Reprint No. 236

Neighborhood Economics: Local Communities and Regional Markets

Reprinted from *Economic Development Quarterly*,
Vol. 3, No. 2, pp. 111-122, May, 1989.

Michael B. Teitz

May 1989

University of California at Berkeley
Institute of Urban & Regional Development

Neighborhood Economics: Local Communities and Regional Markets

Michael B. Teitz
Department of City and Regional Planning
University of California, Berkeley

Despite the large numbers of organizations claiming to promote economic development at the neighborhood level, there is little conceptual foundation for the idea. Substantial arguments can be made for alternative bases for economic development at the city or regional level, in contrast to arguments advanced by conventional growth advocates. But neighborhoods themselves are unlikely to constitute economic entities around which economic development policy can be constructed. Although they are strongly influenced by economic conditions, neighborhoods are best seen as social communities. Their economic dependence on city and regional labor, capital, and real estate markets makes neighborhoods vulnerable to economically motivated forces of change. Efforts to resist or shape this change at the neighborhood level are more likely to work if they are directed at political mobilization and access of residents to urban labor markets, rather than at direct job creation within the neighborhood itself.

The transformation of the North American and European economies since 1970 has brought with it a resurgence of interest in the structure and behavior of regional economies. Entire manufacturing sectors have collapsed in the face of international competition, and new ones have emerged from technological advances. At the same time, services and information processing sectors have grown immensely. The resulting plant closures in some places and new pressures for development in others have rekindled concern about how national and regional economies evolve in advanced societies. Regional and local economic development has become a prime concern of policy as national and subnational governments seek ways to gain the benefits or survive the costs of economic transformation and the industrial restructuring that it entails. New economic development strategies and organizations have emerged together with innovations in research and theory about regional development.

It is hardly surprising that the economic development wave has caught up in it organizations that operate at the most local scale. Neighborhood and community economic development has become a major concern for groups that, with some notable exceptions, have been traditionally concerned with advocacy and provision of community services. In part, this shift of attention has been driven by the decline of federal, state, and local government funding for community development in the 1980s. Agencies seeking alternative

Michael B. Teitz is Professor of City and Regional Planning at the University of California at Berkeley. He teaches and does research on housing and local economic developments.

AUTHOR'S NOTE: I would like to acknowledge the valuable comments on this article by Wim Wievel and an anonymous reviewer. They are, however, not responsible for its content.

ECONOMIC DEVELOPMENT QUARTERLY, Vol. 3 No. 2, May 1989 111-122

sources of support naturally respond to those policy directions where funds are flowing. But the shift also reflects a real sense that services alone cannot provide what is necessary to deal with the problems of poor communities; that lack of income and employment are critical and must be addressed if social issues are to be dealt with.

Despite this interest, activity, and concern, efforts at neighborhood and community economic development have not been notably successful. Local groups often lack the financial resources, technical expertise, and the appropriate outlook to cope effectively with the problems of economic development. At the same time, it may not be exaggerating to say that they have also lacked an adequate theoretical or conceptual basis for thinking about economic development at the most local level. Enthusiasm and advocacy of desirable goals such as "good jobs" and stable incomes are necessary but not sufficient to ensure that goals are realistic or can be met with the means generally proposed.

. . . much of what passes as analysis of neighborhood economic development is either a direct appropriation of the arguments of national or regional economics, or the adaptation of techniques created for businesses in search of new markets.

In fact, much of what passes as analysis of neighborhood economic development is either a direct appropriation of the arguments of national or regional economics, or the adaptation of techniques created for businesses in search of new markets. Although these ideas have relevance to the questions of neighborhood and community economic development, they are insufficient in themselves. They do not take into account the specific characteristics of neighborhoods as the smallest components of urban and metropolitan regions.

This article addresses the question of a conceptual basis for understanding the economy at the most local level. It is not intended to provide a full-fledged theory of neighborhood economics. Rather, it asks what we need to think about in order to discuss the problem of economic development at this scale in a way that reflects the reality of what neighborhoods are, their roles in larger social and economic systems, and their capacity to influence and effect change.

I argue that neighborhoods, by their very nature, are problematic as targets of economic development strategy, insofar as such a strategy is intended to generate economic activity and employment directly within their boundaries. As the places where people live, neighborhoods reflect most clearly the conditions of life of their residents. Thus, they are a logical focus of advocacy and political mobilization. But the historic divorce of workplace from residence is now so far advanced in American cities that localized economic development efforts face great difficulties in raising incomes or bringing people into the economic mainstream. Neighborhood advocacy might do better to concentrate its efforts on first, the need for local populations to gain the human capital and the means to penetrate and succeed in the larger urban or regional labor market, and second, the competition for a larger share of resources for education, services, housing, and environmental improvement. At the very least, it seems appropriate to ask whether the strategies now being pursued are grounded in an accurate view of the neighborhood within the urban and regional economy.

