SHARED PROSPERITY PARTNERSHIP

How States Can Support Shared Prosperity by Promoting

Quality Jobs

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This is one of three briefs in the State Policies to Promote Shared Prosperity in Cities series created by the Shared Prosperity Partnership. For additional insights, read the *series framing paper* and two other briefs, *How States Can Support Shared Prosperity by Promoting Human Capital Development* and *How States Can Support Shared Prosperity by Promoting Affordable Housing*.

The Shared Prosperity Partnership—a collaboration of The Kresge Foundation, the Brookings Metropolitan Policy Program, the Urban Institute, and Living Cities— convenes local leaders in select communities across the United States to discuss challenges to inclusive growth and provide data, research, and access to national experts, networks, and financial resources. Nationally, the Partnership elevates promising models through publications and public forums to spark dialogue among practitioners and support evidence-based policy at the state and national levels. The Center for Urban Innovation at the Aspen Institute supports the partnership by connecting leaders from different cities to share common challenges and work together to identify specific actions to advance sustainable prosperity in their communities. Since the partnership's formation in 2018, it has supported locally driven efforts in eight U.S. cities: Arlington, VA; Chicago, IL; Cleveland, OH; Fresno, CA; Kansas City, MO; Milwaukee, WI; Minneapolis-St. Paul, MN; and Memphis, TN.

New technologies, economic shifts, changing demographics and continued racial biases are widening income inequalities and racial disparities in cities across the United States. As a result, economic opportunities are increasingly concentrated among a small share of the population and in a limited number of places (Berube et al. 2018). To combat increased economic and geographic inequality within cities, local leaders are launching new efforts to enable women, people of color and other underrepresented groups to contribute to and benefit from economic growth (Poethig et al. 2018). But local leaders cannot address these issues on their own. In an era of federal withdrawal from investments in communities and the social safety net, state and local leaders must work together to advance shared prosperity. In this series of briefs, we articulate why the issues of affordable housing, job growth and upskilling workers matter to statewide shared prosperity. In addition, we explore how state and local governments can forge more effective partnerships, and profile states that are leading the way.

In this brief, we discuss how state and local governments can more effectively partner to grow quality jobs in cities. We acknowledge that the complexity of the challenges requires more integrated and complimentary workforce development and job growth strategies. In an accompanying brief, we address more directly the human capital development strategies that should work in tandem with job growth and economic development approaches examined in this brief.

"IN AN ERA OF FEDERAL WITHDRAWAL FROM INVESTMENTS IN COMMUNITIES AND THE SOCIAL SAFETY NET, STATE AND LOCAL LEADERS MUST WORK TOGETHER TO ADVANCE SHARED PROSPERITY."

Why Quality Jobs Matter for Statewide Shared Prosperity

A core building block for shared prosperity is the availability of high quality jobs for workers. Several obstacles exist, however, to ensuring broad access to employment opportunity:

- A shifting economic landscape that poses a challenge to traditional growth policies.
- Ongoing polarization of high and low wage work.
- Continued severe racial and socioeconomic disparities.

Across the globe, cities and regions are becoming the main drivers of overall economic growth, and in particular job growth. Metropolitan areas accounted for 88 percent of total employment, and 95.9 percent of U.S. job gains[1] in 2017. But, globally the competition is fierce. It is projected we will see massive turnover in the relative positions of cities as their fortunes rise and fall on their ability to grow jobs.[2] With the realities of capital mobility, and the interconnected nature of markets, state and local leaders can no longer rely on outmoded strategies for job recruitment and retention. Moreover, their efforts will be complicated by the fact that both cities and states face a number of challenges on the horizon in meeting their financial obligations, including: growing Medicaid obligations, an uncertain federal landscape, growing pension liabilities, and rising employee benefit costs.[3]

Despite the fact that metropolitan areas collectively hold tremendous economic power, many neighborhoods within them remain disconnected from opportunity. High poverty neighborhoods, in which at least 20 percent of households live below the poverty line, provide one measure of this disconnection. The Joint Center for Housing Studies at Harvard finds that over half of low income people in 2016 lived in high poverty neighborhoods, up from 43 percent in 2000, and that the number of high poverty neighborhoods increased by 53 percent during that timeframe (JCHS 2018). Americans of color are disproportionately affected by the uneven geography of opportunity: 51 percent of all black Americans, and 44 percent of Hispanic Americans, live in high poverty neighborhoods, compared with just 17 percent of white Americans. This concentration of poverty has been shown to harm residents' health, safety and career prospects.[4]

