

Strengthening the Detroit Economy While Addressing Injustice in Low-Income Neighborhoods
Through High-Impact Entrepreneurship

O'Callahan (Callie) Taylor

Professor Brotzman

Poverty 423: Capstone Research Seminar

April 14, 2017

Introduction

Many people and organizations hail the rise of high-impact entrepreneurial activity in a city as the harbinger of economic development and of job and wealth creation. High-impact entrepreneurial firms are characterized by their above average impact on job and wealth creation, as well as their ability to influence the direction of the local economy. In Detroit, high-impact entrepreneurial firms, coinciding with real estate development, has helped to catalyze the city's nascent revival. Focused in the Greater Downtown area, Detroit has fostered a successful entrepreneurial ecosystem attracting both financial and human capital that other post-industrial American cities seek to emulate.

While high-impact entrepreneurship tends to be associated with aggregate increases in wealth and employment for the city, it does not always benefit the low-income residents of Detroit. The city has a poverty rate of about 40 percent, and about 25 percent of residents of the outer city experience unemployment or underemployment due to a mismatch in skills and a lack of training opportunities (Carey, U.S. Census). High-impact firms generate a disproportionately large share of new jobs. However, close to 50 percent of new jobs at these firms downtown require employees with higher education (7.2 *SQ MI* 2015). In the city of Detroit, only 12 percent of the population over the age of twenty-five has a college degree or higher (U.S. Census).

High-impact entrepreneurial activity, in addition to general business development and investment, benefits the collective Detroit economy. Wages and salaries have increased over 3 percent in the past two years and the unemployment rate has been decreasing (BLS). Unfortunately, the real estate development associated with the business development does not

always directly benefit the low-income communities, unless the development company is using the tax incentive that rewards the creation of low-income and mixed income housing. The growing pockets of business ventures and building developments—nearby the already existing corporations—bring wealth and upscale businesses to the neighborhoods where they are located. This, in turn, drives up demand for these locations and contributes to the gentrification of Greater Downtown neighborhoods. As is typical of urban gentrification, rental prices increase and commercial businesses strictly catering to the higher income populations multiply. It is downtown Detroit—a mere 7.2 square miles within the total 139 square miles of the actual city—that is reaping the benefits of entrepreneurship-influenced economic growth (Moskowitz, 91). Many of the neighborhoods farthest from the Greater Downtown area are suffering from urban blight, poverty, and crime. The neighborhoods outside of the greater downtown area have not been offered the help that they so desperately need, and this is an instance of structural injustice. Structural injustice is a type of “moral wrong distinct from the wrongful action of an individual agent or the repressive policies of a state,” occurring as a “consequence of many individuals and institutions acting to pursue their particular goals and interests, for the most part within the limits of accepted rules and norms” (Young 52).

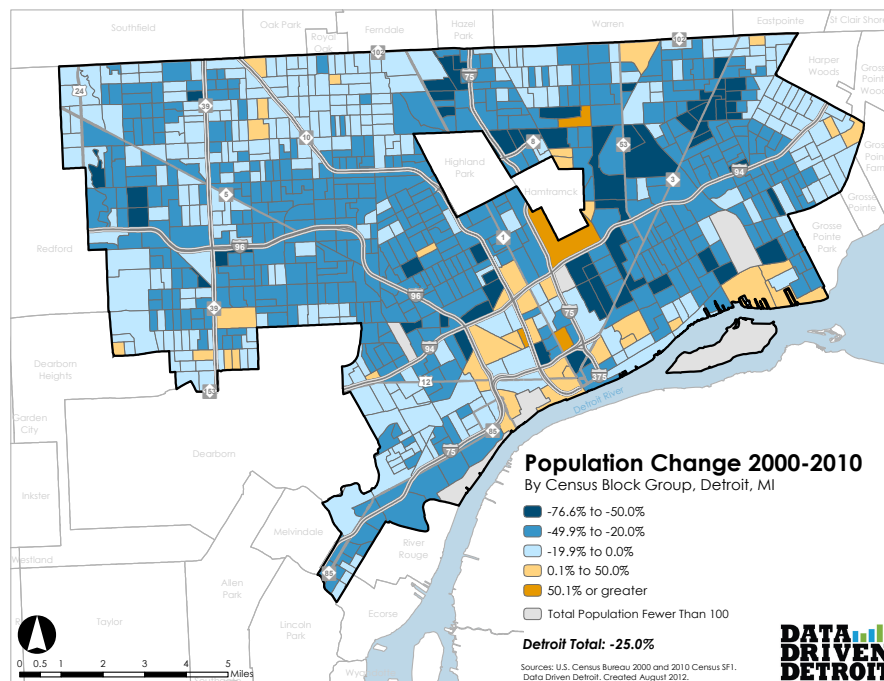
All stakeholders in Detroit have a collective responsibility to reduce injustice in low-income neighborhoods. However, this paper uses a social responsibility framework to argue for the responsibility of high-impact firms to reduce injustice in Detroit—in addition to proposing a method to require the fulfillment of this responsibility. Successful high-impact firms benefit the economy by adding jobs and wealth, and the generous tax incentives that they receive should theoretically widen their profit margin. The main goal of these tax incentives is to accelerate economic development—and yet the development is not occurring in the poorer neighborhoods.

These firms reaping the tax benefits are connected to the social-structural processes that inflict injustice upon the poor, and they should seek to mitigate this injustice. The Detroit City Council (DCC) and Michigan state government should continue to incentivize high-impact firms to invest in Detroit's economy, even if the Greater Downtown area receives the main benefits. To address social injustice in low income populations, Detroit should require firms, as a condition of receiving business incentives, to create and report on anti-poverty initiatives outside of the Greater Downtown.