THE NEIGHBORHOOD AS AN ECONOMIC ENTITY

When neighborhood development is raised in debates about the form of economic development policy that a city should pursue, there is often an awkward sense of mismatch between the participants, both in power and in language of discourse. Proponents of city growth, normally drawn from those groups identified by Mollenkopf as the "progrowth coalition," tend to have a fairly clear notion of what they want, together with the resources to make it possible.[1] They also have some conceptual idea of how to realize their objectives. Their models may be ideology in good part, but they also have some basis in analysis and experience.

For growth advocates, both objectives and models are typically variations on conventional ideas in regional economics. The target, economic growth, may be identified and measured in a more or less sophisticated way, but it is always seen as increasing local income, purchasing power, and sales, and therefore generating investment opportunities and raising local property values. Employment and income are the payoffs for broader political constituencies, and increased tax receipts are attractive to governments. These are usually given primary public emphasis. The model of how the economy works to achieve these ends may be as simple as the planners' traditional economic base that sees investment in sectors that sell their products beyond the local market as the driving force for local growth. Or it may be more complex, taking account of such factors as local and nonlocal resources and their relative prices, entrepreneurial energy, the potential for local supply of inputs to production, and competitive market shifts in the existing industrial sectors. Often, a business development perspective dominates, seeking targets of opportunity that will provide an economic boost for the region over a limited time horizon. Usually, downtown interests are prominently represented, especially in the commercial and real estate sectors.

Contrast this with the position of proponents of neighborhood and community economic development. At the outset, we should distinguish between economic development strategies that are broadly intended to benefit populations who are generally ignored by progrowth advocates, and strategies that are specifically intended to generate development within neighborhoods themselves. The former are posed as alternatives to the ideas of conventional growth, and although cloaked in community rhetoric, they are not rooted in the neighborhood per se. Strategies for enhancing the hiring of local residents in downtown development or retaining a major employer or industrial sector are fundamentally citywide in focus. Where they differ from progrowth strategies is in their emphasis on changing the outcomes of development in the direction of equity. Such strategies are in many respects grounded on premises not dissimilar to those of progrowth advocates. But, as with many arguments for distributive equity in economics, they tend to gloss over the questions of where the economic growth originates and what the impact is of its regulation on investor behavior.[2]

On the other hand, community economic development is also commonly taken to mean the promotion of economic activity within neighborhoods themselves, especially in those with large numbers of poor and unemployed people. This view may call for external investment or the generation of local enterprise, and often it centers on enterprise development by local organizations or commercial revitalization. Its advocates range from grassroots neighborhood organizations, to local businesses, to community development corporations. Although there are notable exceptions, these groups typically have limited experience in business and modest personal resources. They are all too familiar with the problems of their communities—poverty, unemployment, crime, drugs, low quality housing, poor health care, and inadequate education—but their objectives for economic development are diffuse, and their sense of the appropriate means is limited, usually requiring substantial redistribution of resources and public action.

Despite their rhetoric, community advocates are often disunited, as competing organizations, based on locality or political factions, struggle for limited funds. The politics of the funding process generate a view of development as an allocative zero sum game in which gains by one entail losses to others. Insofar as they have an economic theory, it too is likely to turn on equity rather than on growth, commonly taking the form of a critique of the distributional benefits of the growth advocated by proponents of development. Downtown, especially, is seen as a threat, draining off fiscal resources and creating problems for other parts of the city or urban area.

In many of these perceptions, neighborhood advocates may not be wrong. But there is a critical weakness in their position in policy debates, namely, that they offer little in the way of a theoretical basis for alternative strategies. The policies adopted have often had more to do with the reallocation of public funds than the elaboration of a positive strategic conception of what neighborhood economic development is supposed to do and achieve. A melange of small business support programs (often of doubtful effectiveness), attempts to save failing firms, and investment in cosmetic improvement of neighborhood shopping areas

A melange of small business support programs (often of doubtful effectiveness), attempts to save failing firms, and investment in cosmetic improvement of neighborhood shopping areas scarcely qualifies as a well-grounded strategy.

complex of activities that are not confined either to work or to consumption of goods and services bought in the market, although they may depend on both. Cooking, eating, homemaking, sleeping, relating to others, and raising families are the activities that people associate with their homes and the neighborhoods in which they live. They are activities simultaneously of nonmarket production and consumption that permit people to live and work. But personal life is more than a process whereby the labor force reproduces itself. Just as the home has a deeper significance socially and psychologically than four walls and a roof, so the neighborhood carries with it social meaning and value that people are prepared to pay for and defend both economically and in more than purely economic terms.

