



UNLOCKING
the POTENTIAL *of*
POST-INDUSTRIAL
CITIES

MATTHEW E. KAHN and MAC McCOMAS

Cities at a Crossroads

Cities can be exciting and dynamic places. When people, goods, and ideas move within a small geographic area, transportation is less costly, and learning and trade are facilitated. Well-paid people living close together can create enough demand to support cultural and religious institutions, a variety of shops and restaurants, and professional sports teams. When the local economy is flourishing, tax revenues are high enough that local governments can implement policies to improve the quality of life and help their residents escape poverty.

Cities also have their downsides. In the early 20th century, US cities suffered from infectious disease outbreaks associated with dirty water. In 2020, the spread of the coronavirus across US cities highlighted one of the demons of density. Even during normal times, living and working at high density imposes costs. People in cities are more likely to be exposed to crime, pollution, and traffic. This book focuses on the challenges for the center city of a metropolitan area. We define a center city as the central urban political jurisdiction in a metropolitan area, such as that of the City of Philadelphia. Most center cities, viewed apart from their surrounding suburbs, have pockets of concentrated poverty where many people live in conditions that make it difficult for them to achieve their goals and for their children to achieve their full potential.

Over time, some cities become stronger while others grow weaker. Between 1970 and 2018, the population of the City of Las Vegas grew from 126,000 to 644,000; during those same years, Baltimore City's population shrank from 906,000 to 603,000. Cities also differ with respect to their population's skill level and poverty rate. In 2010, relative to the national urban

average, Baltimore residents were less likely to be college graduates and more likely to be living in poverty.

This book explores why six center cities stretching from the mid-Atlantic states to the central Midwest—Baltimore, Cleveland, Detroit, Philadelphia, Pittsburgh, and St. Louis—have lost population and seen their poverty rates rise over the past 50 years. More than 3.8 million people live in these cities. More than a quarter of their residents are poor, and more than half are African American. Why aren't more people in these cities enjoying the American Dream of upward mobility? Why haven't more companies moved to these cities or started up in them? Why have politicians, business interests, and community leaders been unsuccessful in rebuilding these cities after major industries left?

Our six cities are not homogenous; some have enjoyed greater success in fostering economic development, reducing violent crime, educating the next generation, and ameliorating poverty. Philadelphia and Pittsburgh, among our set of six, have experienced the most progress, as synergies between their universities and medical centers have caused growth in high-tech jobs. Our six cities may not be the same, but they do have similar histories and a common set of challenges that we highlight throughout the book. They also offer case studies of places where people struggle to achieve the American Dream. The lessons learned from them can be applied to struggling neighborhoods in cities across America with high levels of violent crime, stagnant job growth, low educational attainment, and environmental challenges.

Our six cities are often portrayed as dangerous, dirty, poor, and corrupt shells of their former industrial glory. This coarse description simultaneously borders on caricature and contains elements of truth. What is the urban experience for the millions of people who call these cities home? What differences exist among the neighborhoods that compose these cities? Millions of people watched HBO's show *The Wire*, which began by focusing on young men's drug-dealing activity in the poorest neighborhoods in Baltimore. What led men like those depicted in the show to their condition? What could improve their life outcomes and those of others in similarly dire situations?

The United States has more than 300 metropolitan areas in which people can live and work. Firms and people alike can "vote with their feet" as they seek out the place that is best for them. "Old cities" like the ones we analyze in this book have to compete to attract and retain people and employers in

a post-industrial economy. In recent years, many people left cold cities of the Northeast for warmer Sunbelt cities. Because of this, our cities have to work extra hard to retain and attract residents. Even thriving cities like New York and Boston face the challenge of weather-induced out-migration.

The cities we study are at a crossroads. Depending on choices made today, these cities could enjoy a significant comeback, stagnate, or continue to decline. In cities enjoying a comeback, incumbent firms (i.e., established local companies with a proven market share) expand and hire local people to work. National firms locate branches in the city. Educated residents stay in the city, and migrants from outside the city move there. More people work and pay taxes. As local government elections become more competitive, politicians become more accountable to their constituents.

