Growing inequality, combined with the inability of entire segments of the population to advance economically, has emerged as “the defining challenge of our time.” Although not a new issue, there is an escalating debate as to whether and how inequality and the weakening of the middle class may inhibit economic growth in the United States. Yet many local economic development advocates, practitioners and policymakers cannot afford to wait for the academic conversation to play itself out. Economic polarization is being experienced in real time across the country, and such trends have long-term consequences for the economic health of our communities.

The Fund for Our Economic Future, the Federal Reserve Bank of Cleveland and the Federal Reserve Bank of Philadelphia, in partnership with universities, chambers and economic development organizations, seek to build upon past work regarding growth and opportunity, and foster collaboration on a way forward. To be effective, the partnership must work with various sectors, geographies and demographics. Economic polarization is a big (some would argue, intractable) challenge that cannot be tackled in isolation.

This paper highlights trends in Northeast Ohio, a region responsible for almost $200 billion per year in gross regional product (GRP) and representing 4.4 million urban, suburban and rural residents in and around four major metro areas. We offer Northeast Ohio as an example of a region uniquely challenged by population and job loss, and — like many markets in the U.S. — determined to connect its residents to a rapidly changing global economy.
The time is right for cities and regions to care. Current data point to a grim picture of an increasingly divergent and disconnected America, with serious implications for transit access, social service provision, healthcare, sustainability, and democracy. While congressional action is at a standstill, local stakeholders face long-term economic headwinds with little to no federal policy direction and tightened state and local budgets. Fortunately, many local stakeholders are seeking pragmatic solutions to these challenges rather than political ones (recently termed “pragmatic caucus”). Most can agree that good jobs and living wages are more desirable than a disconnected and/or underemployed workforce, for example. Armed with more and better data available at the local level — on employment and wages, educational attainment, health, and demographics — civic leaders are able to make smarter and more strategic decisions on behalf of the communities they serve. Consequently, such pragmatism continues to emerge from our nation’s cities and metros, and forward-thinking networks are elevating local action in ways that can inform and reinvent the national policy discourse.

The objective of this framing paper is twofold: 1) help practitioners and stakeholders develop a common understanding of growth and opportunity by clearly articulating what we do and don’t know about the relationship between economic growth and economic opportunity; and 2) propose a lens through which readers might think about collaborative approaches to growth and opportunity in their communities and at large, through “good” job growth, a workforce prepared for the jobs of today and tomorrow, and tighter connectivity between jobs and workers.

**HERE IS WHAT WE KNOW:**

I. U.S. inequality is at its highest point in a century and growing, while economic mobility remains stagnant. By almost any measure, income inequality in the U.S. is disproportionately high compared to other developed nations, and has been growing since the early 70s. It is now at its highest point on record in a dataset that goes back to 1917. The national trends are most prominent within and across the nation’s metros, where the income gap is growing both within and between metro areas. At the same time, economic mobility is stuck in neutral.

II. Inequality likely affects the extent to which economic growth can be sustained over time, and the ability of working-age individuals to contribute to and benefit from that growth. Increasing evidence demonstrates a link between more equal distributions of income and sustained economic growth. This can be traced back to the fact that more people have broader access to education, training and capital. Statistical evidence for how the relationship between growth and equity plays out in cities and metros is still exploratory, but recent studies point to the long-term advantages of more equitable growth strategies.

III. Connecting growth and opportunity requires a significant shift in how communities work together to design and implement their economic and community development strategies. Traditional advocates for opportunity (e.g. social service providers, nonprofits and foundations) and traditional advocates for economic growth (e.g. economic development agencies, chambers of commerce) have generally worked separately; it is increasingly evident that long-term efficiencies can be gained by working together.

Given what we know, and cognizant of the things we don’t, we believe there is cause for civic leaders to level the playing field. Of course, how effective they are depends on the extent to which they address the causal mechanisms behind increased inequality and stagnant mobility. While the paper does not presume to identify causal factors or make policy recommendations, it synthesizes an abundance of recent literature on growth and opportunity, and underscores main points of consensus. The power in this is that, as we proceed to dive deeper into different aspects of growth and opportunity (on job growth, job preparation and job access), people from various sectors can explore solutions based on a shared language and common understanding.

