NO. 93 FALL 2016

Tracking Philanthropic Support for Community and Economic Development: New Research from Two Federal Reserve Banks*

By Keith Wardrip, Community Development Research Manager

How many grants do large foundations direct towards community and economic development (CED) activities? What kinds of activities are supported with these funds? Which metro areas receive the most philanthropic support and which receive the least?[1] And why do some metro areas receive more than others? These are the questions that researchers at the community development departments of the Federal Reserve Banks of Philadelphia and Atlanta answer in newly completed research.[2]

Data and Methods

At the crux of the analysis was a national data set acquired from the Foundation Center that included grants of at least $10,000 made by the 1,000 largest foundations in the U.S.[3] Grants that the Foundation Center coded in accordance with the definition of CED set by the Philanthropy Classification System (PCS) were included in the study as a starting point. This definition, however, was deemed too narrow for the purposes of the study, so a subset of grants that fit under other broad PCS categories (such as education, health, and human services) was also included. The researchers attempted to exclude grants to recipients with service areas extending beyond the borders of their metro area and grants that funded research and policy work. This was done to capture only grants deployed in the metro area in which they were received to improve conditions for low- and moderate-income communities.[4] The study period covered the years 2008 through 2013.

With the data set properly defined, the next step in the analysis was to calculate the number and volume of grants that flowed to each metro area in the study. Because the research was motivated by a desire to understand which characteristics, if any, seemed to be associated with the level of philanthropic support going to metro areas, a series of regression models was developed that could isolate the effects of certain metro area characteristics on grant receipt. Two measures were developed to assess grant receipt in the 366 metro areas

* The views expressed here do not necessarily represent the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

[1] "Metro area" is used throughout this article to refer to metropolitan statistical areas (MSAs). The 366 metro areas defined by the Office of Management and Budget in OMB Bulletin No. 10-02 (December 2009) were used in this analysis.

[2] The research summarized in this article has been accepted for publication in the *Foundation Review* and will be made available online in the fall of 2016 at http://johnsoncenter.org/resources/thefoundationreview/. The full citation is Keith Wardrip, William Lambe, and Mels de Zeeuw, "Following the Money: An Analysis of Foundation Grantmaking for Community and Economic Development," *Foundation Review*, 8 (Special Issue: Future of Community) (2016).

[3] The largest foundations are determined annually based on their level of giving. Refer to http://data.foundationcenter.org/ for more information on data available from the Foundation Center.

[4] Specifics on the PCS's definition of CED can be found at http://taxonomy.foundationcenter.org/subjects, and more information on the types of grants that were included in this analysis is available in Wardrip, Lambe, and de Zeeuw (2016).

FEDERAL RESERVE BANK OF PHILADELPHIA

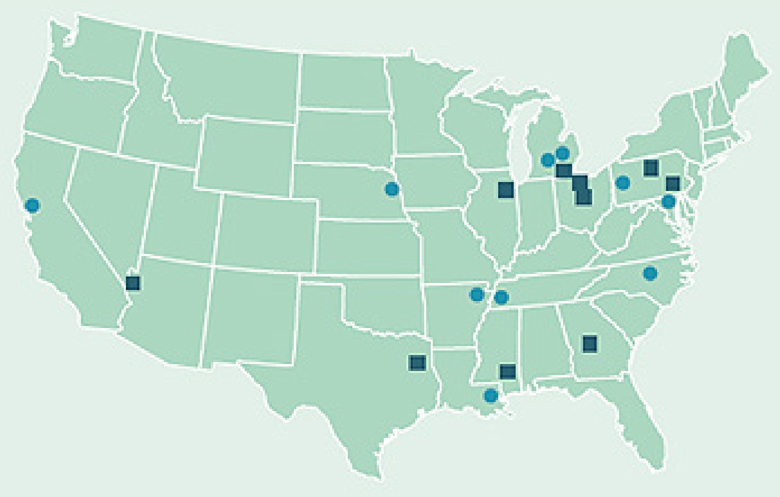
in the U.S.: grant volume per capita and the number of grants per 10,000 residents. Because these measures adjust for the size of the population, each one allows for the comparison of grant receipt across metro areas regardless of their size.

Findings

Between 2008 and 2013, nearly 169,000 grants totaling almost $15 billion were directed by the largest foundations to support activities that aligned with the broad definition of CED used in this study. Independent foundations distributed the majority of the total volume (67 percent), with most of the remainder nearly evenly split between corporate (16 percent) and community (15 percent) foundations.[5]

In terms of the activities funded by the grants, education (30 percent) and core CED activities (29 percent) accounted for roughly three-fifths of the grant volume, with human services (18 percent) and health (10 percent) capturing significant shares as well.

Figure 1: Top 10 and Bottom 10 Metro Areas as Measured by Grant Volume Per Capita



PER CAPITA RANKINGS

TOP 10

Rank	Metro Area	Grant Volume Per Capita
1	Battle Creek, MI	$392.59
2	San Francisco–Oakland–Fremont, CA	$216.79
3	Omaha–Council Bluffs, NE–IA	$214.78
4	Jonesboro, AR	$157.80
5	Pittsburgh, PA	$157.13
6	Flint, MI	$150.75
7	New Orleans–Metairie–Kenner, LA	$144.63
8	Washington–Arlington–Alexandria, DC–VA–MD–WV	$142.64
9	Durham–Chapel Hill, NC	$140.81
10	Memphis, TN–MS–AR	$132.68

BOTTOM 10

Rank	Metro Area	Grant Volume Per Capita
357	Monroe, MI	$0.56
358	Mansfield, OH	$0.49
359	Lebanon, PA	$0.47
360	Warner Robins, GA	$0.32
361	Kankakee–Bradley, IL	$0.32
362	Sandusky, OH	$0.31
363	Longview, TX	$0.24
364	Williamsport, PA	$0.18
365	Hattiesburg, MS	$0.17
366	Lake Havasu City–Kingman, AZ	$0.17

[5] Independent foundations are private foundations, but, unlike corporate or family foundations, they are not controlled by their benefactor. Grantmakers classified by the Foundation Center as operating foundations distributed the remainder of the grant volume analyzed in this study. For more information on independent, operating, and other types of foundations, see www.cof.org/content/foundation-basics.

One of the most interesting facets of this research is the distribution of CED grants and grant volume to recipients across metro areas in the U.S. Even after adjusting for the size of the population, the research indicates substantial variation among metro areas for both measures. Figure 1 shows the top 10 and bottom 10 metro areas in terms of grant volume per capita over the study period.[6] The Battle Creek, MI, metro area received nearly $400 in grant capital for every resident over the study period and was one of 18 metro areas for which grant volume per capita exceeded $100. At the other end of the spectrum, 18 metro areas received less than $1.00 per resident.

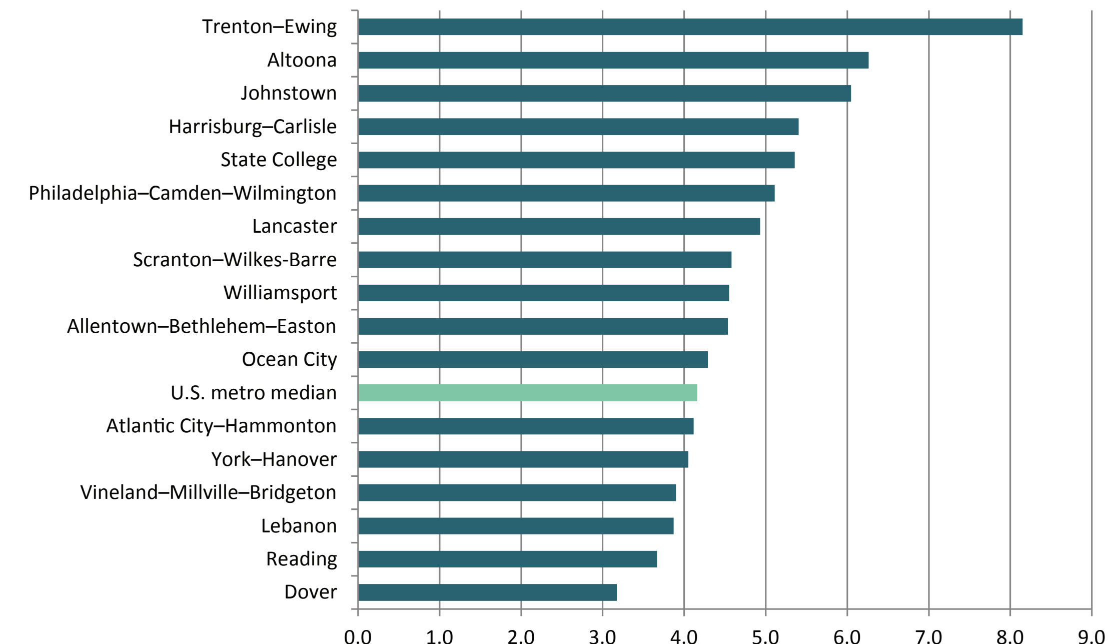
Metro areas located primarily in the Third Federal Reserve District exhibited a substantial amount of variation in grant volume per capita over the study period. The Trenton, Philadelphia, and State College metro areas outpaced the national median of $12.35 by wide margins and were ranked 50th, 56th, and 65th, respectively, among the 366 metro areas in this study. However, for seven of the 17 metro areas in the Third District, grant receipt totaled less than $5 per capita: As Figure 1 illustrates, the Lebanon, PA, and Williamsport, PA, metro areas ranked in the bottom 10 nationally. Relative to their geographic neighbors, these places were not able to attract a comparable level of grant support for CED activities from the largest foundations.

As mentioned previously, regression models were constructed to help identify the independent effects of certain characteristics on a metro area's level of philanthropic support. Taken together, the models suggest that five characteristics are associated with a greater level of grant receipt for metro areas:

1. *The presence of a large foundation.* Not surprisingly, the presence of one of the sample foundations in a metro area significantly increased the level of grant receipt that the metro area could expect.

2. *The density of the nonprofit sector.* Metro areas with a greater number of CED nonprofits per 10,000 residents received a greater level of philanthropic support than did places with a relatively smaller nonprofit sector. (See Figure 2 for information on the nonprofit density of the metro areas in the Third District.)

Figure 2. Average Number of Community and Economic Development Nonprofits per 10,000 Residents in Metro Areas



Source: Author's calculations using data covering the years 2008 through 2012 from the Urban Institute's National Center for Charitable Statistics Core Trend File for public charities and adjusted for population size using estimates from the U.S. Census Bureau's Population Estimates Program. CED nonprofits include those working in education; health; food, agriculture, and nutrition; housing and shelter; human services; and community improvement/capacity building.

[6] For the sake of brevity, the findings presented here focus on grant volume per capita. Findings for both grant volume per capita and the number of grants per 10,000 residents are addressed in the full article.

3. *The size of the metro area.* Even after adjusting the indicators of grant receipt for population size, metro areas with 250,000 or more residents had a greater level of per capita grant receipt than did places with a population below 250,000.

4. *The poverty rate.* Metro areas with a higher poverty rate tended to attract more attention from the largest foundations than did less impoverished metro areas.

5. *Geographic location.* Those metro areas located in the West benefited from philanthropic grants to a greater degree than did metro areas in the South. There was no significant difference in grant receipt between metro areas in the Northeast or Midwest and those in the South.

Implications

While the supply side of grantmaking is largely at the discretion of the foundations and little can be done about a metro area's geographic location or size, it is nevertheless within the power of communities to better position themselves for available funding by clearly articulating the demand for such grants. In "What Can Foundations Do to Foster Community Investment? 10 Roles for Philanthropy," Hacke, Wood, and Urquilla (2014) note that communities "often lack a systematic approach to organizing demand for capital and creating the conditions for its deployment" (p. 2). They argue that an effective community investment system is "characterized by *clearly defined community priorities, a transparent pipeline of feasible deals that help achieve those priorities* and *a supportive ecosystem*" (p. 3, emphasis in original) that includes regular communication among partners, as well as policies and regulations that facilitate the creation of good CED deals. The authors list 10 ways that foundations can help strengthen local community investment systems, including playing the role of convener, advocate, connector, data provider, and capacity builder.[7]

Thinking about capacity building specifically, it is worth noting that of the five metro area characteristics that are most strongly associated with a place's ability to attract grant capital, the nonprofit sector appears to be the one that could be most directly bolstered by local policies and partnerships. While the analysis uses the number of CED nonprofits as a proxy for the sector's strength, the sector's capacity to effectively apply for and utilize funding is likely more important (albeit more difficult to measure). Resources intended to strengthen both the size and the sophistication of the local nonprofit sector could pay dividends if the beneficiaries are ultimately better able to compete for grants from the nation's largest foundations.