A major cause of the challenges these cities face is underinvestment. A four-dimensional coordination failure emerges. Cities do not invest enough in struggling neighborhoods. Young people do not invest enough in skill formation. Private real estate developers and businesses invest too little in projects that would create new local jobs. Banks and other financial institutions do not deploy enough capital and invest it in people and firms. These four sets of decisions are not made in isolation of each other; rather, they are interrelated and compounding. A type of catch-22 emerges. Young people foresee a bleak future in these cities without meaningful career paths. Thus, they underinvest in their skills. Firms are confronted with crime and poverty and a local workforce lacking the skills for 21st-century jobs. This pushes many firms into the suburbs and stunts the growth of the firms that remain. Cities that have a declining population with quality-of-life challenges and a weak local economy will have low real estate prices. This limits the ability of a city's elected leaders to make significant investments in costly education programs and to upgrade the city's aging transportation and other infrastructure.

Poor people who live in these cities do not want to be poor. In cities with economic growth but little upward mobility for the poor, rents will rise, thus displacing poor families to other areas. Ideally, local economic growth will create new jobs for local residents and an increase in the tax base that governments can use to expand social assistance programs and policies. The fate of urban people versus urban places hinges on whether the urban poor gain when neighborhoods gentrify. If they do not, they have less hope and less of a stake in supporting efforts for their city to make a comeback.

At a time of great social concern about economic inequality, some people voice a belief that our economy is a zero-sum game such that the wealthy gain from taking resources from the less fortunate. We embrace an alternative, more optimistic vision. In modern urban economies based on human capital (people's skills and personality traits), all people and communities can gain from investments in human capital.

The Urban Economics Approach

Drawing from the field of urban economics, our analysis stresses the central role of human capital in determining the productivity of individuals. We emphasize how important it is for cities to have the capacity to help young people build their skills and to retain and attract skilled people. We pay close attention to the challenges of crime and pollution that cities face. Safe, green cities represent a proven strategy of urban economic development, a strategy that the six cities profiled in this book could pursue.

People and firms have a choice of where they locate, and they will choose to live or locate in a place only if it currently outperforms, and is expected to in the future, their next best alternative. When better alternatives exist, people and firms will seek them out instead. Cities that do not offer high quality of life and amenities will lose people and firms to rival locations. Urban economics teaches us that wages and rents across cities will adjust over time to reflect the realities of supply and demand. If a city has an excess supply of vacant housing (because it was built decades ago when the city was booming) and a paucity of jobs, then both local real estate prices and wages will be low.

An urban economics approach to studying the causes and consequences of poor people living in poor places has a dual focus: diagnosing why this social challenge has arisen and suggesting politically palatable strategies to help poor people seeking employment, employers seeking to grow their businesses, and real estate interests seeking new opportunities. This emphasis on "growing the urban pie" rather than making moral arguments for redistributing a fixed pie (the zero-sum game) may frustrate some. While the Robin Hood approach to reducing income inequality is on some level just, economic logic demands that a city's mayor recognize that his or her actions will have intended and unintended consequences for which firms and people voluntarily locate within the city's boundaries. The six cities we study are large enough to be important for millions of people, but they are

too small to determine the nation's overall "rules of the urban game." If Baltimore features high taxes and low quality of life, fewer people will choose to live there. Other areas may choose to have lower taxes or invest heavily in quality-of-life amenities as a competitive strategy to attract the well-to-do.

We do not know the exact recipe for success in our six cities. However, we offer a path forward for how these cities—and *all* cities—can identify policies and investments that reduce poverty and create shared prosperity. The work of the urban economist must be that of the humble doctor. We may not know the answer, but if we are able to craft a constructive path forward for diagnosing urban ills and designing and implementing solutions, we can foster progress while anticipating and mitigating the unintended consequences of well-meaning policies. In this book we propose a science-based approach that advocates a rigorous testing of policies and a scaling up of those policies that prove to be cost effective. Such experimentation creates a knowledge base about what works and why.

Economic and Demographic Trends

From 1950 to 2010, the population of the United States nearly doubled in a time of robust economic growth. Over this same period, the cities we study lost population and declined economically. How and why did that happen? Chapter two seeks an answer by looking at key demographic trends over time and across our six cities.

In the middle of the 20th century, each of our six cities featured a robust manufacturing sector, with Detroit and Pittsburgh being the most prominent. In 1950, the steel mill at Sparrows Point in Baltimore County provided more than 30,000 people with good jobs. Then the rise of international competition and the US South as a region of major production contributed to the decline of Rust Belt manufacturing. In 2012, the Sparrows Point steel mill went bankrupt and laid off its remaining 2,000 employees.

