

Un-inclusive Growth: Productivity vs Returns to Labor across US Counties

A Multi-Scalar Analysis
of the New Political Economy of Place

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The New Political Economy of Place

A Multi-Scalar View

- **Governance Scale - Decentralization**
 - False Promises on Growth and Equity
- **Corporate Politics**
 - Corporate Penetration of Subnational State
- **Geographic Scale**
 - Is there a City-Region?
- **Economic Scale – Rising Inequality**
 - Shifting from Labor to Capital

Economic Scale: Increasing Inequality

- **Shift from Labor to Capital**
 - Capital-Labor Split – declining share of Labor Returns in national income (Piketty, 2014)
 - Financialization (Lapavitsas, 2014)
 - Knowledge Intensive Industries (Moretti, 2013; Storper, 2013)
 - Resource Boom/Resource Curse (Betz et al., 2015)
- **Loss of Traditional Local Sources of Property Tax**
 - Economic Restructuring –Eds and Meds (Sherman and Doussard, 2019 Aldag et al. 2019)
- **Inclusive Growth**
 - Equality can be pursued as a complement to growth (Stiglitz, 2016)
 - Inclusive Growth Agenda (Lee, 2019; OECD; World Bank)

Governance Scale: State Rescaling

- **More Self-Reliant Local Governments** (Kim and Warner 2018)
 - 66% own source revenue in 2012 (up from 63% in 2002)
 - 30% state aid (down from 33% in 2002)
 - Federal aid only 4%
- **Scalar Dumping** (Peck, 2014; Kim and Warner, 2018)
 - Rising local redistributive responsibilities (Lobao & Adua, 2011)
 - Crowding out local effort for development (Xu & Warner, 2016)
- **False Promises of Decentralization**
 - Growth: negative (Rodríguez-Pose and Bwire, 2004); Positive (Iimi, 2005); No relationship to growth (Woller and Phillips, 1998)
 - Inequality: national level - inconclusive (e.g., Kyriacou et al., 2015; Rodríguez-Pose and Ezcurra, 2010); subnational level – vicious and virtuous cycles (Xu and Warner, 2016; Warner and Pratt, 2005)

Corporate Politics: State-Corporate Coalition

The Penetration of Private Interests

State not shrinking, but power is shifting

The Subnational State Matters:

- Fiscal: State Aid and Fiscal Decentralization
- Legislative: Restricts or Enables Local Government Action
 - Sub-national state, as the soft underbelly, is easy to penetrate

New Coalition between Corporate Interests and State Legislators

- Rising state preemption on local authority (e.g.. NLC, 2017; Kim and Warner, 2018; Schragger, 2016)
- American Legislative Exchange Council (ALEC) (Hertel-Fernandez, 2019)
 - Undermine inclusive growth
 - attack labor power (wages, collective bargaining)
 - privilege corporate interests (undermine local regulatory power)

Geographic Scale:

Is there a city region?

- **Economically - Yes** – State Privileges Places with Capacity and Competitiveness to Celebrate the “Triumph of City” (Glasser, 2011; Brenner, 2009)
- **Politically - NO** – City Power is Limited Politically and Legally (Kim and Warner 2018; Hertel-Fernandez 2017; Schragger, 2016; Frug, 2001)
- **Trajectory:** Spatial Keynesianism → “New State Space” → State Preemption - Corporate Penetration – against the city

Research Question:

What are the implications for productivity of the new political economy of place?

To capture productivity and inclusiveness, we measure both

- **Overall Productivity:** Gross regional production
 - includes both labor and capital
- **Returns to Labor:** Average wage
 - captures how well labor is compensated
- We take a **multi-scalar approach** that integrates scales of governance, corporate control, economics and geography.
 - State & Local Fiscal Policy (Aid, Decentralization)
 - Corporate Capture of State (Preemption, ALEC)
 - Economic Structure (Occupational Mix)
 - Geographic Structure (metro status)
 - Demographic Structure (Age, race, inequality)

Data Sources

Unit of Analysis

- County Areas: Aggregates fiscal data for all local governments within a county boundary (overcomes fragmentation, provides a complete fiscal view)

