

**COHESION AND COMPETITIVENESS:
BUSINESS LEADERSHIP FOR
REGIONAL GROWTH AND SOCIAL EQUITY**

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*Draft: September 8, 2005
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Prepared for the
OECD International Conference on
Sustainable Cities: Linking Competitiveness with Social Cohesion
Montreal, Canada – October 12-13, 2005

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INTRODUCTION

Traditional economic theory and business practice has tended to pose a contradiction or trade-off between efficiency and equity: what is good for one may be bad for another. Yet recent years have seen the emergence of a group of business and other actors, particularly at the regional scale, that have begun to highlight the importance of paying attention to fairness, inclusion, and sustainability in their economic strategies and planning.

Why this new attention to equity – and why is it emerging at the regional scale? In fact, the two issues seem to be deeply related. On the one hand, globalization has yielded what seems to some to be a surprising result: even as it has leveled the playing field such that national boundaries matter less and less, it has lifted up the importance of regional economies, with their attendant industrial clusters, as key units in the world economy. One thus talks not about the United States but about the Silicon Valley, not about China writ large but about Shanghai and its environs.

As a result, economic geography, far from being erased under the pressures of global competition, has instead reconfigured at the level of significant metropolitan regions. National policies and national leaders continue to matter but mayors, regional business groups, and municipal and metropolitan practices are often setting the stage for business investment decisions through their actions to improve basic infrastructure, local educational assets, and residential quality of life. Sustainability, often conceived of at a regional level, has become not just the plea of concerned environmentalists but also a

business mandate and a key factor in decisions regarding the location of design, production, and management facilities.

Increasingly, this emphasis on regional or metropolitan sustainability has led to a reconsideration of the place of social equity, inclusion, and cohesion. Traditional thinking would have us believe that consideration of equity or fairness might tend to lead us away from the imperatives of economic growth: higher wage requirements, first source hiring strategies (common to insure that less advantaged residents get a crack at employment), and affordable housing mandates are all thought to impose efficiency costs. Likewise, inclusion can be seen as problematic: while democracy in theory welcome all voices in the decision-making process, the cacophony that results, it is sometimes argued, can sometimes muddle decisions and render government less able to act as rapidly or clearly as business partners need. Finally, cohesion and collaboration are not evident goals to be pursued: after all, the traditional model is exactly about how autonomous actors can, with only limited coordination via market forces, lead to Pareto-optimal outcomes.

Yet the region is a level at which the costs of inequity, exclusion, and fragmentation are often most clearly manifested. This is partly because of scale itself: when one is up close to pockets of poverty, this can quickly change one's preferences about the degree of policy attention to be paid to alleviating hardships. But it is also because another element of regional economic thinking: researchers are increasingly finding that regions marked by higher levels of inequality, in fact, find their economic performance damaged. The reasons are complex and still under-specified but may have to do with the resulting underinvestment in basic education, the impact of social tensions

on economic decision-making, and the erosion of the “social capital” that can tie a region together. Whatever the cause, the simple fact is that equity and efficiency can be consistent, doing well and doing good can go together.

Some business leaders have recognized that set of facts and exercised leadership in this new social arena. At least in the U.S. cases that we highlight here, such leaders have formed regional business groups that work with community as well as government partners. They have encouraged (and undertaken) investment in disadvantaged urban communities most in need, noting both the market opportunities and the social benefits. They have focused attention on challenged educational systems, with particular emphasis on improving opportunities for those currently left behind. They have fought to encourage housing that will accommodate all residents, struggling with others to overcome the local resistance that leads to spatial segregation by race and class. They have collaborated on the creation of workforce development systems that can both feed their industries and provide avenues of advancement for those with lesser skills.

Yet the terrain of regional equity is also fraught with tensions and tightropes. Business leaders are reluctant to endorse the sort of state interventions espoused by many who usually hold up the equity banner. The pressures of globalization make short-term cost-cutting by municipalities seem immediately superior to long-term community partnerships that may have high entry costs in terms of the investment of time as well as money. And because the field is new, the examples seem few and the shift in underlying economic theory and strategy seems large.

This paper takes up this field-building task in the following order. The first section elaborates on the case that city competitiveness and social cohesion can be

compatible, reviewing the theory and past empirics and then offering some evidence from a new econometric study of over three hundred regions in the U.S. A second section examines the notion of “regional stewardship” and explains how this is being deployed as a way of engaging business leaders; here, I offer concrete examples of business leadership that may give cause for hope but I also illustrate the complications, particularly with regard to whether the shift in business attitudes is *transactional* or *transformational*. A conclusion lifts up certain contradictions and highlight the issues that will require further attentions by researchers, business leaders, municipal authorities, and civil society.

A caveat is in order before beginning: the data and examples in the main sections of the paper are drawn from the U.S. experience. This is not necessarily because the U.S. has always been the best in terms of blending inclusion and competitiveness – indeed, one of the compelling reasons to examine headway made here is precisely that this is very challenging ground for equity proponents given what seems to be a U.S. tendency to tolerate more unequal outcomes. However, it is a particular region of the world I know well, partly because of my geographic location and past studies but also because of my own role as a participant in making the case and working with business and community groups involved in the emerging regionalist movement. Despite the U.S. focus, I try to draw general lessons and relevant comparisons along the way, and hope that the discussion at the conference will be enriched by this intervention and that a subsequent version of this paper will then be enriched by that dialogue.

REGIONAL COMPETITIVENESS AND SOCIAL COHESION

Making the Case: Equity and Growth

If the private sector is to be engaged in linking city competitiveness with social cohesion or fairness, it must first be convinced that the argument is sound. Note that this is a difficult and very particular task. It is one thing to suggest that business ought to elevate considerations of fairness in its investment decisions. This represents the usual trade-off in which economic agents are asked to include enough of a preference for equity, even at the cost of aggregate output, to achieve some social desirable outcome. But the standard of linking competitiveness and cohesion is higher: it relies on an argument that economies are operating on the inside of their production possibilities frontier (that is, below maximum output) precisely because of the distribution of benefits.

