

# **Breaking Down Barriers:**

**Prospects and policies for linking jobs and  
residents in the Chicago Empowerment Zone**

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## **Preface**

This report analyzes work and job patterns in the Chicago Empowerment Zone. It describes the potential for, and barriers to, linking jobs and residents in these and similar neighborhoods. Like many other targeted economic development programs, the Empowerment Zone program includes the creation and retention of local jobs for local residents among a variety of objectives. Yet little is known about the connection between local jobs and the employment of residents in lower-income urban areas.

Based on an analysis of 1990 journey-to-work data for the Zone, as well as other recent research on urban employment, a number of policy recommendations are made for maximizing the employment impacts of Empowerment Zone efforts. These recommendations concern local Empowerment Zone planning and federal Empowerment Zone law and regulations, as well as other, broader employment-related policies.

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## Executive Summary

The federal Empowerment Zone (EZ) program is a comprehensive community development strategy that targets low-income urban areas of up to 20 square miles for job creation, revitalization, and overall improvement in the quality of life of residents. There are currently six urban EZs throughout the country, including one in Chicago, as well as two Supplemental Zones, which have access to some EZ-like funds. The EZ program combines tax credits to firms operating within an EZ based on their employment of EZ residents, accelerated depreciation and low-interest financing for local firms employing minimum levels of EZ residents, and millions in Title XX Social Service Block Grant funds, which are allocated to projects by local EZ governing organizations.<sup>1</sup>

The EZ program represents the largest, recent federal attempt to spur economic development in relatively small, targeted urban areas and, as such, constitutes a major policy thrust in the neighborhood economic development arena. A particular intent of the EZ program is to create job opportunities for residents of EZs. While the guidelines to the program make the point that job opportunities outside the EZ may be as important to the welfare of EZ residents as local jobs -- as indeed they may be -- EZ incentives to firms are aimed at creating job opportunities within the EZ. Thus, the implicit objective of these incentives is to create local job opportunities as a means of reducing unemployment and improving the quality of life of residents.

More generally, neighborhood economic development is often aimed at creating and retaining jobs in low-income urban communities. While this activity can bring benefits to neighborhoods and cities, such as physical improvements and increased confidence in the viability of a community, a major, ultimate objective of these efforts is often improving the employment prospects of residents.

Because labor markets are substantially regional in nature, especially for moderate- and high-skill workers, neighborhood jobs rarely provide sufficient job opportunities for a majority of residents of an area. But, creating nearby jobs may reduce unemployment in an area, especially among less-educated residents, those working part-time, and youth. If relatively good jobs are created to which residents have easier access, the earnings prospects of residents can also be improved. With more jobs in and near a community, more neighborhood residents should be able to work close by, reducing their sometimes arduous commutes.

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From a community -- and not just individual -- perspective, access to local jobs can also improve the social capital of a neighborhood, leading to a stronger sense of mutual interests between residents and businesses. When residents work at local companies, they share common concerns and are more likely to join forces to address neighborhood problems such as poor schools, crime, and blight.

Neighborhood economic development will further these objectives more if, as local jobs are created or retained, residents are able to access these jobs. Therefore, it is important to understand the various barriers that may keep residents from obtaining new local jobs.

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<sup>1</sup> Although more generally targeted at the hiring of welfare recipients, the recently announced Work Opportunity Tax Credit (WOTC) also provides a one-time credit to any firm hiring EZ residents ages 16-24.

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The primary purpose of this report is to examine the potential for economic development in the low-income communities of the Chicago EZ to benefit EZ residents. It is important to consider how EZ policy and implementation can contribute to employment-related objectives, and to consider appropriate planning, implementation, and policy changes based on existing patterns of access to local jobs. At the same time, it would be a mistake to view the EZ program as a panacea for the employment problems of EZ residents. Too many other, larger policy and economic issues bear on the residents of these areas. Therefore, a secondary goal of this report is to comment on other employment-related policies that affect EZ communities.

### ***Capturing the Benefits of Local Jobs***

While central cities have generally witnessed job loss over the last few decades, many inner-city neighborhoods are still surrounded by substantial numbers of jobs, including positions in manufacturing, warehousing and distribution, retail and other industries which employ low- and moderate-skilled workers. In earlier decades, large percentages of jobs in such areas were held by local residents. Employers preferred neighborhood residents to create a stable and reliable workforce.

Neighborhoods where residents worked locally enabled those entering the labor force to use neighborhood social networks to find suitable jobs. While some lower-income urban neighborhoods still have many residents working locally, others exhibit a disconnection between jobs and residents, with almost all of those working in local firms commuting from across the metropolitan area.<sup>2</sup> To the extent that residents have identified better jobs elsewhere, this may not be a problem. But, in many cases, residents are commuting long distances to low-paid jobs far from the neighborhood, or cannot find jobs at all.

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If neighborhood job creation and retention are seen as tools for improving the working lives of neighborhood residents directly, then it is important to understand where opportunities for increasing employment at local firms exist. This involves identifying and addressing the likely barriers to employment beyond those of distance.

