Social Structures as Economic Growth Tools

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Urban economic growth is a net result of myriad business decisions to create, expand, extinguish, or contract a business enterprise at a particular location. These location decisions depend on many variables relating to the advantages and disadvantages of particular sites; the nature, size, and needs of the enterprise; and the state of the economy. Two questions are addressed in this article. First, how much does one cluster of these variables—the social structures of an urban community—influence the location decisions of various kinds of businesses and thereby affect the community's prospects for economic development? Social structures include schools and training resources, the criminal justice system, medical services, the housing stock, resources for alleviating the extent and consequences of poverty and unemployment, and "social capital"; that is, structures that promote social cohesion, stability, and control (Coleman, 1990). Second, is it reasonable to expect that national urban policy can help improve urban social structures as they affect the location decisions of businesses and the prospects of urban economic growth?

Such issues are central to an evaluation of the role that enterprise or empowerment zones or other place-oriented policies might play in revitalizing deteriorating urban communities.[1] The premise of recent policy enactments is that social structures matter to urban revitalization prospects. "No business person so blinded by tax breaks is going to go into an area with ex-cons, ex-addicts, high tensions and inadequate housing," Representative Charles B. Rangel (D-NY) said regarding Bush administration enterprise zone proposals (Zuckerman, 1992a). Former U.S. Representative Bill Gradison argued that: "Until we improve the quality of education, health care and job training, the buildings are not going to make a difference. . . . [T]ax incentives alone are not enough to stimulate new business investment in distressed urban areas" (Zuckerman, 1992b). A recent study of employment patterns in an impoverished Brooklyn neighborhood concludes that "the primary reason for ghetto unemployment is not the lack of nearby jobs but the absence of social networks that provide entry into the job market" (Kasinitz and Rosenberg, 1993).

Accordingly, the Clinton administration's version of the enterprise zone idea, enacted in August 1993 as part of the compromise budget legislation, stresses "human development and physical development," albeit with the proviso that zone residents who benefit from social programs "will be required to enter a new form of social contract stressing self-help, hard work and social responsibility." There are questions concerning whether the funds and the mechanisms in the administration's Economic Empowerment Act of 1993 are adequate to test the theory that strengthening social structures improves urban growth prospects, but at least the issue has been joined. Is a combination of tax breaks, regulatory breaks, and investment in social structures likely to stimulate, in a cost-effective way, net new business investment, income, and jobs in declining urban areas?[2]

The first part of this article presents a selective survey of empirical evidence on the social costs of declining urban neighborhoods and the effects of social conditions on business location decisions. The second part analyzes the nature and effectiveness of local, State, and Federal policy responses to the decline of urban neighborhoods. The final section offers conclusions concerning the desirability of making a focus on particular places—such as designated neighborhoods or "zones"—and the condition of their social structures as part of a national urban policy.

Social Structures and the Urban Economy

To what extent do deteriorated social structures and poor social environments create barriers to urban economic growth or influence its spatial distribution?[3] Unfortunately, because literature addressing the relationship between social conditions and economic consequences is exceedingly sparse (Oakland, 1978), the issue must be approached indirectly from several angles.

The Social Costs of Urban Decline

Socioeconomic decline—rising poverty and unemployment rates and their consequences—is costly to the jurisdictions that experience it. With regard to the potential disadvantages cities face in attracting and retaining productive enterprises, Bahl and Ihlanfeldt (1993) report the persistence of city-suburban disparities in fiscal burdens through the early 1990s. Cities tend to spend 50 percent more per capita than their suburbs, "presumably because of the service 'overburden' they face," and city tax effort is more than 40 percent higher than that of suburbs for the same reason. Social costs that translate into higher tax rates are presumed to discourage business.

As suggestive as they may be, data on fiscal disparities may fail to reveal the full extent of the social costs of economic decline, however, because these costs are partially borne by other levels of government (in the form of Aid to Families With Dependent Children, Medicaid, and child protection outlays, for example) or by residents themselves as they react to the effects of disinvestment in physical and social infrastructure and the consequences of rising crime and social isolation. Those who have opportunities elsewhere move away, leaving behind higher concentrations of social problems and the possibility that such an increase would worsen the problems.

Unfortunately, it is exceedingly difficult to measure the actual costs of poor social environments. A study by Marvin Berkowitz (1974) compared seven New York City neighborhoods, ranging from wealthy to poor, in terms of the locally generated costs of public assistance, foster care, drug-addiction services, family interventions, fire protection, law enforcement, housing code enforcement, and the like. The differences in social costs between the "slum/ghetto" and wealthy neighborhoods were, as one would expect, extreme—up to 10 or 20 to 1—and were quite large even when the comparison was between the slum/ghetto neighborhoods and stable working class areas. Though the excess expenditures associated with socioeconomic deterioration were high, they were clearly insufficient to even out the disparities in these neighborhoods' attractiveness as business or residential locations. Because studies of this kind are conceptually and empirically difficult to do, however, they are seldom undertaken.[4]

Another perspective on the consequences of rising social costs can be derived from analyses of spatial mismatches between cities and suburbs in terms of economic opportunities available to residents. The 1980s brought into focus the sharp increase in the inequality of men's earnings that seems to have been caused both by declining demand for low-skilled workers, especially low-skilled minority workers, and by increasing demand for highly skilled workers. Because workers with declining earnings prospects are disproportionately located in urban communities, the growth in earnings inequality is expected to accelerate the social deterioration of these communities, contributing to poverty concentration, the material hardships of single-parent families, and the kinds of social pathologies that seem to be associated with poverty and joblessness.