A second challenge to high quality job access is the structure and nature of the American job market. While most cities and regions have experienced consistent job growth in the decade following the Great Recession, median wages have only begun to increase substantially in recent years. And many new jobs consist of low skill, low wage work that doesn't provide pathways to stable, middle class lifestyles. Brookings' analysis of data from economist David Autor found that employment in the lowest and highest paying occupations increased by more than 30 percent between 1980 and 2016, while shrinking by more than 10 percent for many middle wage occupations during that same timeframe (Muro et al. 2019).

> **"THE RISING SHARE OF LOW PAID WORK DISPROPORTIONATELY AFFECTS WOMEN AND WORKERS OF COLOR."**

This bifurcation of the labor market and the rising share of low paid work disproportionately affects women and workers of color. Research from the U.S. Partnership on Mobility from Poverty finds that while 20 percent of white men earn less than $12.50 per hour, almost 40 percent of black women and 46 percent of Hispanic women who work also earn less than this amount (Ellwood and Patel 2018). And many of these jobs are accompanied by volatility in workers' hours, schedules, and weekly pay, which reduces workers' abilities to take care of their families, find a second job, or invest in their education or skills.[5]

Traditional state strategies to spur job growth are ill-equipped to address these challenges. States and localities spend an estimated $45 to $90 billion each year in economic development incentives (Parilla and Liu 2018). Yet the overwhelming majority of research concludes that on the whole, these efforts typically subsidize jobs that would be present without the incentives (Peters and Fisher 2004). For instance, a recent state audit of the Wisconsin Economic Development Corporation found that only 35 percent of the jobs promised by companies from 2011 until 2018 were actually created,[6] while a similar investigation in New Jersey found that the state's economic development authority "improperly awarded, miscalculated, overstated and overpaid" tax credits to businesses, costing the state millions of dollars.[7]

Furthermore, research suggests that these programs are insufficient for spurring job creation in communities. In many cases, these tax breaks and subsidies result in a negligible increase in a region's total job growth.

The infamous Kansas-Missouri "border war" is a prime example of a practice of using tax incentives to lure companies across state lines that costs hundreds of millions of dollars with little to show for it. Research consistently shows that these tax breaks and subsidies are not essential factors in businesses' site selection decisions.[8] The Center on Budget and Policy Priorities finds that attraction-based economic development accounts for a small fraction, approximately 13 percent, of total job creation in a state, compared with jobs created through startups and expansions of existing businesses (Mazerov and Leachman 2016). And most states neglect to structure their incentives to ensure that existing state residents benefit from new jobs (as opposed to in-migrants).

Though entrepreneurship and business dynamism are crucial for job creation, research by the Economic Innovation Group suggests that these elements are in decline in the U.S. economy (Decker et al. 2014 and EIG 2017). Fewer than 2 percent of U.S. employees work in startups today, compared with 4 percent in the 1970s, and more than 74 percent of workers hold jobs in companies established more than 15 years ago, compared with 60 percent of workers in 1990. Like job growth more generally, entrepreneurship is concentrating in a handful of superstar cities; just five metropolitan areas produced half of the country's total new businesses between 2010 and 2014, compared with 30 metropolitan areas during the economic expansion of the 1990s. New companies, and new ideas, can spur productivity growth, which can support higher wages; without the dynamism they provide, lagging cities and the U.S. economy as a whole risk being left behind.

In order to address challenges of economic divergence and labor market polarization, and to truly support quality job growth in cities, state leaders need new approaches.

How the Responsibility to Create and Grow Quality Jobs is Shared Between State and Local Actors

Supporting quality job growth is by necessity a shared endeavor. Regional entities like councils of governments and economic development organizations, and local governments themselves, have critical roles to play in economic development and job growth. But states bear primary responsibility for some aspects of job growth strategies to ensure shared prosperity in cities. This is because many local communities are essentially creatures of state government; workforce and economic development programs share common goals, and relevant funding flows to local governments through states. This creates joint responsibility whereby localities lead on issues within jurisdictions (with states as partners), and states lead on cross-municipality and cross-agency efforts. In all cases, success can only be achieved if the efforts of state and regional actors are aligned with the strengths and assets of local communities (Randall et al. 2018).

