Understanding Economically Distressed Cities

Harold L. Wolman, Edward W. Hill, Pamela Blumenthal, and Kimberly Furdell

Even though American cities as a whole have been gaining jobs and residents over the past two decades, numerous cities continue to have serious economic problems. These cities, many of which have a manufacturing legacy, have been unable to make the adjustments necessary to meet the challenge of changing economic circumstances. They have suffered economic and population decline or stagnation, and their residents, on average, have had little or no improvement in their standard of living. Understanding the nature and causes of this economic distress, and both the potential and limitations of public policy in addressing it, is essential for effective policymaking.

This chapter attempts to shed some light on which cities are underperforming economically when compared with their peers, and why. We begin by identifying a set of economically distressed cities and examining the relationship of these cities to their metropolitan economies (the term metropolitan as used in this chapter refers to a metropolitan statistical area, or MSA). We then explore the extent to which cities have moved into and out of the economically distressed

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category (that is, the extent to which economic distress is a chronic condition), identify some of the factors that account for the economic health (and, therefore, degree of distress) of cities, and offer explanations as to why some cities have been successful while others have not.

Economically Distressed Cities

Economically distressed cities are cities whose economies are performing poorly and whose residents have, on average, low levels of economic well-being. To identify these cities, we use a set of economic indicators to construct two broad measures of the economic health of cities: the growth of (or change in) a city’s economy during the 1990s and a measure of the level of the economic well-being of city residents in 2000. We then use these measures to create a typology of central cities. Within this typology, the set of cities exhibiting the most severe levels of economic difficulty and whose residents are the least well off in the aggregate is designated as economically distressed.

Our data set comprises the 302 central cities that met at least one of the following criteria either in 1990 or in 2000:

—Cities with populations of at least 50,000 that were the primary city in a metropolitan area
—Cities with populations of at least 50 percent of the population of the primary city in their metropolitan area
—Cities with populations of at least 150,000, regardless of whether they were the primary city in a metropolitan area

We created two indexes for the cities in our dataset: the City Economic Condition Index, which measures change in the competitiveness of a central city as a place of business activity, relative to other central cities, from 1990 to 2000, and the City Resident Economic Well-Being Index, which measures the economic well-being of residents of the city as of 2000. The City Economic Condition Index consists of three indicators measuring growth between 1990 and 2000: growth in employment, growth in annual payroll, and growth in the number of establishments. The City Resident Economic Well-Being Index consists of five indicators measuring city residential well-being as of 2000: per capita income, median household income, poverty rate, unemployment rate, and labor-force participation rate. (See table 6-1A for variable definitions and data sources.)

Table 6-1. Typology A: City Resident Economic Well-Being and City Economic Condition, 2000

<table>
<thead>
<tr>
<th>City economic condition</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>57</td>
<td>28</td>
<td>16</td>
</tr>
<tr>
<td>Moderate</td>
<td>36</td>
<td>45</td>
<td>19</td>
</tr>
<tr>
<td>Weak</td>
<td>7</td>
<td>28</td>
<td>65</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations.

To create each index, variables were standardized through the use of z-scores, which were then summed across the variables within each index to create a summary score for each city on each index, thereby weighting each of the variables equally. We then ranked each city on the indexes according to the index scores.

We used the two indexes to create a typology of central cities. For each index we divided the cities into thirds on the basis of their rankings. For the City Economic Condition Index, the top third of cities was considered strong on that index, the middle third moderate, and the bottom third weak. For the City Resident Economic Well-Being Index, the top third was considered high, the middle third medium, and the bottom third low. Typology A was created by grouping cities according to the nine possible combinations created by crossing the three categories of the two indexes. Sixty-five of the 302 central cities were considered both weak on the City Economic Condition Index and low on the City Resident Economic Well-Being Index. These sixty-five cities were designated as economically distressed, or weak-market, cities. (See table 6-2 for the list of these cities.) These cities were declining locations for business activity relative to other central cities during the 1990s, and their residents, on average, experienced low levels of economic returns and activity in the labor market.

Over half of the economically distressed cities (58.0 percent) are concentrated in just eight states: Connecticut, Indiana, Massachusetts, Michigan, New Jersey, New York, Ohio, and Pennsylvania. (Cities in these states made up only 20.5 percent of all central cities in the set.) This reflects the difficulties facing the metropolitan areas in the northeastern and east north-central regions of the country, a large portion of the so-called “Rust Belt,” as they attempt to revitalize their stagnant regional economies and stem the decline of their central cities. The three states with the highest proportion of cities that are economically distressed are Pennsylvania, with nine of its ten cities considered to be weak-market cities, New York (seven out of eight), and Ohio (eight out of eleven). Although heavily
Table 6.2. Economically Distressed (Weak-Market) Cities (N = 65)

<table>
<thead>
<tr>
<th>City</th>
<th>State</th>
<th>City</th>
<th>State</th>
<th>City</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albany, Georgia</td>
<td>Flint, Michigan</td>
<td>Saginaw, Michigan</td>
<td>Michigan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Albany, New York</td>
<td>Pismo, California</td>
<td>San Bernardino, California</td>
<td>California</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allentown, Pennsylvania</td>
<td>Harrisburg,</td>
<td>New Bedford, Massachusetts</td>
<td>California</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Altoona, Pennsylvania</td>
<td>Hartford, Connecticut</td>
<td>New Haven, Connecticut</td>
<td>California</td>
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<tr>
<td>Baltimore, Maryland</td>
<td>Huntington, West Virginia</td>
<td>New Orleans, Louisiana</td>
<td>California</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beaverton, Oregon</td>
<td>Jackson, Mississippi</td>
<td>Newark, New Jersey</td>
<td>Louisiana</td>
<td></td>
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<td>Binghamton, New York</td>
<td>Kalamazoo, Michigan</td>
<td>Shreveport, Louisiana</td>
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<tr>
<td>Birmingham, Alabama</td>
<td>Lancaster,</td>
<td>Springfield, Massachusetts</td>
<td>Massachusetts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bridgeport, Connecticut</td>
<td>Pennsylvania</td>
<td>Springfield, Ohio</td>
<td>Ohio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buffalo, New York</td>
<td>Long Beach,</td>
<td>Portland, Oregon</td>
<td>Oregon</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canton, Ohio</td>
<td>Los Angeles,</td>
<td>Providence, Rhode Island</td>
<td>Rhode Island</td>
<td></td>
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</tr>
<tr>
<td>Cincinnati, Ohio</td>
<td>Mesa, Arizona</td>
<td>Reading, Pennsylvania</td>
<td>Pennsylvania</td>
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<td>Cleveland, Ohio</td>
<td>Manhattan, New York</td>
<td>Richmond, Virginia</td>
<td>Virginia</td>
<td></td>
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</tr>
<tr>
<td>Danville, Virginia</td>
<td>Merced, California</td>
<td>Rochester, New York</td>
<td>New York</td>
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<tr>
<td>Dayton, Ohio</td>
<td>Miami, Florida</td>
<td>Rocky Mount, North Carolina</td>
<td>North Carolina</td>
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</tr>
<tr>
<td>Decatur, Illinois</td>
<td>Milwaukee, Wisconsin</td>
<td>Tampa, Florida</td>
<td>Florida</td>
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<td>Dearborn, Michigan</td>
<td>Milwaukee, Wisconsin</td>
<td>Tucson, Arizona</td>
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<td></td>
</tr>
<tr>
<td>Erie, Pennsylvania</td>
<td>Millville,</td>
<td>Utica, New York</td>
<td>New York</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fall River, Massachusetts</td>
<td></td>
<td>Warren, Ohio</td>
<td>Ohio</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors' calculations.

