

Linking Growth and Opportunity:
Lessons from the Front



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Executive Summary

There are a number of innovative efforts under way at the regional level to address weak job growth, widening income inequality, and growing numbers of people in poverty. However, the practitioners leading those efforts on the ground are currently in uncharted territory, struggling to address the vast economic needs of their residents during a period of fiscal crisis in the public sector and uncertainty in the global economy, with very little reliable information about which strategies actually make the biggest difference and why.

For the past several years, through our research and direct involvement with several dozen regions across the country, we have been exploring the different ways that regions are trying to create new jobs, help people prepare for and find work, and revitalize communities. This paper outlines our key findings:

- **First, the problems of weak job growth, widening income inequality and growing numbers of people in poverty are intertwined and can't be solved separately.** That's because high levels of income inequality and poverty can stifle innovation and become a drag on economic growth, undermining regional competitiveness. It follows that regions seeking to achieve and sustain higher levels of prosperity over the long term need to pursue both growth and opportunity together, as part of a unified strategy.
- **Second, putting off efforts to expand opportunity to a more convenient time, such as after the economy returns to full employment, will only make these problems worse and more intractable.** That's because it may be quite some time before the economy returns to full employment. We believe that putting off efforts to expand opportunity until then will almost certainly make it more difficult to deal with the high and climbing levels of inequality and poverty, and the increasing demand for workers with postsecondary education and training, down the road.
- **Third, although pursuing growth and opportunity together is the right thing to do, it is not an easy thing to do.** That's because the proponents of economic growth and the proponents of expanding opportunity tend to reside in different camps and speak different

languages. And when these two camps do interact, they frequently perceive themselves to be in conflict, even when their efforts are complementary. Advocates for growth and for opportunity need to look beyond their narrow interests and search for innovative, win-win solutions that further the interests of both camps.

- **Fourth, efforts to align workforce development with economic development face particular challenges.** One reason is the lack of actionable information about the workforce needs of the companies that are creating the most jobs. Another reason is the lack of alignment between cluster-based economic development efforts and sector-based workforce development efforts. Regional leaders need to put systems in place to identify the needs of companies critical to the growth of their economies, support the organization of those companies along industry lines, and make sure that their economic development and workforce development efforts are more closely aligned with the needs of those companies and industries.
- **Finally, some of the most promising, effective, and often overlooked opportunities for linking growth and opportunity are at the regional level.** That's where business groups, economic development organizations, education and training providers, research organizations, and government agencies are increasingly finding ways to collaborate effectively. It is also where a growing number of civic institutions and equity advocates are focusing their efforts. It is important that regional growth efforts make a concerted effort to involve representatives from both the growth and opportunity camps.

In short, regional leaders will need to develop new partnerships, new policies, and new strategies that intentionally and systematically promote both growth and opportunity in ways that are mutually reinforcing. To support those efforts, our three organizations—FutureWorks, Mt. Auburn Associates, and Prosperity Partners (with support from the Surdna Foundation and the Council on Competitiveness)—have organized an action-learning network of regional leaders in the forefront of building broad-based prosperity through economic growth. The network is designed to strengthen the innovative, regional efforts that are already under way, to link them together, to capture their lessons learned, to make those practical lessons available to other regions, and to reshape public policies.

Linking Growth and Opportunity: Lessons from the Front

In the aftermath of the Great Recession, there has been a lot of discussion of what should be done about weak job growth, widening income inequality, and growing numbers of people in poverty. For the most part, that discussion has focused on federal policies and programs, which are the primary tools for addressing these challenges at the national level. However, our national economy is not a single unit. Therefore, there is a lot that innovative practitioners can do, and are doing, to address these challenges on the ground at the regional level.

These on-the-ground efforts can be decisive in determining whether particular regions grow and prosper, or stagnate and decline. However, the practitioners leading those efforts are currently in uncharted territory, struggling to address the vast economic needs of their residents during a period of fiscal crisis in the public sector and uncertainty in the global economy. Due to fundamental changes in the economic landscape, even strategies that worked well in the past can no longer be counted on to deliver the same results, much less meet the even greater demands being placed on practitioners in this new environment. As a result, despite mounting pressure to show results, there is very little reliable information about which strategies actually make the biggest difference and why.

For the past several years, through our research and direct involvement with several dozen regions across the country, we have been exploring the different ways that regions are trying to create new jobs, help people prepare for and find work, and revitalize communities. This paper outlines what we've found about what's working and what's getting in the way in those efforts.

