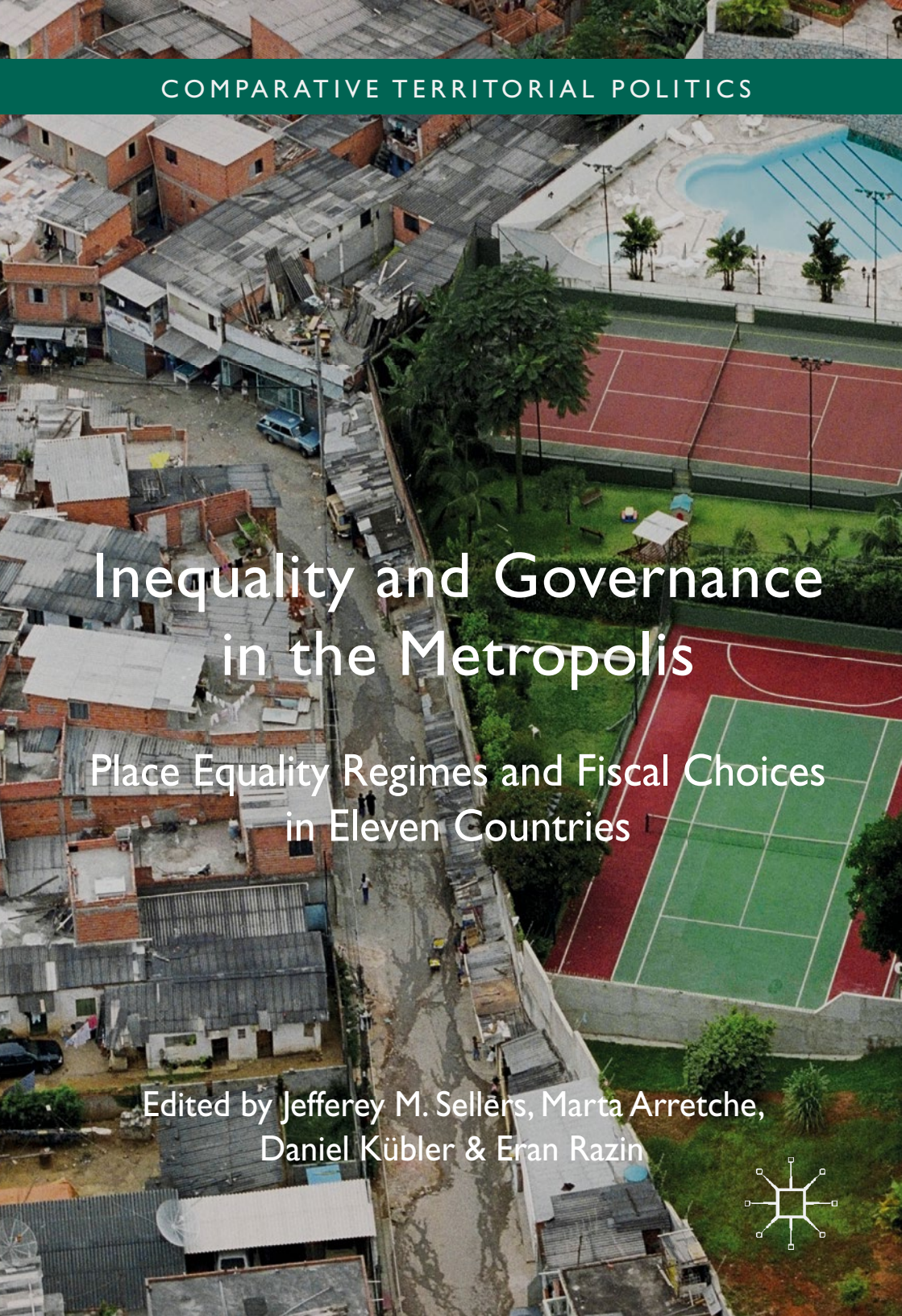
COMPARATIVE TERRITORIAL POLITICS



Inequality and Governance in the Metropolis

Place Equality Regimes and Fiscal Choices in Eleven Countries

Edited by Jefferey M. Sellers, Marta Arretche, Daniel Kübler & Eran Razin

Comparative Territorial Politics

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Preface

Regimes of place equality, the concept at the core of this book, are an understudied component of the modern welfare state. If welfare states can be conceived as institutional devices to guarantee solidarity among individuals belonging to a nationwide political community, regimes of place equality are the mechanisms that organize fiscal solidarity among jurisdictions in charge of providing services to citizens. They consist of those policies, governance strategies and institutions that either contribute to maintain or even reinforce disparities in taxes, services and goods between sub-national jurisdictions or mitigate and compensate for these disparities.

This book focuses on metropolitan regions, the dominant form of settlement for an increasing majority of the world's citizens. Their spatial development bears many risks of territorial inequality, not only in terms of settlement conditions and accessibility but also in the form of social segregation. Whether or not these risks translate into place-related inequities is conditional to national and regional fiscal policies deliberately oriented to affect local government's policy choices, and so the supply side of services. Hence, regimes of place equality can and do make a difference on how income inequality within and across metropolitan regions crystallize into space. Metropolitan regions are then the best units of observation of such societal and institutional mechanisms, since it is there where the evidences of urban segregation can be more clearly observable. This book examines regimes of place equality in metropolitan regions in 11 countries, and shows that countries as different as unitary and federal, as well as developed and developing ones, in six corners of the globe (Europe, North America, South America, the Middle East, Africa and Asia), did build long-term institutions and policies that affect the conditions under which decentralized public services are provided.

