EconoFact Chats: Places Left Behind: Post-Industrial Cities and the Potential for Their Revival

Matthew E. Kahn, Johns Hopkins University

Published on 10th May 2021

Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

In recent decades, some center cities such as Las Vegas have grown in population while others have shrunk in size. Between 1970 and 2018, the population of Las Vegas grew by about fivefold from 126,000 to 644,000. Over the same time period, the population of Baltimore shrank by a third, from over 900,000 to 600,000. What does cause some cities to grow while others shrink? What were the consequences for these shrinking post-industrial cities? And is there hope that these cities can recover?

Michael Klein:

To discuss these issues, I'm very pleased to be joined by Professor Matthew Kahn of Johns Hopkins University. Matt is the director of Johns Hopkins 21st Century Cities Initiative. His most recent book is Unlocking the Potential of Post-Industrial Cities, which he co-authored with Mac McComas. Matt is also an expert on environmental issues, having published the books Adapting to Climate Change, Green Cities and Blue Skies over Beijing.

Michael Klein:

Matt, welcome to EconoFact chats.

Matthew Kahn:

Thanks, Michael

Michael Klein:

Matt, you're an expert in urban economics, the economics of cities. Why is urban economics a robust area of inquiry these days?

Matthew Kahn:

Michael, urban living makes us more productive by increasing our trading and learning possibilities. When we live and work in close proximity, we have greater access to more jobs, shops, friends and culture. During the 2020 lockdowns, we've learned how much we continue to value face-to-face interaction.

Matthew Kahn:

The sheer size of cities creates great consumption experiences. If one in a thousand people enjoys eating pickled fish or a live Mozart concert, then a New York City has the scale to reward those who can supply such services. It's no accident that the famous Deli Zabar's thrives on 80th and Broadway, and that superstar musicians continue to move to the city to perform. Yet open density has its costs. Our ongoing

COVID challenge highlights that we also continue to face the demons of density. Cities feature high land prices and high levels of crime, traffic, congestion and pollution than lower density places.

Michael Klein:

But as I indicated in my opening remarks, not all cities shared the same fate over the past half century. Your book with McComas studies what happened in six cities: Baltimore, Philadelphia St. Louis, Cleveland, Detroit, and Pittsburgh. Why did you pick these cities, Matt?

Matthew Kahn:

In 1950, these six cities were among the 12 largest cities in the US with thriving economists that offered good jobs for high school graduates. Fast forward to today and they're now ranked among the 66 largest cities in the US. Cities such as Baltimore have received plenty of bad media press in recent years, some of it sensationalized, but some of it warranted.

Michael Klein:

Like the television show The Wire that presented a pretty bleak picture of Baltimore.

Matthew Kahn:

Yes. In recent decades, these cities have experienced population loss. In 1970, they were home to 6.2 million people, but in recent years just 3.9 million people. During this time, the poverty rates in our six cities grew as well. Detroit's poverty rate in 1970 was 14% and that was around the nation's average. But as of 2010, Detroit's poverty rate was 35 percentage points and was one of the highest in the nation.

Michael Klein:

Your book both provides a recent urban economic history lesson for these cities, and then it pivots to a cautiously optimistic possible future path for the areas and its residents. What do we know about how cities pivot?

Matthew Kahn:

Michael, cities are constantly reinventing themselves after a period of decline. My New York is a prominent example of this, a striking example of reinvention. Residents of Seattle in 1970 would be shocked to see their city today with the rise of Amazon and Microsoft. Our book discusses competitive strategies for how the six cities we study can better compete for footloose jobs and people.

Matthew Kahn:

Consider Baltimore, it is located just 40 miles from the booming Washington, DC. We discussed strategies for how the city of Baltimore could improve its quality of life so that it becomes a bedroom community for some DC workers who can now engage in working from home. Ultimate home prices are more than 50% lower than Washington, DC's. This creates great opportunities for those from DC, the middle class who are stretched by local high home prices.

Michael Klein:

So your book points to the decline of manufacturing in these cities as a proximate cause of their decline. In fact, that's right there in the title since you called the book post-industrial cities. What's special about manufacturing as opposed to say service industries?

