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COUNCIL *on* FOUNDATIONS

INCLUSIVE ECONOMIC PROSPERITY

Contents

St. Paul, Minnesota Summit

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Background: The Current Landscape

Inclusive Economic Prosperity for the Fourth Industrial Revolution

The US economy—the world's wealthiest at $21 trillion and growing—has been a major player in the knowledge-based, tech-driven, globally competitive "Innovation Economy" of the last 60 years. This Innovation Economy—generally considered to be the Third Industrial Revolution, following the Agrarian and Manufacturing economies—has ushered in a new age of computing technology, the Internet, and an accelerated rate of tech-innovation.

The building blocks of the Innovation Economy in the US have been:

- **STEM/STEAM education** (Science, Technology, Engineering, Arts and Math) built around a core of project-based and entrepreneurial methodologies.
- **Workforce development** for higher-wage incomes, primarily in tech-based areas and built upon a foundation of STEM/STEAM education.
- **Entrepreneurship culture** on campuses and in communities, supported by ecosystem resources, both public and private, with entrepreneurial talent steeped in STEM/STEAM education.
- **Policy and economic strategies to support business growth,** especially development of inclusive innovation ecosystems using public and private resources, strategies, plans, measures, and metrics to produce sustainable outcomes.

Institutions of higher education built more incubators and accelerators to support high-growth entrepreneurial projects. Equity investors—both angels and venture capitalists—fueled an ever-increasing pace of business productivity. The startup culture began to produce gazelles (fast-growing companies that double in size every couple of years) and unicorns (billion-dollar companies) at an unprecedented rate. Young fast-paced growing companies became the hallmark of the Innovation Economy and produced nearly all net new jobs. Advances in technology improved business efficiencies, which disconnected profit from workforce, requiring fewer workers needed to achieve ever-growing levels of profits for shareholders of high-growth enterprises.

Both in the US and globally, the frenetic pace of the Innovation Economy has brought tremendous disruptions in every industry, which opened new opportunities and lowered barriers of entry for entrepreneurs—at least, for those who could access the resources to put forward an initial investment. The new Innovation Economy may not have been lawfully forbidden to minorities, but it required a pay-to-play "friends and family" round of investment even to compete, and bank loans were never an option in any economic era for most minorities. Due to inherited 20th century segregationist policies and practices (that continue today) the vast majority of minorities lacked generational wealth, disposable income, savings, or any safety net in case of entrepreneurial failure. Instead of offering more opportunities to minorities, the Innovation Economy greatly expanded opportunity gaps that the Rev. Dr. Martin Luther King, Jr. and others were protesting in the 1960s. These

STATE OF BLACK AMERICAN FAMILIES		
	1968	**2018**
Segregated schools	Most black students were relegated to poor quality segregated schools	Most black students are relegated to poor quality segregated schools
Unemployment	6.7% – Nearly twice the rate of white unemployment annually	7.5% – Nearly twice the rate of white unemployment annually
Homeownership	41.6% vs 62.9% overall US	41.2% vs 64% overall US
Household income	$24,700 vs $44,700 white HHI	$40,258 vs $68,145 white HHI
Median Wealth	$0 black wealth in 1968 1983: $12,200 vs $98,700 white wealth	$3,400 vs $140K white wealth
Business Productivity	Less than 1% GDP	Less than 1% GDP

ever-widening gaps left millions of minorities hopeless in economic prisons of poorly funded antiquated schools and obsolete public education that consistently served high-poverty communities with low-performing outcomes.

America now faces the next evolution of the global economy, which has been recognized by economists and the World Economic Forum (WEF) as a Fourth Industrial Revolution (4IR). And yet, prioritizing progress for America's most vulnerable populations continues to take a backseat to efforts that will benefit America's *middle class*. For Black Americans in particular, historically the target of aggressive segregationist policies and practices, the result has been catastrophic.

In 1968, the term "minority" in the US referred almost exclusively to Black Americans, who comprised 90 percent of the minority population, according to the US Department of Labor. Their economically adverse condition, which persists today, has since expanded to several other groups that make up an increasing share of "minorities," including Latinx, many Asian populations, and other immigrants of color. The Third Industrial Revolution held enormous promise for STEM-educated students, but the vast majority of poor Black and Hispanic students were largely left out.

As we prepare—or fail to prepare—for new business models and economic drivers of the 4IR, the potentially disastrous effects on the US economy will affect everyone, not just minorities. The red flags are already visible: The gap between the Haves and Have Nots is growing. High wages have grown 41% since 1980, while mid-range wages have grown only 6% and low wages have actually decreased 5%. Unemployment and earnings disparities across the educational attainment ladder have increased. Dynamism is of concern, which tracks the startup and closure rates of businesses. Census data reveals a decline in business dynamism and productivity output as recent as 2017. Manufacturing output as a percentage of GDP and employment in manufacturing have both dropped precipitously since the 1990s. Meanwhile, federal debt is on the rise, with healthcare spending (both public and private) projected to be one-fifth of the economy by 2025.