4. Cities in bottom third of both City Economic Condition Index and City Resident Economic Well-Being Index.

concentrated in the northeastern quadrant of the nation, economically distressed cities are scattered across the nation; seven of California's thirty-three cities fall into this category.

Characteristics of Economically Distressed Cities

How did the sixty-five economically distressed cities differ from the nondistressed cities? We took first at the values of the individual indicators that make up the two indexes. The set of distressed cities was characterized by slow economic growth, or deterioration in many cases, and high levels of city resident economic distress. Although the overall mean index score for both indexes is approximately zero, the mean City Economic Condition Index score for the weak-market cities is -0.88, or approximately one standard deviation below the mean for all cities. Likewise, the mean City Resident Economic Well-Being Index score for the weak-market cities is -0.96, about 1.1 standard deviations below the overall mean (see table 6-2A for summary statistics). On average, economically distressed cities

- lost 8 percent of their jobs from 1990 to 2000, while employment among the nondistressed cities increased 18 percent;
- experienced payroll growth of only 50 percent (in current dollars), while payroll grew 91 percent in the nondistressed cities;
- saw the number of establishments grow just 1.4 percent, while the number grew 18 percent in the nondistressed cities;
- had an average per capita income in 2000 that was only 78 percent of that in the nondistressed cities ($16,019 compared to $20,424);
- had a median household income that was 76 percent of the average of the nondistressed cities ($29,158 versus $38,510);
- had an unemployment rate of 10 percent, compared to 6 percent in the nondistressed cities;
- had a labor-force participation rate of 59 percent, compared to 65 percent in the nondistressed cities;
- had a poverty rate of 23 percent, compared with 15 percent in the nondistressed cities.

The weak-market, or economically distressed, cities also differed from the nonweak-market cities on a variety of other variables that were not entered in either of the two indexes, but are nonetheless interesting. (We emphasize that the following are descriptive differences, not causal. Some of them are obviously the products of economic distress rather than causes; others might well contribute to the causes of distress.) Weak-market, or economically distressed, cities were more likely than other cities (on average) to be older cities (91.7 years since the central city first reached 50,000 population, compared to 50.7 years). They were also more likely to have

- lower share of MSA population (28.9 percent compared to 37.0 percent), and employment (33.4 percent compared to 48.6 percent),
- a higher percentage of workers employed in the manufacturing sector (14.3 percent compared with 12.1 percent),
- lower median home values ($80,600 compared to $122,400) and higher vacancy rates (9.9 percent compared with 6.0 percent),
- lower home ownership rates (49.3 percent compared with 55.7 percent),
- lower resident income levels ($19,000 compared to $22,000).

The weak-market cities also had a higher share of non-white residents (80.1 percent compared to 76.6 percent) and a lower percentage of households with incomes over $50,000 ($35,000 compared to $53,000).
— a lower percentage of residents with college degrees (16.7 percent compared with 26.6 percent),
— a higher percentage with no high school diploma (26.9 percent compared with 17.9 percent) and with only a high school diploma (58.0 percent compared with 43.4 percent),
— a higher share of single-parent households (45.1 percent compared with 31.3 percent),
— a higher percentage of black non-Hispanic residents (31.4 percent compared with 14.7 percent),
— a higher murder rate (1.49 per 10,000 compared with 0.64),
— greater racial segregation (as measured by both dissimilarity and exposure indexes),
— higher rates of concentrated poverty (22.8 percent of poor in high-poverty neighborhoods compared with 12.1 percent),
— greater income inequality (ratio of poor to high-income households).

Economically Distressed Cities and Their Metropolitan Areas

Cities exist as parts of metropolitan economies. Substantial research has indicated that city economic health is tied inextricably to the economic health of the metropolitan area’s economy. To examine the relationship between city and metropolitan economic condition, we created an MSA Economic Condition Index for the 255 MSAs of all the central cities in our data set. The four indicators used to form this index are the change in MSA-level employment, wages, and gross metropolitan product from 1990 to 2000 and the gross metropolitan product per job in 2000. (See table 6.3A for the list of indicators, their definitions, and data sources.) As with the other two economic health indexes, these indicators were standardized using z-scores, summed across the standardized values and divided by the number of indicators to create each city’s index score. We then ranked the MSAs according to their index scores and divided them into thirds to get weak, moderate, and strong groups, which are shown in typology B.

This analysis demonstrates a strong link between the economic condition of cities and that of their MSAs (see table 6.3). The sixty-five weak-market, or economically distressed, cities (those with weak city economic conditions and low city resident economic well-being) were in MSAs with an average MSA Economic Condition Index score of —0.51, compared with a mean index score of 0.15 for the MSAs of the non-weak-market cities. Only three economically distressed cities were in MSAs that had strong scores on the MSA Economic Condition Index (Bridgeport, Conn.; Richmond, Virginia; and San Bernardino, California). Fifteen were in MSAs with moderate MSA Economic Condition Index scores, and the majority, forty-six cities, were in MSAs with weak index scores, as shown in table 6.4.