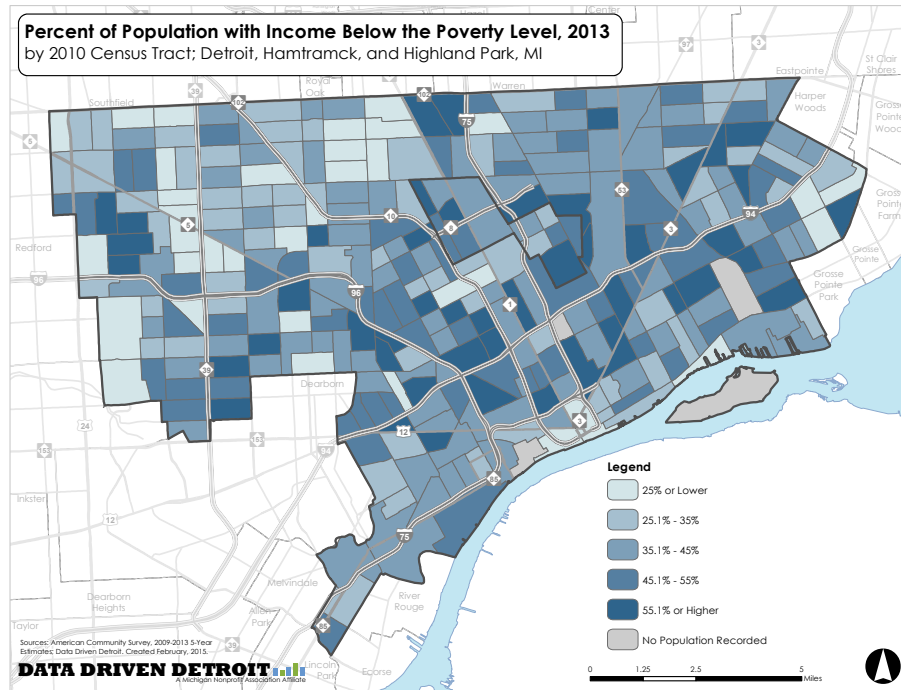
Background Story

Detroit has experienced a long and tumultuous economic history as a postindustrial city characterized in recent decades by poverty and failed enterprise. The city downgraded from a thriving hub of industry with a population of 1.8 million in 1950 to a city of about 690,000 people in 2013. Over that time span of 1950 to 2013, the city's demographic transformed from a nearly 84 percent white population to a white population of a little less than 13 percent (Williams). The city has been continuously shrinking over past decades, and even lost 25 percent of its population between 2000 and 2010. The city officials assume that anyone who could afford to move out of the impoverished neighborhoods did so in search of better schools, less crime, and other employment opportunities (Moskowitz 95). Increases in population are centered in the Greater Downtown area. Please view the figure, "Population Change 2000-2010," where the yellow and orange shaded census tracts are clustered. The households left in the neighborhoods are stuck because of their social-structural positions that limit their opportunities and constrains their potential actions regarding changing their positions (Young 45). It is structural injustice for these people to have no options besides remaining in a failed neighborhood.

The Census Bureau lists the city's poverty rate as 40 percent. As the city has decreased in population, poverty has become more concentrated. In 2000, only 9 percent of the poor lived in a census tract with a high concentration of poverty. More than ten years later, 32 percent of the poor live in census tracts where at least 40 percent of the population is under the federal poverty line (US Census). Please view the figure, "Percent of Population with Income Below the Poverty Level, 2013," to witness the concentrated areas of poverty.

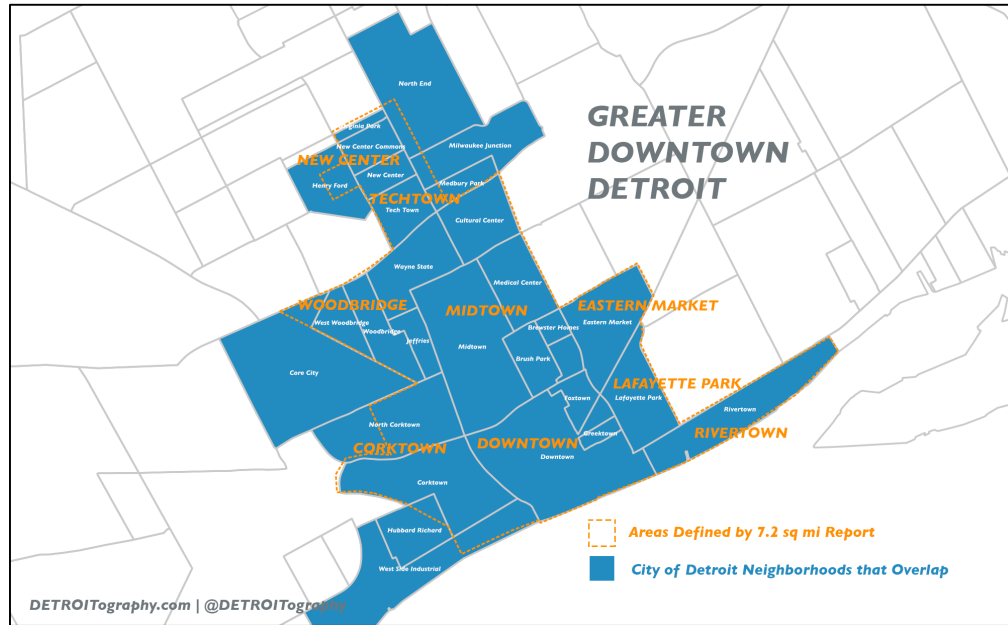


Population Change 2000-2010
(Data Driven Detroit, 2012)

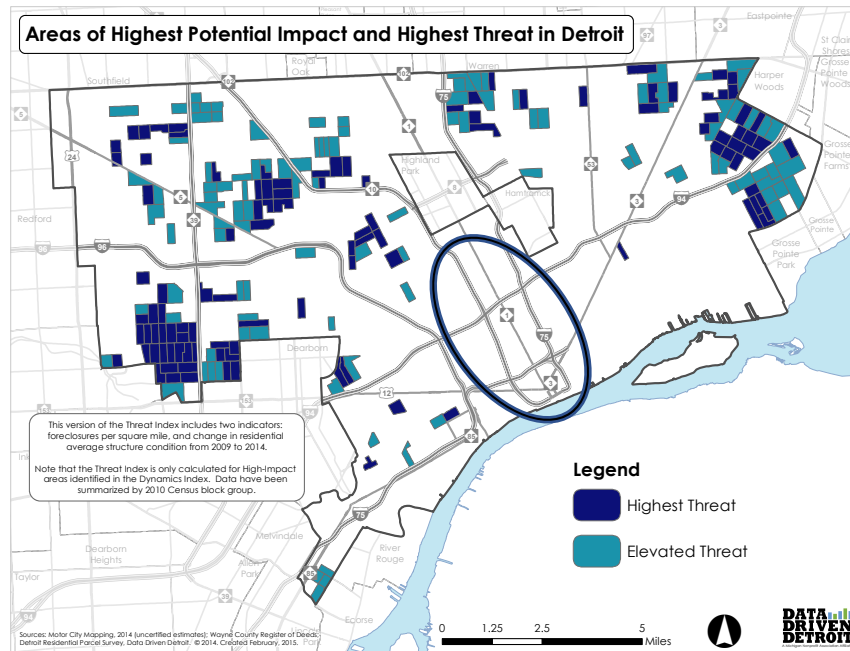


Percent of Population with Income Below the Poverty Level, 2013
(Data Driven Detroit, 2015)

Though the city of Detroit is roughly 139 square miles, it is the 7.2 square mile greater downtown area—referred to as ‘the 7.2’—that holds the reviving business district and constitutes the gentrifying core of the city. Seven neighborhoods make up the 7.2: Downtown, Midtown, Woodbridge, Eastern Market, Lafayette Park, Rivertown, and Corktown (7.2 *SQ MI* 2015). The image below, “Greater Downtown Detroit” is a map of the 7.2 made by Alex Hill for the website, ‘DETROITography.’



