Just Growth

Inclusion and prosperity in America's metropolitan regions

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Just Growth

In recent years, analysts have pointed to rising inequality in the U.S. as an underlying factor in both our social fragmentation and economic underperformance. This book argues for the possibility of "just growth" – a framework in which the imperatives of equity have been coupled with strategies to shore up the economy – and suggests that much can be learned from efforts to couple prosperity and inclusion at a metropolitan or regional level in the United States.

The authors use a nested approach that combines quantitative analysis of the largest 192 metropolitan regions in the U.S. with a set of seven in-depth case studies to help uncover the subtle and detailed processes, policies, and institutional arrangements that might help explain more equitable growth (or its absence) in metropolitan settings. In both their regressions and their narrative, the authors point to the stabilizing effect of the public sector, the impact of deconcentrating poverty, the growth-enhancing but equity-reducing impacts of having a large immigrant population, the influential role of a minority middle class, and the importance of leadership efforts to develop a shared understanding of regional problems and futures amongst diverse constituencies.

Breaking new ground in its innovative blend of quantitative and qualitative methods, the book essentially argues that another sort of growth is indeed possible. While offering specific insights for regional leaders and analysts of metropolitan areas, the authors also draw a broader – and quite timely – set of conclusions about how to scale up these efforts to address a U.S. economy still seeking to recover from economic crisis and ameliorate distributional divisions.

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Acknowledgments

For more than a decade, we have been blessed to be working with a series of social movement organizations seeking to craft a new approach to economic development. Frustrated with economic models that cast fairness as either a secondary concern or one that actually hurts the economy, we and they have sought to see what econometric evidence, case studies, and policy experiments might suggest about the possibilities for a new sort of "just growth."

For inspiring us in that long journey, we thank a whole series of key thinkers and doers, including Carl Anthony, Angela Glover Blackwell, Amy Dean, John Powell, David Rusk, and many others. For forcing us to think more critically about our own approach, we thank Peter Dreier, Ned Hill, Todd Swanstrom, Margaret Weir, Hal Wolman, and so many other friends in and out of the academy. And for funding our intellectual explorations in this field – and particularly the research we report on here – we thank Rick McGahey and Don Chen of the Ford Foundation; we acknowledge also the support of the Building Resilient Regions network by the John D. and Catherine T. MacArthur Foundation for the construction of the dataset used in this project.

Although two names are attached to this volume, this was like many other research projects – it took a village. Our particular village included both quantitative and qualitative residents. On the numbers side, we had Justin Scoggins and Jennifer Tran of the University of Southern California (USC), and Mateusz Filipski of the University of California-Davis, with Justin doing the heavy lifting of designing the underlying database and conducting regressions and Jennifer and Mateusz designing an innovative case selection process and just growth indices (as well as some pretty cool maps and charts). Hitting the field with us (and sometimes without us) were Rhonda Ortiz from USC and Rosa Ramirez from UC Davis; Jennifer Tran lifted her attention from the numbers long enough to conduct interviews in Denver and Nate Sessoms from USC helped out in both Cleveland (where he grew up) and Columbus. Bringing up the rear with able editing support on the final draft was Vanessa Carter of USC, while Mirabai Auer developed our final metro maps. And making sure we were moderately organized along the way – particularly as we criss-crossed the country in search of inclusive prosperity – was Jacqueline Agnello, office manager for USC's Program for Environmental and Regional Equity.

Our village was actually bigger in another way: we were blessed by the willingness of so many people in the regions we visited to share their perspectives and experiences. We thank the interviewees for responding to our queries, providing us with their insights, and gently noting when we seemed to be heading in the wrong direction. We hope that some of their collective wisdom is captured in our conclusions and recommendations.

We are finishing this manuscript as the U.S. economy is slowly emerging from the worst recession since the Great Depression. It is worth remembering that one of the factors that drove us into that ditch was rising inequality, a situation in which those becoming richer and richer found themselves increasingly drawn to speculation, while those whose incomes were stagnating were borrowing just to stay solvent. If unjust growth played a role in this crisis, it is critically important that the principles of just growth be part of our guide to the future. What is at stake right now is not just the design of metropolitan policies but more broadly what kind of economy we want and what kind of America we will be.

Chris Benner and Manuel Pastor,
Davis and Los Angeles, California

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1 Inequality and its discontents

Introduction

The financial crisis of 2008–2009 and the lingering Great Recession that resulted have raised some profound questions about the nature of our economic system. Some have suggested that the meltdown was an inevitable consequence of deregulation and have called for firmer control over the creation and implementation of new financial instruments (Crotty 2009). Others have pinned the blame on an unsustainable run-up in housing prices and argued that the Federal Reserve should slow future bubbles in asset prices (Demyanyk and Van Hemert 2009; Fligstein and Goldstein 2009). Still others have pointed to excess consumer demand, particularly in the United States, and argued that we need to lift our savings rate to a higher and healthier level (Dynan 2009).

