Federal Reserve Bank of Boston

# Communities & Banking

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# A New Way to Build Credit

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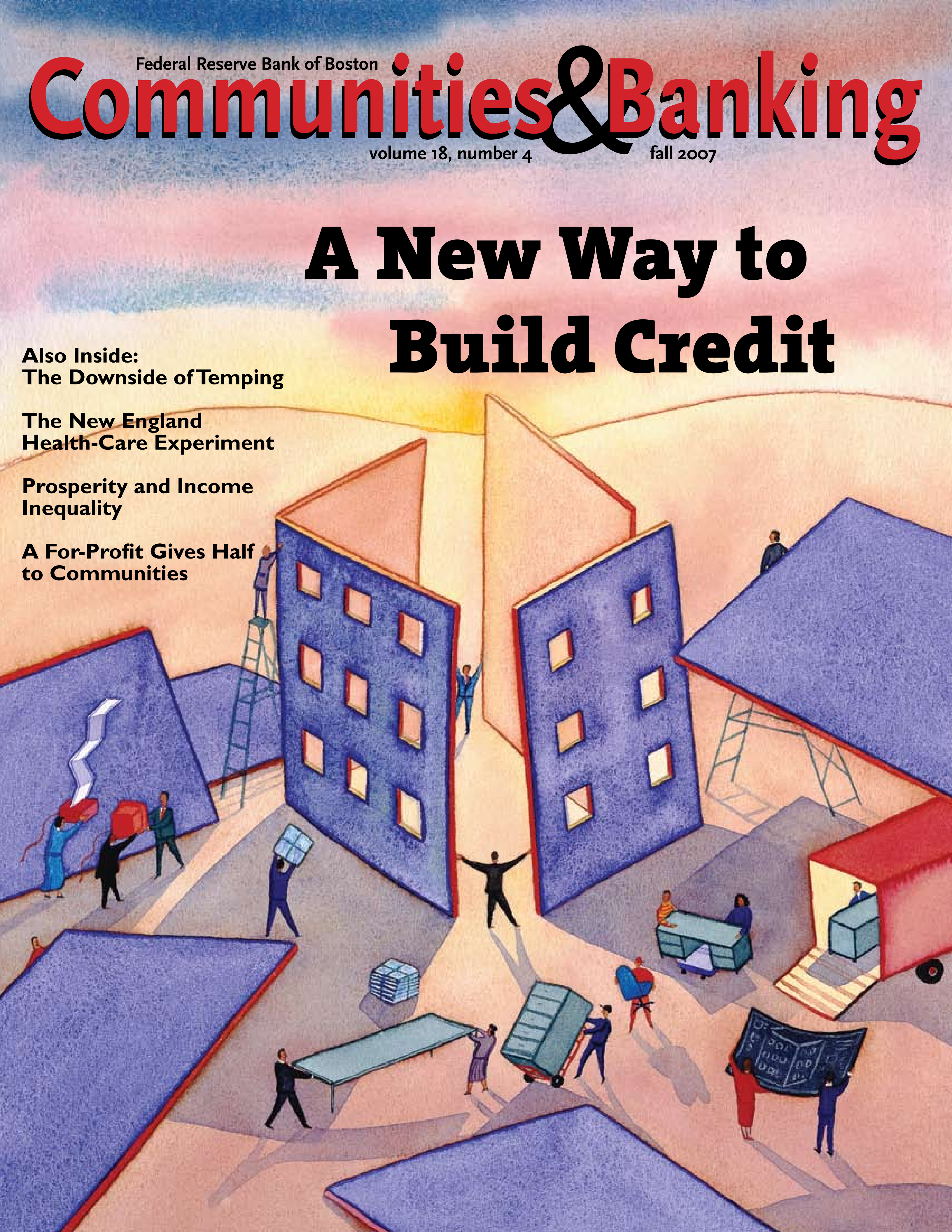

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Cover Illustration: Getty Images


*Communities & Banking* magazine aims to be the central forum for the sharing of information about low- and moderate-income issues in New England.





If you would like to submit an article for a future issue of *Communities & Banking*, please contact the editor.





Caroline Ellis
Editor, *Communities & Banking*
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210
(617) 973-3187
caroline.ellis@bos.frb.org

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# Helping Clients Build Credit

by Vikki Frank, Credit Builders Alliance

In today's economy, access to financial services is increasingly determined by an individual's credit score. People with a good credit rating will pay approximately $250,000 less in interest throughout their working lives than those without.[1] The impact of a credit score on financial well-being goes beyond access to credit and debt. Credit not only helps families buy a home, a business, or an education, but impacts opportunities for rental housing, transportation, employment, and access to checking, savings, and investment accounts.

Consider the challenge for Rita, an entrepreneur who has always paid loans, rent, and bills on time–but not through channels that record her payment history. Rita never had a credit card. She financed a car through a lender that did not

Illustration: Getty Images

report her payments to a credit bureau (it *would* have if she had defaulted). Rita now wants to buy a home. When an applicant has no credit score, mortgage lenders must consider "alternative data." Unfortunately, that's a lot of work for both the borrower and the bank. Rita needs to document 12 months of on-time bill payments to at least three vendors, and the bank needs trained alternative underwriters to manually assess the risk of lending to her.

## Lending to the Underserved

In the past decade, community and regional banks have merged into national financial institutions, and the banking sector has become increasingly dependent on credit scores and the automated underwriting system (AUS). AUS allows banks to quickly and efficiently offer credit, but it doesn't help everyone.

People without a credit score or with a poor score borrow from high-cost creditors that don't generally report repayments to credit bureaus and don't have any interest in helping borrowers build credit and graduate to mainstream financing. It's a Catch-22. The system helps families with good scores access affordable financing and gives them continued opportunities to access affordable credit and build wealth. The financially excluded, however, are nearly always obliged to use high-cost, unreported products, and have few opportunities to build a score and break the cycle.

About 40 million people—more than 15 percent of the U.S. population—either have no credit files or very thin files and are "unscoreable."[2] Another 25 percent of the population have poor scores (lower than 650) that prevent access to prime lending products.[3] With few opportunities to create or improve their credit scores at credit bureaus, these borrowers have less access to competitive interest rates and safe loan products. They also are more vulnerable to predatory lenders.

The underserved do access credit through their personal networks or alternative creditors like payday and subprime lenders. Or they can turn to community development financial institutions (CDFIs) and other microenterprise and housing development lenders. Unfortunately, few alternative lenders have been reporting their clients' credit behavior to the three major credit bureaus.

LEDC courtesy photograph

Robert Vickers and Susan Lopez at Washington, D.C.-based Latino Economic Development Corporation present a loan check for $12,250 to Oswaldo Acosta-Corrales, owner of Picante Foods, a wholesaler of Hispanic food products.

**People without a credit score or with a poor score often borrow from high-cost creditors that don't report repayments to credit bureaus or care about helping borrowers build credit.**

## Credit Reporting Needed

Credit Builders Alliance (CBA) is a coalition born out of a challenge that community financial lenders and their clients have long faced. Many of the estimated 1,000 CDFI and microenterprise lenders in the United States that want to report the repayment history of their borrowers have been unable to meet credit bureau requirements. CBA surveyed 115 microlenders in 2006 and learned that only 17 percent were sending client repayment behavior to a major credit bureau. Of the remaining lenders, half had fewer than 50 active loans, and only 20 percent had more than 100. Credit bureaus require 500 open accounts.

Enter Credit Builders Alliance. With seed funding from the Center for Financial Services Innovation and with a founding board that included Central Vermont Community Action Council (CVCAC), RUPRI Center for Rural Entrepreneurship, and the Association for Enterprise Opportunity (AEO), CBA launched an effort to aggregate data from small lenders and furnish the information to the major credit bureaus.

## A Membership-Partnership Model

In April 2006, CBA principals approached the three major credit bureaus—Experian, Equifax, and TransUnion—to learn more about the barriers to their accepting data from small community lenders. One challenge is that the U.S. credit system is a completely voluntary arrangement. Creditors must want to report, and it can be expensive for them to do so. Additionally, credit bureaus must be able to cost-effectively verify creditors' information.

In August 2006, Experian agreed to a pilot project with CBA. CBA signed up 12 community lenders from across the country to upload data to Experian. CBA developed membership criteria unique to community lenders which would assure Experian that CBA members are reputable, longstanding community entities. Most community lenders are underwritten by foundations, after all, not to mention federal and local government entities, such as the CDFI Fund, Small Business Administration, and housing departments. In addition, community lenders are not only willing but proud to provide information on their affiliations, staff accreditations, client demographics, loan portfolio management, and annual turnover.

Equally important, CBA gives small lenders technical assistance to help them set up the appropriate technology, client services, credit bureau relationships, and organizational infrastructure to efficiently report and verify data. CBA also has benefited from the assistance of DownHome Solutions and CommonGoals software companies, both of which invested in useful credit-reporting add-ons to their loan-management products so that the CBA pilot groups could upload test data to Experian.[4] As a result, Experian has been able to receive the data with few disruptions or demands on staff time.

As Experian senior vice president Zaydoon H. Munir puts it, "Enabling CBA's clients to report data to us expands the credit system to many individuals who have not had the benefits of an established credit history in the past."

In May 2007, CBA began offering all community lenders the opportunity to join the organization and report data to Experian. It hopes to add other credit bureaus in 2008. CBA is getting the word out to national conferences and through its web site, its software partners, and industry listservs. More than 75 community lenders made inquiries as of May 15, 2007, and CBA hopes to have at least 300 members by 2010.