Matthew Kahn:

Many factoring jobs provide relatively high wages for workers while not requiring a college degree. They also require a skillset that depends on physical toughness and grit while service industry jobs often require soft skills such as a positive attitude and conflict resolution.

Michael Klein:

Matt, you and I are in service industries, but don't you think it takes physical toughness and grit to be a professor? And a lot of professors I know don't seem to have a positive attitude and they certainly aren't good at conflict resolution.

Matthew Kahn:

Fair enough. But for those with less than a graduate degree, manufacturing jobs offered in the past a ticket to the middle class. In the middle decades of the 20th century, a Baltimore City high school graduate could get a good paying job at Sparrows Point in the Bethlehem Steel mill or one could work for the rest of one's life and earn enough to buy a house and send your kids to college. After years of employment at the same factory, one could work their way up to the ladder. The same can't be said of the service industry where low pay and frequent changes of work are common. Few people aspire to work at a McDonald's the way people aspire to work in the steel mills of Pittsburgh, and Baltimore.

Michael Klein:

One of our first EconoFact memos was about the decline of manufacturing employment, even as the output of manufacturing remained relatively stable has to do with automation. People also blame globalization. But Matt, why wasn't it the case that as manufacturing jobs disappeared, other kinds of attractive employment took its place?

Matthew Kahn:

I think this is a great question. One optimistic case study we can point to among our six cities is Pittsburgh. Pittsburgh offers an optimistic case study while it took decades. It's made this transition from heavy manufacturing to a new economy centered around the city's great universities, robotics and medical innovation.

Michael Klein:

You point out several types of vicious circles that can arise as the fortunes of a city start to decline, which reinforce and accelerate that decline. One of these is how population declines affect the quality of housing, the tax base and then because of this, the provision of amenities and municipal services and that this in turn can make cities less attractive places to live, which contributes to the population to decline.

Matthew Kahn:

Yes. In recent decades, the city of Baltimore has lost 300,000 people. As jobs suburbanized and moved to other cities, footloose workers follow them. This leads to declining local home prices and the abandonment of many depreciating homes. Today there's over 16,000 vacant homes in Baltimore. Vacant buildings pose a variety of local quality of life problems. A vacant house lowers the property values of surrounding houses. It also attracts crime and poses public health risks.

Michael Klein:

And it lowers the tax base so cities can't offer as many services and amenities.

Matthew Kahn:

Yes. Fewer taxpayers means less money for government budgets, but the city needs to provide services for basic infrastructure, such as the road network, sewer pipes, public parks and basic street safety and cleaning. These costs of urban services become more costly for each taxpayer when there's fewer local taxpayers to share these expenditures with.

Michael Klein:

That's what we economists call fixed costs and they're spread over fewer people so that people have to pay more each. And one of the things that happens is the quality of schooling declines, right?

Matthew Kahn:

Yes. School funding is often tied to both the local tax base and the number of children attending a school district. Fewer children going to school and fewer taxpayers mean that local school districts have less money to spend on education as classrooms empty out, school buildings crumble and maintenance backlogs pile up. In Baltimore, you can't drink from the water fountains in many Baltimore City public schools due to lead pipes. Many lack modern heating and cooling systems that allow children to focus during increasingly hot May and September school months.

Michael Klein:

Yeah. We have an interesting EconoFact memo by Jisung Park that we published in October. And he presents evidence that the public school students did worse on exams on hot days if their schools didn't have air conditioning, and also that there's a very unequal distribution of schools with air conditioning with much less of it in poor communities.

Matthew Kahn:

And I think that that's absolutely important work for thinking about who bears the brunt of climate change and so that's very important work. And Michael, it even goes further than this that if a local government who faces these budget challenges seeks to increase its revenue by raising property taxes, our economics training teaches us that by raising taxes this can actually accelerate the out migration of footloose people as the center city becomes less competitive relative to lower tech suburbs. The tax rate of many of our inner cities we study is significantly higher than the nearby suburbs. And if our center cities don't offer high quality services with relatively low taxes, footloose people will migrate away.

