

BREAKING AWAY THE FUTURE OF CITIES

Essays in Memory of
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THE ECONOMIES OF CITIES

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In an earlier era, when the pace of technological, economic, and social change was seemingly much slower, a city or region was identified with a specific set of economic specializations. Pittsburgh was the center of the steel industry. Chicago was not only "hog-butcher to the world," but also the country's most important producer of industrial machinery and the hub of its land transportation system. The smaller Massachusetts cities were preeminent in textile and leather goods manufacturing. North Carolina cities were dominated by cigarettes and furniture; Memphis was the banker and shipper for the cotton growers; Fort Worth was the world's leading cow town; Seattle and San Francisco were dominated by their maritime industries; and so on. And, of course, Detroit and eastern Michigan cities (as well as a good many others in the Midwest) were auto cities. Los Angeles the movie capital, and Florida cities were resorts.

But these seemingly fixed specializations were changing—sometimes quite rapidly—by the middle of the twentieth century, and the rate of change has accelerated since then. By 1960, there was no meat-packing in Chicago, little steel-making in Pittsburgh, and almost no textile or leather goods manufacturing in Massachusetts. By 1980, high-tech manufacturing and office activities were far more important

in Seattle, North Carolina, and many other places than their "traditional" economic specializations.

THE SUCCESSION OF INDUSTRIES

In fact, since the eighteenth century, American cities have grown more by mutation than by steady development of their traditional industries. New specializations, often born to serve existing ones, supplant the old and in turn are supplanted. Nowhere is this seen more sharply than in the economic history of New York City. It is no surprise that the most cogent depictions of the dynamics of economic change in large American cities are those written by analysts of New York City's economy: Robert Murray Haig in *The Regional Plan of New York and Its Environs*, completed in 1929; Raymond Vernon in *The Changing Economic Function of the Central City, Anatomy of a Metropolis* (with Edgar M. Hoover) and *Metropolis 1985*, written between 1959 and 1961 as the basis for a second regional plan for New York; and Jane Jacobs in *The Death and Life of Great American Cities* (1961), *The Economy of Cities* (1969), and *Cities and the Wealth of Nations* (1984).¹ Most contemporary writing about urban economic dynamics accepts the reasoning in these classic works as self-evidently true. So, in this chapter, we go back to the sources of these accepted truths.

In the first half of the nineteenth century, New York became the country's largest city and economic capital because its harbor was by far the best of any city on the Atlantic coast and because, after 1825, it had access to the interior of North America via the Erie Canal. Maritime commerce spawned new industries, notably marine insurance, which was the foundation of the city's preeminence in finance (Philadelphia was the financial capital before 1840), ship building, repair and outfitting, and the processing of raw materials that arrived by water. By 1900, New York City was the most important sugar and copper refining area in the nation.

But even before 1900, finance, printing and publishing, and a variety of manufacturing industries that depended on the existence of a large labor supply and quick access to supporting services had become more important to New York than the economic activities more closely tied to its port. In the early twentieth century, New York City became the country's number one location for the manufacture of apparel, electrical and electronic goods (such as radios and parts), various types of fabricated metal products (such as builders' hardware), toys, jewelry, and motion picture films. Meanwhile, New York's dominance of finance grew with the nationalization and

internationalization of financial markets, reducing the relative role of rivals like Boston, Philadelphia, St. Louis, and Chicago. The city became an increasingly attractive location for the headquarters of national businesses.

Over the past forty years, with surprising speed, New York's major industries of the 1950s have shrunk or even disappeared. For example, manufacturing employment, which was about 850,000 in the middle-1950s, fell to 280,000 by 1994. Much of the manufacturing that remains is feeding the service sector of the local economy, rather than making finished products and shipping them around the world. There also have been many well-publicized departures of corporate headquarters, at first for locations within the New York metropolitan region, more recently for other parts of the country. Offsetting the declines of such industries, finance, advanced business services, tourism, health, and education services have greatly increased in importance. As is true of most of the country's larger cities, New York's economy today bears only a passing resemblance to that of fifty years ago.