The research presented in this book is the outcome of 15 years' time international cooperation in the International Metropolitan Observatory (IMO) research programme. This book is the third collective publication by the IMO. It undertakes the first systematic, multi-country investigation of the sources and consequences of the relationship between policies and the spatial inequality of public spending in metropolitan areas. Previous volumes have focused on the spatial, social and institutional structures of metropolitan regions (*Metropolitanization and Political Change*, published in 2005), and examined how these have shaped political participation and partisan orientations beyond the effects of demography themselves (*The Political Ecology of the Metropolis*, published in 2013).

We would like to thank all IMO participants and contributors for their constant efforts and their patience since the initiation of work on the topic of this volume at a workshop of the European Consortium for Political Research (ECPR) Joint Sessions of Workshop in Rennes back in 2006, at a second Workshop held at the University of Southern California in 2009 and at panels at the regular meetings of the International Political Science Association, the American Political Science Association and the ECPR. The support of several organizations was crucial for consecutive meetings and workshops, and helped strengthening the IMO network: the ECPR, the International Political Science Association, the National Center of Competence in Research "Challenges to Democracy in the twenty-first Century" at the University of Zurich, the São Paulo Research Foundation, the University of São Paulo, the Center for Metropolitan Studies and at the University of Southern California, the Provost's Initiative for Advancing Scholarship in the Social Sciences and Humanities, the Provost's Undergraduate Research Associateship Program, the METRANS Center for Transportation Research and the Center for International Studies.

Jefferey M. Sellers
Marta Arretche
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April 2016
Los Angeles, CA, USA
São Paulo, Brazil
Zurich, Switzerland
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CHAPTER 1

Metropolitan Inequality and Governance: A Framework for Global Comparison

Jefferey M. Sellers

Introduction

In the last three decades, social and economic inequality has grown within societies around the world (Milanovic 2016; Piketty 2014). In developed countries, value-added production and services have driven aggregate growth in ways that have enriched the already wealthy, while incomes among middle-class and poor households have stagnated. In developing countries, globalizing manufacturing, resource exploitation and domestic economic growth have created rising incomes for portions of society but left others poor. These shifts have brought increasing urgency to the efforts to address inequality that have long been central to policymaking and its politics.

