

# Growth, Development, and Economic Equity

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## Learning Objectives

1. Examine equity as a concept and define.
2. Identify possible metrics for economic equity.
3. Understand some of the equity issues related to local development decisions.
4. Clarify the role(s) of local govt. and manager in addressing economic equity.

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## Equity Exercise: just 5 minutes

- Consult only with those at your table
- Each table: devise an equitable plan of distribution for dividing the goods provided by the instructor.
- Be thoughtful.
- Provide a brief report of your plan



Milk	31
Dark	23
Peanut	29
Rice	26

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## The Distribution Problem

1. **Recipients** – Who gets something?
2. **Item** – What do they receive? What is being distributed?
3. **Process** – How is the distribution determined and carried out?

**Source:** Stone, Policy Paradox, 2001

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## Different Meanings of Equity

- Which guarantee results? Which increase access?
  - Equal pieces
  - Equal meal considering other goods
  - Equal value attributed to a good
  - Equal tools
  - Equal chances
  - Equal votes

**Source:** Stone, Policy Paradox, 2001

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## Different Meanings of Equity

- Which guarantee results? Which increase access?
    - Equal pieces
    - Equal meal considering other goods
    - Equal value attributed to a good
    - Equal tools
    - Equal chances
    - Equal votes
- Guaranteeing results
- Resources
  - Outcomes
- Increasing the odds
- Access
  - Opportunity

**Source:** Stone, Policy Paradox, 2001

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## Competing Values (Stone's "Great Divides")

- Process or outcomes?
- Interference with liberty? ("Robin Hood" dilemma)
- Is property an individual creation or is it a product of the collective?
- Are people motivated by need or inhibited by it?



## Areas of consensus?

<b>Equal life chances</b>	No differences in outcomes for factors beyond a person's control
<b>Equal concern for needs</b>	Necessities should be distributed according to level of need
<b>Meritocracy</b>	Rewards reflect different effort and ability based on fair competition

Source: ODI Working Paper 311, 2009.

## Equity in Public Admin.

- Social equity issues raised during the 1960s
- Advocacy for a new public management (NPM)
- Social equity considered one of the pillars of PA

## NAPA Definition of Social Equity

- **Fair, just, and equitable management** of public institutions.
- **Fair and equitable distribution** of public services and implementation of public policy.
- Commitment to **promote fairness, justice, and equity** in the formation of public policy.

**Source:** National Academy of Public Administration, 2000.

## Frederickson's 2<sup>nd</sup> Question

- Question 1 – Is the program or decision effective or good?
- Question 2 – **For whom**, is the program or decision effective or good?

Source: Frederickson, National Civic Review, Winter 2005

## Rationales for Equity

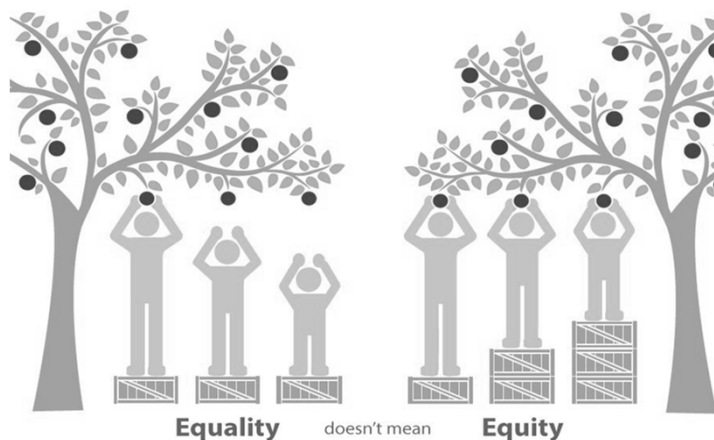
- Constitutional and legal principles
  - Due process
  - Equal protection under the law
- Moral and ethical foundations
  - Religious and faith-based traditions
- Human and social dimensions
- **Economic** concerns

# What is Economic Equity?

- Fairness in how the benefits and costs of growth and development are distributed
- Expanding opportunity and prosperity for all
- “Spreading the wealth” to the people and places most in need
- Leveling the playing field
- **Does equity = equality?**



# Equality vs. Equity



## Equity Targets

Racial/ethnic minorities and people of color

Disadvantaged, low-income residents

Women

Under-served communities

Central city neighborhoods

Rural areas

The poor and working poor

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## Why is Equity a Concern?