In 2013, Detroit experienced the largest municipal bankruptcy in American history and was operating only a third of the public services offered by a city. Many neighborhoods still do not have working street lights or significant police presence. Detroit received \$300 million in federal funding—but it was mostly towards building public transportation and towards blight removal and neighborhood transformation (Moskowitz 86). The figure below illustrates a visual representation of the most threatened areas in the city of Detroit:



Areas of Highest Potential Impact and Highest Threat in Detroit
(Data Driven Detroit, 2015)

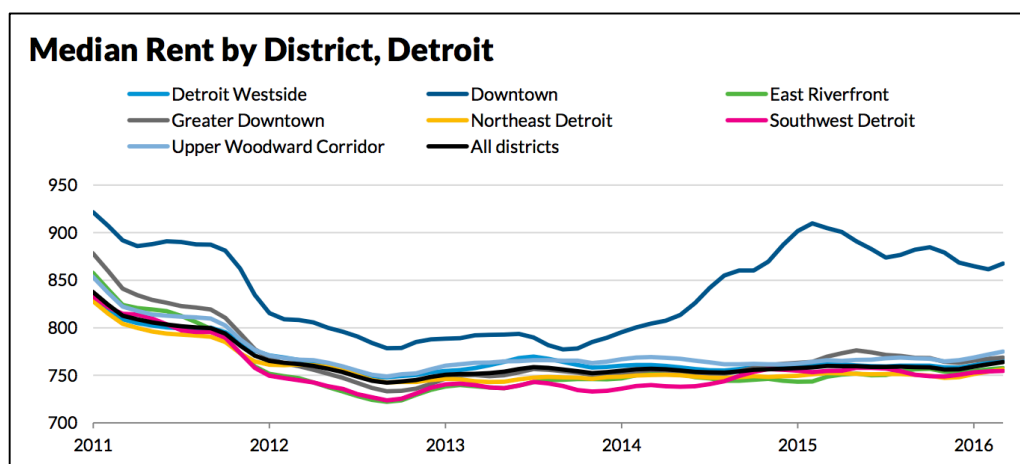
“Areas of Highest Potential Impact and Highest Threat in Detroit,” shows the neighborhoods in Detroit that are most threatened due to the number of foreclosures per square mile and the degradation in average residential structure. The large white space in the middle, designated by the black circle, encompasses the Greater Downtown and the surrounding neighborhoods, indicating that these neighborhoods are in good condition compared to the farther reaches of the city. Many neighborhoods are largely deserted: mostly because residents left for the suburbs or were forced into foreclosure if they could not pay sub-prime mortgages or the astronomically high property taxes: minimum 3.81 percent for low property values (Moskowitz 93-97). Neighborhoods far beyond the 7.2 suffer from structural social injustice, and are deprived from adequate housing within Detroit. It is not the city’s or the banks’ fault, even if they enforce the foreclosures and do not provide enough aid to help the poor. One could argue that these agents were ‘just doing their jobs.’ They are simply connected to the social-structural processes that brace injustice in the low-income communities.

The 7.2 was set up with potential due to its historic architecture, the presence of universities and post-college creative types, corporate business presence, and professional sports venues. There was office and residential spaces available. It is obviously much easier to market the 7.2, and the area is the clear focus. The new M-1 train will connect business-heavy Downtown with the residential, education, and arts district of Midtown, as there is not enough funding to extend it into the farther reaches of the city and the suburbs (Moskowitz 86). The low-income neighborhoods would greatly benefit from public transportation infrastructure, but they are being left out.

40 percent of Detroit's employment is concentrated in the 7.2. City planners hoped to attract a young, creative class, and they ultimately succeeded: 8 percent of Greater Downtown's population is age 25–34 with a Bachelor's Degree or higher. This is a greater proportion of 'young talent' than the City of Detroit (1 percent), State of Michigan (3 percent) and the United States (4 percent). The 7.2 is more educated as a whole: 27 percent of the Greater Downtown population over the age of twenty-five has a college degree or higher, compared to only 12 percent of the city of Detroit—and that 12 percent includes the degree-holders from the 7.2 (7.2 *SQ MI* 2015). Due to social-structural position, the lower income families are not benefitting from the development in the 7.2. Young professionals and families are moving into the 7.2 in droves, and the area is gentrifying.

The gentrified population might create a bigger taxable base eventually, but it is changing the city and increasing inequality. However, the gentrification makes perfect sense: "The rent-gap theory—that capital flows to the rate of highest return, and return is highest after a city has been economically drained and primed for gentrification—explains the economic rationale behind the new Detroit" (Moskowitz 77). An increase in home prices—over 8 percent in the past

year and a 63 percent increase since the lowest point in April 2011—demonstrates both an improvement in the greater Detroit economy and the occurrence of gentrification (Bai et al, 14). Real estate development in the neighborhoods closer to the most lucrative employment opportunities is positive and contributes to strong neighborhoods, but residents on the fringes of the 7.2 are having difficulty with keeping up with the rental price increases. The figure below displays the trends in Detroit rental prices over the past years:



(Bai et al., 9)

Downtown obviously has the most expensive rent, but all districts are witnessing an increase in rental prices. The median rent for a one bedroom apartment in Detroit in 2016 edged up to \$764 per month (Bai et al., 9). Downtown rental prices for single bedroom apartments are expected to average between \$1,000 and \$1,500 a month this year, and a significant portion of the city cannot afford those prices (Moskowitz 76-77).

Some businesses run incentive programs aimed at enabling workers to live closer to their jobs. This is beneficial for both employees and employers—but it bolsters gentrification. Live Downtown is offered by several downtown companies. Employees of these companies can get \$3,500 in rental subsidies or \$20,000 of forgivable loans to buy an apartment or home within the downtown area. Another similar incentive program, Live Midtown, raised \$10 million from

Midtown employers to incentivize 2,000 people to live in Midtown, and now Midtown occupancy is at 98 percent (Moskowitz 95). Eugene Gualtieri, a 41-year-old lab technician at the Detroit Medical Center, has taken advantage of Live Midtown—a program offered by the medical center and several other employers in the Midtown neighborhood—which allowed him “to take out a \$20,000 home loan that he won't have to repay if he stays in his condo for five years” (Williams). These incentive programs will continue to support the increasing development of the greater downtown area, but they merely extract people from outer neighborhoods and place them in the 7.2. This does nothing to solve the problems associated with the neighborhoods threatened by frequent foreclosures and poor housing structures.