In the full report, we establish who lives and who works in relatively small, targeted areas. Specifically, we map out the commuting flows into and out of different parts of the Chicago Empowerment Zone (EZ) to understand the degree to which EZ residents work in the EZ and in their own neighborhoods. We compare and contrast the local employment patterns among EZ neighborhoods and provide likely reasons for the differences. We also look at the occupational, industrial, and racial make-up of residents and those working in these areas to discern the effects of skills, networks, and race on where residents work. We provide examples of policy and practice from around the country that address some of the barriers between employers and residents in urban neighborhoods.

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<sup>2</sup> Perhaps the best known example is the neighborhood of Red Hook, in Brooklyn, New York. The neighborhood is home to many jobs, but few residents work in the area. Philip Kasinitz and Jan Rosenberg, who have studied the neighborhood, cite social isolation of residents as the chief reason for this. See P. Kasinitz and J. Rosenberg, *Missing the Connection: Social Isolation and Employment on the Brooklyn Waterfront*, Michael Harrington Center for Democratic Values and Social Change, City University of New York, 1994.

Finally, we conclude by drawing from our quantitative and qualitative work implications for EZ and employment-focused neighborhood economic development policy and practice. We make policy recommendations for implementing existing EZ policy and for modifying EZ policy with the ultimate objective of improving access to local jobs for residents of EZ areas. We also consider broader policy issues critical to the future employment prospects of residents of the EZ communities.

### ***The Empowerment Zone Program***

The EZ model is substantially different from its older cousin the enterprise zone, a British concept focused on redeveloping blighted areas with little consideration for the impacts on the employment of residents. It is also easily distinguished from earlier U.S. federal proposals, as well as many state enterprise zone programs, that are much less concerned with the distribution of benefits, including jobs, from zone investment than with the creation of jobs regardless of who gets them.

The EZ model places a much higher priority on spurring development that will bring jobs and other benefits to EZ residents as well as encouraging physical investment.

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The principal mechanism contained in the EZ program for reducing unemployment and providing residents with access to EZ jobs is the EZ employment tax credit. The employment tax credit is the single largest incentive targeted directly at the employment of EZ residents. Firms located and doing business in the EZ who employ EZ residents are eligible for a 20 percent tax credit on wages and some job training expenses, up to a maximum credit of \$3,000 per worker. This is a substantial credit, especially for modestly skilled workers whose wages are not very large. The EZ credit can be claimed each year the employee is on a firm's payroll. Traditionally, targeted employment credits have been one-time credits for hiring, so that credits only cover the first year's wages.<sup>3</sup>

While the guidelines for the first round of EZs encouraged applicants to create strategic plans that included helping residents find jobs outside the EZ itself, incentives to firms are clearly targeted toward placing residents in EZ jobs. The goal of the credit appears to go beyond reducing unemployment to include increasing the number of EZ residents working in EZ jobs.<sup>4</sup>

The tax-exempt bond financing made available under EZ legislation requires that recipient firms employ at least 35 percent EZ residents. Similar requirements exist for firms seeking accelerated depreciation benefits under the EZ program.

Due to a lack of data and relevant policy-oriented research, little is known about those who currently hold jobs in the existing EZs. Therefore, there is no strong basis on which to determine the existing links between local jobs and residents or the need to develop such links. This report analyzes work

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<sup>3</sup> The WOTC (the new employment tax credit for hiring welfare recipients) also provides any employer a credit for hiring youth ages 16-24 living in an EZ or Enterprise Community (EC). This is a more traditional one-time credit covering between \$2,100-\$3,000 of the first year's wages.

<sup>4</sup> The tax credit applies to all employees residing in the Zone, and not just to new hires or the previously unemployed. Thus, even if a firm goes from employing 10 Zone residents before Zone designation to employing 5 after Zone designation, it will be eligible for tax credits on the 5 workers.

and job pat-terns in the Chicago EZ to understand better the potential for, and barriers to, linking jobs and residents in these and similar neighborhoods.

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### **The Chicago EZ**

The Chicago EZ, shown in Figure I, is a set of three noncontiguous areas on Chicago's west, near southwest, and south sides that total 14.6 square miles and 199,932 residents as of 1990. The three areas are referred to as the West Cluster, the Pilsen-Little Village Cluster, and the South Cluster.

In total, the EZ is 72 percent African-American and 24 percent Latino, with a 1990 median household income of \$17,156. The 1990 unemployment rate for the EZ is 25 per-cent, compared to a metropolitan unemployment rate of 8 percent. And 50 percent of EZ residents over age 15 are not in the labor force.

Figure1  
Chicago Empowerment Zone

**TO VIEW THIS MAP, PLEASE REFER TO HARD COPY OF REPORT**

Table 1 shows some of the significant differences among the three EZ Clusters. The West and South Clusters are predominantly African-American, while the Pilsen-Little Village Cluster is predominantly Latino. The 1990 un-employment rates of the South and West Clusters are extremely high, at 31 percent and 26 percent respectively.