It is well known that inner-city neighborhoods have been losing jobs on balance, with the large declines in jobs requiring a high school education or less not fully offset by increased employment of college-educated workers (Kasarda, 1990). These changes have had a disproportionate impact on minorities, especially young black males, who have experienced rising unemployment and become a declining source of earnings and socially stabilizing roles. Consequently, many poor urban neighborhoods seem to follow an irreversible process of disinvestment and decline while others seem close to the brink. However, such observations about particular locations can be misleading. Though these areas may be worsening, some residents may be there for only a short time until they make the transition to better circumstances (Weicher, 1990). The fact that the economic mobility of low-skilled urban residents appears to be declining (Lynn, 1993) suggests that poor urbanites may have fewer opportunities to move on and up and that poor areas and their residents may share the same fate.

The future is hardly promising. Those occupations projected to experience the greatest growth over the next 10 to 15 years—systems analysts and computer scientists, physical therapists, operations research analysts, medical assistants, radiological technologists and technicians, and others—generally require a college degree or other postsecondary degree or certificate. Those occupations projected to experience the greatest declines generally require a high school degree at most (U.S. Committee on Ways and Means, 1993, p. 539). This kind of analysis, too, can be misleading. Even slow-growing or declining occupations, including those requiring only minimal skills, may represent areas of job growth because of the expected turnover in the workforce. However, it is unlikely that such job growth will have a great impact on declining urban neighborhoods because of their growing social isolation.

Table 1 examines the cumulative effects of such considerations by comparing the city of Chicago, the surrounding communities of suburban Cook County, and adjoining, growth-oriented Du Page County with regard to clusters of variables that constitute the social environment.

The data in Table 1 suggest that the social environment of the city of Chicago differs sharply from that of the nearby communities of suburban Cook County[5] and even more from Du Page County, a prototypical, well-educated white suburban area. For virtually every indicator, the city of Chicago is at a disadvantage with respect to its inner suburbs and at a decided disadvantage with respect to the prosperous, white, outer suburbs. The comparison in human capital values—obviously relevant to business location decisions, as discussed below—is striking. Even the high school dropouts in the outer suburbs are likely to be working.

The differences in Table 1, moreover, obscure the sharp differences in the social environment of particular Chicago neighborhoods. Even ignoring the extremes (the Robert Taylor Homes public housing area and the Gold Coast), the differences are very large—on the order, certainly, of those documented earlier for New York City (Berkowitz, 1974). Table 2 presents selected social indicators for three city of Chicago communities: the depressed

Southside neighborhood of Woodlawn, long a target of urban revitalization efforts; the precariously stable but changing neighborhood of Chicago Lawn; and the prosperous, white Northside neighborhood of Forest Glen. The differences in these social environments are clear, as are their implications for future economic growth.

Social Environments and Business Location Decisions

To what extent and in what ways do these kinds of differences in social environment affect business location decisions?

The Location Calculation

A text on business location decisions gives one a perspective on this question. Its "Checklist of Major Factors That Shape Plant Location Searches" includes "ambience, charisma of community," and "community price (appearance, activity, citizen views)," as well as a number of human capital variables (Schmenner, 1982). Surveys of managers indicate that factors such as "favorable labor climate" are the dominant considerations in selecting a site. Such variables as "attractive place for engineers/managers to live" compete in importance with more straightforward business considerations such as the location of a firm with respect to markets and suppliers, labor costs, and environmental considerations. Moreover, a variety of studies suggests that "specific public policies are used comparatively little even by large companies" (Schmenner, 1982, p. 54).

An interesting study of factors influencing plant location decisions of foreign manufacturing investors in the United States (Tong, 1978) found that the 5 most important among 32 factors included "labor attitudes" but no other overtly social factor. The 32 variables included availability of various kinds of managerial, skilled, and unskilled labor (which ranked 19th, 11th, and 21st in importance, respectively), attitude of local citizens (which ranked 8th), housing (22nd), education (17th), and police and fire services (20th). While these rankings varied by major product category and firm size, the attitudes of labor was almost universally a key factor.

Research on individual firm decisions cannot provide conclusive evidence concerning the effect of social structures on business location decisions, and probably understates their importance. Factors comprising the social environment may enter subliminally into location decisions, causing unfavorable environments to be eliminated from consideration before actual location analysis is initiated. A deteriorating social environment affects business decisionmaking directly and indirectly. Direct effects include high labor costs and uncertain labor supply, lack of security for property, and rising levels of taxation to finance redistribution from wealthier to lower income residents and neighborhoods. Indirect effects are reflected in the declining habitability of an area, including its amenities, the condition of its physical structures, and the general security and comfort of workers and residents. The latter often take the form of negative "perceptions" that dissuade a firm's executives and professional employees from wanting to work in the area. At some point between self-sustaining stability or growth and irreversible decline, social structures and the social environment are apt to assume overriding importance, greater even than those variables affecting direct costs. The very possibility of paying too high a price to be in business in an area comes into play when the area is not safe or attractive and its residents are ill-suited to be customers, workers, or good neighbors.

