Place Matters

Employers, Low-Income Workers, and Regional Economic Development

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Contents

Introduction 2
Research on Regional Economic Development 3
Economic Development within Metropolitan Areas 8
Where People Live and Work 9
Findings and Areas for Continued Research 11
Notes 13
References 14
Spatial factors and location are often-missed, but critical, pieces of the puzzle in developing public and private policies that support working families. This paper summarizes factors determining locational decisions of businesses and workers, as well as local economic growth, and suggests how employer needs as well as opportunities for low-income workers might be served by successful policies in the areas of housing, transportation, education and workforce development. Key themes include the following:

- Employer and worker choices are interdependent—employers want to locate where there is a supply of qualified workers and workers want jobs, and want to be able to get to those jobs.
- There are notable differences in the patterns of work and employment within and across metropolitan areas, implying that no single strategy or national blueprint will work everywhere.
- A wide range of factors contributes to these different patterns, from geography to infrastructure, from local zoning laws to tax policy, and from government intervention to community activism.

Regional and collaborative approaches have emerged as critical economic development strategies as our country strives to adapt and remain a leader in the knowledge-based global economy. Local governments are recognizing the increasing importance of the quality of the local workforce in attracting employers and stimulating economic growth, and they are turning their attention to public education and skill development for local residents. Public-private coalitions have become more inclusive, involving business leaders as well as representatives of inner-city communities in planning future development. These trends offer opportunities to identify common goals and broaden support of policies that benefit both employers and low-income workers.

In looking at economic development, employer choices, and opportunities for low-wage workers through the lens of place, it is clear that the landscape is shifting and policies must adapt accordingly. Spatial mismatch is more than employers and businesses
leaving the urban core and poor urban residents lacking transportation to new job centers. Some urban centers are revitalizing, the creative class is growing in cities, and some suburbs (especially older suburbs and some outer-ring suburbs) are increasingly diverse and beginning to experience some of the same challenges as cities. And, there is a growing body of evidence that, in a knowledge-based economy, equity and tolerance are good for business. There is a growing consensus that geography of opportunity has changed, and continues to change.

These changes offer opportunities for new partnerships, which, when coupled with improved access to data, hold promise for a range of initiatives in the areas of housing, transportation and other infrastructure funding, aligning workforce and education with economic development, and facilitating cross-firm career mobility within regional labor markets. It is an especially important time to maintain an open dialogue with employers and understand the locational choices they make.

Introduction

Why do some areas thrive and others do not? The market, be it real estate or jobs, is “hot” in some cities, while in other cities it seems to have stagnated. Spatial factors and location are often-missed, but critical, pieces of the puzzle in developing public and private policies that support working families. An understanding of these issues, and of the motivations of employers and workers, will inform and improve policies in support of low-income working families. This paper summarizes factors determining locational decisions of businesses and workers, as well as local economic growth, and suggests how employer needs as well as opportunities for low-income workers might be served by successful policies in the areas of housing, transportation, education and workforce development. Key themes include these three:

- Employer and worker choices are interdependent—employers want to locate where there is a supply of qualified workers, and workers want jobs and want to be able to get to those jobs.

- There are notable differences in the patterns of work and employment within and across metropolitan areas, implying that no single strategy or national blueprint will work everywhere.

- A wide range of factors contributes to these different patterns, from geography to infrastructure, from local zoning laws to tax policy, and from government intervention to community activism.

All these factors affect the locational choices made by employers (e.g., to remain or expand in an existing location or move to a new community) and by workers (to live within reasonable commuting distance to employment). As this paper will demonstrate, a wealth of information is available, as well as analytic tools, to further this process. This paper first discusses factors that contribute to successful regional economic develop-
ment. Subsequent sections address development within specific metropolitan areas and the varying patterns of where low-wage workers live and work.

Research on Regional Economic Development

As scholars, policymakers, and business leaders have analyzed how the United States can adapt and remain a leader in the knowledge-based global economy, one common theme that has emerged is the importance of a regional approach. Why regions? Because they are large enough to offer the range of systems and assets needed to foster innovation, commercialize ideas, and attract and train skilled workers. Yet, they are small enough to permit the face-to-face interaction still needed, even in today’s world of electronic communications, to establish the relationships and build the trust needed for key partnerships among businesses, universities, government, and workers. And, these partnerships appear key to understanding what employers and workers need and the roles of the various stakeholders, public and private, in addressing those needs.