With a poverty rate of 40 percent in the city, many households are paying most their income to their landlord. Additionally, households are increasingly getting pushed out farther from the city center if they cannot afford the rising rental costs. Development companies buy up distressed properties at a discount—occasionally with a tax break—and gentrify them:

Before 2013, the building housed about a hundred low-income seniors who were able to afford to live there thanks to Section 8 housing vouchers. All were evicted by Broder & Sachse, given vouchers to move elsewhere, and scattered throughout the rest of the city. Now the building houses mostly white millennials. Apartments at the Albert now start at \$1,200 a month. Broder & Sachse received a ten-year tax abatement from the city when they began their conversion. (Moskowitz 76)

Presumably, this development company was supposed to set aside affordable housing units in order to keep the tax abatement. Low-income populations who cannot afford to live in these expensive areas, and are instead kept out of the improved greater downtown area of the city, are afflicted by structural social injustice. The way institutions behave together in a society stratifies members of the society into differing positions in relation to one another (Young 65). As such, the 7.2 area is thriving while low-income neighborhoods are suffering.

Development Tax Incentives and Social Responsibility

Detroit, along with the state of Michigan, supports the development of its economy through fiscal measures. Detroit facilitates entrepreneurship in the hope that firms will become high-impact, and the city incentivizes existing high-impact firms to move into the city. It also incentivizes most private business investment and development in the city. Michigan has restructured its taxation system to incentivize new business and investment in the state. To continue bolstering business and investment in Detroit, the state government and city council should maintain a tax incentive system that is conducive to business and economic development—but with a social responsibility caveat. Many of the incentives already incorporate social responsibility, but the enforcement of social responsibility could always be improved. Michigan ends up giving away almost 30 cents of every government dollar to private companies through tax credits with the hope of stimulating development (Moskowitz 97).

In 2012, Michigan replaced the Michigan Business Tax with a similar and more competitive corporate income tax that reduces business taxes by an estimated 86 percent. Michigan imposes a flat 6% corporate income tax on firms structured as C corporations. All industries have experienced significant tax cuts since the implementation of the tax reform, which reduces operational costs and encourages new investment in Michigan (Detroit Regional Commission). The state has eliminated an Industrial Personal Property Tax, which is expected to cut \$372 million in taxes for small businesses by 2020 (MEDC). The Michigan Business Tax offers incentives for both new and existing firms:

Tax credits provide incentives to invest in Michigan, to employ Michigan residents, and to perform research and development in the state. Credits are allowed for 0.37% of compensation paid in Michigan; 2.9% of the cost of net depreciable assets located in Michigan; and 1.9% of the amount spent on R&D in Michigan. There is also an entrepreneurial credit, which can be claimed by businesses with less than \$25 million in gross receipts that create at least 20 jobs and invest at least \$1.25 million in one year.

Some small businesses may also be eligible for a phase-in credit or the Small Business Alternative Credit. (MEDC)

The Michigan Business Development Program will provide grants to businesses that will create a minimum of 50 jobs in the Detroit area, or 25 jobs if it is a technology company—qualifying that company as a high-impact firm in Michigan. The state’s overall business and tax climate is ranked in the top ten in the United States (MEDC). Incentivizing private businesses to invest in Detroit and the greater state of Michigan contributed to the positive economic improvements seen by Detroit in the years after bankruptcy.

Understanding how industries tend to cluster geographically, the state provides tax abatements for industrial and commercial improvement and rehabilitation projects in areas nearby or saturated with enterprises. Michigan also encourages SmartZones with decreased property taxes. SmartZones create distinct geographical locations where technology-based firms, entrepreneurs, and researchers can locate near community assets that assist in their endeavors. Companies located in the SmartZones benefit from resource collaborations, as well as venture capital preparation and introductions. Small Business Innovation Research and Technology Transfer assistance is available in the form of state-sponsored grants that will match 25 percent of the small business’ project (MEDC).

The state has a Renewal Community (RC) initiative that promotes partnership among federal, state and local governments and community organizations. The RC approach is to stimulate economic development in the nation's most distressed communities through the benefit of special tax incentives. Businesses can claim an increased deduction if it qualifies as a RC business. Importantly, there is a zero percent capital gains rate for RC assets: “The holder, for a minimum of 5 years, of an RC asset acquired between January 1, 2002, and December 31, 2009, will not have to include in its gross income any qualified capital gain from the sale or exchange

of the asset” (City of Detroit). An RC Employment Credit includes Federal tax credits up to \$1,500 each year for existing employees and new hires living in the RC. A Work Opportunity Tax Credit includes Federal tax credits up to \$2,400 for new hires from groups that have high unemployment rates or special employment needs. A Welfare to Work Credit includes two-year credits against Federal taxes for hire of long-term family assistance recipients.

The City of Detroit offers specific development tax incentive programs as well in order to promote business and real estate development. One incentive program is focused on target, distressed areas called Empowerment Zones (EZ). The EZ Wage Credit is a credit against Federal taxes up to \$3,000 for businesses for each year for every existing employee and new hire that lives and works in the EZ. A company pursuing a development project in a EZ can be eligible for an EZ Facility Bond at a low interest rate. Additionally, Renaissance Zones (RZ) tax incentives include a waiver of city income and utility users taxes, most city property taxes, county property taxes, and state income tax or single business tax. The program applies to participants who live, own property or businesses conducting business within the distressed area that has been targeted for improvement, and who are not delinquent in any local, county or state taxes (City of Detroit). The New Personal Property Tax Incentive provides 100 percent property tax exemption for specific businesses that are located in eligible distressed communities. The exemption is for all new personal property placed in a distressed district that has been established by the Detroit City Council.

Detroit encourages private investment in activities related to community development. Through the New Markets Tax Credit, “Equity investors in qualified Community Development Entities (CDEs) can obtain a tax credit against Federal taxes of 5 to 6 percent of the amount invested for each of the years the investment is held, for up to 7 years of the credit period” (City

of Detroit). To fight housing injustice while encouraging investment in real estate, Detroit has a Low-Income Housing Tax Credit: a ten-year credit against Federal taxes for “owners of newly constructed or renovated rental housing that sets aside a specific percentage of units for low-income persons for a minimum of 15 years. The credit varies for new construction and renovation” (City of Detroit). To attempt to assist neighborhoods affected by blight, there is an Obsolete Property tax exemption for commercial and commercial housing rehabilitation projects. There is also the Commercial Revitalization Deduction. This is a “deduction of either one-half of qualified revitalization expenditures (QREs) in the first year a building or all QREs on a prorated basis over 10 years” (City of Detroit).