To the extent that the value of human capital has become an increasingly important factor in business location decisions, as recent structural changes in the economy suggest, any declines in human capital values presumably raise the social costs of attracting businesses to places experiencing such declines. David Birch has argued that "the old game of chasing after plants with cheap labor, cheap land, antilabor politics, and low wages has given way to the new game where the shift is from cost to quality, cheaper to better trained and educated labor forces, and from low taxes to higher quality service" (Birch, 1984, p. 13). Concludes Donald Haider (1990, p. 259), "Economic and demographic forces have converged to make human resource development a critical foundation for economic growth."[6]

Spatial Effects

The resultant of the myriad location calculations is evident in the aggregate performance of an area. In the Chicago region, the differences in the social environments of the city and its suburbs are reflected in their very different economic experiences. Between 1972 and 1989, private employment in the city of Chicago declined by 9.9 percent, but private employment during the same period grew in suburban Cook County by 47.1 percent and in Du Page County by 197.4 percent (Joseph, 1990). Between 1969 and 1979, the poverty rate in the city of Chicago grew from 10.6 percent to 16.8 percent, whereas in Du Page County it remained constant at 2.3 percent. It has subsequently risen in both places, but the gap remains wide. Concludes Kenneth Wong:

> The more severe unemployment problems and the lack of job opportunities for Chicago residents are structured by three long-term forces. These include a great number of Chicago residents who lack basic skills, a mismatch between city jobs and the quality of the city's labor force, and the confinement of Blacks to inner-city neighborhoods in Chicago (Wong, 1990, p. 176).

The Chicago metropolitan area's future is likely to hold more of the same. According to an older set of projections of the Northeastern Illinois Planning Commission, job growth between 1985 and 2010 should total 12.4 percent in the city of Chicago, 23 percent in suburban Cook County, and 42.6 percent in Du Page County. The number of manufacturing jobs in Chicago is expected to fall by nearly 40 percent; in Du Page County, it is expected to increase by 67.4 percent. Job growth in Chicago should occur primarily in finance, insurance, and real estate, with growth in government employment projected to be a distant second. Du Page County's job growth is projected to be robust virtually across the board (Haider, 1990).

Further light is shed on intrametropolitan redistribution in Struyk and James' study of four metropolitan areas, based on data on changes in the location of manufacturing employment in the booming, late 1960s. They concluded that the only types of industries likely to locate in poverty-stricken areas are the so-called nuisance industries—chemicals, metal processing, refining—and those industries that depend on low-wage workers, although it could not be determined whether these workers were local residents. (The Kasinitz and Rosenberg study cited earlier showed conclusively, however, that local employers did not hire local workers.) Other manufacturing industries tended to leave the poverty areas, and firms migrating into regions containing these cities avoided the poverty-stricken areas.

A study of employment growth in the Milwaukee metropolitan area revealed that during the 1983–87 economic expansion, the net increase in employment growth in the city of Milwaukee was almost entirely accounted for by the net expansion of existing establishments (White, Binkley, and Osterman, 1993). In the outer-ring suburbs, net expansion of existing establishments again was the largest contributor to employment growth, but net creation of new establishments and businesses migrating from the city to the suburbs also contributed to the increase. However, " . . . few establishments moved. Thus employment change through migration had a modest impact on total establishments and on total employment in all subregions" (p. 200). Further, expansion of existing establishments in the Milwaukee inner-ring suburbs (equivalent to suburban Cook County in Table 1) depended on expansions in retail trade, services, and other businesses; manufacturing continued to shrink. In the suburbs all industries grew, including manufacturing, which accounted for nearly one-third of the net employment growth.

To the extent that Milwaukee is typical of cities in which revitalization is to be targeted, the implication is clear: Trying to attract new or relocating businesses is to defy the odds. Net job growth occurs primarily through expanding the existing job base and, to a far smaller extent, inhibiting the relocation of existing establishments. Though the Milwaukee data and abundant anecdotal evidence suggest all kinds of businesses starting up in cities, they are usually more than matched by businesses closing, and the net effect is nil or negative growth.

Another factor thought to be important to employment growth is firm size. It is widely believed that small businesses have created most of the new jobs in this country in the last 10 to 15 years (Davis, Haltiwanger, and Schuh, 1993). If this supposition is true, it would be an important piece of information for planners of urban revitalization. Attracting large, multisite firms and sustaining their growth is surely a different matter than creating the same level of growth by attracting a much larger number of small enterprises. Indeed, urban activists often seem to believe that the latter is easier than the former, though there is little in logic or evidence to sustain this belief.

The proposition that small firms create most of the jobs is almost surely false in the case of the manufacturing sector, where recent research has shown that large firms account for most of the jobs and net job creation is independent of firm size (Davis, Haltiwanger, and Schuh, 1993). But small firms do account for most of the jobs in the service sector. To the extent that urban growth will necessarily be in service-oriented jobs, the problem becomes one of attracting large numbers of service firms to urban communities and preparing local workers to be attractive candidates for such jobs.

A further consideration relates to the extent to which firms and industries are export oriented as opposed to being oriented to local markets. Much local economic development is speculation-driven, rent-seeking real estate development. Without broad-based, export-driven growth in the local economy, job and income-creating effects such as these land-oriented developments may well be offset by the effects of competition-induced business failures elsewhere, with the net effect merely a shift of location and of specific beneficiaries of local economic activity from one declining area to another (see Helen F. Ladd's article in this volume starting on page 193).

