Cities drive economic growth in high-income countries, creating hubs of innovation and generating an outsized share of national wealth. But, increasingly, we see signs that the benefits of urban economies are not broadly shared among city residents. Income inequalities are on the rise, especially in our largest cities—but such disparities only tell part of the story. Poverty persists despite gains in productivity, and economic mobility appears blocked for many urban residents. Recent protests in cities across high-income countries have drawn attention to these problems, highlighting the structural barriers vulnerable groups face and the instability of the status quo.

Underlying these protests is a sense that a growing share of the urban population does not have a fair chance to succeed—that vulnerable groups are being kept out of the jobs, schools, and opportunities they need to move up, leaving them stuck in poverty for years or even for generations. This is more than economic inequality—it’s economic exclusion. And it not only jeopardizes an individual’s chance for success, it also threatens the health, stability, and cohesion of cities and undermines national prosperity.

In this brief, we explore what economic exclusion is and describe some strategies that cities have put in place to combat it. City leaders are responding with well-known solutions and innovative new approaches, and they are rethinking the ways they govern around issues of exclusion. We also suggest ways in which information technologies can open up new possibilities for creating more inclusive and open urban economies.
What Is Economic Exclusion?

Economic exclusion is a multidimensional process in which particular groups are prevented from participating fully and equally in the economic life of their city or metropolitan area. It occurs when people experience acute economic disadvantage over an extended time and results in an inability to improve one’s economic circumstances or enable one’s children to escape them.

We use the word “exclusion” to call attention to the actions of private and public institutions and structural forces that perpetuate disadvantage and privilege. Economic exclusion differs from income or wealth inequalities, which can result from and are symptoms of exclusion. Communities of color, immigrants and refugees, and women are particularly affected by exclusion.

Knowing how cities struggle with exclusion can help us identify targeted solutions. We analyzed economic exclusion in eight cities in high-income countries and found four main dimensions of exclusion:¹

1. **Labor market exclusion** makes it hard to get a job because of discrimination or the changing structure of the labor market. Exclusion from the labor market is likely to increase in the future as employers in the growing knowledge economy seek skills that vulnerable workers do not have.

2. **Poor-quality jobs** have stagnant low-end wages and unpredictable hours, lack job security, and offer limited-to-no-career pathways. Poor job quality is widespread and growing across high-income countries, and globalization and technological advances may further erode wages and job security at the bottom.

3. **Economic vulnerability** is exposure to financial risks. Economically vulnerable households lack assets to protect themselves from financial emergencies, such as a job loss or a health crisis. And the social safety nets that should support these households are inadequate or have weakened in recent years.

4. **Isolation from opportunity** occurs when low-income people and minorities live in neighborhoods without access to jobs, good schools, health care facilities, and public spaces. Economic segregation, where the rich and poor increasingly live in separate neighborhoods, appears to be on the rise in most large cities.

These dimensions are distinct and may vary by degree across cities, but they also influence and reinforce each other. For example, stagnant wages and job insecurity (features of poor-quality jobs) make it difficult for families to save money or secure stable housing (features of economic vulnerability).

Economic exclusion in cities stems from a deep legacy of disadvantage that continues today. Segregation keeps residents of poor neighborhoods isolated from jobs and deprived of decent housing, schools, and services. Discrimination in housing, employment, and financial services prevents people of color and immigrants from moving up the ladder and improving their lives.
Recent trends are reinforcing exclusion and making it more widespread (box 1). After the global recession, many high-income countries slashed public spending, which strained public services, weakened safety nets, and cut public-sector jobs. Growing demand for urban housing, transportation, and services are widening affordability gaps in many cities.

In the labor market, many traditional middle-skill jobs have been lost to automation and globalization. By 2020, advanced economies could have a surplus of over 32 million low-skilled workers (Dobbs et al. 2012). In addition, reliance on contingent labor and the so-called “gig economy” is growing fastest in cities, creating new opportunities for self-employment but also shifting risk from employers to workers and decreasing job security and benefits.

In Europe and the United States, migration and demographic changes have created competing demands between entitlement spending for an aging population and social spending on an increasingly diverse younger population. Moreover, anti-immigrant sentiment and a growing sense of economic instability are pitting vulnerable groups against each other, a problem that has become particularly acute with the refugee crisis in Europe.