Territorial disparities have always been critical to the shaping of inequality, to its consequences and to the politics of efforts to mitigate

The author thanks Vincent Hoffmann-Martinot, Toshiya Kitayama, Daniel Kübler, Eran Razin and Marta Arretche for contributions to the analytical framework and hypotheses.

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it. Spatial disparities within metropolitan regions, although increasingly unmistakable as a dimension of territorial inequality worldwide, have remained mostly unexamined as a global component of inequality and its politics. Sociospatial disparities within metropolitan regions now make up a dominant component in national patterns of spatial inequality among developed countries and play a growing role in wider national patterns throughout the developing world. Taking the metropolitan dimensions of inequality into account is critical to understanding the full dimensions of inequality as a social and political problem and to devising policies that address it.

Since the turn of the twenty-first century, humanity has crossed an epochal threshold. The majority of the world's population now lives in urban regions. Across the developed world, and increasingly in developing regions such as Latin America, the proportion of the population living in or around urban agglomerations now approaches two-thirds or even four-fifths. At least as important as the growth of urbanization has been the new shape that urban regions have acquired. Sprawling, diverse metropolitan regions have increasingly replaced the dense city centers and rural borders of early industrial civilization. The growth of metropolitan regions has spawned diversification among places, as different types of metropolitan residents and firms have settled in metropolitan places that divide along lines of income, economic specialization, ethnicity and political preferences. Our initial analysis of metropolitan geographies and their political implications showed that, in many metropolitan regions, new spatial concentrations of disadvantage have emerged (Hoffmann-Martinot and Sellers 2005). Spatial separation has often reinforced the disadvantages of underprivileged populations. At the same time, affluent and middle-class residents have gravitated toward their own metropolitan communities. Separation offers these privileged groups a wide range of advantages, from higher-quality housing and neighborhoods to additional, enhanced services or lower taxes. Effects like these from the global trend toward metropolitanization have potentially decisive implications for the form and consequences of inequality as well as the efforts that governments and policymakers have undertaken to address it.

Analytical approaches to territorial politics have generally focused on variations between regions rather than within them (e.g., Hooghe et al. 2010; Keating and Loughlin 2013). The growing territorial complexity and interdependence of urbanizing regions has made extended, diversified

metropolitan areas and their peripheries an increasingly dominant form of settlement worldwide (World Bank 2009). Disparities among places within metropolitan areas now supplement interregional territorial divergences as one of the main spatial dimensions of inequality. Metropolitan regions, sometimes discussed as city regions, represent a distinctive type of territory from a territorial region, a city or a rural community.

Unlike any of these other areas, a metropolitan regions consists of places or nodes of human settlement that are both spatially diverse and interconnected. The neighborhoods and localities of a metropolitan region vary widely in their population density, in their mix of residential, economic and other activities, in their class composition, and in the ethnic, cultural and political orientations of their residents and visitors. What makes these places part of a common metropolitan region is their interconnectedness. National censuses usually employ indicators like commuting patterns to delineate which communities belong to a metropolitan area. Metrics like these serve as a proxy for a densely layered array of social, economic and functional relationships between metropolitan places. Markets for residence, for consumption, for product distribution, for infrastructure, for financial, administrative and educational services, for entertainment, for employment and for new development weave a common web of relationships within a metropolitan region. Metropolitan localities characteristically depend on facilities, services, infrastructure, workers or jobs located in another locality within the same region. This interconnectedness makes metropolitan regions a distinctive type of territorial context for spatial inequality and efforts to address it.

Although metropolitan spatial structures are partly a territorial expression of socioeconomic and other forms of inequality, they also exert effects of their own on these patterns. Previous work by the authors contributing to this volume has examined emerging metropolitan social and spatial structures in detail (Hoffmann-Martinot and Sellers 2005), and has shown how they have shaped political participation and partisan orientations beyond the effects of demography itself (Sellers et al. 2013). Governance structures and policies have not only been instrumental in building these metropolitan structures, but also exercise some of the most powerful influences on the metropolitan geography of opportunity for both privileged and disadvantaged groups. The analysis of this volume will focus on these policies and institutions. Our aim is to explore how they have reinforced metropolitan spatial inequalities or, under certain circumstances, reduced them.