**SINCE 2006, the Fund for Our Economic Future (The Fund) has periodically taken stock of what matters to Northeast Ohio’s economic competitiveness, in order to inform decision-making and investment at a regional scope and scale. Past research helped guide more than $100 million of investment in business growth, talent development, inclusion, and government collaboration and efficiency. The Fund’s 2013 research study, What Matters to Metros™, reaffirmed previous findings, and also highlighted a surprising disconnect between job growth and income gains: metros with some of the fastest job growth were more likely to exhibit higher inequality, crime and poverty.**

**DEFINING TERMS**

For the purpose of this framing paper and the diverse audience to whom it is directed, growth and opportunity is discussed broadly and where appropriate, defined in more detail.

**Growth** refers to economic growth, including job, income and output growth.

**Opportunity** refers to the prospects that low-income individuals and families have to advance economically based on their own effort and ability. The latter includes a spectrum of issues related to income inequality, poverty and mobility.
I. HIGH & RISING INEQUALITY, STAGNANT MOBILITY

U.S. inequality is at its highest point in a century and growing, while economic mobility remains stagnant. By almost any measure, income inequality in the U.S. is disproportionately high compared to other developed nations, and has been growing since the early 70s. It is now at its highest point on record in a dataset that goes back to 1917. The national trends are most prominent within and across the nation’s metros, where the income gap is growing both within and between metro areas. At the same time, economic mobility is stuck in neutral.

Growing income disparity might be just another statistic or trend, except that it continues at a time when mobility remains stagnant. Mobility, typically measured as the degree to which individuals move up or down the income distribution over time, has been stagnant in the U.S. since the 80s and remains lower than in most developed countries. This has consequences for everyone regardless of birthplace, age, race or gender. Although the degree to which inequality influences mobility has been inconclusive, we do know that greater income inequality decreases the likelihood of moving up or down the income ladder; simply because there is greater distance between the rungs.

From a purely economic standpoint, income inequality is not necessarily a problem; it is the result of a functioning market economy, with a built-in incentive structure that rewards ability and effort, producing different outcomes for different people. Unfortunately, the continued rise of inequality creates real concerns about whether it stifles — and perhaps even negates — the very economic principle the U.S. was founded upon: equality of opportunity.

For the last three decades, income inequality has been recognizably higher in the U.S. than in any other developed nation and gradually rising. By 2012, the top one percent of tax filers in the United States took home about 20 percent of the nation’s total pre-tax income, exceeding the total income share of 15 other developed countries. The growth was concentrated within the top tenth of one percent. If we expand the pool to the top 10 percent of earners, or one in 10 taxfilers, we are now talking about half of the nation’s share in pre-tax income — for the first time exceeding the share in 1928, one year before the stock market crash (see chart). The ability to accumulate income is generally a good thing, but most of the income growth has been limited to a small subset of the population in recent decades.

The top 10 percent of families hold more than 75 percent of the nation’s wealth, while racial wealth and income gaps persist.

INCOME SHARE OF TOP TEN PERCENT OF EARNERS, 1917-2012

Certainly, the inequality and mobility trends discussed above are causes for social and political concern, but do they matter to the economy? As discussed below, a mounting body of literature tells us the answer is yes. High and rising inequality combined with stagnant mobility is a recipe for inefficiency, making it harder for well-qualified individuals at any income level to move up. And when the best and brightest can’t move up, we all lose.

