their campuses are. Redirecting 10% of that spending into neighborhood businesses would inject $300 million into an area where the median household income is $18,000 a year.

WORKER-OWNED CO-OPS

Economic developers from the nonprofit Cleveland Foundation approached these so-called anchor institutions in 2005 to see what it would take to steer more spending to local businesses. "We realize that in this neighborhood right now there are not businesses that have the capacity to meet these needs," Lillian Kuri, a program director at the Cleveland Foundation, recalls saying. Working with the anchors, the Cleveland Foundation developed ideas for a series of environmentally friendly, worker-owned cooperative businesses they could start in the inner city to serve neighboring institutions and others in the region.

Each venture aims to get a commitment of about half of its target revenue from the anchor institutions at the outset. The first of these, Evergreen Cooperative Laundry, opened in October to clean some 12 million pounds of bed linens and towels from hospitals and nursing homes each year. (The Cleveland Clinic alone does close to double that each year.) The business was capitalized with $5.8 million in funds from the city of Cleveland, bank loans, and contributions from the Evergreen Cooperative Development Fund. That was set up by the Cleveland Foundation and the anchor institutions to seed the co-op businesses, which, once profitable, must return 10% of their profits to the fund to create future ventures.

The worker co-op model helps employees build long-term wealth through equity in the company. The green aspects of the businesses appeal to clients' interest in reducing carbon emissions—a priority for many institutions like colleges and hospitals. (The laundry, for example, uses energy-efficient washing, drying, and ironing systems and occupies a LEED-certified building.) Two other nascent ventures follow the same model. Ohio Solar Cooperative installs rooftop solar panels, and Green City Growers, to launch this year, will farm local food in a hydroponic greenhouse on 10 acres in Cleveland. When fully running, they're each expected to employ 50 people recruited from the neighborhood. Plans for other businesses are in the works.
Competitive Bidding Factor

Evergreen Cooperative Laundry is on track to turn a profit within 18 months of launching, says CEO Jim Anderson. Everyone involved agrees that the enterprises must be profitable to succeed. "This isn't a charity program, and I think if it was, it wouldn't be sustainable," says Steven Standley, chief administrative officer for University Hospitals.

Standley says the hospital group tries to use local vendors whenever possible. In a $1.2 billion construction project that began in 2005, 90% of the funds have been spent in northeast Ohio. University Hospitals uses competitive bidding to award contracts, but Standley says factors like a higher level of service, the location of a supplier, or a commitment to diversity can sway a contract toward a vendor that doesn't have the absolute lowest price.

That consideration is growing at other institutions as well. "Where one provider may be very close in price to another, then we might look to our broader interests," says Oliver Henkel, the Cleveland Clinic's chief government relations officer. "There are residual benefits to us that can't necessarily be quantified."

Officials at all three institutions involved in the Cleveland project point out that it's in their interest to foster new businesses, jobs, and wealth in their communities. Economic development can make the neighborhoods more attractive places for staff to live, and, in the case of hospitals, improve the health and security of the people they serve.

LOCAL OFFICE SUPPLIES

It's not just nonprofits embracing the idea, either. Last year, Arizona's largest electrical company, APS, sought a new office-supply provider in an effort to lower costs. The $1.5 million contract went to Wist Office Products, a family-owned Tempe firm with 60 employees and $15 million in revenue. Wist outbid national competitors like OfficeMax (OMX), Office Depot (ODP), and APS's previous vendor, Corporate Express, which is now part of Staples (SPLS).

APS, the main subsidiary of publicly traded Pinnacle West Capital Corp. (PNW), spends $1.5 billion annually on outside purchases, and one-third of that goes to 1,500 vendors in Arizona, says Tammy McLeod, vice-president and chief customer officer at APS. "The tangible benefit of making a local business more successful is they probably become a better customer of ours," McLeod says.

In addition to the APS contract, Wist is doing brisk business with dozens of school districts and municipalities that want to buy from local firms rather than the single supplier available through Arizona's statewide contract. "We have to be lowest or most cost-effective, so there's no favors given, but in the grand scheme I believe they … say this is a good thing for our community," says Ian Wist, the company's general manager.

Such principles support the long-standing practice of giving public contracting preferences to businesses owned by women, minorities, veterans, or other disadvantaged groups. Some 27 states also have preferences for using local vendors, according to a 2009 survey by the National Association of State Procurement Officials. More states and local governments have adopted such policies during the downturn in efforts to bolster their economies, says Jack Gallt, NASPO association director. Local purchasing preferences can backfire, however, when companies try to land out-of-state contracts. "They're penalized for not being an in-state company somewhere else," Gallt says.

Indeed, contracts going to the Evergreen businesses in Cleveland have to come from somewhere else. But as long as the businesses offer competitive value vs. their existing suppliers, the Greater University Circle institutions would just as soon spend their money in their own backyard. John Wheeler, a former corporate lawyer who is now vice-president for administration at Case Western, says he fully supports the plan but was skeptical of the idea at first. "Do you think a bunch of do-gooders can create entrepreneurs in these neighborhoods? I've got to see it to believe it," he says. "To the extent it can be a success, it is truly a formula for providing a dramatic amount of economic development. … The capacity here for a market is huge, absolutely huge."

The New
REPUBLIC

THE DETROIT PROJECT

A plan for solving America's greatest urban disaster.