FINDINGS

First, the problems of weak job growth, widening income inequality and growing numbers of people in poverty are intertwined and can't be solved separately. For some time now, it's been generally accepted that reducing poverty and inequality requires a growing economy, because employment is one of the surest routes out of poverty and up the income ladder. There is also evidence that the reverse is true – that sustaining economic growth requires reducing inequality and poverty, or put differently, expanding opportunity. A number of studies going back to the 1960s show a strong link between greater individual opportunity and higher regional economic performance in the US. Studies of other developed countries have also concluded that reducing inequality and poverty leads to greater prosperity for the region over all.

However, there is a lot of evidence to the contrary as well. For instance, some of the fastest growing regions in the US also have the highest levels of income inequality. In addition, many regions in the US have experienced growth over the past decade in spite of economic stagnation or deterioration in their core cities.

That suggests that it may not be necessary for regions to address income inequality and poverty to get their economies growing. But, it may be necessary for regions to address these issues to keep their economies growing. A recent study by researchers at the International Monetary Fund supports that conclusion. They found that the main difference between regions that sustain growth and others where growth spurts fade quickly is the level of inequality.

One reason has to do with talent. Up to this point, many regions have relied heavily on highly mobile, highly educated and skilled workers from outside the region to support innovation-led growth. In many places, this cohort of highly skilled labor has been layered on top of a resident population, whose education and skills have not been adequately upgraded. But reliance on recruiting talent from outside the region is not sustainable in a growing economy. Unless a growing regional economy brings along as many people as possible by developing their talent and helping them advance, it will not reach its full productive potential, limiting its ability to compete with other regions that are better able to tap into a wider and deeper pool of human capital.

Another reason involves costs. Regions with higher levels of inequality and poverty also bear higher associated economic and social costs, leaving fewer resources to invest in activities that promote innovation and growth.

High levels of inequality and poverty also make areas less attractive to investors and to the highly skilled workers needed to support innovation, making it more difficult to recruit and retain businesses.

In short, high levels of income inequality and poverty can stifle innovation and become a drag on economic growth, undermining regional competitiveness. It follows that regions seeking to achieve and sustain higher levels of prosperity over the long term need to pursue both growth and opportunity together, as part of a unified strategy.

Second, putting off efforts to expand opportunity to a more convenient time, such as after the economy returns to full employment, will only make these problems worse and more intractable. Currently, the US has the highest levels of income inequality and poverty of any developed country in the world, and both inequality and poverty have been increasing rapidly in the US over the past decade. The recent financial and economic crises have accelerated those trends, and many experts fear that if unemployment remains high, inequality and poverty will continue to increase over the next several years. That would do significant long-term damage to the economic prospects of a wide swath of the US workforce, but particularly those who have been out of work for an extended period, those at the bottom of the income ladder, and young adults just entering the job market.

Experts predict that for the unemployed to fully rebound from the current recession and for new entrants to the workforce to find work, the US economy will need to expand faster than 5 percent annually. But achieving that level of growth, which is more than twice the US average for the past two decades, is going to be a big challenge. There is evidence that the US has been losing its edge in innovation-based global competitiveness over the past decade.

At the same time, global pressures are driving US firms to automate routine work and/or move that work off shore. The jobs that have been taking the place of the ones that are being lost increasingly require postsecondary education and training. To remain competitive, regions will need to significantly expand the percentage of the workforce with postsecondary education and training, which cannot be done overnight, and which is essential to sustain growth as the economy rebounds.

In short, it may be quite some time before the economy returns to full employment. We believe that putting off efforts to expand opportunity until then will almost certainly make it more difficult to deal with the high

and climbing levels of inequality and poverty, and the increasing demand for workers with postsecondary education and training, down the road.

Third, although pursuing growth and opportunity together is the right thing to do, it is not an easy thing to do. Regions that have chosen this path are running into a number of obstacles.

One of those obstacles is that traditional approaches to expanding opportunity are wholly inadequate to deal with today's challenges. In most communities across the US, the "system" that has evolved for expanding opportunity is really a patchwork collection of programs of limited scope and duration. Each program is focused on its own particular problem and its own particular target group. And each program is conducted by a different organization, with its own mission, institutional interests, funding stream, and administrative structure to support.

Even during good times, this approach left a lot to be desired. Practitioners have found that it's difficult to scale up most programs to a level sufficient to have a major impact. They have also found that, because of their limited scope and duration, these programs rarely address the more difficult systemic issues underlying growing income inequality and poverty that require more comprehensive approaches and years to resolve.

At the national level, there's currently a push for more comprehensive, long-term, systemic approaches, using pooled or aligned funding from a number of public and private sources to have a bigger impact. These comprehensive and innovative approaches to expanding opportunity feature anchor institutions, transit-oriented development, green jobs, and infrastructure improvements. But so far, these efforts have not been closely linked to efforts to create new jobs.