- Disparities in income, wealth, and opportunity
- Gap between haves and have nots
- People and places left behind
- Market failure: market-based allocations of goods, services, and resources not always optimal and efficient.

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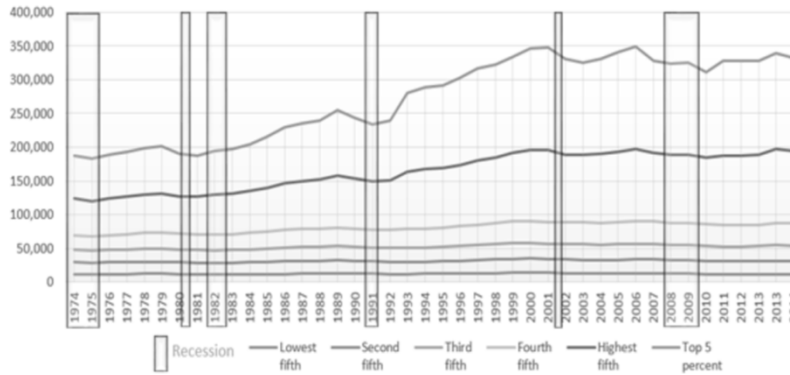


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# Income by Percentile, 1974-2014

Figure 3: Change in Mean Household Income by Percentile 1974-2014 (in 2014 Dollars)



Source: U.S. Bureau of the Census

Image: IEDC Opportunity for All. 2018.

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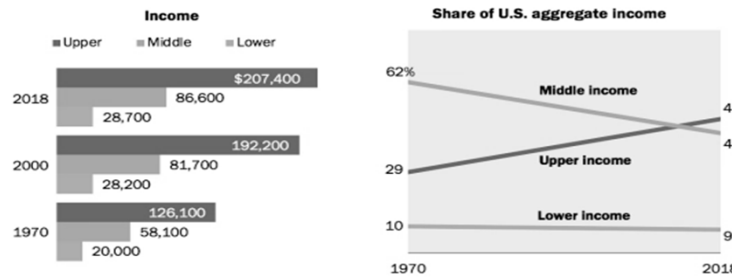
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# Income Inequality in the U.S.

**The gaps in income between upper-income and middle- and lower-income households are rising, and the share held by middle-income households is falling**

Median household income, in 2018 dollars, and share of U.S. aggregate household income, by income tier



Note: Households are assigned to income tiers based on their size-adjusted income. Incomes are scaled to reflect a three-person household. Revisions to the Current Population Survey affect the comparison of income data from 2014 onwards. See Methodology for details. Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements (IPUMS). "Most Americans Say There Is Too Much Economic Inequality in the U.S., but Fewer Than Half Call it a Top Priority"

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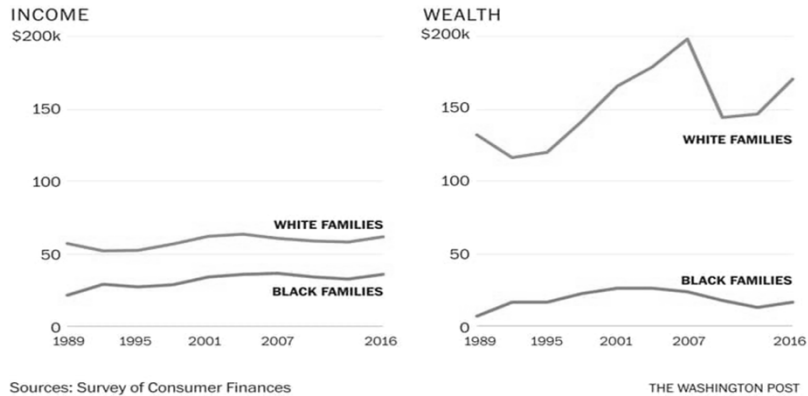
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# Economic Disparities by Race

## Racial income and wealth gaps

Median income and wealth of black and white families over time, in 2016 dollars

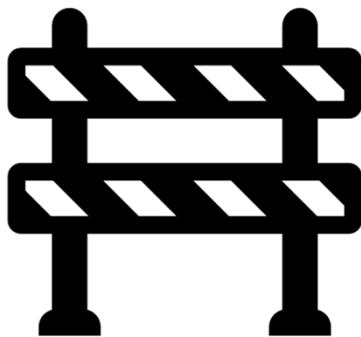


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# Barriers to Addressing Equity



- Different and competing values
- What's fair and just is often in the eye of the beholder
- The extremes; how far do you go to achieve equity?
- The "Robin Hood" dilemma
- Process fairness vs. outcome fairness

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## Equity Benefits to the Economy

Greater participation

Widely shared prosperity

Fewer social ills



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## Metrics for Economic Equity

- Inequality and Disparity Measures
  - Gini index (income)
- Triple Bottom Line of Sustainable Dev.
  - Economy
  - Environment
  - **Equity**
- Social Returns on Investment
  - Cost-benefit analysis

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## What's a Local Govt to do?