Online Tool to Access Local Data

The Federal Reserve Bank of Atlanta has developed an online tool to share the data that were compiled for this research. For each of the metro areas included in the analysis, users can learn about the level of grant receipt over the six-year study period, see which types of activities were funded by these grants, and compare the relative size of a metro area's CED nonprofit sector and level of foundation assets with its peers (Figure 3). The tool can be accessed at www.frbatlanta.org/followingthemoney.

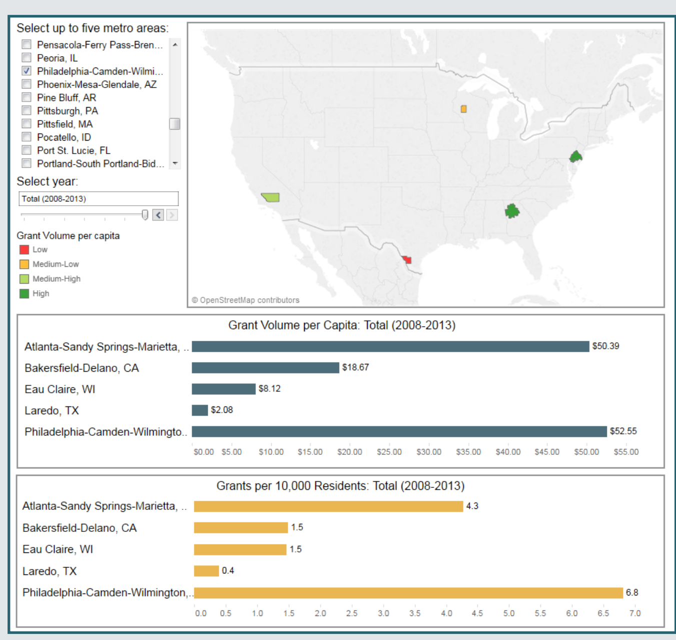


Figure 3. Federal Reserve Bank of Atlanta's "Following the Money" Online Tool.

[7] Robin Hacke, David Wood, and Marian Urquilla, "What Can Foundations Do to Foster Community Investment? 10 Roles for Philanthropy," Kresge Foundation and Initiative for Responsible Investment, Hauser Institute for Civil Society, Harvard University, 2014, available at http://kresge.org/sites/default/files/Foundation-roles-com-investment-121114-KF.pdf.

Limitations

Most research has its limitations, and this project is no exception. The most obvious is that the Foundation Center data set at the crux of this analysis includes only grants of at least $10,000 from the largest foundations in the U.S. Of necessity, then, the research had to exclude small grants from all foundations and all grants from small foundations.[8] By excluding many small community foundations with an intentional focus on local giving, the research misses grantmaking from some of "the foundations with the largest local impact."[9] As such, these research findings should be understood to reflect the ability of metro areas to attract CED grant capital from the largest foundations only and not from the universe of grantmakers.

Another important limitation is that not all of the metro areas included in the study were, in reality, "competitive" for all of the grants analyzed. The data set includes independent and corporate foundations that may direct their grantmaking to specific metro areas — their own or others — as well as large community foundations, which primarily make grants to recipients within their own geographic region.

Lastly, regression models cannot account for all of the characteristics that make a metro area more or less likely to receive CED grants from the nation's largest foundations. For example, the ability of local leadership (elected and otherwise) to create a vision for the community and to build relationships with foundation executives is likely instrumental in determining a metro area's level of grant receipt — but visions and relationships are extremely difficult to quantify.

Future Work

The research team plans to address some of the project's limitations as this work is extended. For starters, an attempt will be made to identify grants for which recipients in all metro areas were theoretically competitive. This would mean excluding grants from community foundations and others that make grants in select metro areas only. An analysis using this restricted data set would indicate whether the same characteristics described previously — the presence of a foundation, nonprofit density, size, and so on — also help explain which metro areas best "compete for" grant capital.

In addition to extending the quantitative analysis, there are plans to conduct rigorous qualitative research in metro areas in the Third District and possibly elsewhere. Interviews with representatives from the nonprofit sector will be used to shed light on the unquantifiable issues that affect a place's ability to attract grant capital and the role that both local and national foundations play in supporting CED activities.

[8] Even though the Foundation Center data set includes only large grants from the largest foundations, estimates available at http://data.foundationcenter.org suggest that the data set captured roughly 43 percent of total giving by all foundations in 2012.

[9] Page 4 in Eleanor W. Sacks, "The Growing Importance of Community Foundations," Indiana University, Lilly Family School of Philanthropy, 2014, available at https://philanthropy.iupui.edu/files/file/the_growing_importance_of_community_foundations-final_reduce_file_size_2.pdf.

MAPPING OUR COMMUNITY

THIRD FEDERAL RESERVE DISTRICT

Philanthropic Grant Funding for Community and Economic Development in the Third District*

By Kyle DeMaria, Community Development Senior Research Assistant

New York
Pennsylvania
New Jersey
Maryland
Delaware

Williamsport $0.18
Scranton–Wilkes-Barre $17.96
State College $48.14
Allentown–Bethlehem–Easton $11.40
Johnstown $11.71
Altoona $2.84
Harrisburg–Carlisle $21.88
Lebanon $0.47
Reading $13.55
Trenton–Ewing $54.33
Lancaster $8.26
Philadelphia–Camden–Wilmington $52.55
York–Hanover $2.11
Atlantic City–Hammonton $2.28
Vineland–Millville–Bridgeton $4.56
Ocean City $3.25
Dover $17.36

Community and Economic Development Grant Volume Per Capita, 2008–2013

$21.89 - $54.33
$13.56 - $21.88
$4.57 - $13.55
$0.18 - $4.56

$0 $10 $20 $30 $40 $50 $60

Trenton–Ewing
Philadelphia–Camden–Wilmington
State College
Harrisburg–Carlisle
Scranton–Wilkes-Barre
Dover
Reading
Johnstown
Allentown–Bethlehem–Easton
Lancaster
Vineland–Millville–Bridgeton
Ocean City
Altoona
Atlantic City–Hammonton
York–Hanover
Lebanon
Williamsport

Map source: U.S. Census Bureau.

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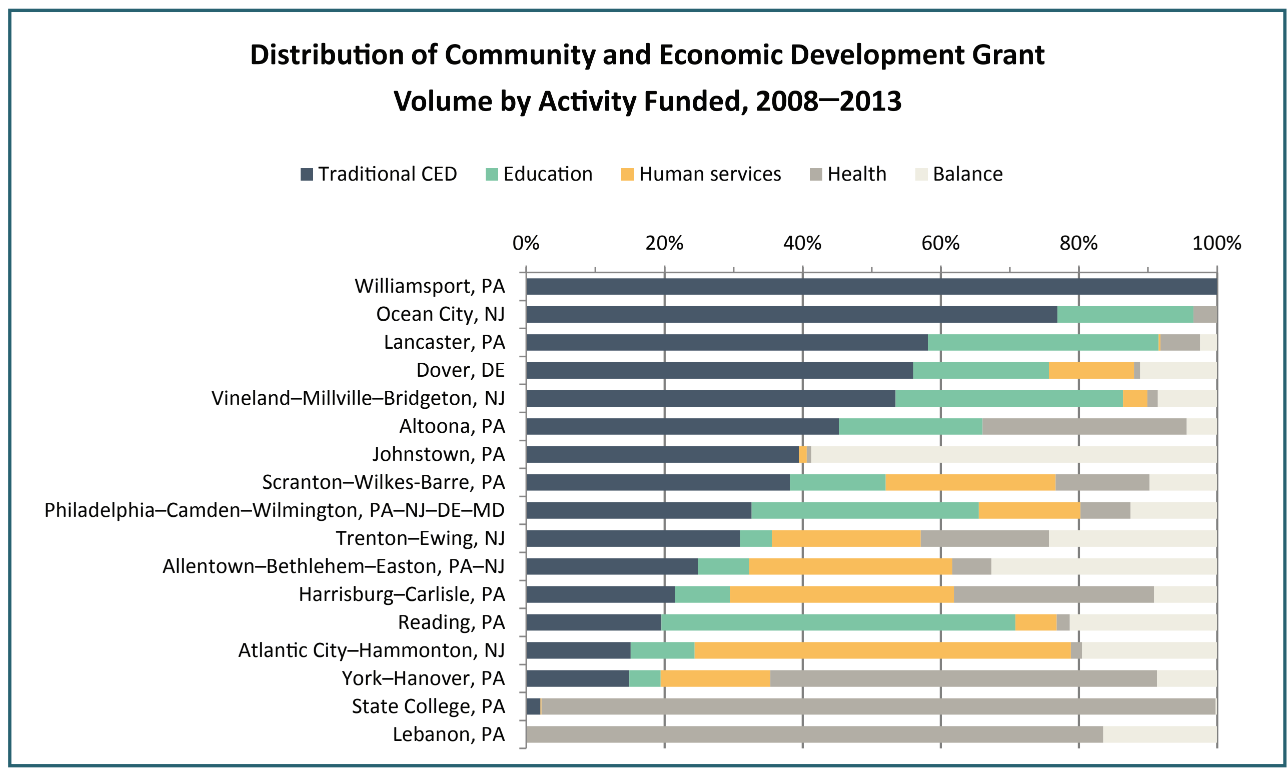
Along with public sources of funding, philanthropic capital can be a critical source of support for the community and economic development (CED) work of nonprofit organizations. Research by the Federal Reserve Banks of Philadelphia and Atlanta examined CED grants disbursed to recipients in U.S. metro areas between 2008 and 2013, and identified characteristics that help to explain the ability of certain metro areas to attract more philanthropic funding than others.[1] The authors examined grants for more traditional CED projects (e.g., housing rehabilitation, urban development, financial counseling, entrepreneurship), but also included a subset of grants for education, human services, health, and other projects consistent with the authors' definition of CED as actions that "improve the economic situation of local residents and local businesses … and enhance the community's quality of life as a whole."[2] Illustrating findings for metro areas located primarily in the Third Federal Reserve District, the map shows substantial variation in philanthropic support for CED activities ranging from $0.18 per capita in Williamsport, PA, to $54.33 per capita in Trenton–Ewing, NJ. Lebanon, PA, and Williamsport, PA, received the lowest per capita grant volume of the metro areas in the region, ranking eighth and third lowest amongst all metro areas in the nation, respectively.

Among the 17 metro areas shown on the map, four types of activities received the greatest volume of CED grant funding: traditional CED (32 percent), education (29 percent), human services (16 percent), and health (10 percent). In fact, as shown in the bar chart, these four categories collectively captured at least 60 percent of each metro's CED grant funding, with the exception of Johnstown, PA, where 49 percent was directed to public safety projects. Funding was disproportionately directed towards traditional CED activities (100 percent) in Williamsport, PA; education (51 percent) in Reading, PA; human services (54 percent) in Atlantic City, NJ; and health (98 percent and 84 percent) in State College, PA, and Lebanon, PA, respectively.



[1] The figures and estimates provided in this article were derived from research that has been accepted for publication in the *Foundation Review* and will be made available online in the fall of 2016 at johnsoncenter.org/resources/thefoundationreview/. The full citation is Keith Wardrip, William Lambe, and Mels de Zeeuw, "Following the Money: An Analysis of Foundation Grantmaking for Community and Economic Development," *Foundation Review,* 8 (Special Issue: Future of Community) (2016).

[2] Because of the scope of the data set acquired from the Foundation Center, Wardrip, Lambe, and de Zeeuw only considered grants of at least $10,000 from the nation's largest 1,000 foundations; quote from Mihailo Temali, *The Community Economic Development Handbook: Strategies and Tools to Revitalize Your Neighborhood*. St. Paul: Amherst H. Wilder Foundation, 2002; quoted in Wardrip, Lambe, and de Zeeuw (2016).