Bruce Katz, Jennifer Bradley
December 9, 2009 | 12:00 am

For much of the United States, Detroit has become shorthand for failure--not just because of the dilapidation of the town's iconic industry, but because the entire metropolis seems like a dystopian disaster. It is the second-most-segregated metropolitan area in the country; the city's population is 82 percent African American. No other American city has shed more people since 1950--Detroit is only half its former size. Its city government fails at the most basic tasks. A call to 911 will bring a response, on average, in about 20 minutes. (Such emergency calls are depressingly common in the metropolitan area: There are 1,220 violent crimes per 100,000 people.) And that's to say nothing of corruption in the municipal ranks. This year alone, at least 48 Detroit public-school employees have been investigated for fraud--which might help explain why only one in four high school freshmen ever receives a diploma. Unemployment in Detroit stands at a staggering 28 percent. And, in key measures of economic vitality in the nation's 100 largest metropolitan regions, Detroit finishes dead last.

All this might make Detroit seem like the most hopeless case in the global history of the city. But it is hardly the worst and certainly not hopeless. Europe is filled with cities that have risen from similarly miserable conditions.

Take Belfast, which suffered not only industrial decline and disinvestment, but also paralyzing religious guerrilla warfare. Although it received the same sort of hammer blow from globalization as Detroit, it now has steady job growth after decades of losses. Its economic output leapt 35 percent per capita between 2000 and 2005. And, throughout the European continent's industrial belt--the parts that are distinctly not Disneyland for American yuppies--there are many other examples of old redoubts of manufacturing (Bilbao, Leipzig, Sheffield, St. Étienne) that have enjoyed the very same sort of dramatic recoveries. This is not to oversell the optimism that these cities should inspire. They will never recover their full manufacturing might or swell with quite so many residents as before. Still, they represent realistic models for the rescue of Detroit.

It is strangely fitting that the recent auto bailout endowed Detroit with a new corporate patron hailing from Turin, Italy. Like Detroit, Turin was once a grand capital of the auto industry, which accounted for 80 percent of the city's industrial activity, most of it with Fiat, Chrysler's new owner. But the Italian auto industry didn't fare much better than the American one in the face of new competition. Fiat's Turin operations went from 140,000 workers in the early 1970s to a mere 40,000 in the early '90s. And with the collapse of Fiat came the collapse of Turin. Its population plummeted almost 30 percent in 25 years. National and local leaders focused more on combating domestic terrorism from the Red Brigades than on providing basic services. The city spun through four mayors in seven years and accumulated a budget deficit in the mid-'90s of 120 billion lira.

Recovery from this kind of spiral begins with political leadership. And, in 1993, the city elected a reformist mayor, Valentino Castellani, who devised a breathtakingly ambitious plan for the city. Potential investors were never going to have faith in Turin unless the city spelled out its strategy with specificity, so the plan laid out 84 "actions" for development, which Turin vowed to implement by the year 2011. Despite its gritty condition, the city promised to develop a tourism industry and the transportation network to support it. It used its own funds, plus money from national, regional, and provincial governments and private companies, to create a range of institutions--business incubators, foundations, research laboratories, venture-capital funds, and technology parks--that would promote its information-technology and green-energy industries. Other efforts built on Turin's historical strengths. Turin may no longer have had cheap industrial labor, but it still possessed people with a deep understanding of production and design. They simply needed new outlets and markets for their core competencies.

Turin's plan worked. By 2006, it posted its lowest levels of unemployment ever and its highest levels of economic activity in half a century. The city reinvented itself as a center for design, not just of cars, but also for aerospace, cinematography, and textiles. Plenty of parts suppliers still depend on business from Fiat, but they have also found new customers in China and other growing markets. Physical regeneration accompanied the economic recovery. The city submerged the old central railway line that had bifurcated the town, transforming that route into a boulevard that serves as Turin's new backbone. What Turin shows is that even a decaying industrial base can be the foundation for a new economy. That is, the industry may fade, but expertise doesn't. Detroit's American cousins, Akron and Toledo, have already shown how specialties developed for car manufacturing can be repurposed. As Akron's tire-making industry declined, companies, working with local universities, shifted their focus and research efforts into the related business of polymers. The former Rubber Capital of the World now makes polymers and plastics that can be used in clean energy and biotech. Or take Toledo, which long specialized in building windows and windshields for cars. One industry leader, known locally as "the glass genius," started tinkering with solar cells in the 1980s. The University of Toledo showed an interest in his work, and the state gave the school and two companies some money to investigate photovoltaic technology. That spurred other business and university collaborations, which drew more infusions of state economic development funds, and the region now has some 5,000 jobs in the solar industry.

Institutions developed at the height of Detroit's postwar prosperity remain--and provide the city with advantages that similarly depressed industrial cities cannot claim. It has educational institutions in or near the city (the University of Michigan, Wayne State) and medical institutions (in part, a legacy of all those union health care plans) that are innovative powerhouses and that currently generate private-sector activity in biomedicine, information technology, and health care management. And there is already a smattering of examples of old industrial outposts that have reacquired relevance. An old GM plant in Wixom has been retrofitted to produce advanced batteries. There's a new automotive-design lab based in Ann Arbor. And Ford, the most promising of the Big Three, has made a decisive shift toward smaller, cleaner cars.

Retooling Detroit's old industries and advancing its new ones will take public money, and the feds are the only ones with money to give these days. But Washington already spends heavily on Detroit--$18.4 billion went to the city and the surrounding county in 2008. This money, however, isn't invested with any broader purpose, a sense of how all this spending can add up to something grander. A better return on federal investments will take a functioning local government as well as leadership in suburban counties that is willing to collaborate closely with the city. And, with so much sclerosis, change will only emerge with a strong hand from above. State and federal governments should place the city's most dysfunctional agencies in receivership as a quid pro quo for federal investment--a milder version of the federal takeover of Washington, D.C., in the 1990s. These higher-level governments should also insist that the city and its suburbs end their wasteful bickering and act as one on issues that naturally cross borders, like transportation and the environment. The region's elected officials should be strongly encouraged to replicate the metropolitan mayors' caucuses in Chicago and Denver, or a strong metropolitan transportation and land-use agency, as in Portland or Minneapolis. Business will never have faith in Detroit with local government in its current condition and with the metropolis so riven by old city-suburb divisions.