This production and consumption is both individualized and collective. As Charles Tiebout pointed out 30 years ago, the collective consumption aspect of small communities provides a basis also for a marketlike set of choices as residents seek packages of amenities, environments, and public services according to their means and preferences.[6] Such consumption is strongly shaped by governmental action responding to the desires of the population. Without explicit governmental structures, urban neighborhoods reflect this process less clearly than do small, suburban communities. But to the extent that residents can choose to relocate and/or influence their local environments and services, neighborhoods too can be seen as expressions of collective consumption choices. Although concerned with neighborhood transition, neighborhood theorists have generally ignored Tiebout, perhaps because they perceive that the populations in which they are interested have little residential choice or political influence. Although this may be true at the bottom of the social scale, higher incomes do allow individuals to exercise choices, and in the United States they have chosen to leave their neighborhoods in large numbers when able and motivated to do so. The results, at times, have been catastrophic for those left behind.

As a locus of production for the market, the neighborhood has three key aspects: production of goods and services for external markets, production of goods and services for consumption by neighborhood residents, and provision of labor for employment both within and outside the area. We consider first production for external markets.

As a locus of production for the market, the neighborhood has three key aspects: production of goods and services for external markets, production of goods and services for consumption by neighborhood residents, and provision of labor for employment both within and outside the area.

Historically, neighborhoods in cities were often identified with craft production by residents of specific goods for sale to larger markets. Subareas devoted to such crafts were common in medieval European cities and can still be found, especially in the Third World. However, the development of wage labor, concentrated employment, and commuting have largely rendered such identification obsolete.[7] Of course, some types of production do still occur in many neighborhoods, especially in older cities and those experiencing immigration from Third World countries. In some instances, such production may be quite significant. Small scale workshops producing clothing or other consumer goods are common and have been increasing in immigrant neighborhoods in U.S. cities. Other areas are still tightly linked to specific plants located within or adjacent to them. Service functions, such as restaurants, attract clients from outside the neighborhood, and therefore are selling their product to the outside. In some instances, the ethnic character and associated retail functions may generate a tourist activity on a much larger scale, as has happened in Chinatowns or other ethnic neighborhoods. Many small rural communities are tied to or identified with specific forms of production, especially in resource extraction. And to the extent that illegal activities such as drug sales serve larger markets, their operation may be seen as service production for external markets. Nonetheless, for better or worse, most neighborhoods are identified by the nature of their populations, social relations, income and occupational structure, and physical fabric, rather than what they produce.

A second category of market-oriented production in the neighborhood economy consists of activities that produce goods and services directly for sale to residents. For the most part, this production consists of services, especially in the retail sector. Neighborhoods are often identified with their service functions—shopping streets, restaurants, specialized services—and the level of production, sales, employment, and income generated by these activities may be substantial. To the extent that ownership and employment in these scarcely qualifies as a well-grounded strategy. Although techniques are becoming more sophisticated, for example in enterprise development, housing trust funds, neighborhood reinvestment campaigns, or linked development, the fundamental theoretical problem of how the neighborhood relates to the larger economy remains.[3]

Is the neighborhood, in fact, an appropriate basis for organizing urban economic development? This question requires first an examination of the neighborhood as an economic entity in itself, which is the aim of this section of the article. The following section assesses neighborhoods within the larger context of the metropolitan and regional economy.

In this article, the term *neighborhood* refers to a contiguous subarea within a city or region that is seen by its inhabitants and others as possessing internal coherence and social meaning. Such a perception is usually associated with some important characteristics that may include social composition, ethnicity, economic class and structure, or physical attributes. As the term is generally understood, a neighborhood is part of a larger urban governmental entity, and has, at most, quite limited formal governmental existence. However, many of the qualities ascribed to neighborhoods may be found also in small suburban or rural places that may or may not be incorporated as formal local governments.

It is evident that this definition is not based on some fixed set of objectively definable and measurable attributes. Rather, it rests on the perceptions of residents and outsiders alike that an area comprises more than an arbitrary collection of people and things—that it has some coherence and meaning in a social sense. Thus it is no accident that "neighborhood" and "community" are often used interchangeably, because both imply a sense of common interest and belonging. But community does not require spatial propinquity in order to exist, although it may be argued that neighborhood does. Hence, we may see the idea of neighborhood as falling within the larger meaning of community; supported by a perception that community exists within it, but neither encompassing all types of community that can be envisaged nor implying that all residents see themselves within it as a community.[4] Furthermore, this definition implies that neighborhoods must be spatial, but does not imply that they must have determinate boundaries. Rather, neighborhoods may imperceptibly merge with others or have sharp boundaries according to the attributes that people use to identify them.

This notion of neighborhood fits common usage and understanding. Neighborhoods are places where people live, where they have a place to sleep in relative security, where they carry on the ordinary business of life with its need for both privacy and social contact. No matter how poor or inadequate the reality may be, the need for a place and a territory—a sense of belonging—seems to be formidably strong among human beings.