- What is the role of local government in addressing the equity concerns that arise in development decisions?

## Equity Tools

Maximize  
public/community  
benefits

- Formal incentive agreements w/CBAs

Encourage local  
hiring

- First Source programs

Workforce  
development  
partnerships

- Industry cluster/sector employment strategies
- Specialized job training and apprenticeships
- Career pathways

## Inclusive Entrepreneurship



- Minority and women entrepreneurs account for an increasing share of firms
- Relatively few achieve high-growth
- Underrepresented in the tech sectors

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## Inclusive Entrepreneurship

- Reduce barriers to entry for minorities, women, and young people
- Build pipelines from underrepresented groups
- Help M/WBEs accelerate growth:
  - Capital access; technical assistance; corporate supplier development; govt. contracting/purchasing, etc.
- Access to tech/STEM related sectors

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## Questions to Consider



What are the top equity concerns related to development in your area?

How do equity issues play out in the communities you serve?

What is your agency's role in addressing equity and inclusion?

What types of resistance and push-back potentially inhibit efforts?



## Break + Table Work

- Scenario 1 – record table's responses:
  1. What are the equity issues raised by the scenario?
  2. Putting NAPA's social equity standard into practice, what specific actions could a manager take in this scenario to demonstrate a "commitment to *promote* fairness, justice, and equity in the formation of public policy?"
  3. To demonstrate a manager's "commitment" to promote equity, what options could be presented to the governing board for their consideration?
- Use easel pads for report

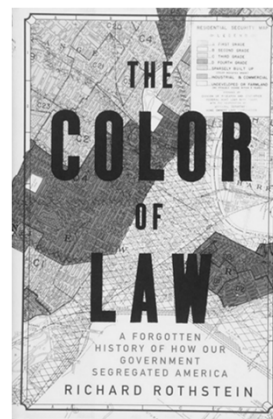


# Tactics

- Community engagement
- Cost-sharing for improvements
  - Special Assessment District
  - Municipal Service District
- Secure public benefits (Community Benefits Agreement)
- Verify developer's need (e.g., DFI)
- Gentrification: Community Land Trust
- Relocation assistance

# Race and Development: Sources

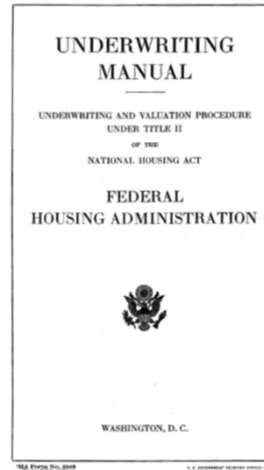
- Baradaran, Mehrsa. *The Color of Money: Black Banks and the Racial Wealth Gap*. (Harvard Press 2017).
- Brooks & Rose, *Racial Covenants and Segregation, Yesterday and Today*, Straus Working Paper 08/10 (2010) <http://www.law.nyu.edu/sites/default/files/siwp/Rose.pdf>.
- Kimble, John. *Insuring Inequality: The Role of the Federal Housing Administration in the Urban Ghettoization of African Americans*, Law & Social Inquiry, Spring, 2007, Vol. 32, No. 2.



Rothstein (2017)

# Overview of Systems

- Private covenants with public enforcement
- Racial zoning
- Redlining and FHA insurance
- Blight and urban redevelopment
- Reverse redlining in the 21<sup>st</sup> Century
- What's next?



# Private Racial Covenants

1948: U.S. Supreme Court, in *Shelley v. Kraemer*, “rendered racially restrictive covenants unenforceable in the courts.”

“Despite *Shelley*, however, racial covenants continued to be written into new deeds until the practice was made illegal through the Fair Housing Act of 1968.”

Source: Brooks and Rose.

1950 covenant in Daly City, California:

The real property above described, or any portions thereof, shall never be occupied, used or resided on by any person not of the white or Caucasian race, except in the capacity of a servant or domestic employed thereon as such by a white Caucasian owner, tenant or occupant.