The closing of major firms in these cities had ripple effects on the local economy. Unemployment rates rose, and tax revenue declined. As the factories closed, the demand for the products offered by nearby suppliers plummeted. This created a second round of job losses, which further dragged down the local economy. Local stores and restaurants that had sold goods to people who lost their jobs faced lower demand.

The closing of factories with their high-wage manufacturing jobs had especially dire consequences for the African American community, although

of course other groups were affected as well. People who had developed roots in these cities and had invested in skills tailored to their specific jobs could not easily get up and move. The homes in which they had invested earnings proceeded to lose their value after area job loss, suburbanization, block-busting, and white flight had driven down the local demand for housing. But the housing itself was durable and rents had become cheap, so poor people stayed and the poverty challenge worsened.

Working-age men who lost their jobs also lost self-esteem and became more prone to substance abuse and encountered challenges at home. When their working skills atrophied, they became less likely to find a new job and less desirable as a husband. As marriage rates declined, female-headed households increased, and children had less contact with their father. The War on Drugs increased incarceration rates for minor nonviolent offenses, which disproportionately affected African American men.

The defunct factories left behind a legacy of polluted air, water, and soil. Poor people tend to live in the oldest and most polluted parts of cities and are exposed to higher levels of lead, airborne particulates, and other pollutants. Exposure to pollution exacerbates health and psychological problems. The result is disinvested people in disinvested neighborhoods with a toxic legacy, which helps create a cycle of poverty that is difficult to break.

The Demand for Labor

The most important market in any city is the labor market, since the job a person has usually determines that person's income. While those with access to cars can commute relatively easily around a city, this mode of transportation is expensive. Poor people usually depend on slow and unreliable public transit, and this limits their ability to access suburban jobs. Chapter three examines companies that are hiring and providing living-wage jobs in our six post-industrial cities.

Each city has an ecosystem of smaller firms that create job opportunities and the potential for growth. Each city also has a large enough population to create demand for a range of non-tradable services that can only be supplied locally, such as by doctor's offices, restaurants, car repair shops, and lawyer's offices. In recent decades, all our cities saw gains in employment in health care and social assistance industries, which is no surprise in cities such as Baltimore with Johns Hopkins Hospital and Cleveland with the Cleveland Clinic. In each of the cities, nonprofit entities such as the city

government and local universities and hospitals employ large numbers of people. Many of these occupations are in education, safety, nursing, social work, and sanitation.

Each of the six cities was once a thriving manufacturing center that flourished because of its physical location. Geographic advantages—such as proximity to water and to consumer markets via existing railways, highways, and airports—still give them a cost advantage in receiving inputs to production and in shipping outputs to market.

The Supply of Labor

Given that many adults in the six cities do not own valuable assets, their annual income hinges on how many hours they work, their hourly wage, and any government transfers they receive. Who will have incomes above and below the poverty line? That depends, as chapter four explains, not only on whether jobs are available but on whether people are able to work at well-paying ones.

People with more education, more experience, and a higher level of skill that are in demand generally earn more. Relative to the nation as a whole, the workforce in our six cities lacks human capital. Both the urban young and middle-aged face many challenges that reduce their ability to participate in meaningful work, ranging from transportation to occupational licensing to criminal records to substance abuse to childcare to education.

Adults are less likely to be poor if they can look for work in a thriving local labor market. Teenagers are more likely to learn in school if they believe that they will find meaningful career paths once they graduate from high school. Young people are less likely to engage in unhealthy or criminal activities if they think they will have long lives and rewarding careers. In our six cities, the pathways to rewarding careers are not always apparent or easy to pursue. The odds are stacked against the cities' poor residents.

The Quality of Life in Urban Neighborhoods

Every city has some neighborhoods with a lower quality of life and others with a higher quality of life. Chapter five looks at the relationships among housing, quality of life, and where rich and poor people choose to live within metropolitan areas.

The real estate stock in our six cities is durable and was built for a larger population. As a result, each city has an excess supply of old and depreciating

housing, which means that rents are very low in many parts of these cities. Abandoned buildings scar the local landscape and create areas ripe for drug dealing and disinvestment. Since rents are lower in neighborhoods with a lower quality of life, poor people tend to live there for extended periods. Lead levels are high in areas with older housing stock, contributing to both crime and poverty, which further compounds economic and social immobility.

