



ICIC

Initiative for a Competitive Inner City

A Cluster-based Approach to Inner City Economic Development

Inner City Economic Summit
October 4th, 2011

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Initiative for a Competitive Inner City



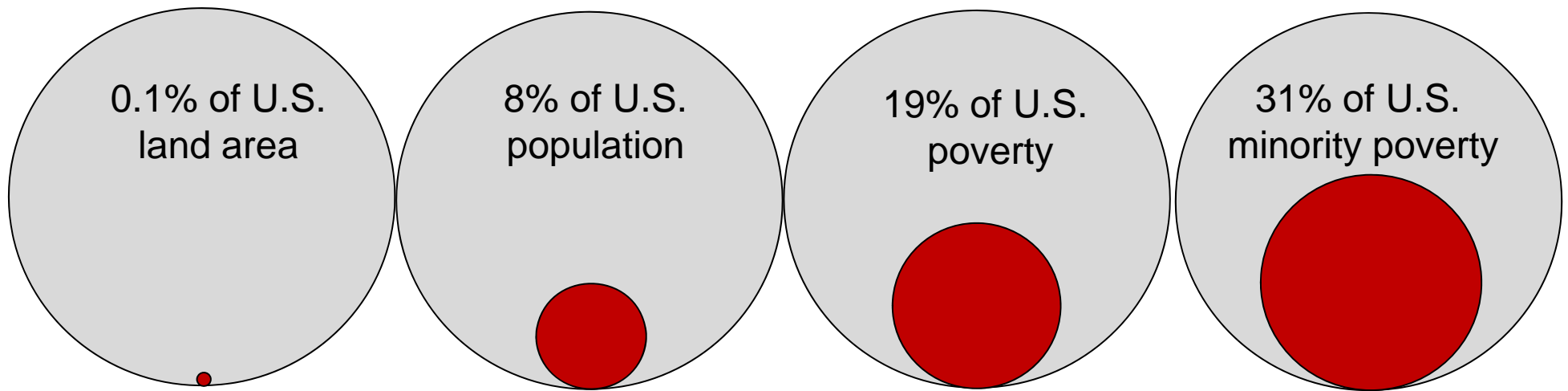
Background

- Current economic development has shifted from **national** to **regional** strategies; with these are growing federal efforts around building **regional clusters**
- This development is a **great step forward**
- However, the country's most distressed urban cores also require **specific economic development strategies**
- Over almost two decades, ICIC has learned a great deal about what works and **does not work** in inner cities
- We need to **better integrate** what we know about inner city economies to enhance inner city growth within the regional framework

Agenda

- I. Why Focus on the Inner City?**
- II. Why a Cluster-based Approach for Economic Growth?**
- III. A Cluster Strategy for Inner Cities**
 - A. Overview**
 - B. Examples**

Inner Cities and Poverty



- Poverty, especially **minority poverty** is concentrated in **Inner cities**
- Targeting poverty in inner cities allows **wholesale** rather than retail approach to **poverty reduction**

What is an Inner City?

Definition of Inner City

Contiguous census tracts in central cities that are economically distressed, as defined by having:

**Poverty rate
20% or higher**

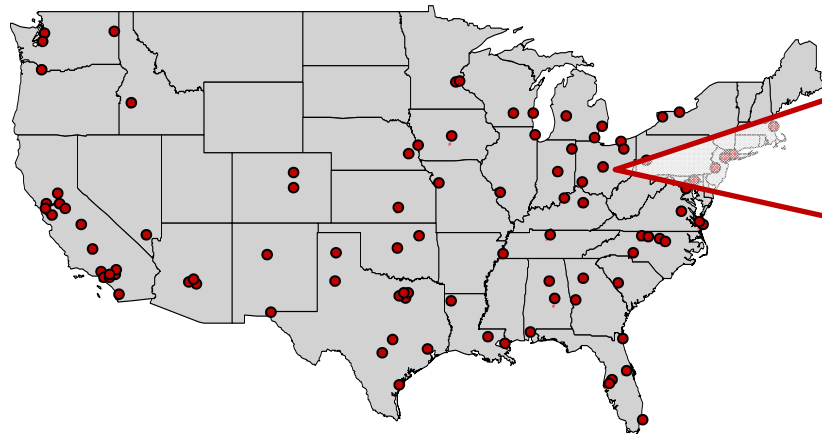
or

Two of three other criteria:

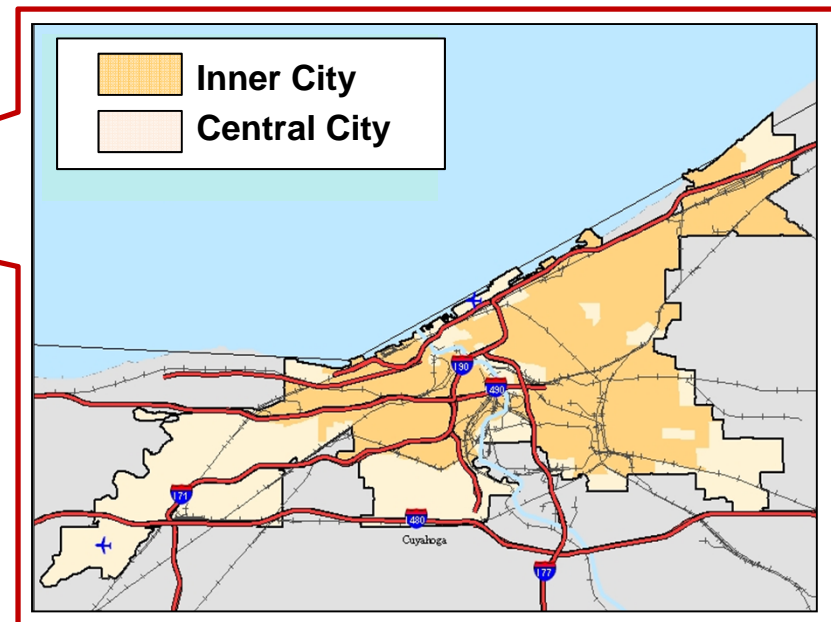
- Poverty rate 1.5 times or more than the MSA
- Median household income 50% or less than the MSA
- Unemployment rate 1.5 times or more than the MSA

ICIC has tracked the performance of inner cities in 100 of the largest U.S. Cities