The Normative Background: Place Equality Versus Local Choice

The empirical analysis of this volume centers on place equality, or territorial equity, across metropolitan regions. Although a distinct dimension of equality, place equality shares with other forms a complex relationship to normative concerns about the proper institutional design for local and metropolitan governance. In the governance of metropolitan inequality, equity and related values have frequently come into conflict with liberal and democratic values linked to local choice.

Philosophies of social justice have traditionally focused on persons rather than places (Cf. Rae and Yates 1981). However, inequalities in the conditions of places where people live, work, shop, play and attend school are one of the ways places shape personal choices. Many of these conditions are the direct or indirect consequences of public policies. When the conditions of schools, hospitals, policing, or the preservation of clear air and water differs, then the residents of different places face unequal opportunities to consume social services or natural amenities. Equity among citizens offers only one normative basis for concern about disparities like these. Minimal local service standards also require a baseline level of provision that limits inequities. For certain kinds of services and physical infrastructure, such as roads, drinking water and electric power, equal conditions across a metropolitan region can also serve ends beyond fairness, like regional productivity.

Place equality poses distinct dilemmas for different types of advantage and disadvantage. Philosophical accounts of social justice such as by Rawls and Frankfurt, along with many public policy analysts, stress fairness toward the most disadvantaged as the main concern about equity (Rawls 1971; Frankfurt 2015). In countries with large socioeconomically disadvantaged populations, research has often linked the more general social disadvantages to spatial isolation, or to the institutions and social processes in neighborhoods of concentrated disadvantage (Sampson et al. 2002; Musterd and Ostendorf 2009).

As privileged and affluent groups have received growing shares of assets and income in advanced industrial societies (Piketty 2014), place inequality at higher levels of socioeconomic status has also emerged as a concern linked to place. The secession of the successful into privileged territorial enclaves, from elite suburbs in North America and Europe to residential communities of IT workers in the high-tech corridors of India, enables the

most advantaged residents to provide localized goods for themselves to the exclusion of goods for the remainder of society. Critical studies of these practices from the standpoint of social justice have mainly focused on the most dramatic forms, such as the gated communities of many US metropolitan areas or Latin America, or the most exclusive suburbs. To understand general patterns of inequality among metropolitan localities requires more systematic attention to what statistical analysis can demonstrate about—and ultimately, can test—society-wide patterns of spatial inequities in local public goods and services across entire metropolitan regions.

In analyzing the consequences of intergovernmental fragmentation and localized goods provision among metropolitan communities for inequality, it is important to recognize that these patterns can serve other important ends. As political philosophers since Aristotle have maintained, the interpersonal relations and lesser scale of smaller communities can empower local residents and strengthen the democratic character of local decision-making. Across most of the developed world, local voting and other forms of political participation are consistently higher in smaller communities (Dahl and Tufte 1973; Goldsmith and Rose 2002). Giving smaller localities autonomy to make decisions on their own can add to this democratic potential.

Beyond local political choices, neoliberal theories in the tradition of Hayek also emphasize the value of market choice among metropolitan communities (e.g., Parks and Oakerson 1989). Communities with different portfolios of services, amenities and taxes offer mobile residents seeking a place to live the liberty to choose their community, and ultimately, their residential environment. Politics and institutions that further place equality thus stand in potential conflict with the values of both local political choice and market choice.

