

# Introduction

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The articles in this volume were first presented at the Regional Growth and Community Development Conference, held in Washington, D.C., on November 18, 1993. This conference was sponsored by the Office of Policy Development and Research of the U.S. Department of Housing and Urban Development (HUD). The broad purpose of the conference and of this volume is to present the best thinking by academic economists on the economic problems facing our Nation's urban areas.

In commissioning this study, Assistant Secretary for Policy Development and Research Michael A. Stegman expressed a desire to find answers to two questions:

- What is the role of the central city in metropolitan, regional, and national economic growth?
- How do we make cities and metropolitan areas grow?

More generally he asked for information that could be used to guide the urban policy of the Clinton administration. In commissioning the papers for the conference, an effort was made to obtain both theoretical and empirical papers. Some authors were asked to focus on issues of direct and immediate interest to policymakers. All were encouraged to offer their views on any aspect of urban policy relevant to their research.

Several themes emerge from the studies included in this volume. While they do not provide direct, definitive answers to the questions posed by the Assistant Secretary, they do provide insight useful to the development of a national urban policy. They also clarify the way we think about urban economic growth and bring us up to date on new ways of analyzing the importance of cities to metropolitan growth.

The purpose of this introductory chapter is to summarize and contrast the important themes that emerge from the studies. Our discussion focusses on a few rather broad themes that connect most of the articles in this volume and then turns to the questions posed and answers presented in each article.<sup>1</sup> Finally suggestions for further research are presented.

## Themes

In a simple, stylized view, a city or urban area is characterized by two key traits. First, population density is unusually high; people live and work more closely together in cities than they do outside of cities. Second, city populations are more diverse than those outside the city, drawing people from various parts of the Nation and the world. Some are young and new to the city, while some have lived there for a long time. City populations include permanent residents, part-time residents, and suburban residents who work in the city. These individuals have widely diverse ethnic, racial, and cultural backgrounds, leading to a variety of opinions on almost every subject.

The articles suggest that the high density and diversity in urban areas lead to interactions of the people there that foster creative thought and energy. The high densities create opportunities for frequent encounters among urban residents and workers, allowing them to share their ideas and learn from others in the community. The diversity of the community guarantees that these encounters will expose urban residents and workers to a wide variety of opinions, ideas, and interests.<sup>2</sup> In brief, urban living generates positive externalities, agglomeration economies, and knowledge spillovers to urban workers. The entire national economy benefits from the resulting increases in the productivity of urban workers.

The same features that give rise to these positive externalities also lay the foundation for strife and conflict among neighbors and colleagues. Density reduces privacy. Frequent encounters with neighbors and colleagues who hold different, and often conflicting, views and values may also give rise to problems. These problems may lead to conflicts and the isolation of individuals and groups. Economists refer to these conflicts as negative externalities or agglomeration diseconomies.

Cities as creators of agglomeration economies are important to the economic growth of metropolitan areas, regions, and the Nation. However, the conflicts and isolation generated by the diseconomies waste human resources, act as a drag on the regional economy, and slow national economic growth. That dilemma is the major theme of this volume. The articles provide indepth examples, evidence, models, theories, and insights about the nature of agglomeration economies and diseconomies.

Thus the public policy challenge—the second broad theme—is to develop the agglomeration economies while at the same time minimizing the conflicts and isolation. Numerous suggestions and conjectures are offered for ways in which the private sector and all levels of government can help the urban economy prosper. Comments are also offered regarding some of the policies being pursued or considered, such as empowerment zones and strategic planning for local economic development programs.

The authors agree that knowledge of urban and regional economic development is quite limited. The limitations on that knowledge actually qualify as the third theme of the volume. Nonetheless the articles suggest many exciting and innovative directions for policy and future research.

## The Articles

Because of the generality of the questions the authors agreed to address, the articles do not fit neatly into well-defined categories. We offer a grouping of the articles that highlights their relationship to the themes noted above.