As table 6.4 indicates, the problems of economically distressed, or weak-market, cities are inextricably related to the problems of the metropolitan area in which they are located. As a consequence, it may well be that efforts to improve the conditions of economically distressed cities must be metropolitan area–wide in scope.

Economic Distress and Change over Time: Can Cities Overcome Their Problems?

To what extent is economic distress a chronic condition for cities experiencing it? Can cities that are economically distressed one era improve their conditions and
Table 6-5. Cities That Were Economically Distressed in 1990
But Not in 2000 (N = 17)

<table>
<thead>
<tr>
<th>Akron, Ohio</th>
<th>Lafayette, Louisiana</th>
<th>Spokane, Washington</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anderson, Indiana</td>
<td>Lake Charles, Louisiana</td>
<td>St. Joseph, Missouri</td>
</tr>
<tr>
<td>Battle Creek, Michigan</td>
<td>Louisville, Kentucky</td>
<td>Toledo, Ohio</td>
</tr>
<tr>
<td>Chattanooga, Tennessee</td>
<td>Mobile, Alabama</td>
<td>Waco, Texas</td>
</tr>
<tr>
<td>Chicago, Illinois</td>
<td>Monroe, Louisiana</td>
<td>Yakima, Washington</td>
</tr>
<tr>
<td>Duluth, Minnesota</td>
<td>Pueblo, Colorado</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ calculations.

Table 6-6. Cities That Were Economically Distressed in 2000
But Not in 1990 (N = 26)

<table>
<thead>
<tr>
<th>Albany, New York</th>
<th>Long Beach, California</th>
<th>Rochester, New York</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allentown, Pennsylvania</td>
<td>Los Angeles, California</td>
<td>Rocky Mount, North Carolina</td>
</tr>
<tr>
<td>Birmingham, Alabama</td>
<td>Macon, Georgia</td>
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</tr>
<tr>
<td>Bridgeport, Connecticut</td>
<td>Merced, California</td>
<td></td>
</tr>
<tr>
<td>Decatur, Illinois</td>
<td>Miami, Florida</td>
<td></td>
</tr>
<tr>
<td>Fall River, Massachusetts</td>
<td>New Bedford, Massachusetts</td>
<td></td>
</tr>
<tr>
<td>Fresno, California</td>
<td>New Haven, Connecticut</td>
<td></td>
</tr>
<tr>
<td>Hartford, Connecticut</td>
<td>Odessa, Texas</td>
<td></td>
</tr>
<tr>
<td>Lancaster, Pennsylvania</td>
<td>Richmond, Virginia</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ calculations.

declines: at the beginning of the period (1990) they were characterized by the following:

—Higher employment growth in the prior decade from 1980 to 1990 (a 5.9 percent increase, compared to a 1.1 percent decline)
—A lower rate of decline in the number of establishments between 1980 and 1990 (a decline of 9.1 percent compared to 16.2 percent)
—Greater shares of metropolitan area employment in 1990 (59.6 percent, compared to 39.5 percent), and of population (43.6 percent, compared to 29.2 percent)
—Higher per capita income in 1990 ($11,800, compared to $10,933)
—A lower unemployment rate in 1990 (9.2 percent, compared to 10.7 percent)
—A lower murder rate in 1990 (1.13 per 10,000 residents, compared to 2.39)
—Lower income inequality in 1990
—A slightly higher home ownership rate in 1990 (57.1 percent, compared to 52.2 percent)
—A higher share of adult residents with at least some postsecondary education in 1990 (43.1 percent, compared to 36.6 percent), and lower shares of their adult populations who terminated their education with either no high school diploma (27.5 percent, compared to 32.3 percent) or only a high school diploma (56.9 percent, compared to 63.4 percent)
—A lower share of single-parent households in 1990 (34.9 percent, compared to 42.1 percent)
—A lower share of black non-Hispanic residents in 1990 (21.9 percent, compared to 33.8 percent).

In short, the escapees from economic distress were in many ways poised to do so at the beginning of the period, as they were already performing better than the consistently weak cities on a range of indicators. Overall, while the City Economic Condition Index scores of the two groups of cities were not significantly different as of 1990, the City Resident Economic Well-Being Index scores of those that moved off the list were higher in 1990 than those of the chronically distressed cities.

The Causes of City Economic Distress

The prior section leads us to ask an important yet vexing question: What are the determinants of city economic condition and, given that it is so tied up with the metropolitan economy, of metropolitan area economic condition? In order to answer these questions and to begin to sort out causal links, we conducted a multivariate regression analysis first of change in central-city employment (by
place of work) between 1990 and 2000 and then of changes in three measures of metropolitan area economic condition over the same period: employment, earnings, and gross metropolitan product.

The base model we used for all of these regressions includes a set of variables to capture economic structure, urban spatial structure, demographic structure, labor-market conditions, amenities, and the area environment for economic activity. (See table 6-4A for variable definitions and data sources.) The dataset was made up of 224 metropolitan statistical areas (MSAs), which contained the 268 cities that had populations of at least 50,000 in both 1990 and 2000 and met at least one of the criteria set forth previously (see p. 152).

Economic Structure

We consider three aspects of economic structure: industry composition, economic diversity, and whether the region contains a state capital city.

To address industry composition, we included the location quotients for the manufacturing sector and for the finance, insurance, and real estate (FIRE) sector, using the Standard Industrial Classification (SIC) definitions. We would expect a low manufacturing location quotient in 1990 to be associated with increased employment growth and high earnings growth between 1990 and 2000. These expectations are consistent with the findings of Edward L. Glaeser, Jose A. Scheinkman, and Andrei Shleifer, who found the share of employment in manufacturing in the beginning of the time period they studied to be negatively related to income and population growth. We chose FIRE as an example of a growing high-wage sector. We expected the FIRE location quotient to be positively associated with growth in both gross metropolitan product (GMP) and employment, because FIRE was a growing sector during the 1990s, so an area that was well positioned in FIRE in 1990 was likely to benefit from growth in that sector over the decade.