EXPLAINING URBAN ECONOMIC TRANSFORMATION

Historically, a city captured a commanding position with respect to an economic specialization because of some natural endowment, a specific physical locational characteristics. A city would be located at the head of navigation or "fall line" of a major river (Richmond, Virginia) or junction of waterways (Chicago and Pittsburgh) or the easy crossing point of a major river (Minneapolis). Or, it was a natural seaport (Boston) or near important natural resources—fishing grounds, ore deposits, or timber. The city may have been a convenient place from which to service a relatively rich surrounding agricultural area and process its farm products. Or, going way back in history, the city simply was located on a site that was easy to defend.

In time, technological and other changes vitiated most of these locational advantages. The substitution of overland and air transportation for shipping by water makes Columbus as well situated as Cleveland and Charlotte as well situated as Richmond. Changes in the way steel is manufactured and the exploitation of new sources of iron ore have made tidewater sites around the world superior competitors to the Pittsburghs that once dominated the steel industry. Indeed, today few decisions on the location of manufacturing plants are made on the basis of the location of natural resources. Instead, the key factors are the size and nature of markets for output and the costs

and quality of inputs other than natural resources—particularly labor. As the world economy and world trade expand, the number of places where an efficient, cost-minimizing scale of production can be achieved is increasing, as is evident in the spread of the auto industry from the American Midwest to other regions in this country and to Asian countries.

Such changes explain absolute and relative declines in a city's "traditional" economic specializations. They do not explain why most large cities seem to have succeeded in replacing old specializations with new ones. It takes more than the presence of site-specific advantages like climate in some places to explain the self-renewal that has gone on in this century—without government intervention or even much awareness that the renewal process is occurring. And whatever role chance—or good luck—may have played in some cases, that too is an insufficient explanation. The location of some enterprises and industries is, in a sense, accidental. The developer or inventor happened to live in that place or chose to live there after the product had been conceived for personal reasons rather than because of economic imperatives relevant to that line of economic activity. For decades, most valve spring compressors, a tool indispensable for the servicing of autos made before 1940, were made in Waterloo, Iowa—rather than a hundred other possible places—simply because a Waterloo man had developed a superior model.

Those astute observers of the renewal process in New York—Haig, Vernon and Hoover, Jacobs—first demonstrated that the replacement of economic specializations has occurred fairly regularly over time. They then provided the explanation. In Vernon's formulation, the essential economic role of the large city is to incubate new industries.

The city is equipped to be such an incubator because it can offer all sorts of services, supplies, skills, and talents that few fledgling enterprises have available. Consider work space. While thousands of business enterprises are run from homes, millions more have long outgrown the garage or home office and been moved to dedicated premises. A new enterprise seldom is sufficiently well capitalized to permit the purchase or construction of such premises. Typically, new businesses are renters. The supply of rental space for all types of commercial and industrial enterprises is likely to increase geometrically with city size.

The same is true of other business "inputs":

- ▼ Specialized parts and supplies (the small garment firm that has been typical of New York's apparel industry for decades was able

to buy almost any kind of buttons and other trimmings from suppliers located within a few blocks and thus was unrestricted in its fashion design decisions)

- ▼ Professional services, notably legal and financial services
- ▼ Workers with unusual skills (carpenters and electricians are ubiquitous, but carpenters who can build stage sets or electricians who know how to work on stage lighting are not)

The collection of these specialized inputs and the clusters of industries they serve is what economists call "agglomeration." Agglomerations characterize big cities and cities that, if not huge in overall size, are exceptionally large in one specialized industry or collection of activities (like Las Vegas in gambling or Nashville in country music). In such places, the demand from many enterprises, small and large, for services, suppliers, and specialized labor is large and stable enough in aggregate—however unstable individual enterprises may be—that clusters of the specialized suppliers emerge and persist. Their presence makes it possible for new users of these suppliers to start up and expand. To be sure, there is always the possibility of importing specialized supplies or services from other cities or regions, or substituting for them, but at some cost in time, versatility, and flexibility, if not in money. Technological changes continually threaten existing agglomerations by making it easier and cheaper to get services from distant locations, but successful cities develop new specialized services and supplies that are, for the moment, best provided in that one city.