Broadly speaking, the intersecting lines of state and local responsibility for fostering quality job growth cover four primary domains: regulatory, infrastructure, market investment (capital investment in the form of loans or grants) and industry support:

- **Regulations** lay the groundwork for actors operating at every level of the economy and provide a critical piece of the job growth puzzle. Regulations address environmental standards, labor markets, and workplace rules, and they govern activities of industries that support job creators: finance, transportation and freight, and production/distribution of energy. In these domains, states have lead authority. However, local government regulations often complement state regulations through ordinances, zoning and licensure.
- Companies point to the presence of **quality infrastructure** as one of the most important decision-making criteria for their investments.[9] Many communities need significant financial support to counter decades of disinvestment or decline in infrastructure quality (e.g., public transportation, roads, telecommunications, school buildings, etc.) to make these communities viable and attractive for increased investment. Federal, state and local governments share responsibility for infrastructure development. The federal government's largest infrastructure investments are in highways, aviation and mass transit.[10] Even in those categories, state and local spending dwarf federal government financial contributions. And state and local governments shoulder the bulk of fiscal responsibility for all other aspects of infrastructure, paying for 75 percent of the cost of maintaining and improving non-defense public infrastructure assets (McNichol 2019).
- **Marketplace investments** can take the form of grants, subsidized loans or tax incentives to firms that meet certain job creation goals or engage in qualified business activities such as research and development (R&D) or capital expenditures. These tools are primarily used by state governments, although local communities can also make such investments. Ensuring these investments support high quality, accessible job opportunities for communities represents a growing priority in state and local economic development policy.
- As noted above, existing firms and the dynamism they generate contribute more to employment growth than firms moving to a given locale. Moreover, high productivity startups historically contribute the bulk of stable job growth in the U.S. economy (Decker et al. 2014). While the federal government has historically funded the building of innovation and industry clusters, state and local governments play critical roles in aligning institutional partners and providing targeted **industry supports** (Eyster 2015; Rogers and Rhodes-Conway 2014).

State Strategies and Solutions to Address Existing Challenges to Quality Job Growth

Across the nation, states are engaged in efforts to build on-ramps to prosperity for companies and residents in their cities. Some states have focused on creating novel financial support mechanisms and incentives. Others have increased localities' authority to make decisions that foster quality job growth. Many states have strengthened cooperation between communities, the private sector and institutions to fuel the necessary partnerships for job growth. Here we highlight some of those innovations within the context of the challenges outlined above.

State Strategies and Solutions to Address Existing Challenges to Quality Job Growth	
Support universal access to benefits to improve job quality	Further incentivize work through state Earned Income Tax Credits (EITCs)
Create high wage jobs through targeted industry incentives and policies	Provide grants to communities for placemaking
Fund local entrepreneurship initiatives, particularly for underrepresented populations	Provide tax credits to businesses that donate to community projects in economically distressed areas

Strategy: Support universal access to benefits to improve job quality

- **THE CHALLENGE:** The increase in contingent (temporary, outsourced and project-based) workers has been accompanied by a decrease in their access to benefits like health insurance, retirement savings and paid vacation (Donovan et al. 2016).[11] Meanwhile, many employees in lower wage jobs continue to lack access to employer-provided benefits. This new dynamic is creating a class of financially insecure workers lacking wage and family stability.
- **HOW STATES CAN RESPOND:** States should first seek to gain a better understanding of their labor market dynamics, including contingent workers, through the use of real time labor market data merged with the insights of on-the-ground economic development professionals. They can then respond by strengthening services and supports for these workers through government programs, public private partnerships or market-based options.[12] States should find an appropriate architecture that blends the traditional social safety net with these new models to ensure they are maximizing labor force participation while providing for underserved citizens.
- **INNOVATIVE EXAMPLES FROM STATES:** States are experimenting with different solutions to provide universal access to key in-work benefits. Oregon launched OregonSaves in 2017, which provides every Oregon resident with a retirement savings account to which they or their employer can choose to contribute.[13] Other states, including Washington, are considering bills that require companies to contribute a minimum amount based on their revenues or contractors' hours worked.[14] Michigan adopted a Paid Medical Leave policy in 2019 that applies to companies with 50 or more employees.[15] And at least five states (California, Connecticut, Massachusetts, Oregon and Vermont) have passed laws that require all employers to provide paid sick leave. Four states (California, New Jersey, New York and Rhode Island) provide paid family and medical leave to workers directly, which is funded through payroll taxes.