Economic diversity was measured through a portfolio measure of employment concentration, a variant of the Hirschman-Herfindahl Index (HHI). Using a portfolio measure is a reasonable way of gauging the diversity of an area's economy because the way an area's pool of jobs is distributed across industries is in a real sense the area's portfolio of work and income-earning opportunities. We expect that greater economic diversity will be positively associated with city employment growth and with all three economic outcomes that we model at the metropolitan-area level.

The presence of a state capital in an MSA (or the city's being a state capital) is expected to be associated with employment and earnings growth, since state government employment, much of which is located in the state capital city, has been growing over several decades.

Urban Spatial Structure

An area's comparative advantage is based on both the quantity and quality of the factors of production that are associated with its spatial structural characteristics. Three area characteristics are particularly important: agglomeration economies, city economic age, and connectivity to the national and international economy.

Agglomeration economies are production cost savings for economic activity that result from large and diverse labor markets, support services, and consumer demand. Production cost savings associated with agglomeration economies are hypothesized to be positively associated with population size. Increases in metropolitan size have been related to increased productivity and higher average wages. We measure agglomeration economies as the natural logarithm of the population of the metropolitan area for the three metropolitan change models and the city employment change model.

A region's spatial form—its physical structure and infrastructure—is partially a reflection of when the region's core city first reached its economic maturity. Regions that have evolved out of older cities have greater building density, narrower streets, and highways that are retrofitted into an existing streetscape rather than a streetscape that is built to match the demand for, and pattern of, highways. Therefore, they also are more likely to have aging infrastructure and be less friendly to motor vehicle transportation. Age also determines the characteristics of the housing stock. Newer metropolitan areas have newer housing stock that better meets the consumption desires of families today.

We operationalize the concept of area age as the economic age of the city or, for the metropolitan models, the age of the oldest city in the MSA. Age is calculated as the number of years, as of 2000, since the city first passed the 50,000 mark in population in a decennial census. We expect area age to be negatively related to our four measures of economic performance.

Although old regions may have less connectivity by roads than newer regions that were designed for automobiles rather than streetcars and trains, connectivity to the global economy is now accomplished through air travel. Jan K. Brueckner found that every 10 percent gain in airport traffic is related to a 1 percent gain in service employment. A preliminary study by Richard K. Green (2007) found that boardings, originations, and hub status predict an increase in economic activity. We measure this connectivity of both people and goods in relative terms by calculating the number of scheduled airline flights per 1,000 population in the
MSA in the first quarter of 1991. On the basis of prior studies, we expect airline departures to be positively associated with employment growth as well as earnings and GMP growth.

Demographic Structure

The primary impact of demographic structure on metropolitan economic performance is its relationship to the labor force. Demographics shape the supply side of the labor market. Therefore, we include variables that measure the portion of the population that is not of traditional working age and therefore is not likely to be part of the labor force. We call this portion the dependent population because most members of this group depend directly or indirectly on the wages of others to live. We split the dependent population into two subgroups: the population that is age seventeen and under and the population that is age sixty-five and older. We use the percentage change in these variables to capture any increase in the size of this segment of the population, capturing increases in the operating costs for businesses as a result of the tax load required to pay for growth in the region's social overhead burden. We expect both of these variables to be negatively associated with economic growth, since these two populations tend to increase social burdens through higher use of services such as public schools and health care services, without adding to the tax base.

Racial composition, the percentage of the city's or metropolitan area's population that was black non-Hispanic in 1990, has also frequently been associated with poor economic performance. This results partly from the historic legacy of discrimination and the strong correlation between percentage of black population and the poverty status of the population. However, the relationship still holds even after controlling for educational attainment, suggesting that the quality of education in schools that the average black student attends is not as good as the quality of education in schools that white students attend. Thus a black resident with a high school education may have gained less knowledge, and received lower economic returns, than a white resident with a high school education from a different school system. This leads us to expect a negative relationship between this variable and the dependent variables.

Labor-Market Conditions

Two facets of the labor market are consistently found to be major factors in businesses' location decisions: the human capital of the labor force (the availability of skilled workers) and labor cost.
investors to perceive, whether accurately or not, that high crime rates are typical throughout the metropolitan area. Accordingly, the three metropolitan models initially included city crime rates, but as they were not significant in any of the models, they were eliminated for reasons of parsimony. This result suggests that perceptions of city crime do not affect regional economic outcomes. However, it may influence the intraregional location of economic activity.

Environment for Economic Activity

In connection with the rise of what Glaeser termed the “skilled city,” innovation is increasingly considered to be an important driver of economic growth. Positive impacts have been found between science and research and development activities and economic development. These results suggest that the presence of research universities will aid economic growth. Institutions of higher education can be thought of as multiproduct firms, with each product making a unique contribution to the city and regional economy. The presence of universities has been found to be positively related to per capita income growth.

For all four models, we measure this type of innovation by using a variable that combines the number of universities with high research activities and very high research activities in a metropolitan area in 1990, as defined by the Carnegie college and university classification system.

In state capitals across the nation, policymakers and legislators express a great deal of concern about what the state business climate is and how the state’s tax and regulatory policies affect business investment. Researchers frequently try to develop an all-encompassing index to measure state business climate. However, this concept is difficult to measure because of the many facets of a state’s business climate and the range of demands placed on a state by different industries.

We use a single variable that employers may associate with perceived business friendliness: right-to-work laws. Robert Tannenwald examined studies of right-to-work laws, finding that they had a positive and statistically significant association with economic activity, but raised concerns of endogeneity and other problems with studies that used the variable. Timothy J. Bartik found that unionization levels had a negative effect on employment, and the existence of right-to-work laws had a positive effect on manufacturing plants’ location decisions, which suggests that metropolitan areas in states with right-to-work laws are more attractive to manufacturers, and perhaps to other businesses.

Finally, we added regional variables to control for other factors that might vary by region and that we did not want to mistakenly attribute to characteristics of cities within those regions.

Regression Results

The models captured much of the variation in the dependent variables. The city economic change model had an adjusted R2 value of 0.593, whereas the adjusted R2 values for the metropolitan outcome models were 0.626 for metropolitan employment change, 0.523 for growth in gross metropolitan product, and 0.457 for growth in the metropolitan average earnings per job. (See Table 6-5A for regression results.)

