Economic Renaissance in the Windy City: The Wind of Change of Just Hot Air?

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A Great Cities Institute Working Paper

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The Great Cities Institute

The Great Cities Institute is an interdisciplinary, applied urban research unit within the College of Urban Planning and Public Affairs at the University of Illinois at Chicago (UIC). Its mission is to create, disseminate, and apply interdisciplinary knowledge on urban areas. Faculty from UIC and elsewhere work collaboratively on urban issues through interdisciplinary research, outreach and education projects.

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Economic Renaissance in the Windy City: The Wind of Change Or Just Hot Air?

With cities, the story always seems to be dramatic--either they are dying, becoming irrelevant, going bankrupt; or they are being reborn, cities are on the rise, the return of the downtown. The description of my talk in the conference program reflects this: “the continued renaissance of Chicago” “will discuss winning strategies that have helped the Windy City rebound and prosper.” It was language like that, rather than the climate, which earned the city the “Windy” moniker in the first place.

Charles Dickens started it with “The tale of two cities”: It was the best of times, it was the worst of times. But this is not just due to the hyperbole of journalists or self-serving political statements. This is precisely the nature of cities: they are full of contradictions; they are the places where society’s tensions and opposites come together.

It won’t surprise you then if my talk is not as unabashedly cheery and upbeat as the description might suggest. Since most of you are involved in the urban development business in some way, you wouldn’t believe me anyway if it were.

There is good news though. Because of a combination of unprecedented national and international economic stability, following a very tough economic shake-out; some interesting demographic changes; and Chicago’s basic characteristics, the Chicago area is indeed doing very well in many respects. As they say on NPR, first, let’s do the numbers:

The Chicago metropolitan area’s private sector employment grew from 1983 to 1995 by 30%, to 3.2 million. The collar counties, though, grew at three times that rate--over 90%! During that same time, the city of Chicago saw a decline of 2%--and remember, that is on a base of the recession year of 1983! Only during the very recent past has the city itself seen employment growth: from 1993 to 1995 employment grew by 1%.

Within the city, there is also divergence: the Loop has declined by 10% since 1983 (even during the last two years it declined by 3%); the outer business ring--which we are in here--grew by almost 20% since 1983, while ‘the neighborhoods’ saw employment decline by 5%. If that’s what happens during the good times, we can’t be very optimistic about what will happen when the bad times roll around.

The Federal Reserve Bank of Chicago has done a very thorough study of why the Midwest economy has rebounded after the recessions of the late ‘seventies and early ‘eighties. This analysis goes a long way to explaining why the Chicago metro area itself has done well. The study identified the following reasons:

The first reason are the changes in technology and business organization--The way that business is conducted in the region has changed in terms of business organization, mode of operation, and the application of technology. For example, the application of lean manufacturing technologies is contributing to the region’s manufacturing revival. In Chicago, we have industry leaders such as

Motorola and U.S. Robotics, which are cutting edge both in terms of their products and their production methods. More traditional industries, such as steel and metalworking, have changed tremendously, reducing the cost of producing a ton of steel to be the most competitive, rather than the most expensive in the world. Of course, this has been accompanied by outsourcing and reductions in the labor force that we can see the consequences of in Southeast Chicago.

This process of re-engineering has largely happened because of pressures of the market, but that does not mean it is automatic and inevitable. The quality of corporate decision-making matters, and some companies decide wrong. In Chicago, there are many resources to help companies. There are many universities with excellent engineering departments, there is an incredible array of consulting firms, and there are organizations like the Chicago Manufacturing Center that help businesses make the transition to better technologies. Some firms, though, instead of choosing the ‘high skills-high wages’ road, choose the ‘low skills-low wages’ option. They may not survive the next recession.

The second reason is the cost of business--The Midwest has changed its image as a high-cost place to do business. In recent years, wage and energy costs have tended to converge with national averages, in contrast to the 1970s and early 1980s when these costs were well above average. In the Chicago region, I don’t think energy prices quite reflect this, but wage costs do. Along with our very highly-paid business consultants, lawyers, advertising people and commodities traders downtown, there is a vast array of very modestly paid workers in the very large number of clerical, retail, food service, and health care jobs. In addition, many of the remaining manufacturing jobs pay relatively less than they used to. This has made Chicago competitive again with the rest of the country and with most of Europe. As we all know, this has also contributed to some bifurcation of the labor force -- the creation of a sizeable highly skilled and well-paid group, and a much larger, poorly paid group, down to the level of the working poor. The economic growth of the last ten years has not quite hidden the problems this causes at the bottom end, and again, a business downturn will further accentuate this.