What Are Cities Doing to Address Exclusion?

Despite these challenges, there is cause for optimism as momentum is building to overcome economic exclusion and improve opportunities for excluded groups. The negative effects of the global recession generated widespread frustration with rising inequalities and broad demand for changes in financial systems. New and influential research has helped reframe exclusion as a problem that hurts economic growth and has consequences for everyone, not just those at the bottom—making it an economic imperative for cities to overcome exclusion (Piketty 2014). Research has also focused attention on the importance of place in shaping life outcomes (Chetty and Hendren 2015). The private sector increasingly recognizes that it has a role to play, and some employers have made moves on their own to improve job quality and access for low-income workers. And across cities in high-income countries, movements and protests opposing exclusion have grown, spurring action.

Many city leaders are building off this momentum by doubling down on well-tested solutions, such as apprenticeships to improve workers’ skills and connect them with jobs, subsidies that preserve housing opportunities in gentrifying areas, and enterprise zones that offer tax credits and other benefits to encourage employers to locate in distressed areas (box 2).
BOX 1
Exclusion by the Numbers

Even after the global recession, unemployment remains high in rich countries and real wages are stagnant or declining. Part-time and contract work is becoming the norm, especially for urban youth.

- Across cities in high-income countries, roughly 20 million people, or 8 percent of the labor force, were unemployed in 2010.\(^a\)
- Real wage growth in high-income countries has declined to almost zero in recent years and remains well below precrisis levels (International Labour Organization 2015).
- More than half of all new jobs across Organisation for Economic Co-operation and Development (OECD) countries since the mid-1990s have been in nonstandard work, such as contract or part-time jobs, which now account for about a third of total employment (OECD 2015b).
- More than 40 percent of employed young people in OECD countries are in part-time or contract jobs (OECD 2015a).
- On average in high-income countries, workers face a 5 percent chance of losing their jobs. This ranges from over 12 percent in Greece and Spain to less than 3 percent in Japan.\(^b\)

The urban poor, especially immigrants and racial and ethnic minorities, have insufficient safety nets and are vulnerable to economic shocks.

- The average relative poverty rate across OECD countries in 2010 was 11 percent, up 2 percent since the mid-1980s (OECD 2014).
- Nearly half of US households report that they either could not cover an emergency expense costing $400 or would cover it by selling something or borrowing money (Board of Governors of the Federal Reserve System 2015).
- In 2013, more than 60 percent of low-income renters in large US cities were severely rent burdened—meaning that they spent half of their income or more on housing (Capperis, Gould Ellen, and Karfunkel 2015).

Concentrated poverty is high and economic segregation is growing, especially in large cities.

- The number of people living in concentrated poverty in the US nearly doubled between 2000 and 2013, when it reached 13.8 million people—the highest figure ever recorded (Jargowsky 2015).
- Twenty-five percent of African Americans and 16 percent of Hispanic Americans live in high-poverty neighborhoods, compared with just 8 percent of their white counterparts (Jargowsky 2015).
- Residential segregation by income has increased in 27 of the 30 largest cities in the United States over the past three decades (Fry and Taylor 2012); and economic segregation has sharpened in 12 of 13 recently studied large European cities since 2000 (Tammaru et al. 2015).

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BOX 2

Major Established Responses to Economic Exclusion

<table>
<thead>
<tr>
<th>Labor market exclusion</th>
<th>Economic vulnerability</th>
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<tbody>
<tr>
<td>Job training and apprenticeships</td>
<td>Charitable aid</td>
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<td>Work supports</td>
<td>Individual development accounts and matched savings programs</td>
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<tr>
<td>Subsidized and transitional employment programs</td>
<td>Financial literacy and coaching</td>
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<tr>
<td>Equal opportunity laws</td>
<td>Homeowner assistance</td>
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<th>Poor-quality jobs</th>
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<td>Small-business assistance</td>
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<td>Enterprise zones</td>
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<td>Local hiring ordinances</td>
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Some city leaders are going beyond established solutions and experimenting with new approaches, either by choice or necessity. Austerity measures, declining tax bases, and increased demand for services are driving many cities to innovate to make better use of resources and improve efficiency. Some city leaders realize that established solutions typically address only one dimension of exclusion and more comprehensive approaches can have a deeper impact. As a result, outdated bureaucratic structures and strict divides between the public and private sector are giving way to new forms of governance that can address exclusion more efficiently and across its several dimensions.

