Does America Need Cities?

An Urban Investment Strategy for National Prosperity

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PREFACE

By Raymond L. Flynn
Mayor of Boston
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America is in deep crisis. Businesses, workers, and families across the country are hurting. During the 1980s, real incomes declined for three-quarters of American families. The basics of middle class life -- owning a home, getting a college education for the children, having access to decent health care, even holding a steady job -- are increasingly out of reach. Moreover, the number of people in poverty increased by over two million in the past year alone. Now more than thirty-three million Americans -- including one out of every five children -- live in poverty..

These disturbing trends are symptoms of a more fundamental problem; our economy stagnated over the past decade while our competitors moved forward. For the past decade, our federal government has failed to address our country's serious economic troubles. It has sat on its hands, withdrawing from the problems facing the American people. Our national leaders seem to be completely out of touch with the daily concerns of most Americans. Neither the Bush Administration nor Congress has proposed any serious game plan for putting America back to work.

In contrast, Does *America Need Cities? An Urban Investment Strategy for National Prosperity* provides a road map for rebuilding this nation and its troubled economy. It recognizes that no quick fix will restore America's competitive position in the world. What is needed is a national effort to close the *investment gap* that is at the root of America's economic decline. That investment program should pay special attention to America's cities -- for generations the source of wealth and opportunity, the economic engine of the nation.

As we enter a national election year, we are hearing a lot of half-baked ideas about how to fix the economy. Some talk about credit cards, about cutting capital gains taxes for the wealthy, or about six-dollar-a-week tax cuts for the middle class. Some go to a shopping mall and buy an extra pair of socks -- as if that will boost consumer confidence.

All these gimmicks may help candidates get some votes, but they won't create any jobs. They won't help young families purchase a home. They won't help young people get a decent education. They won't improve the productivity of the workforce. They won't help the poor lift themselves out of poverty. They won't fix our crumbling roads, bridges, sewers, and mass transit systems. They won't help pay the skyrocketing medical bills for the thirty-five million Americans without health insurance.

Fortunately, breathtaking events around the world offer America an unprecedented opportunity to reorder our nation's priorities, to invest in our future, and to rebuild our economy. The biggest danger facing America today is not the Red

Menace, but the pink slip. We must mobilize Americans around a national agenda for economic growth and justice.

To inject this agenda into the public discussion, the U.S. Conference of Mayors and the Economic Policy Institute have sponsored this report, Does *America Need Cities? An Urban Investment Strategy for National Prosperity.* As the report demonstrates, the key to restoring America's greatness in the new world economy is to build on our strengths. These strengths -- our capital assets, our workforce, our brainpower -- are primarily located in our metropolitan areas.

For many generations, cities have been the centers of civilization and commerce, the ports of opportunity for our country. They continue to play that role. But in a new world economy, there is a new set of rules.

Cities and nearby suburbs house the bulk of the nation's population as well as its factories and office buildings, medical centers and universities, seaports and sports stadiums, great museums and libraries. From these resources -- and the people who use them -- America draws its strength. As the global economy becomes more competitive, America must take advantage of these resources and build on them.

No great nation allows its cities to deteriorate. Our competitor nations in the rest of the advanced industrialized world recognize the importance of cities to their economic prosperity. They do not allow their roads, bridges, subways, and other infrastructure to crumble. They do not permit the level of sheer destitution -- homelessness, hunger, poverty, and slums -- found in America's cities. They invest much more in their urban schools, workers, and families.

It is fashionable in some circles to denigrate cities. A weekly newsmagazine recently published a story entitled, "Are Cities Obsolete?" A well known pundit recently wrote that the future of America rests with its suburbs. A recent book suggested that suburbanites don't care about cities. Some conclude, therefore, that we cannot expect our national leaders to formulate a domestic agenda that invests in our cities.

As *Does America Need Cities? An Urban Investment Strategy for National Prosperity shows,* this view is misleading and shortsighted. As America's cities go, so goes America. Healthy cities are essential for strong regional economies. City dwellers and suburbanites share a common fate. Everyone who lives and/or works in our metropolitan areas has a stake in improving the health of our nation's cities.

Moreover, the very concept of "suburb" has undergone a dramatic change. What some demographers or political analysts call suburbs are actually small and medium-sized cities that share many of the characteristics of nearby central cities. In the Boston area, for example, the U.S. Census Bureau considers both Somerville and Chelsea to be suburbs. But the economic and social characteristics of these communities -- including their social problems, poverty, and fiscal troubles -- resemble those of cities. Almost every metropolitan area has communities like these. Similarly, the newer, growing suburban "edge cities" -- with their offices and industrial parks -- share many features, and problems, with the larger, older cities. Equally important, these communities continue to depend on strong cities for their economic sustenance. Those who live in so-called bedroom suburbs -- whether they commute to work in cities or other suburbs -- still draw heavily on the economic and civic resources of the cities.

The truth is that all residents of metropolitan areas -- city dwellers and suburbanites; blue collar, white collar, and pink collar workers; whites, blacks, Hispanics, and Asian-Americans; and men, women, and children -- are in the same boat. And that boat is sailing on the rough seas of the American economy. The fate of America's economy is clearly the biggest issue facing the nation -- and those who seek to lead it.

Some national figures seek to win political support by appealing to division and by deflecting attention from our nation's economic troubles. Some play on racial and ethnic divisions. Some focus on age or gender. Some seek to divide suburbanites and city dwellers for political gain. Recent examples include the Bush Administration's decision not to adjust the 1990 census figures to reflect the significant undercount of America's urban population -- a callous way of telling Americans that the poor don't count, so we won't count the poor.

Some pundits have argued that the 1992 Presidential election will be decided by the so-called "suburban vote." But there is no such thing because suburban areas are simply too diverse.

Moreover, it is impossible to predict with certainty how Americans will vote next November by looking at past elections, because issues and interests are so fluid, especially in times of economic turmoil. Particularly in light of America's declining standard of living -- and the common fate of Americans living in cities and suburbs -- it is simplistic to predict that the arbitrary boundaries of city and suburbs will determine how Americans will vote.

Both city dwellers and suburbanites have a common stake in casting their vote for candidates -- for President as well as for Congress -- who will restore the nation's prosperity, improve its competitiveness in the world, and strengthen the quality of life for American families.

Candidates for national office would do well to formulate policies that will rebuild our nation's economy in light of the findings of this report. The U.S. Conference of Mayors has proposed several initiatives that parallel the analysis and recommendations put forward in this report. These include a Competitive Cities Act, an Anti-Recession Plan, and a Public Investment Program.

Every so often, America seems to hold its breath, trying to decide what kind of country we want to be. Sometimes, America decides to commit itself to move forward -- like the Progressive Era, the New Deal, and the Great Society. We now have that chance again: to invest in America's future and to give our children a better life.

EXECUTIVE SUMMARY

The key to America's long-term economic prospects -- restoring our international competitiveness and improving our standard of living -- can be found in the nation's cities. This report shows why a strategy for national economic growth must emphasize urban investment.

A few decades ago such a conclusion would probably have been uncontroversial. But in recent years some well-known economists and political commentators have characterized cities as economically and politically irrelevant. Unfortunately, this common pessimism has been mirrored in the past decade of urban policy neglect by the President and the Congress. Cities have been seen only for their problems, rather than for their potential.

The conclusion of this report is that cities are far from obsolete. To the contrary, the potential economic contribution of our cities to long-term growth and competitiveness is great.

For stronger economic growth, it is widely acknowledged that America needs investment of all types -- in people, in infrastructure (roads, bridges, mass transit, etc.), in plant and equipment, and in research and development. Both the public and private sectors will play important roles. But one issue which underlies all such considerations has yet to be addressed: *where* in the U.S. should such investments be made, and according to what rationale?

Does America Need Cifirs? demonstrates that urban investment promises the highest returns to the nation's economy, simply because such investment would be targeted where the greatest potential for growth now exists. Where are the most under-utilized people, the largest stock of usable or reparable infrastructure, and the biggest supply of convenientlv-loca ted land? The answer, of course, is in America's cities.

Principal findings in *Does America Need Cities?* include the following:

- In the new global marketplace, the national economy is evolving towards a heightened reliance on dynamic, growing cities. High-paying service jobs in the new information economy are attracted to cities. These jobs figure importantly in the nation's international competitiveness. For example, in 1990 the U.S. exported $23 billion more than it imported in services.

- The benefits of what economists call "agglomeration" -- the geographic concentration of many and diverse types of workers and firms -- continue to enhance the value of doing business in the city. One has only to note the higher rental costs of urban land to see that the market places value on city locations.

- Central cities and their neighboring suburbs and smaller cities are woven into highly integrated regional, metropolitan economies. Cities provide locations for high-paying jobs held by residents of the suburbs. They also provide cultural, medical, recreational, and educational facilities heavily patronized by non-residents. The economic well-being of cities is intricately linked with that of their adjoining suburbs (many of which could be considered small cities).

- The trend of the past forty years towards the continual dispersal of people and jobs to outlying suburbs is increasingly inefficient and counter-productive for the nation's prosperity. The suburbs are strained by their growing economic and social roles. The benefits of cheaper suburban land are increasingly overwhelmed by the costs of transportation, labor shortages, new infrastructure needs, and social problems common to the cities and suburbs. The nation's total transportation bill, inflated by geographic decentralization, is now in the neighborhood of $1.4 trillion per year.

- Conditions are ripe for rejuvenating the ability of cities to provide employment and homes. In cities can be found a vast stock of private and public capital, including office buildings, transportation systems, electric power networks, etc. which are more easily repaired in place than rebuilt from scratch in new places. The vocational skills of workers living in the city are comparable to those of commuters. Employment trends among the poor indicate that labor force participation rates will rise in response to job opportunities.

- Concerted government action is necessary to jump-start economic growth in cities, because the crucial deficiencies all relate to traditional government roles in infrastructure, education, worker retraining, and action against poverty. At the same time, public commitments to such endeavors will advance private enterprise throughout our metropolitan regions. In recent times the Federal government has provided more harm than help. It has tilted the economic playing field away from cities by promulgating unbalanced transportation and housing policies, by dropping its commitment to public investment, and by surrendering in the war on poverty. In particular, Federal direct spending on civilian physical capital investment has dropped below half of a percentage point of GNP.

The authors' specific recommendations to federal policymakers include:

1. Lead the way towards the growth of jobs in cities by supporting the rehabilitation of infrastructure, particularly public transportation, water, and sewer systems.

2. Prepare tomorrow's workforce by focusing on the transition from infancy to elementary school, particularly by making Head Start available to all low-income children, and the transition from high school to work,, especially through successful programs like Job Corps.

3. Improve the quality of life and the taxable capacity of cities by taking greater financial responsibility for aid to the poor, by devoting serious resources to helping the poor earn viable incomes by their own labor, and by providing targeted fiscal assistance to local governments hampered by relatively little in the way of taxable resources.