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NO. 93 FALL 2016

Tackling Inequality in Our Cities*

By Gabriela Ramos, Chief of Staff, Sherpa to the G20, and Special Counsellor to the Secretary-General, Organisation for Economic Co-operation and Development (OECD), Paris, France [1]

We live in a world in which the rising tide of economic growth no longer lifts all boats.

Research by the Organisation for Economic Co-operation and Development (OECD) has shown that the last 30 years have seen people at the top of the economic ladder pulling away from those at the bottom. Today, the average income of the richest 10 percent in the OECD is around 9.5 times that of the poorest 10 percent, up from just 7 times 25 years ago.[2] Over the same period, the Gini coefficient, a commonly used measure of inequality, increased on average by some 10 percent in 21 OECD countries, from 0.29 to 0.32.[3]

Trends in Inequality

Over the last two decades, income inequality has increased in most OECD countries as well as in countries outside the OECD area, including Indonesia, China, and South Africa (Figure 1). Patterns differ significantly across countries, however. What is striking is that even countries with traditionally low levels of inequality saw their Gini coefficient rise between the mid-1980s and 2013 — by 14 percent in Denmark and Norway, compared with 25 percent in Finland and 38 percent in Sweden.

Other countries with higher initial levels of inequality also experienced an increase: 18 percent in the United States, compared with 7 percent in Mexico. A handful of OECD countries saw little change in levels of inequality, including Belgium, the Netherlands, France, and Greece. In some emerging economies, like Brazil, income inequality dropped during these decades, but from much higher initial levels.

In many places, the full extent of the growing chasm between rich and poor only truly becomes apparent higher up the income ladder. In the United States for instance, the share of pre-tax income going to the

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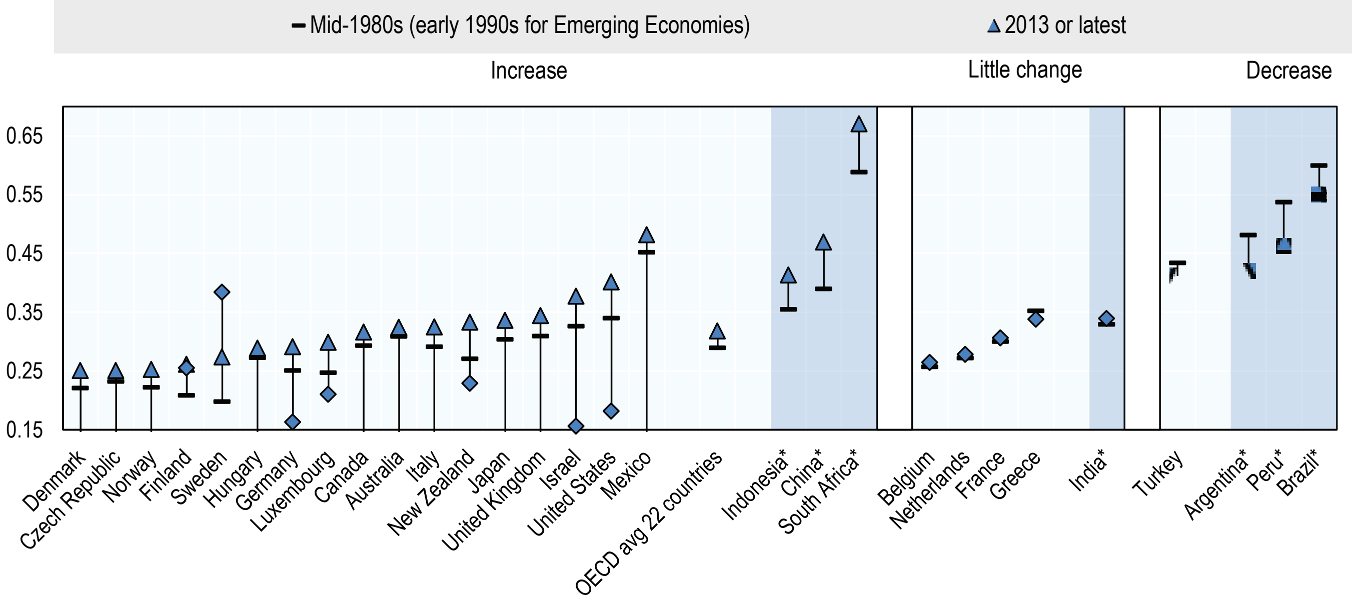
[1] The mission of the OECD is to promote policies that will improve the economic and social well-being of people around the world. The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems. The OECD works with governments to understand what drives economic, social, and environmental change, and measures productivity and global flows of trade and investment. The OECD analyzes and compares data to predict future trends and sets international standards on a wide range of things, from agriculture and tax to the safety of chemicals. With origins dating back to 1960, when 20 countries joined forces to create an organization dedicated to economic development, the OECD now has 35 member countries that span the globe.

[2] OECD and the Ford Foundation, *All on Board: Making Inclusive Growth Happen*. Paris: OECD Publishing, 2014, available at www.oecd.org/inclusive-growth/All-on-Board-Making-Inclusive-Growth-Happen.pdf.

[3] The Gini coefficient is a standard measure of inequality that measures the degree of concentration of income distribution within society. The Gini coefficient ranges from 0 (perfect equality) to 1 (all household disposable income going to one person); thus, the lower the Gini value, the more equal a society.

Figure 1. On average, income inequality increased across OECD countries

Gini coefficients of income inequality, mid-1980s and 2013, or latest date available



*Data for Argentina, Brazil, China, India, Indonesia, Peru, and South Africa (blue background) come from external sources and are not strictly comparable with the OECD Income Distribution Database data. The Gini coefficients are based on equivalized disposable incomes for OECD countries, and per capita incomes for other countries except India and Indonesia for which per capita consumption was used. Mid-1990s data for Peru and Indonesia refer to 1997 and 1996, respectively.

Notes: "Little change" in inequality refers to changes of less than 1.5 percentage points. Mid-1980s (early 1990s for emerging economies) refers to data from the period 1984–1986, with the following exceptions: 1983 for Belgium and Sweden, 1987 for Turkey, 1991 for Hungary, and 1992 for the Czech Republic. Data year for 2013 (or latest year): Data refer to 2014 for China; 2013 for Finland, Hungary, Netherlands, the United States, and India; 2011 for Canada, Chile, Israel, Turkey, and Brazil; 2010 for Indonesia; 2009 for Japan; and 2012 for the other countries. Also, equivalized disposable income is the total income of a household, after tax and other deductions, that is available for spending or saving, divided by the number of household members converted into equalized adults; household members are made equivalent by weighting each according to their age, using the so-called modified OECD equivalence scale. For more information, see http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Equivalised_disposable_income.

Source: OECD Income Distribution Database (IDD) (www.oecd.org/social/income-distribution-database.htm) for OECD countries; World Bank Poverty & Equity Data for India; National Socioeconomic Survey (SUSENAS) for Indonesia; Socio-Economic Database for Latin America and the Caribbean (SEDLAC) for Argentina, Brazil, and Peru; National Bureau of Statistics of China for China; and National Income Dynamics Study for South Africa.

richest 1 percent has more than doubled since the 1980s, reaching almost 20 percent in 2012. [4]

The Costs of Inequality

These rising inequalities bear a cost on economic growth. Recent OECD evidence suggests that rising income inequality and slow long-term growth go hand-in-hand through their negative impact on employment opportunities and human capital[5] accumulation by low-income families. And when persistent and entrenched inequalities prevent people from fulfilling their productive potential, there is a great loss of potential economic growth for society as a whole. The rise in inequality between 1985 and 2005 in 19 OECD countries enabled and even encouraged by pre-crisis economic approaches is estimated to have reduced cumulative growth by 4.7 percent between 1990 and 2010.[6]

Yet the full extent of the problem is greater still. Inequality is not just about income but extends into every area of our lives. Rising disparity in income has been accompanied by greater polarization in education outcomes, health status, and opportunity in employment, and these components of multidimensional well-being are often interconnected. Data from 14 OECD countries show that, on average, people with better education live six years longer than their poorly educated peers.[7]

However, national averages can hide significant disparities in income inequality and well-being across cities within the same country. Among the 153 metropolitan areas in 11 OECD countries considered, the Gini coefficients of disposable income vary between 0.26 in Linz (Austria) to 0.5 in Tuxtla Gutiérrez (Mexico).[8] Emerging OECD evidence suggests that larger cities tend to have higher levels of inequality: Cities like Copenhagen, Brussels, Paris, and Santiago all record the highest Gini coefficients in their respective countries (Figure 2).

Clearly, governments must move to address issues of inequality now, beginning where the need is most dire: in our cities.

Inequality in Our Cities

For the first time in history, the majority of people now live in cities, and 66 percent of the world population is expected to live in urban areas by 2050.[9] Yet, these hubs of economic activity and population growth are exactly where inequality is often most prevalent. Income inequality is higher in urban areas than elsewhere, and unemployment has been increasingly concentrated in large cities.[10]

Likewise, inequalities remain within cities in terms of access to quality education. For example, in the

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[4] Brian Keeley, *Income Inequality: The Gap Between Rich and Poor.* Paris: OECD Publishing, 2015, available at www.oecd-ilibrary.org/social-issues-migration-health/income-inequality_9789264246010-en.

[5] Includes the knowledge, skills, competencies, and attributes that allow people to contribute to their personal and social well-being.

[6] OECD, *In It Together: Why Less Inequality Benefits All.* Paris: OECD Publishing, 2015, available at www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm.

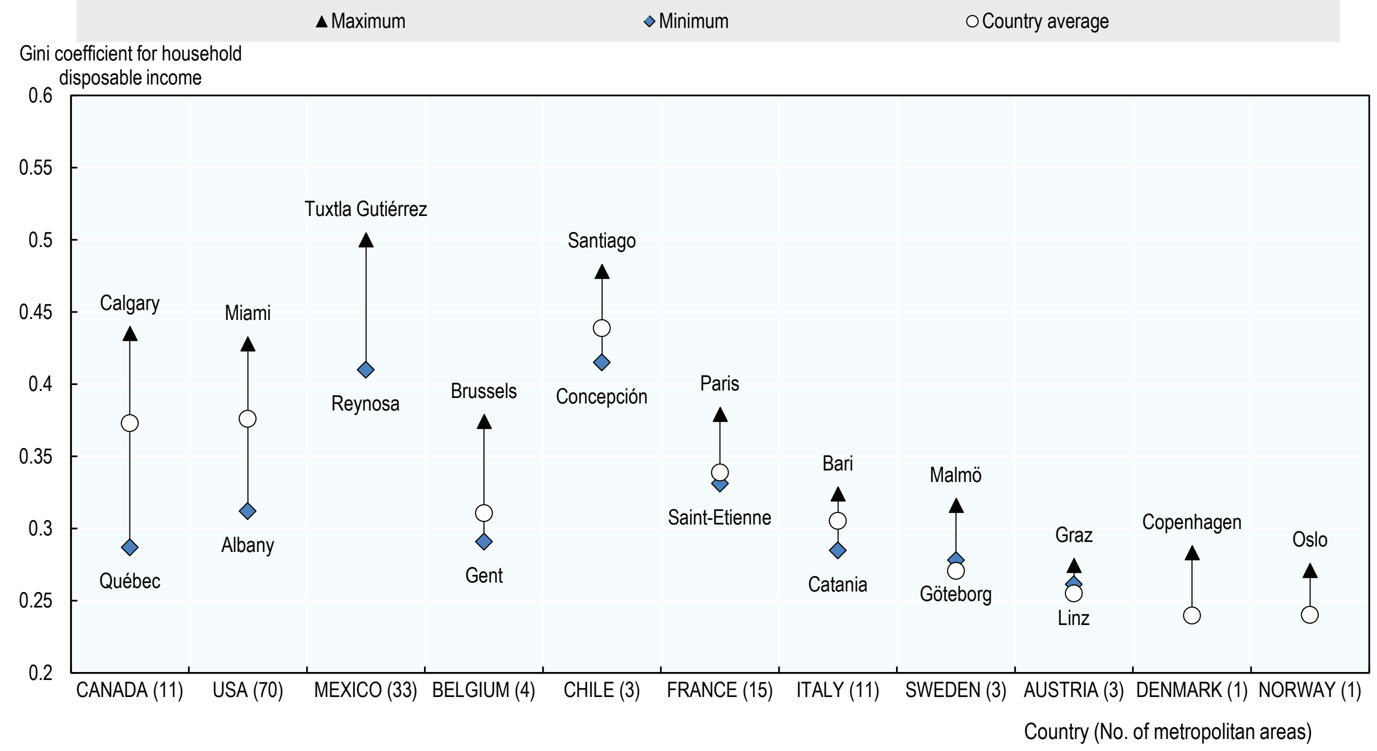
[7] OECD, *Health at a Glance 2013: OECD Indicators.* Paris: OECD Publishing, 2013, available at www.oecd-ilibrary.org/social-issues-migration-health/health-at-a-glance-2013_health_glance-2013-en.

