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Introduction

CITY PROSPECTS, CITY POLICIES

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WHY CITIES? In this era of high-speed communication, videoconferencing, rapid transit, and high-definition radio and television, could we all not work and play at home? And could not home be anywhere, where the air is clean, the streets are safe, and the schools, including home schools, are excellent? What cities have always offered—proximity and easy access—may simply not be necessary today, thus giving us the freedom to locate wherever the environment, whether the metropolis or the mountains, is most conducive to our needs and tastes. In fact, however, cities are on the upsurge. In the United States, the share of the nation's population residing in cities of over a hundred thousand residents fell from 53 percent in 1960 to 41 percent by 1980, but rebounded to 44 percent by 2005.[1] Even more impressively, the United Nations projects that by 2020, over 55 percent of the world's population will reside in urban centers, with all the benefits and costs this will entail.[2]

Rather than reducing the economic importance of cities, new technologies have in fact made cities even more attractive places for work and play. Efficient production in the new economy appears to require more, not fewer, personal interactions.[3] When the market pays a premium for unique products and specialized services, then production adaptability will be essential for meeting customer demands. Adaptability requires give-and-take communication and proximity, and typically, the closer the better. The recent evidence suggests that most of the benefits of proximity are realized within one mile or less.[4] Cities provide these productivity advantages.

Efficient consumption, particularly of services, also favors dense locations. The provision of health care, education, legal, and financial services is best done in person. The same holds true for much of retailing and entertainment. Finally, and of no small importance to those between the ages of twenty to forty, cities offer a convenient way to meet new people with interests and tastes similar to their own.[5] As the low-cost

supplier of proximity, cities have become critical locations for consumer spending.[6]

Finally, cities today retain their historical role as centers for economic and cultural innovations. For innovation, proximity is again the key. Seminars, exhibitions, and informal collegial interactions stimulate creativity while knowledgeable patrons, financiers, and an educated and demanding populace evaluates and rewards cost-saving innovations, promising new products, and provoking or appealing artistic change. Recent estimates, for example, show that doubling the density of employment in U.S. cities leads to a 20 percent increase in patentable innovations per capita.[7] So too, it appears, does density favor artistic innovations.[8] London and New York are the creative centers for contemporary art. Berlin, Paris, New York, and Los Angeles—and for a time Portland, Oregon, and Seattle—are the places offering the best new music. Los Angeles (Hollywood) and Mumbai (Bollywood) are where new cinema is produced, while New York is today's center for contemporary dance, and Paris, Milan, and New York for fashion. And while one might easily dispute its inclusion as part of Western culture, there is no doubt that country music would not be what it is today, or what it has ever been, had there been no Nashville, Tennessee.

This book, *Making Cities Work*, provides ten chapters by leading urban scholars that seek to understand what is required for a successful city in today's economy. The chapters here update the efforts of what had been a landmark survey at its time, 1968, when the future of U.S. cities was not so bright. Titled *The Metropolitan Engima: Inquiries into the Nature and Dimensions of America's Urban Crisis* and edited by James Q. Wilson, that book offered the first systematic overview of social sciences' understanding of how cities work for residents and firms.[9]

The tone of *The Metropolitan Enigma* was pessimistic. The observed decline of cities, and particularly the bleak economic prospects for cities' poorest residents, was seen as a consequence of larger economic, political, and social forces. Manufacturing jobs, the primary source of city employment, were leaving the city in search of cheaper land, and many residents, especially recent black in-migrants, could not follow. Federal highway expansion encouraged middle-class exit, however, further exacerbating central cities' economic declines. Economic decline led to weak city finances, while weak finances undermined educational opportunities for inner-city children. State and federal policies failed to fill the fiscal gap. Urban crime, particularly teenage crime, was a logical consequence of a weak economy, poor schooling, and the lack of city fiscal resources for a stronger police presence. Urban design theory favored large-scale public housing complexes that only made matters worse. The end result was a fundamentally dysfunctional social en-

vironment of concentrated poverty and limited economic opportunity. Seeing no future, it is then no surprise that families dissolved, single parenthood increased, and teenagers rioted. In 1968, cities were in decline.

