



Inclusive Economic Development: Good for Growth and Good for Communities

JFF's place-based work supports communities that are taking an inclusive approach to addressing widening equity gaps spurred by the changing economy

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In October 2019, the U.S. unemployment rate fell to a 50-year low of 3.5 percent.¹ Economists see numbers like that as signs of a robust economy with strong job and business growth. However, encouraging macroeconomic statistics mask the fact that too many Americans face severe financial stress. When 40 percent of people aged 18–64 have trouble meeting basic needs, seemingly upbeat economic indicators such as a low unemployment rate divert attention from the fact that the middle class has been shrinking since 1970.² The reality is that the distribution of people and places that benefit from our economic system is uneven—rates of underemployment and financial insecurity are higher among certain racial and ethnic groups and in disinvested communities.

As the nation's civic, business, and academic leaders grapple with the challenge of reconciling rising growth and rising inequality, the concept of “inclusive economic development” has emerged as the solution to the problem. However, understandings of the precise meaning of that term vary widely. Many people think of “inclusive economic development” as a way to foster inclusion in the economy, but others use it to mean economic development that prioritizes neighborhood-level needs and puts factors like health and education on par with job creation as measures of economic competitiveness. Still others use it to refer to development that leads to economic growth that benefits populations that are susceptible to the effects of widening income inequality—including stagnating wages and lack of access to good jobs—even when the overall economy is growing.

JFF's research and our experiences in the field from our place-based projects indicate that inclusive economic development is about both *process* and *outcome*: When inclusive *processes* mobilize cross-sector collaboration and focus on approaches to shared prosperity that are customized and place-based, the *outcomes* from economic growth can be greater and more mutually beneficial to businesses, communities, and workers, including those in historically underinvested groups.

As a partner, collaborator, and cross-sector network weaver, JFF is energized by the statewide and national attention to the issue of inclusive prosperity.

As we continue to learn from the emerging research and our partners on the ground, we are asking big questions that get at the heart of this work. What is inclusive economic development? How can regions work together to achieve inclusive development, and how do you make a process more inclusive? How does this differ from collective action? How can a region harness an influx of investments driven by financial incentives like Opportunity Zone designations to benefit its most marginalized residents? Is there a trade-off between equity and growth, or can regions achieve both? And most important, how do we ensure that inclusive doesn't become a meaningless buzzword, and that inclusive economic development actually results in shared prosperity?

JFF envisions a future where everyone has an opportunity to advance economically, and we know that achieving that goal will take more than workforce development initiatives and efforts to improve education. We've been learning from our work in communities about the relationship between inclusion, economic growth, and development. Here we offer an overview of what we've learned to date. We hope this sparks a national conversation about the conditions needed to achieve inclusive economic development.

THE ECONOMICS OF INCLUSION



In recent years, national and international think tanks have released reports highlighting case studies, metrics, and levers for inclusive development. Some organizations assess inclusion by looking at effects on *people*, others focus on *jobs* and the labor market or look at the *economic system* as a whole.

Researchers who focus on the way development affects people disaggregate data to highlight differences in economic impact by race, gender, education level, and income bracket. For example, the Urban Institute finds that economically healthy cities are more inclusive than distressed ones. To understand inclusion, they look at indicators for both economic inclusion and racial inclusion, with economic inclusion defined by statistics such as income segregation and rent burden and racial inclusion defined by metrics like the racial home ownership gap and the racial poverty gap.³

The Brookings Institution is one of the research groups that focuses on jobs and the labor market to assess inclusive development. The organization's position is that when “opportunity jobs” (or jobs that can lead to upward economic mobility for individuals) are available in a community, there is a greater likelihood for inclusive benefits flowing to that community. Brookings advances the theory that greater equality of opportunity enhances growth. But in order to produce equality of opportunity, economic growth is necessary. In other words, both growth and inclusion are stronger when pursued together.⁴

The Aspen Institute and the International Economic Development Council (IEDC) look at inclusion in our economic system. The IEDC presents an economic and business case for inclusion, in addition to a moral argument that cites high rates of poverty, unemployment, and distressed communities as reasons for action.⁵ The Aspen Institute recommends a movement toward “inclusive capitalism”—an economic system in which the benefits of growth are broadly shared—one that creates more opportunities for people to move into the middle class.⁶ Both of those organizations cite evidence indicating that economic exclusion is harmful to the economy, resulting in lost economic output and lost earnings and necessitating costly poverty alleviation measures.