Fiscal federalist theory has sought to reconcile these concerns about fairness, local democracy and market choice under an overarching analytical framework that employs efficiency of aggregate social welfare provision as the decisive criterion (Boadway and Shah 2009). Much of fiscal federalist theory focuses on the importance of local political choices to providing efficient levels of services and taxation. Oates' decentralization theorem, for instance, holds that choices to fund local goods should be made locally except when problems cross local boundaries (Oates 1999). A pervasive strain of fiscal federalist theory emphasizes interlocal market choices as well. In a seminal article, Tiebout (1956) pointed to this sorting as a mechanism to provide for local public goods like these in a way that accommodated the preferences of residents. Fiscal federalist analyses

portray this competition as a way to provide public goods more efficiently, as competition for residents constrains local governments to maximize the services and amenities provided and minimize local taxation (Ostrom 1972). Weingast's account of "market preserving federalism" (1995) goes so far as to advocate decentralization as a foundation of a market economy. Even the decentralization theorem prescribes more decentralization in a region where residents clustered in different localities have heterogeneous preferences, and spillovers among localities are limited.

Although fiscal federalist theory has generally focused on efficiency rather than distributive issues, the mechanisms of interlocal markets and multilevel choice that it illuminates generate numerous hypotheses about how a regional market among places affects territorial inequality. The interconnected markets for real estate, local services and firm location across a metropolitan region correspond as closely as any other territorial setting to the assumptions of the Tiebout model. The class differences between affluent and poor communities remain exogenous to the Tiebout model itself. Within the model, however, differences in class or other sorts of social and economic disadvantage, such as race or immigrant status, figure as one among many potential sources of the heterogeneity in local preferences that enables the model to work. Local political choices to raise taxes and provide services on the one hand, and the choices of mobile residents and businesses to settle in a community on the other, differ markedly between rich and poor.

In a Tieboutian region, communities with affluent median voters share clear advantages. Higher median income and assets give them greater capacities to raise local funds for services or amenities, and therefore the capacity to offer residents bigger libraries, better schools, more security and a better natural environment. At the same time, the affluent local citizens of such a community face the full range of choices the model implies. They can choose which amenities to tax themselves to fund. They can opt for lower levels of taxation in place of local public services. For instance, they can provide services and amenities privately on a customized basis as club goods, through private schools, private security guards, or even privatized water and sanitation services. Regional markets for residences and firm location reinforce these advantages. High housing costs—and in some cases, higher local tax burdens—restrict the possibilities of entry for less affluent residents.

A community of poor and marginalized residents in a Tieboutian region confronts a much more limited set of local political choices. On

the one hand, residents lack the assets or the income to provide the same array of public goods and services through local taxes. Choices of what the community can provide as local collective goods remain limited to necessities, or investment in development that can generate jobs and income for local residents. Even to provide the same basic services and public goods as middle-class or affluent communities, poor localities must commit to a greater tax effort by taxing a larger proportion of local residents' income or assets. At the same time, local households facing financial hardship possess greater needs for certain kinds of public services. New immigrants need second-language education. Schools in poor communities often require more remedial services. Poor neighborhoods frequently benefit the most greater public investment in police services, community facilities and public parks. In turn, prices in markets for residence will constrain the choices of lower-income households to the lower-service, higher-taxing localities they can afford.

Even in the absence of the residential mobility the Tiebout model presupposes, local dynamics within rich and poor communities would aggravate demographic inequality with disparities in public services, amenities and local fiscal burdens. In metropolitan areas where residential sorting takes place amid an increasingly unequal distribution of resources, interlocal market dynamics reinforce these disparities. In the USA, critiques of metropolitan inequalities have pointed to deficits in democratic decision-making itself (Dreier et al. 2001). When local governments are responsible for deciding policy at the metropolitan level, fragmentation and sorting among communities can frame agendas in terms of segmented local goods confined to individual localities, rather than the interlocal metropolitan public goods that some versions of fiscal federalist theory would recommend. In such a setting, socioeconomically stressed suburbs are especially vulnerable. Lacking the strong tax base of affluent communities, or the economies of scale of central cities, the municipal police forces or water utilities that serve these localities confront worse local problems with fewer fiscal resources. The recent crises growing out of police abuse in Ferguson, Missouri, and lead in the drinking water of Flint, Michigan, in the USA each partly reflect stresses of this kind.