Michael Klein:

Another striking point that you make in your book regards the increasing racial segregation in these cities. Can you speak a little bit about that?

Matthew Kahn:

During the 20th century, millions of black families moved from the rural south to the urban north as they sought a better quality of life and what was called the great migration. These people moved to the industrial cities and that prompted a reaction among white incumbent families. Many of the white families moved to the suburbs. Those white families who remained in the center cities increasingly chose to enroll their children in private schools.

Matthew Kahn:

In recent years, only 8% of the student population of the Baltimore City public schools were white, down from 20% in the late 1980s. Only 2% of students were white in the Detroit public schools in 2015. This dynamic means that most black families when they moved to the cities did not enjoy the high neighborhood quality of life that they expected when they originally moved to the areas.

Michael Klein:

So these black families moved to cities, but ended up not getting what they initially expected with white flight and a diminishing tax base.

Matthew Kahn:

That's unfortunately true. In recent years in Baltimore, there's relatively few racially integrated neighborhoods. Blacks tend to live in majority black neighborhoods and whites tend to live in white neighborhoods. Neighborhood segregation breeds distrust and animosity across groups as whites are more likely to live and work near each other while the same is true for blacks. This can lead to an increase in implicit racial bias.

Michael Klein:

Did some government policies actually contribute to residential segregation?

Matthew Kahn:

Federal and local housing policies of the 20th century helped create segregated neighborhoods and concentrate poverty by both reinforcing existing home lending practices such as redlining.

Michael Klein:

Redlining means that certain banks didn't lend to certain parts of cities, right?

Matthew Kahn:

Yes. Redlining occurs when banks choose to not make a loan to a home buyer because of the address of that home. Banks would draw red lines around certain neighborhoods and not lend for housing in those areas. Also, governments located public housing units in poor neighborhoods instead of middle-class communities. Suburban and white political enclaves effectively protested proposals for the construction of public housing units in their neighborhoods.

Michael Klein:

Crime is another challenge facing these cities. But as you point out, it's not just the actual crime statistics, but outsider's perceptions of how safe cities are or aren't that can have very big effects. It's like what we talked about with the television show The Wire.

Matthew Kahn:

Violent crime rates are higher in our six cities and especially in Baltimore, Detroit and St. Louis and higher than in other major cities like Los Angeles and New York City. Michael, an example, in the year 2019, New York City had 312 murders while Baltimore had 348. What's noticeable and notable about that is that New York City has a population 14 times that of Baltimore, but had fewer murders. This fact hurts the local economy. It has a direct effect on the families.

Matthew Kahn:

But even in addition to that, it hurts the local economy because it causes people to migrate from the center city to the safer suburbs, discourages tourists from the US and abroad from visiting the area, reduces the likelihood that migrants move to the area. And this fear of local crime also is likely to be a factor, discouraging startups and small firms from locating close to the major urban universities when they have the option to locate it in another city featuring less crime.

Matthew Kahn:

Our six cities differ with respect to their crime rates. There are parts of each of our cities where there is low crime. The perception that African-American neighborhoods are high crime neighborhoods acts as a tax on the African-American parts of the city.

Michael Klein:

What do you mean by a tax, Matt?

Matthew Kahn:

If people believe these areas aren't safe, they will be less likely to spend time there, which reduces the demand for the local services provided by business people and lowers their profits for the businesses in those areas. Such as separate and unequal mindset means that certain neighborhoods in our six cities have become increasingly isolated from the rest of the city.

Michael Klein:

You advocate in your book for policies that will help a post-industrial city become successful, investing in people both children and adults. Have we seen experiences where these policies have in fact worked?

Matthew Kahn:

Expanding access to pre-kindergarten for disadvantaged children is one example of an early life skills program that is costly to implement in the short run. It has proven to be a popular public investment in New York City.

Michael Klein:

Maybe it's costly in the short run, but not so much in the longer run given its longer run benefits.

Matthew Kahn:

That's a very important point, but a key local public finance issue arises. An awkward politics issue here is that financing such new public investments for our post-industrial cities is costly in the short run. And these cities are shrinking and do not have a vibrant tax base.