**Table 1**  
**1990 Demographics of Chicago EZ Clusters**

	<b>Pilsen-Little</b>			<b>9-County*</b>	
	<b>West Cluster</b>	<b>Village Cluster</b>	<b>South Cluster</b>	<b>Total EZ</b>	<b>Metro Area</b>
<b>Population</b>	58,334	44,465	97,133	199,932	7,429,181
<b>Mean Household Income</b>	\$20,259	\$20,968	\$14,253	\$17,157	\$45,786
<b>Unemployment Rate**</b>	26%	15%	31%	25%	8%
<b>Employment Rate***</b>	39%	54%	29%	38%	63%
<b>Percent Not In Labor Force**</b>	47%	36%	58%	50%	32%
<b>Percent African-American</b>	88%	8%	91%	72%	19%
<b>Percent Latino</b>	8%	86%	5%	24%	11%
<b>Percent Adults**** w/o H.S. Diploma</b>	52%	72%	52%	56%	24%

\* Cook, DuPage, Lake, McHenry, Kane, Will, Kankakee, Kendall, and Grundy Counties  
 \*\* For persons ages 16 or older in the labor force  
 \*\*\* For all persons ages 16 and older  
 \*\*\*\* For persons aged 25 or older

Data calculated from 1990 Census - STF3A

The unemployment rate in the Pilsen-Little Village Cluster is substantially lower at 15 percent, although it is still almost twice the metropolitan rate. Moreover, the portion of persons 16 and older that is employed is substantially higher (54 percent) than in the West Cluster (39 percent) or the South Cluster (29 percent).

The West Cluster is a long narrow string of census tracts that winds its way west from the Near West Side to the Austin community area. Many of these communities went from being predominantly white ethnic to African-American beginning in the 1940s and 1950s. Racial change was accelerated by unscrupulous real estate practices, by white flight, and by the migration of African-Americans from the South.

Historically, these west side neighborhoods have been home to many manufacturers and industrial service firms. The Cluster still contains two sizable industrial corridors, one running west from the Near West Side along Kinzie Avenue and one running north through Austin along Kilpatrick Street.

The Pilsen-Little Village Cluster is characterized by its distinctly Mexican-American cultural identity. The Pilsen side of the Cluster abuts the South Branch of the Chicago River, which was a major draw for industrial development in the nineteenth century. The area remains one of the oldest industrial areas in the city.

The Little Village part of the Cluster lies almost directly west of the Pilsen section. From 1960 to 1980, the area went from being less than 1 percent to 74 percent Latino. With more owner-occupied homes than Pilsen, Little Village also has a higher median income. The Pilsen-Little Village Cluster also contains a small part of the Near West Side community.

The South Cluster is comprised of three relatively distinct parts: the greater Grand Boulevard neighborhood to the northeast; the Stock-yards area to the West of the Dan Ryan expressway; and the Woodlawn/Washington Park area to the south. The Grand Boulevard area became home to substantial numbers of African Americans around World War I, when migration from the South was fueled by the need for industrial workers. By 1940, the population of Grand Boulevard was 98 percent African American. The greater Grand Boulevard section also contains parts of the North Kenwood, Douglas and Oakland communities and includes a number of large public housing complexes along State Street.

The Stockyards part of the South Cluster was redeveloped as an industrial park beginning in the 1960s, so that only a small part of the area contains residential property. Of those living in this area, more than 70 percent are Latino (predominantly Mexican-American). The presence of many industrial jobs and the demographic makeup of residents makes the Stockyards area very different from the remainder of the South Cluster.

The Woodlawn/Washington Park section of the South Cluster lies due south of the University of Chicago. The area became predominantly African-American in the 1950s, with racial change occurring rapidly over the decade.

Due to historic segregation, the effects of deindustrialization and central city job loss were concentrated in communities such as the EZ areas, especially in the African-American neighborhoods. The loss of jobs meant the loss of family income and, in turn, community wealth. With disposable income declining, stores and businesses that predominantly served the neighborhoods were hurt. As businesses closed and poverty increased, the quality of neighborhood life deteriorated, leading some of those with options to leave the communities.

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### **Analyzing EZ Labor Patterns Using Journey-to-Work Data**

Traditional sources of socioeconomic data do not provide information on jobs and on where people work at small geographic levels. In Illinois, annual information on jobs covered by unemployment insurance is available only by irregularly shaped and relatively large zip codes, allowing for little customized analysis. These data also give no demographic information on the earnings or race of those working in small areas.

Fortunately, the Census Transportation Planning Package (CTPP), often called the “journey-to-work” data, provides information on residents and those working in small areas. In Chicago these small areas are half-mile-by-half-mile quartersections.<sup>5</sup> The CTPP also gives the number of workers commuting between every pair of quartersections in the metropolitan area. Thus, we use the CTPP to indicate the degree to which residents of EZ neighborhoods work in the EZ, or in different parts of the EZ. We also compare the characteristics of jobs in the EZ to residents to identify potential barriers to local employment of neighborhood residents.