The biggest reason for that disconnect is that the proponents of economic growth and the proponents of expanding opportunity tend to reside in different camps and speak different languages. In fact, there is often a strict division of labor between the business and economic development organizations that focus mainly on economic growth and the philanthropic, labor, religious, advocacy and community-based organizations that focus mainly on expanding opportunity.

When these two camps do interact, they frequently perceive themselves to be in conflict, even when their efforts are complementary. For example, some advocates for expanding employment opportunities for low-skilled workers view efforts to grow high-tech and traded sector jobs as

antithetical to their interests, because those jobs tend to require higher skills and, therefore, appear out of reach for the populations they are most concerned about. However, the research shows that for every new traded-sector job that is created, three to five new jobs are also created in the local economy through a multiplier effect. That multiplier effect is even greater for high-tech and high-skill jobs. Since the local economy is where low-skilled workers are most likely to find work, expanding traded-sector employment actually expands economic opportunities for low-skilled workers.

Similarly, some advocates for the unemployed oppose using scarce public training dollars to retrain workers who already have jobs. However, since most new jobs are created by the expansion of existing businesses, which often requires retraining the existing workforce, using public training dollars to retrain existing workers can help support business expansion, which in turn leads to new jobs for the unemployed.

There are many more similar examples of possible win-win approaches that often get overlooked. Advocates for growth and for opportunity need to look beyond their narrow interests and search for innovative solutions that further the interests of both camps.

Fourth, efforts to align workforce development with economic development face particular challenges. Despite widespread agreement among economic development professionals that a highly educated and skilled workforce is critical to their success, and widespread agreement among workforce development professionals that education and training programs need to be demand-driven, it has proven to be quite difficult to put these pieces together in practice.

One reason is the lack of actionable information about the workforce needs of the companies that are creating the most jobs. New research that takes into account the dynamics of business growth has found that the vast majority of new jobs come from the expansion of existing businesses. And, among existing businesses, the fastest growing companies tend to be Stage II companies, with between 10 and 99 employees.

However, these small, fast-growing companies tend to be dispersed, less likely to seek assistance, and less likely to belong to established business organizations, making it difficult to identify and respond to their needs effectively. At the local level, that problem is compounded by the fact that most business organizations are mainly focused on responding to the needs of their larger and higher contributing members, not on proactively

reaching out to small, high-growth companies. At the same time, most programs to support entrepreneurial ventures tend to focus mainly on launching new enterprises, not on supporting the continued development of those enterprises once they get off the ground. In addition, many local economic development organizations currently lack the capacity to provide the specialized assistance high-growth companies require.

Another challenge is getting elected officials to focus on the long-term ground game required to build successful new enterprises. Under considerable pressure to create jobs during their short time in office, many elected officials continue to focus on enticing companies to relocate to their jurisdictions, despite evidence that these recruitment efforts are yielding diminishing returns.

As a result, the needs of the fastest growing companies often get lost in the shuffle. However, there are promising efforts currently under way to change that. Under the banner of “economic gardening,” a growing number of local economic development organizations are starting to target assistance to stage II companies.

There are also promising efforts under way to organize businesses along industry cluster lines, which makes it easier to identify and respond to their needs at different stages of development. Similarly, a growing number of regions have begun organizing their workforce development efforts along industry lines using “sector strategies.”

Nonetheless, despite the obvious potential for alignment between cluster-based economic development efforts and sector-based workforce development efforts, it has been difficult to make or sustain that alignment in practice. One reason is because the primary focus of most sector-based efforts has been on improving job prospects for low-skilled workers, for whom there is currently only marginal demand from employers. Another reason is that most sector-based workforce development efforts have been too small to have much impact on the industry or on the overall economy.

Cluster-based economic development and sector-based workforce development are currently getting a boost from the federal government, but it remains unclear where the funding will come from to sustain those efforts in light of expected cuts in federal and state budgets. To make matters worse, the continuing arms race among the states to lure companies across state lines with incentive packages is draining public coffers of the resources needed to make critical investments in people and

infrastructure, and to build capacity at the local level to support the growth of existing businesses.

These findings suggest that regional leaders need to put systems in place to identify the needs of companies critical to the growth of their economies, support the organization of those companies along industry lines, and make sure that their economic development and workforce development efforts are more closely aligned in responding to the needs of those companies and industries.

