INNER CITY **INSIGHTS**

THE PROMISE OF LOCAL CLUSTERS

INTRODUCTION Never has the imperative for inner city job creation been more compelling. Inner cities are home to 22 million people—8% of the U.S. population and about equal in population to the state of Texas. Yet inner cities also host 19% of the country's poverty and some 31% of minority poverty. The economic booms of the late 1980s and late 1990s contributed almost nothing to wage growth for middle- and lower-income employees; now a brutal recession has decimated job opportunities for less-educated workers. With the national unemployment rate just under 10%, and with a significantly higher inner city unemployment rate, our inner cities need and deserve economic development strategies that are broad-based and inclusive. **[continued]**

From 1998 to 2006, America's one hundred largest cities created 1.4 million new jobs. But even during this relatively prosperous time, their corresponding inner cities added just 10,000 jobs. If job creation in the inner cities had merely kept pace with regional growth, some 655,000 new jobs would have been created, boosting the inner city employment base by about 7%. By 2007, the economy was beginning to falter, and inner cities lost 50,000 jobs even as greater metropolitan areas continued to grow.

Employment can be roughly divided between two types of "clusters," or groups of inter-related companies and industries in a particular geography. Traded clusters, or those groups of businesses and industries that do business nationally and even globally, are often associated with high levels of innovation and are the focus of much economic development effort. Local clusters, as their name implies, produce goods and services that are primarily sold within a single metropolitan statistical area, or region. Local clusters already provide 6.4 million inner city jobs, or more than twice as many inner city jobs as traded clusters.

Recent research by the Initiative for a Competitive Inner City shows that the real promise for inner city job growth lies in local clusters. There's tremendous potential, particularly, in local clusters that are business-to-business and production-based (such as Commercial Services; Real Estate, Construction and Development; Logistical Services; and Industrial Products and Services), rather than strictly consumer-focused. Firms in these business-to-business clusters are well positioned to become crucial partners for corporate clients throughout their regions. Firms in these clusters are also ideally positioned to capitalize upon the advantages of their inner city locations, such as such as easy access to transportation hubs, a large and underemployed workforce, and proximity to downtown business districts.

For inner cities' local clusters to propel meaningful job growth, they need a development plan that targets inner cities specifically. Regional growth does not necessarily do much for inner cities. On average, even a 10% increase in regional job creation is accompanied by only a 3.8% increase in inner city job growth, and regional growth has less of an effect on local clusters than it does on traded clusters. This ensures that for inner cities, even a successful regional development plan is bound to disappoint. But a regional strategy that targets inner cities' local clusters head-on, and aims to fully realize their potential, holds tre-

mendous promise. It will enable cities to create jobs where they are most needed by leveraging resources in their own backyards.

This paper is the first in a series drawn from ICIC research projects examining local clusters. Future papers will focus on particular local clusters in select inner cities, and will identify effective private sector and public policy initiatives to support local clusters in inner cities.

The promise of local clusters

The most striking attribute of local clusters is their size. Together, these often-overlooked companies employ more than 85 million people and account for 70% of national employment, a number that is expected to grow in the next decade. The largest local cluster, Health Services, includes doctors, hospitals, drug stores and medical labs, and employs 15.5 million people. On average, each local cluster employs 5.4 million people—nearly as many as work in the largest traded cluster. Nine of the ten largest clusters are local.

