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# Research Highlights from the 2015 Inner City Economic Summit

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# Research Highlights from the 2015 Inner City Economic Summit

Detroit, Michigan, was the site of the 2015 Inner City Economic Summit. Entitled "Revisiting the Promise and Problems of Inner City Economic Development," the summit brought together researchers and practitioners from around the country who shared their knowledge and experience on how inner cities can grow and develop into vibrant areas where people want to live, work, and play. The summit grew from a special issue of *Economic Development Quarterly* (*EDQ*), a peer-reviewed journal based at the Upjohn Institute, and was cosponsored by the Institute, the Federal Reserve Bank of Chicago, the Initiative for a Competitive Inner City (ICIC), and Sage Publications. The conference included a day of touring inner city development initiatives and neighborhoods in Detroit and a day of research presentations. This article describes three of the research papers presented at the conference, which will be published in the special issue of *EDQ* in May 2016.

## Connecting Regional and Inner City Cluster Performance

First, in their paper titled "Clusters and Regional Performance: Implications for the Inner City," Mercedes Delgado and Kim Zeuli evaluate Michael Porter's premise that inner city job creation could be facilitated by strengthening the connection between the inner city and its regional clusters (Porter 1997). Inner city policy prescriptions for job creation typically focus on incentives to attract businesses to certain neighborhoods, but Porter argues that integrating inner cities into the cluster composition of their regions is a more effective job creation strategy. Prior research finds that a strong regional cluster increases employment and innovation growth as well as start-up activity within the cluster (Delgado, Porter, and Stern 2010, 2014).

Delgado and Zeuli's research measures cluster specialization at different levels of geography within an urban region: the inner city, the surrounding central city (outside the inner city), and the rest of the region (i.e., the metropolitan statistical area [MSA] outside the central city). The authors hypothesize that inner city industries, and hence job creation, will grow faster if surrounded by a strong cluster of related industries in the inner city. This effect will be more pronounced if the same cluster is also strong in the central city and MSA.

The research adopts the inner city definition established by ICIC and cluster definitions developed by the U.S. Cluster Mapping Project (see www.clustermapping.us). Based on the federal government's empowerment zone criteria for designated areas of high poverty and unemployment set forth in 1993, ICIC defines an inner city as a set of contiguous census tracts in a

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central city that have higher poverty and unemployment rates than the surrounding region and, in aggregate, represent at least 5 percent of a central city's population. ICIC identifies 328 inner cities belonging to 328 central cities and 188 MSAs.

Delgado and Zeuli's findings suggest that inner cities offer some locational advantages for industries within certain clusters, although the strength of the clusters varies. For example, the Performing Arts cluster is overrepresented in the inner city relative to the other clusters. Figure 1 illustrates whether particular inner city clusters are specialized in the same cluster as their respective central cities and MSAs.

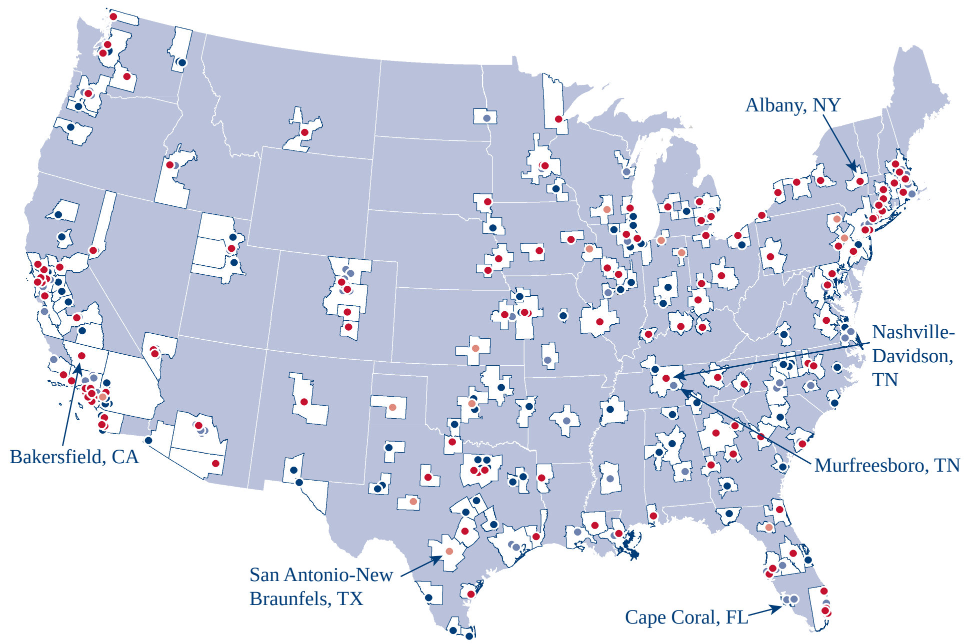
The findings offer several important policy implications for inner city development. First, to be effective, inner city job creation strategies should focus on clusters that are strong not just in the inner city, but also in the central city and the MSA. By doing so, they will leverage competitive advantages present within a region, which is necessary to create sustained growth but too frequently overlooked. Without a deeper understanding of regional, city, and inner city economic relationships, and without linking job creation strategies to strong clusters, the authors suggest that policies such as empowerment zones will be less effective, especially in areas where cluster linkages between the inner city and the rest of the region are broken.