**Credit Builders Alliance signed up community lenders to upload data to a credit bureau and developed criteria to assure the bureau that members were reputable community entities.**

## Investing in an Asset

Simultaneously, CBA is conducting a campaign to promote increased public awareness about credit scores and to disseminate information about the benefits of adding new and positive lines of credit. It believes that the best and quickest way for people to remediate a poor or nonexistent credit history—and get access to mainstream financing and safe, affordable lending products—is to show a positive payment history on current open accounts. This is an asset-based approach and is a departure from credit-repair interventions focused only on negative accounts and debt consolidation. A Credit Builders Toolkit funded by the Annie E. Casey Foundation equips community financial educators with tools, strategies, and best practices to help low- and moderate-income families build credit and improve their financial independence and economic well-being.

CBA also plans to work with its credit-bureau partners to evaluate and strengthen the wealth of credit-risk data that community-based financial organizations measure. If conventional financial institutions must have credit scores to evaluate creditworthiness, then finding reliable new data is critical to leveling the playing field for all families.

CBA believes that enabling U.S. community lenders to report client repayments is a cost-effective and efficient strategy for asset building and moving unbanked and underserved families to economic self-sufficiency.

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**Vikki Frank** *is the executive director of Credit Builders Alliance, www.creditbuildersalliance.org, based in Washington, D.C.*

### Endnotes

1 "Improving Credit Can Save," CBS MarketWatch, January 13, 2004.

2 "Give Credit Where Credit Is Due," Political and Economic Research Center, http://www.infopolicy.org/pdf/alt-data.pdf.

3 See http://www.myfico.com/CreditEducation/CreditScores.aspx.

4 See http://www.commongoals.com and http://www.downhomesolutions.com for descriptions of software designed specifically for microbusiness and housing community development lenders.


# Do Temporary Jobs Help Low-Skilled Workers?

*Surprising Data from Detroit*

by David Autor, University of Chicago, and Susan N. Houseman, W.E. Upjohn Institute

A question that has long puzzled policymakers, "Does temping ultimately help welfare recipients move into good, permanent jobs?" has not been an easy one to answer. Fortunately, the unique way Detroit set up its welfare-to-work program, Work First, has provided researchers with an opportunity to find out. The results are surprising.[1]

Photograph: Getty Images

## Temping and Low-Skilled Workers

Temporary-help firms employ a disproportionate share of low-skilled and minority U.S. workers. In 2005, for example, African American workers accounted for 23 percent of workers in temporary-help employment and only 11 percent of workers in direct-hire employment. Latinos were 21 percent of temp workers and 13 percent of direct hires. The comparable percentages for high school dropouts were 17 percent and 9 percent. In contrast, those with college degrees made up only 21 percent of temporary-help workers and about 33 percent of workers in direct-hire employment.[2]

The concentration of low-skilled workers in temporary-help jobs is especially pronounced among welfare recipients. Recent analyses of state administrative welfare data reveal that 15 percent to 40 percent of former welfare recipients who obtained employment after the 1996 U.S. welfare reform took jobs in the temporary-help sector. The numbers are particularly striking considering that the temporary-help industry accounts for less than 3 percent of average U.S. daily employment.

The concentration of low-skilled workers in the temporary-help sector, in conjunction with the rapid growth of temporary-help jobs, which accounted for 10 percent of net U.S. employment creation in the 1990s and almost one-third of job loss between 2000 and 2002, has catalyzed a research and policy debate about whether temporary jobs foster labor market advancement.

## Two Hypotheses

One hypothesis has been that because temporary-help firms face lower hiring, screening, and termination costs than do conventional, direct-hire employers, they provide work for individuals who otherwise would have difficulty finding employment. Thus, temporary-help jobs may reduce the time workers spend in unproductive, potentially discouraging job searches and may facilitate rapid entry into employment. Moreover, the theory goes, temporary assignments may permit workers to develop the skills and contacts that can lead, directly or indirectly, to longer-term jobs. After all, many employers use temporary-help assignments to screen workers for direct-hire jobs. Temporary-help jobs could serve as a springboard.

Alternatively, numerous scholars and practitioners have argued that the unstable and primarily low-skilled placements offered by temporary-help agencies provide little opportunity or incentive for workers to invest in skills or develop productive job-search networks. In support of that view, several studies find that workers in temporary-help jobs receive on average lower pay and fewer benefits than would be expected in direct-hire jobs. And although mobility out of the temporary-help sector is high, many of those leaving enter unemployment or exit the labor force.

If temping was merely what people did instead of collecting unemployment while out of work, these facts would be of little concern. But to the degree that spells in temporary-help employment crowd out productive direct-hire job searching, they may inhibit longer-term labor advancement. Under this hypothesis, the short-term gains from nearer-term employment in temporary-help jobs may be offset by employment instability and poor earnings growth.

**Several studies find that workers in temporary-help jobs receive on average lower pay and fewer benefits than would be expected in direct-hire jobs.**

Testing these two hypotheses has been an empirical challenge. The key problem in making inferences about whether temping causes one scenario or the other is that there are economically large, but typically not measurable, differences in skills and motivation between workers taking temporary jobs and workers taking direct-hire jobs. In the absence of random assignment of low-skilled workers to the two job types, a statistical comparison of labor force outcomes among low-skilled workers may not be a reliable gauge of the causal effects of temporary-help jobs on labor market advancement.

## A Window in Detroit

A unique policy in Detroit provided the opportunity for the authors to overcome some of the research challenges. Unintentionally, but nevertheless effectively, Detroit created randomized Work First groups suitable for a study. For administrative purposes, welfare services were divided into 12 geographic districts, each served by two to four independent Work First contractors in each program year. Individuals applying for benefits report to welfare offices in their district, which in turn refers those eligible for cash assistance to a Work First contractor. To ensure an even allocation of participants, each welfare office randomly distributes entering Work First clients among contractors.

This randomization gives rise to significant differences in direct-hire and temporary-help job-taking rates among identical Work First participants assigned to different contractors. Why? The reason is that each Work First contractor has unique job-placement policies—some focus on placing clients in direct-hire jobs while others rely more on temp agencies. Although welfare participants can and do find jobs on their own, job developers at each contractor play an influential role in the search process.

The job developers' role includes encouraging or discouraging participants from applying for specific jobs and employers, referring participants directly to job sites for specific openings, and arranging on-site visits by employers—temporary-help agencies in particular—that screen and recruit participants at the Work First office. The jobs that Work First participants take depend in part on an individual contractor's employer contacts and, more generally, on contractor policies that foster or discourage temporary agency employment.

The random assignment process enabled the authors to exploit differences in the probability that a welfare recipient would take a temporary job, a direct-hire job—or no job—to study the effects of Work First employment and job type on longer-term earnings and recidivism. Welfare case records from the Michigan Work First program were linked to complete wage records from the Michigan Unemployment Insurance agency for close to 40,000 Work First episodes initiated between 1997 and

2003. Using those data, the authors analyzed how Work First clients' random assignment to a given contractor affects, initially, their employment placement (direct-hire, temporary help, or no placement) and, ultimately, their earnings, job stability, and welfare recidivism over the subsequent two years.

## Not Moving Up

Moving welfare participants into either temporary jobs or direct-hire jobs boosts their short-term earnings. In the calendar quarter following placement, workers placed in either type of employment earned $500 to $600 more than clients who, because of the randomization, were not placed in a job (but may have found one on their own).

For those placed in direct-hire jobs, the gains persist. Over two years, the average direct-hire placement boosts total earnings by approximately $4,500 (55 percent more than the earnings of those who receive no job placement) and appears to increase the probability that a participant remains in ongoing employment with a single employer. The stability is particularly valuable to welfare participants, who often face challenges coordinating transportation and child care to meet unstable work schedules. Perhaps for this reason, clients placed in direct-hire jobs have lower rates of welfare recidivism.

By contrast, we find no evidence that temporary-help placements produce durable benefits for Work First clients or help them obtain direct-hire jobs. The initial earnings gains observed following temporary-help agency placements are subsequently offset by lower earnings (the result of less frequent employment) and higher welfare recidivism over the next one to two years. Clients taking such jobs are no more likely to work for a direct-hire employer in the subsequent two years than clients who receive no placement at all. It thus appears that temporary-help placements displace other productive job-search and work opportunities rather than foster new opportunities.

The results do not imply that temporary agency jobs never improve long-term outcomes for workers. Rather, they demonstrate that temporary-help placements induced by job-assistance programs do not on average help participants advance in the labor market.

The results should interest policymakers. Public agencies play a substantial role in determining the types of jobs their clients seek, and many have turned to temporary agencies in hopes of hastening their clients' successful entry into the labor market. The Detroit results suggest that such strategies are not effective.

What are the reasons? Detroit Work First contractors interviewed for the research offered their thoughts. Several noted that some temporary agency jobs do provide a useful entrée into direct-hire placements with good employers. But temp-to-hire jobs generally require stronger skills and more experience than their clients typically possess. Other contractors pointed out that some temporary agencies are willing to hire individuals with very weak skills, experience, and motivation if the jobs need few skills and require no long-term commitment. However, such jobs do not appear to confer benefits beyond what clients otherwise obtain on their own.

In the long run, job placements that encourage individuals to overcome rather than accommodate their limitations may be more beneficial. Thus, an important policy prescription of the research is that welfare programs should consider reducing the incentives for contractors to move participants quickly into any job available and should instead motivate contractors to place clients in jobs offering greater stability and longer-lasting benefits.

**We find no evidence that temporary-help placements produce durable benefits for Work First clients or help them obtain direct-hire jobs.**

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**David Autor** *is a visiting associate professor of economics at the University of Chicago (on leave from Massachusetts Institute of Technology).* **Susan N. Houseman** *is a senior economist with the W.E. Upjohn Institute for Employment Research, based in Kalamazoo, Michigan.*

### Endnotes

[1] David H. Autor and Susan N. Houseman, "The Role of Temporary Employment Agencies in Welfare-to-Work: Part of the Problem or Part of the Solution?" Focus 22 (1).