Critics of US metropolitan governance arrangements also point to a further deficit associated with sorting by income and privilege that has aggravated local crises like these. Marginalized groups who live in places that are also marginalized face a compound risk of political exclusion. As critical decisions about the overall distribution of services come to be

made within homogenous, privileged communities formed through sorting, minorities and those without resources can find themselves isolated by jurisdictional boundaries from an effective role in political deliberation (Frug 2002; Briffault 1996). Divisions like these may even shape the more general political consciousness of residents in the divided metropolis. Among residents of middle-class and higher-income communities, they can foster neglect for the needs of disadvantaged populations (Hayward 2003; Sellers 1999).

The worldwide spread of metropolitan regions, and the growth of inequality within both developed and developing countries, have often been taken to point to a global future of spatial disparities like these (e.g., Davis 2006). This volume, however, points to a much more diverse reality of metropolitan governance and a more contingent future. Contemporary metropolitan inequality has been the product of remarkably diverse trajectories in different societies. In Western Europe and India, it is the result of growing densification of settlement in urban peripheries with centuries-old traditions of village settlement; in Israel, the product of long-standing segregation between Jews and Arabs; in Brazil, a partial consequence of twentieth-century authoritarian development strategies; in South Africa, a principal legacy of apartheid. Even in the USA, the real estate markets and processes of local government formation that inspired the concept of Tiebout sorting are also a consequence of racial discrimination (Hayward 2013) and divergent trajectories of regional development.

The policies and multilevel institutions that contemporary nation-states have developed to grapple with metropolitan inequality display a similar diversity. They have shown remarkable dynamism from the last half of the twentieth century to the present, and in many societies remain a work in progress. This volume undertakes the first systematic cross-national comparison of these policies and institutional arrangements and their consequences for metropolitan inequality. Our aim is to contribute to a broader and deeper empirical understanding of the underlying dilemmas and of how they can better be addressed.

Place Equality Regimes: Definition and Alternatives

Since the 1980s, the loosely related set of policy agendas and institutional arrangements identified with neoliberalism has increasingly dominated scholarly and popular debates about inequality. Numerous trends widely

associated with neoliberalism are consistent with a shift from equalization toward a Tieboutian model: cutbacks in public services, privatization, emphasis on markets and interlocal competition and a shift of authority away from public, electorally accountable bodies. A prominent strand of urban theory has gone so far as to portray state "rescaling" around neoliberal agendas as a hegemonic impetus behind the numerous shifts toward new governance arrangements for metropolitan regions (Peck and Tickell 2002; Brenner 2004). In fact, as this volume will show, policies and institutions addressed to metropolitan inequality differ widely along the spectrum between the Tieboutian emphasis on interlocal markets and local choice, and an egalitarian emphasis on compensation of local disadvantage. Recent shifts in these arrangements have reaffirmed broad contrasts between national and subnational arrangements for place equality. Political contestation between forces for and against liberalization continues to shape and reshape them.

The analysis of this volume focuses on what we term *place equality regimes* and their consequences for spatial inequalities in services. These consist of those policies, governance strategies and institutions that either contribute to disparities in taxes, spending capacities and public services across metropolitan regions or mitigate or compensate for those disparities. Although most of these practices contain elements at the local and metropolitan levels of government, they share elements of national or regional (e.g., federal or intermediate level) legislation or administrative decision-making that—intentionally or not—also have a territorial incidence within metropolitan regions.

A variety of public policies fall under this definition.[1] These include redistributive services, such as education, health and welfare; allocational services such as cultural and environmental amenities and security; developmental policies such as transportation and infrastructure; revenue-raising policies; governmental infrastructure for territorial administration of policy; and regulatory and other activities with an impact on local social composition, such as regulation of housing and land use. Some of these policies have a direct impact on equality in the provision of services. For others, the effects can be indirect, through incentives and pricing in locational markets.

