Restoring Prosperity:
The State Role in Revitalizing Ohio's Older Industrial Cities
Keynote Address by Bruce Katz
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Introduction

I want to thank you for the invitation to speak today and for the privilege of sharing this platform with Lee Fisher, whose work on behalf of children and families and communities I have long admired.

Today, I want to review the key findings of a report released just last week by the Brookings Institution entitled *Restoring Prosperity: The State Role in Revitalizing Older Industrial Cities.*

This report confirms what most of you here today already know. Many of Ohio's older industrial cities, including Cleveland, continue to struggle economically and socially, battered by deindustrialization, the legacy costs associated with the prior economy, patterns of racial segregation and the urban undermining tilt of past and current state and federal policies.

Yet this report is not the traditional tale of woe. The broader message is one of hope and optimism.

We believe that the moment—demographic, economic, environmental, social—is ripe for the revival of these and other American cities. Simply put, the dynamic change underway in our country values the physical, institutional, economic, and cultural assets of cities in ways that the prior economy did not.

We also believe that state government can be a key catalyst for the revival of urban economies and we offer a five-part playbook for states to follow, drawing heavily from innovations that are already underway in Europe as well as other industrial states like Pennsylvania.

And we believe finally that the revival of urban economies is not just about cities or the people who live there. By contrast, city revival may be the best strategy for revitalizing struggling metropolitan and suburban economies and repositioning Ohio for a new era of prosperity and renewal.

So first, some facts.

Brookings commissioned two of the best urban scholars in the nation—Ned Hill of Cleveland State and Hal Wolman of George Washington University—to assemble an inventory of American cities that are underperforming on key economic and social indicators, ranging from growth in business establishments and growth in annual payroll to median and per capita income to poverty and unemployment rates.

Ned and Hal looked at over 300 cities and found that 65 cities were in the bottom third of performance on both the economic and social front.

What is remarkable about this inventory is that more than half of the cities are located in the old industrial heartland of New England and the Midwest—specifically seven states ranging from Massachusetts, Connecticut, and New Jersey to upstate New York, Pennsylvania, Ohio and Michigan.

Eight Ohio cities are represented on the list—Canton, Cincinnati, Cleveland, Dayton, Mansfield, Springfield, Warren, and Youngstown.

It is not just the cities that are underperforming. Every one of those cities except Cincinnati is located in a metropolitan area that itself is underperforming compared to their national peers.

The city/metro similarities shouldn't be surprising. Cities and suburbs are bound together, completely interdependent and inextricably linked. City success invariably extends suburban prosperity. The opposite is increasingly true as well.

These places are critical to the future of Ohio. Add these cities and metros together (along with the smaller city and metro of Lima) and you find that over 42 percent of the state's population lives in these places.

Now all of that is frank and brutal and perhaps even discouraging.

Yet, as I said at the outset, this report departs from the traditional hand wringing about the inevitable decline of cities.

By contrast, we are objectively optimistic about the future of our older industrial cities.

The United States is going through a period of profound demographic and economic change, comparable in scale and complexity to the turn of the twentieth century.

These forces are giving cities and urban places their best shot at attracting and retaining residents and businesses than at any time since the 1950s.

Population growth and demographic change dramatically expands the universe of families who either seek urban living or are willing to experiment:

- Immigrant families who seek communities which are tolerant and welcoming.

- Elderly individuals who seek places with easy access to medical services, shopping, and other necessities of daily life.

- Middle aged couples whose children have left the nest and are open to new neighborhoods and shorter commutes.

- Young people who are experimenting with urban lifestyles popularized on television shows like *Seinfeld*, *Sex and the City*, and *Friends*.

The restructuring of the American economy also gives cities and urban places a renewed economic function and purpose.

An economy based on knowledge bestows new importance on institutions of knowledge—universities, medical research centers—many of which like Case Western or Cleveland State or Ohio State or the University of Cincinnati are located in the heart of central cities and urban communities.