[8] OECD, *Making Cities Work for All.* Paris: OECD Publishing, 2016 (forthcoming).

[9] United Nations, "World's Population Increasingly Urban with More Than Half Living in Urban Areas," UN News Center, July 10, 2014, available at www.un.org/en/development/desa/news/population/world-urbanization-prospects-2014.html.

[10] OECD and the Ford Foundation, *All on Board: Making Inclusive Growth Happen.* Paris: OECD Publishing, 2014, available at www.oecd.org/inclusive-growth/All-on-Board-Making-Inclusive-Growth-Happen.pdf.

Figure 2. Gini coefficients for household income in metropolitan areas, circa 2014
Metropolitan areas with minimum and maximum Gini coefficients, by country



Note: The national values of the Gini index are estimated using the same data sources employed for the metropolitan areas. They might be slightly different from values provided by national surveys. Data do not allow the national Gini index for Mexico to be provided.

Source: OECD, *Making Cities Work for All*. Paris: OECD Publishing, 2016 (forthcoming).

Chicago metropolitan area, school districts' high school graduation rates range from a low of 57 percent in the city of Chicago to over 95 percent in suburban areas.[11] In terms of health, too, the pernicious effects of inequality are particularly pronounced in cities, with life expectancy differing by a staggering 20 years across neighborhoods in places such as Baltimore and London.

If we do not act now, the socioeconomic divides found in cities today threaten to continue to widen, stunting growth and sowing distrust in these places most crucial to growth.

The good news is that targeted policies aimed at increasing both income and non-income–based living

[11] OECD, "The Productivity-Inclusiveness Nexus: Meeting of the OECD Council at Ministerial Level," Report, OECD, 2016, available at www.oecd.org/global-forum-productivity/library/The-Productivity-Inclusiveness-Nexus-Preliminary.pdf.

standards broadly across all social groups — what the OECD calls *inclusive growth* — can make a big difference. Such policies recognize equality as a core *driver* of growth, viewing equality and growth as complementary, rather than opposing, forces.

The OECD Inclusive Growth in Cities Initiative

In order for such policy to be crafted and implemented, local leadership is crucial, as the effects of inequality are very region-specific. Informed knowledge of local conditions can help policymakers identify potential synergies among competing objectives in a certain region and manage any trade-offs. Local and regional governments control many policy levers for promoting prosperity, well-being, and inclusive growth, as they carry out around 40 percent of total public spending and 60 percent of public investment in the OECD.[12] This is precisely why, in March 2016, with Mayor Bill de Blasio of New York City and 20 other mayors from around the world, the OECD, in collaboration with the Ford Foundation, launched the Inclusive Growth in Cities Initiative,[13] a global coalition of Champion Mayors for Inclusive Growth that has grown to include 50 mayors worldwide.

Already, mayors have taken the lead in recognizing the need for inclusive growth in their communities. For example, as Champion Mayor Kasim Reed of Atlanta seeks to extend the benefits of his city's tech growth to a more diverse set of residents, CodeStart — a partnership of a local incubator, the city's workforce agency, and a coding school — is providing disconnected youth greater access to entrepreneurship through mentorship networks, critical thinking skills, hard coding abilities, and financial literacy training.

In Montreal, Champion Mayor Denis Coderre is investing in integrating the people who can often be among the most vulnerable and marginalized in city life: newly arrived immigrants. He announced in February 2016 his intention to invest $945,000 per year in the Bureau d'Intégration des Nouveaux Arrivants à Montréal (BINAM), a bureau dedicated to the welcome and integration of immigrants. The creation of the bureau was precipitated by the arrival of Syrian refugees to the city, and since then BINAM has been working to absorb new immigrants beginning with their arrival in Montreal all the way through to the point of integration, including services relating to cultural integration and educational facilitation.[14]

Philadelphia Mayor James Kenney has been taking action on inclusive education.[15] In July 2016, Mayor Kenney designated the first nine "community schools" in Philadelphia — public schools in which a full-time coordinator works with the entire school community (students, parents, teachers, administrators, service providers, and neighbors) to identify the community's most pressing needs. Those needs often include expanded medical services, after-school programming, and job training. The initiative recognizes that access to education is about so much more than just putting a student in school. By meeting the needs of the whole child and the neighborhood in which the child lives, community schools better support students and families to address nonacademic barriers to success in the classroom like violence, hunger, and homelessness. Mayor Kenney plans to develop up to 25 community schools over the next four years.

But previously, mayors such as Reed, Coderre, and Kenney who were making efforts toward inclusive growth had no forum through which to connect and exchange

[12] OECD, *OECD Regions at a Glance 2016*. Paris: OECD Publishing, 2016, available at www.oecd-ilibrary.org/governance/oecd-regions-at-a-glance-2016_reg_glance-2016-en.

[13] See www.oecd.org/inclusive-growth/.

[14] OECD and Local Economic and Employment Development Programme (LEED), *Montréal Métropole De Talent: Pistes D'Action Pour Améliorer L'Emploi, L'Innovation, et les Compétences*. Paris: OECD Publishing, 2016.

[15] Mayor Kenney has been invited to join the global coalition of Champion Mayors for Inclusive Growth.

ideas. The Inclusive Growth in Cities Initiative seeks to bring these Champion Mayors together to enable city leaders to share their common resolve to make cities everywhere more inclusive.

This past March, 43 Champion Mayors signed on to the New York Proposal for Inclusive Growth,[16] which outlined four critical policy domains to promote inclusive growth in cities: 1) education, 2) labor markets and skills, 3) housing and the urban environment, and 4) infrastructure and public services. In November, Champion Mayors will convene in Paris for a second meeting to release the Paris Action Plan, which will detail a series of actionable items inspired by the principles of the New York Proposal.

In the wake of an economic crisis that has revealed that the traditional approach of unbridled growth with no eye toward inclusivity erodes both economic prosperity and societal trust, we must ensure that we include people from all walks of life in our narrative of growth. The time for action is now, and the place for action is in our cities. We grow together, or not at all.

[16] See www.oecd.org/inclusive-growth/about/inclusive-cities-campaign/new-york-proposal-for-inclusive-growth-in-cities.pdf.

Read the entire issue of *Cascade* at
www.philadelphiafed.org/cascade.

Habitat III: The Quest for Suitable Urban Development - Cascade: No. 93, Fall 2016

Explore This Section

Habitat III: The Quest for Sustainable Urban Development*

By Eugenie L. Birch, Lawrence C. Nussdorf Professor of Urban Research and Education, Department of City and Regional Planning, and Co-Director, Penn Institute for Urban Research, University of Pennsylvania; and Jane C.W. Vincent, Regional Administrator, Region III, U.S. Department of Housing and Urban Development

People are moving to cities for many reasons, but, in essence, they are moving for economic, educational, and social opportunities. By 2050, the United Nations (U.N.) projects that almost three-quarters of the world's population will call urban areas home.[1] The U.S. Census Bureau estimates that, in the same period, the nation's population will grow by 80 million people, 60 million of whom are likely to live in urban areas.[2]

While cities are rich with possibility, they are also the places where the challenges of income inequality, economic and racial segregation, and lack of affordability persist. How to overcome these challenges and create a path for sustainable development — a concept that means "development that meets the needs of the present without compromising the ability of future generations to meet their own needs"[3] — will be the topic of this year's U.N. Conference on Housing and Sustainable Urban Development, Habitat III, to be held in Quito, Ecuador, from October 17 through 20.[4]

Habitat III is an opportunity to think and act with a collective voice in the effort to create and sustain cities of opportunity. More specifically, Habitat III is an opportunity for the U.S. to leverage the collective expertise of those addressing sustainable development globally and establish shared priorities domestically.

International Convening to Promote Sustainable Urban Development

Habitat III differs from the preceding Habitat conferences, Vancouver (1976) and Istanbul (1996), with its attention on the integration of civil society stakeholders in the preparations leading up to the conference and its focus on implementation as the ultimate goal of the Quito event.

This conference, which happens once every 20 years, will be the first U.N.-wide conference convened after the approval of two important global agreements: the 2030 Agenda for Sustainable Development with 17 sustainable development goals, including one focusing on creating safe, inclusive, resilient,

and sustainable cities; and the Paris Agreement, a legally binding contract to address global warming. For its part, Habitat III will produce a New Urban Agenda, an outcomes-based document that outlines aspirations for reaping the benefits of urbanization while addressing its challenges.

The New Urban Agenda,[5] as a U.N. document, will represent a broad global consensus about policy directions for the next 20 years that member states can use to guide their own domestic policies and participate in international aid programs. It will recognize that urban areas contain 54 percent of the world's population, rising to 60 percent or more by 2030; generate 70 percent to 80 percent of the global domestic product (GDP); and account for 70 percent to 80 percent of energy consumption and greenhouse gases.[6] In the U.S., whose population is 83 percent urban, the contributions of metropolitan areas to GDP and energy consumption match these global figures. The New Urban Agenda will identify challenges to be addressed, including poverty and inequality, environmental degradation, and barriers to economic productivity.

In the U.S., the federal government and civil society stakeholders have been active in preparations for the conference, which have been underway for more than two years. In December 2014, the U.S. Department of State, in partnership with the U.S. Department of Housing and Urban Development (HUD), launched a multistakeholder national committee to help shape the arrangements for the conference. More than 40 agencies and organizations, ranging in size and geographic footprint, are participating in the U.S. National Committee for Habitat III, which is chaired by HUD Secretary Julián Castro.[7]

The committee has developed a three-part program to heighten awareness of and ultimately strengthen U.S. participation in Habitat III, including a national campaign to convene regional conferences throughout the nation; a global conversations seminar series taking place in Washington, D.C.; and amplification of the U.S. national report submitted to the U.N.[8]

In fulfilling its commitment to facilitating a dynamic and inclusive preparatory process, HUD's regional offices and partners convened five regional conferences in Chicago, Denver, Miami, Philadelphia, and El Paso, TX, from March to July 2016. Among other things, feedback from the conferences was shared with the U.S. Department of State and integrated into the final version of the U.S. National Report for Habitat III. The feedback also helped shape the U.S. statement on the floor of the U.N. in June that called for the New Urban Agenda to be an action-oriented document focused on correcting social, economic, and environmental imbalances, yet supporting equality, prosperity, and eco-friendly development.

Philadelphia Gathering to Set Regional Priorities

In Philadelphia, approximately 150 individuals attended "The City We Want & Need: A Mid-Atlantic Regional Convening on Habitat III,"[9] which was co-hosted by HUD's Philadelphia and New York

Regional Offices and the University of Pennsylvania's Penn Institute for Urban Research and Perry World House. The event, which was held at the University of Pennsylvania on May 17, 2016, included three keynotes; three interactive panels; and closing comments from Nancy Stetson, the U.S. Department of State's special representative for global food security and the lead U.S. negotiator on Habitat III.

In a keynote address, Amy Liu, vice president and director of the Metropolitan Policy Program at the Brookings Institution, emphasized the necessity of creating pathways to inclusive prosperity as a means to the successful implementation of the New Urban Agenda in the U.S. She showed how to align community and economic development to create quality jobs and neighborhoods by investing in innovation and inclusionary skills development. She noted that, even though the U.S. has achieved strong economic growth since 2009, the typical worker's wages have actually declined in most U.S. metropolitan areas, a fact that has contributed to widening disparities in income.