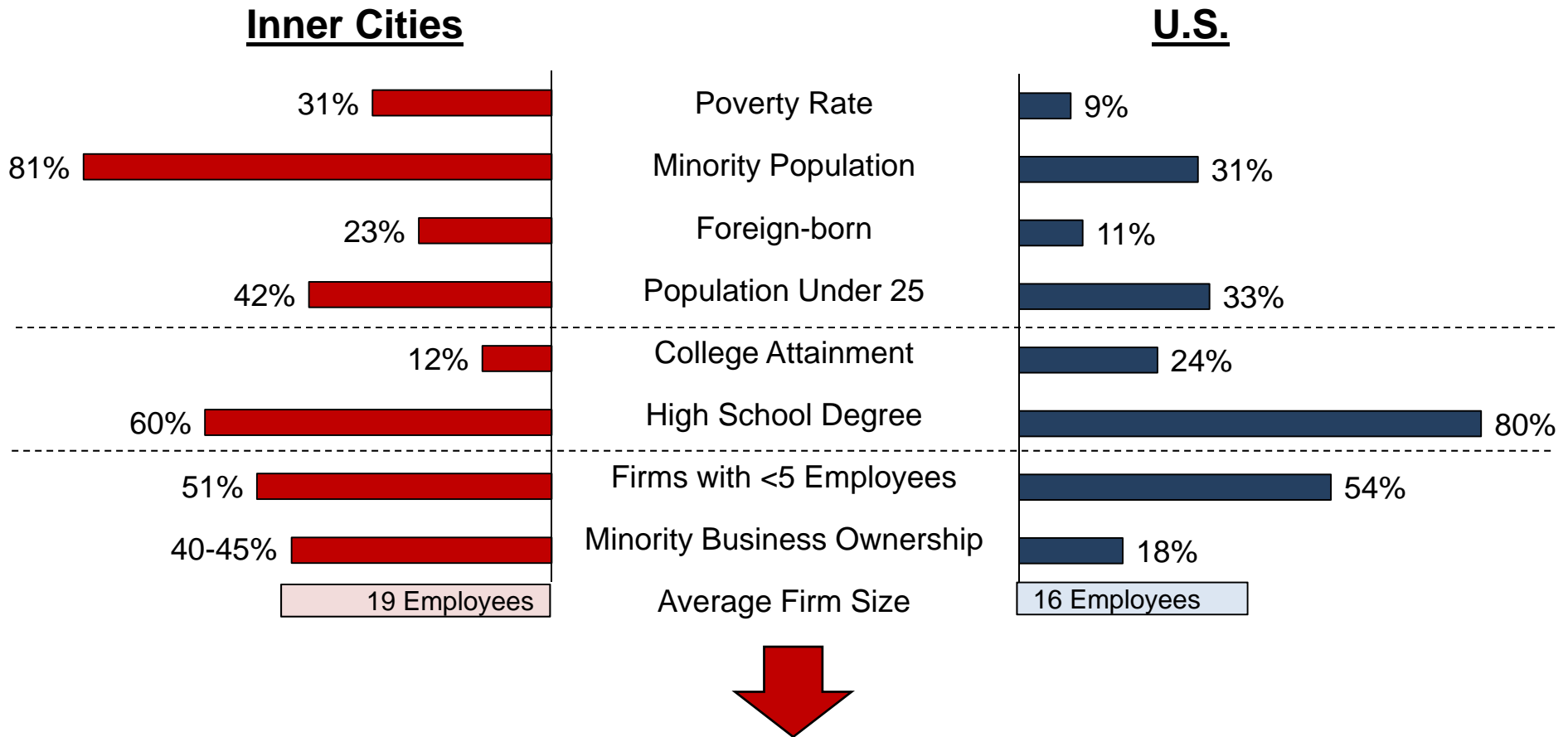
100 Largest U.S. Cities



Example: Cleveland, OH

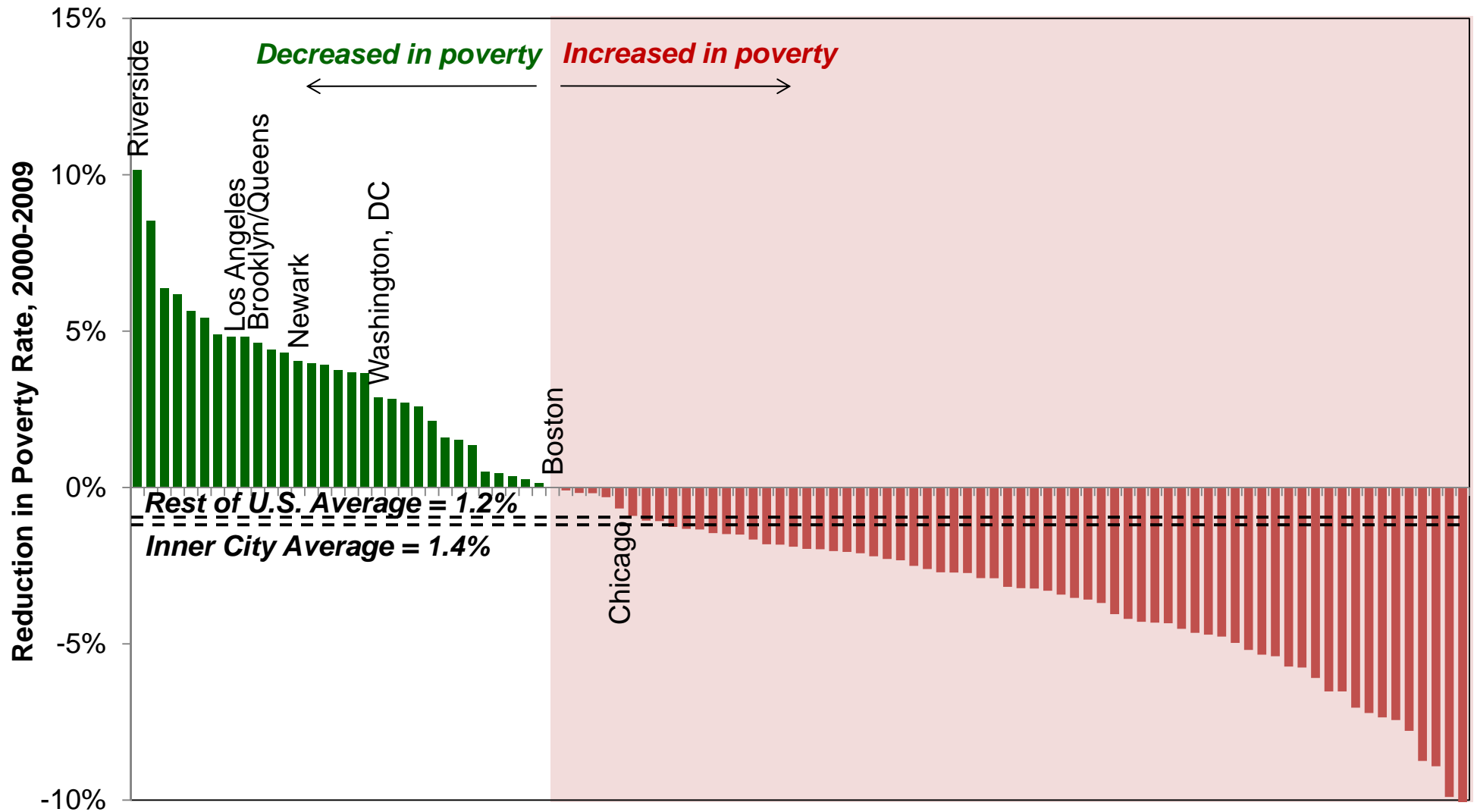


Inner Cities: Key Facts



- Inner cities have a **younger** and **more diverse** population than the rest of the U.S., and they are also important sites for **minority-owned businesses**

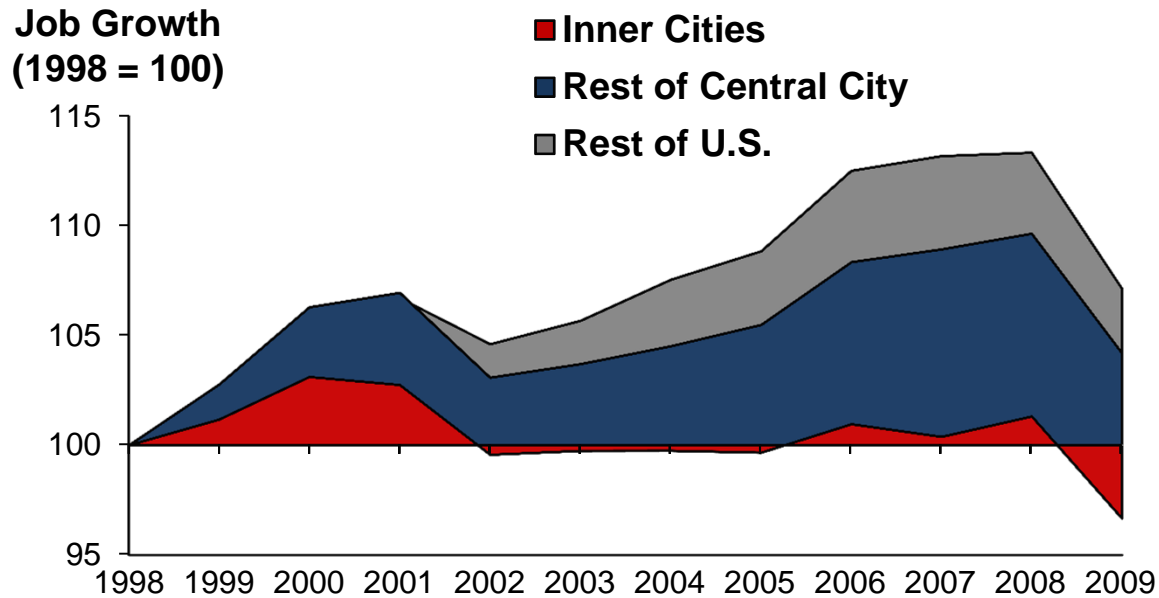
Progress on Poverty Rates in Inner Cities, 2000-2009



Note: In some inner cities, changes in poverty levels may be largely attributed to population migrations
 Source: State of the Inner City Economies (SICE) Database, American Community Survey 2005-2009; ICIC analysis