Agglomerations can dissipate, if the economic activities that provide the core of the demand shift on a wholesale basis from the city. For example, there was concern twenty-five years ago that the entire cluster of theater, television, and film production and supporting activities might fade in New York, because of the shift in television drama production to California and a succession of very poor seasons on Broadway. The mass of activities that remained was critical, and the cluster survived, but the concern was justified.

Moreover, agglomerations can be and have been duplicated, at least in part, in other places over time. So the special competitive advantage to the original city, for the location of those core industries, of having the agglomeration will be reduced over time. As an economic sector grows nationally and internationally, its local size generates competitive agglomerations in more and more places. But that is not

necessarily a disaster for the first city. In fact, if the growth process is successful, the existing agglomeration will be attractive to new types of economic activities, ones that in time become important in their own right. That will happen as the supporting services and suppliers make themselves useful for new types of enterprises, products and services, and the city becomes the incubator for them.

DEMAND-SIDE VERSUS SUPPLY-SIDE

This account of the economic growth process of cities differs from the story that seems to animate local government officials and business spokespersons concerned with "urban economic development." Their story is that the road to economic success for a city lies in capturing or retaining firms and industries that *export* their output from the city to other places, firms and industries that could locate in any number of places. Their strategy is to bribe firms to locate in their cities by tax concessions, waiver of land use and other regulations, gifts of land and/or buildings, below-market interest rate credit, or if the firm is the owner of a professional sports franchise, which usually exports nothing at all from the city, all of the above.

In rare cases, the public policies of a city may have been so hostile to the economic growth process that such bribery truly is essential. And there are industries and economic activities that really do not need what it is that cities have to offer. A new automobile plant, for example, hardly requires anything like an incubator, and new auto plants and other large scale manufacturing plants have not been located in cities for decades. If the economic activity in question can be located almost anywhere, then bribery can work. But, on balance, the bribery strategy has not been a spectacular success, however persistent its advocates are in pushing it. For most cities, the key to attracting and fostering new activities to replace the old ones lies not in bribes, but in the quality of the supporting services that the city economy (and the city government) has to offer.

In the 1950s, when the study of urban economics was emerging, Hans Blumenfeld, a highly perceptive city planner in Toronto, vigorously criticized the apparent infatuation of economists and urban geographers with the export led, or demand-side, theory of urban economic growth. Blumenfeld argued that the prime mover, for most large cities, was to be found on the supply side. Whether new activities are invented in the city, attracted to it, or flourish once there will depend on the supply of inputs the city has to offer, ranging from directly supporting services and suppliers, to the quality of life in the

city. The quality of the city's physical inputs—such as the internal transportation systems and the availability of state of the art telecommunications equipment services—matters. But ultimately the most important input is the human one: the talents, inventiveness, and entrepreneurial energies of the people who live and work in that city. The concentration of such people in a city is, of course, another form of agglomeration.

Blumenfeld's views moved from the pages of city planning journals into common currency when they were elaborated by Jane Jacobs, beginning in 1969. The supply-side perspective, however, was also imbedded in the work of Vernon, who added an important dimension to the Blumenfeld account. For many types of economic activities carried on in cities, Vernon argued, the principal attraction of agglomeration is that the concentration of related activities makes possible face-to-face communication on an everyday basis. Indeed, in Vernon's functional classification of economic activities in New York, the most important category was what he called "communications-oriented" industries. He did *not* mean industries that are heavy users of telecommunications; he meant industries that function on the basis of extensive face-to-face communication among the participants (most of which also are telecommunications-intensive).