1953: U.S. Supreme Court rules Fourteenth Amendment precludes state courts from evicting African Americans or adjudicating suits to recover damages.

# Racial Zoning

## Winston-Salem

- “In ‘A-1,’ ‘B-1’ and ‘C-1’ Residence districts, no building or part thereof shall be occupied or used by a person or persons of the Negro race”
- “In ‘A-2,’ ‘B-2’ and ‘C-2’ Residence Districts, no building or part thereof shall be occupied or used by a person or persons of the White race”



**Struck down by *Clinard v. City of Winston-Salem* (N.C. 1940)**

### Facially neutral rezoning in modern times?

1991 example of Warren County’s fourth landfill

Source: Rothstein

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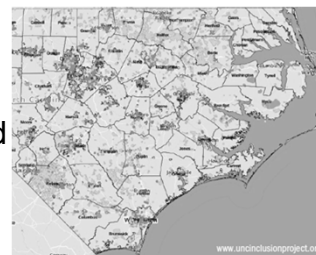
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## Apply the Distribution Problem: Item, Recipient, Process?

- UNC “Exclusion Project” research on majority-minority places
  - More likely to have solid waste facility
  - More likely to have EPA-registered polluter
  - More likely to have closest school be high-poverty or failing school
  - Higher rates of mobile homes, lower rates of home ownership



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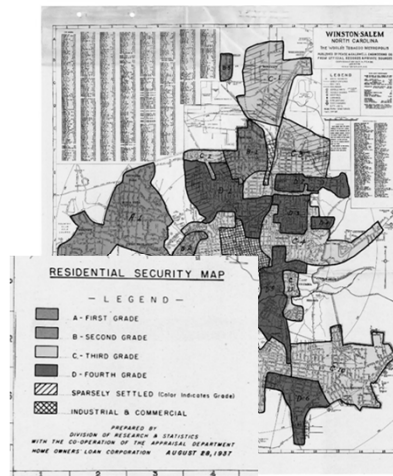
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# Redlining

- 1924: NAREB Realtor Code of Ethics:
  - “A Realtor should never be instrumental in introducing into a neighborhood a character of property or occupancy, members of any race or nationality, or any individuals whose presence will clearly be detrimental to property values in that neighborhood.”
- 1933: Home Owners Loan Corporation (HOLC) hired local real estate agents to create color coded maps



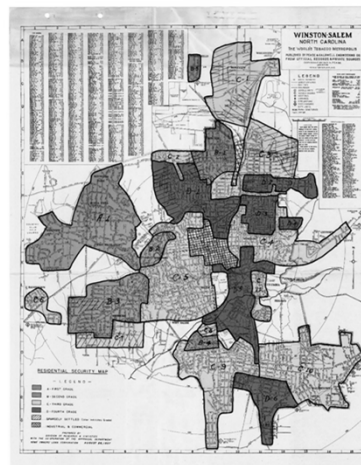
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# National Housing Act of 1934

- Created FHA to insure mortgage lenders against loss.
- FHA mortgage insurance de-risked bank loans made to *owners who met underwriting criteria.*
- The following images are taken from the 1938 FHA Underwriting Manual

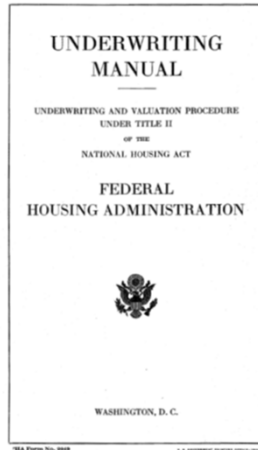


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# FHA Underwriting Manual 1938



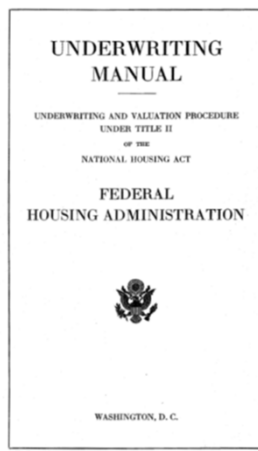
937. *Quality of Neighboring Development.* The quality of dwelling construction is significant, inasmuch as unsubstantial, flimsy construction is subject to rapid deterioration which hastens the lowering of class of occupancy. The same result may be expected for locations whose properties present freakish architectural designs. The rating will be adversely affected if the neighboring development consists of old, obsolete dwellings. The presence of overimprovement or underimprovement in the neighborhood constitutes a condition which may adversely affect location ratings. Areas surrounding a location are investigated to determine whether incompatible racial and social groups are present, for the purpose of making a prediction regarding the probability of the location being invaded by such groups. If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values.