The articles by Glaeser and Andrews demonstrate the major theme of this volume. Glaeser's paper covers an enormous amount of territory and literature. He draws from

the recent macroeconomic literature on the determinants of economic growth, emphasizing the importance of investment in human capital. Glaeser argues that cities are places in which human capital investment is particularly productive because of the knowledge spillovers created by the workers and residents. He provides examples and evidence of the importance and existence of these spillovers, ending with an interesting list of stylized facts about urban economic growth. He concludes with a discussion of one specific type of agglomeration diseconomy, urban riots.

The article by Andrews models the consequences of decisions on the allocation of investment in human capital. Urban residents participate in an education system from which some emerge prepared to be productive members of the community and others do not. The latter rely upon crime and transfers from the rest of the community to survive. The economically successful class in the city faces three choices: invest more in education, invest more in crime prevention, or leave the city. Andrews addresses this set of issues using a theoretical framework developed in the macroeconomics literature. This framework allows him to state the nature of the problem clearly and demonstrate the potential power of the agglomeration diseconomies in shaping urban life.

The articles by Henderson and by McGuire and Garcia-Milà continue the discussion of knowledge spillovers. Their work is largely empirical and seeks to identify the nature and size of agglomeration economies. Henderson analyzes employment levels among urban counties in the U.S. for the period 1977–87. He is particularly interested in the causes of the agglomeration economies and their dynamics. The causes of agglomeration economies are the absolute size of the city and the size of the industry in which a firm operates. Henderson finds evidence of the existence of both types of agglomeration economies. His discussion of the dynamics of agglomeration economies focusses on whether their impacts on growth dissipate over time and, if so, at what rate. He concludes that Marshall-Arrow-Romer externalities (increased concentrations in own industry activity) appear to affect employment for 5 to 6 years afterwards. The effects of agglomeration economies due to the absolute size of the urban areas appear to persist for an even longer period.

McGuire and Garcia-Milà also address the importance of industry mix, particularly the way the mix between manufacturing and service employment affects economic growth. They analyze data for the U.S. and eight census regions during the period 1969–91. Although these data pertain to both urban and nonurban areas, they permit the analysis of income and earnings, not just employment, as measures of economic activity. In addition to documenting carefully some bits of conventional wisdom regarding regional economic growth, their analysis uncovers two particularly striking results. First, there is life for a regional economy after the decline of the manufacturing sector. It comes in the form of the service sector, and it can be an engine of growth. Second, variations in regional growth rates appear to be narrowing as similarities in the industrial mix among regions increase. The decline in the manufacturing sector and the growth in the service sector also leave few, if any, regions with a comparatively strong advantage in manufacturing.

The articles by Bunce and Neal and by Darity and Winfrey are largely descriptive studies of the extent and impact of diversity. Bunce and Neal update their earlier analysis regarding indicators of urban distress. Their index, like the variable they try to measure, is dependent upon a wide variety of phenomena. Crime, poverty, fiscal imbalances, family structure, and other variables are used to compute a single, unified index of urban distress. The definition is the same as that used in their earlier papers, providing a consistent time-series picture of changes in the conditions of our major urban areas. They find that although distressed cities continued to deteriorate during the 1980s, the rate of decline was slower than that experienced in the 1970s and not much different from that experienced by less distressed cities.

Darity and Winfrey also seek to measure the economic well-being of various ethnic groups over time and among regions. Although they present basic information for 47 ethnic groups, their attention is focussed on 8 groups: Irish, Polish, Mexican, Chinese, African American (black), Japanese, Russian, and Vietnamese. They seek to determine whether economic well-being is sensitive to the location of the household. Using the nine census divisions to define location, the authors find that neither the level nor the rate of change of economic well-being varies much by place. In addition they find that the groups of Mexican and African ancestry fell further behind during the 1980s.