The essence of the advantage of extensive face-to-face communication lies in its utility when multiple parties must make complicated decisions, and implement them rapidly. Vernon offered several prototypical cases for New York:

- ▼ The high-fashion end of the apparel business, where speedy responses from producers and buyers determine success or failure—for firms and individuals, for a season or for good
- ▼ National advertising, where there is a complicated interaction among the creative people, the media people, and the sponsors
- ▼ Major corporate and government financing deals, where huge potential gains or losses hinge on face-to-face negotiations

In each of these industries, there are many cases of less complexity, with less need for instantaneous action and so less need for face-to-face communication. In other industries, the ratio of cases where face-to-face communication is important to those where it is not may be much lower. But in any industry, there will be situations in which it is highly desirable.

VERNON'S FORK

Vernon had no illusion that the need for face-to-face communication or any other aspects of agglomeration guaranteed the indefinite economic success of New York or any other city. He wrote that growth in the scale of individual industries, changes in their organization, and improvements in transportation and communications technology could work to encourage *either* decentralization (from the largest metropolitan regions and from the large central city to its periphery) or centralization of specific economic activities. He thought that, on balance, the activities that in 1960 were heavily communications-oriented would continue to be quite centralized, especially in New York.

The reality, as always, is mixed. Even activities for which face-to-face communication is vital have decentralized, but that decentralization has been relative, not absolute. Most of this type of economic activity has expanded nationally and globally, and New York and other older large cities have shared in the expansion, even while losing their earlier shares of the then-smaller industries.

Improved long-distance transportation, as well as the radical improvements in telecommunications of the past two decades, has supplanted or reduced the need for being within a few meters or blocks of those with whom you deal regularly. A United Airlines television commercial in the depth of the 1990–91 recession made the point well. The CEO of a company in serious economic trouble summons all the officers of the company and tells them that the company will not get by simply by dealing with its customers by phone. He then proceeds to give each a United ticket to a specific destination, where there is a key customer. The message is: When push comes to shove, face-to-face communication with customers is critical for the company, but flying with United can dissolve distance and assure that necessary element.

It also is true that there are advanced economic activities that really do not need much in the way of face-to-face communication. Securities traders can spend their whole careers with no more than telephone contact with their most active and longstanding counterparts in other firms, except possibly for personal contact at a dealers' convention at some resort every year or so. And in some of the most rapidly growing cities of the South and West—like Charlotte, Phoenix, and Salt Lake City—many economic activities that have been the sources of most of the growth really do not interact much. Instead, each of these activities finds that city a good place to be for reasons other than face-to-face communication. It might be because of the

city's telecommunications and transportation infrastructure. For example, because Federal Express has its major central sorting operation at Memphis airport, a Memphis law firm has the unique advantage of being able to give Federal Express a letter or package at midnight for delivery anywhere in North America before 10 a.m. that day. Or the city may be centrally located for the firm's operations, like a regional insurance company or bank.

The effect of changes in telecommunications technology on the degree of economic decentralization is, in any event, ambiguous. Reduced cost and improved quality of long-distance transmission of voice, facsimile, and data do make it possible to conduct sophisticated operations in dispersed locations that were once too costly, including one's own home. But some telecommunications costs still increase directly with distance, like dedicated lines, making it advantageous to have operations that must be linked with dedicated lines close together. (That factor was the basis for the virtually complete concentration of the dealer market for U.S. government securities in New York by the 1950s.)