In the cities we study, issues of poverty and race are closely connected. Our six cities feature a larger share of African Americans than the nation as a whole. The legacy of redlining, neighborhood racial covenants, and blockbusting persists in the spatial concentration and physical isolation of poor Blacks in high-poverty urban areas.

Regardless of race or ethnicity, concentrated urban poverty poses challenges for all residents of these areas. Residents in high-poverty areas face high crime rates and have poor-performing public schools. Richer people who live in our six cities face higher taxes to pay for programs aimed at mitigating the challenges faced by the urban poor. A low quality of life—along with a perception among outsiders that the quality of life is low—discourages outsiders from moving to an area. Retailers and restaurants tend not to open in these neighborhoods because they do not believe they can make a profit.

No flourishing American city has a major problem with violent crime. Given the media's focus on homicides, a high murder rate affects a city's reputation in the form of annual rankings of quality of life and in frequent negative press. In cities with a high murder rate, people lose their lives, families grieve, and neighborhoods are traumatized. In addition, the city as a whole suffers when people and firms alarmed by the news decide to locate elsewhere. Given that violence tends to be concentrated in minority areas, ongoing violence perpetuates stereotypes, and upper- and middle-class people limit their interactions with poor minorities even when they are members of minorities themselves. The absence of interaction and understanding contributes to mistrust and division. Those cities that fail to address their crime problem will have great trouble escaping poverty.

Many wealthy and educated workers choose to live outside the center city in commuter suburbs where the quality of life is higher. These suburbs often feature newer and larger homes, lower tax rates, better schools, and lower crime rates. While these workers typically have to trade off more time

spent commuting for a higher quality of life, they can take advantage of the good jobs and entertainment amenities that center cities offer while avoiding the challenges of living in those cities. In spring 2020, many educated workers engaged in remote work to minimize their risk of getting COVID-19. Going forward, many firms are now considering allowing their workers to continue working remotely full-time or two to three days a week. This effectively reduces suburban commute times and further encourages center city workers to live in the suburbs if the center city's bundle of amenities is unappealing.

When skilled workers suburbanize, this raises the likelihood that their employers will relocate from the center city to the suburbs. Office space is cheaper in the suburbs, and a reduction in commute times from a suburban home to a suburban workplace means that these employers will be better able to retain such workers and hire them at a lower salary. As this dynamic plays out, the center city loses significant tax revenue, which lowers the quality of center city public services.

Urban Governance

Local government plays a central role in determining the trajectory of a city, as described in chapter six. The investments that local governments make in schools, neighborhood services, and infrastructure help determine the local quality of life. City governments raise revenue primarily through property taxes, especially in cities with high poverty rates where income taxes generate relatively little revenue. As a result, if the local housing market is depressed, the city has less access to funds.

Chapter six explores the urban governance challenge. None of the cities we study has had a Republican mayor in the last 30 years. In our cities with de facto one-party rule, the Democratic Party has determined the ballot of mayoral candidates and other elected government officials. Mayors often have particular powers in determining patterns of economic development and land use. They also often have direct tools they can use to reduce crime and improve public schools.

Mayors seeking reelection think strategically about how to proceed. If voter turnout is low in neighborhoods with high poverty rates, mayors have less of an incentive to address the challenges those neighborhoods face. In this way, low electoral turnout can result in a mayoral mandate that answers to relatively few constituents. It also enables corruption.

At the same time, short political terms can make mayors reluctant to test new ideas and be honest when their policies fail. Interest groups with a stake in the status quo can stand in the way of experimentation. Do the mayors of these cities have the right incentives to enact policies that attract good companies and skilled workers and improve the quality of life of the poor?

Promising Trends

An urban renaissance is playing out across the United States. Both young adults and baby boomers want to live, work, and play downtown. In recent years, several major cities, ranging from New York City to Chicago to Washington, DC, have enjoyed significant comebacks. Chapter seven presents an overview of positive trends now playing out in other cities around the country and asks whether our six cities could undergo similar revivals.

Environmental progress has sharply reduced air, water, and land pollution. Our six cities feature significant natural beauty as they are located close to bodies of water. In recent years, the Inner Harbor in Baltimore has been built up, and much past industrial blight has been remediated. Pittsburgh has been revitalized as a consumer city along the Allegheny Riverfront. Such walkable green neighborhoods attract a new generation of urbanites to live, work, and play in such areas.