## Articles on Public Policy

The principal focus of the five remaining articles is public policy toward urban areas. The authors examine general approaches as well as specific ideas that have been proposed or enacted. Among their many contributions, they clarify the complexity of the urban problem and acknowledge the limitations of our knowledge of urban phenomena.

Ladd tackles one of the key dichotomies in the debate over urban policy: Should such policies focus primarily on people or on place? She surveys and critiques the considerable literature regarding place-based policies and finds that pure place-based strategies are likely to be ineffective policy tools. They are expensive, and their main effect is to relocate economic activity rather than to create new employment. This lack of effectiveness does not mean, however, that urban policy should remove all reference to place. Indeed Ladd is more optimistic regarding what she labels “place-based people” strategies. These strategies are built upon two key suppositions: first, that the success of a person or household is tied to the success of the community in which they live; and second, that the most relevant community for low-income people tends to be the neighborhood in which they live. The latter supposition is particularly central to the “empowerment zone” strategy of the Clinton administration. Ladd’s analysis of the evidence suggests the administration is on the right track in its move away from pure place-based strategies.

Like Ladd, Ihlanfeldt does not find place-based strategies particularly effective and, also like Ladd, he suggests an alternative. Ihlanfeldt discusses what has become known as the spatial mismatch hypothesis which, broadly defined, refers to the difficulties faced by black city residents in their efforts to find employment in the suburbs. He offers considerable evidence in support of this hypothesis and discusses several possible remedies. Most involve improvements in transportation systems available to reverse commuters; combating racial discrimination by suburban employers is another. Both of these policies would benefit from improved governance at the metropolitan or regional level.

Lynn is the third author to discuss the potential of “place-based” strategies. His is largely a conceptual piece, although he uses some data—mostly from the Chicago metropolitan area—to illustrate his key points. The first question he addresses should be raised prior to any serious place-based initiative: Does the social environment affect industrial location decisions? If it does, investment in the social and physical infrastructure of a neighborhood may be productive if it improves the social environment and leads to industrial relocation to the designated area. His own analysis and the small amount of evidence he is able to find seem to support the view that, indeed, the social environment does matter. His second question follows naturally from the first: Can government do much to affect the quality of the social environment? He concludes, like Ihlanfeldt and Ladd, that pure place-based strategies are likely to be ineffective.

Lynn also addresses a critical but politically sensitive issue: should policymakers adopt a triage approach and focus on those communities with a good chance of recovery? Answering in the affirmative, he goes so far as to suggest a way to rank communities

in terms of survivability or worthiness for investment. While it is unlikely that any administration will adopt an explicit policy which acknowledges that some communities are beyond hope, Lynn's analysis suggests that community development policies should include criteria for underwriting community investment decisions.

The last two papers also examine public policy, but their emphasis is upon the role of the various levels of government within the Federal system. Indeed local, State, and Federal governments have a role to play in the economic performance of urban areas and a stake in the outcome.

Bartik's subject is the role of the Federal Government in economic development programs. He defines these to be government-supported programs of customized assistance to businesses that have as their goal increased business productivity or reduced poverty. Bartik believes that such programs can be successful, but delivery at the local level is essential. In this sense the Federal Government plays a supporting role. Bartik, like Ladd, believes that the Clinton administration's plan to provide support for State and local economic development efforts is on the right track. Policies that generate and disseminate information about local economic development programs are also high on his list of recommendations.

Bahl reviews recent trends in public finance at the local, State, and Federal levels. The review is accompanied by a discussion of the roles these levels of government can play in attacking urban problems. Bahl is pessimistic about the ability of cities to solve their problems by themselves, because their power to redistribute wealth and income is limited. Nor is he optimistic about the Federal Government's ability to solve problems in the near term, for reasons similar to those offered by Bartik. In Bahl's view, the best hope for cities is State government. States are probably best able to encourage wealthy suburbs to take more responsibility for the economic health of the cities and their residents. However Bahl, like Lynn, suggests that States are unlikely to come to the rescue of cities because of the dominance of suburban delegations in many State governments.