4. Ensure that affordable rental housing and home ownership is available in cities. Aid to individuals can be increased through expansion of rent subsidies and assistance to first-time home buyers, and aid to neighborhoods can be augmented by supporting the efforts of non-profit community development organizations through Federal housing and economic development partnerships with cities.

5. Finance these initiatives through reductions in military spending and increases in the personal and corporate income tax.

Helping the cities helps the nation's economy. But the ultimate tragedy of the cities is not the abstraction of slow GNP growth or inadequate business profits, but of human lives which fail to achieve their promise. Good policy and good deeds are two indispensable ingredients of good politics. This report provides the ingredients; those who aspire to high national political office are urged to provide the politics.

INTRODUCTION

Since World War II the American standard of living has been the envy of the world. Now after a decade of acute neglect by the federal government, our economic progress is in jeopardy. Meanwhile the incomes of most American families have stagnated.' In addition, more American workers are being forced to resort to part- time work for economic survival (Mishel and Frankel, 1991; Tilly, 1991). The world economy is changing rapidly. The general shift from manufacturing to services is widely acknowledged, but the national government is neglecting opportunities for revitalizing our manufacturing sector and for nurturing advanced service industries which could become a greater source of new, high-paying jobs.

In the 1970s and 1980s the structure of jobs in our economy was left to fate. As incomes stagnated and communities were devastated by the flight of manufacturing firms, fiscal stress on state and local governments escalated. Now the majority of our state and local governments are facing severe fiscal difficulties, while the federal government staggers under the burden of high deficits. A majority of state governments have reduced their financial reserves to historically low levels. Severe cuts in spending and increases in taxes were necessary to balance state budgets in the current fiscal year (National Governors Association, 1991). Over 70 percent of city governments experienced budget problems this past year as well, with over 60 percent reporting expected budget shortfalls (Pagano, 1991).

Revitalizing the growth of our economy should be the first priority of our public policy. Especially now in the wake of the Cold War's end, we must focus our attention on domestic issues. In this paper we argue that the resumption of robust growth in our standard of living will depend on a broad program of public and private investment to rebuild and strengthen the nation's cities.

The economy of the United States is essentially a confederation of regional, metropolitan economies. A metropolitan region is defined as a group of cities and suburbs economically linked to a central, urban core. Cities, including the central cities, are essential organs in the bodies of our regional, metropolitan economies. America's cities shape America's economy. The economy, in turn, shapes the cities. This ongoing, mutually beneficial relationship has been the basis for America's rise to world economic leadership.

The precise economic hallmark of a city is its high number of households and business firms concentrated in a small geographic area. In some cases, such characteristics could be more notable from a relative standpoint than an absolute one. For instance, what might qualify economically as a city in the West might be no larger or more dense than a "suburb" in New Jersey. In general there is a great variety of cities and suburbs. The real point is that all places in a metropolitan region are profoundly linked in economic terms; that properly speaking, different places will have different roles; and finally, that a very important category of places -- those with high concentrations and varieties of people and businesses -- has been seriously undervalued in our public policy, to the general detriment of our economic growth and competitiveness.

The cities of the nation, for all of their social problems, play host to the country's most productive economic activities. Economic coordination, high-level information processing, and technological and organizational innovation are concentrated in our cities.

Although urban problems expanded and worsened in the 1980s, cities on the whole demonstrated a renewed vitality. Cities responded creatively to a major restructuring of the national and international economy that intensified the importance of traditional economic functions.

The most lasting and efficient way to get the country moving again is to begin with rebuilding our cities and older suburbs. A major shift of federal priorities toward a program of urban investment will produce high returns for the nation. Such a strategy is based on the premise that the unique economic strengths of cities can be exploited by investing in public infrastructure and human capital, by improving the quality of life, by increasing support for families, and by providing access to a range of housing options. (Infrastructure refers to tangible physical assets, such as roads, bridges, canals, mass transit facilities, electric and gas networks, airports, etc. Human capital refers to the educational attainment and vocational skills of individual workers.)

Such a plan can only be sustained by the revenue-raising capacity and coordination role of the federal government. Regional economies have always been shaped by federal policy. Subsidies for highways and home ownership since World War II powerfully encouraged the growth of the suburbs. Federal aid played a major role in downtown redevelopment.

During the 1980s, federal policy hurt cities and by extension, the American economy. According to a study released by the U.S. Conference of Mayors (Simmens, 1991a), federal aid as a percentage of city budgets was reduced by nearly 64 percent, from an average of 17.7 percent in 1980 to an average of 6.4 percent in 1990. This survey, which covered fifty cities of varying sizes and geographical regions, also indicated that to deal with the budgetary shortfalls resulting from the reduction in federal funding, 72 percent of the cities elected to raise taxes, 42 percent raised taxes *and* cut services, and 32 percent raised taxes, cut services, reduced city employees, and raised revenues through other revenue measures (Simmens, 1991a). In a follow-up survey conducted by the Mayors in October 1991, of the sixty-two cities surveyed, 74 percent are currently postponing capital improvements in order to deal with the recession (Simmens, 1991b).

Grants-in-aid to state and local governments as a whole decreased and direct assistance to the poor declined (Ledebur, 1991; Sawicky, 1991b). Changes in federal tax policy in the 1980s made the task of collecting taxes and selling bonds more difficult for state and local governments. At the same time, new federal mandates imposed significant costs on state and local governments. If America is to fulfill its potential, this pattern of federal neglect of the cities must be reversed.

Some simple facts point up the urgency of these problems:

- Metropolitan areas generate the overwhelming bulk of income in the United States. As of 1989, they accounted for 75 percent of the population, but 83 percent of income (U.S. Department of Commerce, Bureau of Economic Analysis, courtesy of John Mollenkopf). Cities are major providers of employment in these areas.
- The matter of whether cities are too "hollowed-out" and the suburbs are too congested is of fundamental importance. Our current geographic pattern of jobs and residences generates staggering transportation costs for the economy as a whole -- in 1990 the bill reached $1.4 trillion, or over 25 percent of GNP (Ketcham, 1991).
- Currently the majority of U.S. cities are having severe fiscal difficulties: over 60 percent reported that 1991 General Fund Expenditures would surpass revenues, as compared to 46 percent anticipating such problems in 1990 (Pagano, 1991,; Swanstrom, 1991). The resulting squeeze on basic services required by businesses and households constitutes another obstacle to the regeneration of cities and thus to general economic revival.
- Cities harbor a vastly underutilized working class, particularly people who involuntarily work part-time or part of the year for lack of full-time jobs (Tilly, 1990); at the same time, jobs in suburbs go unfilled because potential employees living in cities cannot afford to commute or to move closer to these jobs.

To meet the challenges of the new world economy, we must rebuild our cities and educate our workers. Some observers of metropolitan America now claim that the fate of cities is of little consequence to the rest of the metropolitan economy or to the country (U.S. Department of Housing and Urban Development, 1980, 1982; Turque and Washington, 1991). But the link between the vitality of cities and the vitality of the U.S. economy casts a new light on the national importance of urban programs.

PLAN OF THIS REPORT

In the first *section* we point out the profound economic linkages between city and suburb, and within the metropolitan economy as a whole. As noted above, the body of our regional economies needs all of its organs to survive; no town is an economic island, least of all "bedroom" communities consisting of households whose earners travel elsewhere to work!

Granting the bond between city and suburb, the next question is: why do we need a particular emphasis on strengthening our cities? Why not let "the market" determine who does business and lives where? The second *section* elaborates the unique economic qualities of cities -- those characteristics which make them an indispensable part of its regional economy and which reinforce the linkages between suburbs and cities.

If we take the value of cities seriously, then the next question is how we may prepare them to fulfill their potential. The *third section* discusses the requirements for revitalizing the economic contribution of the cities, particularly in terms of public investment in infrastructure.

Economic capacity begins with jobs. Much popular misunderstanding surrounds the nature of jobs and workers in our cities. The *fourth section* focuses on the capabilities and needs of urban workers and their employers.

Since the value of cities includes their use as a place to live, the *fifth section* discusses how to improve the quality of life in cities, with particular attention to the poor.

The *final section* elaborates the policy agenda which follows from the argument of this report.

THE INTERDEPENDENCE OF CITIES AND SUBURBS

It was noted above that the American economy consists in great part of a set of regional, metropolitan economies. Half of all Americans live in thirty-nine metropolitan areas, each containing more than a million people. These areas account for more than half of all U.S. labor earnings. Thirty-four of these areas gained population between 1980 and 1990. Areas with more than a million people include not just New York, Los Angeles, and Chicago, but also such places as Hartford, Charlotte, and Portland.

Some of the largest metropolitan areas are consolidations of two or more smaller areas. For instance, the Philadelphia consolidated area includes Wilmington and Trenton, as well as Philadelphia proper. San Francisco, Oakland, and San Jose now form a single area, while Houston, Galveston, and Brazoria constitute another consolidated area. Including metropolitan areas with less than a million residents accounts for 78 percent of all Americans and 83 percent of U.S. personal income.

Each metropolitan area has grown up around the city whose name it bears. Since transportation advances of the twentieth century have made it easier to move around, the need to centralize households and jobs in the city proper has diminished. In 1990 almost 60 percent of metropolitan residents lived outside the historical central city of their area.

When we distinguish between a city and its suburbs, we should be careful not to simply lump together all suburban communities. Some "close-in" communities increasingly resemble the outer portions of the cities they bound. These suburbs share the problems but also the strengths of their adjacent cities. Other towns in suburbia grew up around older industrial sites which were gradually integrated into metropolitan areas. Then there are the so-called "edge cities" (Garreau, 1991) which provide new centers of office and commercial activity popping up in suburban areas.

Are these rapidly-growing areas just beyond city limits really independent of the older cities with their myriad of urban problems (Garreau, 1991)? Quite the contrary. Such a conclusion reflects a complete misunderstanding of the relation between a city and its metropolitan area. That relation is one of functional specialization in which the cities take on the activities that require high density and great diversity, while peripheral areas specialize in those that need considerably more space.

What do we mean by functional specialization? In The *Wealth of Nations,* Adam Smith provided his famous description of a pin factory which is able to produce at lower costs because the various stages in producing a pin are separated and assigned to different workers. Each worker or group of workers specializes in a particular stage of production. By virtue of such specialization, the cost of each pin is minimized. In the same way, the tasks of a modern economy are taken up by the diverse localities that make up an economic region. Specialization makes the economy as a whole more productive because each locale does the things it can do best. But it should be emphasized that the *specializing members of the region's economy work in concert, not in isolation.* Just as in the pin factory, a city or suburb's economic role cannot be sustained in isolation from the region in which it is anchored. For example, a law firm specializing in bankruptcy law might locate in the downtown of a relatively large city, while the back-office tasks of a large bank could be located more on the periphery.