Strategy: Further incentivize work through state Earned Income Tax Credits (EITCs)

- **THE CHALLENGE:** Originally introduced by President Ford and championed by President Reagan, the EITC aids low-income families by subsidizing the earnings of low wage workers. The combination of state and federal EITCs lifts nearly 6 million people out of poverty, and research has shown the EITC to be an effective tool in responding to the changing geography of American poverty (Kneebone and Garr 2011). However, only 29 states and the District of Columbia provide their own state versions of the benefit, and in many cases the magnitude of the benefit is so low that it is limited in its poverty alleviation effect (Williams and Waxman 2019).
- **HOW STATES CAN RESPOND:** By increasing the EITC's availability, size, and refundability, states can further maximize the positive impacts of the EITC on poverty alleviation and employment.
- **INNOVATIVE EXAMPLES FROM STATES AND CITIES:** In 2018, Louisiana increased its EITC to offset the impact of sales taxes on low income families.[16] By doing so, Louisiana joined a number of states who passed increases or expansions to their credits in recent years (Massachusetts, New Jersey and Vermont). In 23 states, the credit is now refundable. Meanwhile, the cities of New York City and Atlanta are piloting efforts to expand eligibility for childless workers through the Paycheck Plus program, which has demonstrated promising results thus far (Miller et al. 2018).

Strategy: Create high wage jobs through targeted industry incentives and policies

- **THE CHALLENGE:** Many communities have struggled to attract and retain quality jobs with family sustaining wages. So-called "legacy cities" without built-in advantages like research-intensive higher education institutions end up in a cycle whereby their cumulative disadvantages reinforce one another and further exacerbate their status, a reality that is difficult to surmount through local efforts alone (Berube 2019).
- **HOW STATES CAN RESPOND:** Investing in priority export industries and industry clusters, establishing and enforcing labor market standards, and channeling investments into underserved communities are all well-established strategies for growing good jobs. By aligning their subsidies to incentivize desired business activities consistent with their existing industry assets, states can help localities attract quality jobs.[17] In addition, by instituting practices like rigorous evaluation and coordinated strategic planning regarding their tax incentives, states can lay the groundwork for eliminating inefficiencies in tax spending.[18]
- **INNOVATIVE EXAMPLES FROM STATES:** New Jersey, New Mexico and North Carolina are three states that lead the nation with respect to the value add that their incentives produce because their incentives are highly aligned with middle and high wage job inducement.[19] Similarly, there is a strong relationship between R&D investment and middle and high wage job growth. Arizona is one of the nation's leaders in this regard. However, successfully growing jobs in distressed areas requires a careful balancing between incentives and other policies.[20] States including Illinois, Maryland, Massachusetts and North Carolina have backed innovation strategies that explicitly seek to stimulate higher quality job growth in older cities and other areas at risk of being left behind economically (Maxim and Muro 2019).

Strategy: Provide grants to communities for placemaking

- **THE CHALLENGE:** The legacy of federally sponsored redlining and decades of disinvestment have created blighted communities in every state (Aaronson et al. 2019). The repercussions are evident in the lack of economic progress for residents of these communities, thei impact on a range of negative social outcomes (e.g., education and health), and unrealized economic potential for the wider cities and regions in which they live.[21]

> **"STRONG EVIDENCE EXISTS FOR PLACE-BASED STRATEGIES LIKE BLENDED FUNDING, INTEGRATING NEIGHBORHOODS INTO REGIONAL ECONOMIES, AND DEVELOPING WORKFORCE PIPELINES THAT TARGET SPECIFIC GEOGRAPHIES"**