Of course, the economic development literature now includes an ample number of studies seeming to demonstrate just that. In particular, some economists have stressed that countries starting from more equitable distributions, such as South Korea and Taiwan, have tended to experience more sustained and long-run growth, while those deeply entrenched in inequality, such as Brazil and Mexico, have experienced more volatile and ultimately more mediocre performance. The initial focus on case studies has given way to a cottage industry of research efforts, including multi-country panel regressions rooted in endogenous growth theory, that suggest potential positive mechanisms of transmission from equity to growth. These causal mechanisms include a tendency of more equitable societies to invest more in education and other general public goods, as well as a tendency of such societies to both arrive more consensually at tough decisions about economic restructuring and to, in fact, be more protective of property rights, primarily

because the potential of gains from innovation are seen as more likely to be evenly spread.¹

There is a parallel set of theories and studies that have emerged considering the regional or metropolitan level, at least for the United States. Here, the argument takes two essential steps: the first is the insistence that the U.S. economy has regionalized and the second is that at the regional level, higher levels of poverty and inequality can be anathema to economic prosperity for the median household.

The regionalization of the economy is well-documented and is a fundamental building bloc in the philosophy underlying any global initiative on sustainable cities: why bring together mayors and municipal actors if it was not thought that this was a fundamental level of agenda-setting and decision-making in terms of economic competitiveness and the quality of life? Economic analysts have attributed the rise of regions to the changing nature of economic relationships in an information age and, in particular, to the importance of business clusters and networks at a metropolitan level (Sable 1988, Storper 1997, Saxenian 1997). For the U.S., various studies have demonstrated that the national economy has become less of a unified whole and that regional economic performance is now more heterogeneous within the United States than it was in earlier decades; as a result, the U.S. economy might now be better thought of as a “common market” of regional economies (Barnes and Ledebur 1998).

How does this “new regionalism” impact the relationship between equity and efficiency? Basically, the notion is that the emerging regional scale may help to either

¹ For a recent summary of the various arguments and the literature, see Thorbecke and Charumilind (2002). For more on the political economy arguments, including the idea that inequality will lead to less political stability and less coherent economic strategies, see Alesina and Drazen (1991) and Birdsall and Londoño (1997); for more on the East Asian experience, see Rodrik (1994).

ameliorate or sometimes transform the usual negative relationship assumed between fairness in outcomes and incentives for production. Regional economic clusters, after all, tend to be based on sets of relationships between firms and firms, as well as between firms, businesses, and communities (Saxenian 1996). These relationships generally involve repeated interactions that lead to mutual trust: firms know who their suppliers are, know what sort of public policies to expect, and are secure that they will be able to garner public support for their efforts. This sort of setting, it is argued, can lead then to innovation and productivity gains, with a highly educated workforce another key ingredient in the growth equation.

But if a region's success is defined partly by this dense set of relationships or "social capital" (Putnam 1993), as well as by the level of human capital, surely inequality, concentrated poverty, and spatial segregation by class and race could be anathema to growth. All these factors work against social cohesion – and conflicts that arise, for example, from sharp inequalities can lead to a lack of consensus on growth policies and then induce misguided government policy that is focused solely on the redistribution side of the economic ledger (primarily because some political actors do not believe that they will benefit from aggregate growth).² Inequality can also create, as in the developing world, a failure to invest in education (as wealthier families depart from the public system and reduce their willingness to finance the basic systems that raise overall labor productivity). Finally, to the extent that deprivation and inequality have an impact on crime, this tends to reduce the overall quality of life, and can thus impact the

² The analog for this at a national level is offered in Persson and Tabellini (1994) in which they suggest, using an endogenous growth model, that improved equity reduces class envy and therefore better secures property rights. This, in turn, leads to broader political support for growth-enhancing policies: most citizens see the potential gains and so will support pro-market and pro-private investment strategies.

ability to attract the knowledge workers so essential to regional survival in the new global economy.

While the causal mechanisms still remain a bit underspecified, the empirical research has gone forward in intriguing ways. In one of the earliest of the regionalist studies in the U.S., Savitch et al. (1993) focused on fifty-nine metropolitan areas and found that wider city-suburb disparities – one measure of the lack of social cohesion across metropolitan geography – were associated with a higher likelihood of regional stagnation.³ The authors also found that the links between city and suburban incomes have become closer over time, suggesting that the importance of equity may be rising as economies have regionalized, a point made in the introduction and stressed in the analysis above.

In a study originally done for the League of Cities, Barnes and Ledebur (1998) examined seventy-eight metropolitan areas in the United States and found that those regions with the widest gap between central city and suburban income in 1980 had the most sluggish job growth during the following decade. Furthermore, the twenty-five fastest growing set of metropolitan suburbs (identified by change in median household income) all had central cities that also experienced income growth. The authors also suggest the presence of large multiplier impacts from the revitalization of the inner city: when the incomes of central city residents increased, the incomes of people living in that city's suburbs increased by an even larger amount.

³ In explaining the finding, Savitch et al. (1993: 347) argue that that "[t]he blight of the inner city casts a long shadow. Companies will not grow or thrive in, or move to, a declining environment."

Paul Gottlieb (2000) provides a useful review of these and other studies under the rubric of examining the impact of poverty on metropolitan area performance. He notes correctly that the Savitch and Ledebur and Barnes efforts have serious methodological problems due to their tendency to focus on simple bivariate correlations or regression models. With other variables that might impact growth left off-stage, one cannot be sure that that it is inequity and not some other uncaptured factor that is limiting regional economic growth. A second problem with these studies has been their tendency to, for example, consider growth rates of two geographic locations over the same period, raising issues of causality: is it higher central city growth causing high suburban income growth, or the other way around?

By contrast, Gottlieb praises the efforts of Voith (1998) and Pastor, et al. (2000), for adopting multivariate approaches and attempting to correct for possible issues of simultaneity. Both studies are careful to include other variables and also to control for issues of timing and mutual causation; Voith (1998) continues to find a positive association of suburban growth with city growth while Pastor et al. (2000) find that various measures of inequality (the city-suburb poverty ratio, the geographic concentration of the poor, the change in central city poverty, and more direct measures of income disparity) all have a negative impact on per capita income growth over the 1980s in seventy-four regions. Gottlieb concludes that there is some reason to believe that equity and efficiency, at least at the metropolitan level, can be mutually reinforcing.