Inclusive Economic Prosperity

In 2018, the Council on Foundations introduced a series of summits on inclusive economic prosperity. These summits were designed to help foundation leaders better understand the leading role that philanthropy can play in developing inclusive economic prosperity outcomes in local economies.

Given the differences in areas of interest, resources, assets, and economic drivers in the Southern states compared to Midwestern states, the summits were scheduled in two locations with similar agendas. The first convening in Spartanburg, SC, with the second in St. Paul, MN. Each summit was attended by approximately 100 foundation leaders, researchers, policymakers, practitioners and other economic stakeholders to share ideas and offer serious answers to the challenges and opportunities of **inclusive economic prosperity**.

By examining inherited economic issues (like historical inequities) and present-day factors impacting local economies (like racial demographic shifts in an accelerated tech-based innovation economy), the summits presented a broad scope of solution-oriented ideas, insights, and practices that can contribute to the development of a healthy, inclusive economic ecosystem that is both equitable and innovative. We organized some of the most interesting and useful insights from the summits in the hope they might guide the decision-making processes used by investment leaders who will help shape America's future for generations.

Top and bottom right: Spartenburg, South Carolina Summit

Four Key Trends

Many of the ideas and insights exchanged at the summits acknowledged that the onset of the 4IR is driven by a few key secular trends. Developing successful pathways to inclusive economic prosperity will require robust responses to:

- Shifting demographics
- Accelerating cycles of innovation and "creative destruction"
- Rise of automation
- Longer trajectories of growth

Shifting demographics

In 2014, children of color became the new majority in US public schools. By 2044, the US will be "majority-minority." If the US is to retain and strengthen its competitive position in the world, we must find ways to tap the talent in our minority and rural communities to identify the untapped economic potential of both. Our future economic strength will depend on our ability to develop Comprehensive Economic Development Strategy (CEDS) plans with measurable investment, impact, and outcomes for minority communities across rural and urban landscapes.

Inclusive Economic Prosperity prioritizes strategic economic planning for historically under-capitalized communities, as well as the willingness to address the inherited business and economic models that perpetuate the historic exclusion of minorities and others from entrepreneurial activities.

Accelerating cycles of innovation and "creative destruction"

Everything, it seems, is speeding up—from the time it takes to communicate, to the time it takes to innovate and roll out a new idea. As we move into the 4IR, consumers engage with new technologies at exponentially faster rates. The innovation cycle is accelerating, and more business models are becoming obsolete. This process of "creative destruction" generates opportunities for new entrants and reduces barriers to innovation, but it also requires managing frequent industry disruptions.

Inclusive Economic Prosperity enables unique concentrations of talent and technologies in place, and prepares individuals and communities to be deliberate and resilient through sustained periods of innovation and destruction.

Top and bottom left:
St. Paul, Minnesota Summit

St. Paul, Minnesota Summit

Rise of automation, artificial intelligence, and cyber-physical systems

The rise of automation and artificial intelligence, and their convergence into cyber-physical systems, is one of the defining characteristics of the 4IR. One study shows that 60% of occupations are at risk of having at least *one third* of job skills automated. Another suggests that just under 50% of jobs are at risk of elimination because of automation. Walmart, for example, is currently automating nearly 2,000 of its 4,700 stores, equipping them with robots that automatically scan shelves for inventory management, load and unload trucks and replace the need for janitors in cleaning the stores. Other retailers are following suit. *Forty percent* of professionals believe their skills will be redundant within five years. Hand-in-hand with the rise in automation is the burgeoning artificial intelligence (AI) industry, which is projected to reach $127 billion by 2025 and replace millions of jobs. As industry and the economy becomes more reliant on computer-driven automation and AI, the gaps in our cybersecurity

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become more urgent. Cyberattacks will cost the US $2 trillion by 2019 and only get more expensive unless properly addressed.

Inclusive economic prosperity seeks to achieve concentrated growth in high-skills jobs by developing longer training pathways and facilitating opportunities for new and historically underprepared populations to take these pathways.

Longer trajectories of growth

From the Great Recession of 2008, it became clear that financial crises can have long-lasting effects on productivity. Prolonged periods of under-investment caused by a financial meltdown can result in growth trajectories that are longer than planned for, draining resources and setting the economic system on a less prosperous path, even after the financial sector rebounds. Recovery depends on long-term strategic planning, mechanisms to reduce risk, and equitable governance of the socio-economic effects of innovation.