Matthew Kahn:

In Maryland, the governor is Larry Hogan and he's a moderate Republican. Governor Hogan and the mayor of Baltimore do not appear to work that well together. The governor's political base represents suburbanites and these wealthy taxpayers tend to support programs that benefit them rather than supporting what they perceive to be redistribution to urban residents.

Michael Klein:

Matt, as I mentioned in the introduction, another focus of your research is environmental issues like the greening of cities. We mentioned Pittsburgh. There's a striking picture on what's called Mount Washington in Pittsburgh that shows a view of the city during the period when the steel mills were operating where you couldn't see anything. But today it's a beautiful, clear view. Is there a way that this movement of rejuvenating post-industrial cities can help beyond just the environmental but also perhaps the economic realm?

Matthew Kahn:

I absolutely believe that. An example from Cleveland. The Cuyahoga River that runs through the center of Cleveland was once famous for being on fire a few decades ago. It is now substantially cleaner and features many great breweries and I've been to two of them. All six of our cities have benefited from cleaner air and cleaner water with significant redevelopment occurring around their waterfronts. What was once an environmental hazard and a site for industry is now a public amenity that attracts nearby private sector investment. Such synergies between public investment of cleaning up environmental challenges and private real estate investment help to spur the post-industrial city's come back.

Michael Klein:

Yeah, probably would not have been as nice to have that craft beer and watch the river burn. But doesn't this point to another issue, one, of gentrification you were able to enjoy this beer that probably costs seven or eight or nine dollars? But what about people who live there who couldn't afford that and now perhaps are being forced out?

Matthew Kahn:

An essential point. Gentrification benefits some groups, but not necessarily everyone. Homeowners gained a windfall from increased property values, but local renters may have trouble affording to live in their long-time neighborhood due to rising rents.

Michael Klein:

Or the land could be bought, the building is razed and an expensive apartment is put up. This raises then the issue of society's obligations to its least well off citizens, something that's very starkly present in cities

Matthew Kahn:

As a post-industrial city pivots and makes a comeback, local rents could rise as local housing demand increases. Such rising rents could hurt the urban poor. In a fair society, the rise of the city's tax base would create the revenue base to fund pro-poor policies that improve the poorest quality of life and invest in their children's skill formation. To preserve society social fabric, we economists need to measure in real time using new big data how the poorest quality of life is changing as their city's local economy improves.

Michael Klein:

And there's also a political dimension to this. You mentioned earlier about Larry Hogan, the governor of Maryland whose support comes from the suburbs. So there's this issue of political support for these kinds of issues as well for these kinds of support for poor residents of cities.

Matthew Kahn:

Michael, you just raised a key issue of 'are we all in the same boat?' So for suburban residents who live close to Baltimore, but may only go to sometimes go to a Baltimore game, how is their quality of life improved if the city of Baltimore thrives? And one pathway would be if more of the young children born in Baltimore grow up and are gainfully employed, there are less likely to be on unemployment insurance in the future, less likely to be on welfare. So the suburban taxpayers I believe gain as urban economic prospects improve.

Michael Klein:

And yet politicians would have to make that case and we don't necessarily see a lot of that going on, as you mentioned between the mayor of Baltimore and the Governor Hogan's, some tension between them.

Matthew Kahn:

I think that's an essential point. And so Michael, if I'm invited back in the future, I'm actually trying to work on that point. That fascinates me.

Michael Klein:

Well, Matt, I miss the days when we were colleagues together at Fletcher, not least because I always found our conversations really interesting and thought provoking. It was great to revisit that experience today with you on this podcast. So thanks very much for joining.

Matthew Kahn:

You're welcome.

Michael Klein:

This has been EconoFact Chats. To learn more about EconoFact and to see the work on our site, you can log into www.econofact.org. You can subscribe on our site to our newsletter that will let you know when we publish new memos and new podcast episodes. Please feel free to share this podcast and our memos with friends, colleagues, and on social media. EconoFact is a publication of the Fletcher School at Tufts University. Thanks for listening.