Revitalizing Neighborhoods, Empowering Residents

Economic Development in Disinvested Communities

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The International Economic Development Council (IEDC) is a non-profit, non-partisan membership organization serving economic developers. With more than 4,700 members, IEDC is the largest organization of its kind. Economic developers promote economic well-being and quality of life for their communities, by creating, retaining and expanding jobs that facilitate growth, enhance wealth and provide a stable tax base. From public to private, rural to urban and local to international, IEDC's members are engaged in the full range of economic development experience. Given the breadth of economic development work, our members are employed in a wide variety of settings including local, state, provincial and federal governments, public-private partnerships, chambers of commerce, universities and a variety of other institutions. When we succeed, our members create high-quality jobs, develop vibrant communities, and improve the quality of life in their regions.

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The EDRP Program is the "think tank" component of IEDC, designed to help economic development professionals weather the challenges and grab opportunities from economic changes affecting our communities. EDRP members are leaders in the field of economic development, working through this program to improve the knowledge and practice of the profession. IEDC would like to thank the Economic Development Research Partners program for providing the impetus and resources for this project.

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Executive Summary

Distressed Populations are Growing and Slowing Economic Growth

At the heart of the economic development profession is the principle of raising the level of prosperity for all of a place's residents. In recent years, income inequality has only growth, and poverty has become more concentrated. Neighborhoods and entire cities have fallen into cycles persistent of disinvestment and distress. The call for economic developers to take action has amplified;[1] economic developers who take action on these difficult issues can not only improve the livelihoods of low-income residents of distressed neighborhoods, but improve the economic well-being for all of a place's citizens.

In recent decades, low income populations have been increasingly concentrated in distressed neighborhoods.[2] Since the 1970s, the number of neighborhoods in the United States defined as 'high-poverty' has tripled; the number of poor people living in such neighborhoods has doubled.[3] Moreover, the concentration of poverty is no longer limited to inner cities; the population of distressed neighborhoods in suburban areas grew 139 percent from 2000 to 2012.[4]

Public policy on housing and education; economic shifts such as the dispersion of jobs; and outright discrimination have all played a role in concentrating poverty. The concentration of poverty worsens serious issues of crime, ill-health, and poor educational attainment, which, in turn serve to further increase the barriers faced by residents of distressed communities as they seek to get hired, enter higher education, get loans, and start businesses.[5]

The economic and social issues that affect distressed neighborhoods--such as poor housing quality, high unemployment, lack of training opportunities, decaying infrastructure, ill-health, bad schools, and high crime--are interdependent. Therefore, effective efforts to transform these areas require coordinated efforts between many government, community, and private sector partners.[6] However, the payoff is high: a successful effort to revitalized a distressed area can not only improve local residents' and business-owners' economic well-being, but also, potentially, reduce income inequality, de-concentrate poverty, and contribute to economic growth on a regional level.

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1 *The Growth and Spread of Concentrated Poverty, 2000 to 2008-2012*. Elizabeth Keenbone. Brookings Institute. July 31, 2014.
2 *The Growth and Spread of Concentrated Poverty, 2000 to 2008-2012*. Elizabeth Keenbone. Brookings Institute. July 31, 2014.
3 Cortright, Joe, and Dillon Mahmoudi. "Lost In Place: Why The Persistence And Spread Of Concentrated Poverty--Not Gentrification--Is Our Biggest Urban Challenge." *City Observatory (www. cityobservatory. org)* (2014
4 *The Growth and Spread of Concentrated Poverty, 2000 to 2008-2012*. Elizabeth Keenbone. Brookings Institute. July 31, 2014.
5 *Understanding Neighborhood Effects of Concentrated Poverty.* U.S. Department of Housing and Urban Development. Evidence Matters Periodical, Winter 2011 issue.
6 *It Takes a Neighborhood: Purpose Built Communities and Neighborhood Transformation*. Shirley Franklin and David Edwards. Investing in What Works for America's Communities. Web.

Why Economic Developers Should Improve Disinvested Areas

There are many reasons that economic developers should be concerned with distressed areas. Most importantly, economists now agree that high levels of income inequality have a negative effect on economic growth. A 2014 study notes, "It would still be a mistake to focus on growth and let inequality take care of itself, not only because inequality may be ethically undesirable but also because the resulting growth may be low and unsustainable."[7] From 1990 to 2010, income inequality decreased national economic growth in the United States by about 6 to 7 percentage points.[8] The effects of income inequality and poverty can be even more substantial at a more local scale.

Another reason that economic developers should concern themselves with disinvested neighborhoods is that they often represent both a tremendous waste of resources, and simultaneously, enormous potential assets. Distressed areas are often home to physical assets, such valuable land, underused infrastructure, and attractive historic buildings. Even more importantly, they are also home to intangible assets possessed by residents, including ideas, culture, and human capital; these often go underutilized as residents are isolated from the resources and networks they need to reach their potential by the barriers a distressed neighborhoods present.[9]

As economic developers aim to improve distressed areas by improving the physical environment and attracting real estate investment, however, existing residents may be displaced, which may only worsen the loss of a sense of identity, place, and community, as residents are excluded from, rather than benefitting from, neighborhood revitalization. Displacement can also lead to greater concentration of poverty. It is therefore important that displacement be addressed at the same time as investment is attracted to distressed neighborhoods so that economic development efforts are inclusive and do not push the issues elsewhere.

Holistic Approach for Complex Issues

Distressed suburban and urban areas face multiple complex barriers at play that require different strategies combined and approached in a holistic way. Doing so can successfully attract investment to distressed areas by addressing the social, physical, and economic barriers to investment, while combating further displacement, growth in income-equality, and the concentration of poverty.

This report outlines strategies that should be included in a holistic approach to distressed areas and includes:

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[7] Ostry, Mr Jonathan David, Mr Andrew Berg, and Mr Charalambos G. Tsangarides. *Redistribution, inequality, and growth*. International Monetary Fund, 2014.

[8] Organization for Economic Co-operation and Development. *FOCUS on Inequality and Growth*. December 2014.

[9] *Understanding Neighborhood Effects of Concentrated Poverty.* U.S. Department of Housing and Urban Development. Evidence Matters Periodical, Winter 2011 issue.

Stem disinvestment by improving the physical environment

Physical environment can have a large economic impact on local residents and businesses. One of the large physical barriers in distressed areas is vacancy and blight, which has a negative spillover effect on adjacent properties. Addressing vacancy and blight can bring otherwise unattractive real estate to the market for new commercial and residential use, increase density with a variety of type and cost of housing stock, and grow equity of homeowners in a city.

Additional measures to improve the physical environment includes improvement of infrastructure, such as public transportation, partnerships to address any perceived or real crime, and commercial development, revitalization, and stabilization to provide access to basic needs and employment opportunities.

Combat displacement that can arise with the attraction of investment.

Displacement further concentrates poverty to where affordable housing exists in other low-income areas. This has many negative psychological and economical effects including access to employment, family dynamics, and youth education, making it more difficult to break the poverty cycle. Ensuring affordable housing remains and exists in areas as they attract investment combats displacement while providing possible economic mobility.

Create economic opportunity to help break the cycle of poverty and grow local economies.

One of the large barriers to residents and businesses in distressed areas is access to capital and their economic mobility. With unemployment a key sign of disinvested areas, providing economic opportunities, such as further education, training, and skill-matched jobs can build personal wealth. This personal wealth can have a spillover effect in disinvested areas that allows capital for properties to be purchased, redeveloped, and maintained, capital for entrepreneurship and further local employment, and economic mobility for multiple generations.