Community and Economic Development in North Carolina and Beyond Blog: Equity and Economic Development: What's the Connection?

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Article: https://ced.sog.unc.edu/equity-and-economic-development-whats-the-connection/

This entry was posted on September 09, 2016 and is filed under Community Development, Economic Development

There is a renewed interest among many public officials in figuring out how to address intractable economic inequities that continue to exist in the U.S. In response, the UNC School of Government's Public Executive Leadership Academy (PELA) now includes a session on equitable growth and development, which I co-teach along with my faculty colleague Tyler Mulligan. The traditional economic development profession is also beginning to pay closer attention to the "wicked problems" of economic disparity and income inequality. The International Economic Development Council (IEDC) recently formed a committee to help identify promising strategies to promote equitable prosperity and has been addressing equity concerns in workshop sessions as part of its annual conference the last couple years. IEDC plans to release a major report on the topic in the coming months. What's the latest thinking about economic inequality and equity issues? What are the implications for economic development policy, strategy, and practice?

While not an entirely new phenomenon, the extent of economic disparity and income inequality in the U.S. has been better documented in recent years. For in-depth data analysis see studies conducted by the Economic Policy Institute, Center on Budget and Policy Priorities, and Federal Reserve Bank of Atlanta. A major take-away from this research is that income and wealth are increasingly concentrated among the richest five percent of households. An analysis prepared by the Urban Institute examines some of the factors that are thought to perpetuate wealth inequality. It is important to note, that much of the research and policy analysis on inequality is done by progressive think tanks and advocacy groups. Conservative organizations and analysts tend to be much more skeptical about the extent and effects of inequality as well as the possible remedies. A sampling of this viewpoint is reflected in articles and blog posts written by analysts at the American Enterprise Institute, Hoover Institution, and John Locke Foundation.

In a recent essay, Silicon Valley startup investor Paul Graham readily acknowledges the marked rise in economic inequality in the U.S., but argues that it has both good and bad attributes. According to Graham, it is completely fine, even desirable for the rich to get richer and for wealth to be concentrated in the hands of a few when that outcome is driven by wealth creation rather than being a product of excessive rent seeking, cronyism, exploiting the poor, or some other zero-sum activity. For Graham, the latter leads to bad inequality, for example, in which kids are born into an endless cycle of poverty with very little chance of realizing their potential. His point is that policy solutions should focus on the bad behaviors that result in rising economic inequality and the root causes such as poverty and lack of social mobility. He is concerned that attempting to eradicate inequality broadly without making this distinction could discourage wealth creating behaviors such as launching a high-growth start-up that benefits society. In essence, even though a proliferation of high tech startups may increase inequality, all is good, in Graham's nuanced view, because wealth is created; not taken or transferred from others.

Despite some differences of opinion about the causes and severity of inequality and what, if anything, should be done to make it better, it is fairly evident that economic disparities along racial and ethnic lines are especially pronounced and got notably worse during the Great Recession. Post-recession, the income gap between whites and non-whites is sizeable, but the racial/ethnic **wealth gap** is off-the-charts. According to a Pew Research Center analysis, in 2013 the median net worth of white households ($141,900) was 13 times that of black households ($11,000) and more than 10 times the median net worth of Hispanic households ($13,700). A National Bureau of Economic Research (NBER) working paper also found evidence of a growing disparity in wealth holdings by race and ethnicity in the aftermath of the Great Recession, with Hispanic households, in particular, losing ground. The trajectory of trends for these racial ethnic wealth disparities divide looks troubling. A recent report produced by CFED and the Institute for Policy Studies forecasts that the wealth gap between white families and black and Hispanic families will double by the year 2043.

Black workers were hit especially hard by the Great Recession and, according to a Brookings Institution analysis, experienced much greater erosion in their wages than did white and Hispanic workers. The Brookings analysis shows significant wage declines for black workers from 2009 to 2014 in 25 of the largest 100 U.S. metropolitan areas including four in North Carolina: Winston-Salem (-21.2%), Raleigh (-17.4%), Charlotte (-15.2%), and Greensboro (-15.2%). The author suggests that a possible explanation for this is that during the recovery many black workers moved from middle-wage sales and office jobs to low-wage food service occupations.

Why is rising inequality and economic disparity potentially problematic from an economic development perspective? One concern is that persistent inequality and economic disparity make it difficult for large segments of the population to realize their potential and more fully contribute to the economy. In other words, high levels of income inequality and economic disparity have the effect of "short-changing" the economy in many respects. Greater economic equity enables more people to engage at a higher level and add value in ways that help the economy perform better overall. On this point, a report produced by the Altarum Institute and Kellogg Foundation makes the Business Case for Racial Equity and cites several tangible economic and fiscal benefits we can expect to see by closing the earnings and wealth gaps between whites and racial/ethnic minorities. These include:

- higher total earnings across the board
- significant boosts to long-term economic growth (GDP)
- a better skilled and more productive workforce
- increased tax revenues to support Federal entitlement programs
- fewer people needing social safety net programs resulting in lower expenditures

Income inequality and economic disparity are big, complex issues with many dimensions and possible causes. So then, what role can economic development efforts play in mitigating and possibly reversing the trends thereby promoting a more equitable prosperity? Amy Liu of the Brookings Institution argues that nothing short of Remaking Economic Development is necessary in order to make lasting progress on this front. The idea is to fundamentally redefine economic development such that inclusion and shared prosperity become core goals. Christiana McFarland of the National League of Cities asserts that the New Equity Imperative for Local Economic Development has both a moral and economic rationale and requires communities to "strengthen untapped and underutilized assets and deliberately rectify disparities by race, place and income". McFarland discusses how Austin, TX plans to promote economic equity and inclusion by using the Einstein Challenge to incentivize the city's high-tech companies to help prepare 40,000 poor kids for opportunities in STEM fields.

Placing equity at the center of economic development can be facilitated by employing more of what PolicyLink analysts Sarah Treuhaft and Victor Rubin refer to as **economic inclusion:** "strategies that explicitly connect vulnerable groups to new jobs and economic activity and ensure that new jobs offer family-supporting wages, benefits, and growth opportunities". Economic inclusion strategies and tools being used in various places around the U.S. are shown below:

Targeted Hiring	Minority Business Development	Improving Job Quality	Workforce
Minority and women hiring policies	Procurement and contracting	Wage standards	Career tech
Local hiring policies or ordinances	Technical assistance and support for minority entrepreneurs	Employment benefits	Job training
Community Benefits Agreements (CBAs)			Career ladd
Community Workforce Agreements (CWAs)			

Source: Sarah Treuhaft and Victor Rubin, Economic Inclusion: Advancing an Equity-Driven Growth Model. *Big Ideas for Jobs*, 2013.

Treuhaft and Rubin recommend four ways to promote "inclusive job creation" and embed economic inclusion into major economic development efforts: 1) grow "high-opportunity" industry sectors; 2) leverage the economic power of anchor institutions; 3) start and expand minority-owned businesses; and 4) maximize job creation through public investments. In a previous post, I discuss sector-based employment strategies, which is related to the first recommendation about growing targeted industry sectors.

Update: The IEDC report mentioned above, *Opportunity for All: Strategies for Inclusive Economic Development*, is now available for download (free for IEDC members) here. The executive summary is available here.