DIVERSE PERSPECTIVES ON CRITICAL ISSUES

Strengthening Communities for Regional Prosperity

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The increasing attention paid to the region as a key unit of economic activity has given rise to powerful new economic development strategies. By focusing on economic rather than political boundaries, regional approaches can more effectively tackle development issues and devise more comprehensive strategies for economic growth. This conclusion is well articulated in the recent Report of the Strengthening America's Communities Advisory Committee.[1] However, the regional *scope* of the strategy does not mean that its *focus* and *interventions* can be limited to a regional level. To succeed in the long run, regional strategies must reflect the connections between the region and its cities and neighborhoods – all of the communities which constitute the region. The economic prosperity of the region and of its communities is inextricably intertwined.

Neighborhoods host and develop the key economic assets needed for long-term regional growth.

Successful development strategies encompass both the regional and community levels.

Since the long-term success of the region cannot be separated from the success of its communities, designing complementary interventions at the city and neighborhood as well as regional levels is extremely important. On the one hand, the most effective community-level interventions take into account the connections that tie the community to the regional economy, reflecting that community assets get deployed in the context of regional markets. At the same time, the most effective interventions at the regional level seek to strengthen and leverage all available assets throughout the region's communities.

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***Living Cities: The National Community Development Initiative** is a consortium of major financial institutions, philanthropic foundations, and federal agencies investing collaboratively in the vitality of cities to increase opportunity and improve the lives of people in urban neighborhoods.*

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Development strategies that operate exclusively at the regional level run the risk of being unsustainable in the long run. In fact, while regional interventions can "trickle down" and benefit individual communities, some types of growth at the regional level (e.g., inefficient geographic expansion) are associated with urban decline, which then hinders the long-term success of the entire region. More importantly, healthy cities and their neighborhoods contribute at least as much to the prosperity of the region as prosperous regions contribute to healthy communities. A better understanding of how the destiny of a region is interconnected with the destinies of its cities and neighborhoods can help lead to successful economic development strategies that take both into account.

ECONOMIC ASSETS OF COMMUNITIES

Attracting and retaining skilled labor begins at the neighborhood level.

Human capital is perhaps the single most important ingredient of economic growth, and the most successful regions are the ones that can produce and attract skilled workers, increasing the presence of human capital. For more than a century now, metropolitan areas with more human capital have grown faster. Between 1980 and 2000, the regions where fewer than 10 percent of adults had a college degree or higher grew on average by 13 percent. Conversely, the regions where more than 25 percent of adults had a college degree or higher had an average growth rate of 45 percent.[2] This process of producing and retaining human capital begins at the neighborhood level: healthy communities provide good school systems and supportive environments that lead to productive workers.

More fundamentally, the availability, quality and productivity of the regional labor force depend in large part upon housing, health care, amenities and quality of life that are primarily provided in neighborhoods. Conversely, the concentration of poverty in declining neighborhoods and cities, often accompanied by limited access to education, and lack of public health, results in a loss of human capital for the whole region and a missed opportunity for economic growth.

Interpersonal networks are "incubators of enterprise."

The regional economy operates through a set of networks and relationships among individuals, institutions, businesses, and communities. From Jane Jacobs to William Julius Wilson, the literature on cities has stressed the importance of these relationships for generating new economic activity and opportunity in cities. Whether people are looking for a job or starting or expanding a business, interpersonal networks are an important source of valuable information and resources.[3]

Healthy cities and neighborhoods are characterized by rich personal and institutional networks that generate innovation, foster entrepreneurship, facilitate access to capital and information, and improve the efficiency of the job market by connecting workers and employers, making these communities productive engines of economic growth. Dense, diverse networks of economic activity in neighborhoods – "complex pools of use" – become the "incubators of enterprise" that ultimately "transfer their power to other parts of the city."[4]

Localized amenities are valuable regional assets.