Inner Cities: Employment Growth

100 Largest Inner Cities vs. Rest of U.S. (1998-2009)



Net Job Growth 1998-2009			
	Number	Percentage	CAGR
Rest of U.S.	+5,900,000	7.2%	0.6%
Rest of Central City	+700,000	4.2%	0.4%
Inner City	-300,000	-3.3%	-0.3%



- Inner cities have experienced a **net job loss** over the past decade

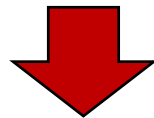
Why Inner City Jobs Matter

Inner City Residents Hold:

- 22% of jobs in the inner city
- 11% of jobs in rest of the central city
- 7% of jobs in the rest of the region

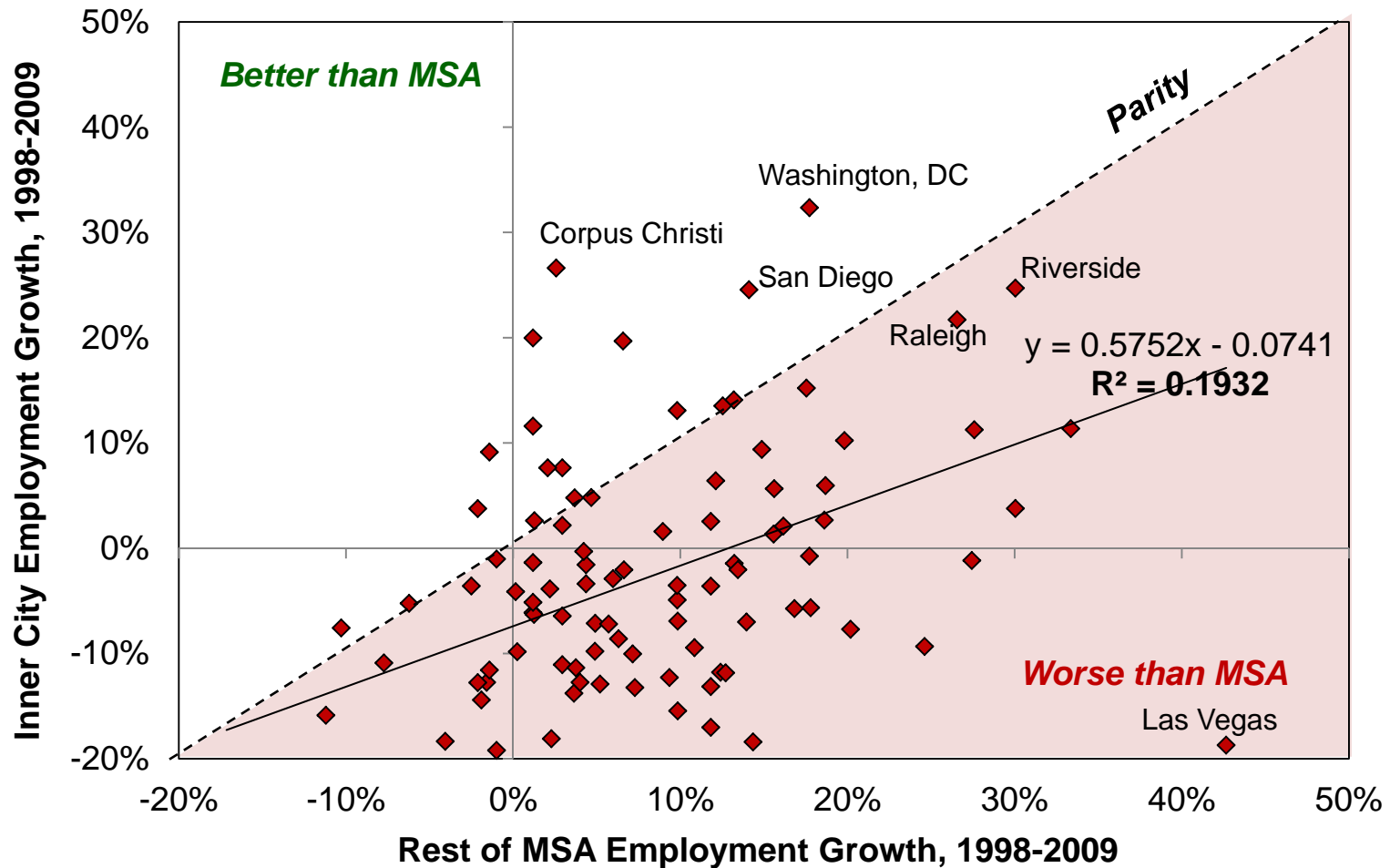
Creating 100 New Jobs for Inner City Residents Would Require:

- 450 inner city jobs
- 850 jobs in the rest of the central city
- 1,450 jobs in the rest of the region



- **“Jobs anywhere”** are not enough. Often inner city residents cannot access jobs in the rest of the region
- Inner city-based firms hire disproportionately more inner city residents

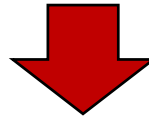
Employment Growth in Inner Cities: Growing Regional Employment is Not Enough



- The correlation between regional and inner city growth is **only 20%**
- Only **18 out of 100** inner cities outperformed the rest of their regions

Summary: Improving Inner City Economic Performance

- Inner cities have suffered a **net loss of jobs** over the past decade
- 82% of inner cities have **performed worse** than their regions
- The conventional growing regional jobs is helpful but **not sufficient**



- Inner cities require **specific strategies** for economic growth and job creation
- Inner city jobs strategies must **match the skills** of inner city residents

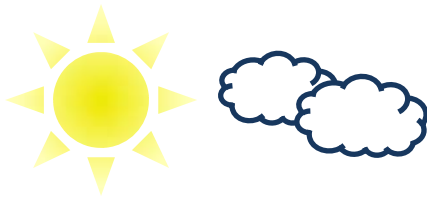


II. The Need for Cluster-based Approaches to Economic and Job Growth

Three Drivers of Competitiveness and Economic Performance

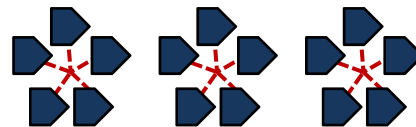
Business Environment

- Conditions for inputs, competitive dynamics, demand, and supporting industries that encourage growth
- Typical policies include investments in logistics, infrastructure, higher education systems, or corporate tax policy



Clusters: Groups of Related Firms

- Develop and upgrade geographically concentrated groups of interconnected companies and associated institutions in a particular field, e.g., biotech in MA or energy in Houston
- Typical policies include targeted workforce development, export promotion, and specialized infrastructure and research initiatives
- **New focus for economic development policy**