- **HOW STATES CAN RESPOND:** There is a long history of place-based investment in the United States. While these initiatives have a mixed track record of success, strong evidence exists for place-based strategies like blended funding, integrating neighborhoods into regional economies, and developing workforce pipelines that target specific geographies (Ferris and Hopkins 2015).
- **INNOVATIVE EXAMPLES FROM STATES:** Connecticut's *Innovation Places Initiative* has distributed $30 million in competitive grants for business incubators and open space initiatives to attract talent to livable communities, mostly in the state's struggling older cities such as Hartford/East Hartford, New Haven and Stamford.[22] Winners of these grants have put the proceeds toward several projects, including the installation of Wi-Fi hotspots, creation of tech incubators/accelerators and placemaking. Meanwhile, Minnesota's *Innovative Business Development Public Infrastructure Program* offers grants to local governments to fund infrastructure that promotes job growth and retention, including projects that target manufacturing and distribution, office park development and land acquisition.[23] The grants explicitly target efforts to attract and retain businesses engaged in technological innovation that support high quality jobs.

Strategy: Fund local entrepreneurship initiatives, particularly for underrepresented populations

- **THE CHALLENGE:** Entrepreneurship plays a critical role in the American economy, with small firms accounting for the majority of job growth in American cities. However, although people of color make up 32 percent of our population, only 18 percent of business owners are people of color, which is problematic because these businesses hire people of color at higher rates than white owned businesses.[24] And often these employees are individuals who face greater discrimination and other barriers to employment (Ong and Loukaitou-Sideris 2006).
- **HOW STATES CAN RESPOND:** Because some firms owned by women and people of color have been shown to demonstrate more dynamic growth, states and localities are forgoing significant economic growth opportunities by not capitalizing on the dynamism of these firms and their ability to grow jobs and expand opportunities. The solution is to address the historic lack of access to startup capital, networks, resources and support.[25] State leaders possess the keys to unlocking resources and also to accessing the institutional supports that are critical to the success of minority firms, including business incubation programs and targeted technical assistance, as well as financial incentives and supports.
- **INNOVATIVE EXAMPLES FROM STATES:** Launch Tennessee, the state's public-private partnership to support entrepreneurship, provides matching grants that incentivize growth for companies owned by people of color and those located in Opportunity Zones.[26] Michigan and Minnesota have channeled funding or created institutions that allow for increased access to resources dedicated to developing technology and entrepreneurial activity in these states while also pursuing social equity.[27] [28] California uses its Public Employees Retirement System to invest significantly in venture capital funds run by people of color and women, which outperform many other venture capital firms (Bates and Bradford 2006).

Strategy: Provide tax credits to businesses that donate to community projects in economically distressed areas

- **THE CHALLENGE:** Distressed areas have historically suffered from a lack of capital investment. Philanthropic giving is a growing source of support for community economic development, and it often serves as seed capital for other investors.[29] However, in the wake of the Tax Cuts and Jobs Act and its changes to the standard deduction, individual charitable giving has declined significantly (individual giving declined 3.4 percent between 2018 and 2019).[30] This reality places even greater importance on the role of corporate giving in those communities.

> **"LOWERING TAX BURDENS THROUGH TAX INCENTIVES FOR CORPORATIONS THAT MAKE QUALIFIED DONATIONS CAN BE AN EFFECTIVE WAY OF INCREASING CORPORATE GIVING."**

- **HOW STATES CAN RESPOND:** While corporations make the ultimate decisions regarding where their money is spent, states are failing to realize the potential for multiplier effects from incentivizing giving in specified issue areas and locales. Lowering tax burdens through tax incentives for corporations that make qualified donations can be an effective way of increasing corporate giving.
- **INNOVATIVE EXAMPLES FROM STATES:** Through *Pennsylvania's Neighborhood Assistance Program*, businesses can receive tax credits ranging from 55 percent to 80 percent for contributing to local neighborhood organizations, funding projects the state has labeled a priority, or committing to donate to long-term projects.[31] As of 2018, businesses contributed more than $300 million in donations and received over $100 million in tax credits.[32] New Jersey, Delaware, Virginia and about a dozen other states offer similar programs (C2ER 2015 and VEDP 2018).[33]

Case Study: How leaders in Texas are successfully growing high quality jobs in Austin

The state of Texas leads the nation in promoting meaningful job growth in several aspects; what goes unnoticed by many is the strong culture of collaboration in economic development that exists between local and state authorities. This dynamic serves as the foundation for the economic dynamism of many of its urban centers, in particular the Austin region. The combination of foresight by Austin leaders and an enabling framework enacted by the state of Texas has created one of the most opportunity rich job markets in the nation. There are three key areas in which the state stands out in its approach to supporting the growth of jobs in distressed communities and/or increasing access to quality jobs by target populations.