Liu also said that some metros, epitomized by Philadelphia, are performing poorly with respect to lowering poverty and increasing social mobility. To counteract these trends, metropolitan areas must help workers adjust to the new realities of technology, globalization, and demographic change, an approach that requires strategic coordination of key systems — economic, social, and physical. Education, community development, and infrastructure must be aligned by public, nonprofit, and private entities at regional and community levels to create growth and opportunity. Liu cited several examples of such an alignment, including the Kentucky Federation for Advanced Manufacturing Education (KY FAME), Motor City Match in Detroit, i.c.stars and the Greater Chatham Initiative in Chicago, and the Baltimore Regional Housing Partnership.[10] All of these programs encompassed skills development, job training, and housing development. Subsequent sessions at the event included Investing in People and Communities for Social Mobility, Securing Housing Options for All, and Responding to Change & Building Resilience.

In highlighting several local challenges to sustainable urban development, the speakers at the regional conference reminded the participants that, while the provisions in the New Urban Agenda will be universally applicable, localities will need to adjust their responses according to their unique conditions. For the Philadelphia region, decision makers will likely focus on pursuing critical issues of economic development, housing affordability, education, and resilience.

Leaders of a mid-Atlantic regional convening on the Habitat III conference, held in Philadelphia in May 2016, included (left to right) Jane C.W. Vincent, Regional Administrator, Region III, U.S. Department of Housing and Urban Development; Nancy Stetson, Special Representative for Habitat III, U.S. Department of State; and Eugenie L. Birch, Lawrence C. Nussdorf Professor of Urban Research and Education, Department of City and Regional Planning, and Co-Director, Penn Institute for Urban Research, University of Pennsylvania.
Photo Credit: Jessica Kourkounis Photography

Investments in Young Children Yield High Public Returns - Cascade: No. 93, Fall 2016

Rob Grunewald, Economist, Community Development Department, Federal Reserve Bank of Minneapolis

Explore This Section

Investments in Young Children Yield High Public Returns*

Editor's note: In 2003, Rob Grunewald and Arthur Rolnick, economists at the Federal Reserve Bank of Minneapolis, coauthored "Early Childhood Development: Economic Development with a High Public Return," published in the March issue of fedgazette *(www.minneapolisfed.org/~/media/files/publications/studies/earlychild/abc-part2.pdf). Since then, the Minneapolis Fed has hosted four conferences on early childhood development, covering topics such as cost effectiveness, health and early childhood development, and sustaining early childhood gains. On October 5–6, the Center for Indian Country Development at the Minneapolis Fed will host a national conference on Early Childhood Development in Indian Country. Information about these conferences and papers, articles, and presentations on early childhood development are available at www.minneapolisfed.org/publications/special-studies/early-childhood-development and at www.minneapolisfed.org/indiancountry.*

Experiences during the first few months and years of life create the foundation for learning and development. Supportive early environments help children succeed in school and in life, and provide many benefits that spill over into communities and society. Cost-benefit analyses of high-quality early learning programs show that the monetary benefits to society are much larger than program costs. Sustaining the gains children make in early childhood during elementary school and beyond is important to achieving these high returns.

Impact of the Early Years

Neuroscience and developmental psychology research describes the type of early experiences that help children thrive, including stable and nurturing relationships with caregivers, language-rich environments, and encouragement to explore through movement and senses. With supportive early experiences, children are more likely to arrive at kindergarten prepared to succeed in school.

Research also describes the experiences that hinder healthy development: poverty; exposure to violence, abuse, or neglect; and an incarcerated or mentally ill parent. Adverse experiences, or "toxic stress," can lead to a brain wired for negligence or threat, which can impair learning, memory, or the

ability to self-regulate.

The impact of early adversity is observed in children well before they arrive at kindergarten. One research study documented that, by the age of three years, children in high-income families have twice the vocabulary as children in low-income families.[1]

Early adversity not only affects school success, but it is also associated with mental and physical health issues later in life. According to an analysis of data collected in the Adverse Childhood Experiences study, adults who suffered multiple adverse experiences in childhood were more likely to suffer from heart disease compared with adults who did not have an adverse experience.[2]

The Importance of Early Childhood Development Programs

In response to research on this issue, early childhood development programs seek to nurture healthy development from the earliest years. Programs that offer enriched experiences for children and involve parents and other caregivers provide benefits for all children but have the strongest impact on children from disadvantaged environments.

Prominent studies of early childhood education, including those of the Perry Preschool Project in Michigan (ages 3–4 years), the Chicago Child–Parent Centers program (ages 3–4 years), the Carolina Abecedarian Project in North Carolina (ages 3 months through 4 years), and the Prenatal/Early Infancy Project in Elmira, NY (home visits by a registered nurse; prenatal to age 2 years), demonstrate that children from disadvantaged environments can make gains from participating in a high-quality early learning program, and that the benefits extend well into adulthood.[3]

Benefits include lower social costs (e.g., lower crime costs) and higher school achievement, educational attainment, and earnings. Analysis also shows health improvements, such as reductions in smoking and lower risk for heart disease and diabetes. Benefit–cost ratios from these projects range from $4 to as high as $16 returned for every dollar invested. In addition, across the four studies, public benefits from reduced societal costs and increased tax revenue were larger than private benefits to children and their families.[4]

Not only can investments in young children reduce societal costs and increase tax revenue, but they can boost future labor force productivity, a key ingredient of economic growth. The skills employers look for — including ability in math and language, working well in teams, critical thinking, self-motivation, and persistence — are shaped during the first few years of life. With demographic trends showing slower growth in the U.S. working-age population over the next few decades,[5] the effectiveness of early learning, as well as primary, secondary, and postsecondary education, will be important to help meet demands for labor.

A high-quality early learning system also helps parents enter the workforce. And once they find a job, such a system makes it less likely that working parents will be absent or less productive because of unreliable child-care arrangements. In the U.S., 65 percent of children younger than 6 years old have all parents in the workforce,[6] and research shows that parent absenteeism and productivity reductions due to child-care breakdowns cost U.S. businesses more than $3 billion annually.[7]

Funding Early Learning Programs

Family tuition payments comprise the largest share of funding — about two-thirds — in the early learning market (child-care and preschool programs). Government funding, which largely targets vulnerable children, comprises about one-third.[8] Local, state, and federal governments help fund programs that start as early as the prenatal period (e.g., home visiting), as well as fund mental health programs, child-care subsidies, and preschool programs. Although policymakers across several government jurisdictions have increased funding levels in recent years, many vulnerable children and families continue to lack access due to insufficient funding.[9]

Pay for success (PFS) funding is an approach to government contracting that ties payment for service delivery to achieving measurable outcomes that demonstrate reductions in government costs. In this model, a government entity develops a contract with an intermediary and service provider to achieve particular outcomes. Private investors and philanthropists fund the project, therefore taking on the risk, and are paid back with interest *only* if outcome metrics are met.

In Salt Lake City and Chicago, private investors and philanthropists funded preschool expansions with the goals of reducing the need for special education in both projects and increasing kindergarten readiness and third grade literacy in the Chicago project. In South Carolina, a PFS project is expanding Nurse-Family Partnership, a nurse-based home visiting program for first-time and at-risk mothers.[10]

Sustaining Early Childhood Gains

Long-term benefits from investments in young children depend on sustaining gains from early childhood programs into school and adulthood. The Minneapolis Fed featured this topic at a

conference in 2015.[11] Researchers at the conference noted that high-impact early learning programs, supportive transition paths to kindergarten, and parent engagement are features consistent with sustaining early gains.

Early childhood researchers are working on identifying the characteristics of early learning programs that lead to positive child outcomes. For example, research has shown that teachers are positively related to child outcomes, yet researchers are still investigating the specific characteristics of teachers that matter most to student learning.[12] At the conference, researchers noted that aside from teacher effectiveness, research-backed curriculum, accountability, and strong leadership are features of early learning programs consistent with strong child outcomes. In addition, early learning programs that are effective in facilitating language development cultivate key skills children need to succeed in school.

For children who have attended an early learning program, the transition to kindergarten can affect how well benefits continue into the early grades. Research presented at the 2015 conference highlighted the benefits of facilitating understanding about expectations and coordinating professional development across early learning programs, kindergarten classrooms, and early elementary classrooms. Finally, strategies to engage parents either through home visits or activities at an early learning program can help parents understand key child development milestones and enrich the home environment. Parent engagement during the early years can lead to ongoing parent involvement as children enter school.

Looking Forward

While neuroscience and developmental psychology research, long-term evaluations of early learning programs, and research on sustaining early childhood gains provide a solid basis for making informed investments in early childhood development, there is more to learn about how to build quality programs, identify best practices, and investigate effects on other sectors. To further this discussion, the Federal Reserve System's 10th biennial Community Development Research Conference, March 23–24, 2017, will feature the theme, "Strong Foundations: The Economic Futures of Kids and Communities."[13] The conference will explore recent research findings on the connection between child and youth development and building strong communities as well as implications for the economy and workforce.

Pre-K Debate Shifts from Effectiveness to Scale - Cascade: No. 93, Fall 2016

By Nathaniel Borek, Outreach and Administrative Analyst

Explore This Section

Pre-K Debate Shifts from Effectiveness to Scale*

High-quality pre-K programs, characterized by low student-to-teacher ratios, limits on class sizes, and research-informed curricula, have a positive return on public investment, have positive effects on academic and social outcomes, and contribute to the long-term strength of the labor force and the economy.1 Public debate about pre-K programs has often focused on the issue of effectiveness. However, research data2 obtained from randomized control trials and from existing programs have shown that high-quality pre-K programs can be effective. This article provides an overview of the implementation of pre-K programs across the nation and in Pennsylvania.

When asked about possible areas for opportunity or innovation in high-quality pre-K programs, Donna Cooper, executive director of Public Citizens for Children and Youth (PCCY), said that “High-quality pre-K in itself is innovative.” In other words, high-quality pre-K is distinct from ordinary child care and is an effective method for increasing the well-being of children, especially children from low- to moderate-income communities. Cooper continued, “Despite the fact that this has been a 35-year conversation in America, it is finally becoming a conversation about scale.” Research demonstrating the effectiveness of high-quality pre-K has made it difficult, according to Cooper, for legislators opposed to pre-K to deny funding with rhetorical questions about effectiveness.

Children participate in a pre-K program at the Parent Infant Center in West Philadelphia this past summer.
Photo Credit: Public Citizens for Children and Youth

National Pre-K Trends

The State of Preschool 2015: State Preschool Yearbook, produced by the National Institute for Early Education Research, a unit of Rutgers University, profiles state-funded pre-K programs in the U.S.[3] According to the yearbook, the percentage of three-year-olds enrolled in state-funded programs rose from 4 percent to 5 percent from 2014 to 2015. In addition, the percentage of four-year-olds enrolled in state-funded programs increased from 28 percent to 29 percent during the same period. The lack of significant growth in enrollment is explained by the fact that some states have increased funding and expanded programs, whereas other states either have not increased funding or have reduced it. Additionally, funding in many states is not stable and dedicated. Thus, pre-K programs have a difficult time enrolling new students.

Nationally, total state funding for pre-K programs increased by 10 percent, adjusted for inflation, from 2014 to 2015, according to the yearbook. Funding allocated in the New York state budget accounts for two-thirds of this increase. Total state funding for pre-K programs is higher now, adjusted for inflation, than it was during the prerecession peak. Average state funding per student also rose 6.8 percent, from $4,202 to $4,489, during this period. New Jersey had the second highest state spending per student behind Washington, D.C., which has district programs comparable to state programs. Based on data in the yearbook, the following table presents metrics on Third District pre-K programs.

Pre-K Implementation: Key Metrics and Indicators								
	National		**Pennsylvania**		**New Jersey**		**Delaware**	
	2010	**2015**	**2010**	**2015**	**2010**	**2015**	**2010**	**2015**
Three-Year-Olds Enrolled	4%	5%	5%	6%	18%	19%	n/a	n/a
Four-Year-Olds Enrolled	28%	29%	17%	12%	27%	29%	7%	8%
Average Spending Per Student	$4,712	$4,489	$6,634	$5,630	$11,578	$12,149	$6,795	$7,100
National Ranking of Accessibility for Three-Year-Olds	n/a	n/a	13	15	2	5	n/a	n/a
National Ranking of Accessibility for Four-Year-Olds	n/a	n/a	24	30	17	19	32	33
National Ranking of Total State Spending	n/a	n/a	8	15	1	2	7	9
National Ranking of All Reported Spending	n/a	n/a	16	23	1	2	13	10

Source: Table compiled and arranged by the author using data obtained from W.S. Barnett, A.H. Friedman-Krauss, R.E. Gomez, et al.,*The State of Preschool 2015: State Preschool Yearbook*. New Brunswick, NJ: National Institute for Early Education Research, 2016, available at http://nieer.org/research/state-preschool-2015 and W. Steven Barnett, Dale J. Epstein, Megan E. Carolan, et al., *The State of Preschool 2010: State Preschool Yearbook,* New Brunswick, NJ: National Institute for Early Education Research, 2010, available at http://nieer.org/sites/nieer/files/yearbook.pdf.