The point of Turin is that dramatic reform in local and metropolitan governance, coupled with strategic interventions from above, catalyzes market revival. Turin reoriented manufacturing with smart, subtle, and relatively minimal government interventions. And there are plenty of opportunities like this in Detroit. The metropolitan region is packed with companies that supplied parts to the Big Three. Because of the current credit desert, these companies should receive low-interest loans that allow them to reconfigure their plants to produce parts that can be sold to the international auto market--or for other types of machinery. And local government (or NGOs, even) can play the role of industrial planner. That is, they can look across the map and find instances where research institutions and manufacturers should collaborate on new ventures.

Even if Detroit were to rebuild its economy, it would still face a fundamental obstacle to recovery. It is just too big for itself, with a landscape that even locals compare to postwar Dresden. Nearly one-third of the land in the city is empty or unused, and some 80,000 city homes are vacant. European cities faced a similar challenge. After decades of population and job loss, they were saddled with an excess of housing and too much unproductive, polluted, or vacant land. This derelict land was as much an economic problem as a physical one, depressing property values and repelling new investments. So these cities reconfigured themselves into denser communities, recycling polluted industrial lands, laying down new rail and transit infrastructure, and investing in projects that created demand not only for particular parcels, but also for the wider urban area.

This physical regeneration, much more than economic reorientation, is where governments have a major role. The great object lesson is Bilbao, Spain. As in Turin, leaders--in this case, the Basque regional government, worried about the condition of its largest city--created a master plan and two public-private agencies to support it, one of which, Bilbao Ria, focused specifically on managing large-scale land-cleanup-and-revitalization projects. The master plan identified four swaths of the city for targeted reinvention, including a major parcel of riverfront land, which was cut off from the central city by unused shipping and transportation infrastructure.

Bilbao Ria spent 184 million euros on site cleanup; the provincial and regional governments kicked in 144 million euros--the full cost--for the Frank Gehry–designed Guggenheim museum. But the city also created a new metro system and a tram line for the revitalized waterfront. Airports, ports, and regional train systems were also modernized. And, critically, the city spent two decades and one billion euros (mostly from higher levels of government) on a new water-sanitation system to keep untreated household and industrial waste out of the river, which would make waterfront development possible.

Detroit has to change physically because it simply cannot sustain its current form. It was built for two million people, not the 900,000 that live there today. Manhattan, San Francisco, and Boston could all fit within Detroit's 139-square-mile boundary, and there would still be 20 square miles to spare. Even more than its European counterparts, which had much less severe population losses, Detroit will have to become a different kind of city, one that challenges our idea of what a city is supposed to look like, and what happens within its boundaries. The new Detroit might be a patchwork of newly dense neighborhoods, large and small urban gardens, art installations, and old factories transformed into adventure parks. The new Detroit could have a park, much like Washington's Rock Creek Park, centered around a creek on its western edge, and a system of canals from the eastern corner of the city to Belle Isle in the south. The city has already started on the restoration of the Detroit River waterfront, largely bankrolled by private philanthropy. The city has created a new "land bank," which can take control of vacant and derelict properties and start the process of clearing land, remediating environmental contamination, and figuring out what to do next with the parcel, whether that's making it into a small park, deeding it to a neighbor to create a well-tended yard, or assembling large tracts of land for redevelopment or permanent green space. There are plans for a new transit line along Woodward Corridor, which, if coupled with smart land use and zoning changes, could spark an entirely different pattern of development. Expanded commuter-rail service to Ann Arbor is in the works, and the Obama administration is weighing a high-speed-rail plan that would link Detroit to Chicago and other Midwestern cities.

Like a neglected brownstone or a ramshackle Victorian, Detroit has good bones. Already, the city is attracting social entrepreneurs who are excited by the challenge of fundamentally remaking a city. Philanthropies are pouring in money and imagination--the rail system on the Woodward Corridor is partially funded by tens of millions of dollars from two major foundations, and other philanthropies are trying to develop a comprehensive educational plan.

The federal government could support the physical regeneration of Detroit by footing the bill for the development of a new city plan focused on reconfiguring land uses and economic activity around the reality of population loss. More radically, the feds could overhaul that tired cliché of urban policy: the community-development block grant. They should require Detroit and other cities to use these grants (and other federal, state, and local resources) for reclaiming, reconfiguring, and reusing vacant and abandoned land and housing. The federal government could make Detroit a pilot city for land recycling and demolition projects. Scores of other industrial cities have too much land and outdated infrastructure. The foreclosure-smacked boomtowns of the sunbelt are also grappling with their own version of this legacy of excess.

European leaders understood that recovery requires at least a generation. This is a tough realization in places that are not just in economic decline, but are often caught in a kind of mass state of depression. Detroit's leaders must manage expectations. It took half a century for the city to get this low. It won't turn around in a four-year political cycle. Turin's revival started with the mayoral election of 1993; Bilbao's physical transformation began in 1990. And both cities are still in the process of recovery. The policies that salvaged these cities are perfectly compatible with the American grain of politics--but the patience required for their success is not.

Washington has already bailed out Detroit--at least, the companies that once turned the city into the quintessential American metropolis of the industrial age. When the government justified injecting money into the firms, it made an implicit argument about the country--that these companies are essential to our future economic greatness, that their loss would be an unbearable symbolic defeat. The same holds for the city that houses them. Even after losing one million people, Detroit is still the eleventh-largest city in the country and, before the auto crisis, it was the source of more than half of Michigan's GDP. To allow Detroit to continue its march toward death would come at significant costs, both human and economic. For Detroit to die, especially in the face of such tested methods for saving cities, would be an American tragedy.