The era of big data has increased local government accountability. In recent years, many cities are creating open-data web portals to share more data about emerging hot spots of crime in the city and to trace the geography of service provision ranging from garbage pickup to reports from 311 (a system through which citizens can report neighborhood problems) about local quality-of-life issues such as broken traffic lights. This diffusion of real-time data about quality of life both informs locational decision-making and provides the information that citizens need to hold their elected officials accountable for service delivery. This helps to build trust in government because officials have an increased incentive to deliver quality service.

The Fork in the Road

Our six cities seem to be stuck in a cycle of poverty, as people, businesses, and governments underinvest. There is a cruel irony here since each of these key actors can justify their choices to underinvest. However, these individually rational decisions represent a collective failure to help their respective city achieve its full potential. Our cities are poorer, and their

residents have a lower quality of life and are less upwardly mobile than what could be achieved through new investment in skill acquisition, business formation, neighborhood improvement, and quality-of-life upgrade. Violent crime and poverty are both a cause and an effect in the cities we study. The current equilibrium ensures the persistence of poverty and racial inequality. The final chapter in this book asks how this equilibrium can be broken.

Each of these cities faces many challenges around urban poverty. We believe that major reductions in the rate of violent crime could unleash the vitality of these cities. At a time when city living is in high demand, these cities are poised for a comeback. But companies and people are fearful of violent crime in these cities and have alternatives in other cities and nearby suburbs.

Real estate developers face new investment opportunities in our six cities, but they must make a bet. They could purchase cheap land and develop it now to sell at a profit later. However, they face considerable place-based risk owing to uncertainty over the local economy, crime, pollution, local leaders, and the tax rate. The rational strategy when faced with such uncertainty is to delay investment. Unfortunately, if all developers choose this strategy, the city is less likely to boom.

The six cities we focus on in this book would do well to learn what works from peer cities. They can experiment with programs and policies that have proven successful elsewhere and fit them to their local context. By building on success and being honest and open about past policy failures, our cities can begin to determine the local recipe for growing the economy and improving quality of life.

Rising city tax revenue would create the possibility of a grand bargain. Social scientists have identified a number of interventions in the lives of the urban poor that are likely to be cost effective. Providing childcare for disadvantaged children with the goal of supporting language, motor, and cognitive development, as well as encouraging prosocial behavior and providing basic medical checkups, helps such children achieve their full potential.¹ Some mayors have been able to enact these programs. For example, legislation mandating prekindergarten education for all children in New York City was a significant and popular investment in human development and well-being. Mayor Bill de Blasio was able to enact this costly legislation because of New York City's economic vitality. As a new generation of young people acquire better skills, a solid middle class can emerge.

An urban economics approach emphasizes binding budget constraints. In summer 2020, our local, state, and federal governments faced increasing budget deficits from the ongoing COVID-19 pandemic. Even if state and federal officials transfer large amounts of money to struggling cities, these officials will face significant limits on their ability to offer such funds in the medium term. This cruel logic suggests that it is unrealistic to believe that the federal government or major private foundations will fund the investments required to revitalize these cities.

At a time when these shrinking cities are spending a large amount of money to honor past pension obligations to retired city workers, they have a limited capacity to invest in cost-effective policies like early childhood education. This logic suggests that there is an imperative for these cities to improve their economic performance.

Our six cities compete with other cities to attract and retain people and jobs. In recent history, these cities have been losing this national competition. The history of these cities influences the mindset of current residents, yet it also defines the urban landscape. An aging housing stock and transportation infrastructure was built decades ago and has since been underinvested in.

While history matters, expectations also play a key role in determining investment by the public and private sectors. Throughout this book, we introduce ideas from urban economics that are familiar to academic economists but not to the general public. One of these ideas is *coordination failure*: this happens when independent but interconnected decision makers underinvest and move too slowly to reverse historical trends. Few are willing to be a first mover in investing in future success. However, the future of these six cities is not written in stone. If the private and public sectors were to make more investments in people and neighborhoods, then residents and firms would follow suit, guided by the belief that there is a bright future ahead.

The historical obstacles that our six cities must overcome to enjoy economic success are immense but not insurmountable. The right set of investments in people and places will unlock the full potential of these post-industrial cities. This book presents a pathway for identifying and implementing such strategies and also provides a set of quantitative benchmarks for judging whether these cities are truly experiencing a comeback.

NOTE

1. García, Heckman, Leaf, and Prados 2017.