A division of functions between urban centers, city neighborhoods, and the various components of the suburban periphery has long characterized metropolitan America. From the very first, Americans pushed out toward the edge of town to take advantage of cheaper land for residential and industrial development. As far back as the nineteenth century, heavy manufacturing began to evade the city center's high rents and density.

It is only appropriate that activities which cannot generate the income to support high-rent sites in the cities be moved to more remote locations. If a firm needs the special benefits of a city location, it should be able to recapture its cost in the sale price of its product. Some firms will function more profitably in the suburbs or in rural places. However, the continuing success of the metropolitan economy, compared to rural places completely free of urban problems, testifies to the continuing value of cities.

Cities play fundamental roles in the metropolitan economy. Much of suburban production is coordinated and supported from city locations. Examples of such coordination include corporate headquarters and financial markets.

The cities' role as a source of high-wage employment based in high-productivity industries is borne out by an examination of its labor market. Although many relatively poor workers live in central cities, the earnings of those who work in the central cities are considerably higher on average than the earnings of workers in suburban establishments. In a sample of fourteen large metropolitan areas, the wages of central city jobs in 1987 averaged 20 percent higher than those of suburban jobs. Moreover, the earnings gap has been widening. Between 1969 and 1987 the ratio of central city to suburban earnings rose in twelve of these fourteen areas.[2] Jobs downtown must be productive to support the cost of a central location, and productive jobs can command higher wages.

The high pay of city jobs has historically enticed suburban residents to commute considerable distances to the city proper. For instance, nonresident workers commuting into Baltimore hold 60 percent of the managerial and professional jobs (Joseph, 1991). Al though it is true that workers commute both ways across the city boundary, the productivity of city jobs channels a considerable net flow of earnings out of the cities. For instance, in 1989 almost $8 billion, or 60 percent of all Denver city earnings, went to suburban residents. A flow of earnings about a third as large moved in the other direction -- from suburban jobs to city residents. Similar flows characterize cities as diverse as Baltimore, St. Louis, New Orleans, and San Francisco[3] (see Table 1.1). Cities remain of fundamental importance as a source of income to suburban residents.

Suburban families are intricately intertwined with cities in other ways. A recent survey of the 22 percent of Americans living outside of the one hundred largest cities -- but within twenty miles of them -- found that about half of respondent households had at least one member working in the city. 67 percent depended on the city for major medical care. 43 percent hnd members either attending or planning to attend a city-based institution of higher learning. Many of these suburbanites were aware of their stake in the city. Fully 46 percent of those who owned homes believed that a long-term economic decline in the city would reduce the market values of their property (Goldberg, 1990).

TABLE I.1
THE EARNINGS OF SUBURBAN RESIDENTS
WORKING IN CENTRAL CITIES
1989

Metro Area	Suburban Commuter Earnings (millions, 1989 $)	Suburban Commuter Earnings All City Earnings	Suburban Commuter Earnings All Suburban Resident Earnings
Baltimore	$ 7,938	59.2%	31.4%
Denver	7,609	60.8	40.8
New Orleans	3,521	45.2	39.1
Philadelphia	11,333	46.4	21.4
St. Louis	5,920	66.5	19.3
San Francisco	11,011	48.1	46.0
Washington	18,402	70.5	22.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Measurement Division, unpublished data. These metropolitan areas are chosen only because they each have a central city which coincides with their central county boundaries. Suburban commuter earnings measures the *gross* outflow of earnings from the central city, i.e. earnings from jobs located in the central city held by residents of the suburbs and other noncity residents. Note that some "commuter earnings" may accrue to individuals living outside the metropolitan area altogether. All city earnings includes earnings from all jobs located in the central city regardless of who holds them. All suburban resident earnings are the earnings of residents of the suburban ring of the Metropolitan Statistical Area (MSA) or Primary Metropolitan Statistical Area (PMSA) regardless of where they work.

Research has shown that cities and their associated peripheral areas are in the same economic boat. Prosperous cities are associated with prosperous suburbs, and suburbs grow near cities that grow.[4] Economic activities in one part of a metropolitan area positively affect the remainder of that area. For instance, a proliferation of service firms in the cities reduces costs to suburban manufacturing plants which draw upon these services. In the same vein, a new industrial plant in the suburbs increases the demand for services supplied by firms located in the cities.

The metropolitan economy contains a broad range of activities. From the central business district to suburbia, different places play different, although interacting, interdependent roles. Moreover, the activities in question are not limited to profit-seeking in the private sector. Cities provide cultural activities, medical centers, sporting events, and educational institutions not commonly available in less central locations. Many major hospitals continue to operate in the big cities. One is much less likely to have access to a symphony orchestra or a heart transplant in a smaller city or suburb.

Thus our regional, metropolitan economies are integrated wholes, and not a collection of isolated components without reciprocal relationships. But why should a particular focus on cities be a key priority at this time? Today's metropolitan economy can be best served by public investment in cities. To demonstrate this claim, it is necessary to explore further the nature of urban productivity. In the sections which follow, the productive economic functions of cities, the private and public physical capital of cities, and the diversified labor force of cities are considered in turn.

THE ECONOMIC STRENGTHS OF CITIES

What distinguishes a city in economic terms? The unique characteristics of a city include its high density and its large number and variety of firms, workers, and cultural and social activities. The benefits of these bundled characteristics are known as "agglomeration economies." What is the basis for such benefits?

High density facilitates the rapid exchange of information, thereby increasing productivity for a broad range of economic activities. It also reduces the cost of providing transportation and other public services such as health care and utilities.

Because of worldwide economic changes, the advantages of density have resurfaced during the past twenty years. Density makes it possible for urban jobs to pay high wages. It has spurred the rapid growth of downtown areas. Density may even breathe new life into urban manufacturing districts which would otherwise be given up for lost.

Urban jobs generate technological and cultural innovation and create a large share of national wealth. Jobs in the central cities of large metropolitan areas garner 37.7 percent of nationwide earnings, while they constitute 32.2 percent of all jobs. On average, these jobs pay higher wages, at $23,862 per year, than jobs in suburbs. Earnings in smaller cities follow, while nonmetropolitan areas bring up the rear with average earnings of $16,036 (see Table 11.1).

The cities' high earnings result, not surprisingly, from a concentration of high productivity industries, such as producer services and information-intensive industries. Examples include such activities as business firm headquarters, finance and insurance, business services, legal services, and education (Drennan,, 1986). To some extent, these producer service firms thrive because they benefit directly from the attributes of the urban environment. But it should also be pointed out that insofar as highly-skilled, scarce "knowledge workers" prefer to live in cities because of the availability of cultural and social activities, firms requiring such workers must follow.

TABLE II.1
SHARE OF EMPLOYMENT AND EARNINGS, CITIES AND SUBURBS
1986

	Employment	Earnings	Average earnings
Metro areas >1 million			
Central county	32.2	37.7	$23,862
Suburban counties	16.2	16.8	21,185
Counties of 250,000 to 1 million	22.6	**21.8**	**19,681**
Counties of less than 250,000	**9.1**	**8.0**	**18,070**
Nonmetropolitan counties	**19.9**	**15.7**	**16,036**

Source: U.S. Department of Commerce, Bureau of Economic Analysis, reported in T. Alexander Majchrowicz, *Patterns of Change in the Rural Economy, 1969-86,* United States Department of Agriculture, Economic Research Service, Washington, D.C., 1989.

Nor should it be surprising that the differences between urban and suburban earnings are most pronounced in those industries in which the central office is located in the city with the support offices concentrated in the suburbs. As Table II.2 demonstrates, the earnings of city workers in finance, insurance, and real estate are far higher than those of their counterparts in the suburbs.

The world economy is giving birth to new industries. These include information-intensive producer services, which often choose to locate in the largest central cities. Roughly 13.9 percent of all jobs in 1985 were involved in information-intensive industries, compared to 14 percent for manufacturing. Of the new jobs created in the United States between 1980 and 1985, only 33,200 were manufacturing jobs, while 3,477,800 were in services, most of them information-based ones (Kasarda, 1989).

It happens that the Unites States has been more internationally competitive in the service trade, posting a surplus of $23 billion in 1990, in comparison to a deficit in the manufacturing trade (Drennan, 1991). While the vitality of that portion of the service sector which boasts high-paying jobs is heartening, the weakened state of manufacturing need not be taken for granted; to some extent the latter is due to public policy neglect. Insofar as certain kinds of manufacturing would benefit from suitable urban locations, the thrust of this report is also relevant to the national concerns over the state of U.S. competitiveness in manufacturing.

High-wage service jobs have been concentrated in the core counties of the twenty-four largest metropolitan areas. These top twenty-four central counties accounted for

TABLE II.2
RATIOS OF AVERAGE EARNINGS IN SELECTED CENTRAL COUNTIES TO AVERAGE EARNINGS IN SUBURBAN COUNTIES, 1987

Metro Area	Manufacturing	Fire	0 ther Services	Wholesale	All
Atlanta	1.11	1.82	1.19	1.06	1.23
Boston	1.12	3.55	1.51	1.37	1.49
Dallas	1.13	2.14	1.26	1.13	1.33
New York	0.89	2.37	1.28	1.17	1.28
Philadelphia	0.93	1.66	1.18	1.04	1.12
St. Louis	0.95	1.43	1.18	0.93	1.16
Washington	1.16	1.60	1.20	1.02	1.23

Source: U.S. Department of Commerce, Bureau of Economic Analysis, reported in Thomas Stanback, *The New Suburbanization*. Boulder: Westview Press, 1991, pp. 42-43. Central counties for these areas are identical to or closely approximate central cities.

39 percent of all jobs in information-intensive industries, compared to 27 percent of total employment (Drennan, 1989). Smaller cities, such as South Bend, Indiana; Columbus, Ohio; or Louisville, Kentucky, also house many of these kinds of jobs and play important control and coordination roles in their regions or states.

Why have we seen the growth of producer service jobs in cities? As such fields as law, finance, advertising, data processing, and accounting have spawned new areas of specialization in the last ten years, many firms have found it economical to farm out specialized functions which were formerly handled by in-house generalists. This process facilitated the development of comparatively small, highly efficient producer service firms. By locating closely together in compact and dense downtowns, they are able to realize the economies of agglomeration alluded to above. In other words, by locating in the larger cities these firms can gain access to more corporate customers and can find a greater variety of suppliers.

At the same time, these locations are convenient to a large and diversified labor pool of highly-trained specialists as well as moderately-skilled workers who fulfill such critical support functions as data entry, communications, and security. As a result, during the 1980s, comparatively small producer service firms outbid larger industrial corporations for downtown office space.

The Benefits of Diversity

Diversity in cities and metropolitan areas promotes economic growth. The greater variety of industries a city has, the more rapidly it grows. The main reason for this is the cross-fertilization of ideas across industries, speeding up innovation, as products and production processes from one industry find new applications in another.' Some of these benefits can occur even though firms are not located closely together. But it turns out they are greater when firms are closer. The loss of urban density in past decades may have reduced the growth of manufacturing output by as much as a third (Fogarty and Garofalo, 1988).