Region of Study

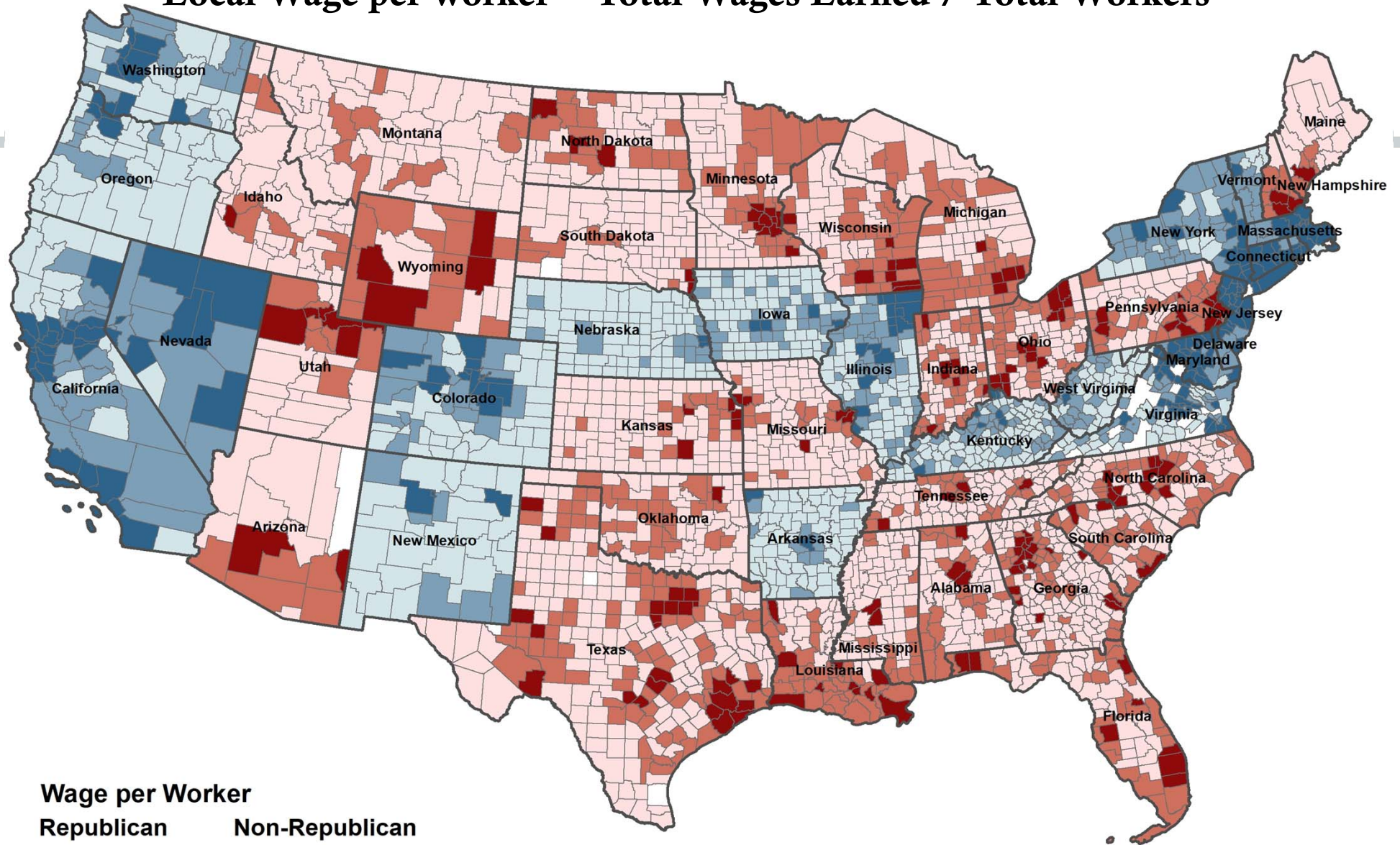
- All county areas in the continental US (N = 3045)

Data

- Demographics - American Community Survey 2009-2013
- Economics - U.S. Bureau of Economic Analysis 2012
- Fiscal - Census of Government Finance 2012
- Legislative - American Legislative Exchange Council (ALEC) Bills introduced from 1996 to 2013 (Hertel-Fernandez, 2019)
- Republican Control - National Conference of State Legislatures 2012
- Metropolitan Status Code - Office of Management and Budget 2013
- Rural-Urban Continuum Code - USDA. Economic Research Service 2013