LOCAL CLUSTER EMPLOYMENT, 2007

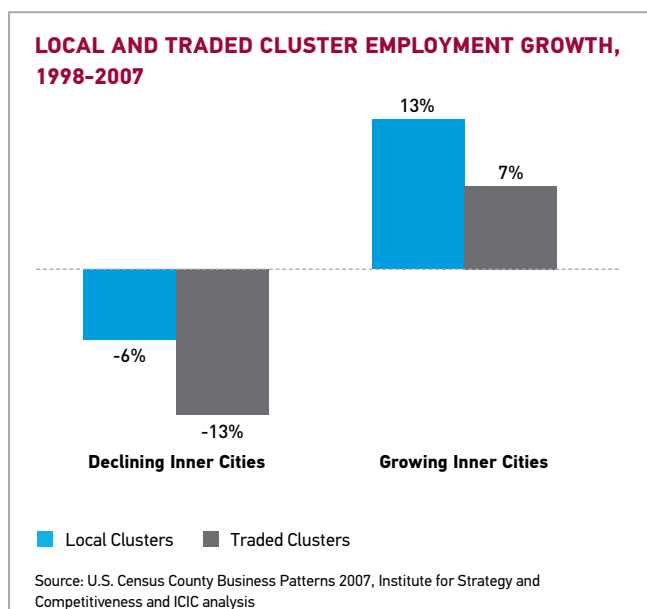| Cluster	U.S. Employment
Health Services	15,454,000
Commercial Services	14,254,000
Hospitality Establishments	10,752,000
Real Estate, Construction and Development	10,536,000
Retail Clothing and Accessories	4,677,000
Motor Vehicle Products and Services	4,272,000
Financial Services	4,237,000
Food and Beverage Processing and Distribution	4,106,000
Community and Civic Organizations	4,017,000
Logistical Services	2,780,000
Personal Services (Non-Medical)	2,638,000
Household Goods and Services	2,120,000
Entertainment and Media	2,106,000
Industrial Products and Services	1,539,000
Utilities	1,464,000
Education and Training	1,362,000
Education and Training	1,362,000

Source: U.S. Census County Business Patterns 2007 and Institute for Strategy and Competitiveness

Local clusters not only produce the lion's share of jobs, but they generate jobs that inner city workers have a fair shot at landing and succeeding in. Only 12% of inner city residents are college graduates, and only 60% have high school diplomas, compared to 25% and 82% nationally.

But for many local cluster jobs, a motivated candidate can get in the door with just a high school education. Only 23% of local cluster jobs require a college degree, compared to 29% of jobs in traded clusters. Some 45% of local cluster jobs require only a high school diploma, compared to 41% of traded cluster jobs. Instead, on-the-job training is the most important requirement for nearly two-thirds of local cluster jobs, making these jobs accessible to an inner city population with modest educational credentials.

Even without stringent educational requirements, local clusters can offer attractive wages. On average, a local cluster job pays $36,300 a year, which is admittedly much less than the average traded cluster salary of $53,700. But the overall numbers for local-cluster jobs include three areas—Retail Clothing and Services, Personal Services, and Hospitality Establishments—that pay poorly and employ many part-timers. Excluding these three clusters, local cluster jobs pay an average of $40,000 a year, comparable to average U.S. private sector wages.

Despite traded clusters' more glamorous image, local clusters have a better track record of inner city employment growth. In the 49 inner cities that gained jobs between 1998 and 2007, local cluster employment grew by 13% while traded cluster employment rose just 7%. In inner cities where the employment base shrank, local clusters suffered less, losing 6% of jobs compared to a 13% loss for traded clusters. On average, local clusters grew 2%, compared to traded clusters' 4% decline.

LOCAL AND TRADED CLUSTER EMPLOYMENT GROWTH, 1998–2007

Source: U.S. Census County Business Patterns 2007, Institute for Strategy and Competitiveness and ICIC analysis

Based on U.S. Bureau of Labor Statistics projections, we expect 800,000 additional inner city jobs to be created in local clusters.

Local clusters may also provide more opportunities for entrepreneurship than traded clusters. The average local cluster firm in an inner city employs 18 people, compared to 26 employees at firms in traded clusters. Traded clusters also have a higher concentration of firms with more than 100 employees, an indication these firms are more likely to require large capital investments to be successful.

