Executive Summary

The evidence is clear. On the whole, America's central cities are coming back. Employment is up, populations are growing, and many urban real estate markets are hotter than ever, with increasing numbers of young people, empty-nesters, and others choosing city life over the suburbs.

Unfortunately, not all cities are fully participating in this renaissance. An examination of the performance of 302 U.S. cities on eight indicators of economic health and residential well-being reveals that 65 are lagging behind their peers. Most of these cities—and their larger regions—are older industrial communities that are still struggling to make a successful transition from an economy based on routine manufacturing to one based on more knowledge-oriented activities. Some others are simply dominated by the low-wage employment sectors that today characterize much of the American economy. But the outcomes are largely the same: While many of these cities have strong pockets of real estate appreciation and revitalization, on the whole they remain beset by slow (or no) employment and business growth, low incomes, high unemployment, diminishing tax bases, and concentrated poverty—remnants of five decades of globalization and technological change, and the dramatic shift of the country's population away from the urban core.

These cities weren't always in such a tenuous position. To the contrary, they were once the economic, political, and cultural hubs of their respective regions, and the engines of the nation's economic growth. They were vibrant communities where new ideas and industries were conceived and cultivated, where world-class universities educated generations of leaders, where great architecture and parks became public goods, and where glistening downtowns grew up within blocks of walkable, tree-lined neighborhoods where the middle-class swelled and thrived. They were, in short, physical testaments to the innovation and spirit that shaped the nation and its citizens.

And so they can be again. This report provides a framework for understanding how to restore prosperity in America's struggling cities, particularly those in the Northeast and Midwest. Targeted at state and local government, business, and civic leaders ***Restoring Prosperity: The State Role in Revitalizing America's Older Industrial Cities*** describes the challenges facing these communities, the unprecedented opportunity that exists to leverage their many assets, and a policy agenda to advance their renewal.

The report underscores three central messages:

1 Given their assets, the moment is ripe for the revival of older industrial urban economies. Older industrial cities possess a unique set of characteristics and resources that, if fully leveraged, could be converted into vital competitive assets. These include distinctive physical features—including waterfronts, walkable urban grids, public transit, and historic architecture; important economic attributes—such as

dense employment centers, universities and medical facilities (often referred to as "eds and meds"), and, for some cities, proximity to more economically robust metropolitan areas; and rich social and cultural amenities—like public art, theater, sports, and museums. Moreover, older industrial cities are still important centers of regional identity, inspiring a sense of pride and place, which, while often abstract, can be the first seed from which to nurture the momentum for change.

After decades of painful economic restructuring, the time is now for these cities to seize upon new trends and attitudes that have begun to revalue their special qualities. Major demographic shifts—robust immigration, an aging population, and changing family structures—are altering the size, makeup, and locational choices of the nation's households, to the benefit of the cities that offer the opportunities and amenities these groups seek. Economic trends—globalization, the demand for educated workers, the increasing role of universities—are providing cities with an unprecedented chance to capitalize upon their economic advantages and regain their competitive edge. And forward-thinking political leaders and constituencies—businesses, local and state elected officials, major foundations, and key environmental and community organizations—are speaking more eloquently and more often about market-based urban development, reflecting these groups' growing awareness of the nexus between city revitalization and competitive, sustainable metropolitan growth.

The impact of these forces is already apparent. The 1990s brought a sea change in how urban areas are viewed—as places in which to invest, conduct business, live, and visit. This has resulted in the turnaround of many cities—from Chicago to Chattanooga—such that they are once again innovative, competitive, high-quality communities where their residents have the choices and opportunities needed to thrive. It has helped spark a resurgence in many downtowns and inner-city neighborhoods, even in cities that continue to struggle with broad economic malaise. And it demonstrates the potential for all cities to reverse the vicious cycle of decline of the past several decades and realize a brighter economic future.

2 States have an essential role to play in the revitalization of older industrial cities, but they need a new urban agenda for change. The revitalization of older industrial cities necessarily starts with local leaders, who must develop and articulate their own vision for success, and the means by which to realize it. But they can't go it alone. In order for cities to reach their true economic potential, their states must engage—on multiple fronts. States establish the rules under which local governments must operate, deciding the form of taxes and fees that municipalities can impose on residents and businesses, as well as the structure of local governance. States help design the physical skeleton of metropolitan areas, by helping determine how and where major capital and infrastructure projects get built. States help shape the quality of regional economic growth, through their substantial investments in K–12 education, higher education, and economic development. Finally, states create the opportunity structure for low- and middle-income residents, by administering myriad federal- and state-funded social programs that impact families' ability to improve their incomes and build wealth.

All told, cities are in large part creatures of states, therefore state actions—and inactions—have an enormous effect on their overall well-being. Unfortunately, over the past half century state policies and practices have generally not been favorable to urban areas. At best, these communities have been treated with benign neglect, with state programs and investments focused predominately on managing urban decline, as opposed to stimulating economic recovery. At worst, state policies and investments have actually worked against cities, facilitating the migration of people and jobs (and the tax base they provide) to the metropolitan fringe, while reinforcing the deterioration of the core.

