



The Impact of Urban Policy on Economic Inequality and Economic Growth

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Abstract. Urbanization has increasingly shaped the global socio-economic landscapes, bringing opportunities and challenges through higher living standards and heightened economic inequality. The paper explores the intricate relationship between urban policies, particularly zoning policy, economic inequality, and economic growth. The paper examines the influence of inclusionary and exclusionary policies through a comparative analysis of the case studies in New York City and Portland. At the beginning of the 20th century, the exclusionary zoning policies fostered economic development and deepened social divides. Conversely, the inclusionary zoning policies in Portland have successfully reduced income inequality but at the cost of limiting economic growth. The cases demonstrate the tradeoffs between social equity and economic development. The findings underscore the need for balanced urban policies promoting equity and economic expansion through inclusive economic zones and multi-department collaboration. The research advocates creating urban policies that can lower social inequality while promoting sustainable economic growth, providing a society that benefits the residents.

Keywords: Urbanization, Zoning Policy, Economic Inequality, Economic Growth, Social Equity, Urban Development.

1 Introduction

Urbanization has become a defining global trend starting from the 21st century. By 2023, 4.4 billion people live in cities, representing 56% of the global population. The figures are expected to increase to over two-thirds by 2050 [1]. Urbanization signifies higher living standards and increased opportunities, while the flip side demonstrates a widening income inequality between different income groups within cities and between urban and rural areas. In numerous world cities, whether sprawling and prosperous or declining and shrinking, the affluent communities and the poor neighbourhoods have made a distinctive comparison, illustrating the prevailing income inequality. The inequality has manifested as a growing divide between high-skilled and low-skilled service workers. Additionally, urbanization has worsened housing affordability and segregation issues, further entrenching socioeconomic disparities.

Given these challenges, urban policies play a critical role in shaping the impacts of urbanization. They can act as a bridge, reducing the gap between the rich and

the poor, or as a destroyer, widening the interval. Building upon the complex relationship between urbanization and inequality, examining how urban policies can effectively address these challenges while promoting economic growth is crucial. The urban policies encompass various measures, from housing and transportation to education and economic development initiatives.

As a large contributor to addressing the issues above, Zoning policy can regulate land use and development within cities and significantly impact economic inequality. To be more specific, zoning policy confine a wide range of measures and can be divided into two types: inclusionary and exclusionary zoning policies. While exclusionary zoning policies limit affordable housing in specific neighbourhoods that can perpetuate spatial segregation, inclusionary zoning policies aim to promote mixed-income development to foster a more equitable urban environment. They were initially utilized to separate the incompatible land by their uses, while through constantly evolving, they can also influence the socioeconomic composition [2]. Moreover, it can promote inclusivity and diversity and help ameliorate economic disparities, while exclusionary policies worsen them [3].

The problems brought by inequality in urban areas are manifold. They include residential segregation, disparities in access to quality education and healthcare, and limited social mobility. These issues can create a poverty trap and disadvantage that is difficult to break without targeted interventions. Moreover, high levels of inequality can lead to social tensions and reduced social cohesion. However, urban policies, particularly zoning policies, can make a difference in the current inequality crisis, which will be discussed in this research.

The research aims to delve into the problem of how zoning policies exacerbate and alleviate economic inequality and how they influence economic growth. The case study method will be utilized to demonstrate the situations of inequality and how zoning policies have been implemented to modify the crisis. Two great American cities, New York City and Portland, are chosen as two typical representations of the problem discussed in this research. By considering the contrasting outcomes of the zoning policy in New York City throughout history due to the highly unaffordable housing crisis and the case of Portland, the research will analyze both sides of the policy that relieves and aggravates the economic inequality over two periods [4].

The main body of the research will contain three parts: case description, analysis of the problem, and suggestion. The 'Case description' section will focus on the political and economic backgrounds of Portland and New York; the 'Analysis of the problem' section will predominantly illustrate two sides of the zoning policy and discuss the relationship between inequality and economic growth; improvements for further measures of urban policies on resolving inequality while promoting economic growth will be provided in the 'Suggestion' section.