We concur on the need for regulation, protection against asset run-ups, and even a more future-oriented approach to savings and investment. However, we would suggest that another element at play in the crisis also deserves attention: income inequality. After all, what emerged in the years before the crisis was a nearly unprecedented – well, except before that other Great Depression – rise in the gap between the rich and the poor (Atkinson et al. 2011). With some so wealthy that they shifted to increasingly speculative investments to place their excess funds and others so strapped that they borrowed to prop up their falling household incomes, the financial trap was set. It could have been better regulated, to be sure, but the fundamental problem was not the market but the distribution that the market confronted.[1]

If inequality was among the factors that got us into the crisis, dealing with inequality may be one of the steps to getting out of it. Yet this is not a simple matter of legislating fairness in taxes, social policy, or government spending; renewed economic growth is critical because the poor rarely do well in an economy that is stagnating. At the same time, recovery alone is not sufficient; the recent decades have been full of examples of national and metropolitan economies in which rapid expansion in employment and/or income has been accompanied by sharper social differentiation.

We need, in short, more than just growth (or growth alone); we need instead "just growth," a framework in which the imperatives of equity have been coupled with strategies to shore up the macro-economy, spur new industrial development, and re-regulate the financial system. Such a new framework will require a stretch on the part of business leaders, many of whom have long been concerned about economic expansion but not worried much about equity – and it will also require a commitment and an analytical stretch by those who have long fought for "economic justice" but have not always thought about how best to promote the economic part of that couplet.

This book seeks to help point the way to a new model by looking at the ways in which prosperity and inclusion have been occasionally coupled at a metropolitan or regional level. To some, the metro focus may seem odd, particularly given that we have been more recently confronting a national and international crisis. But long before the national meltdown helped to make this point, the notion that inequality might actually damage economic growth was gaining ground with key metropolitan actors – including collaboratives of business, labor, civic and community leaders – who were increasingly clear that a more inclusive economic approach could actually strengthen the social consensus and human capital needed to compete in a global economy. Backing up that perspective was a range of empirical studies, including from the Federal Reserve, showing that strategies that reduce social, geographic, and other disparities are actually correlated with broad economic success.

Is there really a possibility of "just growth"? What are the circumstances under which the imperatives of fairness and the need for economic drivers really do come together at the metropolitan level? What are the social and political arrangements, particularly given the lack of specifically *regional* government institutions, that allow this to happen in some regions? And what are the potential lessons for a U.S. economy seeking to stop the economic bleeding and the distributional divisions?

Prosperity, inclusion and the new economics

Linking regional prosperity and regional equity has great appeal – after all, who would not like it if all good things came together? But the interesting thing is that this is not simply a question of wishing for the best: statistical research is suggesting that doing good and doing well can go hand in hand.[2]

We acknowledge that this is a somewhat controversial conclusion – after all, one of the first things taught in undergraduate economics is that there is a trade-off between equity and efficiency, between fairness and robust economic growth. Kaldor (1977), for example, argued that a high level of savings among the rich, in order to invest in industries with large sunk costs, was a prerequisite for rapid growth, and so the imperative of growth implied that income must be concentrated amongst the wealthy. More benignly but no less forcefully, Kuznets (1955) argued that, as labor shifts from sectors with low productivity to those with high productivity, inequality must increase initially with the new growth, and will decrease only later as the economy matures. The Kuznets curve, which justified initial inequality as part of the growth process, quickly "acquired the force of economic law" (Robinson 1976: 437).

However, a rush of new research in the 1990s and early 2000s challenged conventional views on the relationship between inequality and growth at the national level, particularly for developing countries. Alesina and Perotti (1996), for example, argued that inequality leads to social tension and political instability, higher uncertainty and lower investment, and thus lower economic growth. Dani Rodrik (1999) noted that the ability of countries to handle external shocks in large part depends on the strength of conflict-management institutions, such as the quality of governmental institutions, rule of law, and social safety nets. Both Alesina and Rodrik (1994) and Persson and Tabellini (1994) suggested that, the more inequitable a society's access to productive resources, the more likely that society will seek redistributive policies that can reduce growth by introducing economic distortions, partly because the median voter may see less interest in protecting property rights.

Birdsall et al. (1995) and Deninger and Squire (1996) build on these insights to argue that policies that target poverty and increase the productive nature of the poor, such as investments in education, can increase growth. In one of the most recent (and most convincing efforts), Lopez and Serven (2009) argue that poverty deters investment, which in turn lowers growth – and show that this relationship holds across broad samples of countries (depending on data availability) that range from the developing to the developed world, that it holds across numerous time periods, and that it holds across a wide range of econometric specifications, including attempts to control for the impacts of inequality on growth. They conclude that "the biggest growth pay-off is likely to result from policies that not only promote growth, but also exert an independent, direct impact on poverty – hence reducing the drag of poverty on growth" (Lopez and Serven 2009: 21). More recently, Berg and Ostry (2011) provide econometric evidence linking equality to longer spells of growth and hence a more sustainable development path.

Drilling down to the region

Little of this emerging view of a positive relationship between equity and long-term growth has made its way to the American political and policy context. The argument for redistribution remains largely confined to issues of fairness or perhaps a Keynesian-style notion that placing money in the hands of less well-off consumers will yield a bigger economic bang for any stimulus dollar (Reich 2010; Stiglitz 2010). But this is surely not the same thing as the argument now being made in the developing country context that the old narrative that economic inclusion hurts economic output is fundamentally wrong – and that we need to adjust strategies for long-term growth accordingly.

One strand of work that sought to investigate whether positive equity–growth relationships held in the U.S. context looked at growth and equity at the state level (Partridge 1997). In that research, more initial income equality, as measured by a Gini coefficient, was negatively correlated with growth; on the other hand, a larger share of income held by the middle quintile (another sort of measure of distribution and one perhaps more consistent with the median voter notion