[2] U.S. Department of Labor, Bureau of Labor Statistics, ftp://ftp.bls.gov/pub/news.release/conemp.txt.



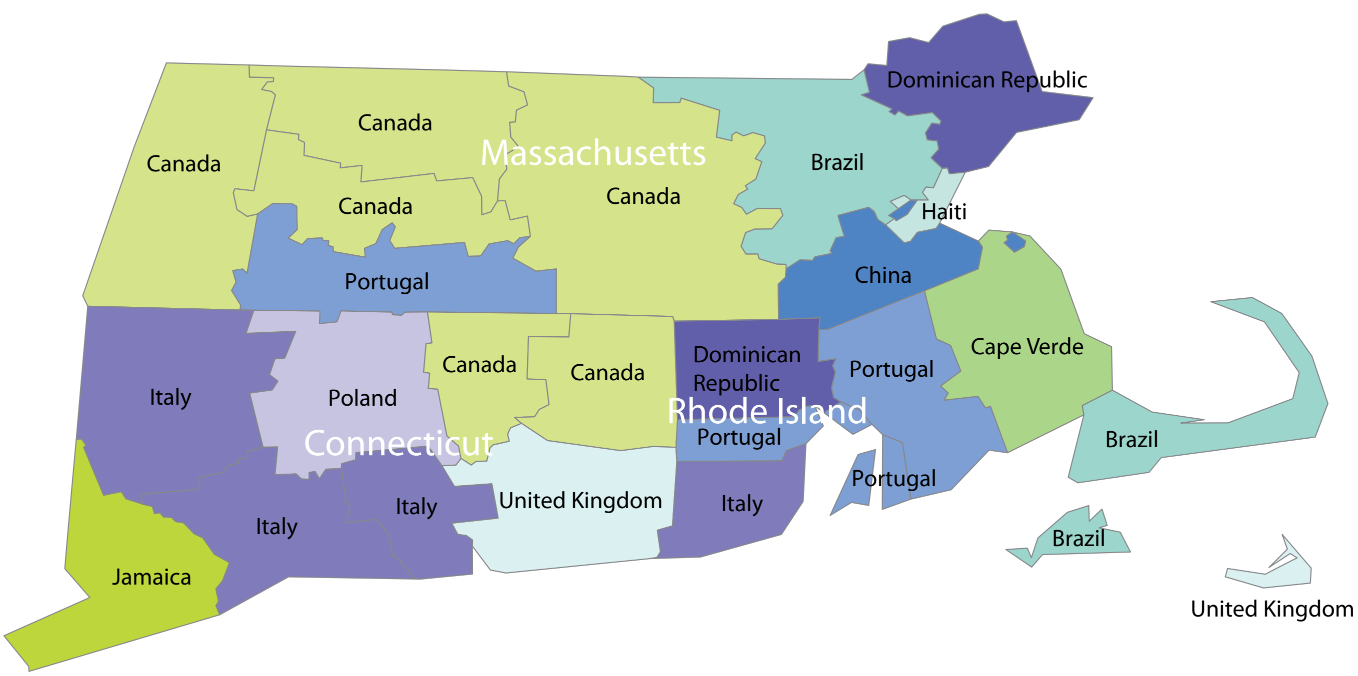
Photograph: iStockphoto

# Mapping New England

## Largest Immigrant Groups in Southern New England Counties

### Country of Birth for Foreign-Born Residents

Southern New England's immigrants come from a remarkably diverse set of origin countries. No single country dominates as an origin, nor does any world region. The largest immigrant populations are from Portugal and Canada (each with about 100,000 immigrants in southern New England), followed by the Dominican Republic and Italy with about 70,000 and 60,000, respectively. China, the United Kingdom, Brazil, and India, each have about 50,000 immigrants living in the area, and Haiti, Poland, Vietnam, and Jamaica each have about 40,000. This diversity of origins is illustrated in the map of the largest immigrant groups for each county in southern New England.




2000 Census
Map: Julia Reade, Federal Reserve Bank of Boston

by Frank Mangan, Maria Moreira, and Raquel Uchôa de Mendonça, University of Massachusetts, Amherst

# New England Farmers *meet* Immigrant Needs

Photograph by Maria Moreira

In recent years, as Massachusetts has attracted increasing numbers of immigrants–many of them nostalgic for home-country cuisine–an opportunity has opened for New England's farmers to reach new markets. A multi-institution agricultural collaborative headed up by the University of Massachusetts at Amherst is tapping into that opportunity with research on ways to grow and market local immigrants' favorite vegetables.

According to the U.S. Census Bureau's 2006 American Community Survey, Asians represent 5 percent of the Massachusetts population. Hispanics are the largest ethnic minority, with 8.2 percent of the population. The number of Brazilians living in the state went from 36,669 in 2000 to 84,836 in 2005, but estimates of undocumentedBrazilians are much higher.

The UMass Extension collaborative has been working since 1996 on projects to research crops favored by immigrants and to help farmers produce and market them.[1] The efforts began with crops popular among Puerto Ricans and Dominicans and have since branched out to include favorites of Asians, Brazilians, and other Latin Americans.

Most crops that recent immigrants from tropical climates prefer can be grown in the northeastern United States. After all, more than 70 percent of the nearly 20,000 acres planted in Massachusetts feature crops that originated in warmer regions—sweet corn, pumpkins, squash, peppers, and tomatoes, among others. Now, thanks to the new research, commercial farmers in Massachusetts are growing additional vegetables for immigrant groups—calabaza (*Cucurbita moschata)*, ají dulce (*Capsicum chinense)*, water spinach (*Ipomoea aquatica),* and more. (See "Vegetables Popular with New England Immigrants.")

In 2002, the collaborative began to focus on crops popular with Brazilians. And in 2005, UMass hired Raquel Uchôa de Mendonça, a Brazilian with an agronomy degree, to help evaluate production practices and marketing strategies for Brazilian crops. She works closely with local Brazilian media to promote the crops.

## Brazilian, West African, and Latino Crops

In 2006, the collaborative conducted market analysis on two Brazilian crops: abóbora híbrida and maxixe.

Abóbora híbrida (*Cucurbita maxima x C. moschata)* is the most popular hard squash in Brazil. It is used in salads, soups, and meat dishes, and is often canned or pureed for baby food. Consumers look for deep orange flesh, so abóbora is commonly sold halved and wrapped in plastic. Maxixe (*Cucumis sativus*), a cucumberlike vegetable, is used in salads, soups, and beef dishes.

Test marketing of abóbora and maxixe took place in Massachusetts and New Jersey in 2006 and confirmed that a market existed. Simultaneously, UMass Research Farm in Deerfield demonstrated that the vegetables could be grown successfully in Massachusetts. As a result, members of the Pioneer Valley Growers Association, based in Whately, Massachusetts, decided to grow several acres in 2007.

Another crop, currently being evaluated for Brazilian and West African markets, is a leafy vegetable called taioba (*Xanthosoma sagittifolium*) in Brazil and kentumere in West Africa. Similar in appearance to taro from Southeast Asia, it has rootlike corms that are staples in the tropics. The greens are used like spinach. In 2006, agronomist Samanta Del Vecchio Nunes came from Brazil to help the team evaluate growing and marketing taioba to New England's Brazilian and African communities. Target consumers indicated willingness to buy it at least once a week.

Photograph by Maria Moreira

Liliana Contreras shows pipián grown at UMass Research Farm.

Also in 2006, agronomist Liliana Murillo Contreras of El Salvador helped evaluate marketing strategies for pipián (*Cucurbita mixta*) and chipilin (*Crotalaria longirostrata)*, popular El Salvador vegetables. The fruit of the pipián is eaten when immature; the seeds are eaten later or are planted. Test marketing in Massachusetts demonstrated that consumers are especially interested in buying small (less than eight inches) pipiáns.

Chipilin, a perennial leguminous plant used as an herb in Central America and southern Mexico, is grown as an annual in temperate climes. It is used in soups and in the corn dough for *pupusas*, a tortilla. During testing, customers of Latino stores in Massachusetts showed strong interest.

## Hmong Farmers

The UMass intiative is not only helping commercial farmers meet immigrants' tastes, it is assisting a local Asian community to establish its own farms.

Originally from Laos, the Hmong have a language and culture that differs from other Southeast Asian immigrants'. Given refugee status after the Vietnam War because of their collaboration with the United States, most settled in California and Minnesota. However, some have been farming in Lancaster, Massachusetts, since the early 1980s, where Flats Mentor Farm (FMF, http://nnifp.org/projects/fmfp) has been of particular assistance.

Located on 70 acres of former river

## Vegetables Popular with New England Immigrants

The mission of the UMass Extension Vegetable Team www.umassvegetable.org is to assist commercial farmers on all aspects of their operations, especially production and marketing. For a decade the team has researched ways that established farms might serve immigrant populations. Calabaza, aji dulce, and water spinach are three of the crops tested.

Calabaza (*Cucurbita moschata)* is a popular squash in many parts of the Americas. It is also known as *auyama* (Dominican Republic and Venezuela), *ayote* (parts of Central America) *zapallo* (parts of South America), and West Indian pumpkin (English-speaking Caribbean). It gets added to sauces as a thickener and is used in stews and soups. It can also be a pie filling or a main dish. The texture and flavor suggest butternut squash.

Aji dulce (*Capsicum chinense) is* a small, light-green pepper that turns red if left on the plant. In Puerto Rico, it is known as *ají dulce* or *ajicito*. In the Dominican Republic, it is *ají gustoso* or *ají cachucha*. Aji dulce looks like a habanero pepper but lacks the intense heat. It is used to season dishes and for sofrito, a favorite Latin American sauce.