Theoretically, this paper will use the demand-supply theory to explain the housing issue in the case studies, demonstrating how the affordable housing initiatives alleviate the housing price crisis. Practically, the paper seeks to work towards creating cities that are not only engines of economic growth but also bastions of opportunity for all residents, regardless of their socioeconomic background. Moreover, by introducing case studies, the essay can fill the gap in comparative research in this field.

2 Case Description

Portland is the largest city in Oregon, US, with more than 652 thousand inhabitants [5]. Unlike most developed global cities, Portland focuses on manufacturing instead of financial activities and technological development.

2.1 Case Study: Portland

This city is outstanding in terms of its urban policies. Portland implemented a set of inclusionary zoning policies in 2017, mainly on affordable housing, that applies to nearly all apartment buildings more prominent than 20 units and added around 260,000 new residential buildings and 140,000 new occupations [6]. Through the execution of these policies, low-income residents have gained the ability to encounter higher-opportunity neighbourhoods, reducing economic segregation and promoting diversity within the city. Multnomah County and Washington County, as two of the seven counties of Portland, all depicted similar trends in income inequality. Figure 1 demonstrates the income inequality in Washington County, and Figure 2 shows what happened in Multnomah County. After the continuous growing inequality, the disparity suddenly dropped around 2015 in Washington County and 2017 in Multnomah County. This similar trend was mainly due to implementing the inclusionary zoning policy and creating jobs. Although there is no direct data on the change in inequality in the city, the overall trend can be inferred from the data from these two counties. At the end of 2019 and the beginning of 2020, the inequality in both countries increased mainly because of the influx of the pandemic. Occupations that do not require physical work have been moved online, while the labour work that does not require much training cannot continue. This has resulted in a drop in employment for simple labour work, which accounts for a large population in Portland. Therefore, the gap between the rich and the poor was enlarged.

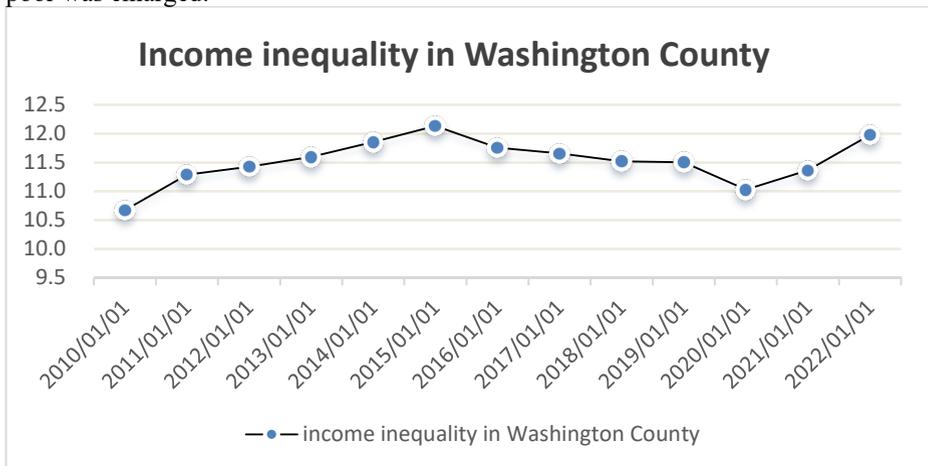


Fig. 1. Income inequality in Washington County [3]