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<sup>5</sup> Quartersections do not perfectly match the census-tract-based EZ boundaries, but a strong approximation is made. See full report for details on this issue.

## Key Findings

In addressing the potential for employment of EZ residents at EZ firms, it is important to understand the nature of residents and jobs in the area. If the skills of residents do not match the requirements of local jobs, for example, there will be relatively little local employment of residents. Or, if local firms in predominantly minority neighborhoods employ only a trivial number of African-Americans, then discrimination and the dominance of social networks in hiring may be key barriers to local

**Table 2**  
**Key Facts on Residents and Jobs**  
**in the Chicago Empowerment Zone\***

	<b>West Cluster</b>	<b>Pilsen-Little Village Cluster</b>	<b>South Cluster</b>	<b>Entire EZ</b>	<b>Metro Area</b>
Number of Employed Residents (16 years and older)	18,708	17,612	20,163	56,483	3,563,603
Percent in Manufacturing Jobs	21%	40%	13%	24%	19%
Percent in Private Sector Jobs	70%	83%	63%	71%	75%
Percent Male	49%	68%	49%	55%	54%
Percent Working in Same Area	8%	12%	13%	14%	n/a
Percent Working in EZ	10%	16%	16%	14%	n/a
Percent of All Residents Who are African American	90%	9%	90%	72%	19%
Percent of All Residents Who are Latino	6%	84%	6%	24%	11%
Number of Local Jobs	35,669	14,721	29,243	79,633	3,635,769
Percent of Jobs in Manufacturing	36%	25%	19%	28%	19%
Percent of Jobs in Private Sector	77%	73%	60%	70%	76%
Percent of Jobs Held by Males	63%	63%	55%	60%	55%
Percent of Jobs Held by Residents of Same Area	4%	14%	9%	10%	n/a
Percent of Jobs Held by Residents of Entire EZ	7%	17%	10%	10%	n/a
Percent of Jobs Held by African Americans	29%	19%	43%	32%	14%
Percent of Jobs Held by Latinos	19%	36%	14%	20%	10%

\* All data from Census 1990 CTPP - Chicago; utilizes approximated Empowerment Zone based on quartersections (see full report for further explanation).

employment.

Table 2 provides a summary of key information on residents and jobs in the EZ clusters, including data on the extent to which residents work in the EZ and the degree to which EZ jobs are held by residents.<sup>6</sup> From these data, and from analysis contained in the full report, several key findings emerge that have important implications for local EZ planning and implementation, federal EZ policy, and other employment policy concerning inner-city workers:

- 1) In their search for work, residents of the Chicago EZ face many systemic barriers of inadequate skills and skill mismatches, racial discrimination, and a lack of access to social-employment networks. No one single, locally focused program -- including the**

<sup>6</sup> For more detailed information, see the full report.

**Empowerment Zone -- will be able to remedy these large-scale problems by itself.** Inequities in educational resources have left many inner-city residents without the credentials and skills necessary for today's lower-skill jobs.

Only 56 percent of EZ residents over age 24 have high school diplomas or general equivalency degrees. Continuing problems in basic education are persisting in an era when job requirements are accelerating. A substantial majority of new jobs not requiring college education require daily use of arithmetic, reading and writing.<sup>7</sup> Seventy percent of new, non-college, white-collar jobs involve daily computer tasks.

Discrimination in hiring and lack of access to networks have had a particularly strong impact on African-Americans. And social networks, which run along racial and ethnic lines, are key conduits of job information.

Labor-market-wide barriers exist between EZ residents and many firms, regardless of location. These systemic barriers become more immediately apparent when employers are located in EZ neighborhoods. One manifestation of these barriers are large racial differences between residents and those working in the EZ.

EZ policy will not be sufficient to address all of the employment barriers faced by EZ residents. Nonetheless, EZ policy can be a significant component of a larger strategy, involving a broader set of policy issues, to address the employment problems of EZ residents. Many of these policies will be addressed below.

- 2) The African-American EZ neighborhoods, primarily in the West and South Clusters, are confronted by much higher unemployment rates than residents of the Pilsen-Little Village Cluster, despite substantially lower levels of educational attainment among Pilsen-Little Village residents.** Unemployment was 26 percent in the West Cluster and 30 percent in the South Cluster in 1990, but only 15 percent in Pilsen-Little Village. At the same time, 72 percent of Pilsen-Little Village residents over age 24 did not have a high school diploma or a general equivalency degree, while this rate was only 52 percent for the other two clusters. This inconsistency between unemployment and education levels parallels findings in other research on the greater problems of hiring discrimination and poor access to job networks among African-Americans.
- 3) Despite working more hours per week, employed residents of the Pilsen-Little Village Cluster earn substantially less than employed residents of the other two clusters.** Earnings of Pilsen-Little Village workers averaged \$13,820 in 1990, while residents of the West and South Clusters averaged \$16,406 and \$16,194, respectively. This is consistent with the educational and occupational differences between the clusters, and with the fact that the higher-paid clusters see more residents employed in public sector jobs, which are relatively well paid.
- 4) Residents of African-American EZ neighborhoods are relatively concentrated in public sector jobs, and in administrative support and low-wage service occupations.** The public sector has been a critical source of employment for West and South Cluster residents -- and for African-Americans in general. African-Americans have also done better at larger companies versus smaller ones, in part due to affirmative action and diversity programs. Twenty-one percent of West Cluster residents and 24 percent of South Cluster residents work in public sector jobs, compared to 12 percent across the metro area and only 7 percent in Pilsen-Little-Village. Moreover, 21 percent of West Cluster residents and 24 percent of South Cluster residents work in the Chi-