The authors of *The Metropolitan Enigma* recommended a two-prong approach for easing the economic and social consequences of then failing central cities. First, spend more regional, state, and federal government money for city infrastructure and economic development. Second, relocate lower-income families into areas with better job opportunities, a richer fiscal base, and socially more functional neighborhoods. Both strategies are what we now call "place-based" strategies. The first favors city locations. If that didn't work, then the second approach was meant to help the less mobile escape their failing city for a more economically favored suburban residence.

Only the first strategy proved politically viable, and even then legislative coalitions for passage typically required funding for rural and suburban projects along with city funding. Figure 1.1 shows the relationship between real (2006 dollars) federal aid per resident in our largest cities (population greater than 150,000 residents in 2005) compared to federal aid to all other local governments, while figure 1.2 shows the relationship between real (2006 dollars) state aid per resident for the same set of large U.S. cities compared to each state's aid to all other local governments in the state. State education aid is excluded from the analysis.[10] Both the federal and state sample periods are from 1962 to 2002 in nine five-year intervals.

The relationship between large-city federal aid and other local government federal aid shows $1 of large-city aid is matched by $1 for all other local governments along a 45° line from the origin of figure 1.1. National politics ensures that if the residents of our largest cities get $1 of federal aid, so too do the residents of all other local governments.[11] At the state level, our large cities are treated worse, on average, than are small cities, suburbs, and rural communities, as seen in figure 1.2. Here, large-city residents receive a guarantee of $99 per resident (the intercept of the solid line in figure 1.2), but then share in additional state noneducation aid only at a rate of $0.31 for each $1 of state aid given to "other" local governments (the slope of the solid line). On average, our large cities received $185 per resident in noneducation aid over the sample period while all smaller local governments received $282 per resident. State policies seem to meet a "big-city obligation" with an average fixed payment of about $100 per resident, and then focus incremental spending on suburbs and rural localities at the rate of about three to one. Clearly, there has been no targeted spending on our largest cities as proposed by the authors of *The Metropolitan Enigma*. If

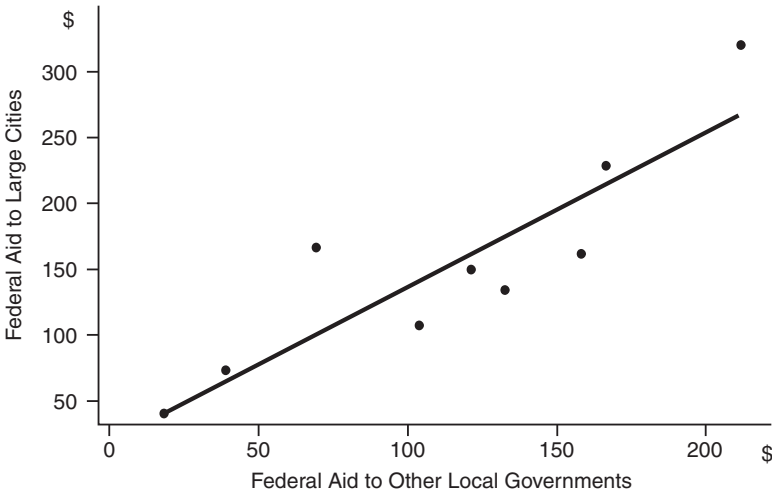

Fig. 1.1 Federal Aid to Large Cities (2006 Dollars)

anything, smaller cities and suburbs have been favored over the past forty years.

Nor is there compelling evidence that the federal and state monies that did go to our largest cities did much to revive their declining economies. The Urban Mass Transportation Acts of 1964 ($150 million) and 1970 ($1.3 billion) that helped cities directly were only modestly funded, while the more significant allocation ($11.6 billion) approved under the National Mass Transportation Systems Act of 1974 was for light-rail and only encouraged the further exit of the middle class to the suburbs. The Surface Transportation Acts of 1978, 1982, and 1987 did promise more funding for mass transportation, but in the end the appropriations fell far short of the promised authorizations. City public transportation ridership continued to decline and suburban-to-city car usage continued to increase. By the 1990s, the central focus of federal transportation policies was to ease suburban commuting costs with funding for more highways and even subsidized city parking for commuters.[12]

Federal housing policies for cities have emphasized the construction of moderate- and low-income housing, both in the central city and suburbs. The most successful of these programs was Section 8 of the Housing and Community Development Act of 1974, which offered rent assistance to lower-income residents. There were no restrictions on location. The flow of capital into lower-cost housing was also stimulated by the 1977 Community Reinvestment Act's aggressive pursuit of bank redlining practices. Finally, the Housing Act of 1990 provided funding to

