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Moving Cleveland Above the Trend: Polarization

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A recent report conducted by the Center for Economic Development examined the structural and policy factors of economic growth in mid-sized metropolitan areas (MSAs). The Center used factor analysis as a data-reduction technique to identify five factors influencing mid-sized regional economies: 1) *Innovation and Talent*, 2) *Entrepreneurship in High-Cost Areas*, 3) *New Residential Centers*, 4) *Retirement Destinations*, and 5) *Polarization*. These factors also contribute to changes in regional employment, gross regional product (output), and per capita income. This brief outlines the initial analysis' primary takeaways related to *New Residential Centers* and explores how Northeast Ohio can incorporate successful policies and programs in other regions to propel it forward.

INTRODUCTION

The *Polarization* factor explains 4.7% of metro areas' regional growth, impacting it less than every other factor identified. Polarization refers to the unequal and growing economic stratification in a geographic region. The factor includes six variables: income inequality, poverty, income supports, female business ownership, minority business ownership, and unemployment (Table 1). As the values of these variables increase in a metro area, polarization also increases. Clearly, as measures of income inequality, poverty, social assistance, or unemployment increase, economic stratification becomes more severe. Minority and female business ownership, however, are predictors of polarization because they are more likely to exist in underserved neighborhoods, but their success and ability to grow are vital to the health of local economies and provide an avenue to greater financial security for minority populations. Overall, the polarization factor negatively affects all three of the model's output measures of regional growth: gross regional product, employment, and per capita income. Cleveland ranks 43rd out of 135 metro areas for polarization, highlighting the region's need for strategies that reduce income inequality and poverty, especially for its most underserved communities. In fact, many metro areas with low polarization scores demonstrated a strong association with low racial and ethnic diversity, and it is clear that minority communities face higher rates of poverty and

barriers to achieving economic prosperity, especially in high density areas where minority populations are primarily located. This report will examine national and local trends in economic polarization and successful anti-polarization programs, with the goal of identifying policies that could benefit Northeast Ohio.

Table 1. Polarization Factor Variables

Ranking	Variable
1	Income Inequality (+)
2	Poverty (+)
3	Income Supports (+)
4	Female Business Ownership (+)
5	Minority Business Ownership (+)
6	Unemployment (+)

NATIONAL POLARIZATION TRENDS

In the years immediately preceding the Covid-19 pandemic, the United States economy was thriving. It had recovered significantly from the Great Recession of 2007-2009, with lower unemployment and poverty rates and a higher real median household income level than ever before.^{1,2} Despite this, polarization has become a topic of national concern as the recovery gains have done little to combat income and wealth gaps between America's richest and poorest citizens.

Pew Research Center analysis of U.S. Census Bureau data reveals that the share of middle-income households

¹ Cunningham, Evan. (2018, April). [Great Recession, Great Recovery? Trends from the Current Population Survey](#). *Monthly Labor Review*, U.S. Bureau of Labor Statistics.

² FRED. (n.d.). [Real Median Household Income in the United States](#).

decreased by 10% from 61% in 1971 to 51% in 2019, with 6% moving into the upper-income tier and 4% dropping to the lower-income tier. At the same time, average incomes have grown more quickly for upper-income households than for middle- and low-income ones. The wealth gap between these households has widened as well, which may have long-term implications for intergenerational mobility. Upper-income families owned 79% of U.S. aggregate family wealth in 2016 and were the only group to increase their wealth in the 15 years from 2001 to 2016.³ This income and wealth disparity is even more severe for Black and Hispanic populations, who continue to face social and economic consequences of racial discrimination and segregation. In 2019, the real median income of Black households was 31% lower than White households, and that of Hispanic households was 26% lower.⁴ In the same year, White families had a median net worth of \$188,200 compared to \$24,100 for Black families and \$36,100 for Hispanic families.⁵ This makes the wealth of both minority groups less than 20% that of White families.

POLARIZATION DURING THE PANDEMIC

More recent data reveals that the Covid-19 pandemic has exacerbated existing economic polarization. Nationally, the lowest average wage workers were the most likely to lose their job during the first year of the pandemic, and within the hardest-hit sector, leisure and hospitality, occupational segregation led to disproportionate job loss among Black and Hispanic women and Asian Americans and Pacific Islanders.⁶ Additionally, according to the U.S. Census Bureau's standard measure of income using pre-tax earnings,

income inequality increased in 2020. However, due to pandemic income assistance and increased wages in low-earning occupations, post-tax incomes, including government aid, increased for the bottom 50% of earners by the end of 2020 and decreased for the top 20%.⁷ Regardless, it remains unclear whether this slight reduction in income inequality will perpetuate far into the post-pandemic economic recovery.