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<sup>7</sup> Harry Holzer, *What Employers Want: Job Prospects for Less-Educated Workers*. New York: Russell Sage Foundation, 1996.

cago central business district, where larger employers are clustered, versus just 14 percent for Pilsen-Little Village.

It is important to note that these occupational patterns are not static. South and West Cluster residents now tend to work in white-collar and service jobs, even though 15 to 20 years ago employed residents of these neighborhoods had worked in manufacturing at high rates.

- 5) **Residents of the Pilsen-Little Village Cluster are relatively concentrated in private sector, manufacturing jobs and low-wage occupations.** Forty percent of employed resident work in manufacturing, compared to 21 percent in the West Cluster and 13 percent in the South Cluster. (The metro rate is 19 percent.) Pilsen-Little Village residents are entrenched in networks that give them access to manufacturing employment, including jobs in the EZ. Only 9 percent of employed residents work in executive, professional and technical jobs, compared to 14 percent in the West Cluster and 18 percent in the South. (The metro rate is 32 percent.) The bulk (83 percent) of residents work in private sector jobs. Indeed, just as African-Americans may have poor access to job networks in manufacturing, Pilsen-Little Village residents may have poor access to networks in public- and nonprofit sector jobs.

Two important factors explain some of the differences in the occupations and sectors of work between the Pilsen-Little Village residents and those of the other two clusters. First, a much higher percentage of the employed residents of Pilsen-Little Village are male (68 percent) than in the other two areas (49 percent). Gender strongly affects the types of jobs in which people work; many occupations are essentially segregated by gender. Men are much more likely to work in manufacturing jobs than in administrative support positions, for example. Second, the lower levels of formal education and frequent lack of facility with English leads Pilsen-Little Village residents to work more in blue-collar positions and less in clerical and white-collar jobs.

- 6) **The types of jobs in the different Clusters differ significantly, with the West Cluster being the most industrial and most private sector, and the South being the least industrial and least private sector.** Thirty-six percent of West Cluster jobs are in manufacturing (compared to 19 percent metro), while 25 percent of Pilsen-Little Village and only 19 percent of South Cluster jobs are in manufacturing. (Moreover, most of the South Cluster manufacturing jobs are concentrated in the Stockyards section of the Cluster.) Seventy-seven percent of West Cluster jobs are in the private sector, while only 60 percent of South Cluster jobs are in the private sector.

While no direct data are available, it is likely that a substantially larger portion of the private sector jobs in the South Cluster -- especially those located east of the Dan Ryan expressway -- is based at black-owned firms than is the case in the West Cluster. A much larger portion of jobs in the West Cluster is in manufacturing, in which there are relatively few black-owned firms.

- 7) **Local working varies substantially across the Chicago EZ; in general, it is highest in the Pilsen-Little Village cluster and lowest in the West Cluster.** Sixteen percent of employed residents in the Pilsen Little-Village and South Clusters work in the EZ, but only 10 percent of West Cluster residents do. When looking at residents working within the same cluster and accounting for jobs in the clusters, Pilsen-Little Village is found to have a substantially higher level of local working than the South Cluster, which has a higher level than the West Cluster.

When examining local working at a smaller scale -- across "subclusters" -- differences can be seen even within clusters. The western parts of the West Cluster, which are predominantly African-American, have little local working. This corresponds to a mismatch between the occupations of residents and area jobs. At the same time, the predominantly African-American greater Grand Boulevard segment of the South Cluster has many more residents working in the same area and exhibits less mismatch between the occupations of residents and jobs.

- 8) In the absence of EZ programs, jobs in the EZ are held by EZ residents at quite low rates; overall, only 10 percent of EZ jobs are held by EZ residents.** This is due to a variety of reasons, including the convoluted shape of the EZ. Nonetheless, job growth in the EZ will have much larger effects on residents if EZ programs are effective at encouraging firms to hire residents, especially unemployed residents, at higher rates.