A third reason is public sector policies--Midwest states have pursued prudent fiscal policies that have restored fund balances. Some states have developed a national reputation for innovative policy efforts in areas like school funding and welfare reform. Illinois has not exactly been in the forefront of these innovative policies. But the latest round of school reform in Chicago has definitely made a difference in the image of the school system, if not yet in the test scores of the students.

Fiscal prudence, as the Fed study calls it, has been made easier by booming tax receipts, making it possible for both the city and the state not to raise tax rates.

It is not easy to figure out exactly how and where public policies help the economic rebound--which is not to say they are not very important. To some extent, policies of the past continue to exert a very strong influence. The radial expressway system and the relatively extensive public transportation system, also focused on downtown, no doubt contributes significantly to the enduring importance of Chicago's downtown. The federal depreciation rules that were in effect until 1986 helped fuel the downtown building boom which creates the visual image of success (and indeed the attractive new office space)--even if there are fewer workers in these spanking new offices.

Other elements of public policy, combined with private sector initiative, further contribute to the image of success. Chief among these is the return of middle class residents to the city, and especially the downtown area. This was anticipated several decades ago with the "Chicago 21" plan. Its first major implementation was the Dearborn Park development on railroad yards just south of the Loop. Now it has grown in all directions, converting railroad yards and warehouse space. Even more, it has begun to enter the Loop itself, through the conversion of Class B and C office space into residences. While the total numbers are relatively small, it certainly makes a difference for the variety of economic functions that can be sustained in the downtown area, and has great symbolic value.

A fourth reason the Fed study cited for the economic rebound is the presence of institutional capital--Midwest states have a rich array of public and private organizations that can help improve the quality of decision making in the region. Chambers of commerce, industry trade groups, councils of government, and public and private research groups all help identify critical policy issues that need to be addressed to sustain the economy.

There is increasing evidence that civic or social capital, in the form of trust, the existence of partnerships and community, make a difference in the well being of cities. The existence of such bonds makes people more likely to recognize their common fate, and therefore be willing to forego short-term gain for long-term well being. It also makes it easier to implement programs, to develop the consensus to move forward.

How much of this social capital really exists in Chicago, and how that compares with other cities, is hard to ascertain. There is a sense that civic leadership from the business community has declined, as fewer companies are locally owned. Many of the CEO's who traditionally played leadership roles--the heads of Marshall Field's, First National Bank, Continental Bank--have been reorganized out of existence or become much more transient.
On the other hand, there is a whole new cadre of community-based and civic organizations. Many of their efforts have been aimed at slowing the economic hemorrhaging in Chicago's neighborhoods--with some, albeit limited, successes. There are many individual projects to

point at with pride, but their overall impact is still small. The numbers I shared with you earlier showed a decline in total jobs from 1983-1995, but this actually breaks down into a decline of almost 6% from 1983 to 1993, and a growth of 2% since then. Is this a reversal of a long-standing pattern, or only a temporary blip? Again, if 2% is the best we can do when the economic is at its hottest, it does not bode well.

The fifth reason relates to the new geography for production location in the auto industry--U.S. auto assembly plants have tended to reconcentrate in the Midwest since 1980. A change in the industry's product mix has changed the economic of plant location in favor of the midsection of the nation. Chicago has benefited from the expansion of the Torrence Avenue plant, which produces the very successful Ford Taurus.

Other reasons that the Fed study cites are the change in federal spending patterns, where other regions of the country have had to adapt to reductions in defense spending. Since the Midwest never received much of that--which contributed to our poorer economic performance in earlier years--we have not been negatively affected now by the reductions.

Those reductions were extremely significant for California and New England, and affected both defense contractors and many of their suppliers, which in turn had ripple effects throughout the economy. Also, falling energy prices have clearly contributed to the rebound of the region's manufacturing. Finally, the increasing importance of exports to the U.S. economy is helping us. With its mix of capital goods and agricultural products, the Midwest has proven particularly adept at taking advantage of this trend.