Economic Structure

The only economic structure variable that was significantly related to city employment growth was economic diversity, it was also significantly related to metropolitan employment growth at the 0.10 level. However, at the metropolitan level an area’s location quotient in manufacturing was positively related to all three measures of metropolitan economic performance. This result was surprising in light of our expectation that metropolitan areas dominated by manufacturing employment (as many of the cities in economic distress were) were likely to be at severe risk for relative economic decline. It may be that most of the expected decline occurred from the late 1970s through 1990 and that areas with a high manufacturing location quotient in 1990 were areas that were left with, or had developed, high-productivity manufacturing activity.

Urban Spatial Structure

Agglomeration economies, as measured by metropolitan population in 1990, were positively related to city economic change and to growth in GMP and metropolitan employment. An approximate doubling of a metropolitan area’s 1990 population was associated with a 2.81-percentage-point increase in city employment, a 4.23-percentage-point increase in metropolitan area job growth, and a 7.03-percentage-point increase in gross metropolitan product growth.

Economic age was negatively related to central-city job growth and to metropolitan job and GMP growth. Each additional year of age for a city reduced central-city employment growth by 0.18 percentage point, meaning that a city that was a decade older than the average would, ceteris paribus, have experienced a job growth of 1.8 percentage points less than it otherwise would have. At the metropolitan level the effect on job growth was slightly lower, with each additional year of age being associated with a 0.11-percentage-point decline in job growth as well as a 0.17-percentage-point decline in GMP growth. This was consistent with our expectation that metropolitan regions with older cities are negatively affected
by their older infrastructure and more sclerotic institutional arrangements and thus have lower economic performance, particularly lower growth rates in GMP and employment.

Connectivity as expressed by scheduled airline flights per capita (which we take to be a measure of connection to the global economy) was positively associated both with city and metropolitan employment growth and with growth in GMP.

**Demographic Structure**

Changes in dependent population as a proportion of total population have the expected negative impact on outcomes at both the city and metropolitan-area levels. Each percentage point increase in the central-city population under seventeen years of age is associated with a 1.5-percentage-point decline in city employment. At the metropolitan level, increases in the proportion of population over sixty-five are negatively associated with growth in all three outcomes, with a particularly strong impact on GMP change (each increase of 1 percentage point in the percentage of the population age sixty-five and over was associated with an 8.76-percentage-point decline in GMP). Change in the share of the population age seventeen and younger is also negatively associated with change in metropolitan-area employment.

The effect of the race variable was as expected. For all three measures of metropolitan economic performance, race (the percentage of black non-Hispanics in the population in 1990, the beginning of the period) was negative and significantly different from zero. However, race did not have a significant effect on city employment change.

**Labor-Market Conditions**

Both human capital and labor cost were significant and in the expected directions in all four models. For each additional percentage point of city residents with at least some college education in 1990, city employment grew by an additional 0.42 percentage point between 1990 and 2000. The percentage of the population with at least some college education is predictive of growth in all metropolitan-area models as well. A one-point increase in the percentage of the population with at least some college in 1990 is associated with a 1.06-percentage-point increase in metropolitan GMP between 1990 and 2000, a 3.06-percentage-point increase in metropolitan employment, and a 0.35-percentage-point increase in metropolitan earnings.

As expected, wage per job in 1990 was negatively related to job growth at both the city and metropolitan levels and to GMP growth. The places that had high average wages in 1990 experienced lower rates of employment growth and GMP growth. An increase of $1,000 in 1990 metropolitan area wages was associated with declines of 1.9 percentage points in city employment change and 1.6 percentage points in metropolitan-area employment change between 1990 and 2000.

**Amenities**

The 1990 city crime rate (larcenies and murders per 10,000 residents) was negatively related to city employment growth between 1990 and 2000. The crime variables were not significant in any of the metropolitan models, so were removed from the models. The lack of statistical significance between these variables and the dependent variables in the metropolitan-area models suggests that crime affects intrametropolitan location but not intermetropolitan location.

Climate, even after controlling for region, was positively associated with two of the metropolitan-level outcomes: the higher the July temperature, the greater the growth in metropolitan jobs and gross metropolitan product. It was not related to city employment growth or metropolitan earnings.

**Environment for Economic Activity**

Innovation, as we measured it (the number of very high and high activity research universities in the metropolitan area), was not significantly related to either city employment change or to any of the metropolitan-area outcomes.

The presence of right-to-work laws was unrelated to city employment change. However, location in a state with right-to-work laws was significantly and positively related to change in metropolitan employment, GMP, and earnings per job. Being a right-to-work state, on average, is associated with a 9.5 percent increase in GMP, a 5.0 percent increase in earnings per job over the decade, and a 4.0 percent increase in employment growth rates. These results support the findings of prior research that found that right-to-work laws are a factor in business location decisions and provide an advantage for attracting business investment to a metropolitan area.

**Public Policy and Economically Distressed Cities**

What do we know about public policy and economic distress? Did cities that were distressed in 1990 but not in 2000 engage in different kinds of public policy activities than those that were distressed in 1990 and remained so in 2000? Unfortunately, we do not know the answer to this question, nor was it possible to include a comprehensive set of public policy variables in our regression models. However, results from case studies of thirteen cities that had either over-
performed or underperformed between 1990 and 2000 relative to expectations (that is, given their characteristics at the beginning of the period) provide some indications. 40

In general our research suggested that deviations from expected performance result largely from factors that are unrelated to public policy, at least in the short run. This is the case partly because other forces are quite powerful, partly because in many cases there is a substantial lag between policy application and its effect, and partly because of the nature of many of the policies that target city problems. In the longer run we believe that many of the forces affecting residential and firm location decisions are susceptible to public policy through efforts to improve a city’s competitive advantages as a location for high-wage employment and through efforts to improve a city’s public services and amenities.

Most city governments are active in designing policies to improve city life and outcomes for their residents and many state governments pursue urban-related policies as well. However, in many cases the policy actions are either manifestly too limited, mostly symbolic, or too poorly designed to account for the unexpected overperformance relative to expectations. On the other hand, our conclusion is not symmetrical; we did find many cases where policies appeared to have contributed more substantially to the underperformance of cities relative to the outcomes predicted by our models.