Water Spinach (*Ipomoea aquatica)*, a herbaceous, aquatic perennial in the tropics and subtropics, is a member of the morning glory family and the same genus as the sweet potato. Most of the young plant tissue is edible, but the tender shoot tips and younger leaves are preferred.

A challenge for New England farmers is that importation and interstate movement of water spinach is prohibited by the USDA Animal and Plant Health Inspection Service (APHIS). That is because it is a weed in tropical fresh water. However, it is extremely sensitive to frost and can not survive New England winters, so the UMass Extension Vegetable Team has worked with federal and state regulators to create a permitting system to grow and sell it as an annual in Massachusetts. For more information on these and other crops, see www.worldcrops.org.

Photograph by Frank Mangan

Raquel Mendonça, Maria Moreira, and Samanta Nunes at a farmers' market in New Bedford, Massachusetts.


Top: Pipián sold at Compare Food.
Bottom: Maxixe sold at Market Basket and Demoulas.

Photographs by Maria Moreira

bottom in Lancaster, FMF has since 1985 supported small farmers of diverse ethnic backgrounds with the land, infrastructure, and marketing help needed for successful farming. FMF promotes economically viable agricultural production that also protects the environment.

With resources, hands-on-training, and technical assistance on soil fertility, irrigation, pest and weed management, and marketing, Flats Mentor Farm also helps beginning farmers increase economic returns and quality of life. During the past six years, with assistance from the University of Massachusetts, Tufts University, and FMF project leader Maria Moreira, some farmers have evolved from growing just enough for their families to selling at farmers' markets in and around Boston.

In 2006, FMF farmers sold produce at 16 farmers' markets, mostly in the Boston area (the farthest west was Worcester). The number of farmers involved and the sales generated keep increasing.

## Many Needs Met

The UMass initiative benefits immigrant consumers, immigrant farmers, and New England's larger commercial farmers. Immigrants gain access to traditional foods, and farmers have a more research-based approach to reaching them. Immigrants are eager for certain vegetables—and will pay for them. For example, the test marketing showed that those who buy spinach when taioba greens aren't available will pay $6 per pound for taioba, twice the cost of spinach.

The cost to produce abobora hibrida and maxixe is about $4,000 per acre—a little more expensive then similar crops, such as butternut squash and cucumbers—and some farmers are wary of challenges such as importing seeds. But many also see the opportunity, especially as other new crops gain adherents. The recent surge in organic farms in New England has led to the introduction of higher-priced, boutique crops for upscale consumers and restaurants, and those markets are showing interest in immigrant crops, too.

Critical for growing new crops is a thorough understanding of the market potential, the production costs, and the distribution system. The UMass collaborative hopes to keep expanding its ability to provide that knowledge.

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**Frank Mangan** *is an extension associate professor in the plant, soil, and insect sciences department at the University of Massachusetts, Amherst.* **Maria Moreira** *is an agricultural marketing specialist with UMass Extension and project director of Flats Mentor Farm.* **Raquel Uchôa de Mendonça** *is an agricultural marketing specialist with UMass Extension.*

### Endnote

[1] The collaborative is led by UMass Extension and includes the Massachusetts Department of Agricultural Resources, Tufts University, Nuestras Raíces, the USDA Farm Service Agency, and the Southeastern Massachusetts Agricultural Partnership.

# Deborah Neuman

Director, University of Maine Target Technology Incubator

## Young Entrepreneurs Are the Future

*Deb Neuman bought an inn in Bar Harbor, Maine, when she was 25. Then she bought a tour-boat company. After running numerous small businesses, she began sharing her expertise with Maine organizations: Washington Hancock Community Agency, Eastern Maine Development Corporation, and now the University of Maine's Target Technology Incubator. She also is a counselor with the Maine Small Business & Technology Development Centers, a columnist for www.themaineedge.com, and the producer and host of a weekly radio show for and about small businesses, "Back to Business." This year, the U.S. Small Business Administration recognized Neuman with the Small Business Journalist of the Year award for both Maine and New England.*

Courtesy photograph

### How long have you been an entrepreneur?

**DN:** I think I have always been one. As a child, I played store and gathered everything I could and put on price tags. I sold everything. I found out that selling my sibling's toys went too far. The lesson: Know if your inventory is legal.

I was born in California, grew up in Pennsylvania, and spent summers in Maine. Shortly after college in California, I decided to quit my job in a retail corporation and move to Maine permanently. I had a U-Haul and no idea what I was going to do. I just wanted to be in Maine.

I got a hotel job in Bar Harbor, was promoted to manager, and ended up running the place year-round for a couple years. Before long, I wanted to my own inn. I was 25 and didn't have any money. I found a local inn for sale, created a business plan, and worked out financing with the seller and the bank. It's great to be an entrepreneur when you have the energy and enthusiasm and nothing to lose. Young people haven't acquired much. They're used to eating Ramen noodles every night.

### When did you begin advising other entrepreneurs?

**DN:** In the early 1990s while I was still operating a tour boat company, I took an additional job with the Washington Hancock Community Agency in Milbridge. Washington Hancock had started a microloan program for low- to moderate-income folks who couldn't access financing through conventional means. These were microbusinesses with five or fewer employees.

Washington County residents are natural entrepreneurs, although they don't call themselves that. They just want to live here, so they find ways to make it work—piecing together jobs like lobster fishing, blueberry raking, and craft-making.

The agency helped with creating business plans, finding financing, and getting technical assistance for people. Then in 1993, I sold my businesses and took a job with the Eastern Maine Development Corporation, a regional economic development agency that serves six counties. EMDC had just been awarded the SBA microloan program, which was something new for them, and they hired me to manage it.

While there, I partnered with Washington Hancock and other community action agencies to create Incubator without Walls. That initiative brings together very rural small businesses on a monthly basis, provides business education, and helps people connect to resources.

Five years ago, I was hired by the University of Maine, Orono, to run its Target Technology Center. The center is one of the incubators Maine created to assist early-stage technology companies. We work with tech-based businesses and entrepreneurs statewide. Sometimes I help students who want to stay here and work after graduation. Or I may assist faculty and other researchers who are trying to commercialize their innovations.

Certain challenges are sector-related, but many are the same whether you're starting a plumbing service or a high-tech company. You still have to figure out who your customers are, how you are going to make your offering known, what the competitive environment is. I spend much of my time connecting entrepreneurs to the resources they need at different stages—advice on patents, raising capital, and so on.

**What businesses are people interested in starting?**

**DN:** We're seeing a lot of young people interested in new media. They not only do web design, but new-media-based tradeshow displays and films that companies use for promotion.

One young entrepreneur used GPS to create a patented device that when held up to a building merges location information with public data. A voice then talks about the building. Another guy created a controlled lab for raising saltwater tropical fish indoors. He sells fish to retailers across the country. Unlike sellers who harvest fish in the wild, he doesn't impact any reefs, and his fish are healthier.

**It is said that workers in Maine miss the large mills and don't want to go into business. How do you develop an entrepreneurial spirit?**

**DN:** There is some large-company bias in Maine, but not everywhere. Most communities have small businesses. Millinocket was heavily dependent on paper-making mills. But today it promotes ecotourism and its proximity to Mt. Katahdin and white water rafting.

We do encourage self-assessment for potential entrepreneurs. If they want their 9 to 5 and their weekends and their two weeks' paid vacation, being an entrepreneur is probably not a good idea. It's going to be a generational shift—developing a community's entrepreneurial spirit starts with the young. Young people in Maine love to create their own opportunities.

**Tell me about your radio show, "Back to Business."**

**DN:** About two years ago, I met with Clear Channel management to develop a radio program that would educate entrepreneurs about business-related topics and resources. We thought a radio program with a positive tone that also addressed the challenges would be great. We would let the entrepreneurs themselves talk about the challenges. Today I produce and host a two-hour weekly talk radio program on 103.9 FM, which is heard north of Augusta and up through Piscataquis and Washington counties. Experts come from Maine and around the nation. And we have entrepreneurs telling their stories and offering advice and lessons learned. A woman e-mailed me that the show made her aware of opportunities she never knew about. She often thought of starting a business but had been afraid. Hearing entrepreneurs on the radio made her feel hopeful, and she said, "If they can do it, I can, too." That felt good.

I reach even more people with my one-minute daily small-business tip—aired throughout the day on all eight stations that the company owns—very different audiences.

**Expand on what you meant about positive messages.**

**DN:** Too often the talk about going into business is negative—costs, taxes, insurance. We do need to have those discussions and work to improve the business climate. But what about the stories of the people who are making it? Positive stories make positive things happen. For example, even if young people are leaving, a lot are staying and others are coming back. We showcase what is working.

**How do people get started in business?**

**DN:** When anybody comes to me in my role as a counselor with Maine's Small Business Technology Development Center, we brainstorm first. I never tell anybody they have a bad idea. I get them to start thinking about the questions they should ask. I get them working on the business plan. The woman who contacted me at the radio show wanted to produce and sell baklava.

The group Women Work and Community helped her investigate the viability of the idea. She found out there weren't enough local people who would pay what she would have to charge to make a profit. So she went back to the drawing board. She had always made bread, and with a large family of willing workers, she started a bread business that has taken off.

**What happens when entrepreneurs have gaps in their abilities?**

**DN:** We do a lot of matchmaking. For example, we often pair up the person who has technical expertise with someone who has expertise in commercialization, marketing, and sales. I'm currently working with a company that is making a composite product by hand in a basement. Customers want to buy it, but it's taking too long to manufacture. The company has now partnered with a successful serial entrepreneur. He will connect them with people in industry and share what he knows about manufacturing processes.

**What are the chances that the start-ups will stay in Maine?**

**DN:** People I work with want to stay. I had a web designer who tried New York but came back. Now he flies down once a month to see clients, but his business is based here in Orono.