Inclusive economic prosperity emphasizes both *resilience*—putting in place buffers and economic mechanisms to prevent financial crises or mass unemployment and to respond to external shocks—and *agility*—embracing change rather than resisting it. Companies, public policy-makers and workers should be able to quickly adapt how they operate and take advantage of the opportunities to produce goods or provide services in new ways.

Spartenburg, South Carolina Summit

New Paradigms for a New Economy

As foundation leaders and other economic stakeholders shared ideas about how the principles and practices of Inclusive Economic Prosperity might address the key trends listed above, some broader themes started to emerge. In a few cases, several ideas and responses gelled together into a paradigm that could shape the future of inclusive economic prosperity in one or more local systems. Here are three such paradigms:

An Inclusive Innovation Ecosystem

In an inclusive innovation ecosystem, innovation is incentivized at all levels and all stakeholders contribute to create the best conditions for new ideas to emerge and be financed.

Within this paradigm, private and public resources are combined to support a resilient "startup culture," and strategies, plans, measures and metrics are developed to produce sustainable outcomes.

A Human-Centric Approach

A human-centric approach to economic development is grounded in recognizing that human capital is essential for generating prosperity. Any policy that adversely affects the potential of any human factor will reduce economic growth in the long run.

Within this paradigm, investing in underrepresented populations to tap into and cultivate their talent and entrepreneurial potential is imperative, especially efforts to deliver sustainable market-driven solutions locally. Economic policies must ensure that the speed of change and the introduction of new technologies ultimately translate into better living conditions.

Inclusive Competitiveness

Inclusive competitiveness refers to improving the productivity of underrepresented populations. In most US cities and regions, minority populations are not included in regional competitiveness measures in terms of productivity output. Many white rural communities, too, are disconnected from the economic prosperity of the Innovation Economy. In most cities and regions, as much as 90% of productivity by conventional measures is derived almost exclusively from white, urban and suburban populations.

Within this paradigm, new strategies are developed and put into place, focused on economic competitiveness that includes all populations in all regions. These strategies also take into account the generations of disenfranchisement experienced by nonwhite populations.

Foundations can play a lead role in helping policymakers and ecosystem builders by supporting the process of gathering much-needed data on who owns employer firms in their regions, with disaggregated data to identify racial demographics of ownership. At a national scale, 80 percent of all employer firms are white-owned and produce more than 92 percent of the nation's GDP. Yet, business dynamism data reveals a declining 40-year trend in entrepreneurship among this dominant class. Such reliance upon an inherited infrastructure of declining white-owned employer firms is unsustainable as US demographics shift. By 2045, black and Latinx populations alone will comprise 42 percent of the nation's total population and produce a paltry productivity output of 4 percent GDP and 1 percent job creation, if current trends persist. To address the challenges inherent in improving the business productivity and job growth of minority enterprises, local leaders need reliable data on the numbers of employer firms and who owns them in their regions. Presently, no one has this data anywhere in the country.

Catalytic Opportunities

Philanthropic support of inclusive economic prosperity will be instrumental in bringing it to reality. As our national economy responds to the trends driving the 4IR, we can put our resources toward maintaining the status quo of current practices and policies. Or, we can use them to invest in new economic paradigms, catalyzing a future economy that is both inclusive and prosperous.

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Spartenburg, South Carolina Summit

Numerous research reports, including an August 2018 Brookings report, underscore widespread understanding that minority populations, including many immigrants and residents of rural regions, generally fare less well than the average white American, in terms of employment, housing, schooling, household income, and wealth. To put a finer point on the issue,

the three richest Americans—Jeff Bezos, Bill Gates and Warren Buffet—possess more wealth than the bottom half of America's poorest population. In a racial breakdown, the median white family owns 41 times more wealth than the median black family and 22 times more wealth than the median Hispanic family. Philanthropic leaders today seek not only better strategies to address these issues, but innovative options, proven practices, measurable impacts, and sustainable outcomes that provide a positive return on investments.

Inclusive economic prosperity, with its goals of economic inclusion and improved productivity among underrepresented populations, can offer a framework both for developing metrics and other data about the productivity and prosperity of at-risk populations, and for defining strategies and objectives to ensure that progress is being made.