Returns to Labor

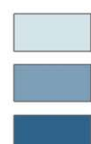
Local Wage per worker = Total Wages Earned / Total Workers



Wage per Worker

Republican

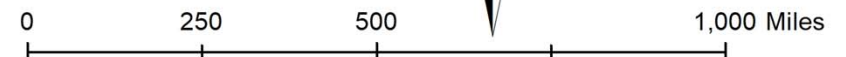
Non-Republican



<Mean \$35,466

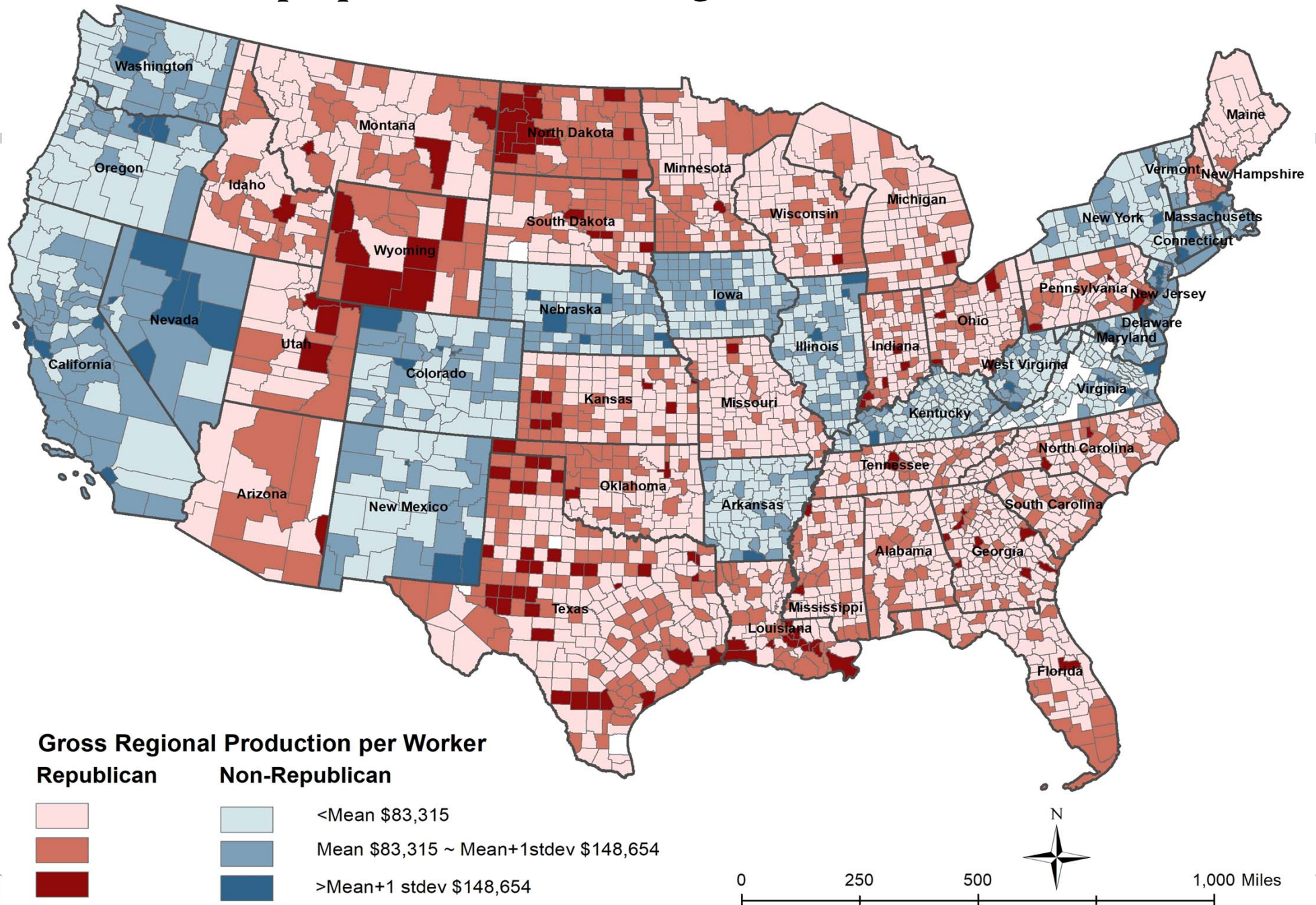
Mean \$35,466 ~ Mean+1stdev \$42,882

>Mean+1 stdev \$42,882

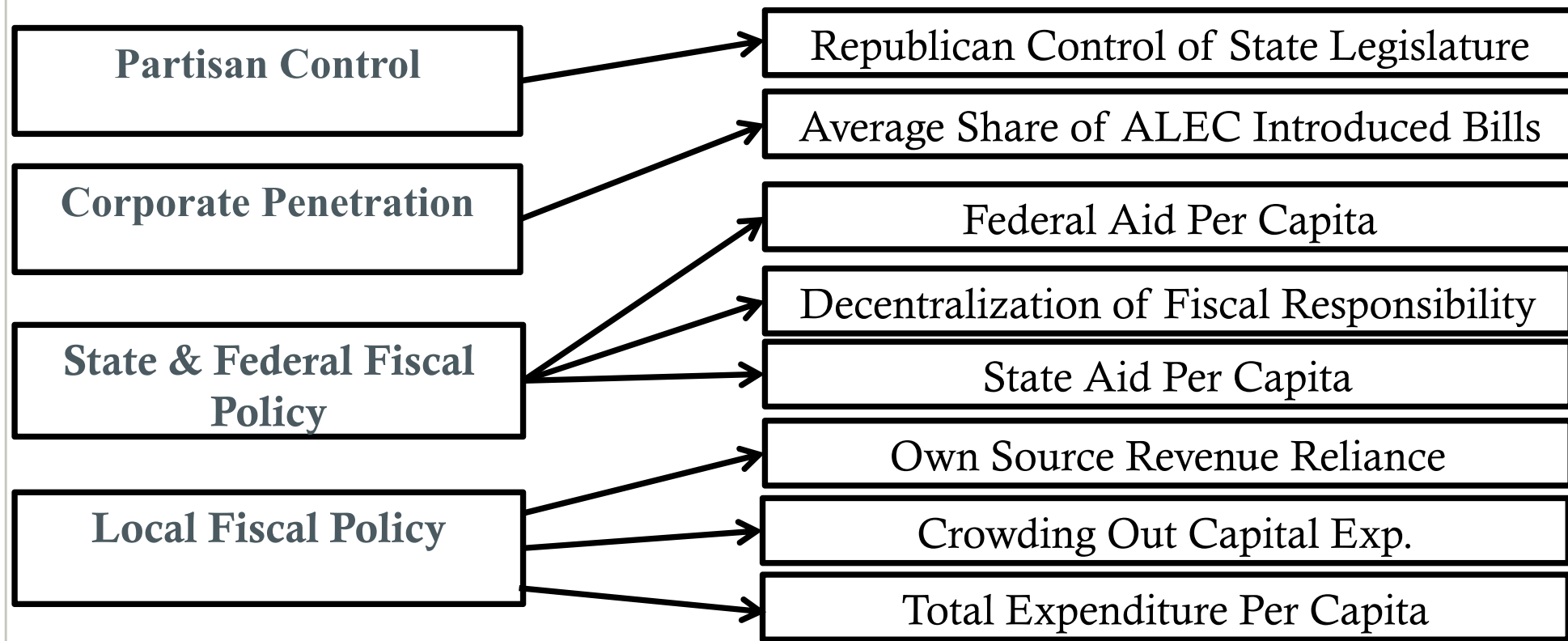


Overall Productivity

Local Output per worker = Gross Regional Production / Total Workers



Model Variables: State Rescaling