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February 2009

GLOBAL MIDWEST POLICY BRIEF

Ideas to ensure the Midwest's success in a global era

A Midwestern Marshall Plan? Well, Sort Of

by Richard C. Longworth

To a nation entering economic crisis, the Midwest can only say, "Welcome." The last Great Depression started in the Midwestern Dust Bowl a decade before it hit the rest of the country. The blight now looming has been a fact of life in the Midwestern Rust Bowl for at least a decade—in some towns and cities much longer. If this means the Midwest once again leads the nation, perhaps it's an honor we could have skipped.

Recovery—even a new era of Midwestern innovation—is possible. But the Midwest may need some outside help. The recently passed federal stimulus package is as tempting to the Midwest as it is to the rest of the nation. It promises funding for infrastructure, highways, bioscience, university research—all areas where the Midwest could use the money. But current projects have failed to yank this region out of its long-running downturn, and more of the same is not the answer.

Instead, the economic crisis gives the Midwest a chance to rethink its whole approach to economic vitality. Washington could help in a way that goes far beyond the immediate stimulus.

What about a Marshall Plan for the Midwest? This could mean a mouth-watering influx of money, but the cash itself is not the key. Rather, it's the way it is spent. The United States did this right once before, with the first Marshall Plan. It's time to do it again. I'll explain later what I mean.

A Balkanized Midwest

Much of the Midwestern malaise reflects the passing of an industrial economy that supported the region for a century. Part of it is the arrival of globalization and three billion new workers, most from India and the former Communist world, each ready to do the heavy lifting and low-skill assembly-line work that once put bread on Midwestern tables. Part of it is the dawning of the knowledge economy in a region where a high school diploma used to buy a ticket to the middle-class life.

But much of what ails the Midwest these days is self-inflicted. Once the Silicon Valley of its era, the Midwest grew and thrived on the ideas of men like Ford, Timken, and Kettering—ideas so good that we lived on them for decades and never had to have new ones. Somewhere in all those good years we lost the knack of innovation. Having risen together over these years, the Midwest also never learned to work together. Cities, states, universities, companies—institutions with much in common—preferred instead to scrap among themselves for every investment and job and tax break.

Global Midwest Policy Brief is published by The Chicago Council on Global Affairs. Richard C. Longworth, February 2009.

While the good times lasted, this mindless competition was an affordable luxury. But when the Midwest began its decline, it declined together and fell apart. States battled other states for factories in an orgy of smokestack chasing. Companies learned to play states off against each other, and the states wasted millions of dollars. The frantic competition between states for Japanese car plants is the prime example. Small towns built industrial parks and gave major tax breaks to any company willing to invest, only to see the companies decamp to Mexico when the tax holiday ended. Others promised multi-million-dollar packages to companies to coax them to stay. The companies, like Maytag or Electrolux, let the towns debase themselves with these bribes before they, too, picked up and left. Universities and colleges competed for students, faculty, projects, and grants as fiercely as their football teams competed on Saturday, never thinking that this Midwestern brainpower, put together, could create an intellectual powerhouse that would draw the best and brightest—and richest—from around the world.

The result is a balkanized Midwest, split into a grab-bag of eight states—Ohio, Michigan, Indiana, Illinois, Wisconsin, Minnesota, Iowa, and Missouri—or twelve states if you include the Dakotas, Nebraska, and Kansas. These states have everything in common, including a long slow slide into depression, but want as little as possible to do with each other. In my own research I was astonished to go to state after state and talk with true experts in those states—academics, government officials, business people—who knew everything about their own state but had literally no idea what was going on next door across the state line. I ran into Midwesterners who were deeply knowledgeable about affairs in China or Africa, but who treated neighboring states like the dark side of the moon. No Midwestern college or university teaches even one course on the Midwest, where we all work and live. Endemic duplication cripples progress. Each state has its own bioscience organization, competing with every other state in a discipline where, if the Midwest merged its expertise in plant and animal science, it would lead the world.

Industries of the Future

Most Midwestern state lines were laid out in 1787 by the Northwest Ordinance, before there were enough people here to form states. Today, they bottle up all intellectual and political life. All over the world regions are coming together across political boundaries to leverage their strengths to compete in a global economy. That economy couldn't care less about state lines drawn more than 220 years ago, but the Midwest has not begun to exert this leverage or combine its strengths.

This Midwestern orneriness, this self-destructive independence, is about to be put to the test. The industries of the past—the ones that are vanishing—made cars or car parts or appliances. Almost all could be located in one place and provide not only jobs, but fiscal support for generations of cities.

The industries of the future, by their very nature, sweep across state borders as though they don't exist. They are regional in essence, and if the Midwest doesn't exploit them as a region, it won't benefit from any of them.

A few examples:

1. **Clean water technology**. In the new National Intelligence Council (NIC) paper, "Global Trends 2025: A Transformed World," clean water technology is identified as one of the "technology breakthroughs" that will change the world and drive the new economy. Said the NIC: "First movers to develop and deploy cheap energy-efficient clean-water technologies could gain huge geopolitical advantage."

   Freshwater technology will be key to this, and the Midwest sits on the greatest repository of freshwater in the world. The Great Lakes hold some 20 percent of the world's freshwater, on top of other abundant lakes and aquifers in the region. In one of their rare acts of cooperation, the Great Lakes states, plus Ontario and Quebec, negotiated the Great Lakes Compact, now signed into law, that governs diversion of Lakes' water

Global Midwest Policy Brief is published by The Chicago Council on Global Affairs. Richard C. Longworth, February 2009.

and limits the ability of other parts of the country to poach it.