These various development incentives have supported an increase in employment and wealth in the Detroit area. The broader economic climate, which had historically low interest rates when Detroit most needed investment, also has helped to drive economic development in Detroit (Bai et al., 14). Since 2006, more than \$9 billion has been invested by private companies in real estate development downtown (7.2 *SQ MI* 2015). Continuing to support entrepreneurship and business investment will simultaneously support economic development downtown. The high-impact firms benefiting from the improvements downtown and from the tax incentives should work towards developing neighborhoods outside of the 7.2.

The low-income neighborhoods outside of the 7.2 are hurting and are largely not benefitting from the economic development in Detroit that is centered downtown. High-impact firms moving into the city, as well as private investors and development companies, are reaping the financial benefits of incentivized economic development. It is unfair that the lives of low-income households in the outer neighborhoods are not improving and are basically being ignored. However, it is not possible to identify how the actions of the firms—or of the city or

state governments who incentivized the firms to move downtown—have directly produced harm to these households. Industries tend to cluster near each other. It is smarter financially to invest in the 7.2, as the returns will be more lucrative and the structures and institutions that are necessary for strong business development are already in place. The gentrification that follows the real estate development that follows the firms is hurting low-income residents by driving up housing prices and contributing to the processes that force low-income household further from the center-city. For the most part, the high-impact firms are not creating jobs for these low-income people either.

These firms are not to blame for the plight of the low-income neighborhoods. In Young's social connection model, "all those who contribute by their actions to structural processes with unjust outcomes share responsibility for the injustice" (Young 96). By being connected to structural processes that inflict injustice on Detroit's low-income neighborhoods, the high-impact firms share in the responsibility for the injustice. Since these firms share in responsibility for structural injustice, they have "an obligation to join with others who share that responsibility in order to transform the structural processes to make their outcomes less unjust" (Young 96). The high-impact firms benefitting from tax incentives should work towards reducing injustice by participating in anti-poverty initiatives outside of the greater downtown area. The DCC should include this social responsibility requirement in the incentives they offer.

High-Impact Entrepreneurship Theory and Economic Development in Detroit

Facilitating high-impact entrepreneurship and incentivizing high-impact firms to move into Detroit—along with incentivizing private business investment in general—has been positive for the Detroit economy. The city should maintain these policies.

It is important to define entrepreneurship before explaining its significant impact on economic development. The Organization for Economic Cooperation and Development (OECD) has proposed internationally accepted definitions: Entrepreneurial activity is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes, or markets (Ahmad & Seymour, 9). High-impact entrepreneurial ventures are entrepreneurial firms that have an above average impact on job and wealth creation. They become a driving force in the direction of markets and industries and increase the health of their local economies by contributing to the material wellbeing of the society. Google and Uber are examples of high-impact firms—and both of which have coincidentally put down roots in Detroit.

Job creation and employment growth contribute to improved economic development. OECD economic analyses show that high-growth firms drive productivity growth, promote business internationalization, increase innovation, and generate a disproportionately large share of all net new jobs (Mason & Brown, 3). A successful high-impact venture entices capital investment that can be used to fuel productivity and business expansion and development, eventually contributing to wealth creation in the city's economy. Young firms play a crucial role in driving innovative activity that also impacts productivity growth—including within-firm productivity growth. The jobs created by startups and young firms influence the rapid reallocation of productive resources across American firms, because young firms with low-productivity contract and exit, while young firms with high-productivity rapidly expand and attract highly productive workers and capital. The high-growth firms generate enough jobs to make up for most of the job losses associated with shrinking and incumbent firms, and these high-growth firms positively affect net job creation (Decker 4).

Gross job growth reflects the amount of jobs created, while net job growth reflects the amount of jobs created while subtracting the number of jobs destroyed. Previously, economic data analysis regarding US jobs in the latter half of the twentieth century indicated that small businesses drive net job growth. However, after controlling for firm age in the relationship between firm size and net job growth, it is apparent that young firms create the most net job growth (Haltiwanger, 360). Young firms are responsible for about 20 percent of gross job creation in the United States, and they create the largest share of new high-skilled jobs. High-growth businesses account for almost 50 percent of gross job creation. Thus, both high-growth and young businesses are very influential in driving US total job growth (Decker et al, 3-4). Considering that young and high-growth firms create the bulk of new jobs added to the economy—even when the number of jobs destroyed by these firms is subtracted—it would be difficult to protest an increase in entrepreneurial activity in a city that needs a boost in employment. The Bureau of Labor Statistics lists Detroit's 2017 unemployment rate as around 9 percent compared to the 5 percent in greater Michigan, but considering the number of people who have yet to work or those who have given up looking, unofficial estimates place Detroit's unemployment rate around 20 percent (BLS, Carey).

Policy makers have recognized that enabling impactful firms requires a holistic support system known as an entrepreneurial ecosystem: an environment in which public and private players directly and indirectly nurture and sustain entrepreneurial ventures (Mason & Brown, 3). Every entity that has a stake in the economic health of a city is connected to the ecosystem by a variety of processes. Entrepreneurial ecosystems have government policies and conducive city cultures that support entrepreneurship, access for bringing products and services to market, access to financial and human capital—in order to scale the business' operational capacity and

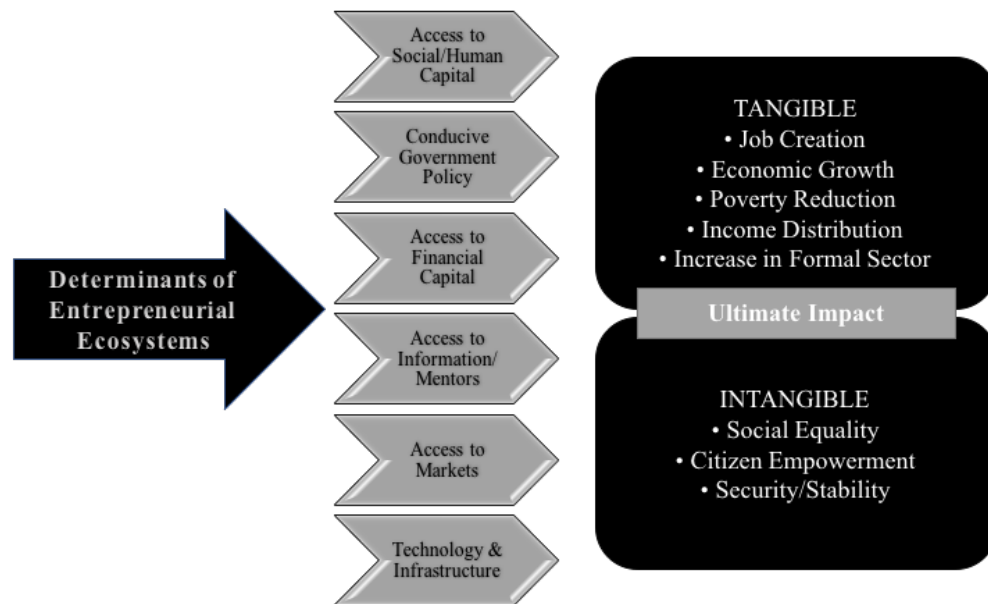
employee impact—appropriate technology and both institutional and public infrastructure, and an accessible network of information from other entrepreneurs and business leaders (Mason & Brown, 5). With universities, research centers, existing business leaders and infrastructure, sources of venture capital, and conducive tax policies, Detroit has the building blocks for an entrepreneurial ecosystem. Detroit incentivizes any business investment and development through tax breaks and abatements, but it supports high-impact firms by fostering its entrepreneurial ecosystem and giving grants to companies that have the potential to create a significant amount of jobs or wealth. Continuing to support the activities of high-impact firms also supports greater job creation.