A recent study reveals that poor households in the Cleveland, Akron and Canton metros are geographically more segregated than in other large metros in the country. Perhaps not surprising then, Northeast Ohio is also one of the hardest places to “move up” in the United States, with low-income families having only a 5 to 7 percent likelihood of advancing from bottom fifth to top fifth in the income distribution (see map).
II. THE RELATIONSHIP BETWEEN INEQUALITY, OPPORTUNITY & GROWTH

Inequality likely affects the extent to which economic growth can be sustained over time, and the ability of working-age individuals to contribute to and benefit from that growth. Increasing evidence demonstrates a link between more equal distributions of income and sustained economic growth. This can be traced back to the fact that more people have broader access to education, training and capital. Statistical evidence for how the relationship between growth and equity plays out in cities and metros is still exploratory, but recent studies point to the long-term advantages of more equitable growth strategies.

In general, economists have found a negative relationship between long-term growth (broadly defined as income, output and/or job growth depending on the study) and income inequality. While inequality is part of a healthy, functioning market economy that incentivizes investment, the research suggests that too much inequality can threaten mobility and slow, stall, or even reverse long-term economic growth. Cross-country studies confirm that equality is related to more sustained growth. The majority of work assessing the relationship between inequality and growth has been performed at a macro level, partly because of the historical lack of good metro or sub-national data. Some lessons, however, can now be applied to metros (small and large) within the U.S. For example, one often-cited study of advanced and emerging economies by researchers at the International Monetary Fund found that more equality in a country’s income distribution was associated with longer growth spells. The authors conclude that “attention to inequality can bring significant longer-run benefits for growth,” but caution that policies to address inequities can be equally harmful if poorly designed.

Only recently has such evidence been tested within and across U.S. metros. When Chris Benner and Manuel Pastor (2013) conducted a comparable exercise for 184 U.S. metropolitan areas with a population of 250,000 or above, the authors found similar results: the capacity of regions to maintain growth and withstand recessionary shocks was positively associated with various measures of equity (lower racial segregation, lower income inequality and less political fragmentation). Another study provides evidence that since 2000, U.S. metros have reached a tipping point in which inequality has now begun to slow down growth in jobs and incomes. Such research is backed by previous and subsequent empirical investigations into how this phenomena plays out in individual metro areas.

Why does inequality slow down growth? One reason is that inequality reinforces barriers to mobility by triggering other inefficiencies in the economy, particularly among individuals from middle-income families who find it difficult to pursue opportunities (education, training, entrepreneurship).
II. THE RELATIONSHIP BETWEEN INEQUALITY, OPPORTUNITY & GROWTH

despite their willingness and ability.xxiii In other words, large segments of the population are unable to generate enough income to invest in meaningful training or education — the stuff that fuels strong and sustained growth. The gap is exacerbated by today’s rapidly-changing innovation economy, making it even more critical that civic leaders promote more inclusive growth models, such as connecting more low- and middle-skill students and workers to opportunities in entrepreneurship, technology and innovation, in order to keep up. It should be no surprise, then, that metros with higher levels of inequality tend to have lower incomes; alternatively, income growth is associated with more educated populations and innovation, higher shares of STEM degrees, less racial segregation and lower poverty.xxiv

Recent research by the Fund for Our Economic Future, in collaboration with Cleveland State University, found such associations in its assessment of 115 mid-sized metro areas between 1990 and 2011. The study, What Matters to Metros,™ found that many low-income metros had higher levels of poverty and inequality, despite having had some of the most dramatic increases in job growth over the twenty-year period.xxv The trend underscores the fact that job growth alone does not always correspond to income growth over time, and that in order to sustain growth, communities must also invest in long-term education and job opportunities for residents.

No single solution exists. Causes of rising inequality that have been cited include skill-biased technology change, trade, accelerated CEO pay, declining real minimum wage, lower levels of unionization, lower taxes and immigration.xxvi These characteristics are concentrated disproportionately in our cities and metros, the focal points of trade, business, innovation, production, entrepreneurship, and diversity. The trend is difficult to reverse, and cannot be accomplished through any single policy priority or grant agreement. In the words of Brookings scholar Richard Reeves, “Policy is running harder; faster just to stand still.” xxvii

The bulk of local efforts to improve equality of opportunity will not ultimately be effective unless new ways of doing business are introduced. Efforts to alleviate income inequality are often championed by well-intentioned public, nonprofit and social service sector providers, separate from conversations about economic development. Unfortunately, a growing skills gap, entrenched poverty, deteriorating infrastructure, and de-industrialization cannot be solved through shelter, food provision and near-term employer matchmaking. The challenges demand long-term solutions, such as collaborative, multi-sector investments in education, innovation, entrepreneurship, employer-driven job training, and smarter transit. They require leadership and effort, and go beyond the lifespan or scope of traditional year-to-year foundation support, tax levies or election cycles.