There are some additional factors the Fed didn't talk about that are particularly important to Chicago. The most important of these is the very structure of Chicago's economy and its role in the region. Its sheer size and diversity make Chicago the prime location for highly specialized economic functions. The 'control and command' functions of the midwestern economy are primarily located here--from the best universities to the best law firms, the brokers, accountants, and other consultants. As the economy has restructured, these specialized business services have become more important, increasing the locational advantage for the places that have them. These are also high paying jobs, which in turn support a host of other economic functions. They also contribute to the attractiveness of a Chicago location for other firms, from the U.S. and abroad, because this is where you have most immediate access to the widest array of high quality business advice of all kinds.

During the past fifteen years Chicago has also become, again, a major immigrant city. Mexicans, South Americans, Poles and Russians, as well as a great diversity of Asian immigrants have added to the region's labor force, revitalized retail strips throughout the city, and become new entrepreneurs. Indeed, at UIC, more than 20% of the entering freshman class is Asian or Asian-American, with Latinos making up about the same number.

Other important demographic factors are the increased number of childless households, increasing city housing demand, which I discussed before. In addition, the reduced number of adolescents and young adults has decreased crime rates, as it has across the country.

All of these causes and effects together have brought about other positive changes. The booming stock market has allowed philanthropic foundations to increase their support to civic as well as social and community organizations. Hence, we see an unprecedented boom in the area of arts and culture, with the renovation of Orchestra Hall, and other new theaters being planned and built. We continue to see Chicago's strong tradition of community-based organizations, also funded by foundations and corporations. Furthermore, because tax receipts are up, tax rates have not had to increase while allowing governments to balance their budgets. Expected federal cutbacks have not been as harsh as they would have been, and the state has been able to continue its programs. Welfare rolls have shrunk, not because of our superb welfare-to-work policies, but because a rising tide does indeed lift many, if not all boats.

An interesting statistic on this, by the way, is work done by several Harvard economists. They found that dramatic progress occurs in the metropolitan areas with the tightest labor markets. During recessions, employment rates of young African-American males may be as low as 30%, but they grow to 70% in cities with tight labor markets! Apparently, once the labor market gets tight, employers find ways to overcome all the supposed barriers in skills. This is also a sign for optimism, because it suggests that there is less ground for suspecting that there are large psychological or cultural barriers to the entry of the poor into the labor market. Perhaps all our focus on the characteristics of the supply of labor--the workers themselves--needs to be adjusted, and focus more on the nature of the demand--are there enough jobs? Research by the Chicago Urban League and others suggests that there is only about 1 entry-level job for every four welfare recipients expected to enter the labor market. Thus, even the best job training and preparation will simply make people better competitors, but not increase the number of them who will find jobs.

Prosperity itself also has its negative consequences. Perhaps the most striking of this is the fact that while the Chicago metropolitan area's population grew by just 4% from 1970 to 1990, the amount of built-up residential land increased by 46%, and built up industrial and commercial land by 74%! Suburban Chicago has a density much lower than suburban Los Angeles, that archetype of urban sprawl. Other cities in the Northeast and Midwest show the same pattern. You can imagine what costs are associated with that in terms of providing infrastructure and transportation.

My colleague Joseph Perksy and I have studied the social, public, and private costs and benefits of suburban development compared to central city development. We particularly looked at the differences for when a company locates on the fringe of metropolitan areas instead of in the city. We found such moves impose very high social costs, and costs to the public sector. This includes such items as:

1) the cost of congestion as more workers drive, and create slow-downs for others;
2) the associated costs of increased accidents and air pollution;
3) the cost to society of having potentially productive labor goes unused. This is a somewhat complicated, but very important point. If a firm locates in the central city, its jobs are likely to be filled by workers from low-income households who would otherwise be unemployed. Their employment is a gain to the economy. On the other hand, if a firm locates in the outer suburbs, more of the jobs will be held by

suburbanites, who are likely to have attractive alternatives anyway, in the form of other employment or further education. Thus, their employment is less of a net gain to society.

4) There are also social costs associated with the loss of open space if a firm locates on the suburban edge, and with the possible abandonment of housing in the central city as workers there have fewer jobs and purchasing power.

5) There are also direct costs to the public sector for providing highways, education, and other services. Companies and residents in the central city pay a higher share of those costs than is the case in the suburbs, where other residents, as well as the state and national governments wind up subsidizing the new development.

All of these costs are of course partly offset by gains. Because of the availability of relatively skilled labor at low costs, especially the female labor force, suburban firms can often produce more efficiently. And suburban development creates gains in land value. On balance, what we see is that there are very large public and social costs, which are only partially offset by the private gains.