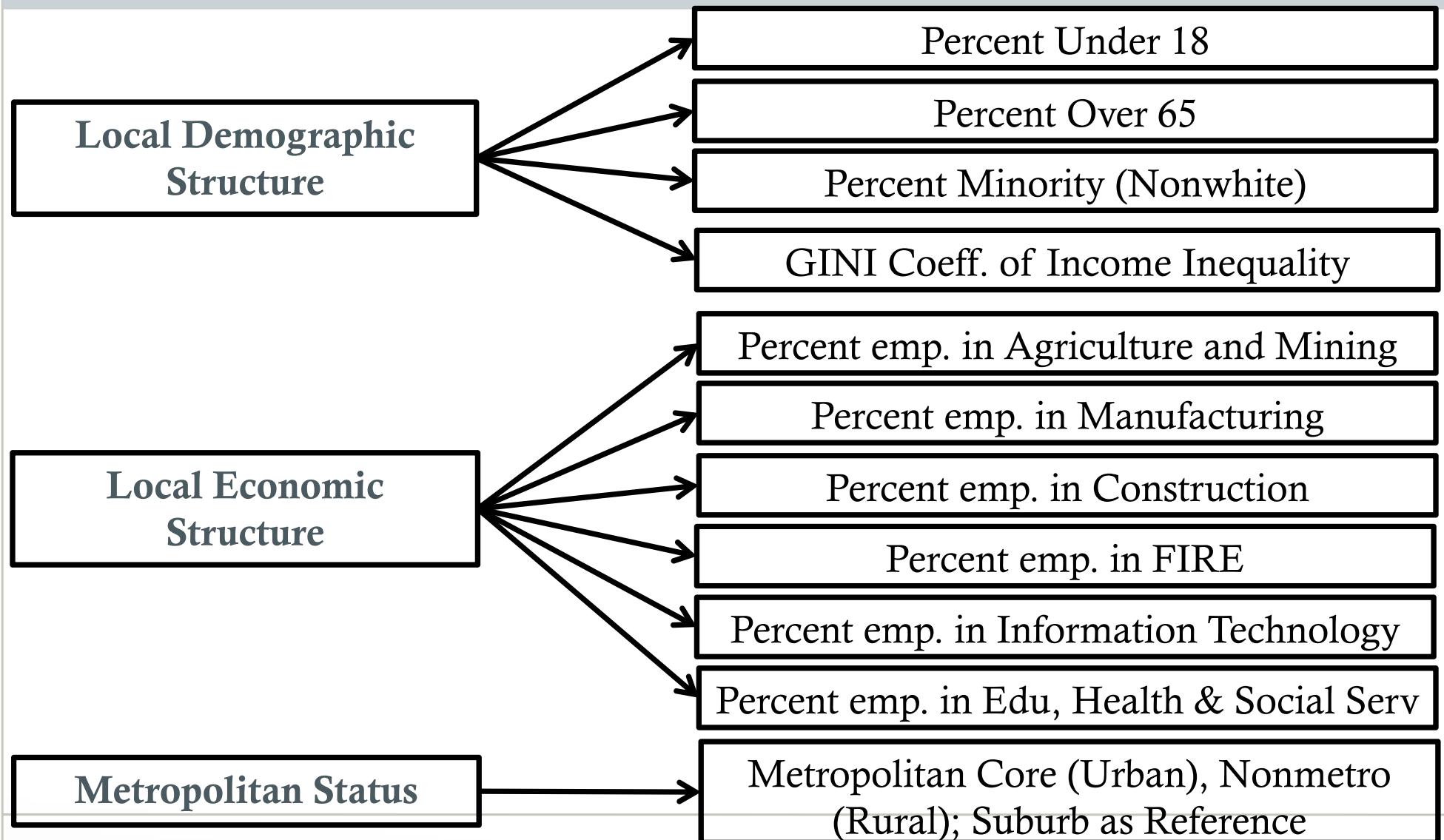
Decentralization of Fiscal Responsibility = $\text{Total Local Exp} / \text{Total State and Local Exp}$

Avg Share of ALEC Bills = $\text{Average (ALEC Introduced Bills / Total Bills) 1996-2013}$

Own Source Reliance = $\text{Local Revenue Source (Taxes, Charges, Fees) / Total Revenue}$

Crowding Out = $\text{Share of Local Current Spending} - \text{Share of Local Capital Spending}$

Model Variables: Place Characteristics



State Rescaling: Fiscal Impacts

- Decentralization undermines productivity
- State aid is productivity promoting
- Federal Aid is not significant
- Local Own Source Revenue reliance is productivity promoting, captures capacity
- Crowd Out undermines productivity
- Local Expenditure favors capital productivity, not labor
- Developmental state is alive, but limited

	Returns to Labor	Overall Productivity
Decentralization	NS	-
State Aid per capita	+	+
Federal Aid per capita	NS	NS
Own Source Rev. Reliance	+	+
Crowd Out	-	-
Local Expenditure	NS	+