That being said, communities cannot afford to wait.
III. THE IMPERATIVE OF PARTNERSHIPS: A FRAMEWORK FOR ECONOMIC COMPETITIVENESS

Connecting growth and opportunity requires a significant shift in how communities work together to design and implement their economic and community development strategies. Traditional advocates for opportunity (e.g. social service providers, nonprofits and foundations) and traditional advocates for economic growth (e.g. economic development agencies, chambers of commerce) have generally worked separately; it is increasingly evident that long-term efficiencies can be gained by working together.

ECONOMIC opportunity is influenced by a range of overlapping socioeconomic, political and geographic factors that no single entity, public official or government can affect. Therefore, the ability to connect a wider share of the population to economic growth — and sustain it over time — requires a significant shift in how communities and the region work together to design and implement their economic strategies.

In Just Growth, Benner and Pastor (2012) make the case for “a new economic paradigm, one in which the promotion of social equity is not simply seen as a beneficial social goal but an important component of economic development policy and practice.” This new way of doing business calls for more interaction between “growth camps” and “opportunity camps,” a concept introduced in 2012 that asserts a strict division of labor between business and economic development organizations focused on economic growth, and the philanthropic, labor, religious, advocacy, and community-based organizations focused on expanding opportunity.

Successfully building bridges between these two camps requires cross-sector partnerships that:
» Connect local assets (people, place) to the regional economy.
» Develop and implement interrelated strategies for job creation, job preparation and job access.

LOCAL ASSETS, REGIONAL ECONOMIES

Strong connections between neighborhoods and the regional economy are essential for improving economic opportunities for residents. Regions are made up of a patchwork of rural, urban and suburban neighborhoods with geographically, politically and socioeconomically distinct identities. Despite these differences, however, the economic health of cities and regions are intertwined as residents choose to work, recreate, go to school, and do business beyond their own neighborhoods — across cities, counties and metros. Recent research illustrates that increased poverty or unemployment at the metro level has a disproportionately negative impact on already-poor neighborhoods than on the non-poor. Additionally, a low-income neighborhood that experienced improvements over the last three decades was more likely to be in a metro that experienced income and population growth than a metro that was in decline.

“Neighborhoods do not have ECONOMIES. They have ASSETS. Well-functioning neighborhoods develop and deploy their assets into the regional economy.”

— BOB WEISSBOURD (2013)

The interconnection between city and region is perhaps more important now than in any other period. During the 2000s, the distance between where people live and where people work increased dramatically as jobs spread out from the urban core, with implications for transit, workforce development and inclusion. Also during the 2000s, the number of poor in the suburbs outpaced — and soon outnumbered — those in the city, spurred by foreclosures, abandonment and cheaper housing stock. Often, such trends mean higher, long-term infrastructure costs (read: higher taxes), labor market inefficiencies (difficulties connecting the “right” jobs to the “right” workers) and longer commutes.

Just as these challenges are regional, so too are the solutions. Nevertheless, cities and surrounding jurisdictions rarely work together to address issues of mutual import. Too many efforts to address the “opportunity” agenda are isolated from the regional economy, treating neighborhoods and cities as if they were islands rather than part of a complex web of regional markets and relationships.
The trend of outward migration may be changing, however. Since the U.S. recovery began in 2009, the movement of jobs and people away from central cities has stalled due to the retooling of the economy. Many regions now have the opportunity to reverse the trend and incentivize different and more inclusive growth patterns. While a culture of isolationism, parochialism and fragmentation still impedes progress in many regions of the country, and long-term and strategic thinking is cast aside for short-term “wins,” innovative and collaborative thinking is emerging in the face of budget cuts and economic hardship. As regions continue to recover from the economic downturn and rebuild their economies, the fundamental challenge will be to retain a long-term view and to align, connect and scale what works rather than what’s new.