There can be little doubt that the racial composition of urban social environments has an important bearing on their economic prospects because of the prevalence of employer discrimination in hiring and, presumably, in business location. Kirschenman and Neckerman conclude that:

> [R]ace is or has become an important marker of employability. . . . City employers who want an unskilled labor force target Hispanics, not blacks, because of their perceptions about the connection between race and work habits. . . . Given employers' rather jaundiced views of the ghetto, it is probably harder than many of us think for inner-city residents to get unskilled jobs (Kirschenman and Neckerman, 1989, p. 30).

In a more subtle way, racial and ethnic networks appear to be influential in the hiring of local, low-skilled workers.

> Networks serve at least three functions in the labor market. First, they provide specific information about the availability of job openings and how to pursue them. Second, they provide role models of successful employees. Third, and perhaps most important, they can provide direct sponsorship (Kasinitz and Rosenberg, 1993, p. 67).

If residents of an area are not part of such networks, they are not likely to be hired by local businesses. The other side of this coin, however, is that particular social structures such as networks clearly do matter to the success of place-oriented public policies, although it is not clear whether public policies can directly influence these social structures.

Cause or Effect?

Of course, the kinds of evidence cited above beg the question of whether deteriorating social environments are a cause or a consequence of the spatial characteristics within a labor market. To the extent (undoubtedly significant) that social decline is caused by exogenous economic change, it is foolish to think that marginal improvements in social structures will alter a neighborhood's basic prospects. To the extent (undoubtedly small, but not insignificant) that social decline forestalls some types of business creation or expansion, improvements in social structures may help arrest decline, although possibly at the expense of vulnerable areas not favored with social outlays. The net effect for the city and its inner suburbs may, in the end, be virtually nil.[7]

Urban Political Economy and Redistribution

Urban decline hardly goes unnoticed or unaddressed by policymakers. It is well established that urban governments are predisposed to initiate and support policies that improve their economic growth prospects (Tiebout, 1956; Peterson, 1981; Elkin, 1987). Their leverage over these economic prospects is severely limited, however, by the structures of urban political economies: the mobility of capital and labor, the manner in which local officials are elected, and the sources of urban revenues. In *City Limits*, Paul Peterson argues that, because of these structures, urban economic policymaking is inherently biased in favor of competition to attract mobile capital and skills that add to a jurisdiction's tax base, and biased against policies that enlarge or draw disproportionately on that tax base to redistribute resources from higher income communities toward low-income communities. The policymakers fear that such redistribution will contribute to a deterioration in the business climate and in the attractiveness of central business districts.[8]

Local development politics are typically driven by volatile combinations of political self-interest, ideology, and profit seeking that obscure or greatly complicate basic issues of policy design, implementation, and evaluation (Giloth and Betancur, 1988). In general, local officials are likely to use their limited leverage (primarily land use controls and property tax administration) to support projects, usually those "downtown," which promote short-term, significant increases in assessed property values while resisting local expenditures. For example, projects that assist poor neighborhoods and residents raise taxes without producing benefits for those wealthy residents and investors whom the revenue-needy city most wants to attract or retain.[9]

Problems arise when limited local policy leverage proves inadequate to staunch the outflow of productive residents and capital investment from cities to more attractive locations in the suburbs or in other States. Signs of decline begin to appear in particular urban neighborhoods or communities, posing a potential threat to the city's current and future capacity to deliver a level of services and amenities that can assure its vitality—that is, its capacity to maintain its physical and social infrastructure. Disinvestment and deterioration in neighborhoods and communities may sometimes stimulate a market response in the form of revitalization and gentrification, led by investors taking advantage of declining land prices. But the story in many American cities has been one of deterioration that in some neighborhoods has proceeded so far that even though land costs virtually nothing, tax abatements are generous, and the city is ready to assist with statutory and regulatory relief, there are few if any takers. The places are simply too "bad" to attract any but noxious activities. Decline apparently becomes irreversible.

Deteriorating social environments confront local officials with a dilemma. On the one hand, they will be under pressure from their local constituencies to address rising levels of need associated with socioeconomic decline, especially if well-organized minority and provider interests advocate redistributive programs. On the other hand, they will face pressures from the market to resist imposing the kinds and levels of taxes that would undermine growth prospects and jeopardize bond ratings and also to reduce government expenditures and payrolls. Not surprisingly, local officials facing such pressures turn to State and Federal officials and agencies for help, especially with redistributive social programs. They become a vocal constituency for within-State resource redistribution and for Federal assistance of all kinds, including those that involve the creation of enterprise zones.

At this point the dilemma is shifted to the State level. State governments are likely to be drawn into promoting urban interests over suburban or rural interests in proportion to the city's strength in the State legislature. In fact, though States have begun to play a larger role in intergovernmental finance, they are not coming to the rescue of their fiscally distressed cities. The rising costs of Medicaid and the penal system combined with citizen resistance to tax increases, means a low priority for local aid (Bahl and Ihlanfeldt, 1993; Gold and Ritchie, 1993). This is certainly true in Illinois, where the urban poor in particular have been hurt by the State's fiscal policies (Lav, 1994).