Even while direct federal Economic Impact Payments and expanded unemployment benefits helped buoy the finances of lower- and middle-income Americans, the most affluent avoided the worst effects of unemployment and managed to make significant and disproportionate gains in wealth during the crisis. According to Federal Reserve data on the distribution of household wealth in the United States, the bottom 50% increased their wealth by \$1.87 trillion from the first quarter of 2020 to the fourth quarter of 2021. During the same period, the wealthiest 10% of Americans increased their wealth by \$28.38 trillion. More than half (\$15.13 trillion) of the gain for the wealthiest Americans was accumulated by the top 1%.⁸ Overall, recent recovery from the pandemic has corrected the initial sharp spike in inequality, but it has done little to ameliorate the longstanding and growing trend of economic polarization in the U.S.

POLARIZATION IN NORTHEAST OHIO

The problem of polarization exists more acutely in Northeast Ohio than throughout the rest of the country. Using the Gini Index, Cleveland ranked 6th among metropolitan areas with a population of at least 300,000

³ Pew Research Center. (2020, January 9). [Trends in Income and Wealth Inequality](#).

⁴ Semega, Jessica, Melissa Kollar, Emily A. Shrider, & John F. Creamer. (2020). [Income and Poverty in the United States: 2019](#). U.S. Census Bureau.

⁵ Bhutta, Neil, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu (2020, September 28). [Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances](#). *FEDS Notes, Board of Governors of the Federal Reserve System*.

⁶ Gould, Elise & Melat Kassa. (2021, May 20). [Low-wage, low-hours workers were hit hardest in the COVID-19 recession](#). *Economic Policy Institute*.

⁷ Buckley, Patricia; Akrur Barua & Monali Samaddar. (2021, November 10). [US income inequality after the pandemic: What happens now that government supports have ended?](#) *Deloitte Insights*.

⁸ Board of Governors of the Federal Reserve System. (2022, March 18). [Distribution of Household Wealth in the U.S. since 1989](#).

with the greatest income inequality gaps.⁹ Cleveland's score grew the most dramatically out of all cities measured between 2010 and 2019, increasing from 0.47 to 0.55.¹⁰ Within Ohio specifically, the Cleveland-Elyria MSA has the most income inequality. The wealthiest 1 percent of Clevelanders earned 21.5 times more income than the average Ohio household.¹¹

Other measures factor into the picture of polarization in Northeast Ohio, including poverty levels, unemployment, and income supports. According to 2019 data from the U.S. Census Bureau's American Community Survey, the Cleveland-Elyria MSA has a below-average median income (\$57,228) and a higher percentage of its population living below the federal poverty level (30.8%) than Ohio (13.1%) and the nation on average (12.3%), as well as all other large U.S. cities.¹² The region also has a higher unemployment rate and greater reliance on public income supports than Ohio and the U.S. overall. These measures are worse for minority groups in the Greater Cleveland area, where about 30% of the population is not white. In the Cleveland-Elyria MSA, for example, the median income for white residents (\$60,000) is about double that of black residents (\$28,000) and black residents are 1.7 times more likely to be living in poverty than their white counterparts.¹³

POLICY CLIMATE

Policymakers have long made the case for reducing polarization in American society, framing inequality as a constraint on the economy's ability to reach its full growth potential. According to this view, inequality impacts market competitiveness. Equality, on the other

hand, acts as an economic driver. Most social welfare policies in the United States focus on raising Americans out of poverty through wealth redistribution in the form of in-kind and cash transfers to disadvantaged groups. Multiple studies have concluded that federal economic security programs have decreased poverty rates and income inequality at the lower end of the income spectrum using strategies like tax relief, social insurance, and cash or in-kind assistance.^{14,15}

PROGRAM SPOTLIGHTS

There are two major policy pathways for reducing poverty and economic inequality, place-based and people-based approaches. Place-based policies encompass efforts to improve economic performance within a particular geographic jurisdiction. People-based policies instead target individuals and households regardless of where they live. Though there is a longstanding debate about which policy approach is more effective, each is useful to address particular dimensions of poverty or inequality. People-based policies help reduce poverty on an individual level, most directly accomplished through transfer payments and income support programs such as income tax credits or food assistance. Place-based policies, on the other hand, seek to increase welfare on a community-wide scale, using a variety of strategies. These place-based strategies often focus on job creation to strengthen local labor markets in distressed communities but have received criticism for failing to ensure that the benefits in fact reach the most distressed people. Research has shown that the most cost-effective place-based policies are targeted public services to businesses such as

⁹ The Gini Index is a score measuring economic inequality on a scale of 0 (perfect equality) to 1 (perfect inequality).