Moreover, unless firms employ EZ residents at substantially higher rates than 10 percent, the employment tax credit will have only a very small effect on a firm's total labor costs, making it relatively ineffective as a tool to encourage expansion or relocation of operations in the EZ.<sup>8</sup>

- 9) A variety of promising approaches in Chicago and other cities have been used to link residents of low-income neighborhoods to nearby jobs.** These programs generally involve much more than simple wage subsidies or tax credits, and are focused on some of the barriers identified in this report, including skills, access to networks, and employment discrimination. They include first-source hiring programs, where firms who receive development assistance are required to consider local residents, school-to-work initiatives, and efforts involving local firms in the development of job training programs.

In Cleveland, for example, the Westside Industrial Retention Network, or WIRE-Net, has established a school-to-work initiative called DESTINY. DESTINY links local firms to a high school in the WIRE-Net area. Students are offered orientation and training in cooperation with local manufacturers and are offered jobs upon graduation from the program.

On Chicago's Near West Side and Near Northwest Side, the Greater West Town Community Development Project, a job training organization, has successfully partnered with the Industrial Council of Northwest Chicago (ICNC), a group of manufacturers in the area. This partnership involves companies from ICNC in the design and implementation of training programs for woodworkers and shipping and receiving personnel. By involving local employers in the program, Greater West Town assures a program that will meet their needs and, at the same time, is in a strong position to establish its reputation with the firms. Through developing strong relationships with employers, Greater West Town can work to change negative perceptions about the neighborhood labor force and, in doing so, combat less overt forms of discrimination as well as build skills in neighborhood residents.

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<sup>8</sup> If the average EZ firm employs 10 percent EZ residents, then the 20 percent maximum employment tax credit would amount to a credit of less than 2 percent of its labor costs.

## **Implications for Local EZ Planning, Federal EZ Policy, and Other Employment Policies**

The analysis and conclusions above have implications for implementation of Empowerment Zones at the local level, for federal Empowerment Zone policy, and for a host of broader policy issues that bear heavily on the employment prospects of residents of the Chicago EZ and other low-income urban neighborhoods.

### ***Recommendations for Local EZ Planning and Implementation:***

#### **I. More systematic local planning should be used in designating EZs.**

The current EZ designation process, due in part to scarce information on jobs and workers, does not adequately consider the geography of employment patterns in low-income urban neighborhoods. Data such as those used in this report should be employed to design EZs that are shaped to encourage more local employment of low-income residents.

The low levels of commuting between the different EZ clusters, which are not adjacent to each other, suggest that a less disjointed EZ would offer many more local working and local hiring opportunities - thus increasing the overall impact of EZ programs.

Given current EZ regulations (e.g., 20 square mile limit, EZ tax credits for EZ firms employing EZ residents) local planners should seek to center zones around targeted residential populations with the perimeter of the zone reaching out to pick up nearby job clusters. Of course, a circular EZ centered around a targeted neighborhood is just a model and will not be entirely appropriate. But EZ designs that are relatively compact and avoid long tentacles should be favored.

#### **II. A sizable portion of EZ grant funds should be used for job linkage and training purposes, especially to connect residents to jobs at EZ firms.<sup>9</sup> Where possible, local firms should be involved in the design and implementation of programs.**

EZ funds should support quality job-training initiatives, especially those having a track record in placing minority workers. Special attention should be given to efforts linking residents with nearby jobs in which they are, for no compelling reason, underrepresented, and especially where relatively good jobs are available. Industrial corridors, which contain large numbers of decent-paying jobs should be a principal focus of such attention.

Promising efforts will adopt best practices in key areas, including: 1) initiating cooperative relationships with local firms ("getting the foot in the door"); 2) working to change negative employer perceptions of the local labor force while recognizing the limits of such change; and/or 3) collaborating across neighborhoods. While some examples are discussed in this report, more research needs to be done to identify strong models for linking residents with nearby jobs in low-income, and particularly African-American, communities.

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<sup>9</sup> Detailed lessons regarding design and implementation of local job-resident linkage programs are presented in the main body of the report.

**III. Labor-force-based economic development should be a primary focus of any EZ strategy.**

In the short-run, job creation efforts should emphasize jobs that residents are already able to access. If residents tend to work in blue-collar jobs, then industrial development in the area is likely to bring major benefits to area residents. If not, the creation of other types of jobs, in which residents tend to work, should be the focus of the short-term strategy.

Before economic development efforts are pursued in sectors where residents have not been employed, job linkage and training programs should first be established to link residents and jobs. Then job creation in these sectors should be pursued as well.

**IV. Empowerment Zone strategies should consider the social networks and social capital of EZ areas; where possible, networks that support job search and employability should be developed.**

Social networks are a primary channel through which job search and employer recruitment occurs. Research shows that at least 35-40 percent of low-skill jobs are filled through informal methods, such as word-of-mouth. EZ funds should be used to encourage the use of social networks for sharing job information and leads among EZ residents. For example, Suburban Job-Link, a Chicago nonprofit that assists inner-city residents in finding and commuting to suburban jobs, is asking its clients to return information on job openings from suburban employers to grass-roots social organizations in their neighborhoods, such as churches and block clubs. The same sorts of networks can be used to identify and disseminate information on nearby jobs. Moreover, community-based school-to-work initiatives, child-care programs, and other efforts that build employment-related social capital should be supported.