Strategies for regional economic development build on Michael Porter’s work on cluster-based economic theory, the work of the Council on Competitiveness addressing the economic performance of selected U.S. regions (2005), and scholarly work analyzing university-industry interaction (Fogarty and Sinha 1999). Industry cluster strategies primarily seek to improve the competitiveness of businesses within a specified geographic area. They are based on the assumption that regional economies have certain competitive advantages, leading businesses to cluster in geographic areas that offer opportunities for positive interdependencies—for example, high-tech firms tend to locate near other high-tech firms (Porter 1995). Clustering allows for the development of specialized labor, financial, technical, and organizational support for strong or promising local industries (Rosenfeld 1995). From a workforce development perspective, clustering also provides a framework to direct scarce resources, again suggesting that practitioners should focus on identifying, supporting, and developing existing or emerging business clusters with the potential to achieve some level of competitiveness in the national and global economies.

This view of regional economic development has emerged over the past 25 years and has dramatically changed local approaches to economic development. While there are limits to what can be done to change historically defined regional economies, strategic thinking and strong cross-jurisdictional leadership have moved the field beyond the limited approach of one jurisdiction luring away business from another with tax incentives or other subsidies. Responsibilities for economic development have shifted, from the old government-driven model that relied on policy decisions and incentives to the new collaborative model, involving multiple levels of government, companies, teaching and research institutions, and other partners (Porter 2004). Cisneros (1995) notes three themes that characterize recent economic development thinking:
There is a role for local public policy in facilitating change and responding effectively to external market forces. Communities examine their region’s heritage, identify their comparative advantages in light of market trends, and develop a strategic vision accordingly.

Economic development must include actions to enhance background conditions so an area will be seen as a good place to do business—lowering operating costs, reducing regulatory barriers, and building and maintaining a skilled labor force.

Inclusiveness and collaborations are valuable components of economic development—forming active public-private leadership coalitions to guide and promote economic development.

This view of economic development has some direct implications for low-income workers and families. Local governments are recognizing the increasing importance of the quality of the local workforce in attracting employers and stimulating economic growth, and they are turning their attention to public education and skill development for local residents. Public-private coalitions have become more inclusive, involving business leaders as well as representatives of inner-city communities in planning future development. These trends offer opportunities to identify common goals and broaden support of policies that benefit both employers and low-income workers.

**Factors that promote and attract business**

Indicators, dashboards, and scorecards that rank metropolitan areas on best places to live, to work, or to do business are practically their own industry today. But a review of some of the literature indicates a consensus that the following are key factors in attracting employers and promoting economic growth:

- **human capital**
- **equity/openness**
- **lower cost of doing business**
- **physical infrastructure**
- **amenities**

**Human capital**

The quality of the local workforce is an increasingly important factor in attracting business. Eberts and colleagues (2006) find that skilled workforce is the primary driver of economic growth in their model. “A skilled workforce includes not only the educational attainment of the workforce as measured by postsecondary degrees, but also the ability of companies to integrate these skills as measured by the proportions of knowledge-
based occupations and patents created” (Eberts et al. 2006, ii). The Council on Competitiveness (2005) supports this conclusion as well, reporting that most studies of corporate location decisions have shown skilled labor to be an important asset, and that firms tend to expand in regions in which they can find a core workforce with specialized skills related to their industry. Regions must consider not only the quality of local education, but also the retention of local graduates and the ability to attract talent from other regions. Addressing the additional factors discussed below can thus improve the human capital in a region.

**Equity/openness**

The openness of business leaders to collaboration and sharing ideas offers distinct advantages for economic development. Employers were key partners in almost all 38 sectoral employment demonstration projects funded by the U.S. Department of Labor in 2000, but grantees had to develop strategies to overcome employer reluctance to share information with other employers because they viewed each other as competitors (Pindus et al. 2004). Effective strategies included these three:

- Skilled facilitation of partner meetings and identification of common ground among employers and other partners.
- Projects that focused on a set of skills or occupations that cross industries. For example, employer partners in one project operated customer service call centers in a range of industries, and another grantee focused on an occupation common to a range of manufacturing industries in the region.
- Grantee-sponsored networking opportunities for employers that kept them engaged in the project and helped them see the value in collaborating with each other. For example, grantees hosted events that showcased research and recommendations from industry groups.

