

New Directions for Central City and Suburban Development

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A Great Cities Institute Working Paper



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This paper is based on a presentation to the Downtown Economic Development Summit, Wilmington, Delaware, October 29, 1997.

November, 1997



The Great Cities Institute

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This paper is available on the Great Cities Institute Web Site: www.uic.edu/cuppa/gci

Great Cities Institute Publication Number: GCP-97-7

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New Directions for Central City and Suburban Development

In recent years some well-known economists and political commentators have characterized cities as economically and politically irrelevant. Urban policy has been neglected by the federal government. Cities have been seen only for their problems, as the garbage cans of society, with crime, poorly educated residents, and deteriorating infrastructure.

I believe that cities are still the most creative, most productive, and most vibrant places. With additional investment, they can be even more so. With the largest number of under-utilized people, the largest stock of usable or reparable infrastructure, and the biggest supply of conveniently located land, there are economic, not just moral or liberal reasons to focus on cities. I will discuss six main points:

1. In the new global marketplace, national economies are 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 country's international competitiveness.
2. 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.
3. 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.
4. 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 a region's prosperity. The suburbs are strained by their growing economic and social roles.
5. 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, as well as workers.
6. Concerted government actions and private sector participation is necessary to jump-start and sustain economic growth in cities. 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 metropolitan regions.

Let me expand on these points:

Cities are the key source of high-wage employment based in high-productivity industries. The earnings of people who work in the central cities are considerably higher on average than the earnings of workers in suburban firms.

In a sample of fourteen large U.S. metropolitan areas, the wages of central city jobs averaged 20 percent higher than those of suburban jobs. Moreover, this earnings gap has been widening. 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 to the city. For instance, in Chicago, 35% of all jobs in the city are held by suburbanites, but they earn 47% of all wages and salaries. In Baltimore and Washington, D.C., these numbers are even higher. Although it is true that workers commute both ways across the city boundary, the high wages of jobs held by well-educated suburbanites channels a net flow of earnings out of the cities.

Suburban families are intricately intertwined with cities in other ways. A recent survey of people living outside of the one hundred largest cities -- but within twenty miles of them -- found that about half of the households had at least one member working in the city. 67 percent depend on the city for major medical care. 43 percent had members either attending or planning to attend a city-based college or university.

Even those suburbanites who think they are not connected to the city, might bear in mind that much of the income of their neighbors, and therefore the local retail sales, property taxes, and real estate values are supported by income earned in the city. For Chicago's suburban areas, 20% of all wages and salaries come from central city jobs.

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. Economic activities in one part of a metropolitan area positively affect the remainder of that area. For instance, the growth 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.

Data on 56 U.S. metro areas also show a strong correlation between metro job growth and the ratio of central city to suburban income. Employment grew most where income disparities between the central city and the suburbs were lowest.

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, known as 'agglomeration economies.'

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 in many cities. The cities' high earnings result from a concentration of high productivity industries, such as producer services and information-intensive industries.

Why have we seen the growth of these high paying service jobs in cities? 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 business firms. By locating closely together in compact and dense downtowns, they are able to realize the economies of agglomeration. In other words, by locating in cities these firms can gain access to more corporate customers and can find a greater variety of suppliers.

Along with density, *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.

The size and density of cities confers unique economic advantages, which play an essential role in regional economies. 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 our best interest to ensure that employment and households are located in such a way as to maximize productivity.

So let's talk about the different parts of the metro area. In the past twenty-five years, the central business districts of cities that play a regional service function have been growing. Private firms and individuals have made investments in downtown. The 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 cities. Urban renewal and tax laws helped this process. Public initiative was necessary to start the process, and ongoing public care is required to manage the downtown environment.

In the meantime, what has happened in the suburbs? 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. *Between 1970 and 1990, in Chicago, the population increased 4%, but residential land use increased 46%, and corporate and industrial land use increased by 74%.* 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.

Can a case be made on the grounds of *economic efficiency* for policies, which encourage central city and inner suburban development while discouraging the continuing expansion of the outer suburbs?

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 costs 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 go 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. As I have already discussed, rebuilding downtowns to take advantage of new economic functions is one way of changing the pattern of sprawl. Let's now turn our attention to city neighborhoods.

Is there a productive role for the neighborhoods in the age of the global economy? The answer is an emphatic yes, for several reasons:

1. 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 highways originally built for suburban commuters. Many have affordable office space available in existing structures.
2. Many people 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.
3. 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. (*Michael Porter's work*).
4. Finally, the neighborhoods have always generated new entrepreneurs, many of them immigrants, eager to profit from these advantages. Many cities boast a cadre of neighborhood development organizations, with experience in assembling urban land and negotiating with an array of neighborhood, city hall, and private investor interests.

Given all 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 have 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.

Public efforts to rebuild neighborhoods must focus on rebuilding the infrastructure and educational systems of the city, refitting them for new service employment as well as high- skilled manufacturing jobs.

A key component of this effort also is the improvement of the urban labor force. The urban labor force has received a lot of bad press. It has been called underprepared, mismatched, and lacking in skills. 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. 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. One source of illumination on the job-readiness of city workers of all races is research on U.S. blacks in the labor force.

The well-known sociologist William Julius Wilson has pointed out that dramatic progress occurs in the metropolitan areas with the tightest labor markets. During recessions, employment rates of young black males may be as low as 30 percent, but they grow to 70 percent in cities with tight labor markets! Apparently, once the labor market gets tight, employers find a way to overcome all of the supposed barriers in skills. Since employment rates go up and down so much with the general economy, there are fewer grounds for suspecting that there are large psychological or cultural barriers to the entry of the poor into the labor market.

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.

But look at it this way. In 1988, 21.8 percent of the U.S. workforce had a college degree. At that time, it was projected that 22.9 percent of the total labor force will need to have a college degree by the year 2000. A one percent point change over 12 years in the proportion of the workforce that will need a college degree hardly justifies headlines and cover stories. It certainly does not imply the obsolescence of workers with less formal education.

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.

Our cities’ potential will not be entirely fulfilled until they succeed in providing more attractive places to live, as well as employment. For many years now, cities have had difficulty maintaining their appeal for middle class residents. The long-run viability of cities depends on policies that recognize and strengthen the vital economic contribution of the working poor, and provide for those unable to work. But they also have to revitalize the attractiveness of cities for the middle class. Providing middle class housing, good schools, and doing a better job of dealing with poverty are critical to this.

So what needs to be done? Obviously, the policy prescriptions take on a different form in each city, and I would not presume to go into detail for you. The most important point is the notion that dealing with the issues I have raised is not just morally right, but also economically productive. The agenda that comes out of my remarks includes such items as:

1. Rehabilitation of neighborhood infrastructure. Your downtown plan mentions this some and this may be a next area of focus.
2. Preparation of the workforce, and you rightly focus on the advantages of a college population downtown.
3. Improvement of the urban quality of life by assistance to the poor and central government assistance to cities dealing with multiple problems. As a city, you are limited in what you can do; the cooperation of the state, in dealing with areas such as welfare, is critical.

4. Ensuring that affordable rental housing & home ownership are available in cities, including some programs aimed at the middle class. Your downtown plan wisely focuses on this.
5. There needs to be renewal of civic spirit, of the sense of shared destiny of those in a metropolitan area. 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.
6. I would also urge you to go a step further in terms of your focus on the colleges. Challenge them to become true partners with you. At my institution, 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 Chicago. 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 Wilmington.

I wish you well in your efforts and look forward to their success.