Rather than confronting recalcitrant legislatures, governors more typically add their voices to those of mayors clamoring for action at the Federal level to relieve the strain on cities threatened with decline. Thus urban revitalization is pushed onto the national policy agenda and, as the durability of the enterprize zone concept demonstrates, kept active there.

National Urban Policy and Urban Decline

What price, if any, should Federal policymakers be willing to pay to direct economic growth toward urban communities that otherwise might be bypassed because of poor social environments? Is it even known whether the actual price is likely to be reasonable? That is, do policymakers know how to enhance community economic development prospects through policies that use social structure improvements to attract new business investment? And what will be the cost in public outlays, tax expenditures, and foregone economic opportunities?

One complicating factor is that cities differ widely in the extent to which they have direct responsibility for social structures. Indeed, given the bias against redistribution that characterizes urban economic policymaking (to be discussed later in this article), local officials and their poorer residents may be better off if they do not control social expenditures. Table 3 compares the six largest U.S. cities in terms of the proportions of general expenditures allocated to education, health and hospitals, public welfare, and housing and community development (and thus under the control of local elected leaders) in 1989, based on data from the 1990 census.

The problems that poor social environments create for national urban policymakers are compounded by inherent limitations of local political authorities in addressing them (as discussed earlier). Left to their own devices, urban governments will go only so far to overcome social conditions adverse to community economic development, and they differ widely in their leverage.[10] Moreover, to the extent that they bear responsibility for social services, urban governments resist expenditures that require tax increases and tend to rely on contractors, volunteers, and subsidies rather than on city employees to provide the services (Stein, 1993). This reliance on third parties is likely to produce an uneven distribution of services, reflecting a tendency to avoid when possible the most serious, difficult, and "unprofitable" people and places.

According to this reasoning, national urban policymakers cannot rely on urban governments to be eager partners in creating social environments conducive to growth. State governments may appear to be the more likely allies, though here too interstate and urban-suburban political competition attenuates the eagerness of State legislatures to address the needs of cities and declining urban neighborhoods (Peterson and Rom, 1990). Beyond the use of restrictions on State and local budget reallocations, Federal officials can do little about the moral hazard of having their assistance to community rehabilitation only serve to relieve State and local officials of an already weak sense of responsibility toward this redistribution goal.

There is the additional problem of the U.S. Congress. The history of federally designed targeting—from the Area Redevelopment Act through the Model Cities Program to Community Development Block Grants and Urban Development Action Grants—does not encourage the belief that a great deal of redistribution is likely to occur (Dommel and Rich, 1987; Wrightson and Conlan, 1988).[11] It appears more likely that Federal elected officials will support the inclination of local officials to attenuate redistribution in order to maximize urban revenue. With respect to targeting policies, Wrightson and Conlan have concluded:

> [D]espite the strong rationale for providing a safety net for poor communities at the federal level, congressional distributive politics works to undermine efforts to target federal aid programs to advance this objective. In political practice, only programs for poor people commonly achieve and maintain their redistributive character (Wrightson and Conlan, 1988, p. 185).

Taking these layers of resistance into account, redistribution-oriented targeting of particular places is equivalent to dropping feathers from a tall building and expecting them to land within a predefined perimeter. There are too many opportunistic gusts of Federal, State, and local politics for this expectation to be reasonable.

Even if a willingness to engage in targeted interventions should materialize, it is far from clear what form such interventions should take. In Chicago, advocates for "balanced growth" argue strenuously against oiling the "growth machine," the operators of which emphasize improving the business climate in order to raise land rents and "trap" wealth for owners of capital who may benefit from gentrification and the displacement of existing neighborhoods (Wiewel and Nyden, 1991). In a similar spirit, advocates for community capacity building, including community activists and fiscal conservatives, oppose “traditional needs-oriented solutions” that strengthen human service systems at the expense of individual autonomy and self-reliance (McKnight and Kretzman, 1990).

Finally, even if these ideological disputes can be resolved, the remaining question of how national urban policy can be used to rehabilitate the social structures of declining and socioeconomically vulnerable urban neighborhoods has virtually no satisfactory answer. It has proven difficult to reproduce so-called success models in other than their original locations. For example, the widely claimed effectiveness of South Shore Bank (Taub, 1988) in sustaining its surrounding Chicago neighborhood has not attained the same response in the relatively close community of Austin on the city’s west side. How does one go about much more subtle but consequential tasks, such as strengthening local ethnic social networks in order to increase the likelihood that training and job search will be successful?

Should Places Have a Place in Urban Policy?

Why should Federal policymakers care where economic development takes place and, in particular, whether it takes place in particular urban communities?

Emphasize Place

A “pro-life” response (that is, one that favors providing neighborhoods with life support) is based on the premise that urban communities should be preserved as viable places to live and work, although the market for mobile capital and labor will not accurately evaluate the collective benefits of urban vitality. According to this view, national urban policy should—and can successfully, the lack of evidence notwithstanding—assist in creating or restoring healthy urban communities through what Ladd calls “place-based people strategies.” Such strategies include creating and sustaining the social structures necessary to make urban places *together with their residents* relatively attractive to mobile professional labor and capital.

To have any chance of success—that is, to initiate a self-sustaining turnaround in target areas—such place-based people strategies should exhibit a number of features:

- Funding agencies must insist on sound designs that reward jurisdictions which have identified target areas where incremental investments in social structures have a reasonable chance of both improving the social environment and, in combination with tax and regulatory policies, attracting job-creating, export-oriented new enterprises.