These examples show the value of networks in bringing people, ideas, and resources together. Collaborative economic development partnerships that include leaders from business, education, government, and nonprofits are one type of effective network strategy.

Another type of network involves access to capital, through angel investor networks, incubators, and university industry collaborations. Access to capital is one factor that can be especially important in attracting entrepreneurs. Since the geographic distribution of venture capital firms, angel investor groups, and other sources of capital is highly uneven, identifying and cultivating such networks is important to regional economic development.

Eberts and colleagues (2006) find that the pursuit of social goals, such as racial inclusion and income equality, can enhance regional economic growth. Richard Florida’s work on the creative economy supports this concept. In a recent paper on the univer-
sity’s role in the creative economy, Florida and coauthors (2006) refer to the “3 Ts” of economic development: technology, talent, and tolerance. They maintain that, while important, the university’s role in technology has been overstated, and the role of universities in generating, attracting, and mobilizing talent and in establishing a tolerant social climate has been underestimated. By “tolerant” they mean an environment that is “open, diverse, meritocratic and proactively inclusive of new people and new ideas” (Florida et al. 2006, 3). In fact, a regional equity movement has emerged within community development. This movement considers both people and place, and it is based on the premise that building inclusive and equitable regions is important for both social justice and economic competitiveness (Center for Justice, Tolerance, and Community 2006).

**Lower cost of doing business**

Several factors are related to locational differences in the cost of doing business, most of which can be influenced by public policy. Concentrated poverty increases the costs of doing business in central cities because such conditions as crime and drug use and decaying physical infrastructure, coupled with tightening fiscal budgets (a result, in part, of the shrinking tax base as nonpoor residents move out), place increased risks and costs on employers. Competition among jurisdictions, especially between cities and suburbs, can be costly and can exacerbate the concentration of poverty in inner cities. However, central cities are important engines of metropolitan economies, and a number of initiatives are aimed at attracting business to metropolitan areas.

Low lease rates have been a strong factor in corporate site selection decisions, yet regulatory and other barriers in many U.S. metropolitan areas have led to artificially high land and building prices that force businesses to pay more to build or lease space for factories and offices (Cisneros 1995). The Council on Competitiveness states that the relative importance of tax and regulatory burdens, compared with human capital, is frequently overstated, but it can affect the location and resource decisions of companies. Cisneros suggests the following approaches to reducing costs for businesses: (1) review and revamp the local regulatory environment, especially cumbersome and uncertain approval processes, which are among the most certain turnoffs to potential investors; (2) examine local tax structures to be sure that, in comparison to other areas, local tax burdens are no higher than they need to be; and (3) more aggressively rehabilitate and market underused land in the central city.

State and local governments are key players in addressing tax, regulatory, and administrative decisions that affect costs. For example, Michigan and other states are enacting innovative approaches to land reclamation, aimed at returning vacant properties in struggling cities to productive use. Some of these efforts are focused specifically on central cities because compact urban development is more cost-efficient—it lowers the costs of delivering essential government services and removes the demand for a costly new infrastructure (Katz 2006). But, the current era is not one of pitting cities and suburbs against each other in a cost competition to attract business. As noted by
Bruce Katz (2006), there has been a strong confluence of interest between older suburban communities and central cities. Both require reinvestment and redevelopment, and both need a strong focus on the needs of low-wage workers. Responses call for coordinated leadership at the local and regional levels that help both urban and suburban economies.

**Physical infrastructure**

Transportation factors, such as the average commute time, are also important in a region’s capacity to attract and retain companies and talent (Council on Competitiveness 2005). Transportation expenditures have contributed to suburban sprawl, but as employers and workers alike suffer the consequences of traffic and congestion, policies and partners are changing. Transportation funding disproportionately pays for the expansion of roads into the countryside, making new suburban commercial strips and housing subdivisions economically feasible, while existing infrastructure in cities and older suburbs is neglected (Katz 1998). But, transportation spending has been a focus of metropolitan coalitions that cross over city lines to include suburban jurisdictions—leaders in Portland, Chattanooga, and St. Louis are choosing infrastructure repair, mass transit, and alternative anti-congestion strategies over road expansion and loss of open space. State policies are also a major factor in decisions related to infrastructure spending—their policies can work to preserve open space by steering state road, sewer, and school funding to areas that are already developed and targeted for growth. And, these efforts go beyond transportation. For example, Minnesota placed all regional sewer, transit, and land-use planning in the Twin Cities under one metropolitan entity (Katz 1998).