Other technological improvements—like local fiber-optics networks—have economies of scale. They are not cost-effective unless they carry very large volumes of messages, which means that such improvements are made first in the largest cities. Eventually such improvements will spread to other places but, initially, they strengthen the position of the largest cities. Mitchell Moss, a leading authority on telecommunications and the economies of cities, argues that the process of technological and organizational change in telecommunications is such that a small number of the world's largest cities always will have some advantages over smaller places, although the specific nature of the advantage will change from time to time.²

The limits of the extent to which technology can abolish the advantages of face-to-face communication, and thus the most important economic reason for concentrations of people in cities, were explored in a leading article about scientific research and cyberspace in the *Economist*. The article serves as a parable for the larger question of the economies of cities:

Not everything can happen on line: geography will have its due. A technological researcher cannot, unless he works entirely in virtual worlds, do his job just anywhere. The complex mixture of social, mental and physical skills that makes laboratory science work requires equipment and expertise all in one place, however quaint that may come to

seem to free-floaters in corporate finance. And the net cannot yet provide the fantastically flexible labor markets of true science cities. A researcher in Silicon Valley has hundreds of potential jobs within reach of his house; a researcher in Plains, Georgia, may not, however deeply he is plugged in.

These are some of the reasons why networking, which is often taken to mean decentralization, may yet strengthen big and mature concentrations of science and entrepreneurship, with their labor-market advantages, at the expense of smaller or newer ones. It may attract people to the places where their e-mail buddies congregate, rather than encourage hermit-like telecommuting.

A BRIGHT ECONOMIC PROSPECT FOR THE CITIES?

Since 1960 (when he wrote about the economic function of the central city), Vernon's forecasts about the future of New York and other large old central cities (in the Northeast and Midwest) have come to pass, but more rapidly and to an even greater extent than he had anticipated. Manufacturing and other goods-handling activities (like wholesale distribution) have declined drastically. Retailing has decentralized almost as drastically. And while the cities' economies have become overwhelmingly dependent on services, most types of service activities have expanded much more rapidly outside older central cities than within them. A dramatic example is that of corporate headquarters offices, increasingly located in smaller central cities or on green fields well beyond the city.

But the rates of growth in the service activities overall have been so large that most city economies have grown considerably, if intermittently, since what now seems to have been the low point of urban economic prospects in the 1970s. In the early 1980s, in the country's old industrial heartland, the large cities that still had substantial manufacturing activities suffered greatly as their industries contracted sharply. A little later, some cities in Texas and elsewhere had major setbacks associated with the worldwide oil glut. Then, at the end of the 1980s, California and the Northeast suffered severely from huge retrenchment in defense spending, major contraction in some parts of the financial services sector, and a collapse in local real estate markets.

Through all these difficulties, however, important parts of the local services sector were growing in nearly all cities, and in all of them overall economic growth resumed within a relatively short time. Over the twenty years from the mid 1970s, nearly all large cities have experienced

considerable expansion in a wide range of advanced business and professional services, financial services, health services, and tourism (even in some fairly unlikely cities). Moreover, while most cities have done well as incubators for new service activities, some have even proven successful at incubating new manufacturing enterprises.

Today, Los Angeles is perhaps the world's best incubator for new enterprises of all types, including manufacturing. In part, that success is related to immigration, which provides both entrepreneurs and workers for the new enterprises. That is also important in New York and some other cities.

The supply-side conditions of most large American cities—in physical and human resources—have substantially improved over the past twenty years, notwithstanding the “rotting infrastructure” myth of print media. The amenity levels of most central business districts are far higher, with pedestrian streets, “skywalks,” and refurbished theaters, as well as the ubiquitous espresso bars and other sophisticated retail establishments. Operating and capital subsidies to public transportation have restored or created attractive, well-functioning, central-business-district-oriented transportation services that increase the competitiveness of those districts (although few transportation economists believe that the huge subsidies, especially to new rail transit systems, are cost-effective from the standpoint of national transportation policy).

Also, in many cities, a good deal of housing within or on the edges of central business districts has been created, including cities where such housing never existed. For example, in Chicago in 1960, there were fewer than a hundred housing units within one mile of State and Madison Streets (the zero point in Chicago's street grid), and all of them were probably substandard. Today, there are many blocks converted from low-grade business to high-grade residential use, as well as extensive new housing development east of Michigan Avenue. In the largest metropolitan areas, the real possibility of living within walking distance of work makes the city a far more attractive business location for many of the people who must be present if the city really is to function as an incubator.