Corporate Penetration

- ALEC is negative on labor returns, but not overall productivity
- Republican legislative control is negative on both labor returns and overall productivity
 - Revenge of the places that don't matter? Not really

	Returns to Labor	Overall Productivity
ALEC	-	NS
Republican Control	-	-

New Economy

- Ag and Mining: Higher Overall Productivity, not for Labor
 - Fracking Boom and Resource Curse
- Manufacturing: Neg. For Labor
 - Less Labor Power in South
- FIRE: Higher Productivity for Labor and Overall
 - Financialization
- Eds and Meds: Negative on Labor and Overall Productivity
 - Baumol's Productivity Disease
 - Wage Inequality
 - Non profit – tax exempt

	Returns to Labor	Overall Productivity
Agriculture and Mining	-	+
Manufacturing	-	NS
FIRE	+	+
Education, Health and Social Services	-	-

Place Matters

- City: Higher Productivity
 - But can't capture productivity benefits for labor
- Rural: Left Behind
- Triumph of the Suburb?
- Aging places: Left behind
- Minority: Extractive Growth
 - Lower returns to labor but higher returns to capital)
- Inequality: Un-inclusive Growth
 - Lower returns to labor, but no effect on productivity

	Returns to Labor	Overall Productivity
Urban Metro Core	-	+
Rural	-	NS
Over 65	-	-
Minority	-	+
Inequality (GINI)	-	NS

New Political Economy of Place

Need a theory that is truly Multi-Scalar:

- Government Scale – Subnational State Matters
 - Shifting Impact of State Aid and Decentralization
 - Local Fiscal Crowd Out of Capital Investment
- Corporate Politics – Penetration of Subnational State
 - New Coalition between corporate interests and state legislatures
- Economic Scale – Economic Restructuring
 - Financialization and Returns to Capital over Labor
- Geographic Scale - Differentiate Across the City Region
 - There is no political city region
 - Economic, but not Political Reality (Taming the City)

Implications for Inclusive Growth

- Rebuild Fiscal Balance
 - Fiscal Federalism
 - Tax the New Economy (eds and meds, capital vs labor)
- Regain Democratic (citizen) Control of State Legislatures
 - Identify and challenge ALEC
- Reassert Local Power
 - Do we really want the “new localism”?
 - Is there a progressive regionalism?
- Rebuild Labor Power
 - Unions and Progressive Labor Coalitions

Thank you!

- Questions?
- Contacts
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	Std. Coef.	Sig Level	Std. Coef.	Sig Level
	Labor Compensation		Productivity	
Corporate Penetration				
Share of ALEC Introduced Bills	-0.0910	***	-0.0026	
Republican Control of State Legislature	-0.1118	***	-0.0356	*
State Rescaling				
Decentralization of Fiscal Responsibility	+0.0037		-0.0428	*
Federal Aid per capita	-0.0068		-0.0284	
State Aid per capita	+0.0350	*	+0.1053	***
Own Source Reliance	+0.1311	***	+0.1567	***
Crowding Out	-0.0455	***	-0.0974	***
Total Expenditure per capita	+0.0127		+0.1437	***

	Std. Coef.	Sig Level	Std. Coef.	Sig Level
	Labor Compensation		Overall Productivity	
Local Demographic Structure				
Percent of Under 18%	-0.0148		-0.0583	**
Percent of 65 and Over%	-0.2419	***	-0.1666	***
Percent of Minority (Nonwhite)%	-0.0778	***	+0.0555	**
GINI of Income Inequality	+0.0191		+0.0405	*
Local Economic Structure				
Percent Agriculture and Mining%	-0.2114	***	+0.2013	***
Percent Construction%	-0.0863	***	-0.0887	***
Percent Manufacturing%	-0.1058	***	+0.0035	
Percent FIRE%	+0.2311	***	+0.0482	*
Percent Information%	+0.1000	***	-0.0101	
Percent Education, Health and Social Services%	-0.1086	***	-0.0673	***
Metropolitan Status				
Metropolitan Core (N = 454)	-0.0433	**	+0.1274	***
Nonmetropolitan (N = 1925)	-0.2618	***	+0.0045	
(Reference: Suburb: N = 666)				