Transportation barriers for low-income workers, including the lack of public transportation and the cost of owning and maintaining an automobile, are exacerbated by differences between where workers can afford to live and where the job growth occurs. A number of innovative partnerships between government, community organizations, and local businesses have addressed this issue. Some have focused on expanding available public transportation, some have used private vans and buses, and some have assisted families in purchasing their own cars. While the approaches necessarily vary by the regional geography and existing infrastructure, there are clearly opportunities to address transportation policies in ways that benefit employers and low-income families.

**Amenities**

Amenities affect the location of talent. Not only do amenities vary from region to region, but perceptions about what amenities are most desirable also varies from region to region. Ebert and colleagues (2006) find that, while positively related to per capita income growth, locational amenities are not as important to regional growth as other factors included in their analysis. Common measures of quality of life include cost of living, commuting times, and crime rates. But these measures only account for some of the factors that define quality of life.
Florida, Mellander, and Stolarick (2007) use the diversity of consumer service firms as a proxy for regional amenities. This variable reflects the number of service industries present within the metropolitan region that could be regarded as attractive to consumers. It is based on 2000 industry data from the Census. Other recent efforts have measured amenities such as arts and culture and access to parks and outdoor recreation. Jackson, Kabwasa-Green, and Herranz (2006) define cultural vitality as evidence of creating, disseminating, validating, and supporting arts and culture as a dimension of everyday life in communities. Their measurement framework considers the presence of opportunities for cultural participation, cultural participation in its multiple dimensions, and support systems for cultural participation. Indicators include the number of art establishments per 1,000 population; the number of arts nonprofits per 1,000 population; nonprofit community celebrations, festivals, fairs, and parades per 1,000 population; and artist jobs as a proportion of all employment.

Improving amenities could affect job opportunities by promoting growth and thus increasing the number of jobs, or by changing the geographic distribution of jobs. While certain amenities can be improved regardless of location (e.g., reducing the crime rate, increasing services), other amenities (e.g., mountains, lakes, climate) are unique to particular locations. Interesting policy challenges emerge when regions consider how to capitalize on their own particular setting and how to use amenities to improve the geographic distribution of job opportunities so workers have more equal access to them.

**Economic Development within Metropolitan Areas**

Metropolitan areas are strongly tied to the regions that surround them, but it is also important to look at individual metropolitan areas and at the spatial patterns within metropolitan areas. The expansion of suburbs and the decentralization of economic growth away from central cities was long accepted as inevitable, but past trends are not destiny.

More recently, there have been efforts to highlight the assets of cities, and the market opportunities of inner-city neighborhoods in particular. Michael Porter (2004) points to the following competitive advantages of the inner city: strategic location, underused workforce, links to industrial or regional clusters, and an undeserved local market. His model for inner-city economic revitalization calls for the private sector to take the lead, focusing on competitive advantage and investment rather than deficiencies and social needs (Porter 1995).

**Market attributes of low-income areas**

In fact, there are successful businesses in inner-city neighborhoods (e.g., check cashing services, payday lenders, and small grocery and liquor stores), and the density of population in inner cities offers a strong potential market for supermarkets and other retail
businesses, as well as financial institutions. Jamie Alderslade (2005) maintains that there is a lack of market attribute data to attract investment and job creation in low-income areas. Information on economic conditions in low-income areas is determined by federal funding criteria that focus on the weaknesses of low-income neighborhoods (in order to qualify for grant programs that fund social services). These information gaps discourage potential investment in low-income areas.

In a striking case study of East Oakland, California, Alderslade and researchers at Social Compact portray two very different pictures of this neighborhood, one using traditional socioeconomic indicators and the other using data sets that highlight such economic indicators as market size, buying power, and aggregate income. While socioeconomic data show that the overall poverty rate, children below the age of 4 living in poverty, and the percentage of homes built before 1939 are all higher than national levels, Social Compact’s analysis found a neighborhood with significant market potential. For example, both the population and the buying buyer of the community are substantially higher than indicated by Census 2000 figures. Over three-quarters of the $440 million spent on retail by residents of East Oakland was spent outside the community. And, incidents of crime in the neighborhood were found to be falling (Alderslade 2005).