Quality standards can vary between the different states as well as between different programs within the same state. According to the yearbook, from 2014 to 2015, more state-funded programs required higher standards of quality as a prerequisite for continued funding. The checklist used in the yearbook to measure minimum standards for quality includes metrics such as teacher degree and specialization, teacher support and preparation hours, maximum class size, staff-to-student ratios, access to screening and support services, and use of research-informed curricula.

Pre-K Trends in Pennsylvania

Cooper explained that PCCY and 12 other partner organizations formed a nonpartisan advocacy group called Pre-K for PA to "make pre-K a defining issue in the gubernatorial and state legislative races and cause candidates to make specific and ambitious commitments to universal access to pre-K." Cooper said that the campaign was able to garner the support of candidates in part because polls of voters showed strong public support for pre-K programs.[4]

Pre-K for PA bolstered public support by raising awareness of research that concludes that high-quality pre-K strengthens the academic performance and social skills of students in Pennsylvania,[5] reduces the likelihood that a student will be arrested for a violent crime,[6] and has the potential to bolster economic development in the state by generating $1.79 of spending for every dollar that the state invests in pre-K programs.[7] Cooper also noted that "Research is causing a public debate, shifting investment decisions, and creating a feedback loop to ensure fidelity and performance."

There is a real need to increase access and enrollment in pre-K programs in Pennsylvania. According to Cooper, only about 20 percent of the children in low- to moderate-income households in the state are enrolled in high-quality pre-K. That means that approximately 80 percent of the children who stand to benefit the most are left unserved or underserved by current programs.

Pennsylvania data on funding and enrollment show mostly negative trends. Between 2010 and 2015, total student enrollment in state-funded pre-K decreased for four-year-olds (from 17 percent to 12 percent) and increased modestly for three-year-olds (from 5 percent to 6 percent).[8]

State spending per student fell between 2010 and 2015, from roughly $6,634 to $5,630. The average state spending per student in 2015, which was $5,630, was less than the average spending per student in the federal Head Start program in Pennsylvania, which was $8,445.[9] On the other hand, Governor Tom Wolf and the state legislature increased funding for pre-K programs by $30 million per year for the next two years.[10]

There are four state-funded pre-K programs in Pennsylvania: Pennsylvania Pre-K Counts, Pennsylvania Head Start Supplemental Assistance, the Ready to Learn Block Grant, and Pennsylvania School-Based Prekindergarten. The 2016–2017 budget provides for increases of 20.4 percent for the state's Pre-K Counts program and 11.3 percent for the Head Start Supplemental Assistance program, which provides state funding to increase enrollment and services at federally funded Head Start programs in Pennsylvania.[11]

In 2015, according to the yearbook, Pennsylvania's Head Start Supplemental Assistance program met nine of 10 of the minimum standards for quality, compared with eight in 2010. Pre-K Counts met seven minimum standards, the Ready to Learn Block Grant met five, and the School-Based Prekindergarten program met three minimum standards for quality in 2015.

Cooper pointed out that the quality standards set for state-funded programs are being refined.

According to Cooper, Pennsylvania's standards tend to be broad and have many requirements, but revisions of the standards will focus on a few factors that research has shown to be significant in producing positive results for students. For example, Cooper argues that a bachelor's degree is an important metric for quality but is best used in conjunction with evaluations based on observations of teachers in the classroom.

Cooper and the Pre-K for PA campaign will continue to advocate refining quality standards and increasing access to high-quality pre-K programs. In addition to recent increases in funding, the campaign also led to the creation of the Early Childhood Education Caucus, which is chaired by Republicans and Democrats and is the largest bipartisan caucus in the state legislature.

School districts, Cooper explained, are adopting high-quality pre-K programs because they've found that it creates long-term savings by reducing spending for special education services. Special education, she said, is the "largest unfunded mandate in education."

Cooper explained that Philadelphia School District leaders, with an eye toward sustaining early childhood gains, are "actively readying themselves on how to work with students who have highly developed cognitive, social and emotional, and motor skills." By the end of the 2017–2018 school year, roughly 1,400 of the 2,100 teachers in the Philadelphia School District, according to Cooper, will have attended training on continuing the progress made in high-quality pre-K programs.

Conclusion

Despite the fact that research has shown the effectiveness of high-quality pre-K programs, many state-funded programs are not receiving the investment that is required to serve the children who stand to benefit the most. Pennsylvania has fallen behind on national rankings[12] because funding has not kept pace with the increases seen in states that are leading the way on high-quality pre-K. However, Pennsylvania's decline in national rankings predated the increases in funding recently signed into law. Public support, legislative action, and support from local school districts all demonstrate that the public debate about pre-K in Pennsylvania and across the nation has shifted emphasis from questions about effectiveness to questions about implementation.

Capital for Communities: Regulatory Changes Support Impact Investing - Cascade: No. 93, Fall 2016

By Noelle St.Clair Baldini, Community Engagement Associate

Explore This Section

Capital for Communities: Regulatory Changes Support Impact Investing*

Several recent regulatory changes have made it possible for new players to become involved in "impact investing."1 From regulatory changes at the U.S. Department of Labor (DOL) that allow retirement funds to invest for environmental and social impact to an Internal Revenue Service (IRS) announcement on private foundation investments to changes at the Securities and Exchange Commission (SEC) that allow small businesses to solicit funding in new ways, recent developments are opening up new potential sources of capital for community and economic development.

DOL Update to the Employee Retirement Income Security Act of 1974

The concept of impact investing has been gaining popularity in recent years.2 One major impediment to growth in this industry, however, has been a restriction under the Employee Retirement Income Security Act of 1974 (ERISA) regarding the definition of "fiduciary duty." In 1994, the DOL stated that fiduciaries, or those responsible for managing the assets of plan participants, were able to take social and environmental factors into consideration when making investment decisions as long as everything else was equal (i.e., as long as those considerations do not require a loss of financial returns for plan beneficiaries). In 2008, however, a revision to ERISA was made "to clarify that fiduciary consideration of collateral, noneconomic factors in selecting plan investments should be rare and, when considered, should be documented in a manner that demonstrates compliance with ERISA's rigorous fiduciary standards."3 This change made many asset managers reluctant to engage

in impact investing or socially responsible investing because of the concern that these actions would violate their fiduciary obligations under ERISA.

In October 2015, the DOL announced an update to ERISA that withdrew the 2008 revision and reinstated the language of the guidance passed in 1994, reaffirming that private pension plans subject to ERISA can take social and environmental factors into account when making investment decisions as long as financial returns are not compromised.

The DOL explained the new guidance in a news release[4]:

"The financial health of retirement plans and participants remains paramount under federal law. The new guidance, Interpretive Bulletin 2015-01, confirms the department's longstanding view from IB 94-1 that fiduciaries may not accept lower expected returns or take on greater risks in order to secure collateral benefits, but may take such benefits into account as 'tiebreakers' when investments are otherwise equal with respect to their economic and financial characteristics. The guidance also acknowledges that environmental, social, and governance factors may have a direct relationship to the economic and financial value of an investment. When they do, these factors are more than just tiebreakers, but rather are proper components of the fiduciary's analysis of the economic and financial merits of competing investment choices."

Recent research from Calvert Investments showed that there is demand for these types of options from retirement plan participants. Nearly nine out of 10 plan participants surveyed said they wanted investment options that align with their values, and 82 percent said they were likely to select a responsible investment option if offered in the plan.[5] It may be too early to tell how plan sponsors will respond to the changes from the DOL, but some believe that this slight change to ERISA, in addition to increased demand from plan participants, could open up new major sources of capital for activities such as domestic community and economic development,[6] among other investment options. A 2015 Organisation for Economic Co-operation and Development report on pension funds showed that, at roughly $14.5 trillion, pension fund balances totaled 83 percent of U.S. gross domestic product.[7]

IRS Announcement on Private Foundation Investments

Impact investments in activities such as domestic community development come in many shapes and sizes. Some investments may provide a market rate of return comparable to traditional investments and, therefore, would be feasible investment options for the retirement plans previously discussed. Other community development investment options, however, will by their very nature require a concessionary rate of return but may yield a high return on investment in regard to their social impact.

Foundations were some of the first impact investors in community development. Foundations, including the MacArthur, Ford, Rockefeller, W.K. Kellogg, and F.B. Heron foundations, have been

making targeted investments to further their missions in addition to their grantmaking activity. Recognizing the spectrum of investment opportunities and their various projected financial and social returns on investment, these institutions have become leaders in developing various capital tools that can be used in different investment scenarios.

Two such tools are program-related investments (PRIs) and mission-related investments (MRIs).

PRIs: According to the IRS, a PRI is an investment with the primary purpose of accomplishing one or more of the foundation's exempt purposes and in which the production of income or appreciation of property is not a significant purpose.8 Examples could include low-interest loans to nonprofits or high-risk investments in low-income housing projects. PRIs can allow organizations to build capacity, establish a credit history, attract new investors, or bridge expected future funding. PRIs allow foundations to provide a different type of capital that, following repayment, can be recycled to make future PRIs. PRIs count toward a foundation's required minimum 5 percent annual distribution, which must be made in order to maintain tax-exempt status.9

MRIs: An MRI, broadly defined, is any *investment* activity that seeks to generate a positive social or environmental impact in addition to providing a financial return. Unlike PRIs, MRIs typically yield a competitive market rate of return and do not count toward a foundation's 5 percent annual distribution requirement but are made in addition to a foundation's grantmaking and PRI activity. MRIs are typically made from the foundation's corpus assets or endowment. Examples include investments in social enterprises or companies creating accessible jobs in economically distressed areas. An additional MRI strategy may include screening out investment options directly in conflict with a foundation's mission.10 Unlike the traditional investment management practice of focusing solely on generating maximum risk-adjusted financial returns so that the gains in a foundation's endowment can fund the program activity of the foundation, MRIs allow foundations to take into account risk, return, *and* impact when making investment decisions.

In September 2015, the IRS released a notice stating that "[w]hen exercising ordinary business care and prudence in deciding whether to make an investment, foundation managers may consider... the relationship between a particular investment and the foundation's charitable purposes."11 While the lack of guidance from the IRS regarding MRIs has not deterred some foundations from engaging in this activity, this notice may help to encourage more foundations to align their investment management processes with their overall missions. Again, this regulatory change potentially could result in more capital being invested in industries such as community development as foundations tap into the 95 percent of their capital not being used for grantmaking activity.

SEC Rules on Crowdfunding

As the field of impact investing develops and demand for investment options increases, some note the

challenge of finding investment opportunities available to retail, nonaccredited investors.[12] Crowdfunding is an emerging method of raising capital from these individual investors via the Internet to fund a variety of projects. Crowdfunding allows individuals to invest their capital in the causes they care about, potentially including community development projects in their own communities.

In October 2015, the SEC adopted rules under the Jumpstart Our Business Startups (JOBS) Act to permit companies to offer and sell securities through crowdfunding.[13] Under these new rules, companies are permitted to raise a maximum of $1 million through crowdfunding offerings in a 12-month period. Individual investors, including nonaccredited investors under Title III of the JOBS Act,[14] are permitted over a 12-month period to invest up to $2,000 for low-income/low-net worth individuals and as much as 10 percent of income/net worth for those with greater resources.