Metropolitan place equality regimes can be classified broadly along a single dimension (Table 1.1). On the one hand, this metric captures how much local service provision and revenue raising for a community are determined solely by local choice. On the other hand, it reflects how

Table 1.1 Classification of place equality regimes

Type of place equality regime	*Equalization/choice*	*Effects on poorest communities*	*Effects on most affluent communities*
1) Tieboutian	Variety of local revenues and services as well as local choices drive sorting	Provision of services constrained by local tax capacity	Choice of privatized provision or high revenues with little tax effort
2) Partial equalization of revenue capacities or services	Limited equalization, elements of choice	Low but supplemented tax capacity or service mandates	Limitation of advantages in tax capacities
3) Full equalization of revenues or services	Assurance of equal services, taxation or conditions regardless of place	Equal fiscal capacity or standardized service provision	Mandated provision of similar services/ revenues to less affluent places
4) Compensatory services or revenues	Redistribution of revenues among places constrains local choices	Disproportionate funding or services to address special needs	Limitations on services or revenues due to redistribution to other places

far the array of policies and institutions of the place equality regime have compensated for or equalized disadvantages and constrained the advantages of the most privileged places.

At one end of the spectrum lies a pure Tieboutian regime. Residential choice among different packages of local public goods and taxation substitutes for the goal of relative equality in the public goods and services provided throughout a region. Affluent households buy into localities with whatever level and type of services and taxes they choose. Poor households face more limited choices, restricted by the tax capacity of the places where they can afford to live. At the other end of the spectrum, a compensatory regime structures the distribution of revenues to the advantage of poor communities with the greatest needs. Wealthier communities thus provide not only for their own services but also for those of needier communities.

Regimes that aim for full or partial equalization of services lie between these two ends of the spectrum. Both provide for some cross-subsidization from rich communities to others and from others to poor communities. Under full equalization, the aim is to provide the same level of service, regardless of need or ability to pay. Under partial equalization, the regime partly mitigates sociospatial inequalities but continues to permit some

amount of disparities in services and taxes among communities. Partial equalization regimes can encompasses a wide variety of arrangements, from ones that approach full equalization to ones that incorporate elements of the Tieboutian model.

A variety of policies and institutions are available to accomplish compensation, equalization or partial equalization. The actual provision of services is the result of how local political choices within a regime of place equality affect inequality in what governments provide citizens at the most local scale. These choices are, in turn, the consequence of how the exercise of municipal taxing and spending capacities interacts with institutional arrangements of the place equality regime. Local agency depends on how the place equality regime imposes constraints and provides opportunities for local choices. Whether institutionalized within metropolitan regions or at higher levels of the state, place equality regimes share this multilevel dimension.

Sources of Place Equality Regimes

Like other kinds of political regimes, place equality regimes share a deeply embedded institutionalization and pervasive consequences for governance. In this sense, a place equality regime possesses attributes similar to regimes political scientists have identified at the urban level (Stone 1989) or on an international scale (Ruggie 1982), as well as in national systems of rule. Exactly how and to what extent the alternative metropolitan territorial arrangements we have outlined have been institutionalized remains little understood. Much of the literature on metropolitan governance has focused on institutions at the metropolitan scale itself (Savitch and Vogel 2000). Theories of "state rescaling" focus instead on how new institutions at the regional and local scale reflect strategies of governance within the wider state (Brenner 2004). Although each of these approaches captures elements of place equality regimes, both neglect other essential elements. National welfare states, national institutions of market capitalism and national traditions of territorial administration and local government have each embedded aspects of the regimes that govern relationships among metropolitan places. Metropolitan spatial disparities pose challenges that policymakers and these institutions have often only recently begun to address. In this volume, we explore how contemporary metropolitan place equality regimes reflect both these long-standing systems of institutions and efforts to refashion them to address the metropolitan spatial dimension.