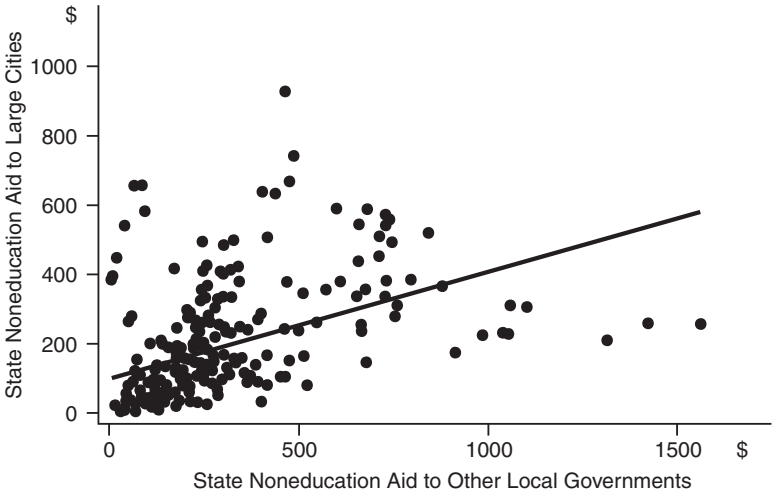

Fig. 1.2 State Noneducation Aid to Large Cities (2006 Dollars)

cities to upgrade—or knock down when appropriate—dysfunctional public housing and replace that housing with mixed-income housing complexes. The act also offered vouchers for the rental or purchase of housing by lower-income families displaced from public housing. The expanded supply of low-income housing has proven to be a mixed blessing, however. It did provide improved living space for the poor, but it has also concentrated the location of the poor in the central cities and inner-ring suburbs where this housing was built. As the chapters in this volume will stress, poverty concentration in cities has had significant adverse effects on city economies and therefore city residents, both poor and rich.

Federal efforts to stimulate inner-city economic development and job opportunities have included the Model Cities initiative within the Demonstration Cities and Metropolitan Development Act of 1966, the Comprehensive Employment and Training Act (CETA) of 1973, the Community Development Block Grant of 1974, the Urban Development Action Grants (UDAG, as section 199 of the Housing and Community Reinvestment Act) and the Targeted Job Tax Credit (TJTC) program both approved in 1977, and finally, the Empowerment Zone/Enterprise Communities (EZ/EC) program approved as part of the Omnibus Budget Reconciliation Act of 1993. Model Cities funding never exceeded $1 billion, and this limited budget was spread over 150 locations to ensure sufficient congressional support for budget approval.[13] CETA was a federally funded job creation program administered by the central cities. The funds were used by cities to hire low-skill workers for entry-level

city jobs. No significant training occurred, and city funds were simply replaced by federal funds, which were then allocated as "free money" for tax relief and expanded city services largely benefiting middle-class city residents.[14] The UDAG and TJTC programs were both short-lived, and in their time proved ineffective in stimulating economic growth in cities' poorer neighborhoods. UDAG grants were subsidies to private developers and were largely capitalized into the price of city land.[15] TJTC subsidies lowered the effective wage for low-skilled workers, increased firm profits, and in end also enhanced inner-city land prices. Few, if any, new low-skilled jobs were created.[16] Current federal efforts at stimulating central city economies are now limited to funding for Empowerment Zones. Over the course of three rounds—1994, 1998, and 2001—the federal government has selected 122 cities to participate in the Empowerment Zone/Enterprise Communities program, but again federal dollars going to each community are modest ($100 million per community), and like its predecessors (UDAG and TJTC), most federal monies benefit developers and the owners of land rather than the residents in the favored, low-income neighborhoods.[17] Like most federal and state policies of the 1970s and 1980s, these place-based programs benefited those who owned the places and not the lower-income residents who lived there.