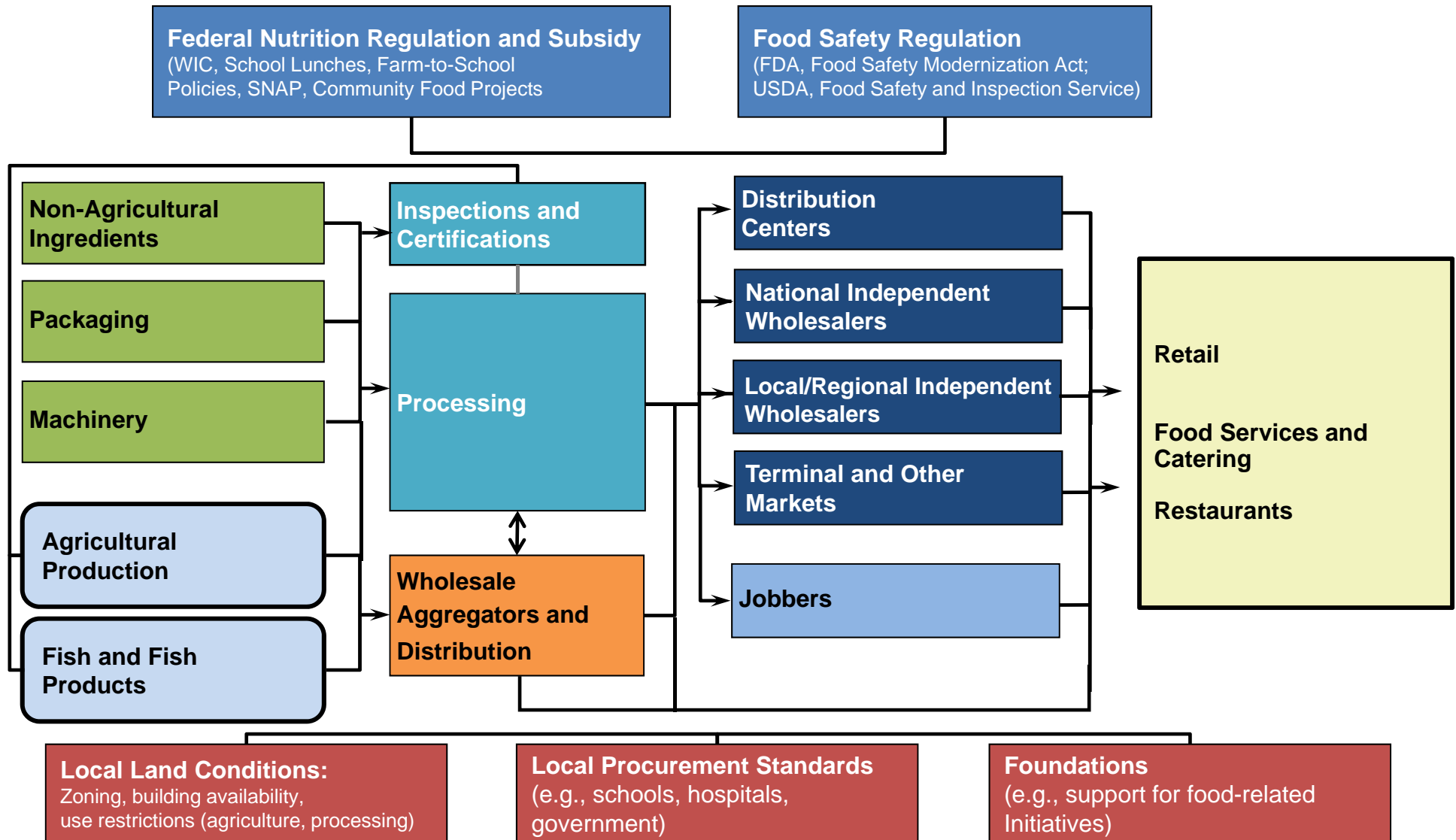


Individual Firms

- Assist individual firms in improving their competitiveness
- Typical policies include SBA loans, technical assistance through SBDCs, HUBZones, location incentives, and subsidies



What is a Cluster?: Example of the Food Cluster



Why Clusters Matter

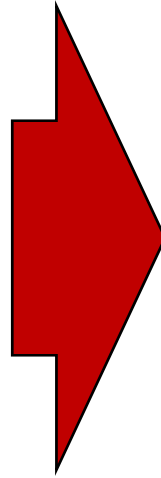
- Clusters increase productivity
 - **Efficient access** to specialized inputs, services, employees, information, institutions, training programs, and other “public goods”
- Clusters encourage new business formation
 - **Easier commercialization** of new products and greater opportunities for **starting new companies** due to available skills, suppliers, etc.



- Cluster policy **leverages policy investments** over numerous companies
 - Investments in training, information, export promotion, etc. will **benefit many companies across a range of industries**
- Cluster policies are **less distortive** than those aimed at individual firms or industries
- Cluster policy **does not pick firm** or cluster **winners**

Strong Clusters Drive Regional Economic Performance

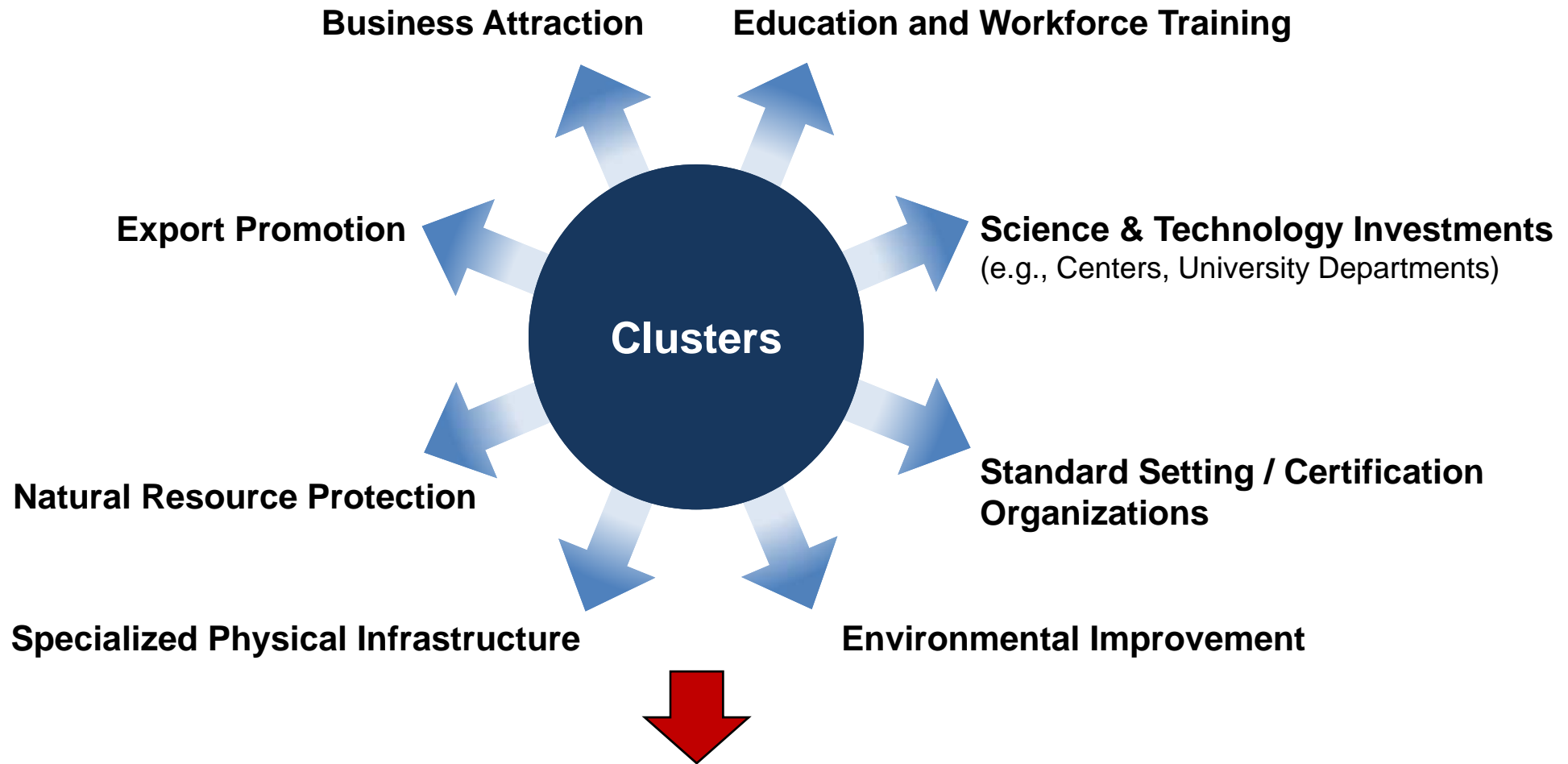
- Specialization in strong clusters
- Breadth of industries within each cluster
- Strength in related clusters
- Presence of a region's clusters in neighboring regions



- Faster job growth
- Higher wages
- Higher patenting rates
- Greater new business formation, growth and survival

- Build on **existing and emerging** clusters rather than chase hot fields
- Economic diversification usually occurs **within clusters** and **across related clusters**

Aligning Economic Policy and Clusters



- Clusters provide a framework for **organizing the implementation** of many public policies and public investments to achieve greater effectiveness