¹⁰ Bach, Trevor. (2020, September 21). [The 10 U.S. Cities With the Largest Income Inequality Gaps](#). *U.S. News & World Report*.

¹¹ Stein, Ben. (2018, July 19). [Unfair share](#). *Policy Matters Ohio*.

¹² Campbell, Emily. (202, September 21). [Cleveland is now the poorest big city in the country](#). *The Center for Community Solutions*.

¹³ Warren, Kate. (2019, July 8). [How can Cleveland close its racial income and wealth gap?](#) *The Center for Community Solutions*.

¹⁴ Trisi, Danilo & Matt Saenz. (2019, November 26). [Economic Security Programs Cut Poverty Nearly in Half Over Last 50 Years](#). *Center on Budget and Policy Priorities*.

¹⁵ Wimer, Christopher et al. (2020, August 24). [The Direct Effect of Taxes and Transfers on Changes in the U.S. Income Distribution, 1967-2015](#). *Demography*.

brownfield development, manufacturing extension advice, or customized job training that help overcome private-market failures, in contrast to business incentives like tax breaks that have more diffuse effects. However, the needs of local labor markets vary greatly, and policies must match those needs to be most effective for increasing the welfare of residents, requiring strong local leadership and collaboration between local governments, education institutions, and businesses.¹⁶

Income supports are one people-based strategy for reducing income inequality and poverty. In the search for a form of public assistance with fewer barriers and greater reach, cities across the country are debuting guaranteed income pilot programs. As of 2021, over 20 cities have conducted or plan to pilot guaranteed income experiments. This explosion of interest followed reports of the success of the 2019 Stockton, California guaranteed income pilot, in which direct, regular, no-strings-attached cash payments increased employment and increased mental health outcomes. Now the model is being expanded with cities proposing guaranteed income programs that directly target their most vulnerable communities. Most are piloted towards low-income households, but some cities are hoping to address the root causes of poverty in their communities, whether that be racial discrimination or homelessness. Pittsburgh's proposed pilot program includes an oversample of Black women as a strategy to address the city's disproportionately high levels of Black women and children living in poverty compared to similar cities.¹⁷

Income supports may reduce income inequality by expanding the ability to spend on short-term needs, but the ability to invest in long-term assets can be achieved through programs that incentivize saving, enabling families to build wealth. One of the most widely tested

strategies is matched savings programs, which provide participants with a savings account, matched deposits at a specified rate, and often, financial education. These individual development accounts (IDAs) have been shown to have significant positive impacts on savings, material hardship, and even homeownership.¹⁸ Many cities, including Cleveland, provide access to IDA programs in partnership with local financial institutions and community organizations, but they are directed primarily at adults. Seeing an opportunity to address financial literacy in unbanked or underbanked populations before debt is accumulated, some cities are a youth-focused approach to financial education. In 2018, the city of Akron, Ohio received a DollarWise Innovation grant from the U.S. Conference of Mayors for its PeaceMakers program. This program provides peer-to-peer financial education in Akron public schools through workshops focusing on savings and credit management, and rewards students with a monetary contribution to a savings account upon completion.¹⁹

Income inequality cannot be tackled through income supports alone- citizens need the opportunity to support themselves with employment that provides a living wage and pathways for growth. Place-based strategies can accomplish this by focusing on the specific workforce demands of a city or region and tailoring policies to support its economic base and driver industries. Throughout time, improving secondary educational outcomes in preparation for undergraduate degree programs has been a major focus for many cities seeking to reverse income inequality trends. However, some key industries experiencing a gap between demand for workers and qualified applicants may be better served by workforce training and apprenticeship programs rather than four-year degrees. In Detroit, Michigan, the nonprofit Focus:HOPE leverages grant dollars to fund pre-apprenticeship and apprenticeship programs in

¹⁶ Bartik, Timothy J. (2020, May 8). [Place-Based Policy: An Essay in Two Parts](#). *W.E. Upjohn Institute for Employment Research*.

¹⁷ The City of Pittsburgh. (2021, September 8). [City Council to Consider Mayor Peduto's Groundbreaking Assured Cash Experiment \(ACE\) PGH Initiative to Address Poverty and Inequity](#).