This conclusion reinforces the powerful distributional or moral considerations that already argue for government efforts to strengthen central city economies. What is new in our research is that from an efficiency standpoint, the current pattern of sprawl carries large costs with it, and changing that pattern may in fact be efficient.

Current Chicago efforts to change this include the new United Power for Action and Justice organization, that brings together people from the inner suburbs and the city; the Metropolis Project of the Civic Committee of the Commercial Club; and ongoing work by the Metropolitan Planning Council, the Northeastern Illinois Planning Commission, and other organizations.

These efforts are so important not just because the current system of sprawl imposes a high cost on society as a whole; but also because it disadvantages specific groups of people. As the numbers I gave you at the beginning show, the prosperity of the last 10 years has been very unevenly distributed. I have here some numbers from Chicago, which to me are just stunning. It is an analysis done by the Woodstock Institute of employment rates and median household incomes by community area. Chicago is divided into 75 community areas, each with a population of around 30,000-40,000.

In the five community areas with the **lowest** employment rates, between 23% and 32% of the people 16 and over had jobs in 1990. In all cases this was **down** from the 1980 numbers. The five community areas with the **highest** rates had between 68% and 78% of the people employed--two to three times as many! And in all but one of the areas this had increased since 1980.

Similarly, in terms of median household income, the five lowest areas ranged between $5,000 and $9,000, while the five highest ranged between $41,000 and $51,000--five to ten times as much!

Thus, while we rejoice in what is going well in Chicago and other cities, let’s not lose sight of what is not working, where we haven’t found the solutions yet.

So, what should cities do? What policies and programs are available to continue what is going well, and to address the serious problems that exist? Many of the reasons for the relatively positive developments of the last ten years are outside of the direct control of city governments, local corporations, or civic organizations. The forces of economic restructuring, international trade relations, interest rates, and demographic changes are relatively impervious to anything that can be done locally. But given what has happened during this past 15-year period, and especially given the unequal distribution of positive effects, the following should be priorities:

1. Rehabilitation of neighborhood infrastructure. The rehabilitation of downtown infrastructure helped downtown at least hang on to its employment; as suburban sprawl and congestion increase the cost of doing business there, more firms may find neighborhood locations attractive--if there is new office space, parking, and good public transportation.
2. Preparation of the workforce. Chicago's labor force is both its strength and its Achilles' heel. Its size and skill mix is still impressive. But the well-known low quality of large parts of the city's school system keeps middle class families with children out, and is increasingly unattractive to employers. Similarly, the City Colleges have not responded to changing skill needs nearly as well as other such systems have, both in the suburbs and in other cities.
3. Improvement of the urban quality of life by assistance to the poor. City government is limited in what it can do; the cooperation of the state, in dealing with areas such as welfare, is critical. Also, the increasing concentration of poverty in central cities, which analysts have been pointing out for over a decade, requires increased federal assistance. The federal Empowerment Zones are but a very small step in this direction; nobody can really believe that $100 million over ten years for a zone of 200,000 people is really going to make a difference--that is $50 per person per year! If poverty could be cured for that little, we would have done so a long time ago.

4. Ensuring that affordable rental housing & home ownership are available in cities, including some programs aimed at the middle class. We need to protect the stock of affordable housing. This continues to be one of the major advantages of the city. The twin forces of gentrification and demolition of public housing are cutting into this, although more affordable housing is still being lost to lack of investment and abandonment than to gentrification.
5. Address the regional issues. We need to create a sense of unity within the region, and stop the waste inherent to current patterns of development. This will require the creation of a regional civic spirit, but also concrete programs to manage growth, increase affordable housing, limit new road building, and development regional finance mechanisms. Some regional cooperation already exists, in areas of transportation, water, and sewage treatment, and there are many other models elsewhere. This is not an easy task, but without it not just the central city itself, but the region as a whole will suffer.

At a more modest scale, at the UIC we have started the Great Cities program, which is a commitment to using our teaching, research, and service programs to address major urban issues in the Chicago metro area. Many of our faculty and colleges are engaged in projects that help improve K12 education, health care delivery, social services, economic development, the performance of business, and so on. While we still teach medieval French poetry and do research on high energy physics, we have sent the faculty a message that as a university located in the city we have a moral responsibility to address the issues of the day. You may want to engage your institutions of higher education in a partnership that substantively focuses many of their education and research programs on the issues facing your cities. If done carefully and with real dedication, these programs will not be hot air, but a true wind of change.

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