If not by these federal or state policies, how then have we moved from *The Metropolitan Enigma*'s pessimistic assessment for urban America to the more promising future now seen for the average U.S. city? Many cities whose futures looked so dim in 1968 are thriving today, or are at least on the mend. New York City, Chicago, Seattle, San Francisco, Oakland, Boston, Minneapolis, Saint Paul, Jersey City, and Des Moines had each lost population in the 1960s, but have gained population in the past ten years. Philadelphia, Newark, and Louisville have all slowed their population losses to a small trickle. Still, some large cities have continued their decline—for example, Detroit, Cincinnati, Cleveland, Milwaukee, Pittsburgh, Baltimore, and Saint Louis. These different economic fortunes of U.S. cities have occurred not because of differential availability or the success of federal or state policies. *What is it, then, about the successful cities that leads to growth and prosperity for their residents and firms, while other cities stagnate or decline?* This is the new urban enigma, and the central agenda of this book.

Edward Glaeser provides an overview of city growth and decline in chapter 2, clarifying in the process the necessary economic conditions for city prosperity. For once-declining cities such as New York and Boston, Glaeser stresses the need to reinvent the local economy—in these two cases, to make the transition from a manufacturing city to a service city. For small- and midsize cities the key to growth is finding a

niche, a comparative advantage, in the new idea-driven, service-based economy. In most all instances of success, city growth occurs because of the presence of a college-educated workforce and the proximity of those skilled workers to each other. Only skilled workers have the ability to use and create new technologies, while workplace density enhances the productivity of those technologies through idea sharing. In Glaeser's analysis both conditions, skills and density, are necessary for local industries to remain competitive and grow.

For the skilled city to work, however, workers must interact, and that means converging on a common location to do business. Efficient transportation infrastructure and utilization (i.e., *pricing*) is essential for a productive city. This is the topic of chapter 3, in which Kenneth Small explores how to manage urban transportation. As Small emphasizes, for any transportation system and pricing strategy there is an equilibrium number of trips balancing the private benefits of travel in produced goods and services against the private costs, discomfort, and inconvenience of travel. That equilibrium can be inefficient, though. In particular, roadway congestion will discourage the efficient agglomeration of economic activities and undermine the productive potential of the city. In addition to skills and location, an efficient transportation policy becomes a third necessary condition for the economically efficient city.

What is not necessary for city efficiency and growth, although often an attractive by-product, are city amenities—good restaurants, theater, music, sports teams, and shopping—gathered in what Glaeser calls the "consumer city." In Glaeser's terms, a consumer city is a consequence of, not the cause for, the productive skilled city. This important point is amplified by the many valuable examples of "city spaces" offered by Witold Rybczynski in chapter 4. Cities have tried all manner of design strategies to lure suburban residents back and encourage city residents to do center-city shopping—such as walking or pedestrian malls, semi-malls with widened sidewalks and narrowed streets, transit malls accessible only by bus, and finally just plain mall malls. None have worked, unless there were first city residents in abundance wanting to shop in city stores.

Perhaps good design and attractive housing can entice residents back into the city? Here too Rybczynski's examples raise doubts. Using the concept of "community" or "campus" living, many cities encouraged the building of superblock complexes for middle- and upper-income families through subsidies and land assembly. But unless the city was already a successful location for firms and middle-class residents—for instance, Battery Park City in New York—those projects were never built. Finally, some cities have tried the "trophy building" strategy, hoping to

mimic the success of Bilbao, Spain, with its new Guggenheim Museum by Frank Gehry. In most cases these buildings, even the attractive ones, are underutilized and stimulate little in the way of new economic growth for the city. Witness Lincoln Center in New York, the Getty Center in Los Angeles, and the Kimmel Center in Philadelphia. Rybczynski's important message is that successful city space only arises where there is a demand for that space. That means, first, being a competitive skilled city in the new service economy.