But protecting the water and using it are two different things. Partially, it's a wonderful selling point. Twenty years from now, anyone who wants to live, work, or invest in a place with a reliable supply of freshwater will have to look at the Midwest. Beyond that, as the NIC said, new industrial uses for water abound in farming, biofuel, biopharma, nanotech, chemicals, and semiconductor industries. The region that finds, funds, and exploits these uses will have a grip on the economy of the future.

The University of Wisconsin at Milwaukee already is exploring a freshwater research institute—sort of a freshwater version of the Scripps Oceanic Institute—to begin this research. This good idea would be a better one if the university teamed with other lakeside schools such as the University of Illinois at Chicago, Wayne State in Detroit, and Case Western in Cleveland.

2. **Bioscience and biotechnology.** Bio has enormous untapped potential in agriculture, health care, and other uses. In health care alone, bio is the key to future techniques in diagnosing and treating disease. Coupled with gene manipulation, it has applications in regenerative medicine, drugs, genomics, predictive medicine, and other uses. Properly exploited, this means new laboratories and hospitals, with jobs for doctors, nurses, researchers, orderlies, technicians.

   The Midwest already has a toehold in this bio revolution. Some of the world's major research universities and institutions lie within it. These are mostly state universities such as Michigan, Wisconsin, and Illinois, but also include the University of Chicago and Washington University in St. Louis, plus big research hospitals like the Mayo and Cleveland clinics. The Midwest embraces a stupendous lineup of bio firms like ADM, Cargill, Dow AgroSciences, Monsanto, Pioneer Hybrid, Abbott, Baxter, Eli Lilly, GE Healthcare, Medtronic, and Zimmer.

   OK, if we're so smart, why aren't we rich? If the Midwest is doing so much research, why are most of the bio jobs still located on the two coasts? Several reasons exist. One is, as mentioned, balkanization—the fragmentation of government backing for bioscience into a dozen state organizations that wouldn't dream of cooperating and the sequestering of academic research between the walls of mutually jealous and possessive universities. Another is the lack of money and business services. So many good bio ideas that spring from Midwestern labs have to go to the coasts to find the venture capital and support they need to be turned into commercial products.

3. **Nanotechnology.** Nanotechnology is the manipulation of subatomic particles to produce new or better materials. If the Midwest knows plants and animals, it also knows materials. It has been making things out of materials since John Deere and Henry Ford first went into business. Again, there's activity here: Dayton, Ohio, which has just lost the five Delphi plants that helped support the town for a century, is trying to link local institutions into a nano powerhouse. These include the University of Dayton, the National Composites Center, and the huge Wright-Patterson Air Force Base, with its emphasis on materials that are literally made for the space age. But no one yet is trying to link this work with research going on elsewhere in the Midwest to leverage what should be one of the region's strengths.

4. **Green industry.** Until recently an obsession of tree-huggers, green industry now looks like the wave of the future. This means the harnessing of sun, wind, and water—all of which the Midwest has in abundance—to create alternatives to fossil fuels. Wind farms are sprouting across the region. Old industrial towns that were prepared to turn

out the lights have found new life. Newton, Iowa, which lost Maytag, has 700 workers making parts for wind turbines. Greenville, Michigan, which lost Electrolux, is creating 1,200 jobs in solar panels. Even Lake Wobegon has gone green. Freeport, Minnesota, where Garrison Keillor first wrote his Lake Wobegon stories, is home to a plant making wind turbine parts.

But as in bio and nano, this is an infant revolution. That NIC forecast sees a future in green technology, especially for the region that develops efficient energy storage technology.

5. **Transit.** We should stop thinking about an *auto* industry per se, and start thinking about a *transit* industry geared to the twenty-first century needs of the nation and the Midwest.

   The old auto industry is a paradigm for the Midwestern failure to cope with global challenges. It's an old industry with incompetent management, high costs, tired facilities, a lack of innovation, resistance to change, and reliance on a workforce educated for the industrial age but lacking the skills to compete globally.

   A new transit industry would include cars and trucks, of course. But it's time to get serious about rapid transit, both light transit within urban regions and, especially, a high-speed rail network that would truly tie the region together.

   This industry would, in itself, create hundreds of thousands of jobs. The big auto companies could get a piece of this, if they're nimble enough. If they know anything, it's how to move people and goods. It's time to put that knowledge to use.

   All this is where Washington and the Marshall Plan idea come in.

A Marshall Plan

The original Marshall Plan, which rebuilt the war-shattered economies of Western Europe, was announced by Secretary of State George Marshall in 1947. Between 1948 and 1952 the United States spent $13 billion in aid to Europe. As a percentage of U.S. gross domestic product, that's equivalent to about $200 billion today.

Tony Judt, in his magisterial history *Postwar,* describes how this money revived trade, rebuilt industries, restored consumer markets, and, most important, replaced postwar European despair with a new hope and purpose. But important as it was economically, it was more important politically.

The Europeans themselves had to decide how the money would be spent. Spread over several years, it acted as a "strategic program of recovery and growth, rather than a disaster fund," Judt wrote. It forced business, labor, and government to collaborate. Most of all, "it laid upon (the Europeans) a requirement to negotiate and confer not just with the United States, but with each other… Marshall's invitation did at least oblige the mutually suspicious European states to sit down together and coordinate their responses, and, ultimately, much else… It made coordinated economic policymaking seem normal rather than unusual."

Remember, these were countries that had been killing each other three years earlier. It's not too much to say that this coordinated program imposed by Washington sowed the seed for what eventually became the European Union (EU). By 1951 six Marshall Plan beneficiaries, led by France and Germany, had formed the European Coal and Steel Community. Six years later the same countries set up the European Economic Community. These communities became the cornerstones of the European Communities and, later, the European Union.