One promising trend is a shift from competition to collaboration at the regional level. With an explicit emphasis on inclusion, local stakeholders are partnering formally and informally to address issues—such as housing, transportation, and infrastructure—that spill across jurisdictional lines. Minneapolis–St. Paul recently adopted a new method for distributing federal transportation dollars that considers the region’s spatial and economic inequities (Metropolitan Council 2014).² The Chicago Regional Housing Initiative brings together public housing authorities, mayors, and civil society leaders from across the region to lift barriers to housing mobility and provide more low-income families with the opportunity to live in communities with good jobs, schools, and transportation options.³

Where national governments are failing to address aspects of economic exclusion because of political gridlock, city leaders are taking matters into their own hands by filling gaps with local laws and programs. Many cities in the United States are passing local laws to improve job quality and access,
including raising the minimum wage, offering paid family and sick leave, and banning employers from asking applicants if they have a criminal history. In Europe, where national governments have not met growing demand for immigrant services, several cities have created local integration policies and coordinated service centers for new immigrants (Gebhardt 2014). In each case, city leaders are venturing into policy domains traditionally reserved for higher levels of government. Some of these local actions have "trickled up" to influence state or national policies. For example, after mayors of several cities in Spain banded together to create a network of “safe cities” for refugees, the Spanish government eased national restrictions on refugees.

Some cities are **developing integrated solutions** that are explicitly designed to address jobs, economic security, and the housing needs of excluded groups simultaneously. Several cities in the United States, including New York City, Philadelphia, and Richmond, have created antipoverty agencies that coordinate programs, collect better data on social outcomes, and raise supplementary funds from public and private sources to support effective policies. In Europe, the Leipzig Charter and Europe 2020 strategy explicitly call for more spatially integrated strategies to reduce poverty and improve economic inclusion. They have also generated new models of interagency, place-based programs, such as the Socially Integrative City in Germany and the *politique de la ville* in France (Tosics 2015).

City leaders are also recognizing that they can no longer afford to assign all or most of the responsibility for addressing poverty, unemployment, low wages, and segregation solely to the public sector, so they are finding creative ways to **enable the private sector to play a more robust role** in addressing exclusion. Public leaders are actively partnering with the private sector to identify skill needs and help shape training programs or streamline licensing requirements to stimulate small-business creation (Regulatory Reform Team 2015; Spaulding and Martin-Caughey 2015). In the United States, community benefit agreements have linked private real estate development to the housing and employment needs of residents in low-income communities (Musil 2014). Collective impact models, such as the Strive Partnership, bring together public and private stakeholders to support pathways out of poverty and improve student outcomes from "cradle to career" (Grossman and Lombard 2015).

**How Can Information Technologies Spark Further Innovation?**

New information technologies yield increases in data-processing power and reductions in data-storage costs that can unleash previously scarce and closely held information. These information technologies have spawned countless innovations in business and commerce and are reshaping economies from top to bottom in high-income countries. Some city leaders are using technologies, such as mobile phones, GIS, and sensors, to improve basic urban management and service delivery through "smart cities" and "civic technology" initiatives. However, these efforts are rarely explicitly designed to overcome economic exclusion. The established and emerging solutions to economic exclusion described above remain mostly "low tech."
New information technologies could spark innovation and drive new approaches to exclusion in multiple ways:

**Peer-to-peer technologies** can open up job possibilities, enhance social interactions, and reduce costs for transportation, credit, and basic services. Online communities of interest can allow dispersed networks to exchange ideas for innovation, lend money to one another, and organize for change. Peer lending has helped finance everything from small-business development to urban infrastructure. Social media has amplified advocates’ ability to expose corporate abuses and endorse more inclusive labor practices.