Updating the Analysis

Has this relationship – that lifting all boats is key to lifting the economy as a whole – persisted in the 1990s? To get at that, I conducted a simple set of regressions

utilizing elements of the model in Pastor et al. (2000) and data from the 1990 and 2000 Census.⁴ The sample is 341 metropolitan regions (or Metropolitan Statistical Areas (MSAs)) in the United States. The dependent variable was real per capita income growth at the MSA level, with the control independent variables and hypothesized signs as follows:

- % working-age residents who are college-educated, 1990 (+)
- Manufacturing concentration in central city, 1990 (-)
- % of metro population in central city, 1990 (+)
- MSA unemployment rate, 1990 (-)
- Median household income, 1990 (ratio to U.S.) (-)
- South (?), West (?), Northeast (?)

and with the distributional or equity variables of interest being:

- Ratio of city to suburban poverty, 1990 (-)
- Percent of poor residents in high poverty neighborhoods, 1990 (-)

⁴ To build the database, we began with a database developed by the Lewis Mumford Center for Comparative Urban and Regional Research at the University at Albany, SUNY. This database, available at <http://mumford.albany.edu/census/data.html>, included such key variables as real per capita income for 1990 and 2000, city and metro population, metro unemployment rates, city and suburban poverty rates, and measures of residential dissimilarity by race. We added to this several key variables taken from the *CensusCD 1990 Long Form in 2000 Boundaries* which is available through Geolytics (www.geolytics.com). We needed this particular database because the metro areas (or MSAs) we used are defined by their shapes in 2000. Thus, we took the *Neighborhood Change Database* (also available from Geolytics), utilized the match there between 2000 census tracts and their MSAs, applied that match to the 1990 tract-level data as rearranged to 2000 tract shapes, and then summarized that tract data up to the MSA level (or central city level) as appropriate. With this process, we obtained the concentration of manufacturing employees in the central city, the percent of poor in an MSA in high-poverty tracts, and the ratio of the income of those at the sixtieth percentile of the household distribution to those at the twentieth percentile (as well as other measures of distribution). We also obtained an estimate of the median household income via linear interpolation that was used to figure MSA median household income as a ratio of U.S. median household income in 1990. The dummies for region of the United States were derived by using Census maps to match states to broad regions; in the very few cases where a metro area overlapped two states, we utilized the state associated with the primary central city in the MSA.

- Ratio of household income at the sixtieth percentile to household income at the twentieth percentile, 1990 (-)
- Index of dissimilarity (black-white) at metro level, 1990 (-)

The expected effects are mostly clear but some deserve explanation. The level of college-educated residents is thought to have a positive effect as this will attract higher value-added business enterprises and hence stir growth. The percent of MSA manufacturing in the central city is a proxy for the age of the region's manufacturing sector – in the U.S., newer and more competitive manufacturing enterprises tend to have relocated to suburbs. We assume that larger central cities will attract more economic growth for reasons of agglomeration. We utilize the metro unemployment rate in 1990 as a sort of business cycle control – while the level of human capital evidenced by the percent of college graduates is a longer-term supply variable, this unemployment measure reflects the state of the economy at the beginning of the period in question. The metro household income relative to the national average is assumed to have a negative impact for reasons of convergence; a similar expectation (and a statistically significant sign) is found in the test on household income growth for 98 cities over the 1980-2000 period performed in Furdell, Wolman, and Hill 2005: 301).⁵

The dummy variables for region are introduced because these are standard in U.S.-MSA regressions; we have no particular commitment to the sign. We would, however, urge caution in interpreting signs and coefficients on these variables – as will be seen, we find that being in the West has a negative effect on growth but recall that this

⁵ Median household income is also a useful control when we are looking at measures of relative disparity and want to control for the fact that higher medians may be associated with wider distributions.

is after controlling for the level of human capital and other measures and hence simply means that the same constellation of industries and people would do even better had it been located in another region of the country. This is something that seems to be common understanding, given all the attempts to, say, lure California businesses from the Golden State.

Finally, we hypothesize that all our measures of inequality will have a negative impact. For example, the higher is the ratio of city to suburban poverty, the more likely there is to be governmental fragmentation, social disillusion, and lower social capital (and hence growth). The same goes with the geographic concentration of the poor, measured here as the percent of the poor living in high-poverty neighborhoods where high-poverty is defined as having more than 20 percent of the residents living in poor families (Jargowsky 1997): more concentration suggests a willingness to neglect poverty and will lead to the lack of consensus, higher crime / lower quality of life, and low human capital development.

Another geographic measure is the fourth one on the residential dissimilarity of whites and blacks. This is frequently used in the literature on segregation (see Massey and Denton 1993) and signals spatial separation: the variable essentially captures the percent of both groups that would need to move to achieve an even distribution across all census tracts in a metro region, and is constructed such that it ranges from 0 to 100, with higher values indicating more residential segregation. We hypothesize that this is a measure of social distance and hence will be negative correlated with growth for all the reasons we have suggested above.

Finally, we offer one more direct measure of income disparity: the ratio of the income level for those households at the sixtieth percentile to those at the twentieth percentile. This variable is determined by first summing up all households in income brackets as available from the 1990 census, and then determining the brackets that include the twentieth percentile household and the sixtieth percentile household. We then use linear interpolation procedures to determine the exact level of income for each household and calculate a ratio – which will be higher the more unequal or widely spread is the distribution. We also calculated a ratio for households at the eightieth and twentieth percentile and this measure has even more significant results than the one we used and present below. However, as we explain in a footnote, the sixty-to-twenty ratio is more reliable and hence we present the more conservative results in the text.⁶

The results of these regression exercises can be seen in Table 1.⁷ All variables follow the expected pattern with the three spatial segregation measures (the ratio of city to suburban poverty rates, the concentration of the poor, and the residential dissimilarity of blacks and whites) all having a negative effect that is significant at the .01 level. Our more direct measure of income inequality in the metro region, the ratio of the income of those households at the sixtieth percentile to those at the twentieth percentile of the household income distribution) is significant at the .05 level (and, as might be discerned

⁶ We use the sixty-to-twenty ratio here because the sixtieth percentile household in an MSA falls in a bracket with an income range greater than \$5,000 for only 3 cases and over 95 percent of the cases fall into brackets with only a \$2500 range. By contrast, the eightieth percent households are often in higher income brackets, with the range exceeding \$5,000 for 15 percent of the cases and exceeding \$2500 for over half the cases. As is well know in the distribution literature, while linear interpolations are reasonable approximations for the lower brackets, they can be problematic when incomes are high and brackets are large. Thus, the sixty-to-twenty ratio is more reliable for the purposes at hand.