It may be stretching things to see the EU as a template for the Midwestern future, although some scholars— Lou Anna Simon, the president of Michigan State University, among them—have suggested just that. But the Obama administration has it in its power to point the Midwest in this direction, if not in the stimulus itself then in its future spending.

All the projects listed above—water, bio, green technology, nano, and transit—make sense only if pursued on a regional basis. The wind blows across state lines and the sun shines where it will. Great Lakes water laps at eight states, not one. Plant and animal expertise spreads evenly across the Midwest. No high-speed rail network can be locked within one state.

Other government initiatives—on education, infrastructure, research—can be done much more efficiently and much more powerfully if the recipients work together to share costs and brainpower. Some, like new transport links, can only be done regionally.

President Obama's mega-billion-dollar stimulus plan is intended to reignite economies across the nation. In the long run, there still will be funds flowing from Washington for infrastructure, health, education, and other programs.

Now, most of this money goes to individual cities or states, guaranteeing duplication, competition, and waste. Wouldn't it be grand if the administration took a page from the sixty-year Marshall Plan playbook and told Midwesterners that they must get together to plan regionally, to come up with projects that would revive this entire region, before we got the money?

This collaboration goes against the grain of Midwestern independence, which is the point. Left to ourselves, we may never agree to agree. But billions of dollars make a powerful lure. The Europeans discovered this, to their permanent benefit.

Perhaps the same lure would work here. It may even be easier here. We Midwesterners may be ornery, but unlike the Europeans, we've never fought a war with each other.

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Global Midwest Policy Briefs

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June 2009

GLOBAL MIDWEST POLICY BRIEF

Ideas to ensure the Midwest's success in a global era

Michigan – The "Car Capital" as Crucible of Midwest Economic Transformation

by John C. Austin

Starting nearly forty years ago, the rise of the Sun Belt, new global markets, and foreign competition began to diminish the great manufacturing industries and communities of the Midwest. The term "Rust Belt" became a metaphor for the decline of the heartland's industrial cities. This moniker hangs most vividly on the once-proud steel cities—Pittsburgh, Buffalo, Gary, Cleveland, and Youngstown. These cities, along with much of the region, were literally built by iron and steel—these industries created the iron in the bridges, rail yards, and factory behemoths that dot the Midwest landscape.

Yet trumping steel in terms of its contribution to the Midwestern economy and its iconic status in the American way of life, is the automobile. Today, as everyone knows, the domestic auto industry is in trouble, and with it, the Midwest—especially Detroit, Michigan, and the other regions that depend on it. But if cars and Detroit are the current metaphor for Midwestern collapse, they can also be the symbol for a Midwestern renaissance. Battered Motown has assets that can create a vibrant future, if it puts its past behind it. Within the wrinkled body of the auto industry are infant industries anxious to lead the way to the future. The brains, talent, and potential are there, if a little hard to see through the current economic gloom. This policy brief will describe how we can get to this brighter future.

Motor City as Metaphor

The car industry was born in Michigan, and Detroit has long been shorthand for "car headquarters." The car business directly or indirectly employed one in ten Americans at its peak, most in Michigan and the rest of the Midwest.

Yet changes over the last thirty years have had their impact on the industry: gas crises, climate change, growing "green" values, the hope for an energy revolution, new urbanism, global competition, the rebirth of cities, and the self-conscious rejection by many of the suburban ideal.

The last nine months has witnessed economic crisis, bailout pleas from two of the former "Big Three" automakers, (now culminating with government-sponsored bankruptcy proceedings for GM and Chrysler), the public pasting of auto execs and their corporate jets, the sacrifice of GM's chief executive officer Rick Wagoner on the altar of "change," even the unseating of venerable Michigan Congressman John Dingell by California's Henry Waxman as chair of the powerful Energy Subcommittee. These events all telescope the story of Detroit over the last thirty

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years: an inward-looking corporate culture that appeared resistant to change and retooled too late to undo the damage to its reputation. The aggressive resistance to fuel-economy improvements, climate change, and the "green" revolution continued until (again, too late!) the industry made a desperate bid to join the clean energy movement—politically in the form of a new embrace of renewable energy and substantively in the form of too-little, too-late product innovation such as domestic hybrids and the yet-to-be-born Chevy Volt, an extended range electric vehicle.

Tied up in this cultural and economic quandary are the lives of thousands of auto industry workers, hundreds of whom are losing their jobs every day. In 2008 the motor vehicle and parts industries employed 730,000 workers, and the "Detroit Three" were themselves responsible for employing over 230,000.[1] In Michigan alone, 57,000 workers are employed in auto assembly, with 130,000 employed in auto parts.

The economic and social fabric that built whole communities and supported generations in Michigan and the rest of the Midwest is fast unraveling. Even more galling to citizens of the region: The region's basic utility is being questioned, mocked, and even vilified.

These hits to our reputation have ripple effects. When Detroit becomes, as it has in the last six months, a symbol of head-in-the-sand resistance to change, it freezes economic action. A Detroit corporate executive in an industry not related to autos told me recently, "No one wants to touch Detroit. We can't raise any money."

A region already seeing its best and brightest leave town can't afford an economic story with the headline, "Fighting to Protect Autos from Change." Michigan National Public Radio did a series recently titled "Careers beyond Cars" that bluntly revealed the values disconnect between the fathers of Detroit and the emerging generation. A young college graduate, asked what she wanted in a career, wanted to be part of the solution: "I want to work on climate change and sustainability issues—I don't think I can do that in Michigan."