Finally, some of the most promising, effective, and often overlooked opportunities for linking growth and opportunity are at the regional level. That's where business groups, economic development organizations, education and training providers, research organizations, and government agencies are increasingly finding ways to collaborate effectively. It is also where a growing number of civic institutions and equity advocates are focusing their efforts .

One reason for focusing at the regional level is because cities with high concentrations of poverty often lack the resources to revitalize their inner cities on their own. That often requires substantial investments in regional transportation systems to give low-income inner city residents access to good-paying jobs in surrounding counties, in redevelopment to attract new businesses, or in new amenities to attract new residents. When cities are faced with a rising demand for social services and a declining tax base, they are particularly hard pressed to make these critical investments.

Another reason for focusing at the regional level is that poverty and inequality are increasingly regional in scope. Income inequality is a pervasive and growing problem for a broad swath of the workforce, and most of the middle-class decline has taken place in the suburbs. Similarly, poverty is no longer confined to the inner city. In fact, over the past decade, the number of people living in poverty in the suburbs has been rising rapidly, growing five times faster than in inner cities, so that the suburban poor now outnumber those living in inner cities. As a result, the economic and social costs associated with poverty are increasingly being imposed on suburban communities as well as inner cities, and this problem increasingly requires a regional response.

However, even though they now face a common challenge, cities and surrounding jurisdictions rarely seize the opportunity to address this challenge together. Often, cities and surrounding jurisdictions must overcome significant racial and political differences, as well as lingering

resentment from old battles that can get in the way of solving common challenges and taking advantage of mutual opportunity. Moreover, organizations focused on expanding opportunity tend to have less capacity to operate at the regional level, making it is less likely that their issues will be embraced as regional priorities or that there will be metrics in place that hold regional leaders accountable for expanding opportunity.

For these reasons, it is important that regional growth efforts make a concerted effort to involve representatives from both the growth and opportunity camps.

BUILDING REGIONAL CAPACITY

Building strong local and regional economies will not only require new, more effective approaches to growth and opportunity, but it will also require actively building bridges between the growth and opportunity camps, and between cities and their surrounding suburbs. To do that, regional leaders will need to develop new partnerships, new policies, and new strategies that promote both growth and opportunity in ways that are mutually reinforcing.

There has been important progress in that direction in recent years. A number of regions have begun to take more comprehensive and systemic approaches to linking their economic, workforce and community development efforts, creating new collaborative structures to manage and sustain these efforts, and using metrics that cut across economic, community and workforce development to guide joint planning and to track progress.

Yet, even in these innovative regions, progress has been slow, improvements have been difficult to sustain, and economic growth and opportunity are still mainly being pursued as separate objectives. In addition, transformational leaders who can work effectively across institutional boundaries are in short supply, and there is currently little opportunity for these leaders to interact with their counterparts in other regions. In part, that's because these leaders come from many different kinds of organizations within their regions – such as business-civic associations, economic development organizations, councils of government, and foundations – and have no single organization at the national level to support their efforts.

It's also because working across institutional boundaries is an enormously complex task, requiring considerable skill and energy. The individuals currently playing this role have mainly acquired the needed skills and experience to do this on their own. There need to be structures in place to develop more and better leaders for regional efforts, offering guidance on how to think and act regionally, and on how to link economic growth and opportunity in the process.

LINKING INNOVATIVE REGIONS

That point was underscored in a roundtable of regional leaders and national experts we convened in May 2010. The participants, all of whom are committed to linking growth and opportunity in their regions, concluded that they would benefit most from access to practical lessons learned by others about what actually works and why, so they don't have to reinvent the wheel. In response, with initial funding from the Surdna Foundation, we have organized an action-learning network as a first step in what we see as a longer-term project focused on building regional prosperity.

Since traditional approaches have not kept pace with the changing economy, the regions participating in this network are co-creating new approaches to growing jobs and expanding opportunity. They are also functioning as "learning labs" to identify what's working and what's getting in the way of effectively linking regional economic growth and opportunity, as well as to explore what innovations and investments actually make the biggest difference. We plan to share the lessons learned with other regions, and with policymakers, to help guide their efforts.

About the Authors

Pete Carlson is a senior associate at FutureWorks, a consulting firm that helps design strategies, inform policies, and build institutions that promote sustainable, skill-based regional economic growth and competitiveness. Pete has twenty-seven years of experience in consulting, research, and policy analysis. For the past six years, his work has focused on helping regions develop strategies and build partnerships that align workforce development and economic development to promote economic growth and opportunity. As part of that work, he has conducted in-depth studies of over a dozen regions, exploring what's working and what's getting in the way of growing their economies, with a particular focus on what kind of partnership structures they are putting in place, where the leadership is coming from for those efforts, and what is being done to expand opportunity as part of that process. In addition, he has convened three roundtables of national experts and regional leaders, together with the Council on Competitiveness and the Brookings Metropolitan Policy Program, to capture the lessons being learned by others working in this arena.