A diversity of city sizes and densities provides a range of environments for different economic activities. In both the service and goods producing sectors of the information economy, productive and viable cities with relatively high densities can play a crucial role. The U.S.'s competitive edge hinges on the efficiency of our cities and their information systems, but this advantage could quickly erode.

The Japanese national government provides about 20 percent of local government budgets -- twice as much as the United States. In the 1980s Japan embarked on an $8 trillion, fifteen-year capital expenditure program focused on its cities. The French government has also channeled investment into its cities, including a new Opera, a rebuilt Louvre in Paris, and a new international airport connected to Paris by rail. If we are to improve our competitiveness, U.S. urban policy will have to be equally aggressive.

When people speak of competitiveness and cities, a profound choice is often left unaddressed: is the proper goal to compete by using cheaper inputs to production, which primarily means low-wage workers, or is it to compete by employing highly-skilled and highly-paid workers who can produce more at a lower total cost per unit of output? In the first case, the implication is that we should assist Detroit, for example, in competing with Manila or Calcutta. In the second, the problem is how to match up with Paris or the industrial heartland of Germany.' Which sort of competition sounds more inviting?

International Transportation/Communication

As manufacturing firms decentralize their production processes, the importance of a central office to direct and control the entire corporation increases enormously. In order to coordinate the activities of a multinational corporation or a large regional corporation with customers and producers in several countries or several states, access to international airports and low-cost telecommunications systems is critical. Financial firms in particular depend on immediate, up-to-date information. They require frequent face-to-face contact with clients and colleagues, which in turn requires modern transportation facilities and telecommunications technology.

Producer services have grown up near inter-metropolitan and international air transportation. For instance, Atlanta's growth to a position of economic leadership in the South has been attributed to the expansion of Hartsfield International Airport. Since it was expanded, the number of international banks in Atlanta has grown from zero to thirty-two (Kasarda, 1989, p. 129). While not every city can or should have its own international airport, there is no doubt that such infrastructure will require extensive federal investment over the next few decades.

The high costs of telecommunications infrastructure and the speed with which the industry is modernizing (as evidenced by the introduction of optic fiber, digitalization, and soon, video dial tone) will actually increase the competitive advantage of the cores of large metropolitan areas. Moss (1987) has argued,

> "Telecommunications is creating a new urban hierarchy in which certain cities will function as international interaction capitals, with the most extensive electronic infrastructure and richest opportunities for human interaction. Other cities will serve as regional information hubs, linked to principal international capitals, but with a less extensive geographic reach."

The ability of some state and local governments to contribute to the development of state-of-the-art telecommunications infrastructure will become an increasingly critical factor in firm location decisions.

Other Strengths Unique to Cities

Cities of every size have important roles in the economy. Major coastal cities, such as New York and Los Angeles, have become command-and-control centers for internationalized production and services. Cities such as Chicago and Houston have become critical regional centers. Cities such as Boston have become important centers for product innovation and research and development.

While the largest cities serve a variety of these functions, smaller cities often specialize in particular activities. Suburban areas have often been able to capture retail and wholesaling business, as well as some corporate headquarters and administrative support functions. Smaller cities located near major metropolitan centers have gained the administrative support offices of corporate headquarters.

Along with these new activities, many cities continue to rely on older ones, such as manufacturing and distribution. The value of manufacturing districts with a rich array of supportive services is being rediscovered in some ways. Small firms and economic development professionals are realizing the advantages of groups of firms undertaking joint research and product development, marketing, labor training, financing, and equipment utilization. These "flexible manufacturing networks," as they are now called, have been operating for many years but have only recently been rediscovered by researchers and public officials. Conscious efforts are being made to increase the number of these networks (Hatch, 1990).[7]

While for much standardized, mass production cities are usually no longer the best places to be, the urban characteristics of density, size, and diversity continue to offer great advantages to some forms of goods production. For instance, a recent study of the printing industry found that many parts of the industry needed to be close to their downtown customers and to each other because they are heavily involved in subcontracting. Moreover, the highly technical nature of printing industry equipment and the skilled labor needed to operate it requires ready access to service firms such as repair firms, suppliers, and consultants, as well as a rich mix of labor skills (Ranney and Wiewel, 1987).

In summary, the size and density of cities confers unique economic advantages which play an essential role in regional economies in the United States. The unplanned dispersal of jobs and people over an ever-growing suburban area adds to costs in the economy which no individual firm, worker, or local government has the means or incentive to counteract. It is in the best interest of our economy to ensure that employment and households are located in such a way as to restore the nation to economic health. The next question is how this may be done.

HOW TO BUILD ON OUR URBAN ECONOMIC ASSETS

Enlarging the economic role of cities requires that firms and households volunteer to relocate there. Such a decision naturally depends on the attributes of urban locations. Two of the most relevant attributes are the presence of public and private capital. These include such public amenities as transportation, public safety, schools, and sanitation, and such private capital as communications networks and. office space.

Our cities harbor the most massive concentrations of private capital in human history. The physical capital of American cities is a bequest to the present generation from its forebears which constitutes a major part of our national inheritance.

As will be elaborated below, the state of America's public capital in cities (and in general) does not compare favorably to that of private capital, although public capital is equally essential to economically-vibrant nations. Continued neglect of such public assets as we do have in cities will necessarily undermine the productivity of cities, regions, and the nation. But with reasonable care, urban capital can provide a base for delivering services far into the future.

By its very nature, the bulk of urban capital is fixed :in place. It cannot be picked up and moved at will. Under certain circumstances, it will make good economic sense to walk away from unproductive sunk investments. But in general, a strategy of maintenance will prove cheaper and more efficient than one of building from scratch in new areas. The enhanced role of cities in the new information-based economy argues forcefully for the continued productivity of both private and public capital in the cities.

Down town

In the past twenty-five years, the most striking growth of economic activity has been observed in the central business districts of cities. Private firms and individuals have made massive investments in downtown sites, swelling the value of the city's capital. These investments have capitalized on the advantages of agglomeration available in cities and have enhanced the ability of America to compete in new information-handling industries.

The amazing expansion of office construction provides the most obvious aspect of this renaissance. From 1960 to 1984 the downtown sections of the thirty largest metropolitan areas were expanded by 1,325 office buildings -- almost 550 million square feet of floor space. Cities across the nation -- Atlanta, Boston, Detroit, Houston, Newark, Pittsburgh, and Seattle -- increased their downtown office space by more than 50 percent in this period (Frieden and Sagalyn, 1989, pp. 265-66). This new stock of offices represents a truly staggering investment. New construction continued through the real estate boom of the 1980s. Like most booms, this one probably led to some excess -- many buildings have been prey to high vacancy rates in the current recession. Nevertheless, this stock of capital can serve the metropolitan economy for years to come.

Among the downtown office towers of the burgeoning service industries, hundreds of new malls and hotels have sprung up which cater to the needs of traveling business personnel. Between 1960 and 1982, 319 downtown hotels with 110,000 rooms were built in the thirty-eight largest urban areas (Frieden and Sagalyn, 1989, p. 2.68). This construction accelerated in the 1980s.

The recent eagerness of private investors to add to the stock of downtown capital is a testimony to the enhanced productivity of central locations. But this private investment record also points up the importance of the public sector in nurturing the growth and renewal of our urban capital stock. Indeed, the history of downtown capital investment over the last quarter of a century provides a good example of the interaction of public and private investments.[8]

The period from 1929 to the mid-1950s marked the low ebb of downtown fortunes. After overbuilding in the 1920s, the depression completely demoralized private investors. To lure them back downtown, cities, in cooperation with the federal government, had to prove again the value of the central business district. Broad programs of infrastructure improvement and urban renewal in the 1950s and early 1960s primed the pump for downtown redevelopment. For all of their numerous shortcomings, both in terms of equity and efficiency, these early efforts were largely successful. Their basic premise -- the continuing value of a central location -- proved truer than even the strongest advocates had asserted.

No single private investor could have undertaken such responsibilities. Indeed, during the 1970s and 1980s, public subsidies and investments through such programs as the Urban Development Action Grants continued to play a key role in facilitating private investment downtown (Bennett, et al, 1987). Public initiative was necessary to start the process, and ongoing public care is required to manage the downtown environment.

The Limits to Decentralization

Dispersing people and jobs over a wide area creates significant economic costs as well as benefits. At some point the costs outrun the benefits. The suburban expansion of the post-World War II period has now run up against significant limits. The inner ring of suburbs increasingly resembles city neighborhoods. Rather than solving the problems of cities, we are simply recreating them in new places. The fate of the older suburbs, like that of the city neighborhoods, hinges on our commitment to rebuild our existing environment. Potentially productive sites are ripe for redevelopment.

The outer ring of suburbs has grown remarkably over the last two decades, but something new is happening now. The logic of density is reasserting itself. Instead of spreading smoothly over the countryside like the residential suburbs of old, the new growth has been increasingly concentrated in what journalist Joel Garreau (1991) calls "edge cities" and Thomas Stanback (1991) calls "magnet areas."

Far from signaliing the obsolescence of the city proper, these edge cities testify to the benefits of concentration. However, in hundreds of suburbs around the country these new concentrations grew up helter-skelter with little planning. They now place a heavy burden on the infrastructure of the region as a whole.

Suburban communities are now calling for relief from the very growth they have sought for so long. They have discovered that unchecked and unplanned business growth is expensive. Nonresidential development, far from improving the suburbs, actually places substantial new costs on established residential areas. One study of personal property taxes in the rapidly developing DuPage County, west of Chicago, concluded, "nonresidential development has an impact on total tax levy increases that is over three times greater than that of residential development."'

The deconcentration stimulated by pas: policies has led to inefficiencies which have driven up taxes and indirectly imposed costs on U.S. firms, undermining our ability to compete in international markets. Creating and maintaining the infrastructure to handle a system of remote employment centers is too expensive. The massive gridlocks that have recently plagued suburbs are only the most obvious symptom of the inefficiency of excessive decentralization. Transportation costs to the country have skyrocketed.

in 1990 Americans spent approximately $443 billion -- 12 percent of personal income -- on transportation, a significant proportion of which went to purchase automobiles produced in Japan. If we include all direct public costs to the United States, such as highway maintenance, traffic law enforcement, etc., the total transportation bill is close to $1 trillion. Wear and tear on public facilities, traffic accidents, congestion time losses, air pollution, and noise pollution damage increase the transportation bill to $1.4 trillion (Ketcham, 1991). These costs must be defrayed by higher taxes and by the wages firms must offer to cover employees' commuting costs.

Transportation costs are also passed on to buyers in the form of higher priced goods, undermining the competitiveness of American products internationally. One recent Congressional study estimates that by the beginning of the next century, we will lose close to $400 billion per year in time attributable to congestion. Public mass transportation provides an important means for reducing these costs, but mass transit is most efficient in densely populated cities and older suburbs, and in newer suburbs located around transportation nodes.