We found that older cities experience less employment growth, reflecting both older infrastructure and entrenched institutional arrangements. We also found that key to “overperformance” was a city’s ability to attract in-migrants from elsewhere—foreign immigrants, in-migrants from outside the metropolitan area, and in-migrants from its own suburbs. This was essentially a two-step process. To attract in-migrants, a city had to be part of a metropolitan area in which the economy was dynamic, growing, and creating high-wage jobs. However, a growing metropolitan economy does not guarantee that in-migrants will locate in the central city rather than in the suburbs or that the central city will be successful in attracting suburban residents.

A city’s perceived vitality and the public value proposition (the package of services provided and amenities received for taxes paid) can play a major role in its attractiveness to metropolitan-area in-migrants. And this in turn is at least partly a product of public activity and leadership. Effective leadership and civic engagement more broadly construed, rather than government activity more narrowly construed, often were seen to be the critical factors in a city’s vitality. Among the common characteristics of the leadership we encountered is that the vision was practical, involved the physical reshaping and repositioning of the downtown, and formed policies so that the vision became part of the political fabric of the community.

Our research suggests that broader contextual public activities at the city and state levels, city vitality and the quality of city leadership, local tax and service packages where the taxes are seen to produce quality services rather than inefficiency or rent-seeking payments, state and city business climates favorable to economic activity, and institutional arrangements that provide cities adequate autonomy and resources are all likely to have an impact.

**Conclusion: Summary of Findings and Policy Implications**

Examining the differences between cities that were distressed in 1990 but not in 2000 and those that were distressed in both periods, as well as examining the results of our regression analysis, it is clear that the following characteristics are important determinants separating economically healthy from distressed cities. Economically distressed cities, compared with nondistressed cities

- are in metropolitan areas that are not economically healthy;
- are in metropolitan areas that have lower levels of connectivity to the global economy;
- have a lower share of the metropolitan-area population and employment;
- are older;
- are smaller (that is, have lower agglomeration economies);
- have lower levels of human capital (as measured by educational attainment);
- are in high-wage labor markets;
- have higher crime rates;
- have a higher proportion of residents who are not of labor-force age.

What policies do our findings suggest for coping with economically distressed cities? As the foregoing discussion indicates, economically distressed cities face difficult and long-term problems, yet although many appear to be chronically distressed, it is not inevitable that they be so, evidenced by the fact that close to a third of cities in our study that were distressed in 1990 had moved out of that category by 2000.

Economically healthy cities are part of a healthy metropolitan economy. There are very few instances of economically healthy cities in economically distressed metropolitan areas. Efforts, both public and private, to deal with the problems of economically distressed cities must be directed in large part to metropolitan-level economic development.
Conversely, however, if the metropolitan economy is thriving, it is not inevitable that the central city will be doing well (or not be economically distressed); a thriving metropolitan area is a precondition but not a guarantee. If the region is thriving economically, then effective municipal public and private leadership can generate city vitality and make the city an attractive place to live within the metropolitan area. This suggests that such cities should be encouraged to direct their policy efforts toward building on their assets and developing amenities for city residents within the context of the metropolitan economy.

It also suggests efforts to provide high-quality public services at reasonable tax levels. In particular, the perception of a safe public environment—not only low crime (our regression indicates that high crime rates deter city employment growth) but also low grime—is critical. This mixture can satisfy residents who do not place a high value on the quality of the K–12 educational system.

Poorly performing educational systems, particularly at the middle and upper school levels and particularly for minority children, remain a major problem for cities in attracting and retaining households with children and in educating a skilled labor force. Our case studies suggest that virtually no city has figured out how to do this, yet that did not prevent at least some of them from being healthy places that attract in-migrants.

Our findings that city age is strongly related to economic distress do not, of course, suggest some anthropomorphic aging process of cities akin to human aging, decline, and death. Indeed, some older cities are doing quite well. City age is associated with decline because it is related to

—a physical form put in place in an era of less-developed technology (particularly transportation, but communication as well);
—older infrastructure;
—long-established governmental institutions and practices that provide patronage and rewards to supporters (and therefore require high levels of taxation) but do not necessarily result in efficient delivery of public services equivalent to the high levels of taxation they require;
—a low-growth portfolio of mature tradable goods and services.

Efforts to adapt a city's form (to the extent possible) to twenty-first-century economic needs, to build and maintain a modern infrastructure, and to engage in political reform that results in basic core services being delivered effectively and efficiently at reasonable tax levels can overcome the problems of city age.

In short, what our analysis suggests is that the problem of economically distressed cities needs to be addressed at two levels: an economic development effort to create a growing, high-wage economy, which must be focused mostly at the metropolitan level, and a community development and governance effort to make the central city within the metropolitan area a place where residents and businesses want to locate. Efforts to engage solely in economic development within the central city as a means of solving the problem of city economic distress are almost certainly, however paradoxically, doomed to failure. Equally, efforts to create a thriving metropolitan economy without making the central city a desirable place for human activity will have the same result.

Table 6-1A. Indicators Used to Measure City Economic Health

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>City economic condition indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in employment</td>
<td>Change in the number of jobs by place of work, 1990–2000</td>
<td>State of the Cities Data Systems, census data, 1990 and 2000</td>
</tr>
<tr>
<td>Change in annual wages</td>
<td>Change in annual wages of the county containing the majority of city residents, 1990–2000</td>
<td>County Business Patterns, 1990 and 2000</td>
</tr>
<tr>
<td>Change in establishments</td>
<td>Change in the number of establishments in the central county, 1990–2000</td>
<td></td>
</tr>
<tr>
<td><strong>City resident economic well-being indicators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median household income</td>
<td>Median income of city households 2000</td>
<td>State of the Cities Data Systems, census data, 2000</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>Employed residents as a percentage of residents in the labor force, 2000</td>
<td></td>
</tr>
<tr>
<td>Poverty rate</td>
<td>Percentage of residents with household incomes below the poverty line, 2000</td>
<td></td>
</tr>
<tr>
<td>Labor-force participation rate</td>
<td>Percentage of working-age residents in the labor force, 2000</td>
<td></td>
</tr>
<tr>
<td>Per capita income</td>
<td>Total income per city resident 2000</td>
<td>U.S. Census of Population and Housing, 2000</td>
</tr>
</tbody>
</table>

Source: Authors’ compilation.

a. Variables measured at city level unless otherwise indicated.

b. If city population was more or less evenly split between two counties, both were included. The five counties that are contiguous with the New York City boundaries were combined.
Table C.A. Indicators Used to Measure MSA Economic Condition

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment growth</td>
<td>Change in the number of jobs of all kinds, 1999 and 2000</td>
</tr>
<tr>
<td>Earnings growth</td>
<td>Change in average weekly earnings, 1999 and 2000</td>
</tr>
<tr>
<td>City Economic Coefficient</td>
<td>Change in annual payroll per civilian, 1999-2000</td>
</tr>
<tr>
<td>City Resident Economic Coefficient</td>
<td>Change in annual payroll per civilian, 1999-2000</td>
</tr>
</tbody>
</table>

Source: Author's calculations.

a. Each cell shows the mean value, with the standard deviation in parenthesis.