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# FHA Underwriting Manual 1938



980 (3). Recorded restrictive covenants should strengthen and supplement zoning ordinances and to be really effective should include the provisions listed below. The restrictions should be recorded with the plat, or imposed as a blanket encumbrance against all lots in the subdivision, and should run for a period of at least twenty-five to thirty years. Recommended restrictions should include provision for the following:

a. Allocation of definite areas for specific uses such as single or two-family houses, apartments, and business structures

f. Prohibition of nuisances or undesirable buildings such as stables, pig pens, temporary dwellings, and high fences

g. Prohibition of the occupancy of properties except by the race for which they are intended

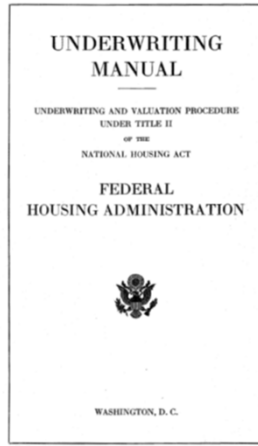
h. Appropriate provisions for enforcement

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# FHA Underwriting Manual 1938



of prospective tenant-occupants. The matters listed below are considered to be significant factors in estimating the degree of owner-occupancy appeal. The first four and the eighth items relate to the neighborhood and the others relate to the specific property being appraised.

- d. The degree of social and racial compatibility of the inhabitants of the neighborhood. The presence of socially or racially inharmonious groups in a neighborhood tends to lessen or destroy owner-occupancy appeal.

# Later editions of FHA Manual

- “In 1947, the FHA removed words like ‘inharmonious racial groups’ from the manual but ... still specified lower valuations when ‘compatibility among the neighborhood occupants’ was lacking...”
- 1952 FHA *Underwriting Manual* retained that guidance.
- Correspondence indicates that as late as 1958 and 1959, FHA refused to guarantee mortgages for African Americans and for whites who leased to African Americans in white neighborhoods.

Source: Rothstein

# Market Impact of Redlining?

- Analyze distribution:
  - Item being distributed?
  - Recipients?
  - Process?



*“By equating African-Americans with risk, the FHA produced a lending drought in neighborhoods of mixed racial composition and directed the rain of capital to fall exclusively over homogenous, white suburbs.” Kimble (2007)*

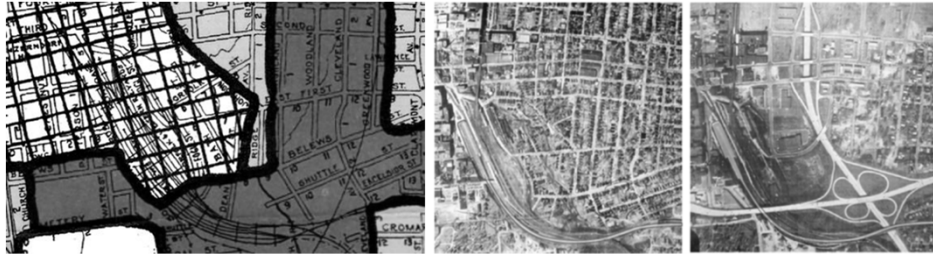
# 1954: FHA Blames the Market

“Various factors have tended to influence this growth and to focus the attention upon the limitations of the production and financing machinery within the private housing market in providing minority groups with an adequate supply of standard housing consistent with their increasing effective housing demand.”

This resulted in a “limited housing supply [that] has tended to create excessive overcrowding, doubling and over utilization of the available land areas and dwellings in the older and more deteriorated residential areas.”

1954 FHA Report: *The FHA Program and Minority Groups*

# Blight and Urban Renewal



- 1937: HOLC redlining map created for Winston-Salem
- 1957: NC Redevelopment Law allows condemnation of residential area if 2/3 blighted (Black neighborhood of Reynoldstown)
- 1959: Winston-Salem City Council approves urban renewal plan to construct U.S. 52 (Hwy 421 intersection shown)

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# Renewal as a national approach



Source: Tri-State Transportation Campaign

Analyze distribution:

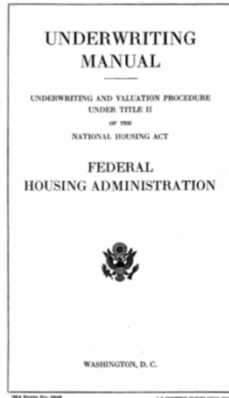
- Item being distributed?
- Recipients?
- Process?