With considerable effort, crowded suburban areas could be helped by massive investment in public infrastructure, but to expand much further into the hinterlands will prove uneconomic both to the public and private sectors and to city and suburb. Future metropolitan growth would better take the form of infilling or "reconcentration." Given the pressing problems of overcrowding that already characterize the new edge cities, a logical alternative to further outward expansion is to rebuild city neighborhoods. The next generation of edge cities is best located within the city itself.

Investing in Neighborhoods

The private investment boom downtown has reestablished the long-run viability of the central business district. Although investment activity has slowed throughout the economy, the new capital stock has set the stage for a productive and prosperous downtown economy. But what of the rest of the city? Now that we have successfully rebuilt the downtowns, it seems only reasonable to turn our attention to the neighborhoods. Are there compelling economic reasons to extend the rebuilding of our cities out into our neighborhoods? Is there a productive role for the neighborhoods in the age of a global economy? The answer is an emphatic yes,

Existing commercial and business centers in the cities' neighborhoods start with tremendous built-in advantages. They lie on the nodes of public transportation systems whose ridership can be easily expanded. Many of them enjoy convenient access to the web of interstate highways originally built for suburban commuters. Many have affordable office space available in existing structures. Further, the cost of new construction at such locations is comparable to suburban construction costs.

The older neighborhood centers have another great advantage. They are close to large supplies of modestly-skilled labor. During the economy's better years in the 1980s, there were labor shortages throughout the suburbs. These shortages were most severe for low- and medium-skilled workers, many of whom live in cities. One economical way to redress this ironic mismatch is to move the jobs back into the cities.

Many in the cities' labor force also live there because they cannot easily afford to drive an automobile or to own a home. Rental apartments and public transportation have historically provided a better quality of life for these workers at lower cost. The largest supply of rental housing and the best access to public transportation are still found in the working class and middle class neighborhoods of our cities.

City neighborhoods enjoy proximity to the newly revived core of the central business districts. Thanks to improved transport and communications in the cities, these neighborhoods are highly accessible, making them more feasible sites for a range of back-office and secondary service functions.

Finally, the neighborhoods have always generated new entrepreneurs, many of them immigrants, eager to profit from these advantages. Many cities boast an emerging cadre of neighborhood development organizations, with experience in assembling urban land and negotiating with an array of neighborhood, city hall, and private investor interests (Pierce and Steinbach, 1989).

Given all of these advantages, why have formerly thriving and busy neighborhoods of large cities been steadily thinning out? For decades the public and private capital of these areas has been allowed to deteriorate, along a course similar to that of the old downtowns. As long as suburban development remained cheap, these older areas suffered losses in employment and population. However, with the increasing inefficiency of gridlocked suburbs and the renewed vitality of the nearby downtown, neighborhoods are ripe for redevelopment. As with downtown, such redevelopment will require large public reinvestment. These investments will pay off. The underlying logic of economic geography is on their side.

Any effort to restore the neighborhoods as both employment centers and viable residential communities must address both the immediate problem of rebuilding the public infrastructure of the outer city and the long-run problems of guaranteeing the cities' ability to produce a literate and productive labor force.

Infrastructure

Why is infrastructure important? Americans have long taken their public infrastructure for granted. People have come to expect the public sector to provide a broad range of amenities. In fact, the public sector accounts for a major share of all nonresidential capital in the nation. In 1989 private nonfarm business capital was valued at $4.5 trillion. In the same year public capital amounted to $2.6 trillion. For every two dollars of private capital there is more than a dollar of public capital. The bulk of this public stock, $1.8 trillion, is owned at the state and local level -- 38 percent in the form of highways and streets, 16 percent as water and sewer systems, and 30 percent as schools, hospitals, and other buildings (Munnell, 1991).

The value of these assets to the private economy could be much better appreciated. Estimates of the productivity of the public capital stock vary widely, but almost all show sizable private returns to the public investments. Looking across the recent studies, estimates of this return range between 15 and 60 percent (Munnell, 1991, p. 37). These returns represent gains in private output per worker -- gains over and above any public benefit to families associated with the various types of infrastructure, such as the use of public transportation for leisure activities. The magnitudes of these effects argue strongly for a new public initiative to maintain and expand public infrastructure. Such an investment program could significantly reverse the long-run declines in the productivity of our private sector (Aschauer, 1991; Munnell, 1990).

Public infrastructure provides economic benefits to a large area outside its immediate locale. For instance, an improved airport in Columbus brings benefits to businesses around the country. Better schools in Atlanta help to train workers who may well spend their productive years in Colorado. Empirical studies suggest that half of the private returns to public infrastructure occur outside the state where the project is located and three-quarters outside its metropolitan area (Munnell, 1991, pp. 37-38) (see Table 111.1). Presumably, even a larger share of total returns are realized outside of the municipal level. While still preliminary, this finding implies that cities and other local governments will need extra federal and state incentives to invest to the extent that national and regional needs, as well as local ones, are satisfied. Public investments far more than private ones are likely to generate such ripple effects beyond local borders. The effects of public capita! on private production are national in scope. It stands to reason that if unexploited economic opportunities prevail in cities, focusing public investment there will yield the greatest returns.

TABLE III.1
PRIVATE RETURNS TO PUBLIC INFRASTRUCTURE
APPROXIMATE ANNUAL RATE

Regional Scope	% Of Return Within Region
Na tionnl	60%
Statewide	30%
Metropoli tan-Wide	15%

Source: Based on studies reviewed by Alicia Munnell in her prepared statement, "Infrastructure, Productivity, and Economic Growth." Hearing before the Subcommittee on Water Resources, Transportation, and Infrastructure of the Committee on Environment and Public Works, United States Senate (S. Hrg. 102-6), February 1991.

This new evidence of the links between infrastructure and private sector productivity strengthens the case for federal leadership in financing urban infrastructure. But in contrast to what the latest research is indicating, federal policy has moved away from its historic role of supporting infrastructure. The federal budget share of gross infrastructure investment peaked at 5.5 percent in 1965. In 1990 federal investment had fallen to only 2.5 percent of federal outlays (Congressional Budget Office, 1991, p. **14).** This compares poorly with the 13 percent of total central government expenditures Japan has dedicated to infrastructure. Despite our growing population, the absolute amount of gross investments stayed roughly constant over the past twenty years, resulting in a severe reduction in net investment allowing for depreciation. During the 1980s *federal* net investment in physical capital was essentially nil.[10] These reductions mirror the general trend of reduced federal involvement in domestic problems.

Rebuilding the nation's cities and older suburbs begins with a commitment to their physical infrastructure. These investments will yield substantial returns. Yet to be fully effective, we must match physical investments with investments in human capital. Much like the cities' infrastructure, their labor forces remain highly productive and sorely neglected. To that subject we now turn.

WORKING IN THE CITY

The urban labor force has received a lot of bad press lately. It has been called underprepared, mismatched, and lacking in skills. Worse yet, in light of presumed increases in skill requirements, it seems the problems can only get worse.

There is no denying that cities contain the largest concentrations of the unemployed, many of whom lack skills and work experience. These problems require serious attention, but they are only part of the picture. Urban jobs are among the most productive and highest-paying in the nation -- important to cities themselves, to their metropolitan areas, and to the nation as a whole. The sheer size of the urban labor force makes it the repository of a huge variety of uniquely special skills. This large and diverse labor force remains attractive to a wide range of productive firms. In general, companies do not leave cities because the labor force is inadequate, but because of disadvantages specific to their business and inherent in urban locations in general. Some of these inimical economic factors can be reversed by public policy, so some of the firms could be successfully invited to return.

Characteristics of the Urban Labor Force

The cities continue to provide employers with a high concentration of solid workers. The occupational characteristics of city and suburban workers are remarkably similar, although suburbanites more often are executives and professionals (31.3 percent of employed workers) than are city residents (24.3 percent). But they are about equally present in technical and precision production occupations (14.2 percent vs. 13.3 percent) and in administrative positions (16.3 percent vs. 18.3 percent). The largest relative difference between city and suburban residents occurs in service occupations: 16.6 percent of city dwellers hold these jobs compared to 11.7 percent of suburbanites (see Table IV.1).

TABLE IV.1
OCCUPATIONAL DISTRIBUTION, CITIES AND SUBURBS, 1990

Occupation	Percentage of employed residents City	Suburbs
Executives and Professionals	24.3%	31.3%
Technical and Precision	13.3	14.2
Sales	11.3	13.6
Administrative	18.3	16.3
Service	16.6	11.7
Machine Operators	6.9	4.8
Transportation and Handlers	8.4	6.5

Source: Calculated by the authors, based on occupational distribution of central city residents compared to other PMSA or MSA residents in seventeen largest metropolitan areas, from the *Current Population* Survey. U.S. Department of Labor, Bureau of Labor Statistics, *Geographic Profile of Employment and Unemployment*, 1990, Washington, D.C., Government Printing Office, 1991, p. 125.

This picture hardly matches the stereotype of an undereducated or obsolete city workforce relegated to simple jobs. Instead it shows that a very large number of city residents hold highly skilled positions and that on the whole their occupational mix is not very different from that of suburbanites.

At the same time, too many city residents are underemployed, unemployed, or not in the labor force at all. Like millions of suburban residents facing similar problems, they would benefit greatly from a prosperous and growing economy.

One source of illumination on the job-readiness of city workers of all races is research on blacks in the labor force. An analysis of the one hundred largest cities shows that the employment rate of black males is more sensitive to changes in total employment growth than the rates for any other group."

With respect to the period 1983 to 1987 sociologist William J. Wilson (1991, p. 7) states, "although jobless rates among disadvantaged young blacks remain high, dramatic

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progress occurred during the recent economic recovery period in the metropolitan areas with the tightest labor markets.” Employment rates of young black males grew from 30 percent in 1983 to 70 percent in 1987 in cities with tight labor markets!”

These findings refute the aspersions often heard regarding the character of blacks in particular and the poor in general. Because it has been shown that employment rates move with the general economy, there is less grounds for suspecting that there are any meaningful psychological or cultural barriers to the entry of the poor into the labor market. To put it another way, if it is shown that the employment rate of group X moves along consistently with the health of the national economy, the hypothesis that members of group X do not work because they are lazy or prey to other personal deficiencies is without merit. If one accepts that this hypothesis does not apply to blacks, what grounds are there for supposing that it is correct for any other segment of the poor?

Even in a growing economy, many workers lacking basic human capital will remain relatively unproductive. A major national effort to invest in basic human capital would yield handsome rewards, especially to cities. Understanding this requires a further look at the skill requirements of urban jobs.

Skill Requirements and the Urban Labor Force

Because of the declining number of people coming of working age, the economy needs more and better-prepared workers. With the high population density in cities, providing better training for these workers will reap long-term rewards. The labor force contributions of urban minorities, which have historically been underutilized, will be essential to economic growth. Failure to finish school is a real obstacle to the entry of all youth into the labor market. Although young people from cities will face higher educational requirements in the future, these requirements are not prohibitively high. A serious federal initiative to deal with the problems of inner city education will have real payoffs for the economy.