Such a definition of neighborhood is based primarily on culture and social relations that may be shaped and influenced by economics, politics, and physical structure, among many other things. Nonetheless, the common interests that people within an area express are mediated primarily through the social sphere. It is this quality that makes neighborhoods different from larger areas within which people live and with which they also identify themselves. And it gives to neighborhood movements a character that cannot simply be explained as an epiphenomenon of economic forces.[5]

Yet, economics is a potent force in shaping human behavior in neighborhoods, as elsewhere, and we should ask how economic forces are expressed at the neighborhood level. In order to understand fully the economics of neighborhoods in Western cities, we need to look at them as places where consumption and production occur, both within and outside the market. This latter characteristic, the nonmarket nature of much neighborhood activity and its valuation by residents, makes neighborhood economics especially interesting. Conventional economics tends to see the neighborhood primarily as the locus of consumption of goods and services purchased in the market, and secondarily as the locus of limited forms of other economic activity, particularly retail sales and services. However, a fuller representation of the function of neighborhoods is perhaps conveyed by the Marxian notion of reproduction. As places to live, neighborhoods are where people carry on the activities is local, such production has a multiplier effect that has been the focus of a good deal of neighborhood economic research and policy. Even more important, such enterprises may form the basis for capital accumulation and business experience for residents that, over time, can transform their economic status. We will take up this question further.

The principal economic role for the neighborhood is as a source of labor for production that is located elsewhere. As such, the neighborhood is primarily the locus of reproduction of labor rather than of production itself. How that process occurs is exceedingly complex. Culture and social and family relations influence expectations and attitudes toward work and education, especially of new entrants to the labor force. Working-class and middle-class cultures are reinforced by neighborhood characteristics, subtly or crudely, through mechanisms ranging from group pressures and norms to discrimination or varying expectations in schools. Viewing the neighborhood as a source of labor may appear antithetical to the foregoing argument that it is primarily comprehensible as a place for living. But modern urban life cannot be carried on without income, and employment outside the neighborhood constitutes the principal source of income for residents. There are many other ways in which incomes within a neighborhood are generated, and these will be discussed further, but for most people the ability to generate income through employment is the critical factor in their ability to participate in the market economy, and therefore to carry on the rest of their lives. Whether that employment is within or outside the neighborhood, and oriented toward locally or externally marketed production, however, may make a significant difference.

The counterpart of production for the market is consumption of goods and services supplied through the market, which requires income. We have argued that nonmarket consumption is an essential element of neighborhood economics, but the nature and functioning of neighborhoods as places where a life of some quality can be realized depends critically on the incomes that the inhabitants can attain. Employment, both within and outside the neighborhood, is the dominant source of income in most instances, and the principal problem in many others. However, there are also other important sources of income that need to be recognized if we are to understand the level and nature of consumption that neighborhoods can achieve.

Income from ownership of assets that generate interest, rent, profit, or other forms of return is generally less important than wage and salary income, except in high-income neighborhoods. An important exception, however, is ownership of local enterprises, especially when such ownership is accompanied by high levels of saving and reinvestment. The experience of immigrant neighborhoods in U.S. cities over the past century suggests that neighborhoods may be very effective economic development and employment generators by virtue of the entrepreneurial energy, mutual support, and trust of their inhabitants. Using links of family, ethnicity, and location, people have been able to achieve income and employment gains far beyond what might have been anticipated from their initial financial resources, albeit at real human cost.[8] Another exception is home ownership, which may be a source of unrealized capital gain until a property is sold. For neighborhoods that are gentrifying, such gain represents the "export" of residents' assets to in-migrants or absentee owners, and is likely to have consequences as powerful as the transformation of a national economy by immigration or a shift to external ownership. Whether this occurs depends on the relationship between the neighborhood and the larger region in asset markets, which is discussed in the following section.

The experience of immigrant neighborhoods in U.S. cities over the past century suggests that neighborhoods may be very effective economic development and employment generators by virtue of the entrepreneurial energy, mutual support, and trust of their inhabitants.

Transfers, which involve neither direct labor nor asset ownership, constitute a third category of income that is important for neighborhood economics. Payments such as social security, private pensions, welfare, or medical and disability payments may form a significant part of the income stream available to a neighborhood's residents. In some economies, especially where the very poor or retirees are numerous, transfers may even exceed other forms of income. Besides providing basic purchasing power, transfer income may affect the economic functioning of an area in complex and subtle ways. Home-owning pensioners, for example, are often averse to governmental taxes and expenditures that are not directly beneficial, with consequent effects on neighborhood political reactions to development proposals. Welfare populations are associated with many social problems that tend to discourage private investment. Thus, although transfer incomes may make economic life possible for neighborhoods, they are not unequivocally positive in their effects on economic activity. The repeated failures of attempts to "capture" or "recycle" such income within neighborhoods are not accidental.