Local clusters that serve businesses are among the most promising candidates for job growth. These include Local Logistical Services (including trucking, waste collection, and passenger transportation), and Industrial Products and Services (machine shops and equipment rental and repair). Rather than drawing business only from the immediate neighborhood, these businesses often have a regional customer base, providing a buffer against consumers who are struggling or simply refusing to spend. The raw materials needed for these businesses to succeed—entrepreneurs, basic manufacturing and transportation infrastructure, and local and regional demand—are likely to be found in every inner city.
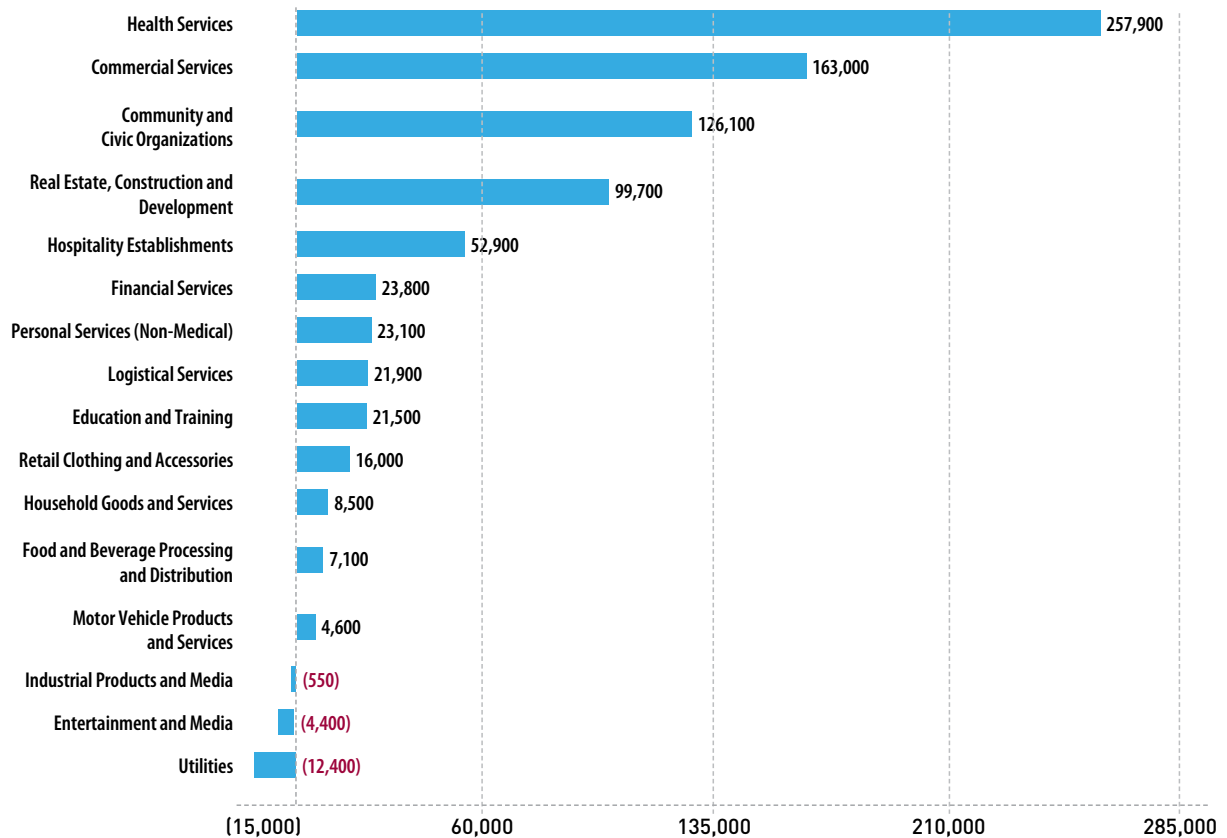
Strengthening local clusters in the inner city

Upcoming research from ICIC will help identify strategies most appropriate to particular clusters and cities. In the meantime, here are some initial thoughts on three strategies for selecting promising local clusters with significant business-to-business components.

Business-to-business clusters include Commercial Sevices, Food and Beverage Processing and Distribution, Logistical Services, Education and Training, and Industrial Products and Services. Together, these clusters represent 1.9 million inner city jobs and about 95,000 inner city firms. Clusters that service both businesses and consumers include Real Estate Construction and Development, Community and Civic Organizations, and Utilities. These clusters provide 1.3 million inner city jobs and represent about 90,000 inner city companies.

Build on inner city strengths. There a number of clusters that, leveraging their inner city locations, have already become reasonably strong in inner cities. The Bureau of

LOCAL AND TRADED CLUSTER EMPLOYMENT GROWTH, 1998–2007

Cluster	Growth
Health Services	257,900
Commercial Services	163,000
Community and Civic Organizations	126,100
Real Estate, Construction and Development	99,700
Hospitality Establishments	52,900
Financial Services	23,800
Personal Services (Non-Medical)	23,100
Logistical Services	21,900
Education and Training	21,500
Retail Clothing and Accessories	16,000
Household Goods and Services	8,500
Food and Beverage Processing and Distribution	7,100
Motor Vehicle Products and Services	4,600
Industrial Products and Media	(550)
Entertainment and Media	(4,400)
Utilities	(12,400)

(15,000)   60,000   135,000   210,000   285,000

Source: U.S. Bureau of Labor Statistics 2008–2018 and ICIC analysis

Labor Statistics has made projections of growth by cluster, giving a hint as to which clusters may be able to continue to do this. Based on these national projections, some clusters, such as Commercial Services and Health Services, are expected to create far more inner city jobs than others, making them attractive candidates for development.