⁷ All regressions are weighted by the MSA population in 2000 in order to reflect their relative importance in the sample but the pattern holds if we drop the weights and, for example, focus on the 100 largest MSAs.

from the size of the t-statistic, misses the .01 sign level by just a bit). Importantly, note that all these spatial and distribution variables are set prior to the income growth period being considered (along with the other variables); as a result, causality issues, while still relevant in a broader sense of specific chains of causation, are not less of a concern.

<insert Table 1>

The bottom line: doing good and doing well can go hand in hand. Overcoming the fragmentation wrought by residential segregation, income inequality, and concentrated poverty can have positive effects on per capita income growth. Beyond competitiveness, new research is demonstrating that including equity considerations can have important fiscal benefits as well. For example, a new study from the Brookings Foundation argues forcefully that, in tight fiscal times, we cannot afford to continue to support more expensive infrastructure on the fringes of metropolitan development, the sort of urban spatial arrangements often dictated by the forces of segregation and separation (Muro and Puentes 2004). Muro and Puentes argue that adopting rules that would force a more compact style of development over the period 2000-2025 in the United State could reduce road-building costs at the national level by nearly 12 percent, save 6 percent on water and sewer spending, and also save 4 percent on annual spending for operations and service.⁸

The message about the fiscal costs of sprawl certainly seems to be getting through: Michigan Governor Jennifer Granhold has created a statewide leadership council on land use, arguing that the current fragmented system of delivering services and

⁸ For a more general argument on equity, efficiency (fiscal and otherwise), and infrastructure, see Pastor and Reed (2005).

Table 1

A Simple Model of the Determinants of Per Capita Income Growth in U.S. Metropolitan Areas, 1990-2000

	Coeff.	T-stat	Sig.	Coeff.	T-stat	Sig.	Coeff.	T-stat	Sig.	Coeff.	T-stat	Sig.
% working-age residents who are college-educated, 1990	0.528	6.184	***	0.578	6.582	***	0.545	6.198	***	0.483	5.674	***
Manufacturing concentration in central city, 1990	-0.141	-1.908	*	-0.210	-2.771	***	-0.205	-2.621	***	-0.205	-2.707	***
% of metro population in central city, 1990	0.185	2.266	**	0.201	2.422	**	0.195	2.260	**	0.176	2.152	**
MSA unemployment rate, 1990	-1.057	-4.426	***	-0.402	-1.225		-0.686	-2.130	**	-0.950	-3.830	***
Median household income, 1990 (ratio to U.S.)	-0.227	-8.710	***	-0.252	-9.605	***	-0.252	-9.362	***	-0.212	-7.923	***
South	-5.307	-6.121	***	-5.135	-5.943	***	-4.829	-5.534	***	-5.787	-6.449	***
West	-7.864	-8.156	***	-7.987	-8.163	***	-7.325	-7.662	***	-8.781	-8.153	***
Northeast	-5.128	-5.119	***	-7.051	-7.169	***	-5.449	-5.325	***	-6.718	-6.937	***
Ratio of city to suburban poverty, 1990	-0.512	-3.813	***									
Percent of poor residents in high poverty neighborhoods, 1990				-0.114	-3.569	***						
Ratio of income at sixtieth to the twentieth percentile, 1990							-0.044	-2.436	**			
Index of dissimilarity (black-white) at metro level, 1990										-0.101	-3.454	***
Number of observations		326			327			327			327	
Adjusted R-squared		0.420			0.419			0.407			0.418	

*** significant at the .01 level, ** significant at the .05 level, * significant at the .10 level

making infrastructure investments in support of sprawl is “creating a strain on the efficient provision of public services.”⁹ She has been driven to do this not just by the imperatives of fiscal sanity but also through the efforts of an inter-faith group based in Detroit and its adjoining suburbs, MOSES, that has argued that the older style of development disadvantages both inner city residents seeking employment and suburban residents forced to rely on private transportation to make their way to jobs.

In short, there are good economic and fiscal reasons to reach across lines of class, race, and geography at a regional level. Some business leaders have gotten the message and begun to do just that, often starting with understanding the economic assets of the inner city and then moving to a broader understanding of the increasing complementarity of social cohesion and regional competitiveness. We take up those cases in the next section.

LEARNING TO LEAD: BUSINESS AND SOCIAL EQUITY

From Past to Present: Business Climate and Regional Stewardship

Business leaders have long been key to metropolitan growth and sustainability. In the U.S., the now mega-region of Los Angeles was carved out of the Southern California desert through the actions of aggressive real estate developers and related business enterprises, and pushed along through the first half of the twentieth century by the civic boosterism of *Los Angeles Times* publishers, Harrison Otis and Harry Chandler, a pair that historian Andrew Rolle called "the single most important force in Los Angeles aside

⁹ Quoted in Muro and Puentes (2004: 2) and taken from the executive order mandating the creation of the leadership council.

from government itself."¹⁰ Their cheering of development was followed in the post-war years by the steady voice of the Committee of 25, a group formed in the early 1950s and functioning through the 1960s that included key figures from the city's major businesses and law firms who often informally brought together public officials and business leaders to forge agendas and solutions to key public problems. The Committee, for example, was a main driver behind the "urban renewal" of the downtown – a renewal that has been sharply criticized, as were many such approaches in the 1960s, for displacing residents and actually smothering urban residential vitality (Davis 1990: 228-230, Gottlieb, et al. 2005: 137-138, 174).

In Boston, another archetypical case, a thirty-member business group dominated by financial interests – called the Coordinating Committee and nicknamed "the Vault" – was responsible for engineering the city's makeover in the 1960s and 1970s, including another revitalization effort that was considered devastating for poorer communities (Pastor et al., 2000: 146, Dreier 1983). Downtown revitalization was also the focus of the Greater Baltimore Committee, a business organization formed in 1955 that included a select number of leaders from the banking, retail, and manufacturing sectors (including the famous developer James Rouse that went on to found the Enterprise Foundation, a group committed to building affordable housing), and that took the lead in the planning and redevelopment of the Charles Center and the Inner Harbor. Across the United States, numerous other examples could be offered of business elites with a firm set of roots in a particular region and/or major city, a commitment to furthering growth, a real engagement with public policy and decision-making – and an often visceral distaste for

¹⁰ See <http://www.socalhistory.org/Biographies/otis.htm>

unions, community groups, and others who might stand in the way of efficient economic policy.