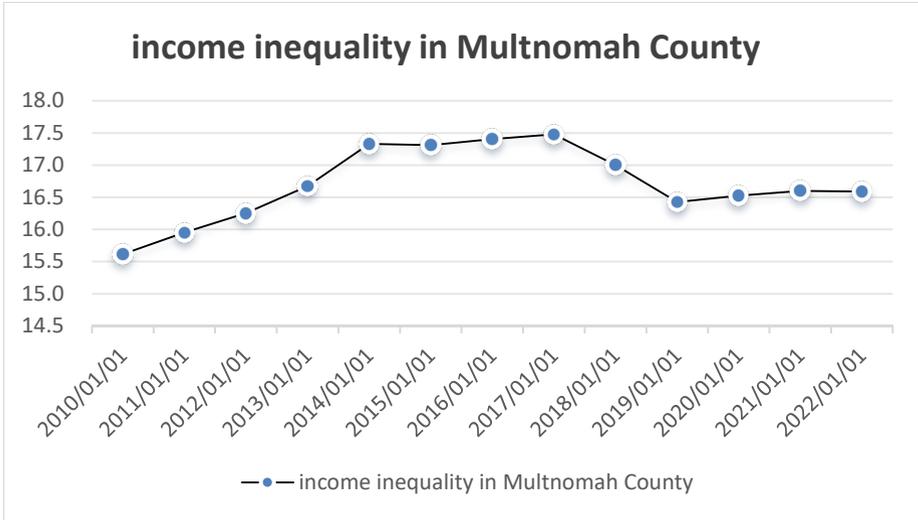


Fig. 2. Income inequality in Multnomah County [4]

2.2 Case Study: New York City

In contrast, New York has a relatively complex political and economic background compared to Portland. New York City, the biggest city in the US, stands as the powerhouse of the economy and one of the most influential cities globally.

Throughout history, New York has implemented different types of zoning policies. At the early stage of urban planning, New York primarily utilized such management by restricting the types of buildings constructed in a particular area. By limiting the housing supply, housing and living costs have elevated, excluding low-income dwellers from specific neighbourhoods in New York [7]. This type of spatial segregation has restricted education quality, working opportunities, and other resources that are often more abundant in wealthier neighbourhoods [8]. This exclusionary zoning policy can exemplify the idea of intersectionality, which explains how different types of discrimination, including income, race, gender, class, and so on, interact to produce distinct outcomes. Since it disproportionately demonstrates the resources, individuals at the intersectionality of different inequalities will be further influenced.

In recent years, the government started to consider inclusionary zoning policy due to the continuously worsening inequality issue in New York. New York adopted the Mandatory Inclusionary Housing (MIH) program in 2016, which shares Portland's same aim. Developers must include a certain percentage of affordable units in new residential projects in areas rezoned for increased housing capacity [9]. However, limited affordable housing has been built due to insufficient subsidies [10]. Furthermore, the program requires the construction of affordable housing in areas where the city permits new and more extensive luxury development, thus enabling gentrification and exacerbating the unequal distribution of resources [11]. Figure 3 depicts the change in inequality in New York. A continuously growing trend can be observed

in the data, indicating the failure of the MIH program in New York since there is no decline in inequality. This phenomenon has led to further actions by the New York government, including two main programs in 2023: "The City of Yes for Housing Opportunity". More data must be collected to verify the feasibility of the policies.