POLICY, PRACTICE, AND PARTNERSHIPS

This emerging research has laid the groundwork for local, state, and federal policy proposals that aim to make our economies more inclusive. Federal Opportunity Zone legislation has created a financial incentive for investors to put resources into distressed neighborhoods, which in turn puts pressure on regional leaders to determine their investment priorities and shape how those resources can catalyze the businesses and infrastructure that will benefit the whole community.⁷ In California, Governor Gavin Newsom's administration has launched an initiative called Regions Rise Together that focuses on uplifting the inland regions of the state that have not benefitted from the strong economic recovery of the coastal regions.⁸

JFF's goal is to translate the research into actionable strategies for practitioners, and to help regions build the capacity to take advantage of these state and federal policies to create the economic dynamism and resiliency needed to build strong communities. Without an intentional focus on inclusion in the process and the outcome, such policies run the risk of benefitting investors without uplifting communities, or of simply redistributing resources without addressing the underlying causes of structural inequality.

Over the past several years, JFF has partnered with organizations in a number of regions throughout California. We've supported the [Linked Learning Regional Hubs of Excellence](#) in Long Beach, San Bernardino, Tulare and Kings Counties, and the East Bay. And most recently we've been a partner in the [DRIVE initiative](#), a collaborative, cross-sector effort to develop a 10-year investment plan to support an inclusive, vibrant, and sustainable economy in the greater Fresno region. These California regional projects, coupled with our national work, have begun to inform our emerging California place-based strategy for shared prosperity. We've been reading, listening, asking questions, and forming some hypotheses about what it takes for regions to grow with intentional inclusion.

WHAT WE'RE SEEING IN PRACTICE

In California, regional and statewide leaders are reaching the conclusion that inclusive economic development is needed to uplift all residents, and many are now looking for help defining goals, developing processes, and implementing strategies.

Here are summaries of four insights we've gleaned from our place-based work and national research.

1. Inclusion needs to be part of both the process and the outcome.

As we've been developing our own definition of inclusive economic development, we are starting to understand it to be both a process *and* an outcome.

An inclusive process is not just a “nice to have”—it's a necessity. An inclusive process requires diverse voices, a cooperative approach to design, and room for conflict and resolution. That means drawing on the expertise of experienced practitioners, learners, workers, community advocates, and other stakeholders representing a mix of demographic groups, various types of organizations, and assorted neighborhoods, perspectives, and political affiliations—people who truly represent the community and are willing to challenge traditional decision making hierarchies.

Engaging members of the community is essential, not just to get their feedback on development plans, but also to make them part of the process by asking them what they need in order to have a more economically secure future and then co-designing solutions with them.

It is also essential to encourage communities to grapple with tough issues. During the DRIVE initiative in Fresno, leaders learned that community members need to be included early in the process of developing solutions to persistent challenges, and that race and equity must be taken into account in conversations about implementation and accountability. As a result, Fresno leaders are prioritizing inclusion and have not shied away from race and equity accountability conversations. They see such an approach as essential to building and sustaining inclusive economic development. Distressed communities struggling with generational poverty like those in Fresno need to address the collective trauma residents bear from decades of institutional and systemic racism, redlining, health disparities, and disinvestment.

It's true that taking the time to get the community involved, engage in candid cross-sector conversations, build trust, and allow for healing may slow down the process. But without a community partnership and dialogue, there is a danger that new investments, while well-intended, may end up re-creating the structures that led to inequality.

2. Inclusive economic development does not have to pit business interests against community interests; it can bring gains for both.

One traditional assumption about economic development is that if a region focuses exclusively on growth, everyone will benefit—a rising tide will lift all boats. Another narrative says that an explicit focus on inclusion and equity will create greater economic gains.



However, we think it is inaccurate to frame development as a choice

between equity and growth, and the research supports JFF's position that the two goals must be pursued in tandem.⁹ Inequality puts a strain on an economy's health and competitiveness and makes it challenging for companies to find the skilled workers they need, which in turn reduces business growth and innovation.¹⁰ Conversely, when people throughout a community can access affordable housing, quality training opportunities, and living-wage jobs, they will buy more goods and services, pay more in taxes, and contribute to the growth of a healthy business ecosystem. Research shows that greater diversity and broader participation in the workforce leads to innovation and stimulates new-business creation and other types of dynamic economic activity.¹¹

We're working to change the narrative to elevate the need for representatives of business and industry to pursue economic development initiatives in partnership with community advocates focused on economic and racial justice. Joint initiatives that seek both equity and growth can yield shared benefits.