There is now a tendency to bemoan the loss of these public-minded elites, with many analysts pointing to the globalization of the economy and the attendant tendency of corporate leaders to lessen their allegiance to any particular location. This is partly because of a new nationally and geographically diverse ownership: in Los Angeles County, for example, the number of Fortune 500 companies headquartered has fallen in half since the 1980s, and some argue that since those remaining have significant out-of-area ownership (including the *Los Angeles Times* once famously run by Otis and Chandler), the local ties are even weaker than might be conjectured by business address. But diminished ties are, some argue, also occurring because globalization itself means that capital is footloose and is interested in seeking low wages, minimal environmental protections, and maximum profits, all things that work against social equity and the quality of life.

But has globalization really prompted a stark race to the bottom? If this was the case, then the poorer metropolitan regions in the world and national economies would be experiencing robust growth – but they often are not and are frequently mired in low-growth traps. Moreover, it is clear that many of the business leadership groups celebrated as key to the development of U.S. metropolitan regions in era of a more closed national economy – the Committee of 25, the Vault, and the Greater Baltimore Committee (at least prior to its most recent incarnation) – were both exclusive (and long-lasting) in their membership and conservative in their politics. Social equity and cohesion were clearly not at the top – or even near the top – of the agenda (although there were exceptions, such

as the business class in Charlotte, North Carolina and their commitment to presiding over a stable integration process in the wake of the civil rights movements, partly so that Charlotte could position itself as an exemplar of the "New South."¹¹

In fact, the older and supposedly more rooted elites tended to focus on "business climate" – that is, diminishing the power of labor unions, minimizing government regulation, slashing taxes, and otherwise reducing the cost structure. We would argue that being more rooted in a closed economy actually helped produced the "zero-sum" thinking that yields such a narrow focus. But competition in the global economy is about more than low costs. It is also about attracting the best possible workers and the highest productivity firms, a task that is rendered difficult when a lack of social cohesion impedes appropriate investments in education, regional transportation systems, and affordable housing. As a result, business civic organizations have moved into broad issues such as workforce development, educational improvement, and regional land use.

The compatibility of equity and efficiency in the context of globalization finds intriguing support in an econometric study by Pastor (2001). In a regression exercise looking at the determinants of trade performance in seventy metropolitan regions in the United States, I found that those regions that had more equal distributions of income – as well as more foreign-born, a higher level of education, and a large urban core – tended to do better in international trade (Pastor 2001). Again, the explanation is related to the relative ease of achieving consensus: when everyone perceives a chance of winning,

¹¹ For more analysis of Charlotte and the role of the business class in supporting racial equity and inner city inclusion – and how this worked to further the interests of major regional bankers – see Pastor, et al. (2000: 140-145), Smith (1977), and Johnson 2002: 774-775).

engaging in international trade can be seen outside the “zero-sum” framework (see Rodrik 1997).

Is the orientation toward equity and cohesion beginning to change for business elites in the U.S., at least at the regional level? In a fascinating study of business civic organizations (FutureWorks 2004), the authors echo our theme above, suggesting that: "A new agenda has emerged for metropolitan regions across North America. At its center is a region where business leaders see clearly the link between how well their firms compete in global markets and how well their region promotes sustainable growth and economic opportunity for its citizens" (FutureWorks 2004: 3). Surveying 45 regional business-civic organizations in 29 different regions, the authors found that fully forty percent had strategies that had implications for reducing the sort of socio-economic disparities that we have argued above can diminish regional economic performance. Some were direct, such as those aimed at improving the economic conditions in poorer neighborhoods and reducing differences between urban and suburban school districts, but many were more implicit but nonetheless crucial to social equity and cohesion.

This is not an entirely new development. Saxeenian (1996) and Pastor, et al. (2000), for example, discuss the important role of the Santa Clara Manufacturing Group founded in 1977 (later renamed the Silicon Valley Manufacturing Group and recently rechristened the Silicon Valley Leadership Group), noting that they have lobbied for higher (not lower taxes) in order to fund public transportation, coalesced with community groups to lobby for affordable housing, and generally maintained a positive relationship with the public sector. But it is striking that this broader view was taken early in one of

the most regionalist and globalized of U.S. regions, the Silicon Valley, making the point that we might be looking at something new.

Several authors have tried to capture this new leadership under the term "regional stewardship" (Foster 2001, and Henton et al. 2004). As the Alliance for Regional Stewardship, a group created to promote such activities, notes in a study of regional civic business organizations, such stewards "work at the creative intersection of the inter-related issues of economic development, social equity, community livability, and participatory governance by leading initiative and building partnerships with other sectors and organizations" (ARS 2004: 5). But this sort of broad and inclusive role is not necessarily a natural one for business, and understanding that stewards are made not born may be critical to helping even more business leaders play a constructive role in regional equity efforts.

Transactions and Transformations

In taking on equity issues, I would argue that there are two levels of business buy-in, one being *transactional* and the other being *transformational*. *Transactions* refer to business deals in which actors realize previously unrecognized "win-win's" that can lead to what are deemed more socially equitable outcomes. A major example in this category is business investment in deprived communities – driven not by a sense of *noblesse oblige* but rather by a notion that profits are to be made in markets unseen by most entrepreneurs (see Porter 1995). *Transformations* refer to a broader change in business thinking such that equity and social cohesion become one of the maximands in business performance. A major example in this category is taking leadership in the promotion of affordable housing in suburban communities, something that leads business to align with

equity proponents, often at the expense of challenging both wealthier communities and the broad pattern of urban sprawl that reflects economic and racial segregation.

These two levels of engagement are not disconnected: as game theory would tell us, repeated transactions can lead to relationships and hence a transformation in the actors in question. That is, preferences toward equity (as well as implicit models about how equity and cohesion interact with economic gains) are not fixed. As strategic interactions accumulate so does trust in the actors on the other side of the table – or at the least, a sense that doing right by the other actors will, in a second round of negotiations, lead to a fairer outcome for those who once had the upper hand.¹² Conducting transactions, for example, around the development of key inner city neighborhoods can lead to new relationships between business leaders and community developers that can, in turn, lead to broader agreement on both the positive contribution of fairness and the commitment of business to inclusion and equity.