Careers beyond Cars

The irony is that the auto-reliant Midwest has what it takes to create careers beyond cars. Detroit's car culture—and the civic, business, and political fealty to that culture—has largely masked or ignored attributes that are enablers of economic change: an underexploited innovation infrastructure in the form of unrivaled business and university research; globe-leading, talent-generating educational institutions; sophisticated technology and manufacturing competencies; and business management capacities. These assets are coupled with a truly breathtaking natural setting that can make it a potentially attractive location for mobile talent to live and work.

Obscured by the car are a robust array of research, discovery, and innovation centers of excellence, along with a critical mass of talent and emerging technologies upon which to build a post–"autos-as-we-know-them" economy.

One-third of all of the nation's new intellectual property is created in the Great Lakes region. In this region, a rich base of corporate research and development centers—three in ten Fortune 1000 firms and their R&D centers are headquartered in the Midwest—interacts with the world's leading research universities.

Twenty of the top one hundred research universities in the world are in the Midwest, more than any region in the country (or on earth!). Three of the best are in Michigan: the University of Michigan, Michigan State, and Wayne State University. These universities anchor a network of fifteen Michigan public universities that collectively win $1.5 billion in competitive federal research dollars each year. These schools are centers of talent generation, new inventions, and ideas. With just over 3 percent of the nation's population, Michigan produces 4 percent of all U.S. patents awarded each year. Its schools

[1] Center for Automotive Research (CARs).

produce 4.6 percent of the nation's engineering talent annually and punches above its weight in science, math, business management, medicine, and other disciplines central to economic growth.

These learning centers can drive new technology development in medicine, materials, information technology, energy, and transportation. Their work can have potentially huge spillover effects on local economies, drawing talent and creating new business opportunities. It is not surprising that communities like Ann Arbor, home to the University of Michigan, are rated among the top places to live by young professionals and retirees alike.

Opportunities for new growth in Michigan beyond the auto industry are real. By building upon an existing critical mass of public and private discovery, learning, and innovation, Michigan can excel in many emerging areas of economic activity.

The creative economy. In Motown, arts, media, design, architecture, music, and film are not only alive and well, but have historic roots. In fact, Greater Detroit is an economic hothouse in these areas. Of the fifty largest metro areas in the United States, Greater Detroit has the second-highest percentage of creative workers. It is sixth in the number of designers, ninth in the total number of artists in the labor force, and eighth nationally in total arts businesses.

Health, medicine, and bioscience. Michigan already has a concentration of health, medical, and bio/life sciences firms as well as large and numerous medical research and teaching institutions and medical/health-related service complexes. Despite the auto industry's dominant role, health care is Michigan's largest private-sector employer, providing over 515,700 direct jobs. Wayne State University, Michigan State University, and the University of Michigan are top-ranked health education and research centers, with the University of Michigan ranked among the top teaching hospitals in the country. Michigan's growing bioscience sector includes 540 bioscience companies, placing it thirteenth nationally in employment in bioscience-related occupations (FY 2006).[2] And, the state enjoys a fast-growing share of bioscience R&D, ranking tenth in the United States. Michigan ranks eighth in higher education degrees awarded in bioscience fields. The combination of health-, medical-, and pharmaceutical-related research and innovation makes Detroit/Ann Arbor one of only three Midwest metro regions (joined by Chicago and St. Louis) that are among the top biotech research centers in the country.[3]

The "green" and "blue" sustainability sectors of the future. Michigan and the Midwest have the research and discovery infrastructure to develop the industries and systems of the future needed for the sustainable production and use of clean energy and for freshwater management. New battery storage and transport technologies are being developed at the University of Michigan. Michigan State University and Michigan Tech are developing new biofuels. New wind and solar energy production as well as component manufacturing and retrofitting (aided by new renewable portfolio standards) can provide thousands of new job opportunities and mark Michigan as a leader in clean energy technology.[4]

Water technology and tools to conserve, treat, measure, monitor, and smartly manage this precious, finite fuel for life are a growing $500 billion global business. As Andrew Liveris, chief executive officer of Michigan-based Dow Chemical has said, "Water is the oil of the twenty-first century." Michigan and the rest of the Midwest are strategically located on the greatest freshwater laboratory on earth—the Great Lakes—with 90 percent of the world's fresh surface water. Innovation in water technology can have a far-reaching impact. China, with its 90-percent-polluted urban water supplies, is a market for new water conservation and retrieval technologies. So is Las

[2] All data from *MichBio—Summary of BioScience Performance Indicators,* 2008.
[3] Cortwright and Mayer, *Signs of Life: the Growing Technology Centers in the US* (Brookings, 2002).
[4] Hannah Adelaja and Yailu, *Projected Impacts of Renewable Portfolio Standards on Wind Industry Development in Michigan* (Land Policy Institute, 2007).

Vegas in the West and Georgia in the South, both of which are running out of water and wasting what they have.

Auto transformation. The auto industry's incredibly sophisticated set of manufacturing competencies and talent base can migrate to new product lines and entrepreneurial activity. The Michigan Economic Development Corporation (MEDC) recently identified 2,500 Michigan manufacturers larger than twenty-five employees that are largely auto-related. Many are at risk now, but other auto-related manufacturers can migrate to new product lines by learning the quality protocols, retooling, and building new supplier relationships in emerging areas such as energy components, nonauto transportation, defense and security applications, health and medical devices, and aerospace.

With the dramatic downsizing of the auto industry, talent is literally spilling out. Anecdotal reports from equipment makers as well as supplier outplacement and temporary employment firms suggest that thousands of engineers, designers, and IT professionals are in search of new careers and opportunities.

Many individuals in this pool of displaced talent could be supported with expanded entrepreneurial training, mentoring, network building, and assistance in new enterprise development. This could help unleash the intellectual property, technology, and skills that are currently embedded in auto making in new economic domains.