  An emphasis on sound design means two things. First, authorizing legislation and implementing guidelines should clearly discourage jurisdictions from proposing highly gerrymandered target areas that are little more than urban “pork barrels.” Second, there should be a demonstrable basis for believing that a target area is a good candidate for transformation. Perhaps a “triage” strategy must be adopted, targeting areas that are neither hopelessly deteriorated nor apt to survive by themselves with the help of market forces and unsubsidized local aid. Triage does not mean abandoning the residents of the worst places. It means, in effect, acknowledging that such places almost certainly cannot be preserved or restored through any reasonable level of expenditure on social structures. The priority should be on helping people in these locations find new places to live and work.[12]

  How might it be determined that an area is not hopelessly deteriorated? One useful criterion might involve evidence of continuing, even if limited, market interest in an area’s physical and human resources—the putative existence of investors who, with reasonably priced incentives, would locate or expand their businesses there. Regrettably, the evidence concerning this possibility is not promising either. Ladd concludes her survey of American and British experience with enterprise zones as follows: “The experience to date . . . provides a reasonably clear indication that [enterprise zones] have not proved to be a cost-effective means of providing jobs. . . . [T]he true annual cost per new job falls into the $40,000 to $60,000 range” (Ladd, p. 193).

- Federal agencies should make every effort to identify the lessons from earlier programs that attempted to target the social environments of urban neighborhoods, particularly the Model Cities and Community Development Block Grant programs. Virtually all such programs originating in Federal executive initiatives have been watered down in Congress to the point that their redistributive intent is undermined. There is no reason to repeat this experience.

- Federal place-oriented policies must recognize something that virtually every serious study of urban decline has emphasized: the importance of racial discrimination in limiting the economic opportunities of minorities, especially blacks.

- Full use should be made of existing policy leverage to arrest and reverse the process of decline. The undeniable attraction of new initiatives such as empowerment zones and urban development banks should not distract policymakers from the importance of the way existing housing, housing assistance, community development, and antipoverty programs are administered. It should also be part of any place-oriented strategy to keep the needs of poor neighborhoods in mind when coordinating and reinventing existing programs.

- The influence of the U.S. Department of Housing and Urban Development (HUD) on urban social environments is probably considerably more limited than that of the Departments of Education and of Health and Human Services, which have purview over public welfare, urban education, and medical care programs. Hence, a serious attempt to improve social environments will require HUD to participate fully in welfare, health care, and education reform deliberations. There is little point, for example, in HUD’s pursuing place-oriented policies if the emphasis of education and welfare reforms is to reduce social isolation and immobility by increasing choices and reducing spatial mismatches affecting housing and labor markets through pure people-oriented policies.

- In a similar sense, to the extent that the “reinventing government” initiative emphasizes downsizing by reducing the scope of government and shrinking its payrolls and service responsibilities, it will undermine an important source of economic mobility for urban minority populations. Zeal for downsizing can easily eliminate more good jobs than an enterprise zone could create. The administration of place-oriented policies should be based as much as possible on comprehensive policies for improving the opportunities available in urban labor markets.

- Finally, it must be recognized that place-oriented strategies cannot possibly succeed if the growth of the national and regional economies and of economic opportunities for the low income population is sluggish. An unwarranted fear of inflation and the perpetuation of inordinately high levels of unused economic capacity even in recovery (McCracken, 1994) can doom prospects for urban revitalization.

To have any chance of success, place-based policies must be administered in a considerably more tough-minded way than has been done in the past, and must receive considerably more funding than expenditure levels likely to be authorized in the current budget climate.

Even then, there would be considerable uncertainty as to whether anything more than palliatives would result. In a lengthy reflection on the proceedings of a 1992 conference, Urban Revitalization—From the Ground Up, that reviewed the evidence and the promise of using community development corporations (CDCs) as agents of social and economic transformation of the inner city, Nicholas Lemann concluded:

> It is . . . extremely difficult to point to any city or neighborhood that has actually been "revitalized" in a way that is numerically detectable. You'd have to go far beyond CDC's, into the deep recesses of our national psychology, culture, and politics, to understand why nearly everybody—liberals and conservatives, business and labor, all presidential candidates—has been so captivated by the idea of revitalization of poor neighborhoods, when such a revitalization has never demonstrably occurred and perhaps never will (Lemann, 1993, pp. 35–36).

Emphasize People

In the light of these rather sobering prospects, a "pro-choice" response to questions of place-oriented policies (that is, those that facilitate individual mobility) would reflect skepticism that government can improve upon the market in spatially allocating mobile labor and capital. Particularly with economic growth as sluggish and problematic as it has been in the 1990s, mobile capital should be allowed to, and will, bypass areas of high social cost or will, if it is possible to do so at a reasonable cost, minimize or suppress those costs by eliminating socially troublesome conditions through displacement of poor and minority residents and conversion of land to more profitable residential and commercial uses. The amounts of money available in direct outlays or tax expenditures, being insufficient to alter the fundamental prospects of particular places, will be wasted.