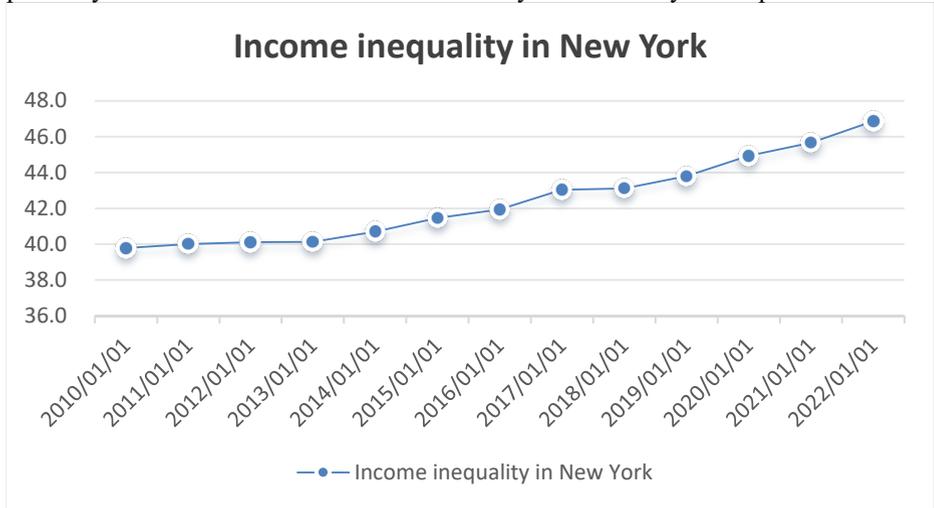


Fig. 3. Income inequality in New York [12]

3 Analysis of the problem

The exclusionary zoning policy in New York widened the wealth gap between the rich and the poor at the beginning of the 20th century. However, considering the economic performance in New York, the other side of the exclusionary zoning policy can be positive.

3.1 Contrasting Outcomes of Zoning Policies in New York and Portland

While exclusionary policies can deepen inequality and reduce social mobility, they are often justified to promote economic growth [12]. Such policies protect and maintain property values, attract high-income residents and innovative businesses into the neighborhoods, and contribute to the development of the overall economic performance of the city. The 1916 Zoning Resolution in New York had set minimum height and a specific quantity of buildings, facilitating the construction of skyscrapers. J.P. Morgan & Co., one of the most famous financial institutions, is an example of a company that relocated to Manhattan due to the exclusionary zoning policies implemented in New York [13]. Its new location at 23 Wall Street was strategically situated near the New York Stock Exchange (NYSE) and other major financial institutions. This allowed for more immediate trading and better access to market information in the pre-digital era. Multiple financial institutions like J.P. Morgan & Co. have relocated their headquarters

to reach more information and human capital, which led to the formation of a financial hub. The financial hub was a gigantic generator of wealth that prompted economic growth in New York. In 2022, this sector contributed to 29.2% of the total output of the state [14]. Thus, it is justified to conclude that the exclusionary zoning policy is valuable and effective in economic development. At the early stage of growth in a city, implementing such policies by restricting the activities within a particular area can promote economic growth. At the same time, a higher level of unevenness may be produced.

In contrast, Portland, a unique US city known for its incredibly low-income inequality, faces challenges with low economic growth. The GDP growth in Portland has lagged some of its peer cities in recent years, with a 1.3 percent job growth rate in 2023 still described as 'disappointing' due to the overall low economic growth. The increment in GDP is relatively slow despite continuous growth. This economic scenario is partly attributed to Portland's affordable housing policies, which, while successfully mitigating inequality by restricting affordable housing to low-income residents and providing sufficient incentives for real estate developers to create more low-priced houses, have not spurred significant economic growth. Therefore, Portland's experience highlights the complex tradeoffs between achieving low-income inequality and fostering robust economic growth.

3.2 Balancing Economic Development and Social Equity

The contrasting experiences of New York and Portland underscore the complex interplay between urban policies, economic growth, and income inequality. In the early 20th century, the exclusionary zoning policy in New York fostered economic development by attracting high-income residents and businesses, contributing significantly to the city's financial sector and overall economic performance. However, these policies also exacerbated income inequality and reduced social mobility. Conversely, the inclusionary zoning policy in Portland has successfully mitigated income inequality through policies that promote affordable housing and socioeconomic diversity. However, this has directly restricted the economic growth in Portland and has not spurred the same economic growth level as its peer cities. This comparison highlights the delicate balance urban policymakers must strike between fostering economic development and ensuring equitable opportunities for all residents. It demonstrates that while exclusionary policies can drive economic growth, they may do so at the cost of increased inequality. In contrast, inclusionary policies may promote equity but potentially limit economic expansion. At the early stage of economic development, exclusionary zoning policy can be helpful to promote economic growth and elevate the overall living standards within an area. An appropriate and effective inclusionary zoning policy can be implemented as economic expansion becomes stable.