There's always a chance companies will leave, but the state has strong programs to encourage folks to stay. The Maine legislature realized the state lacked the right type of financing for a tech-based economy, so it created the Maine Technology Institute to encourage commercialization of innovation (www.MaineTechnology.org). It can take years to move an innovation from the lab to the market. So the Technology Institute set up the SEED Grant program. A company can get up to $25,000 in grants to move an idea forward through market research, filing a patent, or perhaps developing and testing a prototype—whatever is needed. Later the company can apply for a development loan of up to $500,000 that doesn't need to be repaid until the offering is fully commercialized.

There are many exciting entrepreneurial things happening in Maine. Individuals are starting tech companies, universities are spinning off research, people who have left are coming back because now they can work from anywhere. Mainers are supportive of any effort to strengthen the state's economy.

# The New England Health-Care Experiment

by Brian P. Rosman, Health Care For All

**New England *is* embarking** on several ambitious health-care policy experiments. The goal is expanding affordable health coverage to the uninsured, and the mechanism is comprehensive legislation. Legislation was passed in Maine in 2003, and in Massachusetts and Vermont in 2006. All three plans are still in the process of being implemented, but collectively they provide models for national health-reform efforts.

The most far-reaching version is in Massachusetts. The legislation–known as Chapter 58–is premised on shared responsibility. Government, employers, insurers, providers, and patients all have obligations and benefits under the legislation. The final evaluation will take years, but implementation at this point should be judged a qualified success.

Photograph: iStockphoto

## Why Massachusetts?

The Bay State has a history of blazing health-care trails. In 1988, Governor Dukakis led a universal health coverage initiative based on the "pay-or-play" model, which would have imposed an assessment on employers that failed to provide coverage to their workers. That provision of the law was never realized, but other provisions, including expanded coverage for the disabled, students, and pregnant women, were successfully implemented and became national models.

In 1996, Governor Weld and the legislature overhauled the Commonwealth's Medicaid system into a streamlined program called "MassHealth," renamed to remove the welfare stigma usually associated with Medicaid. That program simplified the application process, expanded coverage to children and unemployed adults, and pioneered assisting low-income workers with premiums so they could sign up for coverage from their employers.

**Commonwealth Care is subsidized insurance coverage for adults with incomes up to 300 percent of the federal poverty level – about $30,600 for an individual and $62,000 for a family of four.**

The 2006 reform built on the legacy of the previous incarnations. Although the 1996 reform greatly reduced uninsurance among low-income residents, the uninsurance rate began to creep up again in 2002, particularly among low-wage workers. The numbers were still low (about 10 percent of the adult population), but the roughly 500,000 uninsured presented a major policy challenge. Their care was typically provided in expensive settings such as hospital emergency rooms, and their absence from the insurance pool increased costs for everyone else.

At the same time, the federal government, which had financed the MassHealth program under a waiver of Medicaid restrictions, insisted on changes that could restrict the use of federal funds. Providers also raised their voices as data showed consistent underpayment by state programs, which forced providers to charge private insurers more. The concerns led the Romney administration, legislative leaders, and a broad coalition of consumers, religious groups, labor, health-care providers, and others each to propose a comprehensive reform plan. The final product represented an amalgam of the approaches.

## Implementation Progress Report

Chapter 58 consists of several major initiatives and dozens of minor provisions to be phased in over time. The following update roughly follows the chronological order of implementation.

### MassHealth Expansion

The first step was to expand the MassHealth program. The eligibility expansion to children, the disabled, and unemployed adults—combined with an aggressive state-funded outreach campaign that utilized an online application process—resulted in some 50,000 new MassHealth enrollees as of summer 2007.

### Commonwealth Care

Commonwealth Care is subsidized insurance coverage for adults with incomes up to 300 percent of the federal poverty level—about $30,600 for an individual and $62,000 for a family of four. The program is coordinated by a new state agency, the Commonwealth Health Insurance Connector Authority (the Connector). Four Medicaid managed-care organizations, all locally based and nonprofit, offer Commonwealth Care plans.[1]

The premiums and copayments for the plans, which have no deductibles, vary. Individuals with incomes up to 150 percent of the poverty line pay no premiums and nominal or low copayments. For those above the 150 percent threshold (around $15,300 for an individual), premiums start at $35 per month, rising on a sliding scale to at least $105 per month for those above 250 percent of the poverty line. Coverage is comprehensive, but not as complete as Medicaid coverage.

The plans started enrolling subscribers in February 2007, and as of July, over 90,000 individuals had signed up. The vast majority are in the no-premium or lower-premium plans. Between the MassHealth expansions and the new Commonwealth Care program, more than 140,000 uninsured Bay Staters are now receiving coverage and getting vital medical care that some have lacked for years.

Consider the case of Brian Calvey, 55, who had been suffering with gastrointestinal problems and seeing a physician only when he could afford to. For medications, he had to rely on his doctor's samples. His wife, 57, had not seen a doctor in 13 years. Both now have a primary care physician and are receiving preventive care.

### Affordable Private Insurance

The legislation also reformed insurance laws to make affordable insurance more accessible. In July 2007, the individual health-insurance market merged with the market for small group coverage. With this change, individuals could get lower group rates, a savings estimated at 15 percent. Also in July, the Connector offered a plan called Commonwealth Choice.

Commonwealth Choice is designed to simplify the process for individuals and companies with fewer than 50 employees and allow more choices for workers. To lower plan cost and achieve value, the Connector negotiated with insurers and gave its seal of approval only to plans that met its quality and price objectives. All Commonwealth Choice plans must cover several preventive care visits before any deductible is applied. As of July, around 2,500 individuals had signed up for Commonwealth Choice plans.

Additionally, the law sought to reduce the cost of coverage for many employees and employers by requiring firms with 11 or more workers to a create "Section 125" payroll deduction plan, a plan that allows employees to use pretax dollars to buy their health insurance. The effective cost of coverage goes down because employees do not pay income tax on the salary money used to buy coverage. And the employer saves on taxes, too. Major employers such as Boston College, Dunkin Donuts, and the Gap have already signed up with the Connector, allowing their part-time employees to purchase plans using pretax payroll deductions.

The law also creates two new insurance options for the group with the highest uninsurance rate—young adults. One provision requires family insurance plans to cover young adults aged 19 to 26 for up to two years after loss of dependency status. Another provision allows insurers to offer special reduced-benefit plans to young adults aged 19 to 26. These plans have caps on benefits, allowing them to be priced lower than standard coverage.

### Employer Responsibility and Individual Responsibility

The law has two mandates that have received considerable attention. First, companies that have 11 or more workers but do not offer minimal coverage to their full-time workers must pay a "fair share assessment" to the state. The assessment is limited to $295 per worker annually. Second, individuals who fail to purchase available coverage must pay a penalty if that coverage is deemed affordable under standards promulgated by the Connector. The penalty for 2007 kicks in on December 31 and is limited to a loss of about $200 in the personal exemption that tax filers can take on their state income tax filing. In 2008, the penalty grows to half the cost of the least expensive plan on the market.

## Maine and Vermont Plans

The health reform plans of Maine and Vermont have similarities to the Massachusetts plan. Maine's Dirigo Health Reform Act of 2003 relies on three interrelated approaches:

- DirigoChoice, a state-sponsored subsidized health plan for individuals and small businesses;
- initiatives to control health-care costs; and
- quality-of-care efforts.

The DirigoChoice plan covered some 14,700 Mainers as of July and is funded in part by an assessment meant to capture the savings produced when more people have coverage. In April, Governor Baldacci proposed a number of changes to reenergize the plan, including a state reinsurance plan, a "pay-or-play" employer mandate, and a requirement that individuals have coverage. The legislature did not enact these proposals, and in July, enrollment was capped.

The Vermont plan, Catamount Health, was enacted soon after the Massachusetts law was signed. It, too, has a subsidized coverage plan with sliding-scale premiums. Enrollment is scheduled to begin in fall 2007. As with the Massachusetts plan, employers face a modest assessment if they do not offer health coverage. There is no requirement, however, for individuals to get coverage. The statute focuses on improving chronic care and includes provisions to decrease costs by simplifying administration of health benefits.

## National Implications

Taken together, the plans of Massachusetts, Maine, and Vermont provide a unique testing ground for ideas being explored by other states and by national policymakers. Both Republican Governor Arnold Schwarzenegger of California and Democratic Governor Edward Rendell of Pennsylvania have proposed plans that draw on the Massachusetts, Vermont, and Maine plans. Former Massachusetts Governor Romney has made the Massachusetts plan a part of his presidential campaign platform, and numerous national Democratic leaders are putting forth health plans based on ingredients found in the New England plans.

As the 2008 presidential election heats up, the goal of universal coverage will likely be on the front burner, and candidates will be looking closely at the New England experiments for ideas and insight.

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**Brian Rosman** *is the research director of the Boston-based nonprofit Health Care For All, http://www.hcfama.org.*

### Endnote

[1]Individuals who want information on Commonwealth Care and other insurance options can obtain more information at 1-877-MA-ENROLL, or visit www.MAhealthconnector.org.




by Ross Gittell and Jason Rudokas
University of New Hampshire

# Changes in Income Distribution in New England

On many measures New England is a prosperous region, and its residents are doing well economically.[1] Three New England states—Connecticut, Massachusetts, and New Hampshire—rank among the top six of the U.S. states in per capita and household median income.[2] Vermont and Rhode Island have per capita and median household income close to the national average.

New England also has four states ranking among the lowest in the percentage of the population living in poverty. New Hampshire has the lowest poverty rate in the nation, and Connecticut, Vermont, and Massachusetts are among the eight U.S. states with the lowest percentage of residents below the poverty line.