While many entrepreneurial ventures fail, some will go on to become high-impact, and simply by supporting entrepreneurship in general, Detroit facilitates major economic development if a local startup scales into a high-impact entrepreneurial firm. Technology entrepreneurship in Detroit is on the rise, and some are becoming high-impact firms. One such high-impact technology is Quickly, a digital marketing and consumer engagement platform founded by CEO Shawn Geller in 2012:

Quickly is a simple but powerful promotional platform that turns marketing into an interactive competition. Fans opt in to individual brand campaigns to try to score offers or rewards from popular brands. The faster the user responds when the offers become available, the better the reward. Quickly's immediate and measurable results have drawn in nationally recognized brands like DSW, Domino's, Victoria's Secret, Pet Supplies Plus and Quicken Loans. (MEDC)

Quickly now has around 30 employees, recently closed a \$3 million funding round, and is gathering wide recognition across the country. The company is certainly a success story from Detroit's entrepreneurial ecosystem.

The following figure demonstrates the necessary elements of entrepreneurial ecosystems and the idealistic tangible and intangible positive impacts associated with successful ones (Badal, 9):



Successful ecosystems should experience these various impacts that strengthen economies through employment, wealth, and income—and give more citizens a sense of efficacy and pride in their city. Localized entrepreneurial activity can also garner wide community support, because many locals will be stakeholders in both the business and the community and thus will be invested in the business' success (Mason & Brown, 9). Residents and workers in the Detroit ecosystem seem to have this type of enthusiasm. The impact report from the New Economy Initiative, a Detroit nonprofit involved in investing in entrepreneurial activity, features selected interviews with Detroit entrepreneurs and employees. All entrepreneurs shared the same value: that they were committed to growing and improving the Detroit economy (New Economy Initiative). According to this report, the spirit behind Detroit's so-called 'revivers' appears overwhelmingly positive.

High-impact entrepreneurship can be a sustainable economic development strategy, because these large, established firms have spillover effects on the economic environment around them. However, the ecosystem cannot work if business leaders intend to sell their businesses and leave the local economy. In an ideal situation, business leaders maintain a ‘giving back’ mentality. Entrepreneurs who have created successful businesses which they have gone on to sell tend to leave their companies quickly after they exit, and they make important contributions to the entrepreneurial ecosystem, or ‘cluster.’ Crucially, they remain involved in the cluster, reinvesting their wealth, knowledge, and experience to create more entrepreneurial activity:

Some will become serial entrepreneurs, starting new businesses. Others will become business angels, providing start-up funding for new businesses and contributing their experience through a position on the board of directors. Some may even set up a venture capital fund. Others become advisers and mentors, board members and engage in teaching entrepreneurship...Some cashed-out entrepreneurs become involved in creating and supporting activities that enhance the entrepreneurial environment, for example, by lobbying government and establishing organizations that support entrepreneurial activity. (Mason & Brown, 10)

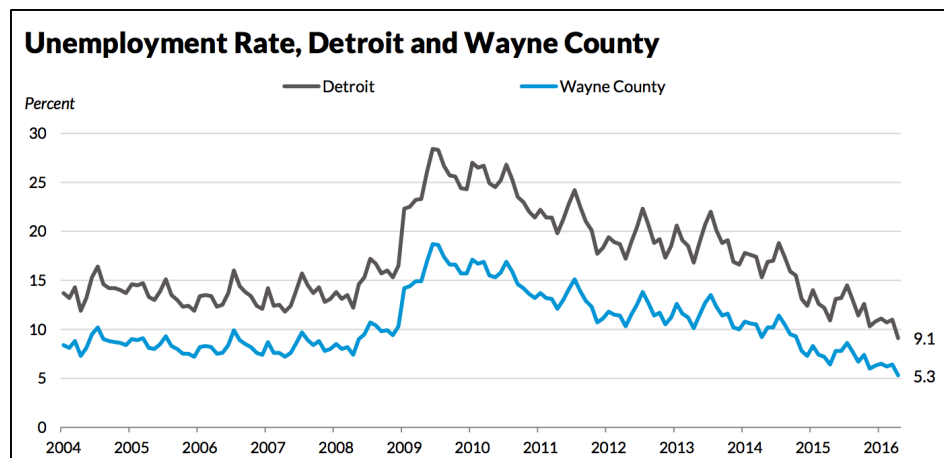
Unfortunately, strong entrepreneurial and business activity does not directly reduce poverty or enhance equality (Badal, 9). Prosperous ventures can contribute to income inequality, since executives will reap most of the rewards. Inequality abounds in the city of Detroit, and incentivizing high-impact firms in the downtown area, and the real estate development that has followed, contributes to this inequality. Over 40 percent of Detroit’s total employment is concentrated in the 7.2 where the bulk of investment in the city has been focused, and around 50 percent of the jobs created in that area require higher education and training (7.2 *SQ MI* 2015). Fortunately, wages in the city of Detroit overall have grown by 3 percent in the past two years (BLS). Yet, the well-paying jobs are disproportionately located in the 7.2. 60 percent of all Greater Downtown jobs pay wages greater than \$40,000 annually, a 14 percent increase since

2002. 29 percent of jobs pay wages between \$25,000 and \$40,000 annually, which is a 9 percent drop since 2002. 11 percent of jobs pay annual wages less than \$15,000, which is a 5 percent drop since 2002. The fact that wages in the Greater Downtown are increasing is positive overall. About 25 percent of people who work in the 7.2 reside there, indicating that much of the increase in income is just continuing to bolster the concentrated downtown area (7.2 *SQ MI* 2015). Yet, the number also implies that many workers of the 7.2 do not reside there, so that wealth may be reaching other sections of the Detroit area.