For the past two years, Pete has managed the *America Works Initiative* for the Walmart Foundation, helping seven regions link training programs for low-income populations more closely to regional growth strategies. The initiative was designed to leverage larger-scale, longer-term, systemic changes in the way people get and keep jobs. Pete has also done hands-on work with a number of regions across the US, helping them develop strategies for advancing and broadening regional prosperity.

Contact: carlson@futureworksworld.com

Sam Leiken is a principal at Prosperity Projects. He recently retired as vice president of the Council on Competitiveness, where he led its work on regional economic and workforce development. He was the principal investigator and author of the Council's report, *COLLABORATE – Leading Regional Innovation Clusters*. He was also the lead investigator and author of *COOPERATE*, the ETA funded Council publication on university engagement with regional economic development, an outgrowth of his work on another ETA project, *Workforce Innovation in Regional Economic Development (WIRED)*.

Prior to going to the Council, Sam served as Senior Policy Analyst in the division of Social, Economic and Workforce Policy at the National Governors Association's Center for Best Practices. At the NGA, he was involved in planning and delivering numerous training academies on economic development, workforce and education issues. Before the NGA, Sam served as the vice president for policy for the Council on Adult and Experiential Learning, a Chicago-based national non-profit specializing in adult learning and workforce development. Earlier in his career, Sam was the founder and president of the Massachusetts Product Development Corporation, a state-owned, privately operated venture capital fund investing in the new products of traditional manufacturing enterprises. He was the first to privatize a state-owned venture fund successfully.

Contact: sam.leiken@yahoo.com

Stephen Michon is vice president at FutureWorks. He has guided the development of economic growth strategies for regions including Boston (MA), Portland (OR), Savannah (GA), Warren County (NY), and the state of Virginia. He (along with colleague Brian Bosworth) organized and led MetroBusinessNet – a national action-learning network composed of regional, business-based civic institutions such as chambers of commerce, CEO-led groups, and boards of trade – to engage the business community in sustainable regional economic development. In the course of that work, Stephen conducted an in-depth study of the practices employed by chambers of commerce, CEO-led organizations, and boards of trade in 30 major metropolitan areas in the United States to improve the economic, spatial and social conditions in their regions.

Building further on that work, Stephen helped developed a “sustainable development fellowship” program in partnership with the American Chamber of Commerce Executives, in which over 120 regional business and economic development leaders have explored new approaches to promoting sustainable regional growth. For the past two years, he has helped manage the Talent Dividend Network, in partnership with CEOs for Cities, which has organized and supported coalitions of city leaders, private economic development organizations and educational institutions in 25 cities to increase educational attainment in support of regional growth. He is currently part of a team evaluating the 5-year, \$30 million National Fund for Workforce Solutions sponsored by the Ford, Hitachi, Casey, Gates and Knight Foundations.

Contact: michon@futureworksworld.com

Beth Siegel is the president and co-founder of Mt. Auburn Associates. She has over 25 years experience in designing and implementing regional economic development strategies and evaluating economic development and workforce initiatives. She has developed strategic plans for dozens of communities in the Northeast. She led studies in the Hartford, New Haven, and New London regions in Connecticut, in Burlington, Vermont and in Nashua, New Hampshire. An expert in the realm of program evaluation, Beth has headed evaluations for the U.S. Economic Development Administration, for a number of states, as well as for foundations. For the past five years she has directed the firm's evaluation work with The Heinz Endowments in Pittsburgh and a consortium of national and local foundations involved in workforce development in Boston.

Beth's policy work and writings have been influential in the economic development field. She wrote some of the earliest articles on the role of "clusters" in regional economic development and her report in the mid 90s to the Charles Stewart Mott and Ford foundations—*Jobs and the Urban Poor*—influenced the field of sectoral workforce development. With concern for the fate of smaller cities, she also authored a report for the U.S. Economic Development Administration - *Third Tier Cities: Adjusting to the New Economy*. Siegel gained recognition for her work on the strategic role that arts and culture play in economic growth, including the path-breaking study - *The Role of the Arts and Culture in New England's Economic Competitiveness*, and the recently released *Louisiana: Where Culture Means Business*.

Contact: bsiegel@mtauburnassociates.com

NOTES

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For more information about the Regional Prosperity Project, please contact:

Pete Carlson
FutureWorks
202-544-4111
carlson@futureworksweb.com

www.futureworksweb.com