CROSS-SECTOR CONNECTIONS
A second essential component of improving residents’ economic opportunities is creating and/or strengthening connections among stakeholders whose day-to-day work addresses one of three areas of strategic focus: job creation, job preparation and job access. If done collaboratively, strategic investments in these three areas can be mutually reinforcing and catalytic. If done separately, regions may simply be adding drops to a leaking bucket.

JOB CREATION
Job creation refers to the ability of entrepreneurs, firms and organizations to retain and increase employment in sectors that have long-term and positive spillover effects for the broader community. It is not just about creating any kind of job but the quality of the jobs, alignment with the skill base of local residents (skill up from within as well as attract), and the ability of businesses to meet changing market demand.

JOB PREPARATION
Job preparation refers to the ability of education, workforce systems and organizations to identify and offer residents the needed skills and training for current and future employer demand. While millions of dollars are expended across the highly fragmented workforce and post-secondary systems, dissatisfaction with the current systems (locally and nationally) is high. Effective efforts will be those that find sector-based solutions that respond to employer needs, prepare residents, place them in available jobs and promote career advancement.

GROWTH & OPPORTUNITY FRAMEWORK: A THREE-TIERED APPROACH

JOB CREATION
Build on distinct regional assets in order to create and retain good jobs with long-term payoffs for people of all skill levels.

JOB PREPARATION
Prepare residents for current and future jobs through systems reform that promotes coordinated, employer-connected and sector-focused education and training.

JOB ACCESS
Strengthen connectivity between where people live and work through more efficient transit and social/spatial networks; promote sustainable growth patterns that enable improved access to jobs in the future.
III. THE IMPERATIVE OF PARTNERSHIPS: A FRAMEWORK FOR ECONOMIC COMPETITIVENESS

JOB ACCESS

Job access refers to the ability of people to connect to jobs, education and training based on where they live and who they know. Spatial separation from jobs affects low-income residents in the urban core who are more likely to rely on public transit. Unfortunately, public transit systems in many communities are strained, and access is limited by this and other impediments, such as bus systems that do not cross county lines. Factors like state-based incentives and transportation policies continue to encourage job growth far away from city residents, requiring new infrastructure and — more often than not — higher taxes. City residents are further isolated from job opportunities by lack of exposure to career-oriented social networks and online employment resources.

To pursue strategies in any one or even two of these areas in isolation from the third dramatically reduces the prospects for long-term economic competitiveness. If good jobs are created and workers are being trained for them, what good will it do if those workers lack transportation to the job locations? If strong community college systems and good public transit exist but no jobs are being created, what good are those investments in infrastructure and education? And if there are strong transit corridors between city residents and job hubs, but not enough skilled workers to fill them, how will businesses thrive and grow?

AS OF 2010 in Northeast Ohio, approximately 5 percent of the region’s population lived in low-income neighborhoods where less than 65 percent of working-age residents were either working or looking for work. At the same time, job growth in Northeast Ohio’s major cities has occurred predominantly in the suburbs, leaving many residents, particularly low-income residents less likely to own a vehicle, at a disadvantage.

CONCLUSION

ONE community’s vision of the future might look very different from that of another, but if our assessment of the economic literature is accurate, economic growth should be systematically stronger in places where more people share in the opportunities being created. Although the literature on inequality, mobility and growth at the local level is fairly nascent, our reading of the research is that practitioners and stakeholders can and should pursue inclusive growth strategies that address both growth and access to opportunity. These strategies should be comprehensive and targeted, addressing job creation, job preparation and job access, while simultaneously identifying and managing priorities in order to deploy resources most strategically. This requires hard decisions about where and how to invest (e.g. business development, early childhood education, public transit), collaborative leadership and careful planning.