From the summits emerged several specific areas where philanthropic support and investment has the potential to be a powerful catalyst for inclusive prosperity:

- **Align Regional Resources**
  Seed intentional connection and collaboration, both within organizations and across sectors. Embrace new and inclusive partnerships and networks jointly invested in informing and implementing work. Encourage acting in context, aligning activities and geographies such that they are mutually reinforcing.
- **Establish and Sustain Safe, Inclusive Culture**
  Support and promote diversification of workforce through hiring practices. Incentivize hiring racial diversity, cultural diversity, bilingual and multilingual individuals. Normalize diversity across workplace culture. Emphasize purposeful, empathetic, and personal connections. Develop hubs and satellite locations to ease access for diverse populations. Build partnerships with local high schools and colleges.
- **Build Focus Funds**
  Specify capital for target populations, geographies, and issues. Offer revolving loans to target populations. Invest directly in HBCUs to support an inclusive talent pipeline and an inclusive economic development pipeline. Leverage collaboration with government and public-private partnerships to create funds that support the cultivation and development of minority businesses and entrepreneurship, including competitions, mentoring, incubators, accelerators and inclusive co-working spaces.
- **Develop and Deploy Existing Assets**
  Expand market activity to the assets of poor communities to increase wealth. Strengthen the social and economic fabric of local communities by supporting existing businesses and business corridors/hubs in minority communities to help grow sustainable employer firms.
- **Foster Entrepreneurship Culture**
  Encourage competition on value rather than cost. Invest in innovation. Strengthen university-industry connections. Build clusters of companies within industries. Promote STEEM (Science, Technology, Engineering, Entrepreneurship, and Math) education, with multi-valent academic, social, and emotional support and goal-oriented programming. Identify and support high-growth scalable companies to promote job creation and regional competitiveness.
- **Invest in Competitive Talent Development**
  Support forward-thinking workforce training, and end programs that direct disadvantaged populations into old economy jobs and industries. Build resources to support longer training pathways required for high-skills jobs. Incentivize completion and resilience with later-stage resources. Think forward by prioritizing investments in sustainable green economy sectors and areas of impact by climate change, such as food, water and energy.

Top right:
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Bottom right:
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- **Embed Inclusion in Organizations**
  Encourage comprehensive integration of inclusion across businesses and communities, and end initiatives that relegate inclusion to programmatic efforts. Treat inclusion as an intentional integral design principle for every growth activity. Challenge conventional understandings of economic growth as equivalent to profit. Promote equitable accumulation, distribution, and ownership of wealth. Support inclusive growth practices. Prioritize inclusion of the most vulnerable populations in all strategic planning.

Toward Inclusive Economic Prosperity

The trends that are shaping the 4IR undeniably present challenges for economic systems at the local, regional, national, and global levels. With the sea change, though, comes a rare opportunity to influence the future of our economy in truly innovative ways. Guidance, incentives, connections, and resources directed at bringing the opportunities and paradigms above can catalyze innovation and transformation that will secure the US's leading place in the global economy. Philanthropic support can make the difference between business as usual and business that is inclusive and open to all.

Appendix

Prototypes

Biotech MBE (p10), Milwaukee 7 (p10), Chicago Plan (p10), Chicagoland Feed & Beverage (p10), Greater Chatham (p10), Philadelphia University City (p10), KC's Talent to Industry (p10), MHub (p10), Startup to scaleup Roadmap (Kapor Center) (p15), Tech/HireOakland (p16), South Carolina Community Loan Fund (p16)

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- United Way of the Piedmont
- Wells Fargo

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References

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Mike Green is a co-founder of ScaleUp Partners LLC, which has a commitment to the Clinton Global Initiative High Growth Entrepreneurship Working Group through its brand, ScaleUp America.

Mr. Green is a New York Times Leadership Academy Fellow, award-winning print and digital journalist with 18 years experience, and former leading digital media innovations strategist for Dow Jones Local Media Group. As a leading national voice on issues related to STEAM-powered education and economic competitiveness in the Innovation Economy, Mr. Green has been a consultant to educational, governmental and nonprofit institutions on issues of economic inclusion in the innovation economy.

As a member of the Clinton Global Initiative High-Growth Entrepreneurship Working Group, Mr. Green led a team from the Oregon Governor's office in a successful pitch of a national ScaleUp America Campaign that attracted the interest and support of the CGI working group. ScaleUp America became one of five official commitments emerging from the group and is managed as a brand under ScaleUp Partners, LLC.

As a national writer, Mr. Green is a columnist for *Oregon Business* magazine, *Governing Institute* and the *Huffington Post*. He has also contributed to numerous national media, including NPR, PBS, The Washington Post, Entrepreneur magazine, Black Enterprise magazine and others.

Mr. Green has been invited to speak at numerous national, regional and local events, including SXSWedu (2013 & 2014); Bill & Melinda Gates Symposium, Black Enterprise Entrepreneurship Conference; Puget Sound Region Economic Solutions Summit; HBCU Innovation Summit at Stanford University, Council on Foundations, State Science Technology Institute (SSTI), SBIR/STTR National Conference, Urban League Young Professionals and other platforms focused on education and economic development of inclusive entrepreneurial ecosystems.

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