**Recommendations for Federal EZ Policy:**

**V. Employment and investment tax credits, alone, are likely to be insufficient for addressing the barriers to local employment faced by less-educated EZ residents; credits should be complemented with other employment and training policies.**

This report documents a number of potent barriers to the local employment of EZ residents, including skill mismatches, a lack of access to networks used by local firms, and hiring discrimination. The general evidence on tax credits and wage subsidies is mixed, suggesting that, *on their own*, such subsidies may only have a marginal effect on who gets hired, at least by themselves.

Credits and other wage subsidies must be complemented with job training and placement assistance to affect employment more substantially. Under current regulations, some job training expenditures can be subsidized by the employment tax credit. (This is especially relevant for workers earning less than \$15,000 annually who will not attract the full \$3,000 tax credit.) Some consideration should be given to increasing the limit of the tax credit for training purposes only. Thus, a firm employing an EZ resident making \$17,000 annually, for example, might claim a \$3,000 credit on wages, and an additional 20 percent credit on job training costs.

Currently, the EZ credit applies to existing hires as well as new hires. If the credit is intended to alter employer behavior, relatively larger credits should be given for *net new* employment of EZ residents.

Thus, an EZ firm might receive a credit based on the net change in wages paid to EZ residents over the year. (Regulations should require some minimum employment period.)

One final problem with the employment tax credit is that many small firms in the EZ may not have enough taxable income against which to apply the credit. If a firm reports a small amount of taxable income, the tax credits will not be valuable. Some have suggested that these credits be tradable via a secondary market, where credits earned by the smaller companies that cannot directly use them would be sold, thereby making the value of the credit available to more EZ firms hiring local residents.

**VI. Federal EZ policy should provide for an *employment zone*, including and surrounding an EZ.**

Given the limited numbers of jobs in EZ areas, and the multiple barriers between some of those jobs and EZ residents, current EZ policy may have limited success at getting residents hired at firms located directly in the EZ. A stronger approach, that recognizes the radial and larger-than-neighborhood nature of labor markets, would involve designating a residential EZ, characterized by relatively high unemployment and low-incomes, and a larger, surrounding *employment zone*, which would contain a larger number of jobs than the EZ. Employers located both in the EZ and in the employment zone would be eligible for employment tax credits and, perhaps, other EZ incentives. Moreover, the employment zone would recognize the benefits of business development that would spill over from the employment zone to the EZ.

The recently introduced Work Opportunity Tax Credit (WOTC), though covering welfare recipients generally, includes EZ residents ages 16-24 as eligible for a one-time credit of up to \$2,100-\$3,000 at firms located *anywhere*. EZ firms can qualify for both the EZ credit and the WOTC credit, if the new hire meets both eligibility guidelines. The WOTC should prove to be a useful complement to the EZ credit, enlarging the number of possible jobs for which a credit is available. But the EZ credit can be substantially more valuable to a firm in that it continues past the first year. The creation of the employment zone would improve the utility and impact of the EZ credit.

**VII. Given the findings in this report and the shape of the Chicago EZ, the local employment threshold of 35 percent for the EZ *investment* incentives will be extremely difficult for firms to meet. Under current EZ configurations, this figure is probably not a reasonable threshold for most firms in EZs.**

Only 10 percent of all Chicago EZ jobs are held by EZ residents. For the private sector firms that account for 70 percent of all EZ jobs, this ratio is probably even lower. If the purpose of the local employment threshold is to encourage and support firms that hire locally, then realistic goals should be set. The shape and nature of the Chicago EZ make it extremely unlikely that 35 percent of an EZ firm's workers live in the EZ. This is especially true for firms located near the outside edges of the EZ (e.g., in north Austin or in Woodlawn) and for firms that offer better quality jobs, and so draw job applicants from a larger radius.

Realistically, a minimum threshold for incentives might be set at some reasonable multiple of the zone average for local employment. For example, a minimum threshold of 15 percent might be appropriate to trigger the investment credit if the average local employment rate is 10 percent, as in the case of the Chicago EZ. A better approach would be to base eligibility for investment incentives on the percentage of a firm's workforce that live not only in the EZ but also in a surrounding area like the *employment zone* described in recommendation VI. If such an approach is used, a higher local employment threshold, such as 35 percent, may be realistic.

**Implications and Recommendations for Other Employment and Economic Development Policies:**

**VIII. Welfare reform -- as currently constructed -- promises to have a major, negative impact on the employment and earnings prospects of EZ residents, including those already employed and in the labor force.**

Fifty percent of EZ residents over age 15 are not in the labor force, compared to just 32 percent for the metropolitan area. This figure is 58 percent in the South Cluster. Many of these residents will be pushed into the labor force by recent federal welfare reforms and will seek work in low-skill occupations.