3. Economic mobility is a product of neighborhood conditions.

We know from recent research from economist Raj Chetty that place matters when it comes to economic mobility. For instance, a low-income child growing up in San Jose or Salt Lake City has a much greater chance of reaching the top income bracket than a low-income child in Baltimore or Charlotte. This difference in opportunity is caused by neighborhood-level characteristics such as school quality, residential segregation, income inequality, and social capital.¹² Chetty finds that these characteristics—rather than traditional measures of economic success, such as job growth—explain why some children succeed and others remain trapped in poverty.

Based on this research and our field observations, we're using place-based conditions to guide our work with communities and help local leaders develop the capacity to build the strong neighborhoods needed to enable upward economic mobility. Efforts to build local capacity must be inextricably linked to efforts to change the distribution of power, create social capital, and promote economics of inclusion. By investing in partnerships that upskill diverse leaders, or supporting nonprofits that advocate for economically integrated schools, communities can start to create the conditions that will promote equitable economic mobility. It's not enough to provide residents with quality jobs or to build new schools. Those efforts can lead to economic displacement or neighborhood gentrification if not paired with investment in neighborhoods that are racially and economically integrated and foster vibrant civic participation.

4. Investing in local assets can make economic gains more permanent.

Economic development theory differentiates between endogenous growth, a strategy of investing in a region's local businesses, workers, and other assets to stimulate economic activity, and *exogenous* growth, an approach that focuses on attracting businesses, talent, and resources from outside a region.

While attracting external resources may lead to quick wins for communities, leveraging a region's unique assets and investing in local business growth and talent has proved to be a more effective inclusive growth strategy.¹³ Rather than operating with a singular focus on convincing external companies and workers to relocate to their cities, community leaders can also build on their regions' existing assets.

For example, California’s Central Valley has a long history of expertise in food production and manufacturing. Therefore, regional investment in research and development for food innovation technologies is a logical choice for spurring economic activity in the Central Valley because it builds upon years of generational knowledge of food production and agricultural practices.

Similarly, companies seeking a local pool of skilled workers and hoping to improve their staff turnover rates would do well to establish partnerships with local community colleges—data shows that 61 percent of community college graduates live within 50 miles of their alma maters, compared with 40 percent of state university graduates and a much smaller percentage of graduates of highly selective schools.¹⁴

Investments that seek to harness the knowledge and expertise of local businesses and educational institutions rather than luring companies from other cities and states can provide lasting economic gains that are created and enjoyed by local residents. In contrast, businesses or workers that don’t have meaningful connections to a region might be tempted to leave when a new financial incentive comes along in a new place. Therefore, we think it’s clear that regional developers should invest in local businesses and entrepreneurs in order to foster sustainable growth in their communities.

Local civic, community, and business leaders are best positioned to set their investment priorities, and JFF is committed to helping them become investment-ready.



To achieve an inclusive future, we need to co-design new roles for employers, educational institutions, governments, workers, foundations, community-based organizations, and intermediaries in regional ecosystems.

As institutions adjust to a new economy and the demands of the future of work, it is becoming increasingly clear that cross-sector collaboration is the key to unlocking a region's potential.

Tackling economic inequality at scale requires a network approach to systems change—an approach that requires cross-sector actors to put mission above organization, develop authentic, trusting relationships, and serve specific functions in the ecosystem.¹⁵ No one sector can do this alone. We need to keep prototyping the roles of community-based organizations, employers, educational institutions, and intermediaries in activating civic leaders, removing barriers for the untapped workforce, providing opportunities for the lifelong learning that workers will need in a rapidly-changing economy, and priming regions for beneficial investment.

One of JFF's objectives is to create a world where everyone has equal opportunity for economic advancement, and this work has been a call to action for us—but we know we can't do this alone. Our [Future Ready California Network](#) is already mobilizing around the future of community growth, and we are co-designing policies and prototypes with leaders on the ground to address some of the neighborhood-level conditions needed for inclusive economic development. JFF is also developing new models of learning for the field that connect private investors and community partners, leveraging venture-backed platforms, tools, and programs being used in the education and workforce systems to advance the imperatives of both equity and growth. We hope you'll join us in exploring new, inclusive solutions to the challenges facing our communities.

END NOTES

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