In keeping with the general view of neighborhoods as points of consumption, analysis of income flows is among the most developed area of neighborhood economics. At least since the early 1960s, researchers have attempted to measure income flows, usually in order to estimate multipliers for different categories of income and economic activity. Public concern about black ghettos in the 1960s and the War on Poverty stimulated a great deal of interest.[9] In recent years, this work has fallen off, probably owing in good part to the decline in public funding for research on neighborhood issues. Nonetheless, the work has left some residue that is worth noting. Perhaps most important is the conclusion that small area multipliers tend to be very low, no matter whether the residents are rich or poor. Multiplier estimates of less than 1.1, indicating that one new dollar of income from the outside would generate no more than 10 cents of additional, locally generated income to residents, were found in low-income Hough and high-income Winnetka alike.[10] Little evidence suggests that moderate- or middle-income areas would do much better, though it might be intriguing to estimate such multipliers for neighborhoods with large numbers of recent, economically active migrants, especially Asians. As suggested here, their successful generation of small enterprises, both in services and production of goods, suggests that such neighborhoods may be self-generating economic systems that differ substantially from those that were analyzed previously.

The picture of the neighborhood economy from an internal production, income, and consumption viewpoint presents some paradoxical qualities. On the one hand, neighborhoods are perceived by their residents as places that exist in their own right, providing territorial security and networks of social contacts. On the other hand, most neighborhoods seem to exhibit economic dependence rather than autonomy. They appear to be economically captives of the larger urban and regional economies within which they function, especially in the generation of income. Yet the objectives of residents, particularly those who are not transients, are intrinsically bound up with security and autonomy. They seek to be able to live with some degree of personal security and comfort and escape the vicissitudes of the larger economic system with its relentless pressure for change. The wealthy are able to achieve this. Witness the unchanging character of high-income enclaves within virtually every metropolitan area in the United States over the past 30 years. New high-income areas emerge in response to urban growth, but the old largely remain. The historic process of subdivision of large houses or their replacement by apartments seems to have been slowed to the vanishing point by a combination of zoning and building codes and the exercise of fierce and powerful opposition to change in such areas. Neighborhood stability depends on a desire and ability on the part of the wealthy to continue to occupy their neighborhoods. Areas such as New York's Upper East Side, Chicago's Gold Coast, or San Francisco's Pacific Heights are evidence of the ability of neighborhoods with sufficient resources to sustain their character.

What the wealthy have, the middle-income and poor would also like. In the United States, through suburbanization and home ownership, many have achieved some approximation of it. Their power to create neighborhood stability has also grown through learning how to use political power at the local level in order to thwart change. However, when the economy is troubled, their power shrinks, and the forces of change may become unchallengeable. In very different ways, though with similar outcomes, this was the lesson learned by residents of neighborhoods in the Bronx during the 1960s and in Poletown in Detroit in the following decade. For the former, transition occurred with the exodus of middle-income residents and the influx of low-income minorities. For the latter, General Motors could dictate to Detroit the terms for retaining its investment, production, and employment in the city. In both instances, the economic fate of neighborhoods was ultimately shaped by markets outside themselves. These were markets in which both residents' labor and the physical assets of the neighborhoods were being traded. Thus it is necessary to consider next the role of the neighborhood within the larger economy of which it is a part.

THE NEIGHBORHOOD ECONOMY IN THE REGION

Given their small scale and lack of direct control of production, neighborhoods bring to the metropolitan and regional economies of which they are a part four major assets. These are: first, the human and other capital resources of the residents; second, the physical stock of buildings, infrastructure and amenities; third, the locational position within the region that creates economic rental value of the land; and fourth, the political strength of residents in larger formal and informal governmental systems. To a greater or lesser degree, all can be bought and sold. Thus the neighborhood itself is both a participant in and an object of market activity at a larger scale.

From this perspective, we can see the neighborhood as an element in an ecological system, having much in common with the idea of the niche.[11] Stability in a particular configuration of population, income, and physical form implies that a neighborhood's residents are able to generate sufficient income to secure the standard of life to which they are accustomed, which must also be sufficient for them to resist pressures from the larger market that would reshape either the physical fabric or the occupancy of the area, or more commonly both. To improve the standard of living of residents without destroying the character of the community entails increasing their real incomes without either inducing them to leave or creating an environment that will lead others who are better off to outbid them for the space that they occupy. In many respects, it seems that these are the economic objectives of neighborhood and community development groups. It is also clear that these are not simply objectives involving growth, but also a kind of balancing act that accounts for many of the problems that such groups have with the idea of development. In this balance, the objectives of individuals seeking personal achievement and satisfaction may conflict with those of neighborhood organizations that desire stability.

In relation to the region, a neighborhood's ability to survive and prosper depends in large part on its performance in the four markets noted here. We will discuss each of them briefly.

