

While market capitalism has proven its superiority in head-to-head competition with other economic systems across the globe, it remains an unrealized ideal in too many inner cities. But despite their considerable problems, inner cities are rich in assets and have enormous untapped potential that could be realized through innovative community-development partnerships.

AMERICA'S INNER CITIES AS EMERGING MARKETS



MICHAEL A. STEGMAN

It's time to shatter the myth that American business cannot realize competitive returns by investing in emerging inner cities right here at home.

Consider this: Asian stocks have fallen by half since the beginning of 1995. Corporate bond defaults reached record levels in foreign emerging markets in 1997. During the same period, the investment climate in inner cities has rapidly improved, driven by a strong domestic economy, low unemployment and dramatic reductions in urban crime rates. A new generation of entrepreneurial mayors is reducing regulatory barriers and improving infrastructure, and market-savvy community organizations are forming joint ventures with businesses in inner cities.

Business can do good and do well by investing in the inner city. For example, a recent study estimates inner-city retail buying power at about \$100 billion a year — 28 percent more than Mexico's entire \$78 billion consumer market. Despite lower household incomes, inner cities' greater population densities give them greater buying power than suburbs. Average consumer demand per square mile is twice as great in Chicago's inner city than in the suburbs (\$57 million vs. \$27 million); in Boston, inner-city buying power is about six times higher per square mile than in the richer suburbs (\$71 million vs. \$12 million).

And many inner-city retail outlets are stellar performers. For example, Kmart's South Bay store in Boston's inner city is the highest grossing Kmart in Massachusetts. Former Los Angeles Laker Ervin "Magic" Johnson's Magic Theaters in South Central L.A. are an enormous success. And many inner-city supermarkets generate per-square-foot sales up to 40 percent higher than the regional average.

In North Carolina, a joint venture of Food Lion, NationsBank, the city of Charlotte and a community-based partner, The Northwest Community Development Corp., developed the grocery chain's first inner-city venture. The 55,000-square-foot Food Lion in Charlotte's Beatties Ford Road corridor was among the best performing start-ups of any new supermarket, grossing \$8 million in its first year — \$2 million over projections — and creating 150 jobs. Filling unmet inner-city retail demand nationally could create as many as 250,000 retail and 50,000 nonretail jobs for residents, studies indicate.

Community organizations and businesses working together can prepare inner-city residents for jobs in the growth sec-

tors of their regional economies. With demand for labor growing about twice as fast as the work force, this is crucial. Even in the most distressed communities, the work ethic persists as a norm. One quarter of all families in public housing are among the working poor. With joblessness in Kansas City's inner city at around 14 percent, compared to less than 1 percent in the suburbs, Sprint Corp. found retention rates among telephone operators in its new Jazz District call center were much higher for welfare recipients than suburban recruits.

Forging community development partnerships with the business community is important. America cannot remain competitive unless everybody has the tools and skills necessary in the new economy. Sadly, this is not the case today. According to the latest government figures, only about a third of all white youngsters have access to a computer anywhere — at home, work or school. As disappointing as this is, access for white youth is three times greater than for black or Hispanic youth. Too many schools still are not connected. Just 27 percent of all classrooms are now wired, and that drops to 14 percent for schools with large minority populations. Knowing they will draw a growing portion of their work force from inner cities, U.S. employers should be troubled by the fact that in 1994 and 1996, 60 percent of children in urban schools failed to achieve basic competency levels in reading and math. Again, failure rates were higher in high-poverty schools.

In community capitalism, business, supported by the government and community sectors, drives investment, job creation, and economic opportunities in distressed communities. Urban neighborhoods are profiled by measures of economic strength rather than social pathologies; promising inner-city entrepreneurs have access to capital; and corporations make inner-city investment decisions for business reasons instead of charity. In an increasingly competitive global economy, we must take advantage of the enormous untapped potential — both in economic and human terms — that our inner cities contain.

Michael A. Stegman is the director of the Center for Community Capitalism at the Frank Hawkins Kenan Institute of Private Enterprise and the MacRae Professor of Public Policy Analysis in UNC-Chapel Hill's Department of Public Policy. Before returning to the university in 1996, he spent four years as assistant secretary for policy development and research and chief of staff at the U.S. Department of Housing and Urban Development.