SEC Chair Mary Jo White stated, "There is a great deal of enthusiasm in the marketplace for crowdfunding, and I believe these rules and proposed amendments provide smaller companies with innovative ways to raise capital and give investors the protections they need."[15]

Crowdfunding for community development is a newer concept, and a recently published working paper from the Federal Reserve Bank of San Francisco claims that, in order for it to reach its potential scale and to involve the full range of potential stakeholders, better standards of data reporting and collection need to be established. The working paper established a crowdfunding data model to enable community development professionals and the crowdfunding industry to better understand the potential for this new capitalization strategy.[16]

Conclusion

The community development industry has historically been financed by Community Reinvestment Act–driven bank capital, philanthropy, and government funding. However, new regulatory changes may enable the field to diversify its capitalization strategy by tapping into the growing trend of impact investing. Though it may be too early to tell what effect these changes will ultimately have on investment behavior, enabling policy updates from the DOL, IRS, and SEC present new opportunities for community and economic development stakeholders to rethink their capital-raising strategy by engaging with new partners in innovative ways.

Additional Resources

Michael Swack and Eric Hangen, "Scaling U.S. Community Investing: The Investor–Product Interface," Global Impact Investing Network, October 2015, available at https://thegiin.org/knowledge/publication/usci.

Joshua Mintz and Chelsey Ziegler, "Mission-Related Investing: Legal and Policy Issues to Consider

Before Investing" MacArthur Foundation, available at www.macfound.org/media/article_pdfs/Mission-Related_Investing.pdf.

Steven Godeke with Doug Bauer, "Philanthropy's New Passing Gear: Mission-Related Investing, A Policy and Implementation Guide for Foundation Trustees," Rockefeller Philanthropy Advisors, 2008, available at www.missioninvestors.org/system/files/tools/philanthropys-new-passing-gear.pdf.

Rodrigo Davies and Amanda Sheldon Roberts, "Understanding the Crowd, Following the Community: The Need for Better Data in Community Development Crowdfunding," Federal Reserve Bank of San Francisco Working Paper 2015-07, December 2015, available at www.frbsf.org/community-development/files/wp2015-07.pdf.

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Gentrification: Research and Practitioner Perspectives - Cascade: No. 93, Fall 2016

Explore This Section

Gentrification: Research and Practitioner Perspectives*

By Ann Carpenter, Community and Economic Development Adviser, Federal Reserve Bank of Atlanta, and Sydney Diavua, Community Engagement Associate, Federal Reserve Bank of Philadelphia

In urban areas across the United States, the demand for housing in center-city, amenity-rich neighborhoods is increasing, driven by young, college-educated, predominantly white residents. Those with higher incomes are able to outbid low-income residents, which may lead to voluntary and involuntary displacement of these households. In low-income, center-city neighborhoods, this is particularly troubling, as these neighborhoods offer greater access to public transportation, social services, employment centers, and social networks. Displacement could force vulnerable households into less desirable and more impoverished neighborhoods.

These trends were described at the Research Symposium on Gentrification and Neighborhood Change, which was co-hosted by the Federal Reserve Banks of Philadelphia and Minneapolis on May 25, 2016, in cooperation with the Furman Center for Real Estate and Urban Policy at New York University and the U.S. Department of Housing and Urban Development. At the symposium, researchers and practitioners explored the causes, patterns, and consequences of gentrification; policy responses; and equitable development approaches. Selected papers from the symposium are available on the event website,[1] and more papers will be published in the November issue of *Cityscape*. This article shares highlights from the symposium as well as policy, investment, and program solutions that communities can explore to address their unique local challenges.

Does Gentrification Matter?

While neighborhood change may be a certainty, thought leaders are increasingly asking whether gentrification’s effects on existing populations are necessarily negative. At the symposium, Lance Freeman, professor of architecture, planning, and preservation at Columbia University, showed that gentrification had no statistically significant effect on the probability that households move out of their neighborhood in the United Kingdom, although low-income households were more likely to move than higher-income households. The Philadelphia Fed's Lei Ding, a community development economic advisor, examined the financial health of residents in gentrifying neighborhoods and showed that residents’ financial health could improve if they are able to stay in a gentrifying

neighborhood, but those who move out are more likely to end up in lower-income neighborhoods and experience ill effects on financial health. Jeffrey Parker, an urban doctoral fellow at the University of Chicago, found that most business owners in Chicago's Wicker Park neighborhood accepted gentrification because of the positive business gains and client growth, but believed it caused instability in their neighborhood. Rachel Meltzer, assistant professor of urban policy at The New School, added that existing businesses are no more likely to be displaced in gentrifying neighborhoods than in nongentrifying neighborhoods, although shifting consumer demand may attract outside investment, such as retail chains.

Lance Freeman, Professor, Columbia University

Despite the researchers' findings, practitioners like Beth McConnell, policy director at the Philadelphia Association of Community Development Corporations (PACDC), are pushing back against some of these findings based on their experiences with residents on the ground. McConnell shared after the symposium that she has observed instances in which research is interpreted to indicate that gentrification and displacement are "less of a problem than what we observe on the ground; however, because something may not be statistically significant, it does not mean it doesn't have an impact." McConnell said that deeper collaboration between researchers and practitioners will help better identify indicators to examine in changing neighborhoods.

National and Local Responses

National and local responses to gentrification generally focus on equitable development measures or strategies such as providing greater access to subsidized housing and facilitating mixed-income development. Symposium practitioners highlighted efforts to preserve affordable housing, protect and effectively reuse vacant and blighted property, stabilize current residents, and support existing small businesses. Much of the conversation at the symposium centered on anti-displacement efforts in neighborhoods that have new development, public investments, and in-migration. Among national

responses, Jeff Lubell, principal associate and director of housing and community initiatives at Abt Associates, described effective policy tools for increasing access to affordable housing in gentrifying areas, including property tax circuit breakers,[2] expedited permitting for affordable housing developers, and the use of publicly owned land for affordable housing development. In addition to policy solutions, presenters discussed collaborative efforts between nonprofits, local governments, and philanthropic organizations to prevent displacement. For example, Kathy Pettit, senior research associate at the Urban Institute, spoke about the Turning the Corner initiative,[3] which incorporates data collection and tracking with collective action in communities facing neighborhood change.

Eric S. Belsky, Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System

The following sections present four additional local responses to gentrification and neighborhood change.

The Bay Area

One tool that can potentially bridge the gap between research outcomes and resident perspectives was presented by Karen Chapple, professor of city and regional planning at the University of California, Berkeley. Chapple discussed early warning systems for gentrification and the Urban Displacement Project policy mapping tool[4] for communities experiencing gentrification pressures in the Bay Area. The project has partnered with community-based organizations to design case studies on gentrification and displacement based on data found through its analysis.

Washington, D.C.

In Washington, D.C., the Tenant Opportunity to Purchase Act (TOPA) program[5] is an effective tool in preserving affordable rental units. TOPA allows the first right of purchase or refusal to current

tenants before the owner of a tenant-occupied dwelling plans to sell or demolish housing. Oramenta Newsome, vice president of LISC DC, discussed the organization's support of TOPA projects through technical assistance and financing. The D.C. Department of Housing and Community Development also administers a First Right Purchase Assistance Program, which provides down payment and purchase assistance, and a Tenant Purchase Technical Assistance Program, which assists eligible low- and moderate-income residents purchase their dwelling using TOPA. Newsome noted the successful use of TOPA to convert rentals into co-ops or condo units and added: "Not every tenant association needs to own their own building, but it is a viable tool to support a diverse income demographic in Washington." For LISC DC, tools like TOPA address social and economic equity in a growing city with rising costs.

Philadelphia, PA

In Philadelphia, PACDC created the policy platform Beyond Gentrification: Toward Equitable Neighborhoods[6] for the 2015 local elections. The platform gave those who are typically left out of economic development an opportunity to offer proactive steps and a vision for Philadelphia, informed policymakers and leaders on the role of community development in a growing city, and inspired continued conversations on equity. PACDC's Beth McConnell commented: "Community development is being observed as a solution for gentrification. It has taken on a new and different relevance in a city of growth, where it was previously only associated with cities in decline. In this context, community development can spur new growth with equity."

Minneapolis and St. Paul, MN

Jonathan Sage-Martinson, director of planning and economic development for the city of St. Paul, highlighted the Central Corridor Funders Collaborative[7] strategy to prevent displacement along a new light rail line by investing in housing, small businesses, and job training. The collaborative is a collection of local and national funders that are invested in the equitable development of neighborhoods surrounding the new Metro Green Line. "The goal of the collaborative is to help existing businesses stay in place and to help people who live there afford to stay and make them want to stay there, with an emphasis on jobs," said Sage-Martinson. One early goal of the collaborative was to create a strong local economy by supporting the 700 small neighborhood businesses that exist along the soon-to-be-built rail line. "The motto for these businesses was to prepare, survive, and thrive," remarked Sage-Martinson. The collaborative devised a strategic plan to support the businesses during the two-year construction of the rail line and to prepare for a "new neighborhood reality" after its construction. The collaborative provided $4 million in forgivable loans to 215 businesses, technical assistance, joint marketing, and façade improvements.

A Story of Neighborhood Change

In his opening remarks, Eric S. Belsky, director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, discussed how trends in housing demonstrate that the economic recovery has been uneven in urban neighborhoods. Homeownership has dropped and the supply of rental housing has tightened, resulting in surging rents and an increase in the number of cost-burdened households (those that pay more than 30 percent of their income on rent). In her welcome to attendees, Theresa Y. Singleton, vice president and community affairs officer of the Federal Reserve Bank of Philadelphia, asked the audience to ponder, "Is gentrification good or bad?" — a question her teenage daughter astutely posed and one that all symposium attendees struggle with. As researchers conduct more analysis on what is driving this change and what have been the effects, many practitioners are working to increase opportunities for both existing and new residents. Neighborhood change is inevitable; however, gentrification that furthers inequality by eliminating affordable housing options for low- and moderate-income households or concentrates poverty in distressed neighborhoods must be acknowledged and addressed.

Mapping Our Community: Residential Segregation in Mt. Airy and in Philadelphia - Cascade: No. 94, Winter 2016

By Kyle DeMaria, Community Development Senior Research Assistant

Explore This Section

Mapping Our Community: Residential Segregation in Mt. Airy and in Philadelphia*

Download a PDF of this article.

The West Mt. Airy neighborhood of Philadelphia has been nationally recognized for its efforts to intentionally promote racial integration and neighborhood stability since the 1950s.[1] In the more than 50 years since then, residents understand the challenges to integration through a new lens and remain passionate about creating a neighborhood of diversity and inclusion. A contemporary challenge to racial integration in Mt. Airy focuses on the concern that rising housing costs will lead to the displacement of current residents and will inhibit lower-income residents from moving into the neighborhood. A central concern of community leaders is that these market forces will exert a disproportionate impact across racial groups and will segregate a neighborhood whose residents value racial and class diversity. To what extent has the degree of racial integration in Mt. Airy changed since 1990, and how does that degree of neighborhood integration relate to that of the city as a whole?

To assess trends in neighborhood integration in Mt. Airy, a measure of residential segregation, known as multi-group entropy, was calculated for all Census block groups in Philadelphia.[2] The entropy score is best characterized as a measure of the evenness with which racial groups are represented in a geographic area.[3] Lower scores indicate low levels of racial integration and higher scores indicate the equal representation of all five racial groups: non-Hispanic white, non-Hispanic black, non-Hispanic Asian, Hispanic, and non-Hispanic other (including non-Hispanic reporting more than one race). Neighborhood and city entropy estimates are calculated as population-weighted averages of the individual block group entropy scores.

Table 1. Neighborhood and City Entropy Scores (Weighted Averages)

	1990	2010	Change
West Mt. Airy	0.77	0.93	+0.16
East Mt. Airy	0.44	0.66	+0.22
[illegible]	[illegible]	[illegible]	[illegible]

Mt. Airy	0.58	0.77	+0.19
Philadelphia	0.40	0.78	+0.38

In 1990, the average entropy scores for both West (0.77) and East (0.44) Mt. Airy were greater than that for Philadelphia (0.40), indicating that block groups in the Mt. Airy neighborhood were in fact more racially integrated than those in Philadelphia as a whole (Table 1). Over the ensuing 20 years, however, as the city became more racially diverse, integration increased to a greater extent in Philadelphia than in Mt. Airy.[4] Whereas the average entropy score for Philadelphia increased by 0.38, the score for Mt. Airy increased by only 0.19.

Figure 1. Entropy Scores for West and East Mt. Airy in 1990 and 2010

1990

2010

1.