Labor markets in U.S. cities are dominantly regional, and the performance of neighborhood residents within them will largely determine the key income flow that maintains their relative and absolute standard of living. In this sense, neighborhood character and quality is directly linked to the regional market. As that market shifts under pressures of competition and technical and product innovation, so residents will continue to be employed and experience growing incomes only to the extent that they bring to the market skills and experience that are in demand. Labor markets are imperfect and individual wages are affected by many factors, among them institutional arrangements for market control and entry, monopolistic or public regulation of prices, social and ethnic discrimination, and other ways in which competitive forces are distorted. Nonetheless, long-term shifts in technology, cost, and demand are relentless. Neighborhoods whose residents cannot compete in regional labor markets either must have alternative, permanent sources of income, or they will be inevitably pushed to the wall. Such neighborhoods become both internally less desirable for those residents who can work, and externally more vulnerable to market pressures for transformation and sale of their assets.

The history of black inner-city neighborhoods over the past 20 years has exemplified this pattern too often. Demand for unskilled labor has declined, job opportunities have decentralized, and education has been inadequate for youth to gain the human capital necessary to compete effectively in labor markets in which they are also burdened by discrimination. The results have been disastrous. So much has been written about this issue, and the associated problem of shifts in location of employment to the metropolitan periphery that have reduced access to employment by inner-city residents, that it does not need repeating here.[12] Yet it is also worth noting that there are neighborhoods, usually occupied by migrants, with poor residents but low unemployment rates. In part, this is due to the existence of employment opportunities that are low-wage and relatively low-skilled, but which are nonetheless attractive in the context of the social values that are held by the residents. They may not be satisfied with their jobs, but they see them as more than simply dead ends.[13] Their goals are linked to those of others through ties of family or ethnic group, and extend across more than one generation. It seems likely that neighborhood identity in this context is an important reinforcement of people's ability to improve their condition through cooperative effort, although it is clearly not sufficient without other ties and means for reinforcement of effort.

Intriguing as this image may be, there is little likelihood that it can be reproduced in poor inner-city neighborhoods whose residents are several generations away from the original migrants. The cultural norms, attitudes, and desires of residents are simply too different from the immigrant ethic. For these, as for the mainstream, the principal option is to find work in the larger economy, which means that education, training, and social support such as child care are essential. How to raise the human capital of people living under ghetto conditions is a problem beyond the scope of local effort, and perhaps beyond any feasible program. The logic of the problem suggests that at least there should be a much greater effort to motivate youth toward work while simultaneously upgrading the quality of education that they receive. This has been frequently proposed, but in the context of the late 1980s its achievement is doubtful at best. The demographics of the 1990s suggest that a shortage of labor will occur in the coming decade, which should provide the best opportunity for increased employment for many years. But without real increases in human capital, the ability of future residents of inner-city neighborhoods to compete in regional labor markets will remain seriously limited. This should be the most important agenda item for community development.

How to raise the human capital of people living under ghetto conditions is a problem beyond the scope of local effort, and perhaps beyond any feasible program.

The second and third elements of neighborhoods' relations with regional economies are best considered together. The physical assets of a neighborhood—its housing, streets, parks, public facilities, commercial buildings, and public institutions—are located uniquely in relation to the metropolitan region of which it is a part. Together, they constitute one element of the total region that people, businesses, and institutions may consider when searching for a location for their activities. We may think of all such locations within the city as continually being examined by potential inhabitants, who then either seek to enter them by purchase or rental or reject them on grounds of unsuitability or cost. Because the conditions under which such choices are made change constantly, depending upon the people or organizations involved and their economic circumstances, there can be little in the way of long-term equilibrium. Perhaps the remarkable thing is how slowly change does usually occur in reality, largely owing to the high economic and political cost of changing a city's physical structure on a large scale and the high risk of attempting to do it piecemeal. Neighborhood stability does exist, but it is also a kind of illusion. Over time, people live out their lives, move, and change; businesses expand or decline; organizations change their clientele and objectives.

Of course, neighborhood transitions are not solely the outcome of market processes. Some neighborhoods are more vulnerable than others by virtue of ownership of assets by nonresidents, and lack of control over institutional mechanisms that make market penetration easier. Redevelopment, for example, may be speeded up by the creation of legally defined redevelopment areas in which public resources are mobilized to encourage and support private investment. Access to credit is often unequally distributed, and large investors may be able to gain public and private support that is unavailable to the small. Nonetheless, the market power of protagonists competing for a neighborhood's assets is likely to be critical to the outcome.[14]