Cities and their neighborhoods provide amenities that are essential to the well-being of the region. These range from the provision of basic services such as housing and education, to hosting important institutions such as hospitals and museums. The South Side of Chicago, for example, houses regional amenities ranging from the University of Chicago and its hospitals to the Museum of Science and Industry. Some neighborhoods also provide amenities such as historic sites or cultural districts – such as the French Quarter of New Orleans – that are valued throughout the region and beyond. These amenities are enjoyed by urban and suburban residents alike, and make the region an attractive location for businesses and workers. Indeed, cities with higher amenities have had stronger economic growth than those with lower amenities.[5] If neighborhoods decline and suffer, the loss of these amenities will have repercussions on the city as well as on the region.

Neighborhoods nurture agglomeration economies.

More broadly, one of the main reasons for the importance of regions as units of economic activity is the presence of agglomeration economies, i.e., the benefits of having people and firms locate near each other.[6] Agglomeration economies result from several distinct factors, including:

- **Shared pools of labor.** Firms located near each other can draw upon shared pools of labor, reducing the search and training costs associated with hiring new workers.
- **Shared inputs and business services.** The geographic concentration of businesses makes it easier to acquire temporary or variable inputs from outside sources, rather than housing them within the firm. The suppliers of these "part-time inputs," in turn, can afford to provide them because they are servicing a number of different firms at the same time.
- **Innovation through density.** Density favors face-to-face interaction, facilitating business transactions and stimulating knowledge spillovers. The exchange of ideas among knowledge workers in dense urban environments leads to increases in human capital, diffusion of technology, and faster rates of innovation.[7] For example, the role of cities in favoring entrepreneurship and innovation is confirmed by the fact that while the top 50 cities in the U.S have only 16 percent of the total population, they account for 23 percent of all business starts, and 25 percent of the total employment in new firms.[8]

- **Efficient transportation.** Dense urban environments reduce transportation costs, facilitating the access of workers to jobs, firms to labor pools and suppliers, buyers to sellers, and so forth.

The benefits of agglomeration often arise at the city and neighborhood level, since they are triggered by spatial proximity. The best example of agglomeration economies in small geographies can be found in the central business districts of our cities, but every neighborhood in some measure is characterized by the agglomeration of particular types of economic activity, be it high-end boutiques or light industrial parks. Community decline often means a decline in these agglomeration economies (as people and businesses move away), resulting in reduced innovation, economic inefficiencies, and less new business activity, not only for the industries and people that directly benefit from them, but for the entire regional economy.

Central cities are hubs of economic activity.

Many of these principles and activities play out particularly in central cities, giving them a special role among the region's communities. Central cities house major institutions which are important drivers of regional prosperity and quality of life. For instance (measured by employment), central cities account for almost 70 percent of educational services and air transportation, and almost 90 percent of museums, zoos, and botanical gardens.[9] Moreover, companies throughout a region rely on business services firms that benefit from concentrating in central cities. In 1990, for example, 91 percent of the major corporations located in the suburbs of Chicago used banking services based in the central city. Similarly, in 1990, 67 percent of the companies located in the New York suburbs used legal counseling services located within the central city.[10]

COMMUNITY PROSPERITY AND REGIONAL PERFORMANCE

Several other lines of research suggest that regions do well if they use all of their assets, while regions that neglect cities and their neighborhoods will suffer in the long run.

Reducing poverty and income disparity can spur regional economic growth.[11]

Arguments regarding the importance of addressing issues like poverty and inequality are often based on ideological grounds, assuming a tradeoff between equity and efficiency. Policies that address poverty and inequality are presumed to detract resources from economic growth. However, research on regional economic growth shows that reducing poverty and income disparity is actually good for business. Regions characterized by high variation in incomes experience slower economic growth.

The Los Angeles region, for instance, which was characterized by high levels of income disparity in 1990, experienced very low income growth over the subsequent decade (-4 percent). Conversely, nearby San Jose, which in 1990 had the second least income disparity in the nation, had one of the highest income growth rates at 16 percent.[12] Further confirming the negative impact of income disparity on regional economic growth, research demonstrates that reducing poverty in the central city results in higher income levels throughout the region.[13] As Manuel Pastor points out, anti-poverty strategies are not simply concerned with redistribution: targeting poverty can have benefits for the regional economy as a whole.

Cities and suburbs are interdependent parts of one economy.