¹⁸ Butrica et al. (2020). [Effective Programs and Policies for Promoting Economic Well-Being](#). *Urban Institute*.

¹⁹ The United States Conference of Mayors. (2018). [Innovations in Financial Education](#).

advanced manufacturing that provide wraparound services to meet the needs of a labor pool that would otherwise face barriers to participation, including transportation and internet access.²⁰ Other initiatives focus on developing apprenticeships in emerging industries like tech, a sector in which private companies like Apprenti and CareerWise have created models that partner with businesses directly and rely on traditional recruitment strategies to attract students. Some local governments, however, are acting as apprenticeship sites themselves to reach a more diverse pool of candidates for workforce development in tech. For example, the School District of Philadelphia connects recent graduates from its urban campuses to paid pre-apprenticeship and apprenticeship opportunities with District I.T. employees through its established Urban Technology Project programs, helping the school system meet their technology needs while providing structured, in-demand training and mentorship to their former students.²¹ More recently, the City of Syracuse partnered with the Manufacturers Association of Central New York in 2020 to create a software development apprenticeship within the city's Digital Services Division, addressing the dual goals of employing more local residents and meeting the city's employment needs.²²

If designed thoughtfully, workforce development programs will form pipelines of available workers to in-demand local industries, creating the opportunity for higher rates of community hiring. Over the past decade, cities have achieved in-community hiring through strategic partnership with local anchor institutions, encouraging large employers like hospitals and universities to invest in surrounding neighborhoods. Many such place-based initiatives have successfully increased local hiring and purchasing, but have also contributed to gentrification and further marginalization

of the minority communities who would benefit most from job and contract opportunities. To address this opportunity mismatch, partners in cities like Chicago and Philadelphia have developed research and consultation programs to provide technical assistance to anchors to better enable them to focus on diversity in hiring and contracting with minority-owned businesses. The Philadelphia Anchors for Growth and Equity (PAGE) initiative, a collaboration between city government, a local economic development nonprofit, and anchor institutions, has successfully negotiated contracts for minority-owned businesses like EMSCO Scientific Enterprises, which now sells laboratory supplies to the University of Pennsylvania.²³

Minority- and women-owned businesses need to be supported on a larger scale if they are going to thrive and achieve greater inclusion in local entrepreneurial ecosystems. Cities with more minority and female business ownership are positively associated with economic polarization since they are more likely to exist in underserved neighborhoods. One of the biggest challenges faced by minority and female entrepreneurs is access to capital. Some cities have aimed to address the capital needs of minority businesses by contracting with them directly for city projects. Following the release of the 2017 Minnesota Joint Disparity Study which found that only 11% of Minneapolis city procurement dollars were awarded to minority- and women-owned businesses, the city expanded their Small and Underutilized Business Program to ensure greater opportunity for certified WBEs and MBEs.²⁴ More recently, cities like Detroit have taken targeted procurement a step further by establishing a program that ensures minority-owned businesses have the financial capacity to complete city projects. In 2022, Detroit announced the Motor City Contractor Fund,

²⁰ Haigh, Rebekah. (2021, May 24). [Faith and Community Build HOPE and a Connection to Jobs in Detroit](#).

²¹ The School District of Philadelphia & Communities In Schools of Philadelphia, Inc. (2020). [Urban Technology Project](#).

²² The City of Syracuse. (2022, 24 March). [City of Syracuse Partners with MACNY to Create First Software Developer Apprenticeship](#).

²³ Dawson, LJ. (2020, March 12). [How Cities' Big Nonprofits Are Tackling Income Inequality](#). *Politico Magazine*.

²⁴ City of Minneapolis. (n.d.) [Small and Underutilized Business Program](#).

which will provide \$10 million in financing and technical assistance to local minority-owned businesses, with the goal of investing in the city's own citizens by increasing

the use of local contractors from its current low rate of 5%.²⁵

TAKEAWAYS FOR NORTHEAST OHIO

Income support strategies are some of the most direct ways of attempting to tackle the wealth and income gaps that exist in Northeast Ohio today. Some community organizations in the region, like the YWCA of Greater Cleveland and Empowering and Strengthening Ohio's People (ESOP), promote savings and work to decrease the number of underbanked citizens through IDA programs for adults. The Ohio CDC Association also offers IDA programs throughout the state, but is lacking a partner site in Northeast Ohio. The most recent effort to increase savings in the region's minority communities occurred in 2021, when the Bank On CLE initiative launched partnerships with local financial institutions to expand access to low-cost, low-fee bank accounts. The knowledge and infrastructure exist for the expansion of these adult-focused programs, but the region should also consider expanding financial education and savings investment to its youth population. The city of Akron provides a model for this through their DollarWise program, forms of which could be introduced to other school districts in the region.