This picture of transition and change is familiar to other communities in the Midwest. Chicago long ago shed its meatpacking identity. Cleveland is known more today for medical innovations emerging from the Cleveland Clinic than for auto and steel making. Minneapolis is more a financial capital and medical-device center than flour-milling capital of the world—a label it once proudly wore. What's changed is that the product mix—a more diverse, knowledge-driven array of industries—has emerged to replace the single industries of the past.

Leveraging Michigan's Special Piece of Real Estate

Another latent opportunity is the Midwest's location on North America's "freshwater coast"—the 10,000-plus miles of Great Lakes shoreline, 3,200 miles of which are in Michigan. This Midwestern centerpiece is a fulcrum for economic development.

Location on the water was key to the region's development—when water was the means of transport to sell agricultural goods and raw materials to the world. Water also was a vital "input" into the great chemical, steel, paper, durable, and manufactured goods and autos produced in the Midwest.

In today's global economy, water matters less as a conduit for commerce or an exploitable resource than as an amenity. Water marks Michigan and the Great Lakes as a special place to live, work, play, and grow a business. Today's mobile knowledge workers who drive economic growth want to live near or on water that they can see, enjoy, and use for pleasure. Think of the attractive properties and consequent development along America's other great coasts—the West Coast, the Gulf Coast, and the Atlantic seaboard.

A recent Brookings Institution study of the economic impact of cleaning the Great Lakes put a solid dollar figure on this "magic." Follow-through on the $25 billion Great Lakes Restoration Collaboration effort—by repairing areas of toxic concern and ensuring sewer systems can do their job so beaches are open—was a three-to-one payoff in terms of the jobs and economic gain for our region. The Detroit region alone stands to gain up to $7 billion in economic benefits!

Embracing Globalization and the World

Michigan must embrace, not hide from globalization and the emerging world economy. Detroit, like its more successful sister cities Chicago and Toronto, must accelerate its movement towards a truly global future.

New people, ideas, relationships, and resources, encouraged by a global outlook, are central to growing the regional economy, increasing innovation and entrepreneurship, attracting new talent, and transforming an insular culture in Michigan. Michigan must lay the groundwork and make the connections to facilitate global commerce. It must also welcome immigrants and their ideas and talents to enrich the region.

Detroit's very existence is due to its location as a hub for global commerce, from its founding as a French trading post to its growth as a center of manufacturing. This history helped Detroit flourish once as a global integration center. Its future is conditioned on the degree to which it can reanimate itself as the global entrepôt.

The region is a major transit center, with global air connections at the North American juncture of freightways, railways, roadways, and waterways. Its location along key international transportation routes, combined with critical expertise in transport, can position the region as one of the great global supply-chain hubs. Yet much work remains to be done. While the Detroit region has the busiest border, it also has some of the most antiquated and substandard border-crossing infrastructure in North America. According to a 2007 study by the Brookings Institution, *The Vital Connection,* the largest binational trading relationship on earth (the $500 billion annual U.S.–Canada trade) is disproportionately concentrated in southeast Michigan and reliant on the Detroit–Windsor and Port Huron–Sarnia crossings, the former of which is notoriously out of date.

Today, global economic integration is less about putting materials and products together and more about putting people and minds together. Michigan needs to awaken again to the economic power of new people, new ideas, and new talent.

Immigrants coming to Michigan are better educated and skilled than the general population.[5] They are 50 percent more likely to have a bachelor's degree or higher level of education. Thirty-seven percent of all immigrants in Michigan have such education, compared to only 25 percent of Michigan natives.

Immigrants to Michigan have been central to the growth and excellence of Michigan institutions and firms. Hospitals, universities, engineering firms, technology firms, biomedical research institutes, and other enterprises have relied upon immigrants. One-third of all new technology firms in Michigan were started by foreign-born immigrants[6]—the third-highest rate of immigrant high-tech startups in the nation.

Michigan: Recipe for Renewal

The collapse of the auto-based economy is real and painful, but the seeds for renewal are sown. Michigan's economic renewal requires the embrace of changes sweeping the world economy and polity.

- We must fuel the research, education, and discovery institutions for which Michigan is known and translate their discoveries into new products, enterprises, and entrepreneurship in Michigan.
- We must enhance the characteristics that make Michigan a special place to live and work by cleaning up the mess we made during our industrial era and exposing again the building blocks of a new "clean" economy: greenways, waterfronts, forests, clean lakes and streams, and less car-dependent development, including new rail and transit connections.
- We must not put our head in the sand, but open new doors to the world in trade, commerce, learning, exchange, and immigration.

[5] Census Bureau: 5% PUMS File.

[6] Vivek Wadhwa, Master of Engineering Management Program, Duke University, and AnnaLee Saxenian, School of Information, U.C. Berkeley, "America's New Immigrant Entrepreneurs" (January 4, 2007).

To alter our reputation from "resisting" to "embracing" change, Michigan must become a leader in helping America meet its climate-change and energy challenges. This would, in turn, communicate a new attitude and sense of values about Detroit. Michigan can't be so desperate to protect the great car economy of the past that we scare off the young people who want to work on the challenges of today and tomorrow.

This is not a zero-sum game of fighting over a shrinking economic pie, but a chance to bake a new pie, with spicier ingredients. It was done in the region once before, when immigrants from around the country and world worked together to remake Michigan and the Midwest.

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John Austin is the popularly elected vice-president of Michigan's State Board of Education. He is also a nonresident senior fellow with the Brookings Institution, codirects their Great Lakes Economic Initiative, and wrote the Brookings report, "The Vital Center." Mr. Austin is a member of the Global Midwest Initiative Steering Committee of The Chicago Council on Global Affairs.

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