More generally, the shift to an economy based on ideas and innovation changes the value and function of density. The advanced technologically sophisticated firms that now drive the American economy crave proximity—to pools of qualified workers, to specialized services like legal or finance that often requires face-to-face interaction, to infrastructure that enables mobility of people and goods, to other firms in similar clusters so that ideas and innovations can be rapidly shared.

The world is not flat… it is spiky… and each spike represents a city and metropolis where workers and firms and infrastructure are congregated.

A changing economy and society, in short, revalues the assets of cities

> Physical assets like waterfronts and historic buildings and parks and pedestrian friendly neighborhoods and transit rich corridors
>
> Economic assets like higher educational institutions and health care facilities (the so-called "eds and meds"), downtown employment centers, and other regionally significant nodes of employment
>
> Cultural assets, ranging from the iconic like museums and sports stadiums and theaters, to the street level mix of restaurants and art galleries and daily hum of pedestrians.

Your Ohio cities are replete with assets that matter immensely in our changing nation.

In the nine older industrial cities that are the focus of this report, we find:

> 755 properties that are on the historic register (including 216 in Cleveland alone);
>
> 24 four year colleges and universities;

28 two year colleges;

58 hospitals and major medical facilities;

30 museums; and

six major league sports teams.

So how does Ohio leverage these and other urban assets and, in the process, fuel economic growth, leverage private investment and grow quality jobs.

Our report focuses intensely on the role of states in reviving the economies of older industrial cities.

Our focus on states is simple: they have a profound influence on the health and vitality of cities.

States set the number, geography and powers of local governments. Cities in essence are creatures of state law.

States establish the fiscal playing field for municipalities and school districts.

States influence the skeleton of regions through their investments in physical infrastructure, highways, transit, affordable housing, main streets, downtowns, public parks, and green space.

States are the biggest investors in education, the fuel of the next economy. They are the biggest investors in elementary and secondary schools as well as community colleges and four year universities.

States regulate major sectors of the economy, like insurance or banking or even real estate.

And states help shape the opportunity structure for low wage workers, through their own interventions on, inter alia, the minimum wage, state earned income tax credits, health care coverage and immigrant policy.

In all the states we have worked, the intersection of these disparate powers and policies has created what I call the "rules of the development game"—rules that favor the creation of new communities over the redevelopment of older ones, rules that promote and even subsidize greenfield development rather than brownfield remediation, rules that often consign low wage workers and minorities to the "wrong side of regions."

Our 2003 report in the Commonwealth of Pennsylvania demonstrated the sprawl-inducing and city-emptying effect of an intricate network of state governance, spending, tax, regulatory, and administrative polices. Among these were:

- State governance policies that chop the commonwealth into 2,566 municipalities and then delegate land use and zoning powers to every single one of these municipalities

- State tax policies that leave cities stranded with tax exempt properties, saddled with the costs of maintaining older infrastructure and responsible for supporting a large portion of school expenses through their property taxes

- State transportation policies that spent only 42 percent of road and bridge spending in older urban communities, where 58 percent of the population lives

- State economic development policies that subsidize industrial parks on greenfields in exurban communities, while perfectly suitable sites on historic commercial corridors lie vacant and abandoned three or five miles away

Our report in Maine released last October documented the buildup over time of state and local rules and regulations—building codes, parking restrictions, zoning ordinances—that make the redevelopment of older places and historic structures cost prohibitive and tilt the playing field to sprawling, exurban development. In that state we heard from developers that "you do one urban project and you're done"—the accretion of regulations and rules and guidelines are just too time consuming and profit draining to make the game worth the candle.

And our work in New Jersey last fall showed how that state is distorting real estate markets by allocating a disproportionate share of subsidized housing to struggling cities like Trenton, Newark and Camden. Thus, the state is reinforcing the concentration of poverty and, in the process, crippling urban schools, weakening urban markets, isolating low wage workers and exacerbating sprawl.

The end result of state policies: the competition—for people, for jobs, for fiscal base—is stacked in favor of new communities.

> Want to attract a new mall or government facility? The state will generously pay for new infrastructure and roads.
>
> Want to grow your fiscal base? The state will allow newer communities to benefit exclusively from residential and job growth—and garner 100 percent of the tax revenues—without taking any responsibility for the impact of growth on regional traffic patterns or the environment.
>
> Want to avoid serving low-income families? The state will allow newer places to zone out affordable housing for low-wage workers, let alone shelters for the homeless and the most vulnerable in our society.