What would we put under the category of *transactions*? The classic example is the Michael Porter's emphasis on the competitive advantage of the inner city and the unrealized profits there to be garnered. It is also the spirit behind the so-called "new

¹² See Fehr and Schmidt (2004) in which they report on a series of experiments in which students are asked to determine trade-offs between efficiency and equity. Two results are particularly salient. First, economics students tend to value efficiency much more than non-economist, suggesting that the ranking of efficiency above fairness is a learned behavior. Second, when students are first asked to play the Ultimatum game – one where a series of other studies have show a tendency to learn to propose fairer outcomes for reasons that still baffle economist expecting maximizing behavior – there is a significant change for economists in terms of the value attached to efficiency (and a smaller and less significant change for the non-economists who were already exhibiting a tendency to fairness). For more on what experiments tells us about fairness, see the review in Thaler (1988) and Rabin 1993). It is interesting that when I have utilized such experimental games in course, those students choosing fairer deals tend to make more deals – and hence more money – with the result especially strong when the interactions are face-to-face rather than through anonymous bids. This is consistent with the earlier theoretical propositions regarding a positive relationship between equity and efficiency at a regional level where business and other interactions are repeated and personal.

markets" approach in which policy makers have argued that there is untapped economic potential, particularly in terms of retail sales, in America's underserved communities (USHUD 1999, Boston Consulting Group 1998, Nowak 1997). In both cases, the arguments rely on informational gaps, perhaps accompanied by racial and other bias, in market transactions: if only investors knew about the unrealized retail (due to, say, the density of consumers despite lower incomes) or the skill and commitment of the workers and suppliers in inner city communities, they would be willing to make substantial investments.¹³

This is an argument not reliant on altruism but profit – and it is a powerful lure. A new literature and practice has emerged around a "double bottom line" – a notion that there are opportunities to make both money and social progress. There are significant early examples, such as Detroit Renaissance, a nonprofit organization which included major business players and sought the revitalization of the downtown where such businesses were headquartered, and Shorebank, a Chicago-based financial institution that has helped pioneer a new approach to lending in areas once ignored by major banks and recently moved into promoting retail development (Wiessbourd and Bondini 2005: 19-20). But the banner of this transactions-led approach has been significantly taken up in recent years by the Initiative for a Competitive Inner City (ICIC) and its promotion of the strategic assets of inner city communities, including the celebration of home-grown

¹³ USHUD (1999: 9) notes that Sears and Roebucks found that its center city stores had sales that were three times that of its nation-wide store average. The Boston Consulting Group (1998) attributes the failure to invest to "bad strategy" but surely past perceptions, informed to some degree by biases, play a role. See Blackwell and Fox (2004: 15) and Funders' Network (2005: 82-88) for a discussion of the Market Creek Plaza project in San Diego; this inner-city revitalization was actually led by a local set of philanthropists but had at its core the attraction of new retail.

companies and a thriving set of consultations helping forge matches between investors and communities.¹⁴

As important as these transactions may be, there is what might be thought of as a higher or deeper level of action. To consider this, think about the typical prisoner's dilemma sort of game applied to an inner city neighborhood, specifically one where potential investors may face community leaders concerned about maintaining "local" control (and motivated by an anti-business attitude due to a perception of past business discrimination or neglect). In the absence of information about consumer purchasing power and labor skills in a particular community, investors will tend to eschew rather than raise investment while the community "players" may choose to resist rather than welcome outside investors. A "double bottom line" strategy brings the players so that they can move out of the "lose-lose" corner and into the "win-win" corner of a solution box.

But a more important transformation is when business takes a lead when the "win-win" is neither so obvious nor so short-term. Consider, for example, the example of a tax increase to, say, improve the educational outcomes or workforce skills in a community, a case where the results are more diffuse (it will benefit business in general and not a particular retail investor in particular), more long-term (the benefits will come years in the future), and more uncertain (if the region continues to slump perhaps the newly educated or newly trained will move away). Business thus has reason to move to a short-term strategy of resisting the tax burden while the community players might be too eager

¹⁴ Another interesting effort, more analytical in its approach, is the Urban Markets Initiative of the Brookings Institution's Metropolitan Policy Program. See also the work by State Treasurer Phil Angelides in California.

to raise issues for very similar reasons: keeping the tax burden low is diffuse (it could help the economy but cause spending declines that hurt particular constituencies), long-term (the benefits of the induced economic growth come much later), and uncertain (business may choose to move after they have thrived in the region that gave them tax incentives). Finding the point where there is the trust to collaborate – and the willingness to determine the right tax burden and its phasing – requires a whole new way of doing civic business.

It is exactly this new approach to civic vitality that is called for by the Alliance for Regional Stewardship, Metro BusinessNet, the California Center for Regional Leadership, and a variety of other business-friendly groups promoting the new regionalism. Often labeled "inclusive stewardship," it seeks to combine the imperatives of an "innovative economy," "livable communities," "social inclusion," and "collaborative governance." (ARS 2003). The notion is that innovation is necessary to stir growth, livability is important for attracting high-skill workers, social inclusion is necessary because of the equity-efficiency complementarity, and collaborative governance is key to generating the mutual understandings that will lift regional economies from zero-sum politics to the sort of mutual and repeated interactions and long-term "win-win" outcomes that can result from improved communication. ARS (2003) labels this process a "cycle of trust" in which compatible interests are discovered, common purpose is found, and continuing negotiations work groups through inevitable setbacks and conflicts – exactly the sort of *transformation* we have identified above.

