

## Chapter 4

# New Strategies for Inner-City Economic Development

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The economic distress of America's inner cities is one of the most pressing issues facing the nation.<sup>1</sup> The time has come to recognize that revitalizing these areas requires a radically different approach. Today, most efforts and public resources, including the Empowerment Zone program, are still targeted toward meeting residents' immediate needs rather than generating jobs and economic opportunity that will mitigate the need for social programs in the long run. Although efforts to provide education, housing, health care, and other needed services are essential and must continue, these must be balanced with a concerted and realistic economic strategy focused on for-profit business and job development. The necessity—and the real opportunity—is to create income and wealth, by harnessing the power of market forces, rather than trying to defy them.

The private sector must play a leading role and, in many ways, is already beginning to do so.

An economic strategy for inner cities is needed as a complement to (not a substitute for) the many programs designed to increase human capital and meet the basic human needs of disadvantaged populations. A successful economic strategy will result in viable businesses that can provide the employment opportunities sorely needed in, or near, distressed inner-city neighborhoods—neighborhoods in which, in most cases, African Americans and other people of color represent the majority of the population. Employment opportunities are a linchpin for the success of virtually all other programs designed to improve human capabilities, values, and attitudes in distressed communities.

This research focuses on how to create jobs and sustainable business activity that benefit

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disadvantaged inner-city residents. It grows out of a stream of research on economic development in nations, states, and cities first described in *The Competitive Advantage of Nations*.<sup>2</sup> The application to inner cities is based on studies of nine major inner cities;<sup>3</sup> hundreds of interviews nationwide with inner-city-based companies, community-based organizations (CBOs), bankers, government officials, and others; an extensive survey of the literature; and close advisory relationships with more than a dozen inner-city companies in Boston.<sup>4</sup> Unfortunately, reliable statistical data on business activities in inner cities are not yet available, though we have a growing body of survey evidence.

The approach to inner-city economic development my colleagues and I have developed is fundamentally different from most existing efforts. It reflects the new realities of inner-city America and the role that inner cities might occupy in the national and international economy. Although threads of this approach have appeared in previous literature and in the efforts of some organizations, the approach has not yet been implemented comprehensively in any one inner city. However, the core principles have been proven many times over throughout the world.

Part of the reason for the vigorous debate surrounding inner-city economic development is the definition of the term *economic development* itself. The American Economic Development Council (AEDC) defines economic development as "the process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services."<sup>5</sup> But as John Blair notes, "economic development concerns reach into numerous aspects of community life. . . . In practice, distinctions between social, political, and economic development concerns are fuzzy."<sup>6</sup> This has led to a tendency to widen the definition of economic development to include virtually everything and for different definitions to emerge. The result has been both confusion in communication and, we believe, unnecessary controversy. Individuals and organizations have also tended to focus on one or a few specific elements of economic development and assert their primacy.<sup>7</sup>

Our research concentrates on inner-city economic development in the narrow sense—the creation of jobs and sustainable business activity that benefit disadvantaged inner-city residents. This does not deny the importance of improved housing, health care, and schools to the overall revitalization of inner cities. These topics are simply not where we have concentrated and not where the greatest uncertainty in theory and practice lies.

## A Strategy for Inner-City Economic Development

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Our strategy begins with the premise that a sustainable economic base can be created in inner cities only as it has been elsewhere: through private, for-profit initiatives, and investments based on economic self-interest and genuine competitive advantage instead of artificial inducements, government mandates, or charity. A sound economic strategy must focus on the position of inner cities as part of regional economies, rather than treating inner cities as separate, independent economies; otherwise, economic activity there will not be sustainable. Although the changing economy, with its dual challenges of global competition and technological advances, has adversely affected inner cities, it has also created new opportunities.

There are many businesses present today in inner cities—a surprise to those who assume that little economic activity exists because of these communities' well-known problems. Our research has documented that inner-city businesses are concentrated in sectors such as food processing and distribution, printing and publishing, light manufacturing, recycling and remanufacturing, business support services for corporations, and entertainment and tourist attractions. These are all areas in which the genuine competitive advantages of inner-city locations are present.

Economic development in inner cities will come only from recognizing and enhancing the inherent advantages of an inner-city location and building on the base of existing companies, while dealing frontally with the present disad-

vantages of inner cities as business locations. There is genuine economic potential in inner cities that has been largely unrecognized and untapped.

### The Competitive Advantages of Inner Cities

Our analysis of major cities nationwide has found that often-discussed advantages, such as low-cost labor and cheap real estate, are largely illusory. Inner cities have available workers, but wages are not lower than in rural areas or in other countries. Real estate costs may be lower than in nearby high-rent downtown areas, but cheaper real estate is available in the suburbs and elsewhere. The changing nature of the world economy means that inner cities will not be able to compete if low-cost labor and cheap real estate are their only advantages. Similarly, it is futile to try to recreate the inner-city economies of the past, with their high-wage, blue-collar manufacturing jobs, as many urban planners still hope to do. Instead, the genuine competitive advantages of inner cities fall into four areas: strategic location, integration with regional clusters, unmet local demand, and human resources.

#### Strategic Location

Inner cities occupy what should be some of the most valuable locations in their regions, near high-rent business centers, entertainment complexes, and transportation and communications nodes. As a result, an inner-city location can offer a competitive edge to logistically sensitive businesses that benefit from proximity to downtown, transportation infrastructure, and concentrations of companies. The just-in-time, service-intensive modern economy is only heightening the time and space advantages of these locations. Although some traditional location-sensitive businesses have been decentralized by modern technology, many others have been created (e.g., recycling, remanufacturing, value-added business services). This powerful locational advantage of inner cities, which has not been fully used or developed, explains the

continued existence and growth of the many food processing, printing, business support, rapid-response warehousing and distribution, and light manufacturing companies in inner-city areas, despite the conspicuous problems.

In our surveys of cross sections of inner-city-based companies in Boston, Baltimore, Atlanta, and Oakland, strategic location was cited as the most important advantage for a significant majority of businesses. For example, in Boston, 90% of the 60 companies surveyed said proximity to customers was an important advantage, 55% cited proximity to nearby highways, and 35% cited proximity to suppliers.<sup>8</sup> In Atlanta, 81% of the 37 companies surveyed said strategic location was an important advantage.<sup>9</sup>

#### Integration with Regional Clusters

Longer-term development opportunities for inner cities lie in capitalizing on nearby regional clusters of firms and industries—unique concentrations of competitive companies in related fields. The notion that business development is strongly influenced by the external economies within clusters of interconnected industries has antecedents in the development literature. However, recent research has substantially developed and broadened this idea, demonstrating how it fits into a broader framework for understanding competitiveness.<sup>10</sup> The composition of clusters includes not only firms and suppliers but also educational institutions, specialized financial providers, and specialized research centers. The dynamic external economies of clusters and their role in new business formation are perhaps their most fundamental attributes. Although some clusters fail to grow for a wide variety of reasons, the power of a cluster-based approach to development is far greater than company-based or even sectoral efforts.<sup>11</sup>

An effective economic strategy for inner cities must focus on developing the clusters within inner cities, instead of isolated companies, and linking them better to those in the surrounding economy. The ability to access competitive clusters is more far-reaching in its economic implications than is the simple proximity of inner cities to the downtown or transportation in-