Thus, in the pro-choice view, national urban policy should be, to use Helen Ladd's term, purely people oriented, helping those threatened with social isolation or displacement relocate, upgrade their skills, and so on, and allowing market-oriented competition among places to determine the winners and losers. A 1990 National Research Council report, *Inner-City Poverty in the United States*, concluded: "The problem of ghetto poverty . . . is one area in which place-oriented policies provide few, if any, additional benefits for the poor, and that could potentially have the unfortunate effect of inhibiting their mobility" (National Research Council, 1990, p. 266). Unfortunately for advocates of a national, place-oriented urban policy, there is virtually no subsequent evidence to call this conclusion into question. On the contrary, a recent Urban Institute study concluded that "policies that focus primarily on changing the economic contexts of poor neighborhoods [in particular, the growth of jobs and the location of manufacturing], rather than the internal conditions of 'ghetto-poor' areas, will likely be more effective" (Urban Institute, 1993; Galster and Mincy, 1993).

Are place-oriented policies, then, pure waste? Not necessarily. Lemann (1993, p. 36) may have put the matter most sensibly when he concluded that community-based economic development activities "have demonstrated that they can do all sorts of impressive things: construct, improve, and maintain low-cost housing; operate retail establishments in blighted areas; deliver day care, health care, job training, and other social services. All of these can justifiably be presented as ways of improving conditions in the inner cities—of providing the people who live there with a decent standard of living and, perhaps, more opportunity."

The risk, of course, is that people who are so helped will cling to the hopeless prospect of ultimate revitalization and stay in the same neighborhood. But if appropriate people-oriented policies are in place, including those to combat residential and employment discrimination and promote full employment, there is nothing inappropriate about making life more bearable for those who are caught temporarily in bad places. There appears to be nothing to be gained, however, by promising any more than that.

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Notes

1. The phenomenon of community socioeconomic decline is not confined to central cities. Such declines are also evident in suburban municipalities. Concludes Bollens (1988, pp. 283–84):

    > [I]f high income residents continue the trend . . . of outward dispersal to fringe suburbs and if such migration continues to bypass older and troubled fringe suburban municipalities, income-troubled suburbs, not only within the innermost ring but also in metropolitan fringe areas, stand to be the potential wastelands of the future. The fractured nature of the suburban ring socioeconomically, combined with the fragmentation of political authority in the metropolis, means that such troubled suburbs will lack the diversity of resources and/or population to deal with the problems confronting them.

2. It should be noted that theorists and modellers have made virtually no headway in estimating the impact of such variables as intra-urban tax differentials—much less the more complex and hard-to-measure differentials in the social environment of enterprise zones—on business location (Oakland, 1978). Thus, strictly speaking, no robust statements are possible concerning the influence on business decisions of *any* of the variables of importance to evaluating place-oriented policies.

3. The logic of the argument is that, given a set of initial conditions, improvements in social structures will lead to improvements in the social environment, that is, in the social stability, security, and vitality of a place and, therefore, in its attractiveness as a location for a residence or business. The costs and mix of needed investments will vary depending on initial conditions and other characteristics of the place. This premise is an underpinning of such place-oriented programs as Model Cities and Community Development Block Grants, which acknowledge social conditions as a factor in economic development.

4. The literature documenting the search for "neighborhood effects" on social behavior illustrates the difficulties. With respect to the question of whether poor youth or poor families are likely to engage in self-defeating behaviors such as dropping out of school, engaging in criminal activity, or becoming teenage parents because of where and with whom they live, the results are generally inconclusive. Thus it is difficult to model the relationship between socioeconomic decline and the costs of dealing with the social consequences of this decline.

5. Suburban Cook County comprises townships, cities, and villages of a wide range of income levels and racial/ethnic compositions, from very poor and predominantly made up of minorities to very well off and virtually all Caucasian.

6. Such propositions oversimplify the problem. It is well known that urban labor markets have been experiencing sharp structural shifts away from manufacturing and toward service industries and government. Within cities, this shift may be a migration of economic activity from the districts where manufacturing plants were located toward

the service-oriented central business districts. Thus, as suggested in the text, one witnesses increasingly impoverished and racially impacted neighborhoods in the shadow of prospering downtowns or near-downtown locations that are becoming gentrified. The issue of achieving intra-urban redistribution through what is termed “balanced growth” becomes controversial, for reasons to be explored in the next section.

7. The simultaneous relationship between outlays for social structures and new business investment poses serious problems for modellers. Unless simultaneity is formally incorporated into regression models, for example, it would be impossible to predict the signs of regression coefficients for social cost variables.

8. Though, as noted earlier, private employment in the city of Chicago declined by 9.9 percent between 1972 and 1989, private employment in Chicago’s central business district grew by 16.3 percent and on the North Michigan Avenue “Magnificent Mile” by 26.6 percent.

9. For similar reasons, the distribution of basic city services among beneficiaries of various income classes, while a more complicated subject, is affected by pressures to maintain or increase the habitability of the city’s better neighborhoods, where those with disproportionate political and economic influence are likely to live. Discriminatory patterns of service delivery may be a matter of a disparate impact rather than one of intent: Municipal service agencies often allocate resources according to decisions that, while defensible as operating guidelines, nonetheless discriminate against poorer areas.

10. It is interesting that Cook County, including the city of Chicago, allocates 5.5 percent of its general revenues to social welfare compared to a roughly comparable 3.7 percent for Du Page County, a place that needs few social services. Du Page allocates a slightly larger share of its resources, 5.8 percent, to government administration than Cook County’s 5.2 percent.