THE DOWNSIDE

Most readers will be skeptical of the upbeat tone of the preceding section of this chapter. After all, the economic conditions of large American cities do include the continued exodus of businesses and traditional industries, higher than national unemployment rates,

spectacularly high youth unemployment rates, low rates of participation in the labor force, high poverty rates, and all sorts of social ills, including crime.

All of those conditions are real enough, but they are symptoms. Some more basic factors do not bode well for the economic prospects of the cities. One continuing disability of the central city—and the larger the city, the more pronounced this disability is—is what Vernon's collaborator, Benjamin Chinitz, called "the changing nature of centrality" more than thirty years ago. For most of cities' histories, the location that was optimal with regard to transportation access, was the actual geographic center of the central city. As cities grew in the nineteenth and early twentieth centuries, the geographic center of a city moved (for example, northward in New York). But wherever that center was, it was the best point for almost any form of economic activity (with the exception of those activities that had to be located at the water's edge and of huge space-consuming heavy industrial plants).

But after 1950, that was no longer the case. The most accessible location, that is, the location with the lowest transportation costs in money and time, became different for different types of economic activity. The most "central" location in that sense for wholesale distribution of goods is now invariably outside the central business district. Usually, in larger cities, the most central location is not one but several locations, a result of the patterns of motor vehicle traffic and highway facilities. The most "central" location for department stores is in the suburbs, even for New York, because of the dispersion of the consuming population. And for most low-density cities whose growth has come mostly after 1950—Phoenix may be the prototype—there are virtually no functions, public administration aside, for which the center of the city is truly the most central location.

For a medium-sized city whose boundaries have expanded to include newly settled sections on the outskirts—Tucson, Tulsa, Nashville, Jacksonville—the changing nature of centrality does not impose serious economic problems. Jobs are accessible from any residential location in the city, and the economic activity falls within the central city's tax base. But in the largest cities, jobs do become relatively difficult for some residents to get to, and the central city's ability to tax the economic activity of the urban area is circumscribed. The central city as a provider of jobs and taxes becomes increasingly dependent on those specializations for which the agglomeration effects continue to make the central locations truly central. The difficulty, for the largest cities, is that these specializations are to some extent boutique industries, which are not only difficult to tax (for example, they

may use little physical space and thus contribute little in property taxes, the most important source of city revenues) but also provide limited numbers of jobs only for especially well prepared candidates.

Another negative factor is the greatly increased difficulty in reusing land within the central city for other purposes. In large American cities in the nineteenth and early twentieth centuries, new land uses were not found only on the outskirts of cities. Both residential and non-residential structures were replaced readily by new ones, often repeatedly. New York is, as always, the extreme case. In a city of 250 square miles and nearly one million buildings that was founded in 1625, we find a single building dating from before 1700, three from the eighteenth century, and fewer than a hundred from the first quarter of the nineteenth century. In the late 1960s, it was commonplace to tear down and replace office buildings that were between fifteen and thirty years old.

Any replacement is much more difficult today, because of concern about neighborhood effects and environmental problems, and vastly increased rigidity in land use controls and other regulatory systems. This tends to be least true of central business districts (outside New York), where replacement of old structures and parking lots with new buildings is seldom all that difficult, given the enormous profits usually expected and the history at frequent land use changes within central business districts. But beyond the central business district, it usually is hard to convert residential land uses to nonresidential ones. increase the density of residential uses (both were major aspects of the earlier growth process in the largest cities), or make major changes in the character of the nonresidential ones—even when the previous nonresidential uses, long since abandoned, were conspicuously noxious. A good many of the "incubator industries" cannot be economically housed in new central business district office buildings, nor will their employees and inventors be able to afford or even want to live in high-priced condos in and near the central business district.