The U.S. is now host to several efforts that exemplify this new and broader approach. For example, the Bay Area Council, a major business group in Northern

California, sponsored a study identifying the most impoverished neighborhoods in the San Francisco region and then launched a Community Capital Initiative that is self-described as "a regional effort to attract private investment into the poorest neighborhoods in the Bay Area to tackle poverty with market-based solutions and, simultaneously, to promote smart growth."¹⁵ The Council has also helped lead the charge for affordable housing in the region, responding in part to the problem of overpriced housing for even higher-skill engineers but acting to remove the NIMBY (not in my backyard) localism that is typical of fragmented governance. Along the way, the Council helped form the Bay Area Alliance for Sustainable Communities, a "boundary-crossing" leadership group that has coupled business, community, and environmental leaders in new dialogues about the future of the region.¹⁶

In Chicago, the Commercial Club, a business group, helped launch Chicago Metropolis 2020, an effort that seeks to address broad regional problems. Chief among them is affordable housing and jobs-housing mismatch, and, under the slogan "One Region, One Future," the organization persuaded 100 of the region's largest employers to sign a pledge to including the availability of housing and public transportation to the checklist used when making business location decisions. Interestingly, as this group moved forward, it also added to its membership community, labor, and other leaders, in essence moving to a more collaborative model.

¹⁵ See <http://www.bayareacouncil.org/atf/cf/{2F567EB5-67C0-4CDA-9DD3-EC4A129D3322}/CCIIbrochure>.

¹⁶ This organization was previously named the Bay Area Alliance for Sustainable Development. For a copy of their *Compact for a Sustainable Bay Area*, see <http://www.bayareaalliance.org/compact.pdf>

One of the early exemplars of regionalist efforts, *Joint Venture: Silicon Valley Network*, illustrates the transformations that are possible. Originally formed in 1992 to help Silicon Valley business leaders identify new agendas to restore regional competitiveness in the wake of cutbacks in federal defense spending (which had large impacts on the regional high-technology economy), it has since morphed into an organization that coordinated a broad multi-sectoral visioning exercise, *Silicon Valley 2010*, that lifted up equity as among the region's key concerns. Since then, the group has maintained its pro-business agenda, arguing for unified building codes, supporting high-tech firms, and lobbying local and state government re other traditional strategies, but it has also worked for reductions in disparities of academic performance as well as for enhancements in job training programs.

Perhaps most significantly, *Joint Venture* has both steered clear of the usual business conflicts over measures like "living wage ordinances" (which, in fact, seem to have a significant impact on reducing poverty at minimal costs in terms of output; see Neumark 2002), leaving that stale debate to the more traditional Chambers of Commerce, and begun to include various equity measures (including the geographic concentration of poverty, growing income disparities between low- and high-income households, differences in health coverage by race and income, and gaps in Hispanic academic performance) in its annual indicators report, the *Index of Silicon Valley*. The latter is key: including equity measures in a report traditional focused on which industry clusters are thriving has led to a new level of policy attention. That which is measured is noticed – and that which is noticed is often targeted, particularly by regions seeking to market themselves to global investors.

Other examples include the St. Louis Regional Chamber and Growth Association, which has sought to link the development of biotech industry cluster with development of the central city and the preparation of inner city youth for careers in the industry. The Greater Washington Board of Trade, a regional chamber of commerce, has introduced social equity as both an indicator and a goal for the competitiveness of the region (FutureWorks 2003: 9). The Gateway Cities Partnership, centered in some of the most distressed inner ring suburbs adjoining Los Angeles, has brought together local business leaders for an agenda focused on improving resident educational level, redeveloping brownfields, and stirring economic growth that will offer general benefits. In Canada, the Toronto City Summit Alliance is launching programs to improve employment access for immigrants, working with the United Way to stir development in the cities poorest neighborhoods, and collaborating with others on a affordable housing campaign (FutureWorks 2004: 16-17).

Business does not always need to lead but can often partner under the leadership or initiation of others. In San Antonio, Texas, for example, it was a set of community-based interfaith groups that launched the idea behind Project QUEST, a regional job-training program for disadvantaged workers but business soon saw the benefits and come on board. In Milwaukee, unions led on the Wisconsin Regional Training Partnership, a group that improved skills in the metal-working industry and helped to retain good jobs in what has often been an economically ailing Midwest. In Los Angeles, a conflict between community groups and business over city subsidies for the creation of a new studio for DreamWorks then led to Workplace Hollywood, a non-profit focused on

training inner-city youth and other residents for employment in Southern California's important entertainment industry.

The philanthropic sector can also be helpful. One of the most interesting examples is in Northeast Ohio, a region that has been associated with industrial decline. Recent years have seen the emergence of the the Fund for Our Economic Future, a group spearheaded by the philanthropic sector (both private and corporate) that has enjoyed wide business participation. Its mission: "to encourage and advance a common and highly focused regional economic development agenda that can lead to long-term economic transformation in ways that recognize the importance of core cities, inclusion/diversity, and quality of life." Founded in 2004, it includes programs to support new business clusters, and is aiming to create new cross-sector and cross-geography conversations about the future of the region, ones that may lead to both real investments and real transformations in leadership and outcomes.

In short, there is both reason for hope and examples of success. There are, of course, challenges ahead and we detail these in the conclusion. For now, Figure 1 (included at the end of the text) provides a list of both the signals and strategies around both social separation and social cohesion. As can be seen, there are numerous markers by which to judge a region – many of them used in the indicators projects adopted by some of the organizations detailed above. There are also numerous strategies, some that rely on the sort of *transactions*-driven approach around particular projects (like investing in inner city retail or agreeing to community benefits agreements on major public-private projects) but also many that are based on a notion of *transformational* business leadership

– that is, leadership that focused on the broader regional environment and strives to shift both public policy and private behavior in more positive directions.

<insert Figure 1>

The most important of these transformations, however, may be the sort of "boundary-crossing" leadership we highlight above – getting into ongoing conversations with equity actors can humanize those on both sides of the usual bargaining table and lead to increasing areas of common ground. To the extent that conferences like this encourage this understanding of the interrelationship of economic vitality and social cohesion, they contribute to that task – but practice, as we all know, is filled with challenges and contradictions, a point we take up below.

CONCLUSION: AS STRONG AS THE TEAM?

The central messages of this paper would seem to be hopeful: there is new evidence emerging that competitiveness and cohesion are mutually reinforcing, at least a regional level, and there are also new efforts emerging that demonstrate that regional business leadership is both getting the message and acting on it in ways that go beyond immediate self-interest. While there is much more research that needs to be done and many more strategies and "best practices" that need to be examined and developed, there are emerging guideposts for the future and a sense of excitement for those trying new experiments in the U.S. regions I have highlighted.