Ultimately, states have the potential to help restore prosperity in the nation's older industrial cities—if they make revitalizing urban economies the central element of urban policy. This requires that states focus their investments, overhaul outdated and counterproductive policies, and experiment with innovative strategies that leverage these communities' assets. And it requires, above all, that state policies, practices, and investment strategies reflect a holistic "urban agenda" that cuts across what are typically separate and siloed policy areas. Such an agenda should have five primary objectives:

- **Fix the Basics.** First and foremost, states need to ensure that older industrial cities are safe, fiscally healthy communities where children are provided the same opportunities as their suburban counterparts. This means implementing policies and programs that help lower prison recidivism rates and reduce crime; improve neighborhood schools and the instruction that takes place within them; and create a competitive cost climate for families and businesses.
- **Build on Economic Strengths.** Second, states need to do their part to help older industrial cities understand and cultivate their unique economic attributes so as to foster a "high road" economy. To this end, states should help cities reinvigorate their downtowns; invest in industries—eds and meds, culture and entertainment, advanced manufacturing, small businesses, and others—that play to cities' and metropolitan areas' strengths; and support expanded transit links and cross-regional cooperation to enhance the economic connectivity between metropolitan areas.
- **Transform the Physical Landscape.** Third, states need to recognize and leverage the physical assets of cities that are uniquely aligned with the preferences of the changing economy, and then target their investments and amend outmoded policies so as to help spur urban redevelopment. States should focus their resources on upgrading crumbling infrastructure in cities and older areas; provide support for major projects—such as waterfront redevelopment or improving large public parks—that have the potential to catalyze reinvestment in the core; and implement laws and policies that encourage, rather than inhibit, the management and marketability of vacant and underutilized urban properties.
- **Grow the Middle Class.** Fourth, states need to improve the economic condition of low-income older industrial city residents. This requires that states invest in state-of-the-art vocational training systems that give residents the skills they need to compete; give low-wage workers ready access to the work benefits they deserve to make work pay; and help low-income families to build wealth and assets through programs and legislation that reduce the costs of being poor.
- **Create Neighborhoods of Choice.** Finally, states need to ensure that cities have strong, healthy neighborhoods that are attractive to families with a range of incomes. This requires that state housing subsidies be flexible enough to be used to build a mix of unit types at varying prices throughout metropolitan areas; that they appropriate resources to help localities leverage the market potential of under-served urban neighborhoods;

and that they enact historic preservation, building code reform, and other programs that help maintain and stabilize homes and communities.

3 The overall benefits of city revitalization—for families, for suburbs, for the environment, and ultimately for states—are potentially enormous. Not only do states have the power to positively affect urban economies, but they also have a strong rationale to do so. With over 16 million people and nearly 8.6 million jobs, older industrial cities remain a vital—if undervalued—part of our economy. These cities contain billions of dollars of sunk and ongoing state investments in urban infrastructure such as roads, transit, sewer and water systems, and public facilities. State funding for urban school systems, community colleges and public universities constitute a large and growing portion of state budgets. And states invest substantially—year in, year out—in the low- and moderate-income families who live in cities, through a myriad of social programs. Yet most state governments have paid little attention as to how much, and to what end, they are spending on cities and their residents, and how they could be getting more bang for their buck.

The above agenda offers a new approach to state urban policy that, in the end, will substantially increase the return on state investments, in manifold ways. Restoring prosperity in older industrial cities will lead to a reduction in unemployment and poverty, a rise in incomes and wealth, and an improved quality of life for urban families. Restoring prosperity in older industrial cities will increase the jobs, amenities, and housing choices available to suburban residents, enhance the regional market for business location, raise both urban and suburban property values, and improve the overall competitiveness of metropolitan areas. And restoring prosperity in older industrial cities will increase their attractiveness as places in which to live and work, leading to a more efficient use of land, a decrease in energy consumption, a reduction in harmful emissions, and more sustainable regional growth. Ultimately, this all adds up to stronger, healthier, more productive cities and regions that are a boon to, rather than a drain on, state budgets—evidence, to be sure, of money well spent.

Moving a real reform agenda for older industrial cities will naturally be an organic process that will demand the patience, flexibility, and commitment of many and diverse actors working within and across political boundaries. Most importantly, it demands that cities, regions, and states organize themselves for success:

- At the local level, city leaders, with support from their states, must make the competent, clean, transparent, and technologically savvy administration of government operations and services their highest priority, with the goal of creating a healthy and receptive climate for business growth and retention. At the same time, they must also work to build strong coalitions of innovative thinkers, actors, and stakeholders to develop and implement a competitive, long-term strategy for revitalization.
- At the metropolitan level, cities and suburbs need to work together to bolster opportunities in, and the marketability of, their regions as a whole. States should promote such collaboration by providing resources to first-suburb coalitions, regional workforce alliances, and metropolitan planning organizations working across local boundary lines, and by enabling the consolidation of governmental functions that are clearly regional in scope.
- At the state level, urban leaders must band together across cities and regions to advance a state reform agenda like the one presented here. State leaders, for their part, need not only to engage in specific policy reforms, but also to look for ways to reorganize their programmatic initiatives and agencies so they can be more effective for the families and communities they are designed to serve.

For the first time in many decades, there is reason to be truly optimistic about the future of America's older industrial cities. Advancing beyond hope, however, requires a vision of the possible—and the will to achieve it. ■