All the New England states have poverty rates below the national average.

But over the last 15 years, when household income inequality increased nationwide, New England experienced the largest jump in inequality of all the nine census divisions. It went from relatively low income disparity to about the national average, with a significant increase in the proportion of income concentrated among the highest-income households.[3]

## Growing Disparity

The main reasons for the increase in the gap in New England were higher than average growth at the top of the income distribution and declines in real household income in the lower quintiles that contrasted with national household income increases. (See Table 1.) The average real income in the top 5 percent of New England households increased 27 percent, and the real incomes of the top 20 percent of households increased 20 percent. At the same time, average real incomes of households in the bottom fifth declined by 5 percent, and incomes in the second-to-bottom quintile fell by 2 percent.

A commonly used summary measure of income distribution is the Gini Coefficient. The Gini is a statistic based on the difference between a given income distribution and a hypothetical distribution in which income is uniformly distributed across all households. The Gini is bounded between 0 and 1, where 0 represents perfect income equality and 1 represents complete inequality. In 1989, New England was among the census regions with the smallest disparity in household income. By 2004, it was in the middle, just below the U.S. average of .464; it experienced the largest increase in Gini coefficient and income disparity of all the census regions, followed by the Pacific region. (See Table 2.) The East South Central and West North Central regions had the smallest increases.

All the states in New England experienced a decline in household earnings equality and dropped in equality rank relative to other states. Over the period 1989 to 2004, Connecticut, Vermont, and Massachusetts ranked among the top five states for increased income disparity. (See Table 3 for New England data and for the five states with the greatest increase in income disparity and the least.) All the New England states' increases in disparity were among the top half of states.

**Table 1: Changes in Average Household Income, New England and the Nation***

**New England**

| | Average Household Income 2004 | Percent Change 1989-2004 |
|---|---|---|
| Lowest-Income Quintile | 12,437 | -5.1% |
| Quintile 2 | 34,291 | -2.1% |
| Quintile 3 | 57,310 | 1.7% |
| Quintile 4 | 87,043 | 6.2 |
| Highest-Income Quintile | 184,828 | 19.8% |
| Top 5 percent | 336,819 | 26.9% |

**United States**

| | Average Household Income 2004 | Percent Change 1989-2004 |
|---|---|---|
| Lowest-Income Quintile | 10,744 | 4.0% |
| Quintile 2 | 28,300 | 2.6% |
| Quintile 3 | 47,326 | 3.5% |
| Quintile 4 | 73,167 | 6.6% |
| Highest-Income Quintile | 156,795 | 17.0 |
| Top 5 percent | 282,276 | 20.0% |

Source: U.S. Census, Public Use Micro Data, 1990 and 2000. American Community Survey, 2005
*All percentage change figures have been adjusted for inflation.

**Table 2: Changes in an Income-Inequality Measure (Gini) for Each Census Division***

| Division | Gini Coefficients (Household Income) 1989 | 2004 | Gini Change 1989-2004 |
|---|---|---|---|
| New England | 0.417 | 0.461 | 0.044 |
| Pacific | 0.422 | 0.462 | 0.040 |
| Mid-Atlantic | 0.441 | 0.477 | 0.036 |
| South Atlantic | 0.429 | 0.463 | 0.034 |
| West South Central | 0.451 | 0.482 | 0.031 |
| United States | 0.433 | 0.464 | 0.030 |
| East North Central | 0.418 | 0.443 | 0.025 |
| Mountain | 0.417 | 0.440 | 0.022 |
| West North Central | 0.417 | 0.435 | 0.017 |
| East South Central | 0.450 | 0.464 | 0.014 |

*Based on author calculations.

Across the nation, metropolitan statistical areas (MSAs) tend to have higher income disparity than nonmetropolitan areas. The increase in disparity also was more pronounced in metro areas over the last 15 years. New England not only had three of the top five states with the largest increase in disparity, but also six of the top 20 metropolitan areas. (See Table 4.) In Connecticut, Stamford-Norwalk, Bridgeport, Waterbury, and Danbury ranked among the top 10 U.S. MSAs showing increased disparity in income; Nashua, New Hampshire, and New Bedford, Massachusetts, ranked among the top 20, and Boston—New England's largest metro area—ranked in the mid-50s. Providence-Fall River and Brockton, Massachusetts, saw small increases in equality.

## What Happened?

The change in household income distribution in the region reflects a fundamental shift in the economy. The shift involves not only productivity improvements but also an increased concentration of well-paying jobs among those with advanced education and training.

Illustration: Getty Images

**Table 3: Measuring Increased Income Disparity***

| | Gini 1989 | Rank 1989 | Gini 2004 | Rank 2004 | Gini 1989-2004 | Rank 1989-2004 |
|---|---|---|---|---|---|---|
| Connecticut | 0.414 | 27 | 0.477 | 3 | 0.063 | 1 |
| Vermont | 0.390 | 47 | 0.439 | 31 | 0.049 | 2 |
| New Jersey | 0.416 | 25 | 0.459 | 11 | 0.044 | 3 |
| California | 0.424 | 19 | 0.467 | 6 | 0.043 | 4 |
| Massachusetts | 0.420 | 22 | 0.462 | 10 | 0.042 | 5 |
| New Hampshire | 0.375 | 50 | 0.409 | 48 | 0.034 | 13 |
| Rhode Island | 0.414 | 26 | 0.448 | 22 | 0.034 | 14 |
| Maine | 0.399 | 43 | 0.426 | 40 | 0.027 | 22 |
| Kentucky | 0.448 | 5 | 0.455 | 16 | 0.008 | 46 |
| Idaho | 0.409 | 34 | 0.414 | 46 | 0.005 | 47 |
| Arkansas | 0.444 | 7 | 0.447 | 24 | 0.003 | 48 |
| Mississippi | 0.464 | 2 | 0.466 | 7 | 0.002 | 49 |
| Wyoming | 0.402 | 41 | 0.402 | 50 | 0.001 | 50 |

Top ranks denote highest inequality and highest increase in inequality

*Ranking among 50 states. Based author calculations.

**Table 4: Metro Areas in New England: Greatest to Lowest Increase in Income Disparity, 1989 to 2004***

| Metropolitian Statistical Area | Gini Change 1989-2004 | Rank of Gini Change 1989-04 |
|---|---|---|
| Stamford-Norwalk | 0.0862 | 1 |
| Bridgeport | 0.0714 | 3 |
| Waterbury | 0.0704 | 4 |
| Danbury | 0.0699 | 5 |
| Nashua | 0.0598 | 11 |
| New Bedford | 0.0550 | 18 |
| Lowell | 0.0524 | 26 |
| New Haven-Meriden | 0.0495 | 30 |
| Springfield | 0.0453 | 39 |
| Manchester | 0.0427 | 54 |
| Boston | 0.0427 | 56 |
| Lawrence | 0.0405 | 67 |
| Hartford | 0.0377 | 79 |
| Worcester | 0.0305 | 118 |
| Brockton | -0.0061 | 236 |

*Ranking is out of 250 U.S. metro areas, which sometimes span two states. It is based on author calcultions.

On the lower and middle end of the wage distribution, workers have felt the decline of unionization and the effects of globalization, with low and moderately skilled production and repetitive service functions going offshore to the lowest-cost locations. The result has been a reduction in employment demand and income-earning opportunities for those workers—and increased demand and opportunities for highly skilled workers.

The states with the greatest increase in income inequality nationally—including Connecticut, Massachusetts, California, and New Jersey—tended to have a high concentration of employment in industries requiring advanced education and training. And the states with the least change in income inequality during the 1990s—including Mississippi, Louisiana, and Oklahoma—had the lowest percentage of employment in those industries.

The changes were especially pronounced in New England, which has a strong technology base and where the population overall is highly educated and the relatively high cost of business operations causes some companies that use low-skilled workers to leave. New England led the nation in the late 1990s and early 2000s in the loss, on a percentage basis, of manufacturing employment. (See Table 5.) Many manufacturers had paid good salaries and provided a strong income base for middle-income households in the region. Their loss was keenly felt.

## Looking Forward

A key concern for the future is what types of employment will replace the manufacturing and other well-paying jobs lost to productivity gains and the lure of lower-cost locations.

**New England not only had three of the top five states with the largest increase in disparity, but also six of the top 20 metropolitan areas.**

In manufacturing, the low-skill jobs likely will continue to be located in the lowest-cost areas, leaving New England with research-based, product-development manufacturing that requires workers with advanced skills. At the same time, the offshoring of services will continue to expand into activities including data processing, management, and sales and customer support. The demand for the highest-skilled workers in professional and

**Table 5: Changes in Manufacturing Employment, 1990 to 2004**

| Percentage | Change | Rank |
|---|---|---|
| VT | -10% | 21 |
| NH | -19% | 29 |
| MA | -35% | 45 |
| ME | -34% | 46 |
| CT | -34% | 47 |
| NJ | -37% | 48 |
| NY | -39% | 49 |
| RI | -40% | 50 |
| NE | -33% | |
| US | -20% | |

Source: U.S. Bureau of Labor and Statistics.

financial-services fields is increasing, along with pay levels.

Fortunately, New England has a stronger economic and workforce foundation to address rising income inequality than other regions. It does not suffer, as regions in the South do, from high overall rates of poverty and low educational achievement. The way to change the trajectory of New England's current increasing-disparity path is to focus economic development efforts on upgrading the education and technological skills of workers in all households.

That requires expanding access to quality education and training, and linking program participants to well-paying economic opportunities. The Boston Workforce Development Coalition's program Career Ladders, for example, is designed to meet both entry-level, incumbent workers' needs (for opportunities to advance toward positions with more responsibility, skill, and compensation) and employers' needs (to recruit and retain a skilled, highly trained workforce). Expansion of this type of program across the region might help more workers create successful career strategies to deal with the new economic realities. Available child care and affordable housing near workplaces are also needed.