**To be effective, inner city job creation strategies should focus on clusters that are strong not just in the inner city, but also in the central city and the MSA.**

## The Resurgence of America's Inner Cities

The next paper discussed at the summit, "Are America's Inner Cities Competitive Again?," by T. William Lester, Daniel Hartley, and Nikhil Kaza, uses new data from the Census Local Origin-Destination Employment Statistics to analyze employment and growth trends in the inner city in 2002–2011.

**Figure 1 Inner Cities Vary in their Connectivity to Regional Clusters: Performing Arts (40% of ICs are connected to strong regional clusters)**




- Cluster is strong in inner city and central city or MSA: 130
- Cluster is strong in inner city and weak in central city and MSA: 13
- Cluster is weak in inner city and strong in central city or MSA: 90
- Cluster is weak in the region (inner city, central city, and MSA): 95

SOURCE: Delgado and Zeuli (2015)

The authors employ a broad and unique definition of the inner city: the census tracts outside of the central business district in the largest principle city in an MSA.

In the conference presentation, Lester placed the authors' research in the context of the 1990s, when academics and policymakers were increasingly concerned with the dramatic decline of many inner cities. Significant job losses during the 1970s through the 1990s were considered to be one of the primary causes of inner city decay. For example, from 1975 to 1991, the city of Chicago lost 45 percent of its manufacturing jobs. In contrast, today many cities have thriving downtown areas, attracting a new wave of residents. As Lester noted in his presentation, these neighborhoods have evolved from "spaces of production to spaces of consumption."

The authors find significant employment growth in inner cities between 2002 and 2011. In addition, a significant number of metros have "competitive" inner cities, which are defined as having an increasing share of metro jobs in growing MSAs. Their research suggests a few key drivers of growth that include the presence of hospitals/health care facilities and universities, as well as indicators of gentrification. High-poverty areas still constrain employment growth across census tracts. As Lester told the audience, "These findings suggest the ongoing need for targeting economic development to areas of highest need."

## Barriers to Creating Inner City Economic Opportunity

In the final paper we discuss, Timothy Bates and Alicia Robb focus on the impact of race and the neighborhood context on small business owners' access to bank loans. The literature has revealed difficulties in accessing capital by businesses in inner cities and minority neighborhoods. This problem is perhaps one of the reasons why the business-centered inner city economic development strategy proposed by Michael Porter has not always worked well. Existing studies, however, have not effectively answered the question of whether redlining or racial discrimination leads to the small business financing problem in inner cities and minority neighborhoods.

Using Kauffman Firm Survey data and logistic regression analysis, Bates and Robb examine various factors associated with the probability of being discouraged borrowers (defined as business owners who are in need of bank loans but do not apply in fear of being rejected). The results of some of these factors are shown in Table 1. All else equal, being located in minority neighborhoods (or inner cities) does not significantly increase the chance of being discouraged borrowers. However, black and Latino business owners are significantly more likely to be discouraged borrowers, regardless of the neighborhood context. Therefore, the results support the racial discrimination thesis rather than redlining. This finding is consistent with a rigorous audit study (Bone, Christensen, and Williams 2014). As shown in Table 2, minority borrowers face more scrutiny and receive less assistance when applying for bank loans than their white counterparts.

From a policy perspective, Bates and Robb suggest that it is important to enforce the Equal Opportunity Credit Act, which prohibits racial discrimination in banking. They also discuss the much-needed efforts to encourage minority business owners to complete loan applications despite being discouraged. The research presented by Bates provided context for programs such as those run by Cleveland-based JumpStart, whose CEO, Ray Leach, also participated in this panel. JumpStart is a nonprofit that engages in "venture development": venture investment combined with mission-based economic development in northeast Ohio.

**Table 1 Delineating Discouraged Borrowers from Others: Logistic Regression Results**

| Variable | Coefficient |
|---|---|
| Minority neighborhood | 0.204 |
| Black business owner | 1.271* |
| Latino business owner | 0.824* |
| Owner wealth: high | −0.929* |
| Credit rating: high | −0.826* |
| Household poverty rate | −0.035* |

NOTES: Log likelihood significance level (0.000); * statistically significant at the 0.05 level.
SOURCE: Bates and Robb (2015).

In 2015, JumpStart launched Growth Opportunity Partners, a coaching and lending program aimed at small businesses that have been unable to secure capital from traditional sources. In his presentation, Leach emphasized that the program is not a lender of last resort and that the recipient businesses must meet stringent standards. Given Bates and Robb's findings, more programs such as these may be needed to ensure that all credit-worthy small businesses are able to access the capital to create jobs in inner cities.

### Final Thoughts

These research papers offer compelling new evidence regarding the state of inner cities in America and point to tangible policy prescriptions that would help foster greater and more equitable economic growth in the country's distressed urban areas. The forthcoming special issue of *EDQ* will include a synthesis of the robust discussion generated by all of the presentations at the Inner City Economic Summit. Clearly, there is still much to learn about how to ignite inner city economic development, but the summit provided a solid foundation on which to develop future research.

**Table 2 Audit Study: Racial Differences in Loan Applicant Treatment by Bankers (%)**

| | White business owners | Minority business owners |
|---|---|---|
| Applicant information requested | | |
| Income tax returns | 50.0 | 82.8 |
| Financial statements | 52.4 | 86.2 |
| Assistance offered | | |
| Offered a business card | 81.8 | 42.9 |
| Help completing loan application | 59.1 | 18.8 |

SOURCE: Bone, Christensen, and Williams (2014).

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