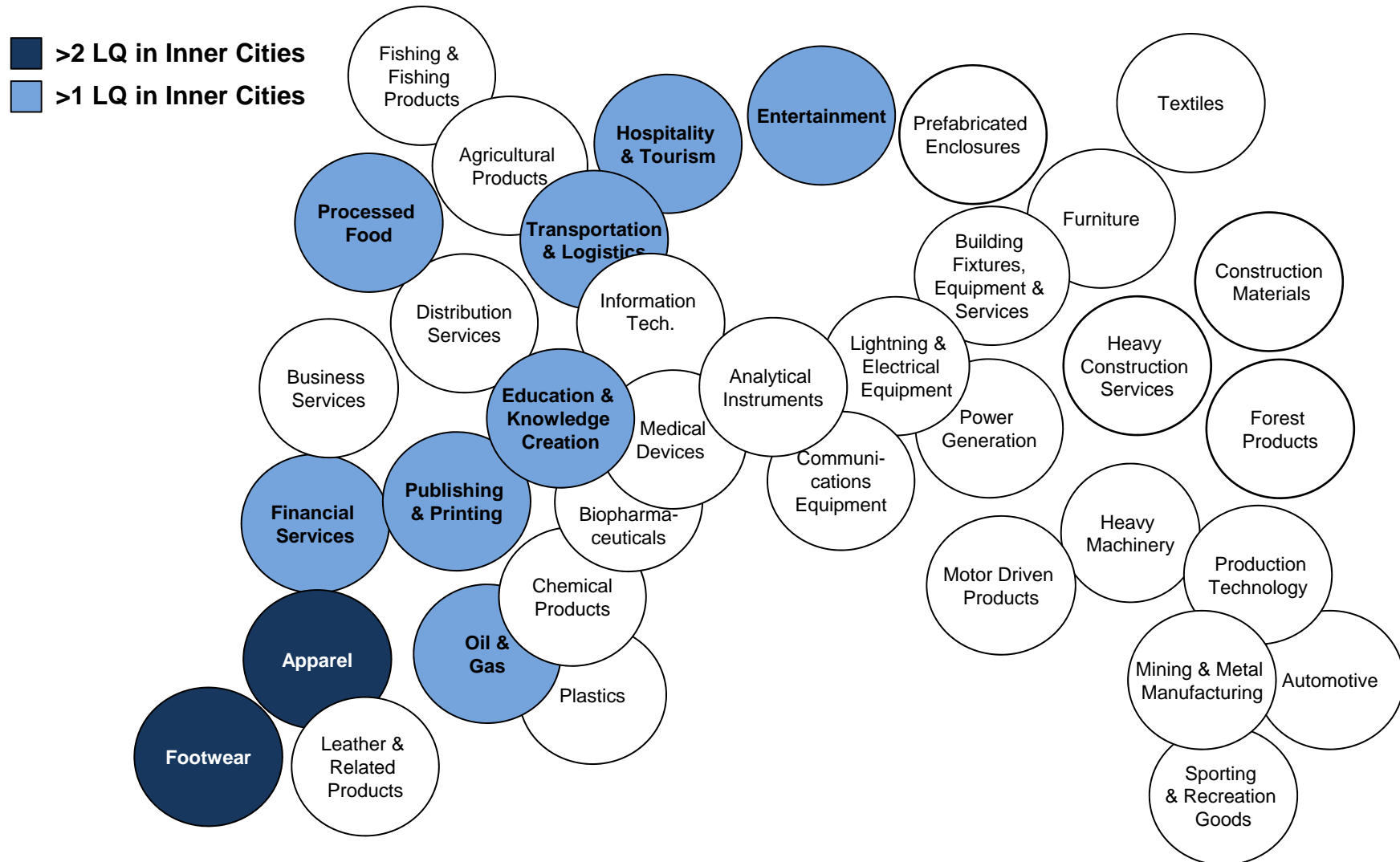


III. The Role of Cluster Strategies in Inner Cities

Types of Clusters

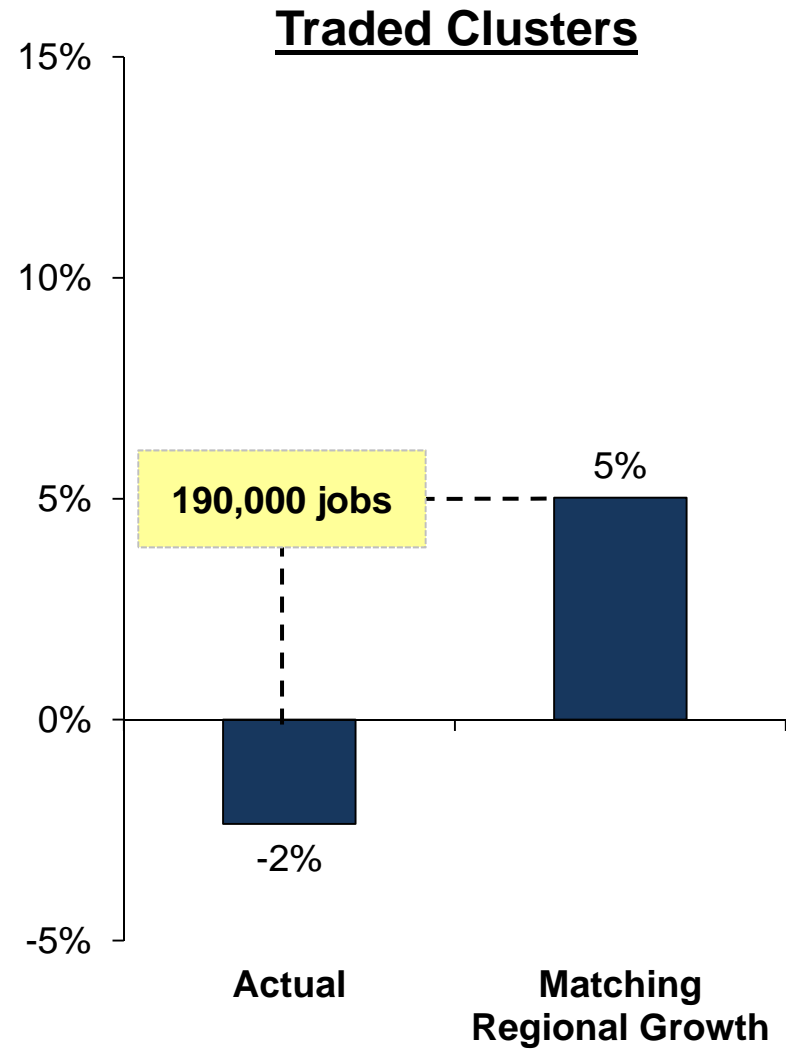
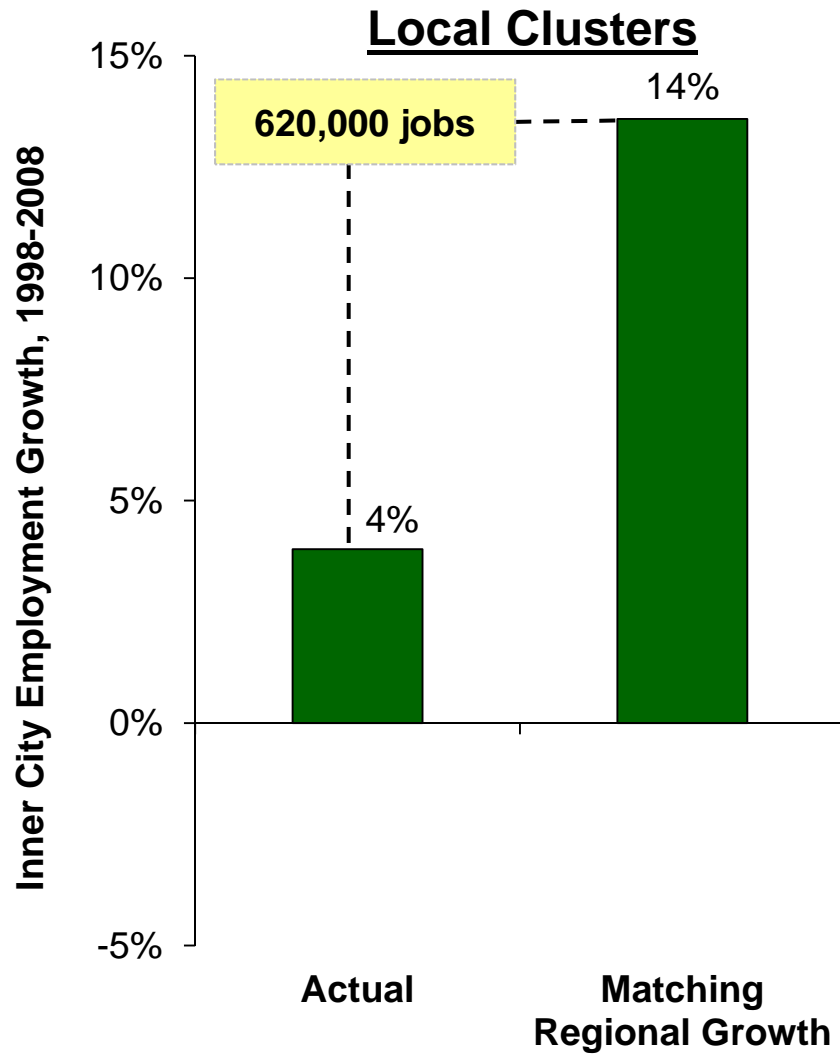
	Traded Clusters	Local Clusters
Definition	Compete to serve national and international markets	Serve almost exclusively the local market. Not directly exposed to cross-regional competition
Representative Clusters	<ul style="list-style-type: none"> – Life sciences – Transportation and logistics 	<ul style="list-style-type: none"> – Local health services – Local retail
	<ul style="list-style-type: none"> – High wage jobs – Higher productivity and innovation potential 	<ul style="list-style-type: none"> – Maximum job creation – Jobs that match resident skills
Relative Productivity	144.1	79.3
National Annual Wage (2009)	\$56,900	\$37,280
National Wage Growth (1998 – 2009)	9.8%	6.2%
Patents (per 10,000 employees)	23.0	0.4
Share of National Employment (2009)	27%	72%
Share of Inner City Employment (2009)	26%	74%
National Employment Growth (1998-2009)	-3.5%	+11.4%
Inner City Employment Growth (1998-2009)	-9.6%	+0.4%