Urban Areas

<table>
<thead>
<tr>
<th>MSA age</th>
<th>Population</th>
<th>Metropolitan population, 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of years in 1990 since MSA reached 1,000,000,000</td>
<td>Population, 1999</td>
<td></td>
</tr>
<tr>
<td>State equal to</td>
<td>Metropolitan population, 1999</td>
<td></td>
</tr>
</tbody>
</table>

Table C.A. A Summary of Market Cities Compared with Other Urban Areas

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Wednesday after week of May 22, 2000, Weekly Average Hours Worked</th>
<th>Number of Weeks in 2000, Median Weekly Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.35 (0.88)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.005 (0.00)</td>
<td></td>
</tr>
</tbody>
</table>

Table C.A. Variables and Their Definitions for the Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSA FIME, SHARE</td>
<td>Ratio of MSA FIME, SHARE to national FIME, SHARE for the 1999 out of the East Coast Cubes, Census Data, 1999</td>
</tr>
<tr>
<td>MSA SHARE of employment</td>
<td>Share of MSA employment in the national labor force, Census Data, 1999</td>
</tr>
<tr>
<td>MSA SHARE of manufacturing employment</td>
<td>Share of MSA manufacturing employment in the national labor force, Census Data, 1999</td>
</tr>
</tbody>
</table>

Source: Author's calculations.

a. Each cell shows the mean value, with the standard deviation in parenthesis.
### Table 6-4A. Variables and Their Definitions for the Regression Analysis (continued)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport departures</td>
<td>Number of scheduled airport departures in first quarter of 1991 per 1,000 population in MSA</td>
<td>Bureau of Transportation Statistics, regional airport system summary data</td>
</tr>
<tr>
<td>Demographic structure</td>
<td>Change in population age 17 and under</td>
<td>State of the Cities Data Systems, Census data, 1990</td>
</tr>
<tr>
<td></td>
<td>Change in population age 65 and over</td>
<td>State of the Cities Data Systems, Census data, 1990</td>
</tr>
<tr>
<td>Black non-Hispanic residents</td>
<td>Percentage of the population that was black (non-Hispanic) in 1990, MSA</td>
<td>State of the Cities Data Systems, Census data, 1990</td>
</tr>
<tr>
<td>Labor-market conditions</td>
<td>At least some college</td>
<td>State of the Cities Data Systems, Census data, 1990</td>
</tr>
<tr>
<td>Average wage</td>
<td>Average wage per job 1990, MSA</td>
<td>Bureau of Economic Analysis</td>
</tr>
<tr>
<td>Amenities</td>
<td>July temperature</td>
<td>countryudies.us <a href="http://countryudies.us/UnitedStates/wealth/ratsmans/index.htm">http://countryudies.us/UnitedStates/wealth/ratsmans/index.htm</a></td>
</tr>
<tr>
<td>Innovation</td>
<td>Research institutions that had at least some college in 1990, MSA</td>
<td>Carnegie classifications of institutions of higher learning</td>
</tr>
<tr>
<td>State business climate</td>
<td>Right-to-work state dummy variable</td>
<td>National Right-to-Work Legal Defense Foundation</td>
</tr>
</tbody>
</table>

**Notes**


2. Because of missing data, we were unable to compute a City Economic Condition Index score for Carson City, Nevada.

3. Because of data availability constraints, the earnings and establishments variables were measured at the county level.

4. We used Cronbach’s alpha to confirm that our indicator groupings represented a single cohesive set of variables. The alpha coefficient in both cases shows a high degree of reliability: for the indicators in the City Economic Condition Index, 0.8598; for the City Resident Economic Well-Being Index, 0.8991.

5. A common method of standardizing data is to use z scores so that the data can be combined and compared in a meaningful way. A z score for any city for a variable is the number of standard deviations the variable value is from the average score of all the cities on that variable. For variables for which a lower value indicates a lesser degree of economic distress, such as poverty rate, the signs on the z scores were reversed so that a higher z score always indicated better economic health. To get each city’s index scores, we added the z scores for each of the variables in the index and then divided by the number of variables in the index. As a result, the index scores for each index were on roughly the same scale and can easily be compared.

6. The Pearsonian correlation coefficient between the two indexes was 0.6997, meaning they are measuring two relatively distinct aspects of economic health. The rank-order correlation between the two indexes was 0.3933. For index scores and corresponding rankings of the 302 cities, see Jennifer S. Yeh, “Revisiting Prosperity: The State Role in Revitalizing America’s Older Industrial Cities” (Brookings Institution, 2007). Available at www.brookings.edu/retro/pubs/20070930_0ic.htm.

7. In this chapter, we use the terms economically distressed and weak market interchangeably to represent what Yeh has termed “older industrial cities.”

8. We recognize that this is a rough and ready way of identifying economically distressed cities. Given our methods, one-third of the cities in the data set will always be, by definition, in weak economic condition and one-third will have low City Resident Economic Well-Being Index scores. The degree of overlap in cities in the intersection of these two sets will determine the number of economically distressed cities (that is, cities that appear in the weak or low cell on both indexes are defined as economically distressed).

9. Since the typology is based on the index values, and since the index values result from the variables that are part of the index, substantial differences between economically distressed and non-economically distressed cities are to be expected for the variables used to form the indexes.