Northeast Ohio leaders should track the outcomes of the multitude of guaranteed income pilots starting up across the country, especially those targeted at key demographics like low-income, racial minority, or single mother households. If preliminary results like decreased household debt and improved mental health outcomes are reproduced with strong evidence, then the NEO region should consider the development of its own pilot focused on the most vulnerable communities.

The NEO region's focus on workforce development and its strong history in the trades and manufacturing provides a foundation for the formulation of strategies that concentrate on underexplored labor pools. Access to training and education outside of a traditional four-year degree need to be expanded for the current labor force and for outgoing high school graduates. Programs that aim to teach skills need for new jobs in advanced manufacturing must accommodate workers transitioning from other roles as well as students new to the industry. At the same time, it would benefit NEO's future economy if industry-specific training such as apprenticeships were developed in emerging industries and marketed towards the region's youth. In the past year, Greater Cleveland Partnership has partnered with Apprenti, an IT apprenticeship intermediary, to bring tech apprenticeships to the region.²⁶ If such opportunities can be connected to other existing youth career development programs, like Cleveland Metropolitan School District's Planning and Career Exploration program, then the region would have a model pipeline to living wage careers for those not on the college track.

In Northeast Ohio, the combination of an existing entrepreneurial ecosystem and expanded funding sources has created a strong foundation of growth opportunities for minority- and women-owned businesses. In response to the need for greater access to capital for these businesses, Cuyahoga County approved \$3 million in funding to area nonprofits with the goal of expanding access to technical assistance services that will help minority and women entrepreneurs secure

²⁵ Stitt, Chanel. (2022, April 5). [New fund launches in effort to provide loans, support to minority contractors in Detroit](#). *Detroit Free Press*.

²⁶ Palmer, Kim. (2021, October 3). [Nationally accredited IT apprenticeship program headed to Cleveland](#). *Crain's Cleveland Business*.

loans from banks and nontraditional sources.²⁷ Some of the grant recipients are members of the Northeast Ohio Business Growth Collaborative (BGC), which brings together resources including financial education, mentoring, and further access to capital from eleven Cleveland-area nonprofit partners. BGCs have also been established in Toledo and Dayton to bolster their entrepreneurship ecosystems through network building and financial assistance, especially for marginalized groups of entrepreneurs. In Greater Cleveland, partners like the microlender ECDI and crowdfunding platform Kiva have successfully raised capital to fund minority- and women-owned businesses specifically, but there are still loan readiness obstacles preventing these business owners from accessing capital. Therefore, the region should focus on expanding existing technical assistance and coaching programs that help minority businesses establish a business plan, record and maintain financial records, and build credit.

One exemplary way in which the region is helping minority-owned businesses is through the new Construction Accelerator Program (CAP), established by a partnership between the Sherwin-Williams Foundation and the Urban League of Greater Cleveland. The CAP will target MBE-certified construction businesses to receive

mentorship, business management training, and access to capital. Upon completion of the pilot program, CAP will then enable businesses to qualify for loans through the Urban League's UBIZ Venture Capital investment arm.²⁸ This program demonstrates the region's commitment to promoting economic inclusion for historically marginalized entrepreneurs and may serve as a model for other industries in Northeast Ohio.

It is undeniable that Northeast Ohio faces a region-wide problem with economic polarization, especially along racial and ethnic lines. If the Greater Cleveland area hopes to close the gap in wealth and opportunity for its residents, then focused policy attention must be enacted by leaders in both the public and private sectors. The region has the advantage of a thriving philanthropic community which has set the stage with partnerships and programs that can be supplemented, expanded, or scaled for greater effectiveness. A targeted, integrative approach that supports living wages and savings, develops innovative workforce training, and expands opportunities for minority- and female-owned businesses will help the close the existing income gap.

²⁷ Durbin, Kaitlin. (2022, March 8). [Cuyahoga County approves \\$3 million to support small businesses, especially women-, minority-owned.](#) *Cleveland.com*.

²⁸ National Urban League. (2022, May 31). [Urban League of Greater Cleveland Partners with Sherwin-Williams for Accelerator.](#)

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