For many cities, Commercial Services, as a business-to-business cluster that can easily reach across an entire region, may hold the most potential. Nationally, some 14 million people—1.2 million of them in inner cities—work in Commercial Services, making the cluster second only to Health Services in size. A look at the composition of the Commercial Services cluster makes it immediately obvious that this cluster is well-poised to benefit from inner cities' proximity to downtown business districts. Among its sub-cluster groupings are Advertising Services, Commercial Equipment Distribution, Building Support Services, and Local Professional Services. Commercial Services is

expected to add 163,000 inner city jobs from 2008 to 2018. On average, jobs in this cluster pay $48,000 a year.

Community and Civic Organizations, a cluster of social service and religious groups, as well as shelters and business and labor organizations, is already strong and growing in inner cities and is expected to contribute another 126,100 jobs by 2018.

Build a bridge between regional growth and the inner city. There are a number of clusters that are growing regionally without comparable gains in inner cities. There may be good reasons why a certain cluster—Motor Vehicle Products and Services, for example—may grow more quickly outside of the inner city (where people are more likely to own cars). In other cases, the disparity between regional growth and inner city growth may indicate unmet inner city demand. The Local Logistical Services cluster grew 18% regionally but just 1% in the inner city, even

though the composition of the cluster in each place is almost identical, with Local Transportation Services accounting for 80% of jobs. Only 10% of the workers in this cluster have a college degree. On-the-job training is the most important post-secondary qualification for 84% of these jobs, making them a good fit for many inner city workers.

Close 'cluster gaps'. The Retail Clothing and Accessories cluster is only half the size in inner cities as one would expect given its size regionally. This disparity may indicate a cluster 'gap,' meaning that the cluster may be too small or weak to meet inner city demand. Household Goods and Services, as well as Personal Services, are similarly, if not as dramatically, underrepresented. Examining some 80 industries, the Initiative for a Competitive Inner City is developing a tool to calculate the gap between local cluster supply and demand for the nation's 100 largest cities, focusing on clusters that have significant business-to-business components. These gaps will give us a better understanding of where there may be unmet need in inner cities and where local clusters are failing to capture an adequate share of their regional markets. ICIC's tool will give mayors and economic developers the opportunity to identify cluster gaps and to select local clusters in their inner cities that could be serving as economic powerhouses and production centers throughout their regions.

Conclusion

Leveraging local clusters for inner city job creation simply means using the present as a springboard to the future— starting with the largest centers of US employment and working to strengthen and expand them. These clusters already represent 6.4 million inner city jobs and are projected to create more than 800,000 new ones by 2018. Local clusters with important business-to-business elements currently provide half of those jobs, and are expected to contribute a proportional share of inner city job growth between now and 2018. These clusters are particularly promising because firms within them are able to leverage substantial inner city assets while simultaneously reaching across the region for customers. They are also somewhat buffered from the fortunes of their immediate neighborhood and the fickleness of consumers. Properly nurtured, they are well-positioned to become centers of production for businesses across the region, and to become the drivers of job creation that inner cities need.

Definitions

■ An **inner city** is an economically distressed neighborhood with a poverty rate of 20% of more or that meets two of the following three criteria: poverty rate of 1.5 times or more than that of their region; median household income 1/2 or less of their region; and unemployment rate of 1.5 or more than that of their region.

■ A **cluster** is a critical mass of interconnected companies and institutions in a particular field in a particular location.

ICIC'S **MISSION** IS TO DRIVE ECONOMIC PROSPERITY IN AMERICA'S INNER CITIES THROUGH PRIVATE SECTOR INVESTMENT TO CREATE JOBS, INCOME AND WEALTH FOR LOCAL RESIDENTS.

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