Is Ohio like Pennsylvania or Maine or New Jersey? Have you made sprawl easy and redevelopment hard? Our work over the years… and our discussions with leaders in the state… has unfortunately convinced us that that is the case.

So how to change?

Our report recommends that states pursue five interrelated policy strategies to unleash the economic and fiscal potential of cities and urban places, drawing heavily from innovations in Europe and other industrial states.

First, we argue that states help cities fix the basics. In the end, people decide to move and businesses decide to locate in places with good schools, safe streets, dependable services, and an efficient local government.

States have an immense impact on ensuring that the urban “basics” are in place and fully functional, because of their investments in schools, because of the sweeping influence of the state criminal justice system, because of the grounding of local taxation policies in state law.

And state innovation abounds on all three fronts. Virginia and Massachusetts are testing out new approaches to urban school reform that deserve close consideration. And Ohio can look to New York and other states that are working to ensure that prisoners reentering urban communities have the skills needed to be productive citizens.

Second, we argue that states build on the economic strengths of cities—the confluence of higher education institutions and major hospitals (the “eds and meds”), the continued existence of key private employment clusters, the centers of government activity, the valued property along waterfronts and in older downtowns.

Investments in medical research, for example, help cities since so many of the institutions that conduct cutting edge research and compete well for federal grants—Johns Hopkins University, the University of Pennsylvania, Yale University, Case Western—are located in the urban core. Across the country, states like California and Massachusetts are investing billions of dollars in advanced research and innovation and, as a consequence, boosting the economic fortunes of their urban places.

States are also increasingly focused on maximizing the economy sparking and innovation generating potential of downtown clusters of people and firms, art and culture. Our report recommends that states make attracting 2 percent of a metropolitan area resident’s to live in urban downtown the centerpiece of his upstate recovery agenda. As European cities have shown, the critical massing of people would attract amenities that lure businesses and jobs for downtown and metro-area residents, shoppers, and tourists, and help stem the exodus of young workers. Appealing new housing with street-level cafes and shops would bring life and a virtuous cycle of growth to metropolitan hubs. Just imagine the economic, fiscal and psychological impacts of housing 40,000 residents in downtown Cleveland, 40,000 residents in downtown Cincinnati, and 16,000 residents in downtown Dayton.

Third, we argue that states help cities transform their physical landscape. As discussed above, the physical layout of most American cities—mixed use downtowns, pedestrian friendly neighborhoods, adjoining rivers and lakes—is uniquely aligned with the preference the innovative economy for density and amenities. Yet cities face many practical physical challenges in realizing their economic and fiscal potential.

The hard fact is that the infrastructure in many cities—the roads, bridges, water and sewer lines, subway tunnels, school buildings and the like—is old and needs to be cleaned and recapitalized. Yet there are many examples of infrastructure—elevated roadways that divide cities from valuable waterfront properties, for example—that have outlived their usefulness and are impeding economic growth. Some cities like Milwaukee have already decommissioned and torn down some of their elevated freeways, to great economic and fiscal affect. In many cities, freeway demolition is a critical component of the downtown strategy noted before—again commonplace in Europe since the 1980's.

After decades of urban disinvestment, states are beginning to focus on the critical infrastructure needs of cities.

For example, under the leadership of Gov. Ed Rendell, Pennsylvania has been working to reverse many of the negative state policies chronicled by our 2003 report.

The Commonwealth has embraced "fix it first" policies in transportation—stopping sprawl inducing road projects at the fringe in order to fund infrastructure repair and even transit operations in the metropolitan core.

The Commonwealth has also created formal investment principles to target capital spending—roads, university extensions, state office buildings—to communities that already exist rather than places that have yet to evolve.

Fourth, we argue that states help cities grow a strong, resilient, and diverse middle class that can fuel and advance the economic potential of these places. A strong middle class is an essential foundation of economic prosperity, neighborhood stability and economically integrated schools.