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# Roots in the Underwriting Guide



erties at this location is remote. The degree of immunity offered to a location because of its geographical position within the city is to be considered. Natural or artificially established barriers will prove effective in protecting a neighborhood and the locations within it from adverse influences. Usually the protection from adverse influences afforded by these means includes prevention of the infiltration of business and industrial uses, lower class occupancy, and inharmonious racial groups. A location close to a public park or area of similar nature is usually well protected from infiltration of business and lower social occupancy coming from that direction. Hills and ravines and other peculiarities of topography often make encroachment of inharmonious uses so difficult that protection is afforded. A high speed traffic artery or a wide street parkway may prevent the expansion of inharmonious uses to a location on the opposite side of the street. However, if a high speed traffic artery passes directly through a desirable neighborhood area with similar development on each side of the artery, the noise and attendant danger constitute an adverse influence, rather than a protection.

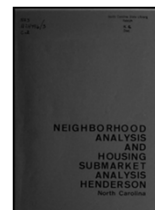
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# Smaller towns and urban renewal

- North Carolina Division of Community Planning
  - Funded by Housing Act of 1954
  - Active in the 1960s
  - State agency that provided technical assistance to local communities to develop urban renewal strategies
  - Produced reports on neighborhoods, community facilities, land use, and annexation



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# Not HOLC Maps

## Neighborhood Characteristics

1. Twenty-seven percent of the dwelling units are deteriorating or dilapidated.
2. Most of the sound housing is in need of immediate minor maintenance to prevent deterioration.
3. Residents in 99% of the substandard houses are black.
4. Ninety percent of the substandard houses are on unpaved streets or streets in need of repair.
5. Water and sewer is available to most of the area.
6. Neighborhood 9 residents receive 16.7% of the Social Services Assistance in the Henderson Planning Area.
7. Neighborhood 9 ranks second in arrests for major crimes in 1970.
8. Neighborhood 9 had 73 fire calls reported in 1969 and 1970.
9. There are no schools in the neighborhood, however, the attendance counselor reports that for the year 1969-1970 there were 15 withdrawals living in Neighborhood 9.

## EXTERNAL STRUCTURAL CONDITIONS

DECEMBER 1970

- DETERIORATING
- DILAPIDATED



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# “Clearance and redevelopment”

see Appendix 3). The newly constructed Young Avenue Apartments are a focal point in an otherwise poor neighborhood. Clearance and redevelopment is suggested for the "Red Hill" area immediately behind these apartments. Street design and layout needs to be coordinated with the terrain in the area.



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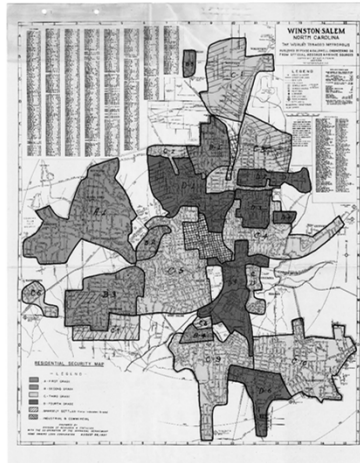
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# Reverse Redlining

- 2000s: Subprime loan bubble
  - Loans impose higher adjustable rates after teaser rate expires
- By 2006, “Higher-income African Americans had subprime loans at three times the rate of higher-income whites.”
- No response from bank regulators
- 2010 U.S. Dept. of Justice: “more segregated a community of color is, the more likely it is that homeowners will face foreclosure because the lenders who peddled the most toxic loans targeted those communities.”
- “As the housing bubble collapsed, African American homeownership rates fell much more than white rates.”



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Source: Rothstein

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# What's next?



- Lower values spark investor interest in formerly redlined areas
- Opportunity Zones offer tax advantages to those who make any investment in distressed census tracts, and no regulatory requirement to benefit community
- Distribution analysis of OZs: Item? Recipient? Process?
- What is the role of the manager in addressing this topic?

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## Managers focused on equity...

- Remain aware of the history
- Engage in systems thinking regarding public and private actors
- Recognize how terms and government “tools” could be interpreted
  - Blight and urban renewal
  - Code enforcement
  - Rezonings
  - Gentrification
  - Opportunity zones
- Study recent responses involving public investment

*DFI engaged for several neighborhood revitalization projects.  
Community engagement is key.*

*See DFI website and CED Blog for more.*

## Questions:

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