In fact the new jobs in the economy will not be too far out of reach. There has been some exaggeration of the skill requirements for the workforce of the future. Terms such as “the workforce crisis” and “the knowledge gap” have been widely used in the media.

One of the most frequently cited statements from the widely circulated *Workforce 2000* report -- that 30 percent of the new jobs created between 1986 and 2000 will require a college degree -- can be misleading. In 1988, 21.8 percent of the workforce had a college degree. But job growth is only expected to be about 15 percent between 1988 and 2000, so that even with 30 percent of the net *new* jobs requiring a college degree, only 22.9 percent of the total labor force will need to have one by the end of this period. A one percentage point change in the proportion of the workforce that will need a college degree hardly justifies headlines and cover stories, and it certainly does not imply the obsolescence of workers with less formal education.

The same pattern holds for other educational requirements (see Table IV.2). One to three years of post-high school education will be required for virtually the same number of jobs in 2000 as in 1988. The skills required by the labor market just are not shifting so quickly that less well-prepared workers will be unable to catch up.

TABLE IV.2
CHANGES IN EDUCATIONAL LEVEL REQUIRED
1988-2000

Educational level	1988	2000	Net new jobs
Less than high school	17.0%	16.5%	13.2%
High school only	40.5	39.7	35.0
1-3 years of college	20.7	20.8	22.1
4 or more years college	21.8	22.9	29.7

Source: Thomas Bailey. "Jobs of the Future and the Education They Will Require: Evidence from Occupational Forecasts." *Educational* Researcher, Vol. 20, No. 2, pp. 11-20, based on data from Silvestri and Lukasiewicz, 1989.

High school completion rates continue at or near all-time highs, although drop-out rates among minority youth in public school systems remain unacceptably high. Between 1976 and 1986 completion rates in the nation as a whole have hovered around 73 percent for eighteen- to nineteen-year-olds, and around 84 percent for twenty- to twenty-four-year-olds. Even more striking is the increase for blacks during this period, from 72 to 81 percent. Hispanics made little progress, staying at around 60 percent for twenty- to twenty-four-year-olds (Kutscher, 1989, p. 71).

At present, 17 percent of the workforce has less than a high school education; in the year 2000, this is expected to be 16.5 percent, with only 13.2 percent of the new jobs requiring less than high school. While not a large change, this means that high school completion rates will have to be brought from the present 84 percent to about 87 percent. Since urban school systems start from a lower level, their challenge is considerably greater. Increased completion rates must be accompanied by improvements in the quality of education, to make sure that graduates have mastered the "three R's" as well as the problem-solving skills which will qualify them for employment.

The industrial structure of jobs in the nation and in our cities has been changing. Service jobs account for an ever-greater share of employment, but the service economy still requires a huge quantity of modestly-skilled workers. For example, the quintessential service economy of New York City employed as large a proportion of high school dropouts as the rest of the country. Thus, as Frieden and Sagalyn (1989) argue, the real problem is not with the changing nature of the jobs, but with the excessive concentration of high school dropouts in large cities.

The skill requirements of the near future have been exaggerated and a concerted program of investment in basic human capital can yield impressive results. But such an effort must be concentrated in low-income areas where the bulk of the high school dropouts live. As high school graduates, they will have higher employment rates and higher earnings. Furthermore, research on inner-city youth shows that an increase in the number of years in school decreases participation in crime. In addition, an increase in school performance increases wages, decreases the likelihood of dropping out, and improves work habits (Freeman and Holzer, 1986; cited in Sullivan, 1990, p. 308-09).

Mismatches, Discrimination, and Efficiency

While the task of equipping all able-bodied city residents for work will not be easy, neither will it be sufficient. An emphasis on investment in basic human capital will go a long way toward raising the productivity of underemployed and unemployed city workers, thus improving our ability to compete in the new international economy. However, the substantial decentralization of the metropolitan economy will require many of these workers to seek employment in suburban job markets, For urban minorities, access to these markets has been constrained both by sheer distance and by old-fashioned, but not out-of-fashion, discrimination. Aggressive enforcement of fair housing laws and equality in employment opportunity remains an obligation of our society. Yet meaningful progress in these efforts has been extremely difficult to achieve over the past two decades.

Because the sluggish performance of the American economy has reinforced the misperception of affirmative action as a zero-sum game rather than a “win-win” opportunity for all Americans, harsh resistance to the advancement of civil rights has been observed. A successful program of rebuilding America -- particularly through investments in urban infrastructure and human capital -- can help to defeat the demoralization and racial hostility engendered by economic stagnation.

LIVING IN THE CITY

Our cities' potential will not be entirely fulfilled until they succeed in providing more homes, as well as employment. Not surprisingly, cities always have attracted many of the nation's poor seeking better jobs and better lives. Historically, immigrants and the urban poor benefitted from their interaction with the rest of the cities' people, just as the cities' economies benefitted from their low-cost labor and entrepreneurial energy. But, for many years now, some cities have had difficulty maintaining their appeal for middle class residents. The long-run viability of cities depends on developing policies which recognize and strengthen the vital economic contribution of the working poor, and provide for those unable to work, but policies which also revitalize the attractiveness of cities for the middle class.

Dealing with urban poverty is important not only because poverty represents a direct waste of human resources which the nation cannot afford, but also because widespread urban poverty greatly contributes to the fiscal stress, troubled school systems, and crime which oppress the poor, diminish the general quality of life, and redirect the middle class to alternative residential locations.

The Urban Poverty Trap

Many attitudes toward poverty were shaped in the early 1960s, when large-scale federal programs dealing with the issue were first developed. The nature of poverty has changed considerably since then, so the old debates and programs are no longer as relevant. Labor force policies are still important, but they are insufficient to deal with poverty today. There are some among the poor who will be unable to join the workforce unless other steps are taken. Many are poor despite their full-time employment.

Poverty is now more urban and more concentrated in poor neighborhoods within large cities than ever before. In 1987, 72 percent of the poor lived in metropolitan areas, and 43 percent lived in central cities, up from 27 percent in 1959.[13] While the poverty *rate* is higher in nonmetropolitan areas -- 16.9 percent, cornpared to 12.5 percent in metro areas -- central cities have the highest rate, 18.6 percent. From 1974 to 1985, the number of poor people living in locations where at least 20 percent of the population was poor increased by 90 percent, to 7.8 million.[14] As noted above, some suburbs are experiencing an increase in urban-style poverty, homelessness, and crime, among other problems.

These changes have been caused primarily by factors related to the process of economic restructuring. Although the service sector in cities employs many unskilled and semi-skilled workers, the blue collar manufacturing jobs which black city residents, among others, used to hold in great numbers have disappeared.[15] Increased male joblessness is one crucial factor contributing to a sharp increase in the number of female-headed households. In turn, among all races, female-headed households are more likely to be poor. Their poverty rate is 38.3 percent, as opposed to 7.3 percent for male-headed households (Sullivan, 1990, p. 298).

The flight of middle class families from city ghettos has been a *cause* as well as a result of poverty. This is because of the increase in income *segregation*. As William J. Wilson writes:

> the lack of neighborhood material resources, the relative absence of conventional role models, and the circumscribed learning produce outcomes, or concentration effects, that restrict social mobility. Some of these outcomes are social psychological, such as negative social dispositions, limited aspirations, and casual work habits. Others are structural, such as lack of labor force attachment, constricted class networks, and access to informal job networks. (1991, p. 11)

While the neighborhoods Wilson describes are traps for many, they do provide some level of social support. Residents rely on neighborhood networks and support systems, however inadequate, for survival. In this regard, the cities -- with their public transportation, their stock of subsidized and other affordable housing, and their array of social services -- are for many a more hospitable environment than the suburbs.“’ At any rate, most of the urban poor cannot afford the housing costs of higher-income neighborhoods or the suburbs, so the option of moving is simply not available. Under these circumstances, cities need to reemphasize and strengthen their social support functions. Ultimately, policies that make cities more livable for the poor will also make cities more livable for the middle class.

Even though market forces alone would produce a similar rate of poverty in Western Europe as here, European social programs reduce poverty to rates a third or a fourth of those in the United States. They generally offer higher combinations of cash allowances for families with children, subsistence payments, rental subsidies, and health care than is the case in the United States.[17]

Lower poverty rates have helped Western European cities remain attractive and viable living environments, rather than repositories of social problems. In so doing, they sustain their international economic competitiveness as well. Measures that increase the incomes of poor families with children will decrease the extent of homelessness, crime, and juvenile delinquency. They will also free up the local government from functions akin to disaster-relief and thus enable it to devote more resources to constructive activities, and especially to improving the public school system. All of these changes will make cities more congenial to the middle class.

Dealing with poverty cannot be left to state and local governments. Since investments in local infrastructure benefit the nation, improvements in cities (and thus the national economy) are a national responsibility. Insofar as anti-poverty policy is left to states and localities, the local tax burden in jurisdictions with relatively high concentrations of poor people will drive away the middle class from locations *which they otherwise would prefer.* The uneven distribution of the poor -- in the U.S. context of excessively decentralized anti-poverty policy -- distorts the location decisions of business firms and households and thus impairs the vitality of the economy as a whole.

Who Is Poor?

Federal policy must be designed with the new realities of poverty in mind. People living in married-couple families constitute the largest category of the poor (41 percent), followed by people living in female-headed households (37 percent) and those not in families (22 percent).[18] Among married-couple families, low wages are *the primary cause of poverty.* In 44 percent of these families, there was at least one full-time, year-round worker. In an additional 20.3 percent there was a part-time worker, but the family would still have been poor even if the second worker had been employed full-time and year-round (Mishel and Frankel, 1991, p. 186). In 1989 four out of ten poor people over fifteen years of age worked at least some of the time (Mishel and Frankel, 1991, p. 180).

In light of these data, it is not surprising that many people are only intermittently poor. Cnly 5 percent of the urban population was officially poor for at least 80 percent of the time during the period 1974-1983, although 35 percent was poor some of the time during that period."