Extensive research over the past decade has shown that cities and suburbs are interdependent parts of one regional economy.[14] All of the cities and towns that compose a region share integrated labor and real estate markets, benefit from the same infrastructure, and are part of the same markets for consumer goods and business services. Examples of the economic linkages that tie cities and suburbs together abound: as described above, companies in the suburbs extensively rely on central city firms for business services. Similarly, many suburban residents rely on city jobs, while city employers rely on suburban labor – and vice versa. Finally, of course, all of the residents of the region are equally affected by issues such as traffic congestion and air and water management.

The strength of these linkages is confirmed by the correlation of both income levels and housing values between suburbs and central cities: the incomes of people in suburbs and their central cities tend to go up or down together, as does the value of real estate.[15] From an economic perspective, then, the distinction between city and suburbs, a region and its communities, is a false dichotomy. This means that at a basic level, regions do well when their cities are successful, and cities do well when they are connected to a growing regional economy.

Concentrated poverty impairs regional prosperity.

In addition to missing assets and growth opportunities, regions that neglect their neighborhoods face additional costs. Concentrated poverty, often associated with declining ability to fund needed investments in education and infrastructure, imposes additional costs ranging from health care to less productive workers. A study of urban areas in Southern California, for instance, shows that cities with higher poverty rates face higher per capita costs not only for poverty-related programs, but also for non-poverty related expenditures including general government functions.[16] Failure to address concentrated poverty results in higher taxes or lower services, placing a greater burden on businesses and reducing productivity.[17]

While in the short term the slower growth in these locales might be offset by faster growth in other parts of the region (e.g., as higher-income people leave these communities to locate in more affluent areas), in the long run the loss of productivity will affect the entire region. In fact, it has been calculated that families who live in the suburbs would find it in their economic self-interest to contribute up to $250 per year to alleviate the cost of poverty in their central city.[18]

COMMUNITIES AND REGIONAL ECONOMIC EFFICIENCY

Long-term regional economic growth strategies are increasingly paying attention to regional economic efficiency. This entails considering the geographic distribution of economic assets as the region grows physically, and avoiding problems like jobs-housing mismatch while favoring urban growth patterns that minimize transportation costs and take advantage of density. Regions characterized by inefficient growth patterns can pay a steep price, in the form of higher worker turnover rates and inefficient labor markets, increased congestion, and loss of productivity. Furthermore, from a public spending perspective, it is more efficient to maintain and invest in existing infrastructure rather than building new roads, sewers, and power lines.

While these issues are not likely to have a noticeable effect on economic performance in the short run (and might in fact be a natural byproduct of growth), if they are not managed carefully they are likely to have a negative long-term impact on the region's economic vitality. There is evidence that regions that reach certain types of geographic growth thresholds (as measured by a variety of indicators) experience lower economic growth.[19] It is likely that planning development that efficiently links the assets of urban communities, including investing in existing neighborhoods and infrastructure, increases regional efficiency and prosperity.[20]

COMMUNITIES AS THE SEEDBEDS OF DEMOCRACY

In addition to the reasons highlighted throughout this paper for strengthening American cities and their neighborhoods as an integral part of building prosperous regional economies, there are of course many more that do not have to do with economic growth directly. In particular, the very fabric of our society is made of the rich and diverse interactions that take place at the local level: as Alexis de Tocqueville noted almost 200 years ago, communities house and enable the operations of the myriad formal and informal organizations (from CDCs to churches to soccer clubs) that define our culture and are the foundation of our democracy.

CONCLUSION

Cities and neighborhoods are integral parts of regional economies: they host and develop key economic assets, facilitate business relationships and transactions, and provide a wide range of amenities. These linkages between neighborhoods and regional economic vitality underscore the importance of local interventions and suggest a variety of economic development strategies that address the growth of cities and neighborhoods as well as regions, ranging from regional housing to education, from historic preservation to local entrepreneurship. Focusing on the linkages between a region and its neighborhoods – developing city and neighborhood assets in the context of their roles in the regional economy – aligns business and community interests and generates greater wealth and economic growth for the region and its communities.