**Big data and crowdsourced data** can be tapped to drive efficiency and improve access to opportunities. Some cities are starting to integrate and analyze the wealth of data they have across multiple agencies, such as schools, social services, and the criminal justice system. With these data, cities can better identify excluded people and communities, connect them to needed services, and improve service delivery. Tech-savvy city administrators are relying on mobile technologies and open data platforms to crowdsource information on urban services and planning—from pothole repairs to public safety to disaster response. Likewise, the private sector relies on sophisticated, big data to maximize productivity and profits. This capability could be incredibly powerful if leveraged to maximize a double-bottom line that includes the workers’ well-being and the public good.

Information technologies also help reveal **slack resources** and excess capacity that can be shared or repurposed to address exclusion. Houses, cars, and even time can now be shared in ways that create new sources of income and reduce costs for expensive assets. Businesses and nonprofits have been exploring ways to make housing and transportation more affordable and accessible through micro-apartments and car-sharing programs. Cities are also thinking creatively about how to repurpose underused properties to bring diverse residents together in a revitalized “civic commons.”

We highlight a few ways cities are beginning to tap into these opportunities in box 3, but much more could be done. In a related series of essays, we will explore how city leaders could channel these features of the information economy to address economic exclusion across its four dimensions.

Information technologies and the tools they provide do not themselves generate solutions to economic exclusion in cities; rather, they rely on social movements that continue to push for greater inclusion. Therefore, the most potent applications will be the ones that empower the excluded, generate new evidence about exclusion and its costs to society as a whole, and ease the path that city leaders take toward effective interventions by making better use of existing resources and skills in their communities.
BOX 3

Innovative Ways Cities Are Expanding Economic Opportunity

- In Los Angeles, the Shared-Use Mobility Center recently launched a car-sharing pilot project in low-income neighborhoods that is designed to improve access to jobs and services for excluded groups.¹

- In Boston, residents of the city’s Chinatown neighborhood can use a video game called “Participatory Chinatown” to engage in the city’s master planning process, with a focus on engaging youth and recent immigrants in shaping their neighborhood’s future (Place/Matters 2014).

- New York City is working with the SumAll foundation to use predictive analytics to anticipate evictions and identify families at risk of becoming homeless in the near future.² NYC has used similar “big data” approaches to anticipate and prevent prescription drug epidemics and improve public safety.³

- Baltimore’s Digital Harbor Foundation converted an abandoned city parks building into Baltimore’s first public “makerspace,” a free space with equipment and tools people can use for their creative projects. Baltimore’s makerspace provides after-school programs and access to 3-D printers for low-income and minority youth.⁴

- Philadelphia, with support from the Knight and William Penn Foundations, is repurposing underused buildings and parks in transitioning neighborhoods to create a connected “civic commons” designed to reverse growing economic and social segregation in the city.⁵

Conclusion

Discontent about inequality, wage stagnation, unemployment, and dead-end work has grown in high-income countries since the global recession. That unrest has helped build momentum to address urban inequalities and improve opportunities for excluded groups. In addition to putting established solutions

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into place, stakeholders in cities are applying new forms of governance to improve access to good-quality jobs, build economic resilience, and connect isolated neighborhoods to needed resources. Information technologies can drive greater innovation if they explicitly address exclusion and are supported by sustained public pressure for more inclusive and open cities.

Notes

1. Urban Institute researchers did an analysis of economic exclusion issues in the following eight cities: Brisbane, Australia; Glasgow, Scotland; Paris, France; Stockholm, Sweden, and, in the United States, Boston, Massachusetts; Houston, Texas; Los Angeles, California; and St. Louis, Missouri. In each city, we conducted interviews with several local scholars, public leaders and practitioners, as well as conducted place-specific literature review and data analysis on indicators of exclusion.


References


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Acknowledgments

This brief was funded by the Rockefeller Foundation. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute’s funding principles is available at www.urban.org/support.

The authors thank the Urban Institute team whose research contributed to this project and the findings reflected in this brief and related essays: Hamutal Bernstein, Eric Burnstein, Joshua Choper, Erwin de Leon, Liza Getsinger, Tracy Gordon, Reed Jordan, Pamela Loprest, John McGinty, Erika Poethig, and Jasmine Simington. We would also like to thank Rachel Korberg and Kevin O’Neil at the Rockefeller Foundation for their insights, feedback and support.

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