A key point about this work by Social Compact is that all the data used to develop the asset-based profile are drawn from publicly available data from the census, and nonprofit and private sources. Most of the data are already collected by city departments and agencies, and they include tax assessments, residential building permits, business licenses, crime statistics, school enrollment, Department of Motor Vehicle data, business sales data, and financial institution transaction data. This leads to the conclusion that leadership is critical in developing strategic partnerships and in bringing this information to light for existing and potential businesses, investors, and residents.

Where People Live and Work

“Spatial access to opportunity is the great emerging social challenge of the 21st century” (Jargowsky 2006). This challenge cuts across service sectors and jurisdictional boundaries. Welfare reform prompted a new focus on the spatial dimensions of the concentration of poverty and suburbanization because it required linking welfare recipients with suitable employment opportunities as well as training, child care, transportation, and social services.

A study of welfare-to-work challenges in five metropolitan areas finds many similarities across the cities (Turner, Rubin, and DeLair 1999). In all cases, many welfare recipients are clustered in high-poverty, predominantly minority neighborhoods. Fewer than one in five jobs in the regional economy match the entry-level qualifications of most welfare recipients, and the majority of those jobs are located in areas distant from the central-city welfare populations. However, the study also identifies major differences
between cities, particularly with respect to employment opportunities, highlighting the importance of assembling reliable information on geographic patterns. For example, the study finds that job growth in Atlanta is very decentralized, while in Denver, a substantial share of entry-level job opportunities is located within the city.

**Patterns of employment locations in six metropolitan areas**

An Urban Institute analysis of patterns of employment location in six metropolitan areas (Atlanta, Boston, Houston, Philadelphia, Seattle, and Washington, D.C.) uses more recent data and illustrates the diversity of demographic, housing, and labor market conditions. The six metropolitan regions range in population from about 2 million to just over 5 million, with the central cities accounting for dramatically different shares of the total. At one extreme, Washington, D.C., is home to only 12 percent of its region’s total population, while at the other, Houston is home to 46 percent.

In general, these regions are growing faster than their central cities, in terms of both population and employment. Patterns of employment location vary quite dramatically across these six regions. Houston is the only one of these six metropolitan areas where a majority of all jobs are located in the central city. In Atlanta, Philadelphia, Seattle, and Washington, roughly three-quarters of the region’s jobs are located in the suburbs; in Boston, the suburbs account for more than eight of every ten jobs. Further, at least one of every three jobs in Atlanta, Boston, and Seattle are located in the outer suburbs. In Houston, Philadelphia, and Washington, the outer suburbs account for only about one in five jobs.

But, in five of the six metropolitan areas, high-wage jobs are more concentrated in central cities than low-wage jobs. This is most striking in the Washington, D.C., region, where a third of all high-wage jobs are located in the central city, compared with only 18 percent of low-wage jobs. In the Atlanta, Boston, Houston, Seattle, and Washington regions, high-wage jobs in the suburbs also tend to be more geographically clustered than low-wage jobs. For example, more than a third of the Atlanta region’s low-wage jobs are dispersed throughout the outer suburbs, compared with less than a quarter of high-wage jobs. And in the Washington region, fewer than one in ten high-wage jobs are located in the outer suburbs, compared with more than one in four low-wage jobs. The Philadelphia area is different, with a slightly higher share of high-wage jobs in the suburbs than in the central city and a slightly higher share in the outer suburbs than in the inner suburbs.

**Where workers live**

Although low-wage workers are more likely than high-wage workers to live in the central city, the majority live in the suburbs. This is consistent with the overall shift of the nation’s low-income population toward suburbia (Berube 2007). And generally, the share of low-wage jobs located in the central city is higher than the share of low-wage
workers living there. In Atlanta and Houston, the central city accounts for a significantly larger share of low-wage work locations than residential locations. In Boston and Philadelphia, the share of low-wage jobs and residences in the central city are essentially the same. Low-wage blacks are more likely to live in central cities than either whites or Hispanics. But, even so, the majority live in suburban locations in all but Houston and Philadelphia.