## Future Research

The authors have taken seriously our request to identify areas toward which future research should be directed. As a result, each chapter contains numerous suggestions regarding the formation of public policy. Rather than listing these recommendations, we have focussed on the most important suggestions for future research contained in, or at least implied by, the studies.

## Measurement of Economic Success and Knowledge Spillovers

Two measurement issues seem to be paramount. The first is related to Bartik's suggestion that better information be provided about the success of local economic development strategies. For example, how does one determine whether a policy to stimulate cooperation between a university and the business community of a State is really successful? Although this and similar questions are difficult to address, Bartik believes the Federal Government is capable of providing assistance in this arena.

Second, how does one determine the extent and importance of knowledge spillovers, and are institutions other than the city capturing them? This is a critical question, because the simple acknowledgment of the existence of spillovers does not constitute a case for government investment in urban areas. It is quite possible that other types of institutions, such as large firms, are keenly aware of knowledge spillovers and are taking steps to capture

them by the design of their office space, communication systems, and mergers. If so, then the case for government intervention in this arena is lessened.

### The Role of Industrial Mix

Glaeser, Henderson, and McGuire and Garcia-Milà focus much attention on the importance of industrial mix to economic success. They would also be among the first to admit the need for further research on this topic. Our measures of economic success and the nature of the industrial mix are important issues. Case studies of particular urban areas or industries may be necessary for this type of research. Of particular importance is the nature of the mix between manufacturing and service employment. Can we really count on service employment to be a complete substitute for the severe reduction in the size of the manufacturing sector? Can the service sector really be an engine of growth? These questions will almost certainly require a more detailed look at the category now labelled only "service."

### Importance of Place and of Triage

Although Ihlanfeldt, Ladd, and Lynn are not upbeat about the power of place-based assistance, evidence on this issue is still incomplete. As Lynn notes, the kind of careful neighborhood-by-neighborhood studies that are necessary to establish the importance of the social environment to industrial location are expensive to conduct and are rarely performed. This situation is especially significant if the mobility of low-income minorities is severely hampered. In that case, place-based strategies may be a second-best but powerful source of assistance. A related issue is the selection of criteria by which to judge places on the basis of their survivability. If we are going to help places, how do we choose which neighborhoods to underwrite? Also, is the return to public investment higher in the slightly wounded places or in those near death?

### Linkage Between City and Suburb

Relying upon transportation systems to solve the mismatch problem strikes some as a concession to the broader issue of opening society to all individuals. Perhaps this is true, but improvement of transportation systems is probably a relatively inexpensive way to combat the problem. Of course efforts to combat racial discrimination in housing, mortgage lending, and employment should continue, along with additional research to identify and assist in the prevention of such discrimination.

### Political Economy of Urban Policy and Significance of Government Structure

Both Bahl and Lynn discuss what may be called the political economy of urban reform. Which level of government will stand up in defense of the city? If it is to be the State government, what steps can it take to combat the city's problems? Metropolitan governance is an idea suggested by many, but is it really feasible? Which problems are best addressed by metropolitan government, and how can the Federal Government provide incentives for metropolitan governance?

These issues are related to a broader political economy question: How important is government structure to economic growth? The conference comes full circle. These articles provided valuable insights into the relationship between government actions and growth, and they give an excellent summary of what is known on this subject. In the end, however, all of the articles stress the need for additional research.

## Authors

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## Notes

1. Our discussion does not address the formal comments of James R. Follain and Norman J. Glickman. Follain's comments provide additional thoughts about the article by Glaeser. Glickman focusses on the three articles by Henderson, Andrews, and Garcia-Milà and McGuire. Both sets of comments are included in the volume.
2. Jacobs, Jane. 1978. *The Economy of Cities*. New York: Vintage Books.