10. See, for example, Edward W. Hill, Harold L. Wolman, and Coit Cook Ford III, “Can Suburbs Survive without Their Central Cities? Examining the Suburban Dependence...”

11. Because of missing data, we were unable to calculate an MSA Economic Condition Index score for the Danville, Virginia, MSA.

12. We again used Cronbach's alpha to test the cohesion of the index's four indicators, and found a relatively high degree of internal validity (α = 0.7785).

13. The correlation coefficient between the City Economic Condition Index and the MSA Economic Condition Index was 0.7473.

14. Of the seventeen cities that were distressed in 1990 but not 2000, four were in metropolitan statistical areas (MSAs) whose economic condition was moderate in 1990, and the remainder were in weak MSAs in 1990. Of those that transitioned out of the weak-market category, seven of the seventeen improved on the City Economic Condition Index, five improved on the City Resident Economic Well-Being Index, and five improved on both indexes. Of the twenty-six cities that were not economically distressed in 1990 but were in 2000, nine were in MSAs with weak or moderate economic conditions in 1990, and the remainder were in MSAs with strong economic conditions.

15. We stress that these differences are descriptive rather than causal.

16. Unless otherwise stated, the explanatory variables for the change in the central-city employment model are measured at the city level, whereas those for the metropolitan change dependent variables are measured at the metropolitan level.

17. In this portion of the analysis, the data set was confined to cities whose population exceeded 50,000 in both 1990 and 2000 (N = 268) and that met the other stated criteria in 2000, whereas in the prior analysis the data included cities whose population exceeded 50,000 in either 1990 or 2000 (N = 302) and that met the other two criteria in either year.

18. A location quotient (LQ) is simply the ratio of the proportion of an area's employment in a specific industrial sector to that of the proportion of the nation's employment in that sector. An LQ substantially higher than 1.0 for a sector indicates that the area specializes and has a competitive advantage in that sector. The location quotient for each two-digit SIC industry is calculated from employment in the total metropolitan area and the proportion of the nation's employment in that industry. We use SIC (Standard Industrial Classification) codes rather than NAICS (North American Industry Classification System) codes, since NAICS codes were not available until 1998. We have also used the SIC codes for the economic diversity index, discussed below.


20. The HHF is an index that sums the squares of the market shares of firms in an industry as a measure of market concentration; it is a widely used measure of the diversity of holdings in an investment portfolio. We sum the squares of the decimal shares of regional employment that each two-digit SIC industry has and then subtract that sum from 1 so that larger numbers reflect greater employment diversity across industries. Diversity is calculated according to the following formula: 1 - (construction share^2 + manufacturing share^2 + wholesale trade share^2 + retail trade share^2 + FIRE share^2 + business and repair services share^2 + personal services share^2 + professional services share^2 + public administration share^2 + not classified elsewhere share^2). The sum is subtracted from 1 so that larger numbers reflect greater diversity. The values in our universe ranged from 0.743 to 0.885, with a mean of 0.85 and a standard deviation of 0.02, for the metropolitan-area models and ranged from 0.65 to 0.96, with a mean of 0.84 and a standard deviation of 0.03, for the city model.


22. The models were also run using the square of the natural logarithm of the MSA population in addition to the natural logarithm in an attempt to capture any nonlinearity that may exist in the relationship between the independent and dependent variables. However, this specification did not improve the fit of the models and the results we reported.


25. This variable includes scheduled passenger flights and cargo flights, such as UPS and FedEx.


30. Results in our models were similar using percentage holding a bachelor's degree instead of some college. Percentage with some college accounted for greater variance in all but the earnings growth model, and had a closer association with the dependent variables in the other three equations.


33. Glaser and Shapiro, "Is There a New Urbanism?"

34. The relationship between average July temperature and the dependent variables in the models has been treated as linear, although we recognize its form is undoubtedly not linear. We ran regressions using the square of average July temperature, but this added nothing to the model, so it was eliminated.

40. The models originally used a variable that combined universities with very high research activity, high research activity, and research and doctoral institutions. However, that variable was insignificant in the models and was too broad to capture the element of innovation. The location of the data, which used the Carnegie classification system in effect in 2005, is specified in table 6-1A.
41. We use right-to-work rather than unionization for three reasons: it better reflects the business climate aspect in which we are interested, unionization is highly related to industrial structure, and union membership is increasingly dominated by public sector employees.
44. Except where noted otherwise, all findings reported are significant at the .05 level; in other words, they could be expected to occur by chance only 5 percent of the time.
45. The race variable was significant only at the .10 level rather than the .05 level for change in metropolitan earnings.
46. The city murder rate per 10,000 was significant only at the .10 level rather than the .05 level.
47. Average July temperature was significant only at the .10 level rather than the .05 level for metropolitan employment change.
48. The thirteen case study cities were Sacramento and San Francisco, California; Aurora and Chicago, Illinois; Grand Rapids and Lansing, Michigan; Charlotte and Durham, North Carolina; Portland, Oregon; Philadelphia and Pittsburgh, Pennsylvania; and Seattle and Tacoma, Washington. For a full discussion of the results from the case studies, see Harold Wolman and others, States and Their Cities: Partnerships for the Future (Washington: Fannie Mae Foundation, 2007), available at www.knowledgetplex.org/showdoc.html?id=236675.

7

Placing Labor Center-Stage in Industrial City Revitalization

Ann Markusen and Greg Schrock

Many U.S. cities, especially those with venerable industrial traditions, have had a difficult time recovering from accelerated world market integration and structural change in particular sectors. They have struggled to retain existing industries and firms and attract new ones. They have experimented with new ways to retain the resident labor force for new and existing lines of work. They have hired more professionals to pursue economic development strategies. And they have spent considerable resources doing these things, with quite mixed success.

Part of the problem is the continued reliance on old ideas of how development happens and whom and what should be given priority. Most economic developers still operate as if firms and industries were the most important decisionmakers in the economy, underestimating the semi-autonomous significance of skilled labor both as a source of new product and skill development and as makers of location decisions based on quality-of-life factors as well as job offers. Most still believe that only productive activities whose output is exported outside the region are worthy of nurturing and underestimate the potential of the existing consumption base to generate new jobs and sectoral strengths. Most still devote the lion's share of their attention and resources to physical capital rather than to human-capital formation and underinvest in the latter.