Of Detroit's labor force, the four main industries are Public Administration at 15 percent, Health Care and Social Assistance at 14 percent, Retail at 11 percent, and Manufacturing at 10 percent (Piazza et al., 22). Employment in each of these industries has increased between 1 and 2 percent from 2016 to 2017, which indicates that these sectors are creating or filling jobs that a large percentage of current workers seek out (BLS). Of new jobs filled in the main business center of Detroit, the main industries include private education, healthcare, government, and science or technology-related jobs (7.2 *SQ MI* 2015). Though not all industries of primary employment match with the industries that filled new job positions, the unemployment rate of the greater Detroit area—which covers a slightly greater territory than just the city of Detroit—has been gradually decreasing. 13,600 jobs were added to the Detroit economy in 2016. Yet, about 30 percent of these jobs were in the financial services sector (BLS). The majority of jobs in this sector require a college degree, and only 12 percent of the Detroit working population has this level of education—which indicates that many of the jobs created in Detroit are not reaching the structurally unemployed who do not have degrees. This affects a large unemployed population farther from downtown in disproportionately low-income neighborhoods. The economic development is not reaching these people, but they deserve help.

In addition to development from private companies, state and city investment could be also contributing to job and employment growth. Between the city of Detroit and the state of Michigan, infrastructure investment has also likely contributed to employment, since an \$8 billion infrastructure project to build a light-rail system and a new bridge to Canada are in the works. The projects are expected to generate 25,000 jobs (Carey). In 2013, the Detroit City Council agreed to pay for 60 percent of a new Red Wings hockey arena, which will cost the city \$261.5 million. The arena is supposed to create 2,000 direct and indirect jobs (Moskowitz 97). Considering that the city of Detroit will not receive any of the stadium's revenue, the new jobs created do not constitute a big return on investment. Perhaps Detroit could spend more of its public funds on public services and continue to use tax incentives to spur economic development.

From 2016 to 2017, Detroit's number of employed workers grew by 2.4 percent (BLS). The positivity of this number could be limited by the fact that nonprofits, such as Venture for America, brought in over 700 young Fellows from out-of-state in the last year alone (7.2 *SQ MI* 2015). Although, considering that unemployment in the Detroit area has been decreasing to potentially under 10 percent, and that the number of employed workers has increased, we can assume that the employment situation in Detroit has at least improved a little.



(Bai et al., 11)

In the Greater Downtown area alone, over 16,000 jobs were created from 2010 to 2014—predominantly by Quicken Loans and Blue Cross Blue Shield (7.2 *SQ MI* 2015). The anchor institutions of the city towards new jobs include: Quicken Loans, Rock Ventures, Detroit Institute of the Arts, the Kresge Foundation, the Kellogg Foundations (Moskowitz 81). Quicken Loans is a mortgage lending company headquartered in Detroit, Michigan. The CEO, Dan Gilbert, is committed to revitalizing Detroit. He runs an internship program aimed at bringing young, socially conscious financial professionals into the city. They are a high-impact firm, founded in Detroit, and have created 12,000 of the jobs created in the Greater Downtown from 2010 to 2014 (7.2 *SQ MI* 2015). Quicken Loans has used the tax incentives offered by Michigan and Detroit to its own advantage and to the benefit of the greater city.

The federal government has helped the region, especially through financially assisting innovative, entrepreneurial firms:

“Small business funding from the federal government for innovation and technology transfer (small business innovation research (SBIR) and small business technology transfer (STTR)) was a significant source of financial support in the Detroit region. Over the last 5 years, from 2006 to 2010, companies in the Detroit region received over \$220 million from SBIR/STTR grants, with 38% coming from the Department of Defense, 27% from the National Institute of Health, and 18% from Health and Human Services.” (Piazza et al., 4)

The major entrepreneurial activity is spread through the region and often expands and contracts, so it is difficult to determine that direct impact of high-impact entrepreneurial firms on Detroit, but the MEDC believes that more firms will become high-impact as investment increases. In terms of startups, there are over one hundred currently active companies in Detroit, and the numbers are rising. Many are technology entrepreneurial ventures that have become high-impact—for a technology company, this means creating over 25 jobs (MEDC). There is an

informal entrepreneurial movement in the city of Detroit: “Detroit entrepreneurs use social media networks to connect with each other to formulate ideas. This grassroots movement includes small organizations such as D:Hive, Detroit Micro-Enterprise Fund, Detroit Start Up Drinks, Detroit Soup, Hatch Detroit, InsYght, Kiva Detroit, and Open City” (Piazza et al., 3). However, there are also many nonprofits investing in the entrepreneurial scene and working with incubators, accelerators, and venture capitalists. Four major incubators in the Detroit area have created more than 1,000 jobs and invested \$18 million in start-up companies, while garnering \$101.2 million in additional capital. Additionally, venture capital received by companies in the Detroit area increased from \$700,000 in 2007 to \$39.5 million in 2011—and the vast increase in investment indicates that investors are confident in these Detroit entrepreneurial enterprises (Piazza et al., 4).

We cannot directly attribute the increase in wages and decrease in unemployment to the high-impact entrepreneurial scene and the general private investment in Detroit development, but the increase in entrepreneurship and investment has occurred relatively in tandem with the improvement in economic indicators. These business activities have been a part of the process of greater economic improvement in Detroit, and we should acknowledge that entrepreneurship and private investment has helped incite Detroit’s nascent revival.

Recommendations

If the Detroit City Council incentivized existing and potential high-impact firms to commit to social responsibility and to create anti-poverty initiatives, the Detroit high-impact entrepreneurship community, and other impactful businesses, could directly aid the city’s low-income neighborhoods that do not immediately benefit from the extensive entrepreneurial activity. As participants in the social-structural processes that contribute to structural social

injustice experienced by Detroit's low-income neighborhoods, these firms have a social responsibility to attempt to reduce the injustice.

As mentioned previously, high-impact firms receive grants to relocate in Detroit if they will bring jobs, but they also receive many tax breaks, credits, and abatements regarding business location and who they employ. Depending on the incentive, firms are evaluated every one or two years, and sometimes up to ten years, to see if they still meet the criteria for receiving the tax break or credit. The DCC could enforce that the firms, as a condition of receiving the incentive, create or participate in anti-poverty measures benefiting the low-income neighborhoods outside of the 7.2 and report on them yearly. If the firms do not meet the conditions of the tax incentive program, then they will not receive the benefits. The firms could form partnerships with other firms or nonprofit organizations when they pursue the anti-poverty initiative. The firms should be able to choose what kind of anti-poverty work they wish to pursue, but the DCC could remind them that affordable housing and job training are the two main causes that need addressing in these neighborhoods. After all, the city needs to tackle both structural unemployment and the housing blight crisis.

Essentially forcing high-impact firms to be socially responsible could be controversial, but the tax incentives for business investment in Detroit are quite financially enticing. However, Corporate Social Responsibility (CSR) is becoming a more widespread and popular in modern business. CSR encapsulates the following features: responsible business conduct, business responsibility to being accountable for society, business responsibility for society—such as compensating for negative business impacts and contributing to greater social welfare—and the commitment of a business to managing its relationships with society (Moon 4). International governments already encourage corporate social responsibility activities and reporting.