*Housing in the Nation’s Capital (2004)*, prepared by the Urban Institute for the Fannie Mae Foundation, provides additional detail about the Washington, D.C., metropolitan area. Fewer than half the workers in the Washington metropolitan area work in their county of residence. The District itself has an abundance of low- and moderate-income job opportunities. In fact, the District imports workers to meet this demand. This implies that if workforce development strategies do more to prepare district residents for entry-level jobs, these workers will not have to commute to the suburbs for employment. Institute researchers also compared the location of jobs with the location of affordable homes in Washington and found that affordable housing is in short supply near centers of employment. They find a relative scarcity of housing that is affordable for low- and moderate-wage workers in the inner and outer suburbs. Within the metropolitan Washington, D.C., area, there are dramatic differences in the location of high-wage and low-wage jobs, with high-wage jobs concentrated in the city and western suburbs, driving up housing prices in those areas and further exacerbating housing affordability and commuting problems.

**Findings and Areas for Continued Research**

No single factor or variable single-handedly determines whether a regional economy grows. This reconfirms the importance for metropolitan area stakeholders to carefully reexamine the relative importance of different factors to overall economic growth before selecting regional economic development policies (Eberts et al. 2006). The point of considering economic development from a regional perspective is the recognition that economic markets and asset development will cross geographic boundaries and exhibit a range of spatial patterns. Future policies at the federal, state, and local levels need to connect neighborhood, inner-city, city, and regional strategies focusing on geographic and market links. While economic growth is presumed to increase the number of available jobs at all levels, strategic analysis and policy development is needed to improve the quality of jobs for low-income families as well as their access to such opportunities.

In looking at economic development, employer choices, and opportunities for low-wage workers through the lens of place, it is clear that the landscape is shifting and policies must adapt accordingly. Spatial mismatch is more than employers and businesses leaving the urban core and poor urban residents lacking transportation to new job centers. Now, some urban centers are revitalizing, the creative class is growing in cities, and some suburbs (especially older suburbs and some outer-ring suburbs) are increasingly
diverse and beginning to experience some of the same challenges as cities. And, there is a growing body of evidence that, in a knowledge-based economy, equity and tolerance are good for business. There is a growing consensus that geography of opportunity has changed, and continues to change.

These changes offer opportunities for new partnerships, which, when coupled with improved access to data, hold promise for a range of initiatives, including these three:

- Housing policies that promote “workforce housing” and the deconcentration of poverty by considering the mix of the workforce and matching housing opportunities to that mix.
- Transportation and other infrastructure funding that supports integration of systems and reduces sprawl by concentrating development near rail and bus hubs (“smart growth”).
- Aligning workforce and education with economic development by addressing spatial mismatches between training opportunities and where people live and work; improving coordination between employers, workforce development intermediaries, and community colleges; and facilitating cross-firm career mobility within regional labor markets.

There is a need to continue to explore a variety of strategies for better understanding the spatial dimensions of low-wage work, including the variations across metropolitan areas in where low-wage workers live and work, where the “good jobs” (with respect to employer-sponsored benefits) are located in different metropolitan areas, and what features of metropolitan areas and specific locations within them are attractive or unattractive to employers. A better understanding of these questions will in turn lead to stronger policy options for local, regional, and state strategies for economic development that is responsive to the circumstances of low-wage workers and low-income parents.
Notes

1. Most studies use the metropolitan area as the unit of analysis.

2. The research literature defines and categorizes the key factors in varying ways. For example, Eberts, Erickcek, and Kleinhenz (2006) describe four areas of economic activity: employment, output, per capita income, and productivity. Using the statistical technique of factor analysis, they identify the following eight factors that are highly correlated with growth in these four areas: skilled workforce, urban assimilation, racial inclusion, legacy of place, income equality, locational amenities, business dynamics, and urbanization/metro structure.

3. An angel investor is an affluent individual who provides capital for a business start-up, usually in exchange for ownership equity. In contrast to venture capital firms that manage the pooled money of others in a professionally managed fund, angels typically invest their own funds. A small but increasing number of angel investors are organizing themselves into angel networks or angel groups to share research and pool their investment capital.

4. Based on Urban Institute tabulations of data from the 2000 Census Transportation Planning Package, which provides characteristics of workers at the census tract level, based on both place of work and place of residence. Low-wage jobs are defined as jobs with annual wages under $20,000. High-wage jobs are defined as jobs with annual wages over $75,000. Suburban counties are classified as either “inner suburbs” or “outer suburbs” based on whether they are contiguous to the central-city jurisdiction.