11. The empowerment zone proposal of the city of Chicago is laughably pragmatic. It includes, among other areas, sizeable sections of Congressman Dan Rostenkowski’s manifestly nonpoor district; the United Airlines ticketing office at O’Hare Airport, which was threatening to slip beyond city borders into neighboring Cook County; a Nabisco plant in a secure, white, southside neighborhood, and other nondisadvantaged areas containing businesses for which influential representatives sought tax breaks. Though the proposal is defensible as part of a “triage” strategy—“save the saveable”—most of urban America would similarly qualify.

12. The theory is that redistributing people from bad to good areas is a more efficient way to improve their socioeconomic prospects than redistributing resources to bad areas. Unfortunately, the evidence that this works from programs such as the Gautreaux project in Chicago (which allows inner-city residents to use housing assistance to relocate to the well-off suburbs) is inconclusive.

Table 1

Social cost gradients, Chicago region, 1990 (1989)

	City of Chicago	Suburban Cook County	Du Page County
Demographics			
White	45.4%	83.4%	91.5%
Black	39.1%	9.9%	2.0%
Hispanic origin	19.6%	6.4%	4.4%
Adults who do not speak English at home (who do not speak English well)	21.0% (11.2%)	12.5% (5.3%)	9.9% (3.7%)
Households			
Female headed	19.6%	10.3%	7.3%
Single elderly	10.4%	9.1%	5.8%
In group quarters	4.6%	4.3%	3.5%
Family households	61.6%	72.2%	74.7%
Income			
Median household	$26,301	$ 41,128	$ 48,876
Per capita (1989)	$12,899	$ 19,052	$ 21,155
Median home value (1989)	$78,700	$117,800	$137,100
Poverty rate	21.6%	5.3%	3.7%
Human capital			
16 years old or older in labor force			
total	63.7%	69.7%	75.0%
female	56.2%	60.4%	65.4%
16 to 19 years old, not in school, not high school graduates (unemployed)	17.1% (70.7%)	8.3% (51.0%)	5.4% (38.9%)
25 years old or older with high school degree	66.0%	81.8%	88.6%
25 years old or older with college degree	19.5%	26.5%	36.0%
16 to 64 years old with work disability	8.4%	5.3%	3.7%
16 to 64 years old with mobility and self-care limitations	12.7%	7.2%	4.9%
Student test scores			
Reading, 11th grade	190	242	279
Math, 11th grade	185	263	290

Table 1 (continued)

	City of Chicago	Suburban Cook County	Du Page County
Housing			
Vacant	9.5%	3.9%	4.5%
Detached single-family homes	23.6%	58.2%	62.6%
More than one person per room	7.9%	2.8%	1.9%
Contract rent:			
Less than $250 per month	19.9%	6.3%	3.5%
Lower quartile (per month)	$277	$404	$485
Median (per month)	$377	$500	$568
Built in 1939 or earlier	44.6%	14.6%	7.6%
Crime			
Crime rate	11.2	8.3	3.9
Murder (per 1,000)	0.306	0.033	0.015
Aggravated assault and battery (per 1,000)	14.74	1.76	1.10
Death rate from homicide	25.7	5.9	4.7
Families			
Births to single mothers			
Total	53.8%	17.3%	7.5%
White	30.2	10.9	7.1
Black	80.6	59.8	33.0
Hispanic	40.1	23.5	18.7
Infant death rate			
Total	17.0%	9.4%	5.0%
White	11.6	8.0	5.0
Black	23.3	9.5	NA
Hispanic	11.1	7.2	NA
Teenage births			
Total	19.6%	7.1%	3.4
White	12.3	5.1	3.3
Black	28.0	20.7	9.0
Hispanic	16.9	13.0	10.7
Births to high school dropouts			
Total	38.1%	11.8%	6.3%
White	40.2	10.9	6.3
Black	37.4	18.8	8.7
Hispanic	62.2	49.3	46.6

Table 2

Social cost gradients, selected city of Chicago community areas 1990 (1989)

	Woodlawn	Chicago Lawn	Forest Glen
Demographics			
Minority population	96.9%	56.6%	9.4%
Households			
Female headed, children under 18	74.4%	36.3%	10.6%
Income			
Median family	$17,714	$30,765	$59,825
Persons receiving public assistance	58.1%	23.6%	1.2%
Poverty rate	37.0%	18.3%	1.3%
Unemployment rate	24.2%	11.2%	2.6%
3- to 5-year-olds in poverty	51.2%	28.3%	0.5%
Human capital			
25 years old or older, not high school graduates	44.0%	37.7%	15.3%
16- to 19-year-olds, not high school graduates	13.6%	15.8%	2.6%
Low-income public school enrollees	82.7%	79.4%	60.4%
Families			
Infant death rate	15.42	14.63	0
Births to teenage mothers	28.53%	16.63%	1.97%

Table 3

Social expenditures of the six largest U.S. cities

City	General expenditures (in millions)	Social expenditures (in millions)	Share[1]
New York City	$25,745	$14,729	5.7%
Los Angeles	3,010	262	9.0%
Chicago	2,680	362	13.5%
Houston	1,674	70	4.0%
Philadelphia	2,282	519	23.0%
Detroit	1,590	361	23.0%

Note:

[1] The share was calculated by social expenditures divided by general expenditures, and then multiplied by 100.

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