Clusters in Inner Cities: Traded Clusters

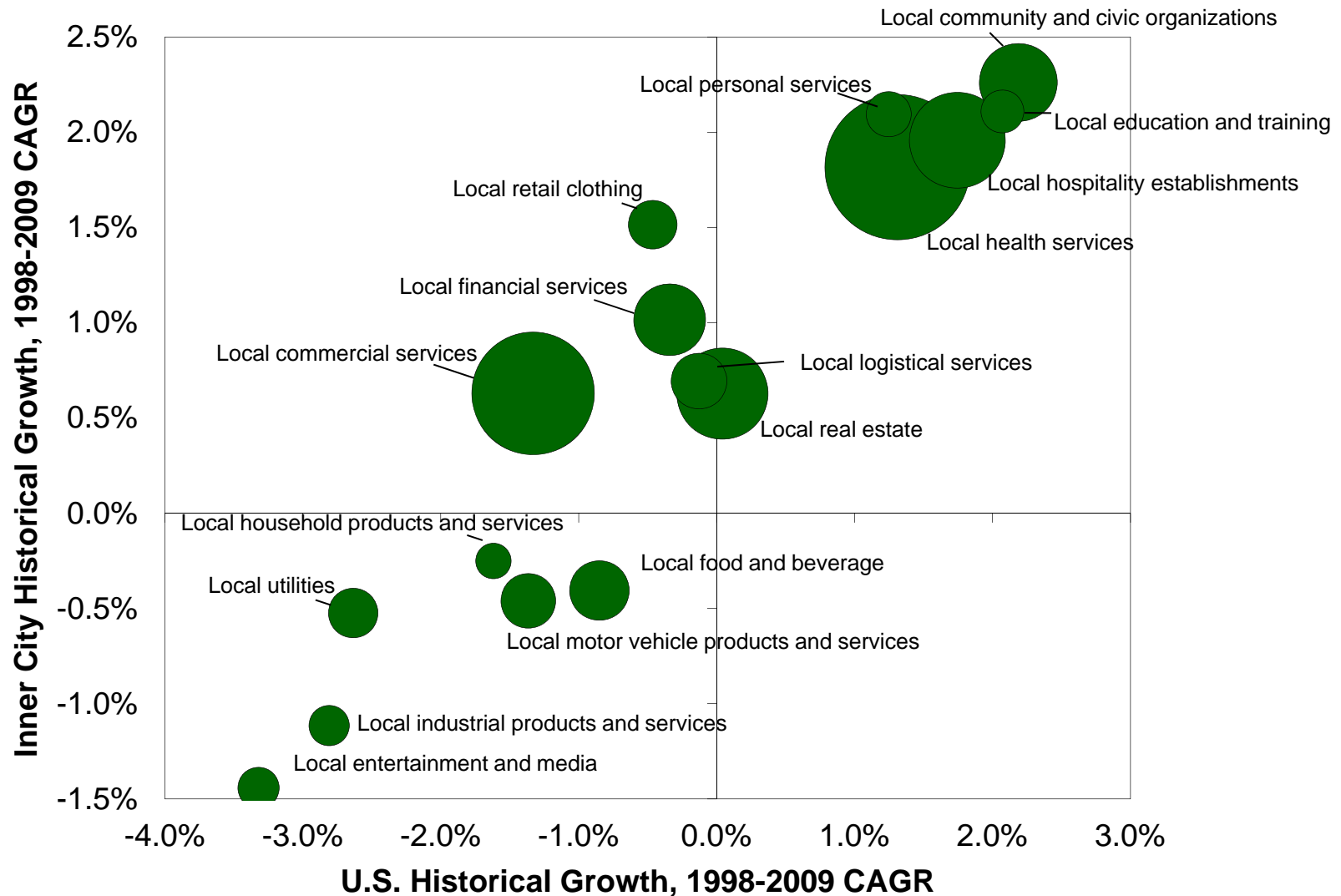


- Traded clusters are key for economic well-being, and we will continue to study them

The Importance of Local Clusters in Inner City Employment Growth



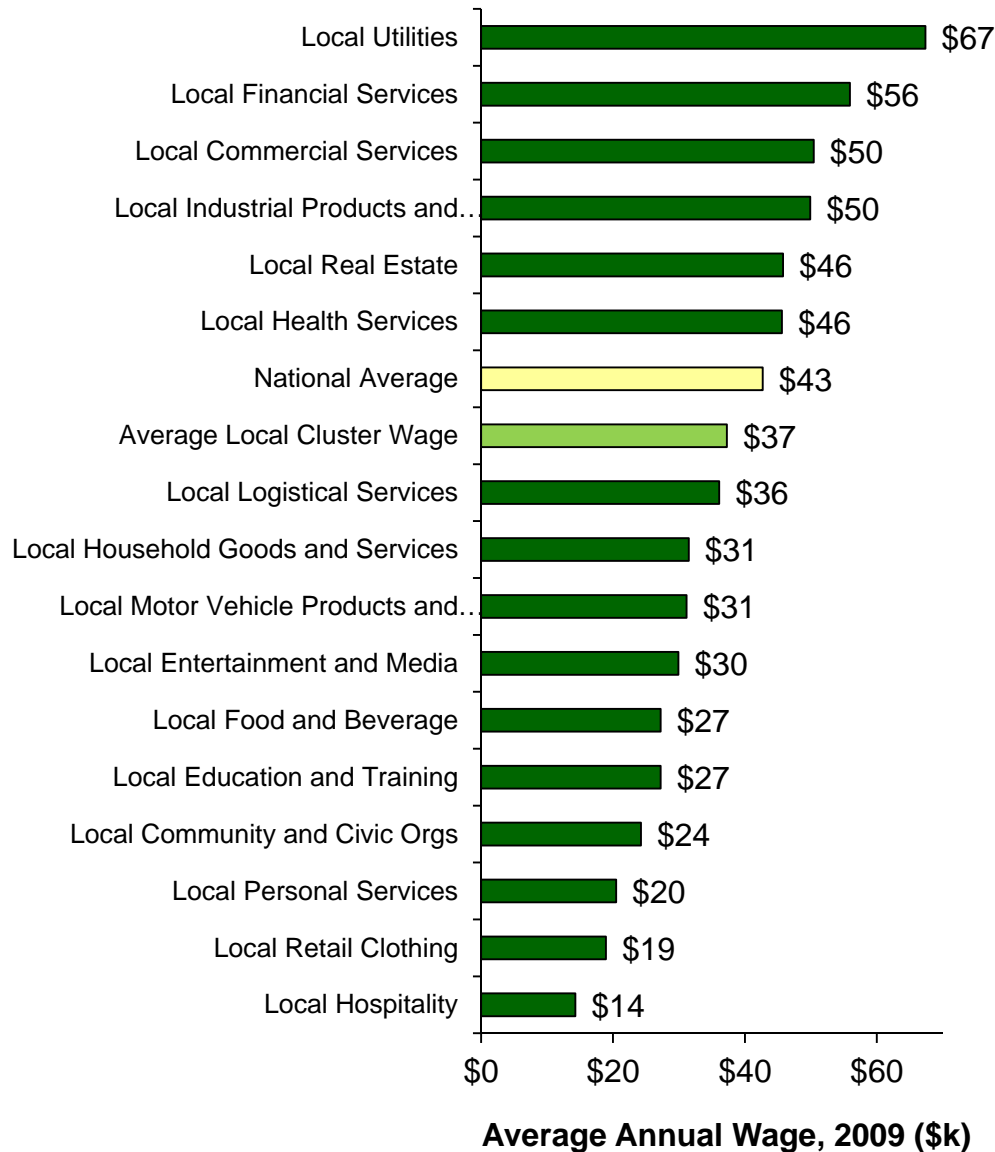
Clusters in Inner Cities: Local Clusters