First, the state was an early champion of supporting industry clusters. In the early 1980s, along with the governor, leaders from across the state worked collaboratively to build the foundation for Austin's establishment as a tech hub (Powers 2004). State leaders strategically aligned the efforts of the university community, local leaders and the business community to secure early industry giants like Microelectronics and Computer Technology Corporation, a consortium of computer industry researchers. In later years, Austin leaders further cemented these efforts through several specific strategies including appropriately restructuring key institutions and establishing deep mutually beneficial relationships with regional stakeholders.

Second, the Texas Legislature has been instrumental in supporting targeted local economic development by enacting legislation that facilitates the specifying [by local communities] of special districts for tax credits and tax increment financing. In combination with local efforts like innovating business incentive programs and workforce and economic development, local communities like Austin have been successful in leveraging state funds strategically and targeting high-growth and high-wage industries.[34] As a result, local leaders have used business incentives to promote the growth of jobs in targeted development zones, meet living wage standards, distribute jobs to existing residents, target opportunities for hard to employ populations, locate jobs near transit hubs, and support minority and women owned business program requirements. Additionally, the combined focus of state and local leaders on incentivizing R&D and providing institutional support to entities like local universities has helped to propel the region past established tech-based communities. This strategy is supported by research that shows incentives targeted for R&D produce some of the best outcomes for local job growth (Bartik 2017).

Third, the state of Texas has pioneered the use of local financing for economic development by authorizing the use of public money for economic development through the use of an economic development sales tax (Longley et al. 2015). Enacted in 1989, this tax is in use by 600 communities across the state. The legislation requires the establishment of Economic Development Corporations (EDCs), which are chartered and governed by city-appointed leaders. With few exceptions, these EDCs are required to expend these funds on activities directed at the creation or retention of primary jobs. Cities like Austin have used this tool to support projects like job training and facilities, mass transit development and infrastructure improvements, and to fund R&D projects.

Armed with the tools authorized by the state, leaders in Austin have demonstrated that it is possible to work in partnership with industry to address broader community goals, establish higher threshold requirements for the receipt of incentives, and meet nearly all of the established best practices for sound economic development policy. Their success is due in no small part to the constellation of relationships between the city's leaders, regional stakeholders and state officials, along with the right mix of complementary institutional and financial supports.

Conclusion: The unique and invaluable role of the state in leveraging job growth to promote shared prosperity

Today's economy depends upon networked relations that span local, state and national borders. Local communities need supportive services from state leaders that facilitate access to global markets and protect job creators from the unfair practices of competitors. In every state, there is a complex network of supporting institutions that localities rely on as part of their economic development ecosystem. Many of these institutions are state run or state supported. And many businesses, in turn, depend upon technical assistance from universities, small business support centers, and technical expertise of state agencies (e.g., regarding access to export markets).

States provide the necessary funding for these supports, craft policies that govern the activities, and define the scope of these programs. Most importantly, state leaders establish standards for required coordination and partnerships at the local level, which is a critically important success factor but often hard to achieve for many local communities (Eberts and Erickcek 2002).

As discussed previously, an efficient and productive regulatory environment contributes importantly to the growth of quality jobs. For decades, the pressures have been immense to engage in a "race to the bottom," in which being the lowest cost state for doing business induces a lax regulatory framework. However, quality government is a stronger predictor of a dynamic economy than a permissive regulatory regime. This reality, combined with the global competition between cities, makes it necessary to create regulatory frameworks that exhibit the necessary flexibility local communities require.[35] State leaders determine whether a community can be competitive with other cities with respect to wages, determine the rules that facilitate occupational growth and competition, and establish the structure of the health system that supports workers and industries. In each of these domains, state leaders have the opportunity to position their communities for success.

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