

State of the Inner City Economies: Small Businesses in the Inner City

Initiative for a Competitive Inner City (ICIC)
2005. [27] pages Boston, MA
under contract no. SBAHQ-03-M-0565

Note

This paper is the result of a larger project undertaken by the Initiative for a Competitive Inner City (ICIC). Other funders for this project include the U.S. Economic Development Administration, the John D. and Catherine T. MacArthur Foundation, and the Greater Kansas City Community Foundation.

Purpose

Inner city neighborhoods are often found in the economic heart of metropolitan areas. Despite their central location, they are rarely considered competitive locations for developing unique markets and creating high-wage jobs. Outdated perceptions continue to obscure their positive realities. Inner city economies are larger and more active than is generally understood, especially among the small businesses that employ the vast majority of inner city workers. The State of the Inner City Economies (SOICE) project seeks to document the impact that small establishments have in the inner city. The goal of this analysis is to present the business potential of inner cities.

Overall Findings

Inner city businesses are similar to businesses located in the rest of the metropolitan statistical area (MSA), exhibiting similar startup and bankruptcy rates. Small businesses are the greatest source of net new employment in inner cities – comprising more than 99 percent of establishments and 80 percent of total employment.

Highlights

- America's inner cities are home to over 814,000 private employer establishments employing just

less than 9 million people (8 percent of U.S. private employment), a figure that grew 1 percent between 1995 and 2002. This figure lagged behind the job growth rate for the rest of the MSA, which was 1.9 percent over the same time period.

- Inner city residents hold only 22 percent of inner city jobs, while commuters hold 78 percent. This fact helps to explain why higher-wage inner city jobs do not correspond to higher median household income levels for many inner city residents. Wage growth between the inner city and the MSA has been competitive.

- About 5 percent of establishments with greater than \$2.5 million in revenues are located in the inner city.

- Ten inner cities experienced faster small business job growth than their surrounding MSA's from 1995 to 2002. These cities were: Jersey City, NJ; Tulsa, OK; Tampa, FL; Oakland, CA; St. Petersburg, FL; San Jose, CA; Mobile, AL; Portland, OR; Santa Ana, CA; and Augusta, GA. In addition, 51 inner cities gained small business jobs overall.

- Micro establishments in inner cities with under 20 employees showed an overall net job decrease of 75,000 jobs between 1995 and 2002. It is important to note that the SOICE project uses a static and not dynamic analysis of establishments; these micro establishments could have "graduated" beyond the 20 employee threshold.

- Service jobs dominated small business job growth in both inner cities and their surrounding regions.

- The most populous cities experienced more widespread employment growth than smaller cities. Job growth varied significantly by region, with larger growth in the West and the South outpacing smaller gains in the Northeast and Midwest.

Scope and Methodology

The SOICE project utilizes comprehensive data sets such as the 2000 U.S. Census returns and ZIP Code Business Patterns, a compilation of national employment and establishment information at the ZIP code level. By combining these data sets, SOICE created profiles for the inner city economies of the nation's 100 largest urban areas. Analyzing these profiles reveals the drivers of inner city competitiveness and job growth, and illuminates trends in inner city populations and business activity on a national scale.

Inner cities are core urban areas that are economically distressed. For the purposes of this study, inner city areas are primarily defined as census tracts with a 20 percent or greater poverty rate, or those with 50 percent greater unemployment or poverty, or half the median income, of the surrounding MSA. The footprint of the inner city emerges by grouping contiguous census tracts that satisfy either of these two criteria and contain at least 5 percent of the city's total population (3 percent in the four largest cities). The 20 percent poverty threshold was selected based upon literature from the field that defines "distressed areas" or "high poverty tracts" at the 20 percent or more level. Census tracts considered part of the central business district (CBD) were included in the study if they met the inner city criteria because excluding these areas would leave out many distressed tracts where people live.

To define inner city boundaries, SOICE analyzed both 1990 and 2000 U.S. Census data. This data was also used to specify the number of residents living in poverty. Despite documented issues of the under-reporting of residents and income, census data remains the best available source of information on U.S. residents.

Two points about the data utilized in the SOICE project should be noted. First, establishment-level business data are being analyzed. This contrasts with other Office of Advocacy statistics from the U.S. Census Bureau that explore firm-level data. Second, SOICE pursues a "static evaluation" of establishment and employment trends from year to year.

This report was peer reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the Director of Economic Research at advocacy@sba.gov or (202) 205-6533.

Ordering Information

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at www.sba.gov/advolresearch. Copies are available for purchase from:

National Technical Information Service
5285 Port Royal Road
Springfield, VA 22161
(800) 553-6847 or (703)605-6000
TDD: (703) 487-4639

www.ntis.gov

Order number: PB2005-106459

Pricing information:

Paper copy, A05 (\$26.50)

Microfiche, A01 (\$14.00)

CD-ROM, A00 (\$18.95)

Download, A00 (\$ 8.95)

To receive email notices of new Advocacy research, press releases, regulatory communications, and publications, including the latest issue of *The Small Business Advocate* newsletter, visit <http://web.sba.gov/list> and subscribe to the appropriate Listserv.