Endnotes:

[1] *Report of the Strengthening America's Communities Advisory Committee*. 2005. Strengthening America's Communities Initiative, U.S. Department of Commerce. Available at http://www.commerce.gov/SACI/SACAC_Report_Final_d.pdf.

[2] Glaeser, Edward and Albert Saiz. 2003. "The Rise of the Skilled City." Harvard Institute of Economic Research.

[3] For discussion of the effect of networks on economic efficiency, see:
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[4] Jane Jacobs. 1961. *The Death and Life of Great American Cities*. New York: Random House, p. 165.

[5] Glaeser, Edward, Jed Kolko, and Albert Saiz. 2000. "Consumer City." NBER Working Paper 7790.

[6] One of the starker proofs of the benefits of density is research finding that a 10% increase in county population density corresponds to a $206 increase in median household income. Glaeser, Edward, and Janet Kohlhase. 2003. "Cities, Regions and the Decline of Transport Costs." Discussion Paper 2014, Harvard Institute of Economic Research.

[7] See, e.g., Raymond DeBondt. 1996. "Spillovers and Innovative Activity." *International Journal of Industrial Organization* 15: 1-28.

[8] Weissbourd, Robert, and Christopher Berry. 1999. "Cities and Economic Prosperity." CEOs for Cities.

[9] Weissbourd and Berry, 1999.
see also: Harkavy, Ira, and Harmon Zuckerman. 1999. "Eds and Meds: Cities Hidden Assets." The Brookings Institution Metropolitan Policy Program.

[10] Alex Schwartz. 1992. "Corporate Service Linkages in Large Metropolitan Areas: a Study of New York, Los Angeles and Chicago." *Urban Affairs Quarterly* 28 (2): 276-296.

[11] Disparity broadly refers here to the dispersion of incomes across the population, roughly getting at the gap between rich and poor. For further discussion, see Weissbourd, Robert, and Christopher Berry. 2004. *The Changing Dynamics of Urban America*. CEOs for Cities: 52. Available at www.ceosforcities.org.

[12] This does not mean that cities with high levels of inequality cannot succeed economically (Atlanta, for example, ranks seventh in income growth and second in income inequality), but that, all else being equal, more equitable regions tend to do better. Weissbourd and Berry, 2004: 56..

[13] Pastor, Manuel, Peter Dreier, J. Eugene Grisby III, and Marta Lopez-Garza. 2000. *Regions That Work: How Cities and Suburbs Can Grow Together*. Minneapolis, MN: University of Minnesota Press.

[14] See, e.g.: Voith, Richard. 1998. "Do Suburbs Need Cities?" *Journal of Regional Science* 38(3): 445-464

Pack, Janet Rothenberg. 2002. *Growth and Convergence in Metropolitan America*. Washington, DC: Brookings Institution Press.

[15] Weissbourd and Berry, 2004.

[16] Joassart-Marcelli, P. M., J. Musso, and J.R. Wolch. 2005. "The fiscal consequences of concentrated poverty in a metropolitan region." *Annals of the Association of American Geography* , 95(2): 336-356.

[17] For a discussion of these issues see, e.g.: Voith, Richard. 1992. "City and Suburban Growth: Substitutes or Complements?" Business Review, Federal Reserve Bank of Philadelphia 126(6): 21-33.
Pack, Janet Rothenberg. 1998. "Poverty and Urban Public Expenditures." Urban Studies: 1995-2019.

[18] Haughwout, Andrew, and Robert Inman. 2002. "Should Suburbs Help Their Central Cities?" in William Gale and Janet Rothenberg Pack, eds., *Brookings-Wharton Papers on Urban Affairs*: 45-88. Available at http://www.newyorkfed.org/rmaghome/economist/haughwout/citysubbrookings.pdf.

[19] Weissbourd and Berry, 2004: 65.

[20] For a review of the economic arguments in favor of denser and more efficient regional growth, see Muro, Mark, and Robert Puentes. 2004. "Investing in a Better Future: A Review of the Fiscal and Competitive Advantages of Smarter Growth Development Patterns." The Brookings Institution Metropolitan Policy Program.

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