How can states do this? Partly by enhancing education and skills, partly by supplementing incomes, partly by reducing the costs of living in cities.

And states are acting. On the income side, a growing number of states—currently 18 plus the District of Columbia, comprising 46 percent of the U.S. population—are enacting minimum wages higher than the federal standard, some of them significantly so. And 21 states plus DC now have their own earned-income tax credit (EITC) programs, which, like the federal program, supplement the incomes of workers who earn up to double the rate of poverty with a refundable year-end tax credit.

Finally, we argue that states help cities build neighborhoods of choice, communities that give the people who live there access to functioning markets, attractive amenities, quality schools and other essentials of community life.

That will require a major rethinking of state affordable housing policies, which have tended to over-concentrate affordable housing in distressed cities—isolating parents from quality jobs and consigning children to urban schools that don't function. By contrast, state housing agendas should expand housing opportunities for moderate- and middle-class families in the cities and close-in suburbs while creating more affordable, "workforce" housing near suburban job centers.

Some states, slowly, haltingly, are doing just that. In California, for example, every city and county must develop a "housing element" that identifies sites appropriate for new affordable housing. Anti-NIMBY laws prohibit local governments from withholding approval for any new low-income housing development unless certain narrowly drawn conditions exist. The state also has a "density bonus" law requiring local governments to grant up to a 35 percent increase in allowed density if a prescribed minimum percentage of affordable units per development is attained.

Now obviously Ohio is already doing some of what I described above.

Our report mentions two signature Ohio efforts—the Clean Ohio Fund (which stimulates brownfield recovery) and the Ohio Career Pathways Project (which helps lower-wage workers advance their careers) as two initiatives worthy of replication.

I applaud these policies and believe that they are having and will have a salutary affect on cities and families who live there.

Yet the fact remains that, on balance, the state's rules of the development game still work against urban revitalization and in favor of sprawl and decentralization.

The state, in essence, is taking two steps forward and five steps back.

The only way forward is to enact systemic, structural reforms that give cities the chance to compete fully for businesses and people.

The only way forward is to make some central, market shaping investments that builds on the innovation assets of cities to build a prosperous future.

And the only way forward is to make strategic, transformative investments that reshape the economic and fiscal destiny of cities.

Make no mistake.

If the state does these things, it could be the catalytic spark that renews not just the cities but the weak and struggling metros that surround them.

Let me conclude with these thoughts

I believe firstly that this state (and its political, business, and civic leaders) needs an urban and metropolitan vision—not only because it's the right or equitable thing to do but because it's the competitive thing to do:

- A vision of competitive cities and suburbs that nurture strong, resilient, adaptive, innovative economies

- A vision of sustainable cities and suburbs that promote accessible transport, residential and employment density, and energy efficiency

- A vision of inclusive cities and suburbs that grow, attract, and retain the middle class and integrate individuals across racial, ethnic, and class lines.

I believe secondly that this state vision needs to be grounded in a clear set of the policy reforms—tax, spending, regulatory, and administrative. These reforms must catalyze the rebirth of your cities and urban places rather than their demise. And these reforms must make some central, urban focused investments—to stimulate growth and spur innovation.

And, finally, I believe that this state vision will only be achieved if there is a sea change in state politics. The current anti-urban state policies, in the end, are not inevitable or divinely inspired; they are the outgrowth of political tradeoffs and compromises. Thus the real challenge following the release of this report is one of organization and coalition building. What has to happen now, plain and simple, is to organize those constituencies that are naturally disposed to urban regeneration – mayors, older suburban leaders, developers, business alliances, banks, universities, hospitals, entrepreneurs, creative firms, environmentalists, land conservation alliances, farm preservationists – into a pro-urban, pro-innovation coalition. These constituencies must be organized across large, medium and small cities and the metropolitan areas in which they are located. These constituencies currently are less than the sum of their parts. Together, they pack a powerful punch.

Always remember: politics is the art of the possible – and pro-urban policies are now distinctly possible, given the economic, fiscal and environmental imperative of strong cities.

I commend you on your thoughtful, rigorous and visionary work. Good luck.