There are, of course, gaps and contradictions that must be taken into account. For example, while we have discussed the interactions of this cohesion-vitality couplet with the ongoing processes of globalization, the comparative or international dimensions of

FIGURE 1.
SOME SIGNALS AND STRATEGIES FOR
COMPETITIVENESS AND COHESION

	<i>Social Separation</i>	<i>Social Cohesion</i>
<i>Markers and Markets: Factors That Lead to Separation or Cohesion</i>	<ul style="list-style-type: none"> • Residential segregation by race and class • Pockets of poverty and unskilled workforce • Lack of retail in inner city communities • Private transportation with poor city-suburb connections • School systems with large disparities in test scores and amenities • Environmental disamenities distributed by race and class • Significant gentrification and displacement due to "successful" redevelopment • Public infrastructure with few localized benefits • "Zero-sum" politics and focus on "business climate" 	<ul style="list-style-type: none"> • Expanded mix-income housing opportunities throughout region • Minimal city-suburb gaps and high levels of basic skills • Investor interest in meeting retail demand • Regional transportation systems with mix of public and private • School systems committed to improvement in resources and outcomes in all communities • Adequate open space opportunities for all communities • New opportunities for local home ownership for long-time residents of distressed communities • Public infrastructure that includes local ties and benefits • Business leadership for broader social good and environmental sustainability
<i>Policies and Strategies: Methods to Generate Separation or Cohesion</i>	<ul style="list-style-type: none"> • Fiscal segregation and reliance on local retail sales taxes • Privatized job training programs that are only employer-based • Lack of inner-city investment programs and no requirement on hiring or contracting • Fragmented transportation authorities and reliance on highways • Multiple school districts and uneven financing • Environmental planning focused on aggregate measures • Urban renewal programs aimed mostly at attracting new middle class residents • Subsidies for public investment with no accountability goals • Specific sectoral leadership groups with limited indicators for success 	<ul style="list-style-type: none"> • Regional tax-sharing with programs to benefit low-capacity areas • Employer consortiums with community partners to improve workforce skills • Partnerships to generate retail investment in central cities, including minority business development • Unified transportation planning across jurisdictions, and support for public transit • Fewer or coordinated districts and adequate targeted funding • Environmental targets for "hot spots" and brownfields redevelopment • Equitable development strategies that promote both mixed-income and residential stability • Community benefits agreements between business and communities • "Boundary-crossing" leadership groups with broad measures to judge region

this have not been highlighted here. This is partly because of focus and expertise – as well as the desire to keep some degree of control in terms of the social milieu in both our quantitative and qualitative comparisons (that is, looking at different regions in different countries with very different histories in terms of preference and attention to social equity can render any general comparative conclusions about, say, the equity-output relationship more far-reaching but also more problematic).

But to truly make a general case, we need to develop a more substantial base of cross-country comparisons, ones that can tell us how, when, and why business engages in the realms of social cohesion and social equity. One important area to study, of course, is the European Union, a place where "social cohesion" has become an important policy buzzword. But particularly important in the current periods would be understanding these dynamics in the developing world where the immediate demands of development have sometimes led to a tendency to put equity concerns to one side. At the same time, we know of many regions in the world – Porto Alegre and Kerala, for example – where the record on inclusion seems to be strong. Even in places not well known for their historic record on equity, there are interesting examples of change, including the development of the *Progres*a anti-poverty program in Mexico and the recent comments of Mexican magnate Carlos Slim, Latin America's richest businessman, that "We have to fight poverty for ethnical reasons, but also for economic reasons."¹⁷ Understanding the role of business in the developing world and understanding the conditions under which developing country business classes undergo the

¹⁷ Slim also suggested that "economic stability (i.e., an free market economic strategy) is a policy instrument, not an objective." The quotes come from a speech given by Slim; see Mark Stevenson, "Reducing poverty good for Mexico," *San Jose Mercury News*, September 8, 2005, p. 21A.

"transformations" noted above would seem to be important and worthy of further research.

Another area for further work is also tied to the global dimension. While we have highlighted here how capital mobility can lead a region to market its human and social capital, it is also true that there is a pressure for cost-cutting – were this not the case, WalMart would not be both the massive corporation that it is nor would it pose what many see as a threat to livable wages. While cost-cutting can be achieved through either improving productivity or slashing payments to inputs, it requires far more social coordination to pursue the productivity-enhancing “high road” to competitiveness than to pursue the “low road” offered by wage cuts and lessened environmental protection. Understanding the social and economic conditions under which firms hunker down for the long-term and forge compacts with their workers and their communities is important for both research and policy.

It is also important to consider the importance of developing assets in multiple communities. In the U.S., for example, race is an important determinant of both social outcomes and wealth – and assisting the development of new minority businesses can broaden the stake in the society, resolve employment dilemmas (given the tendency to hire co-ethnics), and contribute to a vibrant network of supplier firms to major industrial clusters. This inter-ethnic inclusion in the development of wealth is a different sort of social cohesion but it is one that is important in many multi-ethnic societies, and is increasingly relevant to developments in Europe with regard to an increased level of immigrants and their families.

A final issue to consider is the relative balance of social forces and the necessity for such forces to be in contention. That is, there may be a tendency to take the comforting possibility that equity and efficiency are linked and listen to the heartening stories of business transformations, and assume that collaboration and not conflict will be the order of the day. In fact, business sometimes needs pressure – from unions, from communities, from consumers, and from government to do the right thing. Some of the stories celebrated began with intense differences in opinion between actors, as when community pressure to revoke a subsidy to the DreamWorks studio in Los Angeles led the firm to make a commitment to the development of training programs for minority youth, a commitment kept even when the firm decided to forego studio construction and hence the subsidy. Similarly, Project QUEST was launched by community activists interested in improving labor market outcomes for the poor, and it is often the clamor of disadvantaged communities – and regulations such as the Community Reinvestment Act that has forced U.S. banks to provide more services and loans in underserved communities – that first helps business understand the profits to be made in inner cities.

Social cohesion, in short, does not mean the absence of class interests, ethnic differences, and economic conflicts (or the end of the Tiebout-style decisions about housing choices that often leads to municipal fragmentation). However, it does mean coming up with new methods of negotiation and collaboration to find areas of common interest – as well as new rules and policies that can help raise the attractiveness of the potential "win-win" outcomes we have emphasized. And it suggests that business leaders may need to exercise both patience and understanding as they "cross boundaries" and find new partners in the struggle for both economic competitiveness and social equity.

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