Efforts such as these would help all New England workers to succeed in the transformed economy. With business and political leadership and with significant commitment of public and private resources, it is not too late to reverse the region's unwelcome leadership in increased income disparity.

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**Ross Gittell** *is James R. Carter Professor and senior fellow at the University of New Hampshire's Carsey Institute in Durham, New Hampshire.* **Jason Rudokas** *is a UNH graduate student in economics.*

### Endnotes

[1] The basis of this article is the authors' research and the issue brief they wrote for the University of New Hampshire's Carsey Institute in spring 2007.

[2] The primary data sources of gini coefficients and other income inequality measures were the 1990 and 2000 *U.S. Census* and the 2005 *American Community Survey* Public Use Micro Data sets. Poverty and median household income were also derived from the Public Use Micro Data sets.

[3] The definition of household income here includes wage and salary income and all other income earned by persons over 15 living in the household. The measure of income is comprehensive. It includes income from business profits, interest, dividends, and real estate investment.

# Understanding **Concentrated** Poverty

by DeAnna Green
Federal Reserve Bank of Boston

In 2006 every Reserve Bank in the Federal Reserve System agreed to partner with the Brookings Institution on a national research project concerning *concentrated poverty*. For the purposes of the study, the term concentrated poverty describes a census tract that has a poverty rate of 40 percent or higher.

The motivation behind the study was to provide both public and private entities with a deeper understanding of the causes and consequences of concentrated poverty so that they might be able to address the needs of concentrated-poverty communities more effectively.

## Project Description

The research project consisted of 16 case studies of communities selected from different kinds of geographies across the country. Every bank in the Federal Reserve System carried out at least one study. Among the 16 communities were rural counties, fast-growing metropolitan areas, older suburbs, and immigrant gateways.

In addition to analyzing the available data, researchers conducted extensive interviews in each community. Both the quantitative and qualitative data were considered important, with interviews providing on-the-ground perspectives, realities, and experiences. The end result will be a publication providing an overview of concentrated poverty and a description of each case.[1]

## Choosing Neighborhoods

The Federal Reserve Bank of Boston selected Springfield, Massachusetts, to study, focusing on three neighborhoods where concentrated poverty is a concern.

The poverty rate in the three neighborhoods increased steadily over the last four censuses. In the 2000 census, 44 percent of individuals lived below the federal poverty rate—almost double the overall rate in Springfield and more than four times the Massachusetts rate. Hispanics had the highest poverty rate in the three neighborhoods, with 55 percent living below the poverty line. The child poverty rate was also very high—58 percent.

The Boston Fed conducted Springfield interviews in December 2006 and over the following winter. To ensure a balance of perspectives, a diverse group of individuals was asked to participate—people from the business community, the nonprofit community, municipal agencies, the police department, and the neighborhoods themselves. The interviews provided insight into Springfield's history, politics, and economic and social issues.

## Emerging Themes

Several themes emerged from the research and will be used as the basis for the case study report: the struggle for individual survival described by local residents interviewed for the project; the scarcity of resources for institutions serving the communities; the differences between reality and perception in the neighborhoods; and the need for strong leadership.


### Individual Survival

Residents and local leaders describe the reality of concentrated poverty as living in survival mode. There is a short-term mindset that can negatively affect families, jobs, education, and the usefulness of programs and policies meant to help individuals.

### Institutional Scarcity

Nonprofits, community centers, and other local entities that serve the needs of the community are critical. For example, in one Springfield neighborhood a community center offers after-school activities that range from mentoring and leadership development to recreation. However, interviews reveal that the funding for such programs is often on a piecemeal basis and sometimes disappears altogether. Inconsistent funding and changes in programmatic structure hurt the community.

### Reality and Perception

The three Springfield neighborhoods suffer from both reality and perception. The reality includes high levels of poverty, sections of neighborhoods with vacant and abandoned lots, absentee landlords, low educational attainment, and crime. The perception includes those same components plus, more subtly, varying beliefs about the neighborhoods' future.

The fact that crime is a problem is undeniable. But residents report feeling safe in their homes and neighborhoods whereas visitors are urged not to walk there at night. A collaborative involving housing developers, Springfield College, and a neighborhood association in one of the communities has launched a campaign to rebuild one area. But to bring about positive change, interviewees say, both the realities and the perceptions must be addressed.

### Leadership

Springfield has been blessed with some strong leaders—from the schools, nonprofits, colleges, businesses, and from among the residents themselves. In the past, these leaders have functioned in an environment of fiscal crisis and public mismanagement, but today all signs point toward a new era of cooperation. The best hope for addressing the challenges facing those who live in concentrated poverty is a broader collaboration, with a cohesive plan and a focus on positive messages that resonate in every community.

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**DeAnna Green** *is the senior community affairs analyst at the Federal Reserve Bank of Boston.*

### Endnote

[1] The final report will be posted at http://www.bos.frb.org/commdev/cdevpubs.htm in fall 2007.



Photographs by DeAnna Green

by Tom DeCoff
Federal Reserve Bank of Boston

An Overview of New England's Economic Performance in 2006

# GROWING . . . but Slowing

New England's economic performance was mixed during 2006. On one hand, all six states added jobs, and the region's unemployment rate remained steady. The region as a whole picked up jobs in nearly all major industries. Export values and income and wages also increased. On the other hand, much of New England's economic growth was slower than that seen in the nation as a whole. Although the unemployment rate did not go up for the region, the nation saw joblessness decrease. Moreover, real estate markets, though weak nationwide, were even weaker in the region.

## Employment

In 2006, New England added 62,000 jobs, for a growth rate of 0.9 percent. While this marked the region's best growth since 1999 to 2000, New England continued to lag the nation in creating jobs since 2000. Nevertheless, some 7 million jobs were recorded on the region's payrolls at the end of 2006, the most since August 2001.

Job creation occurred in nearly all industries. The fastest growing sector was also the region's largest—education and health services—where more than 30,000 jobs were added between December 2005 and December 2006 (growth of 2.6 percent). The professional and business services sector was also a major contributor, adding more than 19,000 jobs (2.2 percent). The manufacturing sector continued its gradual descent, shedding roughly 15,000 jobs. Despite job creation in most sectors, growth in the region's industries lagged the growth seen in each of those industries across the nation as a whole.[1] The exception was retail trade, where job counts remained unchanged locally but *declined* slightly nationwide.

## Unemployment

Despite the new jobs created in 2006, New England's unemployment rate remained steady at 4.6 percent between December 2005 and December 2006. (See "More Jobs but Higher Unemployment?") In the later months of 2006, the national unemployment rate dipped below that of New England for the first time since 1995. Moreover, New England's reign with the lowest or near-lowest rate of unemployment among the nine census divisions ended in 2006, as the eight other divisions saw joblessness decline. A brighter spot for New England was a 2.5 percent decline in average weekly unemployment insurance claims over 2005.

## Income and Wages

Despite representing a $32.6 billion raise over the course of 2006, the 5.4 percent growth in personal income for New Englanders was among the slowest rates of growth for the eight U.S. regions defined by the Bureau of Economic Analysis. (Only the Great Lakes region showed slower growth, and the Plains region was on par with New England.) The nation as a whole saw personal income rise 5.8 percent. New England's 5.6 percent increase in wage and salary disbursements—the largest component of personal income—was fair compared with the increases in other regions. Despite relatively weak gains in income, New England continued to lead all regions in per capita income, which climbed to $43,852 in 2006, or more than $7,500 over the national level. Three New England states continued to record above average per capita incomes among the 50 states: Connecticut led all states, and Massachusetts and New Hampshire were among the top 10.

## Consumer Prices

After two years of relatively lower price inflation, New England consumers saw prices rise slightly more than in the nation overall. For the 12 months ending in November 2006, regional prices were up 2.1 percent, compared with a national increase of 2.0 percent. After whopping double-digit increases in the past, prices of fuels and utilities climbed by a tamer 4.7 percent in the region and actually fell 2.1 percent nationally. Prices associated with transportation also fell, but more in the region (2.3 percent) than in the nation (1.0 percent).

## Residential Real Estate

New England's residential real estate markets were weak in 2006. After showing double-digit escalation in six of the past seven years, home prices, measured by the conventional mortgage home price index, were up just 2.2 percent between the fourth quarters of 2005 and 2006. This performance was outpaced by the national increase of 6.3 percent, and was the worst among all regions. It was also New England's own worst performance since 1996.

Median home prices generally fell across New England metropolitan areas during 2006. Nevertheless, home prices in 10 of its 11 metro areas for which data are reported exceeded the national median in the fourth quarter of 2006. The average value of construction contracts (residential, nonresidential, and nonbuilding) was down more than 8 percent for the region between 2005 and 2006, with most states showing

### More Jobs but Higher Unemployment?

An increase in the number of jobs is often assumed to signify a reduction in unemployment. That is not always true.

Payroll employment figures are derived from surveys that count the number of jobs on establishment payrolls. As a result, payroll employment is the number of jobs, not the number of people with jobs. The unemployment rate is the percentage of the individuals in the labor force who are unemployed and is based on surveys of households, not establishments.

In 2006, labor markets manifested this difference. Maine and New England as a whole added jobs over the course of the year but saw no reduction in their unemployment rates. But as Massachusetts, New Hampshire, and Vermont each saw increases in payroll employment, their unemployment rates rose. One or more explanations are possible:

- Individuals with more than one job are counted once in the labor force but more than once in payroll employment.
- Self-employed individuals are counted in the labor force but not in payroll employment.
- Interstate commuters are counted in the workplace state's payroll employment but in the residence state's labor force. In fact, Maine's Department of Labor surmised that the disparity in Maine was explained by growth in telecommuting or workers commuting to out-of-state employment.