2.

Entropy Score

0.00 - 0.32

0.33 - 0.64

0.65 - 0.97

0.98 - 1.29

1.30 - 1.61

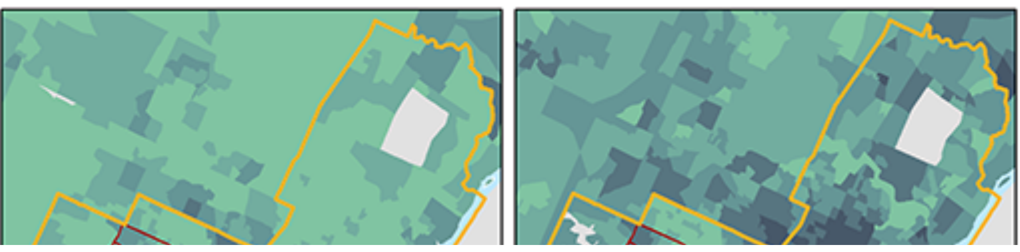
Philadelphia

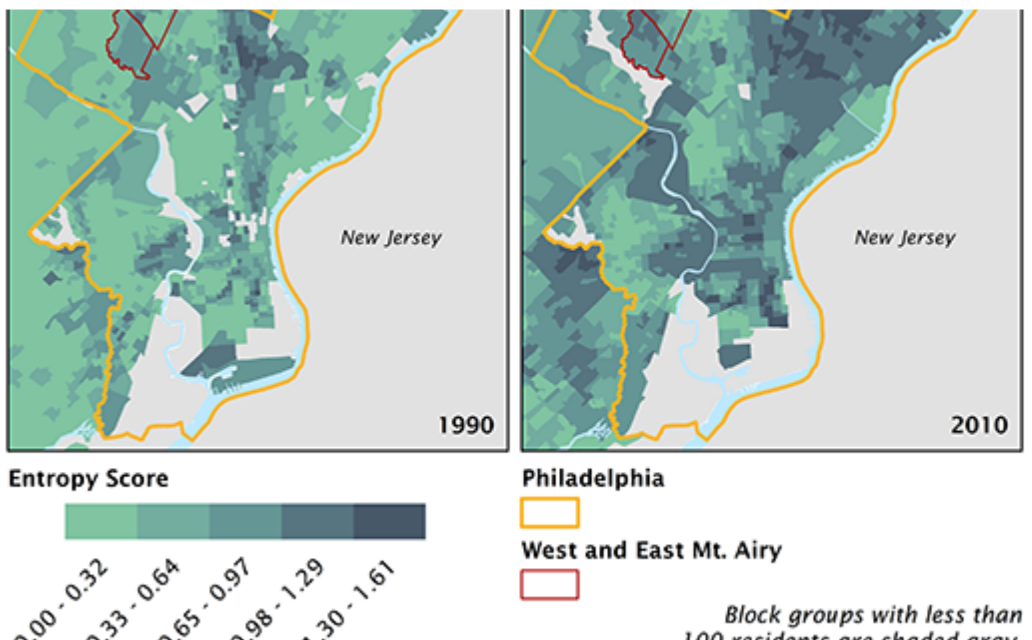
West (1) and East (2) Mt. Airy Neighborhoods

Other Philadelphia Neighborhoods

Yet, differences exist between East and West Mt. Airy. While West Mt. Airy became more racially diverse over this 20-year period and continues to be more integrated than the city overall, the eastern portion of East Mt. Airy remained segregated as a predominantly African-American neighborhood (Figure 1). Residential segregation also persists in other sections of Philadelphia, such as in North and West Philadelphia, whereas segregation has diminished substantially in Northeast Philadelphia (Figure 2).

Figure 2. Entropy Scores for Philadelphia in 1990 and 2010




New Jersey
1990
New Jersey
2010
Entropy Score
0.00 - 0.32
0.33 - 0.64
0.65 - 0.97
0.98 - 1.29
1.30 - 1.61
Philadelphia
West and East Mt. Airy
Block groups with less than
100 residents are shaded gray.

Spotlight on Research: Factors That Sustain Metropolitan Growth - Cascade: No. 93, Fall 2016

By Marvin M. Smith, Ph.D., Senior Community Development Economic Advisor

Explore This Section

Spotlight on Research: Factors That Sustain Metropolitan Growth*

Marvin M. Smith, Ph.D.

The factors that underlie economic growth in metropolitan regions have been the subject of an increasing number of research efforts. Earlier research focused on the *pace* of growth. More recent investigations have been concerned with the *resilience* or capacity of regions to sustain growth paths, even in the face of external shocks. Chris Benner and Manuel Pastor add to the latter body of research by examining the growth spells among the 184 largest regions in the U.S. from 1990 to 2011.[1] The authors are particularly interested in the role played by social equity. The following is a summary of their study.

Background

Some of the early research has attempted to identify key variables that influence economic growth on the regional level as well as document the relationship between social equity and metropolitan growth. These efforts have considered different measures of equity such as income inequality; racial inclusion; and spatial segregation by race, income, or jurisdiction. Several studies found that social equity is correlated with economic growth. However, these studies concentrated on the pace of growth. While these studies were inspired by the international literature that reviewed the growth rates of countries, more current international analyses have examined sustained growth or "growth spells" of countries. Yet, little attention has been devoted to the length of the growth spells or the sustainability of metropolitan growth. The authors focus on this area.

Data and Methodology

The authors examine the growth spells in the largest 184 metropolitan regions in the U.S. with a population of 250,000 or more as of the 2010 Census. Benner and Pastor used data from the Quarterly Census of Employment and Wages for their measure of economic growth. They looked at quarter-to-quarter average employment to assess growth. A region was considered to have experienced growth in a quarter "if the total average employment in that quarter was greater (by any amount) than the same quarter in the previous year."[2] The authors defined a region as experiencing a full growth spell "if it experienced at least 12 quarters of uninterrupted quarter-to-quarter employment growth."

Results

The authors analyzed the 184 regions that had growth spells and calculated the growth in employment and real weekly earnings over the whole period. They found that "more time in growth spells generates more overall employment growth and generally higher earnings." Given that growth spells are preferable, Benner and Pastor used regression analysis to determine the length of these spells. The authors categorized the variables used into the following domains: external shocks, political fragmentation, inequality and separation, social indicators, and employment structure and institutions.

External shocks. A typical external shock in the analysis is a national recession. The authors found that the longer the national economy was in a recession, the more likely the growth spell would come to an end. This result was statistically significant.

Political fragmentation. The authors pointed out that there are numerous studies that suggest regional collaboration may promote economic competitiveness. Furthermore, the "fragmentation of local government within metropolitan regions has been an important driver of inequality and inefficient public investments." Benner and Pastor underscored the difficulty in measuring fragmentation. The authors relied on a measure that reflected the concentration of expenditures of all governmental units in a region and was derived by using the square root of the percentage contribution of each jurisdiction to total regional expenditures. The measure they used suggests that political fragmentation might be a drag on sustained growth and was slightly significant.

Inequality and social separation. The authors used several variables to evaluate the influence of inequality and social separation on growth spells. As one measure of inequality, they used the distribution of income among various metropolitan household income classes. They found that as the distribution of income becomes more unequal, the more likely a region's growth spell will be shortened. Another measure used was the proportion of a region's minorities in the middle class. The results revealed that "regions with a higher percentage of minorities in middle class income brackets are more likely to have longer growth spells." To capture the effect of social separation, the authors used a measure of residential segregation (dissimilarity index) and found that more segregated regions have shorter growth spells. They also used the ratio of city to suburban poverty rates. This measure indicated that a higher city to suburban poverty differential was also associated with shorter growth.

Social indicators. The authors chose educational attainment and levels of immigration to represent the impact of social indicators on growth spells. The two education measures were the "proportion of the population 25 years and older with a bachelor's degree or higher and the proportion with at least a high school degree but less than a bachelor's degree." Of the two education measures, the latter measure was found to be statistically significant and implied that regions with a larger proportion of the middle-educational population were less likely to have their growth spell shortened.

Another social indicator that was relied on was the extent of immigration; more specifically, the percentage of the foreign-born (immigrant) population in each region. This variable suggested that a higher proportion of immigrants had a shortening effect on the length of growth spells and was also significant.

Employment structure and institutions. The authors also considered some broad measures of industrial structure in the region, such as the percentage of workforce employed in construction, in manufacturing, and in public administration, in addition to the percentage of the workforce covered by unions, which represents the influence of an economic institution. The results of these variables were mixed. The measure for employment in public administration was associated with longer growth spells and was significant. However, the measures for employment in manufacturing and construction did not have a significant effect on the length of growth spells. While the measure for unionization was associated with shorter growth spells, it was not significant.

Integrated Regression Model

In the discussion, the authors considered the effect of the variables on growth spells separately. They then combined the various variables into a single regression. Included in this regression were controls for census region, per capita income, and metro size. The authors discovered that the variables interacted with one another in such a manner that, in some cases, their impact separately had the

opposite effect in the integrated regression. Also, while some variables were significant separately, they were insignificant in the combined regression.

After making some modifications to ensure that the regression was technically sound, the authors did discover some noteworthy findings. The percentage of foreign born immigrants and the share of the workforce in manufacturing were associated with shorter growth spells. Although the authors also alluded to education levels and economic structures and institutions as being important to maintaining growth, the overriding result is that inequality has a dampening impact on growth spells and is highly significant. Thus, while several factors influence regional growth spells, the main takeaway from their research was “regions that are more equal and more integrated — across income, race, and place — are better able to sustain growth over time.”

Message from the Community Affairs Officer - Cascade: No. 93, Fall 2016

By Theresa Y. Singleton, Ph.D., Vice President and Community Affairs Officer

Explore This Section

Message from the Community Affairs Officer

Theresa Y. Singleton, Ph.D., Vice President and Community Affairs Officer

This *Cascade* issue is being released at an exciting time: just before the seventh biennial Reinventing Our Communities conference taking place on September 21 to 23 in Philadelphia. The conference will provide new insights, strategies, and inspiration as we confront systems of inequality and ensure that all residents and communities benefit from economic growth. Articles in this issue closely relate to the conference theme of Transforming Our Economies. Through both the conference and this issue of *Cascade*, we hope to advance the dialogue on connecting people, place, and capital to transform local and regional economies in an inclusive way.

One article reports findings of research by the Federal Reserve Banks of Philadelphia and Atlanta on community and economic development (CED) grantmaking by the 1,000 largest U.S. foundations. Keith Wardrip of the Philadelphia Fed's Community Development Studies & Education (CDS&E) Department explains that the largest foundations made grants totaling almost $15 billion to support CED activities, although the distribution of CED grants and grant volume varied substantially among metro areas. He discusses five characteristics associated with a greater level of grant receipt for metro areas. Kyle DeMaria of CDS&E provides a related mapping feature that shows foundation grantmaking for CED in the Third Federal Reserve District.

Two articles focus on income inequality, an issue being raised worldwide. First, Gabriela Ramos, Chief of Staff at the Organisation for Economic Co-operation and Development (OECD), discusses an increase in income inequality in most OECD countries that impedes economic growth and has far-reaching impact on education, health, and employment. For the first time in history, the majority of

people now live in cities, but inequality is often most prevalent in these hubs of economic activity.

Second, Eugenie Birch of the Penn Institute for Urban Research and Jane Vincent of HUD's Region III explain that while cities have economic and other opportunities, they are also places where challenges of income inequality, segregation, and lack of affordability persist. Birch and Vincent say that the United Nations Conference on Housing and Sustainable Urban Development (Habitat III), taking place in October in Quito, Ecuador, is an opportunity for the U.S. to leverage the worldwide expertise of those addressing sustainable development and establish priorities to create cities of opportunity. They share highlights of a regional Philadelphia forum that was part of the preparations for the conference by the U.S. government and civil society stakeholders.

Meanwhile, columnist Marty Smith of CDS&E reviews a timely research study that concludes that regions that are more equal and integrated in income, race, and place are better able to sustain growth.

Highlights of the Reinventing conference will be shared in the winter issue of *Cascade*, and conference proceedings will be posted on the Philadelphia Fed's website. I look forward to seeing many of you at the Reinventing conference and to working together on these issues in the years ahead.