4 Suggestion

To promote more sustainable economic growth with a relatively low rate of inequality, the government should adopt a more comprehensive method that focuses on distributing the resources to the residents as evenly as possible.

4.1 Inclusive Economic Zones

To commence, the government should promote inclusive economic zones. Although economic zones can drive growth, they may also increase inequality if the benefits are not evenly allocated. Policies should ensure that the economic zones provide equal opportunities for every skill level. This may alleviate the intersectionality of the inequality. More occupations should be created mainly to benefit the unskilled population who might otherwise gain less from such development. To further resolve the problem of inequality, intersectionality should be considered by addressing segregation and classist zoning. Numerous zoning regulations originated from racist and classist policies that further contribute to segregation and limit their access to affordable housing. Revising such zoning policies can produce a mixed-income and more diverse community [14]. As the barriers are eliminated, more equitable access to resources and opportunities will be provided to every resident.

4.2 Promoting Multi-Department Collaboration

Multi-department collaboration between government, business, and community effectively addresses and resolves the problem. Advocacy planning theory, formulated by Paul Davidoff, can be a reference to further development since it is a democratic theory that addresses the rights and interests of different parties [2]. For instance, local governments may cooperate with firms to develop a mixed-income housing community. Meanwhile, the community can help identify and discourse the current issues and needs of the residents to ensure that the policies are tailored effectively. Furthermore, the government should establish a policy evaluation mechanism to monitor and assess the current policies' effectiveness by collecting data and indicators periodically. When necessary, modifications of policies should also be carried out.

4.3 Policy adjustments in New York and Portland

Based on the political and economic backgrounds, different cities can promote distinct urban policies to improve the current situation. In the cases of Portland and New York, due to the unstable politics in the US, there should also be a constant change of policies that mainly work for the demands of the dwellers.

One fundamental action New York should adopt is providing enough incentives, such as tax breaks and subsidies, to developers who include affordable housing in their projects. This may help preserve the economic diversity within the affluent neighborhoods. Moreover, New York can also support the formation of small businesses and

entrepreneurs and establish business incubators to provide resources, mentorship, and networking opportunities for startups.

In the case of Portland, a more flexible inclusionary zoning policy should be adjusted to attract developers, ensuring that they remain committed to creating affordable housing while fostering economic growth. Although more occupations are created for Portland residents, there may be a lack of training and education for working. Therefore, the government may invest in training programs to prepare the workforce for higher-skilled, innovative jobs in emerging industries. By implementing these targeted strategies, cities can foster inclusive economic growth that benefits all residents, ensuring a more equitable and prosperous future.

5 Conclusion

The paper explored the intricate relationship between urban policies, economic inequality and economic growth, using the cases of New York City and Portland to highlight the divergent outcomes of different policies utilized. Zoning policy is discussed as one of the most popular approaches in urban policies. It plays a pivotal role in shaping the socioeconomic landscape of a city. In New York, the exclusionary zoning policies at the beginning of the 20th century have been instrumental in prompting economic growth by creating financial hubs. However, it has also deepened social divides and limited social mobility within the city. On the other hand, the commitment to inclusionary zoning policy in Portland has successfully reduced income inequality and constrained economic expansion. The cases have also illustrated the trade-off between economic inequality and economic growth.

The findings underscore that a balanced and comprehensive approach to urban planning is essential. This requires collaboration across government, firms, and communities and regular evaluation and adjustment of policies to respond to evolving social and economic realities. New York and Portland should implement more specific methods to resolve their crises.

Future studies may explore the long-term effects of exclusionary and inclusionary zoning policies regarding economic inequality and development. Moreover, more comparative studies can be conducted across various cities in other developing and developed countries to create a more complete understanding of this realm.

In conclusion, the essay advocates for urban policies focusing on social equity and economic effectiveness. By learning from the experiences of New York and Portland, other cities can better navigate the challenges of urbanization, ensuring a future where economic growth and social equity go hand in hand.

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