If the regulatory systems make the costs and hassle of finding suitable space high enough in the erstwhile incubator city, entrepreneurs are likely to forego the advantages of agglomeration and face-to-face communication and locate in exurbs or far away places and countries. This problem cannot be solved through the conventional bribery process—offering huge tax and other incentives to identifiable firms, usually large ones, and to well-connected real estate developers—because the city won't know which firms to bribe. The firms in the incubator industries tend to be invisible until they are

successful. Even the most aggressive city economic development officer cannot bribe an entrepreneur who cannot be identified.

Another reason for concern about the future of cities lies in the economic circumstances of large portions of the African-Americans and Latinos of the big cities. Thirty years ago, the common diagnosis and prognosis in this regard was that it was not surprising that income levels and labor force participation rates were very low and unemployment rates very high among urban minority populations, who had suffered from decades of racial discrimination in employment. Moreover, many of the minority people of working age in that era were recent arrivals from places that offered appallingly bad education, and most migrants had few skills that were needed in urban labor markets. But with general prosperity, the dismantling of racial discrimination in employment, better educational opportunities for young people, and supporting social and job-training services—all of which were occurring in the 1960s in American cities—we could, the theory was, expect the minority newcomers to the cities to move up the ladder of economic and social mobility, much as earlier generations of newcomers did.

In fact, this happened during the 1960s. Poverty rates among urban minorities declined substantially and the gap in earnings levels and unemployment rates between whites and minorities narrowed considerably. True, youth unemployment rates remained high, but they were almost as high among young whites as among minority young people. However, in the 1970s, with slow growth in income levels and higher levels of unemployment across the board, the relative economic position of minorities stopped improving and, in some places and respects (notably, in youth unemployment rates and the incidence of poverty) got worse.

After 1982, the country prospered, but there was considerable geographic unevenness. Most cities on the coasts, and in the Southeast and Northern Plains regions boomed, but growth was much less marked in most of the old industrial Midwest. In the cities that did well, prosperity did have positive effects on the economic circumstances of minorities, but these positive effects were much less dramatic than had been the case in the 1960s. For example, in the country as a whole, the incidence of poverty increased somewhat during the 1980s and the real income of the poorest one-fifth of the households declined. The opposite occurred in the cities that had the most pronounced booms: the poverty percentage declined a bit and the real income of the poorest fifth also rose. In some of these cities, minority labor force participation rates, which had declined sharply in the 1970s, increased significantly. Minority workers, including young people entering the labor

force, found jobs in large numbers in the expanding services sector, often low-paying jobs in restaurants and similar places, but often in the "high-end" services, like finance, as well.

However, because the rate of absorption of the inner-city unemployed was modest, there were, and are, huge numbers of minority people in cities who are outside the formal labor force. The recession at the beginning of the 1990s, most marked in those cities like Boston, New York, and Los Angeles that had done best during the 1980s, exacerbated these conditions. Nonetheless, the experience of the 1980s does show that a city economy that is prosperous will be one in which there are reductions in minority poverty and youth unemployment, albeit smaller improvements than occurred in the 1960s.

ON BALANCE

The prospects for the economies of large American cities are generally good, provided city governments (and other levels of government) do not undermine things with self-destructive policies. These policies—some of which are existing practice in too many cases—include especially damaging taxation and regulation relieved only by waivers in the most conspicuous situations (for the incubator-dependent General Electrics and IBMs) or exhausting available fiscal resources by giving large firms tax incentives at the expense of amenity-improving public expenditure.

But success as an incubator will not necessarily assure the creation of large numbers of new jobs. For most activities that are likely to find the central city the appropriate location, the very real disadvantages—concern about high taxes and space costs, crime, municipal regulation, and the quality of life in general—of that location will require economizing on the use of labor. Over the next generation, we can and probably will have successful cities housing a by-passed underclass that is far from small. Growth and prosperity will help, as in the 1980s. It is too much to expect improving economic conditions to solve all the social problems of the city, however. Wasted areas and wasted people, and the money and other costs of coping with them, will remain and will continue to be drags on the city economy and challenges to public policy.