Among female-headed households, poverty is caused by a combination of inadequate government benefits, low wages, and high child care costs. In both 1979 and 1988, about half of all female-headed households would have been poor in the absence of transfer payments. But in 1979, income support programs lifted 40 percent of them out of poverty, *twice* as many as in 1988, reflecting the reduction in benefits during the 1980s (Mishel and Frnnkel, 1991, pp. 176-79). Monthly welfare benefits for a family of three in 1970 were $635 (1991 dollars); at present they are $367 (Bane and Ellwood, 1991, p. 61)! While poor female household heads do not work at the same rate as poor people in married-couple Souseholds, it is striking that 42.8 percent of poor single mothers worked at least some of the time in 1989 (Mishel and Frankel, 1991, p. 188). Child care responsibilities make work impossible for many others. But another big reason why poor women might rationally choose not to work is that it simply does not pay to do so. The law presently dictates that welfare benefits decrease roughly on a dollar-foi-doiiar basis if a recipient earns some money from work. Moreover, most low-wage jobs do not offer health insurance, so in some cases a single parent with two children might be financially better off staying at home. She would need a job paying about $7.00 per hour to be as well off as she would be receiving public assistance in some states.[20]

It cannot be denied that the number of those deeply mired in poverty is enormous: in 1983 New York City had 678,000 persistently poor people (those who spend eight years or more beneath the poverty line), and Chicago had 324,000 (Adams, Duncan and Rodgers, p.18, cited in Goldsmith and Blakely, 1951). The rate at which people escape poverty in the United States compares unfavorably with most Western European countries. A recent study found that in any given period, twice the proportion of the Western European poor move out of poverty as compared to the United States (McFate, 1991).

A Renewed Commitment to Reduce Poverty

Reducing poverty rates is well within the capacity of this country. From 1959 to 1973 the poverty rate declined from 22.4 to 11.1 percent of the population, through the combination of a strong economy and major government initiatives. However, by 1989, it had inched back up to 12.8 percent (Mishel and Frankel, 1991. p. 166). But given the variety of conditions in which poor people live, some of which help to make them poor in the first place, we need differentiated policies. It is necessary to facilitate entry into the labor market through child care provisions and the elimination of the punitive barriers to work that current welfare programs impose. It is also necessary to supplement the low wages earned by the working poor.

Labor force programs are not the only solution. To avoid raising children in "generations of poverty," programs should aim at improvmg the quality of life for those outside of the labor force because of child-rearing responsibilities. Better enforcement of child support payments by absent parents and increased Aid to Families with Dependent Children (AFDC) or family allowance payments are needed. For all of these groups, as well as those detached from the labor force altogether, the example of Western European countries is instructive: income support works.

The Middle Class and the Cities

In the 1980s, as office building construction led the downtown renaissance, the bulk of the cities' residential neighborhoods got poorer. Despite the high level of earnings in city jobs, the income level of residents *fell* relative to that of suburbanites. Some middle class families in the cities have continued to move to the suburbs, but a renewed interest in urban living has enticed many younger workers back into the cities. At the same time, prosperous families capable of affording private and parochial schools for their children have gentrified neighborhoods of historical and/or architectural interest. The problem is that "yuppies" and the upper middle class cannot sustain a regeneration of the cities. The well-to-do are relatively few in number, while many young workers will move to the suburbs once they have families and school-age children.

Developments over the past two decades are changing the incentives facing such households. Most important among these changes is the continuing squeeze on the middle class. The real, mean money income of the middle quintile of all families has stagnated. That mean was $25,909 in 1973, measured in 1989 dollars. The mean actually fell to $25,823 by 1989 (see Table V.1). The next highest quintile did only slightly better with a mean increase of less than 0.5 percent per year over the same period. With virtually constant incomes, middle class families are hard pressed to pay the increasing costs of suburban homeownership. The high price of ownership is especially burdensome to young families and single parents. Homeownership rates among young families fell drastically in the 1980s (Apgar et al., 1990). In contrast, city housing is a relative bargain. Similarly, increasing suburban transportation costs, both out-of-pocket and psychological, point toward the advantages of cities with effective public transportation. Finally, the proliferation of two-earner families raises the attraction of more centrally located housing.

The logic of revitalized cities with expanded and productive neighborhoods requires an increase in middle class residents. Similarly, older suburbs facing many of the same problems as cities must maintain their middle class constituency. Housing costs, transportation, and the commuting problems of two-earner families favor a return of the middle class to older, more developed areas. However, such a reversal cannot go far without major changes in the quality of public services available in the cities. Most important is the quality of the primary and secondary education offered in city schools.

The general prerequisite for attracting the middle class back to cities is a program of fiscal equalization that creates a "more level playing field" between city and suburb in terms of tax rates and the cost of local public services. With appropriate federal and state assistance, city governments can finance the services necessary to ensure a quality of life that is comparable to that of the suburbs.

THE WEALTH OF CITIES, THE WEALTH OF NATIONS: IMPLICATIONS FOR POLICY

For decades policy analysts have produced a myriad of recommendations on what to do about urban problems, but few have looked at the issue from the standpoint of *how cities can help the nation become more productive and competitive.* From the perspective of this report, three main categories of federal initiatives can make a crucial difference for cities and thus for the nation: *rebuilding cities and neighborhoods through infrastructure improvements; developing the workforce through basic education and training; and improving the quality of life through family support and housing programs.* Although many of these proposals have been made before, together they form a blueprint for a renewal of

TABLE V.l
U.S. MEAN FAMILY CASH INCOME BY QUINTILES: 1973 AND 1989
(In **1989** *Dollars)*

Quin til	**1973**	**1989**	CHANGE 1973-l 989
Lowest	$ 6,061	$ 5,866	-3.2%
Second	15,416	15,107	-2.0
Middle	25,909	25,823	-0.3
Fourth	37,946	40,374	6.4
Highest	66,364	77,716	17.1
Average	30,341	32,978	7.2

Source: Congressional Budget Office tabulations of March *Current Population Survey,* 1974, 1980, and 1990 in the 1991 Green Book, from Doris Holleb, "Disparities and Opportunities in Chicago Area Housing," the Chicago Assembly, November, 1991.

national growth which is led by advances in urban productivity which mean more and better jobs for all.

Rebuilding Cities and Neighborhoods With Infrastructure

Cities remain rich in public and private capital. But most transit, water, and sewer systems are overdue for major overhauls, and many city neighborhoods need new investment to regain their vitality. Both the productivity increases and the jobs which such projects provide will give a large boost to urban areas.

A federal infrastructure program should include enhanced incentives to state and local initiative as well as direct federal aid. Such aid could be designed to provide considerable local flexibility in setting priorities while allowing for sufficient federal oversight to guarantee that the national interest in economic development be honored.

Over the past decade there have been repeated calls for instituting a national infrastructure fund or corporation (Pagano, 1990; Nathan, 1991). Such an institution could reduce the borrowing costs for infrastructure construction facing state and local governments. This approach would still leave the bulk of the responsibility for financing at the local level.

Pagano (1990) has also suggested a federal infrastructure block grant program to address the problems facing the nation in a more direct fashion. Such a program could be designed to provide considerable local flexibility in planning priori ties while allowing for sufficient federal oversight to guarantee that the national interest in economic development be honored.

Two final considerations are that a commitment should be made to maintain the tax exempt status of municipal bonds (Shalala and Vitullo-Martin, 1989), and the beneficial effects of infrastructure programs should be enhanced by linking them to programs for local hiring and minority recruitment and training.

Educating and Training a More Productive Workforce

There are two types of educational initiatives available whose value has been especially well-proven and which provide among the highest payoffs:

The first concerns the *Head* Start program. The single most important educational policy remedy is to transform Head Start into a program for which all low-income children are automatically eligible. Head Start has proven to be extremely successful in increasing high school completion rates, reducing arrest rates, and halving the teenage pregnancy rate.

The second follows from a focus on job training for young people. The *Job* Corps is oriented toward youth with the lowest likelihood of successfully making the school-to-work transition. While expensive, this program has proven to be successful, particularly with groups often untouched by more limited programs. Our competitors in Europe are already running successful programs along these lines.

On the whole, youth-oriented programs such as Job Corps and the now defunct Youth Employment Demonstration Program have been successful in increasing employment rates and earnings and in decreasing criminal activity and welfare dependency.

The development of apprenticeship programs and other school-to-work transition programs, with a tax credit for wages paid, should be seriously considered. These programs would enhance the labor force attachment of those growing up in neighborhoods where role models of working people are lacking.[21] There remains the problem that jobs might not be available in sufficient volume, for all the successful training that had been carried out. Therefore, public employment programs should be considered.

In addition to the preceding pair of high-priority areas for action, the federal government, in partnership with state and local governments, should do much more to identify, promote, and replicate successful models *of elementary and secondary education,* particularly those aimed at lowering drop-out rates in cities.

A key task is relating education to the world of work. There are a variety of programs which have proven to be effective. Some would not cost extra money but would require parental involvement and changes in curricula and educational programs. Others, such as upgrading the status of teaching as profession, increasing personalized attention for students, and expanding libraries, will add to the public education bill. While implementation of these improvements is primarily subject to state and local discretion, the federal government can and should play an expanded role in supporting strategies known to be effective.

Improving the Quality of Life

Family Support

Recent welfare reform legislation mandating that recipients increase their efforts at finding employment did not go far enough. While it was recognized that disincentives were posed by the current system, not enough was done to remove them. At the same time, existing programs have failed to provide sufficient resources to lift all family incomes up to the level of the poverty line. The most promising policy ideas include the following:[22]

- ***The Earned Income Tax Credit*** plays a key role in increasing the value of work and thus reducing the disincentive of working for those who receive welfare payments. At present, the maximum credit is $1,200, scheduled to increase to $2,000 by 1995. While helpful, this is not sufficient to lift people out of poverty; it should be increased.
- ***The Family or Children's Allowance*** is provided by almost every industrialized country except the United States. The National Commission on Children recommended $1,000 be provided to families for each child. Combined with the Earned Income Tax Credit, this would lift most of the working poor out of poverty. Some tax bills now before Congress address this issue by providing tax relief for the working poor, and by providing refundable tax credits for those with low income tax liability and burdensome payroll tax obligations.
- ***Child Support Enforcement*** for single parents must be improved. The Family Support Act of 1986 requires that child support payments will be withheld ("garnished") from the absent parent's paycheck. This takes effect in 1994; it will be helpful, but it could be extended to guarantee minimum benefits where garnished earnings prove inadequate. Such payments could replace benefits provided under the Aid to Families with Dependent Children (AFDC) program.

Housing Programs

Housing is linked to economic health in a number of ways. The availability of housing in close proximity to businesses makes transportation for workers much easier. Housing construction invigorates local economies and tax bases. And home ownership helps to turn residential areas into communities (Dreier, Schwartz, and Greiner, 1988). The sanctity of home ownership receives high honors in U.S. policy through the substantial benefits provided through the personal income tax.

The 1980s withdrawal of federal involvement from housing policy relevant to urbanized areas must be reversed. New and expanded programs are needed to revitalize city neighborhoods and the older suburbs. The National Affordable Housing

Act of 1990 offers a first step in this direction, but it contains too few programs and far too little funding to have sufficient impact.