A neighborhood's economic equilibrium, then, is not simply a question of its residents' ability to continue to earn income. It also depends on their *relative* purchasing power in relation to the assets that they occupy. If their incomes rise to the point where they no longer prefer the physical housing stock and amenities of the neighborhood, and rebuilding in place is not seen as feasible, then they may simply move away. Prices of the neighborhood assets may fall, in which case it will be occupied in succession by some other groups. This was the central problem facing policymakers in the 1950s and 1960s, when suburbanization depopulated the middle-class areas of many inner cities. Conversely, when conditions shifted in the 1970s and 1980s, the process reversed and higher-income populations outbid neighborhood residents of environmentally or locationally attractive low- and moderate-income neighborhoods. Gentrification, in this sense, represents the outcome of a bidding process for neighborhood quality that is partly driven by physical characteristics. It is also affected by social factors insofar as in-migrants are attracted by local vitality or diversity that their continuing incursion may eventually stifle; and it may be offset not simply by residents' ability to outbid newcomers, but also by social or physical characteristics that render such bidding less likely in the first place. In this respect, neighborhood improvement may not always be advantageous. Although most models of these processes have concentrated on the boundary conditions, where the friction of transition is greatest, the process should be seen as part of the larger regional market.

Again an ecological analogy is useful for thinking about these ideas. A neighborhood takes its form as the result of an historical process in which groups in a city sort themselves out, acting according to their power to occupy space and the relative desirability of one space as against another. Much, but by no means all, of the power that is exerted in this process is economic in nature and played out through land and property markets. These forces may be modified, however, by political strength, which is the fourth factor in regional neighborhood relations.

Precisely because neighborhoods are primarily social entities, politics plays an important role in their relationships at a regional scale. Every urban neighborhood is part of a larger government, and depends on that government for vital services. Common perceived interests at the level of everyday life translate into political action relatively easily. The issues are understandable and recognizable to people immediately. In consequence, neighborhoods have long enjoyed some degree of political access to higher levels of government, if for no other reason than the fact that areal definition of interest fits into the way that politicians tend to see the world. Thus neighborhood organizations have been able to use political power to offset economic strength, at least to some degree.

But neighborhoods' ability to thwart market processes is limited by the very same characteristics. Being small, they are able to mobilize only limited numbers of potential voters; and being residential and often poor, they cannot offer economic incentives in the form of campaign contributions on any scale. Furthermore, the inward looking stance that is intrinsic to neighborhood identity tends to militate against the formation of alliances for larger ends. In any case, there are real conflicts among neighborhoods over city goals and the allocation of public resources for all manner of services and other public functions. Economic development measures intended to benefit the poor were blocked by neighborhood opposition in Santa Monica. The election of a public official that is strongly affected by coordinated neighborhood action is quite rare, notwithstanding the mayoral elections in Chicago and San Francisco during this decade.

Neighborhoods may use political power to attempt to counter the influence of the market, but they are often dissatisfied with the results. The problems that they face may be simply too great for local governments to deal with, or the opposition of economic interests too strong. Clearly, the most successful have been those middle- or upper-income neighborhoods that have used political power to resist change. A good example is the recent decision by San Francisco to prohibit demolition of single-family homes in the Richmond district, which was attracting upwardly mobile and larger Chinese households willing to pay for apartments in three- or four-unit buildings. In this instance, the desire to preserve the physical character of the neighborhood by current residents outweighed the interests of future residents. Such efforts rarely address the concerns of the poor, and they tend to be less effective when they are seeking than opposing change.

Neighborhood advocates, then, often find themselves cast politically as radicals who are resisting change. Their aims are simultaneously to generate development within neighborhoods that will benefit residents, and to defend the interests of residents or businesses who are likely to be injured by the effects of economic forces working at larger scales, whether regional, national, or international. The politics of such a situation are complex, whether at the city or regional level. It is difficult to find identify stable and natural political allies, because one group's desirable economic development is likely to be another's bane. Differences in style and ideology make it difficult to form coalitions with locally and regionally based businesses until the local economy reaches a point of crisis, as was evident in the steel valleys of Pennsylvania and West Virginia. Coalitions of neighborhoods themselves hold the best prospect for political success, but the issues that cut across their diversity of income and class tend to be based in life-style and environment rather than in economic development. The effective use of political leverage by poor neighborhoods to achieve their goals is fraught with difficulty.

Neighborhood advocates, then, often find themselves cast politically as radicals who are resisting change. Their aims are simultaneously to generate development within neighborhoods that will benefit residents, and to defend the interests of residents or businesses who are likely to be injured by the effects of economic forces working at larger scales, whether regional, national, or international.

CONCLUSION

This sketch of the elements that should be taken into account in the study of neighborhood economics has taken us across the social and political realm. That is as it should be, for the neighborhood is at heart not an economic concept. Yet it is evident that neighborhoods are deeply vulnerable to economic forces outside the control of their residents. Indeed, their problems are often beyond the capacity of local or regional agencies to respond. Research into the economics of neighborhoods has thrown some light on the market forces to which they are subject, but it does not provide neat answers to their problems, nor does it suggest a simple strategy for them to advocate. It does point up the primary importance of the quality of the labor force as a determinant of employment and neighborhood income, and it reinforces the necessity for poor neighborhoods to form coalitions in order to mobilize political and financial resources in order to improve their residents' chances of employment. But, for poor neighborhoods especially, there are so many other needs that employment and training may be swamped in the clamor for action. From an economic perspective, however, it is doubtful that anything else can be more than a temporary palliative.