Inequality and mobility are national challenges that are playing out locally and with real-time consequences for all residents, making it even more urgent for best practices to be elevated across private, public and nonprofit sectors. Through a common framework and shared language, the Fund for Our Economic Future, select Federal Reserve Banks and national and local philanthropy seek to leverage their respective efforts, expertise and resources to advance common goals, and to inform local, state and national policy. The decisions and investments we make – or do not make – will dramatically affect the long-term trajectory of our communities.

FOR MORE INFORMATION about the Growth & Opportunity Initiative or to get involved, please contact Emily Garr Pacetti, Director of Research and Evaluation at the Fund (epacetti@thefundneo.org), Paul Kaboth, Vice President, Community Development at the Federal Reserve Bank of Cleveland (paul.e.kaboth@cle.frb.org), or Theresa Singleton, Vice President and Community Affairs Officer at the Federal Reserve Bank of Philadelphia (theresa.singleton@phil.frb.org).
ENDNOTES

1. Ms. Garr Pacetti, Director of Research and Evaluation at the Fund for Our Economic Future, is a former Fulbright Fellow and researcher at the Brookings Institution Metropolitan Policy Program. She holds a master’s in urban studies from El Colegio de México and a bachelor’s in political communications from Emerson College.

2. President Barack Obama, Remarks by the President on Economic Mobility, December 4th, 2013.

3. The Fund for Our Economic Future is a philanthropic collaboration based in Northeast Ohio committed to shaping and sustaining the region’s long-term economic competitiveness.

4. The partnership is part of the Federal Reserve/Philanthropy Initiative (FPI). FPI is a project of The Funders Network for Smart Growth and Livable Communities (TFN), the leading resource in philanthropy for transformative thinking and interdisciplinary action on how to build more prosperous, equitable and sustainable regions and communities. Without the presence of Federal Reserve Banks and on-the-ground presence of funders, FPI members seek to improve older industrial communities through joint local and regional endeavors.


7. For comparative purposes, we use pre-tax income disparity so as to understand earnings without intervention of the various tax policies across countries. When after-tax income is used, the difference between the U.S. and other countries is even more accentuated (other OECD countries generally have more progressive taxes), though the total share held by top earners within the United States would be lower.


13. Author’s analysis of median household income data of the largest 100 metro areas (roughly above 500,000 in population), provided by Brookings State of Metropolitan America Indicator map. For additional literature on socioeconomic trends across the U.S., see Moretti, E. (2012), The Geography of Jobs; and Berube, A., W. Frey and A. Singer (2010), State of Metropolitan America: On the Frontlines of Demographic Transformation, The Brookings Institution.


For a concise yet comprehensive synthesis of this literature, see Boushey, H. and A. Hersh (2012), The American Middle Class, Income Inequality and the Strength of Our Economy, page 8. The paper discusses the relationship between inequality and each of a strong middle class, the development of human capital, a well-educated citizenry and economic growth.


Benner, C. and M. Pastor (2012), ibid.


Kneebone, E. (2013), Job Sprawl Stalls: The Great Recession and Metropolitan Employment Location, The Brookings Institution Metropolitan Policy Program. By 2010, 43 percent of jobs in a sample of the nation’s 100,000 metro areas were located at least 10 miles away from a central business district, compared to 23 percent within 3 miles. This has since held steady, staved off by losses in some of the more decentralized industries, construction, manufacturing and retail.
THE AUTHOR wishes to thank the following individuals and organizations for their valuable input, assistance and support in the creation of this report: Mark Sniderman, Kyle Fee, Francisca Richter, Mary Helen Petrus and Paul Kaboth of the Federal Reserve Bank of Cleveland; Robert Jaquay of The George Gund Foundation; Brad Whitehead and Karen Mozenter of the Fund for Our Economic Future; Erin Mierzwa and Theresa Singleton of the Federal Reserve Bank of Philadelphia; and the John S. and James L. Knight Foundation.