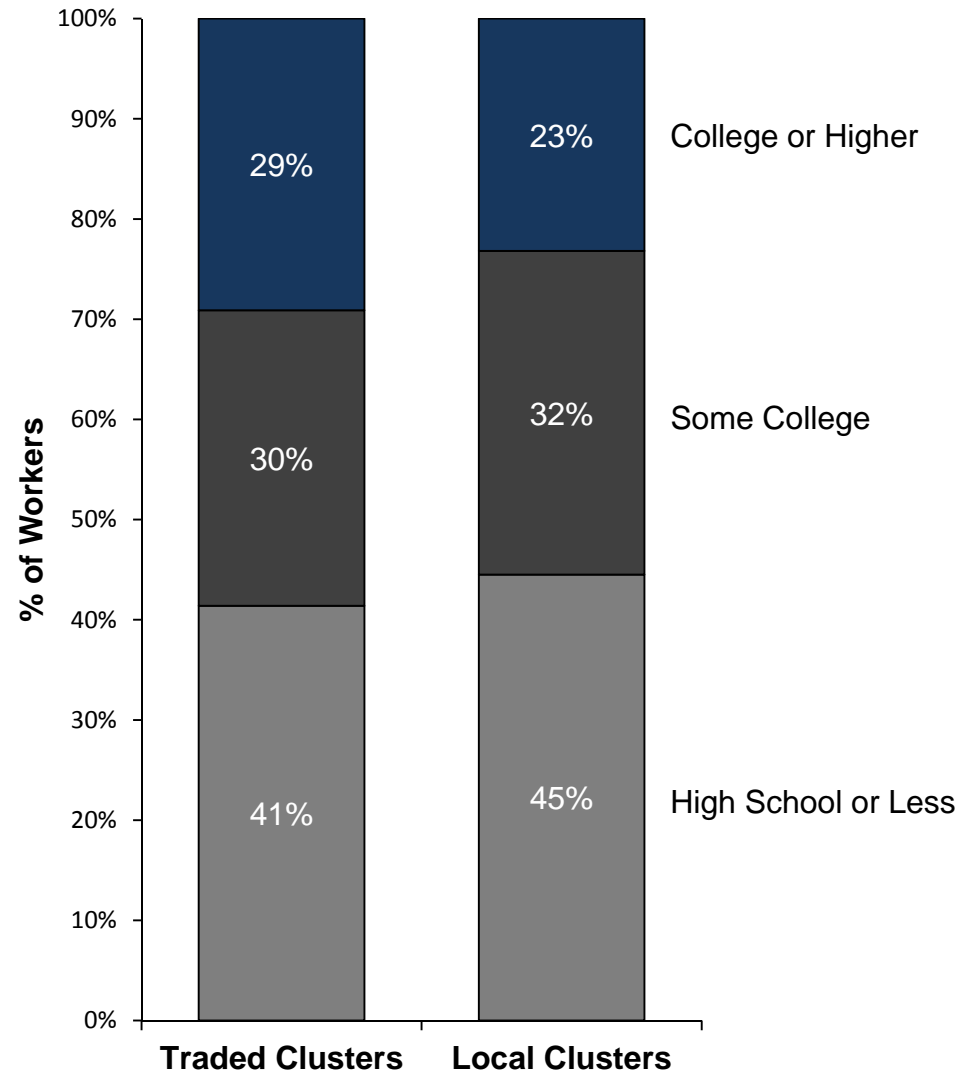
- Local clusters represent a wide range of activities serving businesses and communities

Local Cluster Job Accessibility

Local Cluster Average Wages



Educational Requirements by Cluster Type



Type of Local Clusters

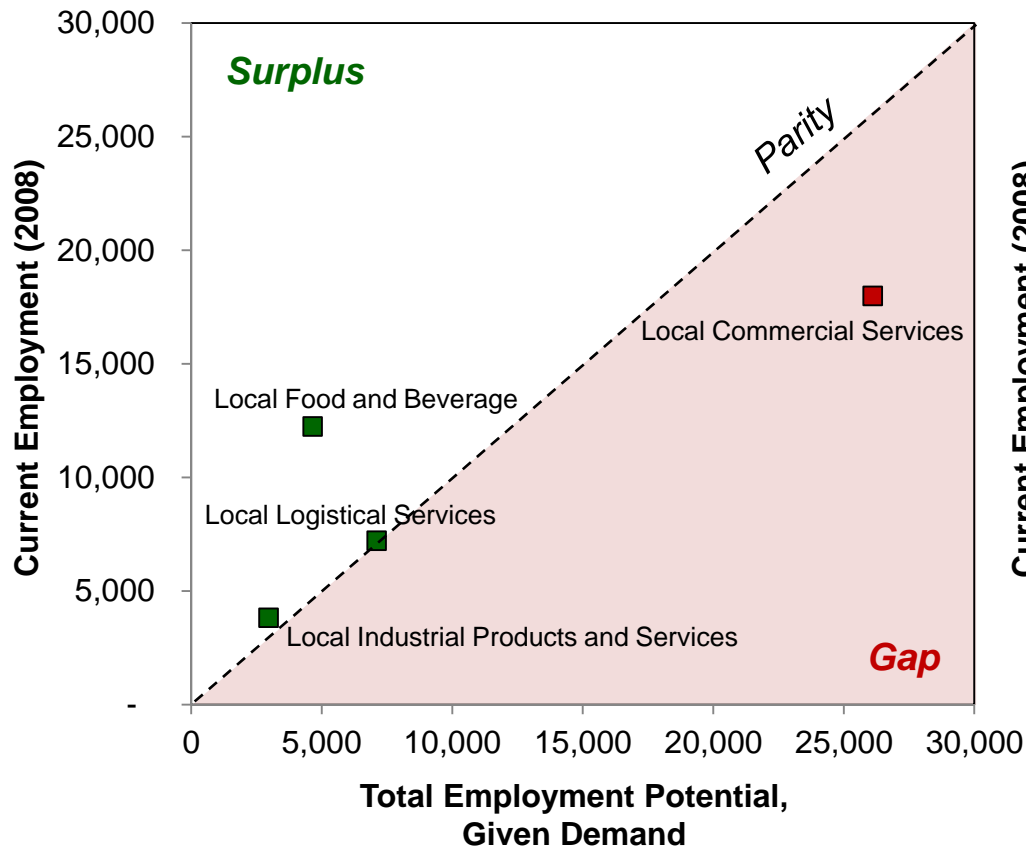
Local Clusters		
	Business-to-Consumer (B2C)	Business-to-Business (B2B) and Hybrid (B2B/B2C)
Definition	– Serves local consumers	– Serves both local consumers and local businesses
Representative Clusters	– Local health services – Local hospitality establishments	– Local commercial services – Local logistical services – Local utilities – Local real estate
	– Offers important entry-level jobs – Promotes availability of goods and services	– Offers middle-wage jobs – Strengthens business environment
Share of National Employment (2009)	40%	33%
Share of Inner City Employment (2009)	38%	35%
National Employment Growth (1998-2009)	+15.4%	+6.8%
Inner City Employment Growth (1998-2009)	+6.6%	-5.7%
National Average Annual Wage (2009)	\$33,000	\$43,000