NOTES

1. John H. Mollenkopf, *The Contested City* (Princeton, NJ: Princeton University Press, 1983). Mollenkopf's sophisticated analysis of the relationship between development and local and national politics provides perhaps the best point of departure for thinking about neighborhood economics.

2. For a good discussion of this view see Robert Mier, Kari J. Moe, and Irene Sher, "Strategic Planning and the Pursuit of Reform, Economic Development, and Equity," *Journal of the American Planning Association* 52 (1986): 299-309.

3. See Robert Mier and Wim Wievel, "Business Activities of Not-For-Profit Organizations: Surviving the New Federalism," *Journal of the American Planning Association* 49 (1983): 316-25.

4. *Neighborhood* may also have a purely formal meaning of district or general vicinity. In the present context, that definition is not particularly relevant or useful. See Howard W. Hallman, *Neighborhoods: Their Place in Urban Life* (Beverly Hills, CA: Sage, 1984). More serious for the argument of this article is the view that neighborhoods are really quite trivial in relation to people's lives and the forces at work in urban areas. This view is advocated in Charles Bowden and Lew Kreinberg, *Street Signs Chicago: Neighborhoods and Other Illusions of Big-City Life* (Chicago: Chicago Review Press, 1981). Wellman and Leighton similarly argue the neighborhood and community should not be confounded but considered in parallel. See Barry Wellman and Barry Leighton, "Networks, Neighborhoods, and Communities: Approaches to the Study of the Community Question," *Urban Affairs Quarterly* 14 (1979): 363-90. For a proneighborhood assessment of the argument, see James V. Cunningham, "Are Neighborhoods Real? A Review Essay," *Urban Resources* 1 (1983): 19-22.

5. This role of neighborhoods in urban social and political movements has been effectively argued in Manuel Castells, *The City and the Grassroots* (Berkeley, CA: University of California Press, 1983).

6. Tiebout's famous model was put forward in his classic paper: Charles M. Tiebout, "A Pure Theory of Local Public Expenditures," *Journal of Political Economy* 64 (1956): 416-24.

7. It is intriguing to contemplate the potential reversal of this trend by technology that permits the return of work to the home, but in the near term it is an unlikely prospect on any scale.

8. For a discussion of the immigrant enclave, see Alejandro Portes and Robert Manning, "The Immigrant Enclave: Theory and Examples," *Ethnicity: Structure and Process*, eds. Joanne Nagel and Susan Olzak (New York: Academic Press, 1985).

9. A good and still quite relevant review of ghetto economics is presented in Daniel R. Fusfeld, "The Economy of the Urban Ghetto," in *Financing the Metropolis: Public Policy in Urban Economics*, ed. John P. Crecine (Beverly Hills, CA: Sage, 1970).

10. See Charles M. Tiebout, "Community Income Multipliers: A Population Growth Model," *Journal of Regional Science* 2 (1960): 75-84; and William H. Oakland, Frederick T. Sparrow, and H. Louis Stettler, III, "Ghetto Multipliers: A Case Study of Hough," *Journal of Regional Science* 11 (1971): 337-46.

11. This idea, of course, is not new. Ecological concepts have been used in sociological explanations of city structure from Burgess onward, and they have emphasized the mosaiclike character of cities. However, this use of the concept differs both from that of the social ecologists and the other well-known ecological approach associated with Norton Long, specifically in its view of the relation between neighborhoods and larger systems through asset markets. See Norton E. Long, "The Local Community as an Ecology of Games," in *Perspectives on the American Community*, ed. Roland L. Warren (San Francisco: Rand McNally, 1973, pp. 45-59).

12. John Kasarda has written extensively on this issue. For a recent summary of his work, see John D. Kasarda, "Urban Change and Minority Opportunities," in *The New Urban Reality*, ed. Paul E. Peterson (Washington, DC: Brookings Institution, 1985).

13. See Portes and Manning, "The Immigrant Enclave"; and Kenneth Wilson and W. Allen Martin, "Ethnic Enclaves: A Comparison of the Cuban and Black Economies in Miami," *American Journal of Sociology* 88 (1982): 135-60.

14. Giloth and Betancur illustrate both this process and responses to it quite clearly. However, the neighborhoods that they describe are more properly called industrial districts. See Robert Giloth and John Betancur, "Where Downtown Meets Neighborhood: Industrial Displacement in Chicago, 1978-1987," *Journal of the American Planning Association* 54 (1988): 279-90.