It appears likely that many welfare recipients will have difficulty finding work. Local job shortages in areas like the South Cluster are likely to become much worse. Competition for low-skill jobs will increase, exerting downward pressure on the wages of those who had already been in the labor force. This is especially problematic in areas like the South Cluster where a large percentage of residents do not own cars and are more susceptible to local job shortages.

The massive increase in the demand for low-skill jobs that will result from welfare reform may overwhelm EZ and similar policies. Even with access to wage subsidies like the new Work Opportunity Tax Credit, many private-sector firms will not consider hiring those with little work experience. Beyond skills, welfare recipients face discrimination, a lack of networks, poor transportation access to job-rich areas, and other barriers to work. Due to such daunting problems, several labor market analysts have called for a federal public works employment program.<sup>10</sup> Many have also called for the expansion of the Earned Income Tax Credit, increased support for childcare, and a healthcare program for low-income workers.

**IX. Effective job training and placement programs, as well as basic education, need more support from local, state and federal government.**

Overall, the continuing problems of inner-city schools and inadequate funding of job training programs for low-skill workers are devastating to the employment prospects of EZ residents. For Pilsen-Little Village residents, training may be more important for improving their *earnings* than for reducing their unemployment rates. For residents of the West and South Cluster, placement and brokering assistance, as well as training, are critical to improving the prospects of *getting* a job.

The reorganization of job training systems and the implementation of one-stop career centers must recognize the value of existing relationships that community-based job training organizations have established with local firms. At the same time, job training and placement efforts should incorporate what is known about best practice in the field. In particular, strong involvement by local employers in the design and implementation of programs is key. Moreover, some sort of local employer certification of training programs would provide employers with accurate information about program quality.

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<sup>10</sup> Recommendations of this type have been made recently by William Julius Wilson in *When Work Disappears*, New York: Knopf, 1996, and by Harry Holzer in *What Employers Want*, 1996.

**X. Aggressive enforcement of antidiscrimination law is critical to the employment prospects of EZ residents in jobs across the metro area.**

Discrimination in hiring is a major barrier to the employment of EZ residents, particularly for African-American residents. While discrimination occurs among inner-city employers, significant evidence from other research suggests that the problem is even worse among suburban employers. Moreover, small firms, which constitute a larger base of jobs than in earlier decades, are more prone to discriminate.

Despite the data on hiring discrimination, relatively little of the Equal Employment Opportunity Commission's (EEOC) activity has concerned hiring, amounting to less than 7 percent of charges filed in 1988.<sup>11</sup> During the 1980s, the enforcement activities of the EEOC suffered due to inadequate resources and leadership that was ambivalent about the agency's mission. Between 1982 and 1992, the agency's backlog of cases increased by almost 60 percent, from 33,417 to 52,856.

Discrimination in hiring cannot be enforced merely by responding to complaints of job applicants. EEOC reports on employment patterns must be examined proactively by the agency itself and other relevant agencies. Aggressive enforcement of antidiscrimination laws has had a major impact in the fair housing arena in recent years. It is important to learn from this policy area and apply the lessons to fair employment policy.

**XI. Public sector employment is crucial to the employment of EZ residents; government privatization must be monitored for its impact on less-educated minority workers.**

Residents of the West and South Clusters are disproportionately employed in public sector jobs. South Cluster residents are employed in government jobs at twice the rate of workers across metropolitan Chicago (24 percent versus 12 percent). To the extent that private firms do not employ residents from these neighborhoods at the same rate, the privatization of public sector jobs could hurt the employment prospects of EZ communities. Firms contracting with the City should be closely monitored for minority employment practices, and for employment of residents of inner-city neighborhoods, where appropriate. Privatization can also have damaging effects on the wage levels of less-educated workers.

**XII. Minority business development and affirmative action policies should be maintained, and stepped up, to improve the employment prospects of EZ residents.**

Minority-owned businesses employ minority workers at higher rates than white-owned firms. This is especially true for black-owned companies. While there are no specific figures available on the level of employment of EZ residents by minority-owned businesses, the potential is significant. From 1987 to 1992, the number of black-owned firms in Illinois increased by 50 percent, according to the 1992 Economic Census. While black-owned firms represent a small portion of all jobs, their share of employment is substantially larger among African-American workers. Thus, those interested in the prospects of African-American and minority workers should include minority business development as a key strategy.

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<sup>11</sup> M. Bendick, Jr., C. W. Jackson, and V.A. Reinoso: "Measuring Employment Discrimination Through Controlled Experiments." *The Review of Black Political Economy* 23: 35-48, 1994.

Supporting Empowerment Zones while at the same time weakening minority business development programs is inconsistent federal policy. Each set of programs will work better in the presence of the other. Minority business development and community economic development constituencies need to join together to support strong policy action in both arenas.

Larger employers have been shown to employ African-Americans at higher rates than smaller firms. This is due, in large part, to the affirmative action hiring programs many large firms have adopted. Government and corporate support for affirmative action is crucial to the employment prospects of EZ residents.