Many households devote high proportions of their income to housing. Less than one-third of poor households receive any kind of housing subsidy -- the lowest level of any industrialized nation. An obvious extension of family support should be accomplished through the expansion of *rental* subsidies through the Section 8 *program.*[23]

Section 8 primarily serves as an income supplement for *individuals;* it does relatively little to improve housing conditions in a *neighborhood.* Neighborhood housing strategies should aim at reversing the process of disinvestment and large scale abandonment which still plague many inner city neighborhoods. Existing housing should be rehabilitated, and where land is available, we should facilitate land acquisition for development of mixed-income housing. Hundreds of local and national organizations such as the Neighborhood Reinvestment Corporation, the Local Initiatives Support Corporation, and the Enterprise Foundation have developed programs which work but are limited in their impact. Organizations proven effective need *adequate operating support, subsidies, and long-term financing to increase the volume of their housing provision at affordable rental and sale prices.*[24]

The Community Development Block Grant, which itself has been cut in recent years, can help to finance a large proportion of local housing programs. States and localities alone will not be able to obtain the resources required to put adequate programs into place. The federal government must play a major role.

Alleviating Fiscal Distress

Everyone has been hearing about fiscal difficulties faced by state and local governments (Gold, 1990; Ladd and Yinger, 1991; National Governors Association and National Association of State Budget Officers, 1991; Sawicky, 1991b). An important obstacle to their solution is the problem of tax competition among local jurisdictions. For fear of discouraging business firms or households from staying in or moving to the cities, city governments can get caught in a mutually-destructive “race to the bottom” in the form of tax rates that are too low to supply the revenue the jurisdiction needs for a heal thy public sector.

The economic differences between jurisdictions that distort the cities’ tax policies are known as fiscal disparities. A fiscal disparity between two local jurisdictions can be defined simply as a difference in their ability to raise tax revenue under identical tax systems or tax rates. The consequence for the lower-in.come jurisdiction is a higher cost for local public services which constitutes a disincentive for firms or households to remain or to move into the jurisdiction. In this way, as noted above, economic decisions are distorted and general well-being is diminished.

Because of the extent of government decentralization in the United States, state and local fiscal disparities are a very serious concern (Ladd and Yinger, 1991). The federal government can alleviate these disparities and improve economic efficiency through a system of equalization grants which are targeted to the jurisdictions with the least fiscal resources. This was one of the primary rationales for the revenue sharing program (U.S. Department of the Treasury, 1986) and would justify a new effort of *targeted fiscal assistance* to *local governments.*[25]

One unhelpful solution has been proposed in the past by the Reagan and Bush Administrations. This was to replace existing programs providing aid to cities with one consolidated block grant. Unfortunately, the experience with block grants has been disappointing because the federal government has not seen fit to maintain the value of these grants over time; they amount to transitional steps toward cutting total aid (Sawicky, 1991a, 1991b).

Who Will Pay?

These proposals comprise an unified set of constructive, long-term investments in productivity, rather than emergency plans aimed at alleviating distress. The federal government is the only conceivable source of funding. Cities have reached the limits of their ability to reduce costs or to increase local revenues. From 1978 to 1987 the federal share of local revenues fell from 9 to 4.2 percent. And there was no offsetting compensation from the states; their contribution to local revenues fell from just above 30 percent in 1978 to 29 percent in 1987. Locally-derived revenues thus had to increase; from 1979 to 1987 they grew by 84.4 percent (Ledebur, 1991, pp. 12-16). City fiscal stress has been caused by this shifting burden, by the increased costs of federal and state mandates (many of which are unaccompanied by new sources of revenue), and by the added costs due to the increasing concentration of the poor in cities.

In the long run, productivity increases and the resulting rise in tax revenues at all levels of government should more than compensate for the increased expenditures we propose, but in the short run, significant new sources of funds are needed. The two principal deficit-neutral sources are current defense expenditures and new tax revenues (this section relies in part on Sawicky, 1991b).

Estimates of how much defense expenditures can be reduced from current levels vary. At least half of the defense budget has been directed against the threat posed by the Soviet Union. Even a redirection of 25 percent of the budget, approximately $75 billion, would increase the funds available for domestic discretionary spending (i.e., excluding interest payments and social security) by about a third! Such a shift has two other advantages. First, dollar-for-dollar, domestic spending creates more jobs in the United States than does military spending. Second, domestic spending casts a wider net across the nation; of all 335 metropolitan areas in the United States, all but 85 pay more in taxes for defense than is returned to them in the form of defense contracts (Anderson, 1991)!

The second source of new resources is federal taxes. The United States has the lowest tax revenues as a share of Gross Domestic Product of all OECD countries (Organization for Economic Cooperation and Development, the major advanced industrial nations of the world) -- 27.9 percent.[26] It also has the lowest rate of central government support for local needs (Heidenheimer, Heclo, and Adams, 1990, p. 278). Thus there is an undeniable potential for revenue growth without endangering our competitive prospects; indeed, *not* to increase tax revenues is clearly the greater danger to our economy. A fitting place to begin is with the highest income brackets. In contrast to the vast majority of the population, the top 2 percent of those filing personal income tax returns got an unprecedented joy ride in the 1980s (McIntyre, 1991; Sawicky, 1991b).

All of these measures will enhance the productivity of the nation's economy. Improvements in the quality of life in cities will be beneficial to all residents of metropolitan areas.

CONCLUSION

It is ironic that in an era where global interconnectedness is becoming more and more of a watchword, many political commentators have difficulty acknowledging humanity's shared economic fate within our own country. In the national political arena, in contrast to the reality-based lives of state and local public officials, we see an indifference toward national economic stagnation and urban crisis. The vacuum of leadership in the White House and Congress has been conspicuous.

This report illuminates the framework for an unsentimental, practical view of how cities could be more livabie for their inhabitants and more productive for America. By now the notion of the waste implied by underutilized people and places in our cities has been repented so often it has almost sunk to the status of a cliché. The proximity of urban slums and such national landmarks as the White House, the Broadway theater district, and historic old Philadelphia testify to a fundamental economic irrationality which results from dysfunctional if "free" markets, coupled with profound public policy error. The extent of idleness or involuntary unemployment among city workers is an undeniable individual tragedy as well as a collective economic burden.

A standard nostrum in economics is that humanitarian measures can only come at the grudging expense of economic efficiency. But there are cases where equity and efficiency are mutually reinforcing. It happens that the urban agenda presented here affords an opportunity to embrace three such cases: enhancing the educational attainment and vocational skills of the poor, reducing fiscal disparities among local jurisdictions, and reclaiming the economic benefits of urbanization. There are few opportunities as amenable to doing good by doing well.

ENDNOTES

1. Average real incomes for all except the top fifth of families increased only 2 percent between 1973 and 1989. Hourly wages in the business sector (including fringe benefits) averaged a $1.36 less in 1989 than in 1980 in real terms. Congressional Budget Office 1991 *Green* Book, in Mishel and Frankel (1991).

2. Stanback (1991, p. 44). Data refer to the ratio of central county earnings to suburban county earnings reported by the Bureau of Economic Analysis.

3. U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Measurement Division. Unpublished data available on request.

4. Based on data in Stanback (1991) we calculate a correlation coefficient of 0.38 between central county employment growth and suburban county employment growth, 1979-1987, for fourteen metropolitan areas. For the same areas the correlation between central county earnings levels and earnings levels in suburban counties in 1987 was 0.64. The Urban Regional Partnership Project has been producing research on the close association between the fate of central cities and their suburbs.

5. This idea is most eloquently expressed by Jacobs (1969) and has been empirically tested by Glaeser et al (1991). Using data on employment growth between 1956 and 1987 for 170 U.S. cities, they found that local competition and urban variety (but not regional specialization) increased growth.

6. We are indebted to Richard P. Applebaum for this point.

7. Several state governments, including Indiana and Illinois, have programs aimed at the establishment of flexible manufacturing networks.

8. Several good surveys of this history are now available. In addition to Frieden and Sagalyn (1989), see Teaford (1990).

9. DuPage County Development Department (1991, p. 8). The DuPage study must be viewed as preliminary. See McDonald et al. (1991).

10. Alan Blinder (1991, p. 33), based on data from the Congressional Budget Office.

11. See Moore and Laramore (1990). They analyzed 1980 city unemployment rates, controlling for local industrial structure and changes therein; educational, racial, and gender characteristics of the labor force; and economic growth. They found no support for the mismatch hypothesis.

12. Richard Freeman, cited in The *Chicago Tribune*, November 17, 1991. Bartik (1991) found that in a sample of metropolitan areas, employment growth had a considerably higher proportional effect on the earnings of low income males than on those in higher income brackets.

13. Data for 1987 from the Current Population Survey, cited in Sullivan (1990, p. 298). Data for 1959 from Kasarda (1990, p. 65).

14. See Harris and Wilkins, 1988. The locations referred to are city census tracts.

15. From 1974 to 1986 the percentage of employed black males twenty to twenty-four years old who held blue-collar, semi-skilled machine operator, and skilled craft positions declined from 47 to 25 percent. See Wilson (1991, p. 5).

16. Moreover, poor blacks who move to the suburbs pay a price in racial harassment, fear and anxiety, even though they are likely to do better in the long run on a variety of measures of achievement. See the research on the Gautraux program. in Chicago, which reports on the experience of black families who were given the opportunity to move from public housing to the suburbs (Rosenbaum, 1991).

17. Studies by Timothy M. Smeeding, Syracuse University, and Rebecca M. Blank, Northwestern University, cited in *New* York Times, "In Debate on U.S. Poverty, 2 Studies Fuel an Argument on Who Is to Blame," October 29, 1991.

18. Bureau of Census data presented in Mishel and Frankel (1991).

19. Adams, Duncan, and Rodgers, *Persistent Poverty,* p.6, cited in Goldsmith and Blakely (1991). Also, of those in poverty at any one point are in the middle of spell of poverty lasting eight to ten years; see Ruggles and Williams (1986).

20. See Bane and Ellwood, 1991, who offer a table showing the costs and benefits of working at different wage levels.

21. The 1990 Carl D. Perkins Vocational Education Act mandated new vocational education programs. This will help the development of vocational education from a second-class curriculum into one that gives students to higher education. Funding for these programs must be continued and expanded.

22. Bane and Ellwood (1991), provide a more detailed analysis of these policies, as does Sullivan (1990, pp. 327-29).

23. The current Section 8 rent certificate program, which pays the difference between 30 percent of a renter's income and the fair market rent of a housing unit chosen by the renter, has been quite successful. The biggest problem has been the insufficient number of Section 8 certificates. Expanding the funding would offer a range of positive benefits. Because of the portability of the certificate, it gives renters freedom to choose their own dwelling place in a neighborhood of their choice, potentially providing better access to jobs. This individual freedom also avoids the clustering of poor people, and attendant stigmatization, which so often accompanies public housing projects. Also, the program has proven to be relatively cheap to administer and quick to put into place.

24. The HOME Investment Partnership Act recognizes the importance of these local organizations in requiring 15 percent of HOME funds to be used for housing to be developed, sponsored or owned by community housing development organizations.

25. The case for fiscal equalization measures directed at local governments is elaborated in depth by Ladd and Yinger (1991).

26. See Sawicky (1991, pp. 40-41). The Organisa tion for Economic Co-operation and Development (OECD) consists of the world's most advanced industrial nations.

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