Illustration: iStockphoto

heavy declines of up to 22.5 percent, while the nation as a whole posted a slight upward bump of 1.4 percent.

Demand for new housing in 2006 weakened in both the region and the nation. The average number of housing permits issued in New England tumbled by 15.4 percent to its lowest level since 2002, placing the region slightly below the 14.8 decline seen nationally. Only one New England state, Vermont, escaped double-digit nosedives with a slight 1.5 percent dip.

## Merchandise Exports

Between 2005 and 2006, the value of exports rose for all New England states except Vermont. Exports from the region as a whole jumped 11.8 percent and exceeded $47 billion. Once again, the nation outperformed the region, with exports surging nearly 15 percent. New England exports growth was booming for such destinations as China (an increase of nearly 33 percent) and Germany and Japan (increases of roughly 25 percent). Major exporting industries also generally fared well, led by transportation equipment (up by nearly one-third). Exports of machinery, fabricated metals, paper, and plastics and rubber products were up at double-digit rates. The only major industry in the region to witness a decline in exports was miscellaneous manufacturing products, which slipped by nearly 4 percent.

**The 5.4 percent growth in personal income for New Englanders was among the slowest rates of growth for the eight U.S. regions.**

## Overall Economic Activity

The economies of all six New England states showed improvements over the course of 2006, according to the economic activity in index. Two states, Connecticut and Rhode Island, performed as well as or better than the nation as a whole, with increases of 3.6 percent and 3.4 percent, respectively. Three New England states placed in the bottom quartile in terms of improvement. (See "2007 Midyear Regional Check-up.")

In June 2006, New England saw employment grow to more than 7 million jobs, the most for the region since mid-2001. However, the nation continued to add jobs at a faster rate. At 4.6 percent, the region's unemployment rate was higher than it was in June 2006 and was slightly higher than the national rate, which stood at 4.5 percent in June 2007.

### 2007 Midyear Regional Check-Up

**Payroll Employment**

| | Jobs in Thousands | | | Percent Change | |
|---|---|---|---|---|---|
| | June 2005 | June 2006 | June 2007 | June 2005 to June 2006 | June 2006 to June 2007 |
| United States | 133,610 | 136,030 | 138,038 | 1.8 | 1.5 |
| New England | 6,914.5 | 6,982.1 | 7,057.6 | 1.0 | 1.1 |

**Unemployment**

| | Percent Unemployed | | |
|---|---|---|---|
| | June 2005 | June 2006 | June 2007 |
| United States | 5.0 | 4.6 | 4.5 |
| New England | 4.7 | 4.5 | 4.6 |

*Seasonally adjusted.

**Tom DeCoff** *is the editor of the Federal Reserve Bank of Boston's New England Economic Indicators, http://www.bos.frb.org/economic/neei. The web site features an expanded version of this article in its June/July 2007 issue and provides access to an online resource for customized queries of several economic data series and for generating tables and charts.*

### Endnote

[1] In the case of manufacturing, the national decline was less severe than the region's.


Illustration: iStockphoto

by Peter Drasher
AltruShare Securities LLC

# The Community Investment Enterprise

*Uniting the for-profit and nonprofit worlds*

A new kind of partnering that can benefit both nonprofit entities and for-profits is beginning to take off. The concept provides a way to tap the scale of investment and the depth of investment data available in the for-profit world while applying 50 percent and more of the returns to helping underserved communities. Because the model takes a different direction from the more familiar community development financial institutions (CDFIs), community development corporations (CDCs), and community development entities (CDEs), a new term has been coined—the *community investment enterprise.*

## A New Model

A community investment enterprise (CIE) is a for-profit business that is majority owned by nonprofits that focus on economically underserved communities. For certain investors—for example, large state pension funds—which require the scale and professionalism of an experienced intermediary but also want to serve a social good with some of their investment portfolio, the CIE fills a need.

In one example, the founders of Connecticut-based AltruShare Securities gave two-thirds ownership of the firm to two nonprofit foundations, a gift that was completed in 2006.[1] The nonprofits, Tides Foundation and Underdog Foundation, are known for their solid community development background.[2]

AltruShare is a financial-services firm, but a CIE partnership can involve any for-profit business that donates the majority of ownership and profits to helping underserved communities. CIEs move social entrepreneurship to a new level by helping nonprofits build a sustainable source of support for themselves and thus reducing their reliance on what the *Financial Times* has called the "tin-cup model."

## Beyond Debt Financing

Wall Street's traditional expertise is research, which is used to deploy assets in the most effective manner possible. One of the first pieces of research that AltruShare sponsored was a review of 10 years of community-investment trends.

Previous studies had shown that banks, credit unions, and loan funds provided 96 percent of funding for community investment.[3] The AltruShare report demonstrated that the majority of financing for community investment has been overwhelmingly debt financing. It also identified the roles and types of institutions then involved in community investment, including CDFIs, CDCs, and CDEs. For-profits that donate more than half their ownership to nonprofits clearly signified something new, which is why the term CIE was adopted.[4]

As an institutional brokerage firm, the CIE AltruShare counts among its clients state pension plans, traditional investment managers, and hedge funds. It features traditional Wall Street technology and talent, but in offering the additional by-product of support for underserved communities, it also fills a gap. After all, many asset owners and managers have been looking for a sound way to invest in communities.

AltruShare aims to expand community investment options. Until now, the overwhelming majority of investments have been in real estate efforts such as low-income housing. But although housing is important, it is by no means the only solution to improving the lives of residents in low-income areas. Some residents are equally in need of education or employment, and their small businesses need access to financial advice and mentoring support. (See "Rolling Up Sleeves.") The CIE aims to be part of the process of expanding the scope of community investment beyond real estate and debt.

## Looking Ahead

The AltruShare brokers and their partners want to see emerging domestic markets become an asset class—just as emerging foreign markets are today—and they believe that to make that happen, they must first expand the scope of investment options in underserved communities. New vehicles are needed: pension plans cannot be asked to invest in notes at below market-rates.

The ultimate goal is economic opportunity. By combining the experience of nonprofits with the efficiencies of for-profits, the CIE model gives the private sector a chance to help solve the challenges of low-income communities. The more that nonprofits can work with for-profit businesses to supplement their fund-raising and other sources of income, the more they can benefit the people and communities they serve.

### Rolling Up Sleeves

In its inaugural year, AltruShare sponsored a study that involved six separate needs-assessment analyses of underserved communities in six states. The research focused on education and job creation.

Having decided to base the firm in Bridgeport to be closer to the kind of community they aim to serve, managers launched a Saturday job-training and internship program for local youth. The sessions begin with course instruction by William Jannace, a senior counsel at the New York Stock Exchange, using curriculum supplied by the New York Institute of Finance. Seven college students who are Bridgeport natives constituted the first group to enroll.

The instruction is followed by guest lectures from industry experts, including investment managers, hedge funds, corporate pension plan sponsors, and brokerage firms. The guest lecturers discuss their real-world experiences, answering questions about the skills they have found most helpful in their work. At the end of the program, students are offered paid summer internships at Wall Street firms.

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**Peter Drasher** *is managing partner at AltruShare Securities LLC, based in Bridgeport, Connecticut.*

### Endnotes

[1] A member of the National Association of Securities Dealers since February 2006, the firm aims to leverage the traditional strengths of Wall Street to help underserved communities. It offers institutional brokerage services to public and corporate plan sponsors, foundations, endowments, and the institutional money-management community.

[2] The Tides Foundation is based in San Francisco. See http://www.tides.org. Since 1976, Tides has offered donors and institutions donor-advised funds, philanthropic advice, and management services for progressive social-change philanthropy. The Underdog Foundation is the nonprofit arm of Underdog Ventures LLC, Island Pond, Vermont. See http://www.underdogventures.com/foundation.html. The foundation supports nonprofit community and environmental organizations through its grant making, community investment, technical assistance, and strategic partnerships—both nonprofit and for-profit. In particular, it uses an array of investment models to provide capital to communities and organizations that have been excluded from access to capital.

[3] See Social Investment Forum 2005 Report on Community Investing Trends in the United States, http://www.socialinvest.org.

[4] Another example of a CIE is Community Sign Language Service (CSLS), a for-profit business owned by the Bridgeport, Connecticut-based nonprofit group FSW Connections (Family Services Working) which collaborates with members of the Connecticut Hospital Association to ensure that deaf and hard-of-hearing patients and their families have communication access to all hospital services. Profits from CSLS are used to support other deaf outreach services to low-income, handicapped people from multicultural backgrounds who cannot pay for the cost of needed social and behavioral health services.

# Meet the New President


Eric Rosengren, President

Meet the new president of the Federal Reserve Bank of Boston, Eric Rosengren, former executive vice president and head of supervision, regulation, and credit at the Boston Fed, and chief discount officer.

To learn more about President Rosengren, check out http://www.bos.frb.org/news/press/2007/pr061407.htm.

# Letters to the editor

*Communities & Banking welcomes your reactions to articles and your suggestions. All letters are subject to editing.*

**Urban Pioneers cover story**

I was troubled by both the cover art and cover story in the summer 2007 issue. The story was about the challenges for addressing housing, especially rental housing, but the cover and title suggest gentrification and whites "discovering" neighborhoods. Communities of color, especially low- and moderate-income neighborhoods know the history of exploration and discovery by urban pioneers, with no regard to residents, and local struggles for community-driven development. I fear a new round of discovery as foreclosures increase and new "pioneers" see opportunity in purchasing real estate in our neighborhoods.

*Ray Neirinckx*
RI Housing
Resources Commission
July 12, 2007

# Inside this issue:
## Research Benefits Farmers and Immigrants

Photograph by Maria Moreira

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