Governments can provide tax breaks and subsidies to socially responsible organizations or to organizations that form partnerships to address a social issue. Denmark, Sweden, and Norway have these tax breaks to incentivize social responsibility. Over ten countries have mandated that environmental, social, and governance reporting be included for listed companies on stock exchanges (Moon 85). Incentivizing CSR and reporting on it is not unheard of.

Additionally, the modern worker has a stronger commitment to social responsibility, and young, socially conscious workers are moving to Detroit. A 2012 survey of students and workers in the Net Impact Network found that over 50 percent of participants considered having a social impact on the world to be a major life goal. 45 percent of participants agreed that they would take a minor pay cut to work for a company that makes a social or environmental impact, and 35 percent of participants would take a small pay cut to work for a company committed to corporate social responsibility (Moon 79). CSR is more prominent than before, and it would be a logical step to imbed CSR in business practices aimed at rebuilding a city.

Officials in Detroit and the Michigan state government should continue to support high-impact entrepreneurship and to incentivize development and investment, because these measures have clearly contributed to the recent success of Detroit's economic development. They should also enforce these firm's social responsibility by including the participation in and reporting of an anti-poverty initiative outside the 7.2 as a condition of receiving the tax incentive. This policy is feasible and would allow the benefits of high-impact entrepreneurship to extend beyond the 7.2 and to the low-income populations who desperately need help.

Bibliography

- Ahmad, Nadim and Seymour, Richard G. "Defining Entrepreneurial Activity: Definitions Supporting Frameworks for Data Collection." *OECD Statistics*, January 2008, www.oecd.org/std/business-stats/39651330.pdf.
- Badal, Sangeeta, PhD. "Entrepreneurship and Job Creation: Leveraging the Relationship." *Gallup, Inc.*, 2010, nifa.org/downloads/entrepreneurshipandjobcreation10711.pdf.
- Bai, Bing et al. "Detroit Housing Tracker, Q2 2016." *Urban Institute: Housing Finance Policy Center*, 2016, www.urban.org/sites/default/files/publication/82606/2000863-Detroit-Housing-Tracker-Q2-2016.pdf.
- Bureau of Labor Statistics (BLS). "Detroit Area Economic Summary." *U.S. Bureau of Labor Statistics*, 17 March 2017, www.bls.gov/regions/midwest/summary/blssummary_detroit.pdf.
- Carey, Nick. "Even When Jobs Return, Detroit's Workers Fall Short on Skills." Reuters, 2 August 2013, www.reuters.com/article/usa-detroit-jobs-idUSL2N0F115Q20130802, Accessed 15 March 2017.
- City of Detroit. "Business Tax Incentives." *City of Detroit*, 16 July 2016, www.detroitmi.gov/How-Do-I/Obtain-Grant-Information/Business-Tax-Incentives, Accessed 10 April 2017.
- Data Driven Detroit. "Areas of Highest Potential Impact and Highest Threat in Detroit" *Data Driven Detroit*, 2015, datadrivendetroit.org, Accessed 21 March 2017.
- Data Driven Detroit. "Percent of Population with Income Below the Poverty Level, 2013" *Data Driven Detroit*, 2015, datadrivendetroit.org, Accessed 21 March 2017.
- Data Driven Detroit. "Population Change 2000-2010" *Data Driven Detroit*, 2012, datadrivendetroit.org, Accessed 21 March 2017.
- Decker, Ryan et al. "The Role of Entrepreneurship in US Job Creation and Economic Dynamism." *Journal of Economic Perspectives*, vol. 28, no. 3, 2014, pp. 3-24.
- Detroit Regional Chamber. "Destination Detroit: Incentives and Tax Rates." *Detroit Regional Chamber*, 2017, www.detroitchamber.com/destinationdetroit/incentives-and-tax-rates/, Accessed 1 March 2017.
- Haltiwanger, John et al. "Who Creates Jobs? Small Versus Large Versus Young." *The Review of Economics and Statistics*, vol. XCV, no. 2, May 2013, pp. 347-361.
- Hill, Alex. "Map: What is Greater Downtown Detroit?" *DETROITography*, 8 January 2016,

- detroitography.com/2016/01/08/map-what-is-greater-downtown-detroit/, Accessed 9 April 2017.
- Hudson-Webber Foundation, Midtown Detroit Inc., Downtown Detroit Partnership, Detroit Economic Growth Corporation, Detroit Experience Factory, and Invest Detroit. *7.2 SQ MI: A Report on Greater Downtown Detroit*. 2nd Edition, HWF, MDI, DDP, DEGC, DEF, and ID, 2015, detroitsevenpointtwo.com/resources/7.2SQ_MI_Book_FINAL_LoRes.pdf.
- Mason, Prof. Colin and Brown, Dr. Ross. “Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship.” OECD LEED Programme and the Dutch Ministry of Economic Affairs Conference on Entrepreneurial Ecosystems and Growth Oriented Entrepreneurship, The Hague, Netherlands, 7 November 2013: 1-38.
- MEDC. “Why Michigan.” *Michigan Economic Development Corporation*, 2017, www.michiganbusiness.org/why-michigan/, Accessed 11 April 2017.
- Moon, Jeremy. *Corporate Social Responsibility: A Very Short Introduction*. Oxford University Press, 2014.
- Moskowitz, Peter. *How to Kill a City: Gentrification, Inequality, and the Fight for the Neighborhood*. Nation Books, 2017.
- New Economy Initiative. *Impact Report of the New Economy Initiative*. Vol. 1, NEI, 2016, neweconomyinitiative.org/wp-content/uploads/2016/09/NEI_Impact_Report_FINAL_WEB-1.pdf.
- Piazza, Merissa C. et al. “Detroit Regional Analysis: Demographics, Economy, Entrepreneurship, and Innovation.” Center for Economic Development, Cleveland State University, April 2012.
- United States Census Bureau. “Quick Facts: Detroit City, Michigan.” *United States Census Bureau*, 2016, www.census.gov/quickfacts/table/PST045215/2622000, Accessed 19 March 2017.
- Williams, Corey. “Whites Moving into Detroit, Blacks Moving Out as City Shrinks Overall.” *Crain’s Detroit Business*, 21 May 2015, www.crainsdetroit.com/article/20150521/NEWS01/150529964/whites-moving-into-detroit-blacks-moving-out-as-city-shrinks-overall, Accessed 15 March 2017.
- Young, Iris Marion. *Responsibility for Justice*. Oxford University Press, 2011.

Pledge:

On my honor, I have neither given nor received any unacknowledged aid on this paper.

-O'Callahan (Callie) Taylor