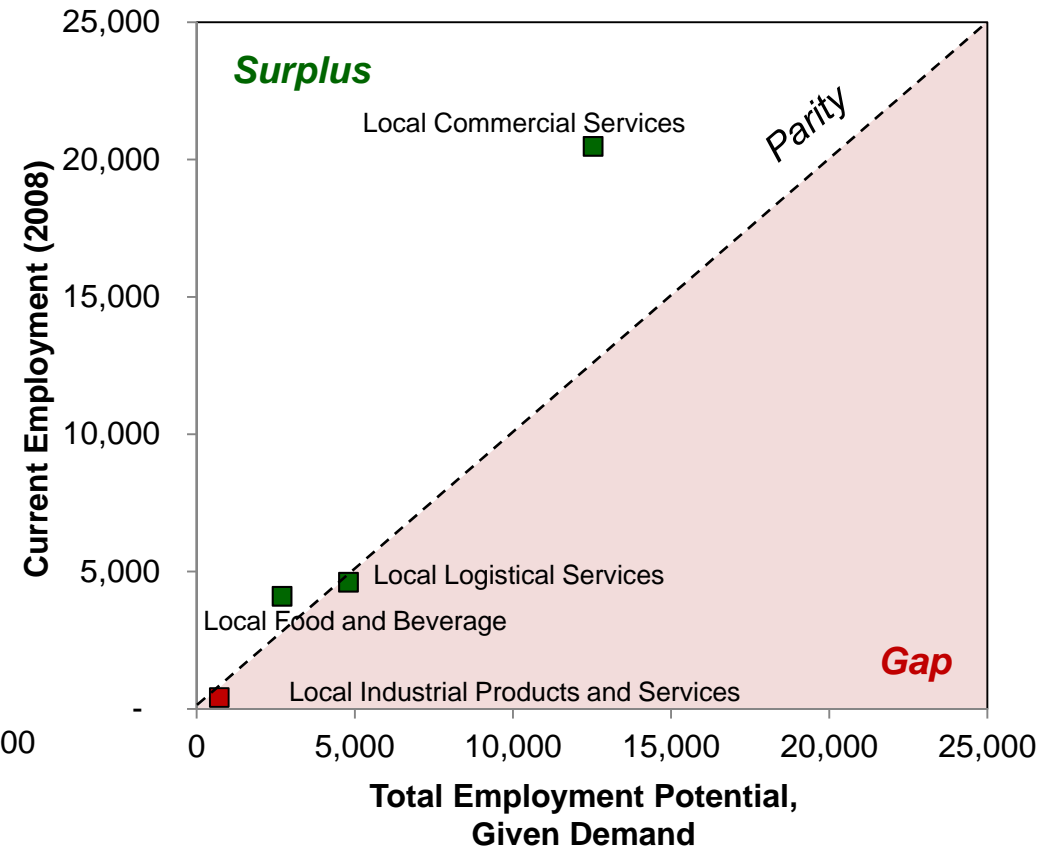
- When analyzing local clusters, it is important to distinguish between those that serve primarily **businesses** and those that serve primarily **consumers**

Local B2B Cluster Gap Analysis

Inner City Chicago, IL

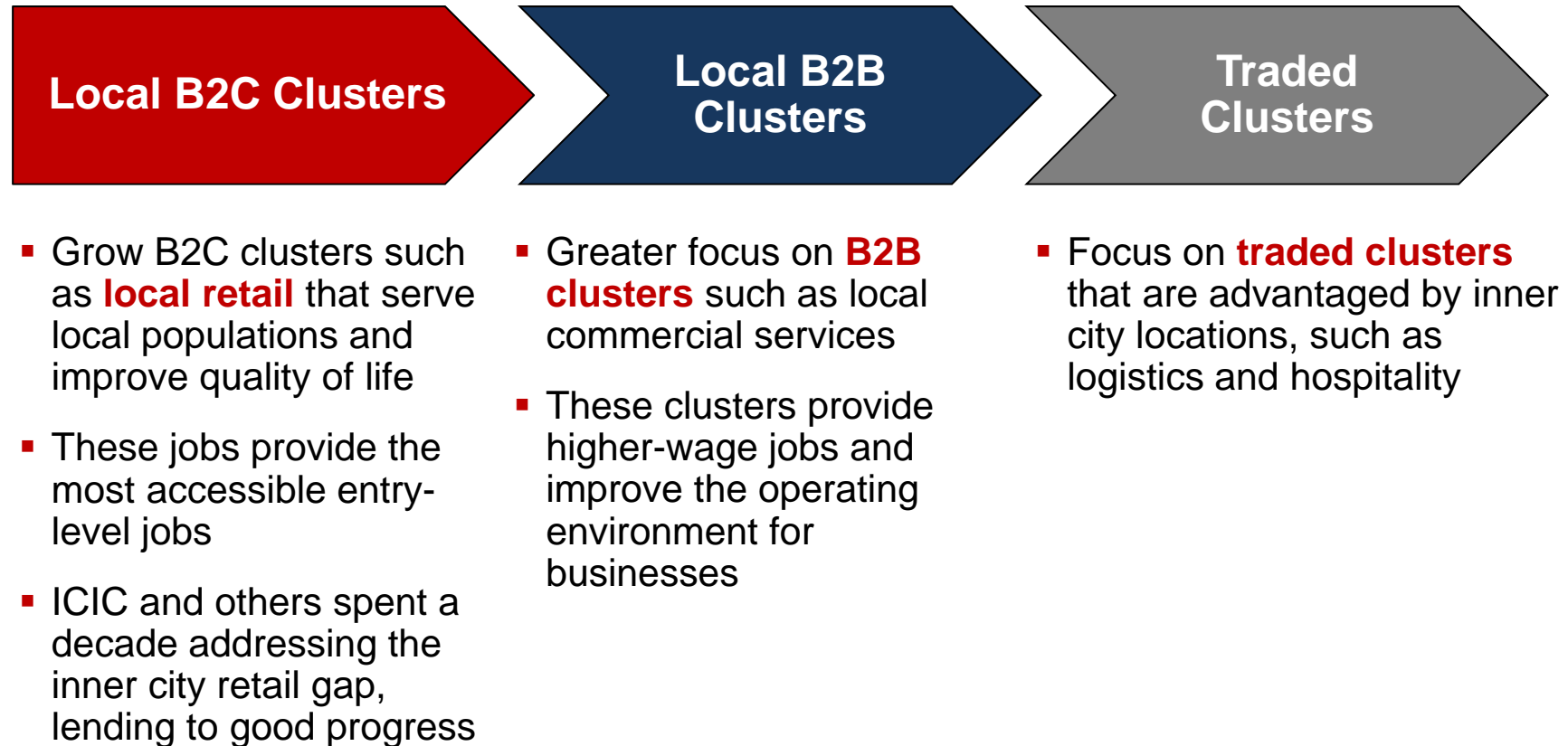


Inner City Boston, MA



- Each inner city has different cluster strengths and weaknesses
- ICIC is mapping B2B strengths and weaknesses for 100 inner cities nationwide

Evolution of Inner City Cluster Strategy



Every City Requires a Specific Urban Economic Development Strategy

Define the Value Proposition

- What is the **distinctive competitive position** of the geography given its location, legacy, existing strengths, and potential strengths?
 - What unique value as a business location?
 - For what types of activities and clusters?

Develop Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing** and **emerging clusters** represent local strengths?

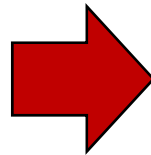
Achieve and Maintain Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

- Economic strategy requires **setting priorities** and **moving beyond** long lists of separate recommendations

Building an Economic Strategy: Evolving Thinking

Tactical (Zero Sum Competition)



Strategic (Positive Sum Competition)

- Focus on attracting **new** investments
- Compete for **every** plant/investment
- Offer **generalized** tax breaks
- Provide **subsidies** to lower / offset business costs
- Every city and sub-region **for itself**
- **Government** drives investment attraction

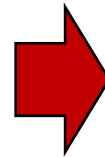
- Also support greater local investment by **existing** companies
- Reinforce areas of **specialization** and emerging cluster strength
- Provide state support for training, infrastructure, and institutions with **enduring benefits**
- Improve the **efficiency of doing business**
- Harness efficiencies and coordination **across jurisdictions**, especially with neighbors
- Government and the private sector **collaborate** to build cluster strength

Harnessing the New Process of Economic Development

- Competitiveness is the result of both **top-down** and **bottom-up processes** in which many companies and institutions take responsibility

Old Model

- **Government** drives economic development through policy decisions and incentives



New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations

Strengthening Inner Cities within Regional Frameworks

Business Environment	Clusters: Groups of Related Firms	Individual Firms
<ul style="list-style-type: none">▪ Work to improve business environment	<ul style="list-style-type: none">▪ Focus on inner city and regional cluster strengths▪ Include local clusters▪ Strengthen relationships between inner city firms and leading cluster actors	<ul style="list-style-type: none">▪ Create linkages with capital access and business development services