The path to being a skilled city is not an easy one, however, particularly for our once-dominant manufacturing centers such as New York, Chicago, Philadelphia, Boston, Pittsburgh, Buffalo, Detroit, Cleveland, Saint Louis, Milwaukee, and Birmingham. These cities must shed their old manufacturing exterior and develop a new service sector core. New York, Boston, Philadelphia, and Pittsburgh have succeeded. Buffalo, Detroit, and Saint Louis have failed. Cleveland, Milwaukee, and Birmingham may make it yet. In chapter 5, Joseph Gyourko's analysis of city housing helps us to understand an important structural barrier to a city's economic transformation. As the middle class exited these cities during the manufacturing downturn of the 1950s and 1960s, it left behind an attractive and still-productive housing stock. Because the middle-class demand was low, though this housing sold for less than its replacement cost. But it could still be rented to lower-income families, serving as a magnet for poor families to stay in or move into these older cities. As a consequence, the average share of our largest cities' population now living in poverty has grown significantly over the past four decades, from 12 percent in 1970 to 16 percent today (see figure 1.3). Our once-smaller cities with less older housing have experienced less of an increase in city poverty. Perhaps because of this draw of older housing, U.S. poverty is now largely urban poverty and particularly large-city poverty; compare the levels of the national and city poverty rates in figure 1.3. Poor families have low skills and place high demands on the city's middle-class tax base, both slowing or even killing the emergence of a new and more productive idea-based economy in these cities.

The United States has always attracted immigrants, and today is no different, both in terms of the number of immigrants and their decisions to locate in our largest cities (see figure 1.4).[18] In chapter 6, David Card helps us to assess the likely impact of new immigrants on city economies. High-skilled immigrants will surely aid their new cities' economies. Will low-skilled immigrants be a significant burden? While the average immigrant has lower than average human capital skills, the effect on average city wages is actually slightly positive. While high-skilled workers determine the long-run growth potential of cities—and thus high-skilled immigrants are important—low-skilled immigrants

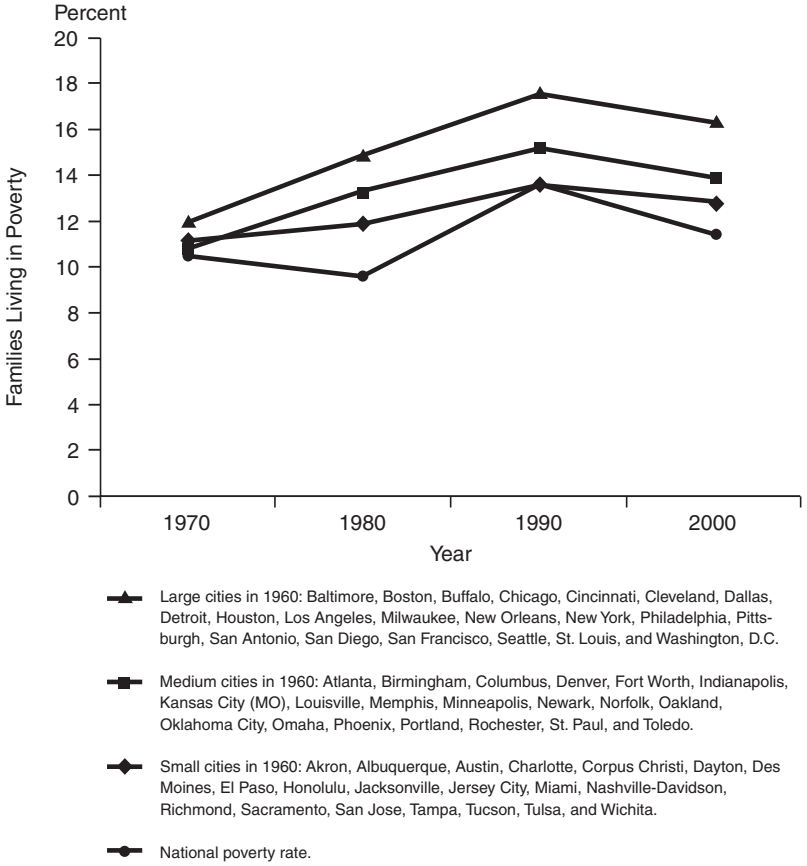

Fig. 1.3 City Poverty Rates

are valued productive inputs too. More low-skilled workers relieve high-skilled workers from routine tasks (e.g., washing test tubes), thus raising the productivity of high-skilled workers. More productive high-skilled workers lead to an expanding city economy and increasing demand for all city workers. As low-skilled immigrants are absorbed into this larger economy, native low-skilled workers are largely unaffected and do not exit the city. In fact, Card shows that average city wages rise. There is pressure on city housing costs from increased immigration, but it is modest and offset by rising average wages. City rent-to-income ratios are unaffected by immigration. Immigration's fiscal consequences for cities may be more significant, however, and especially so through immigrants' impact on the costs and quality of public education because of the learning needs of first-generation immigrant children. Just

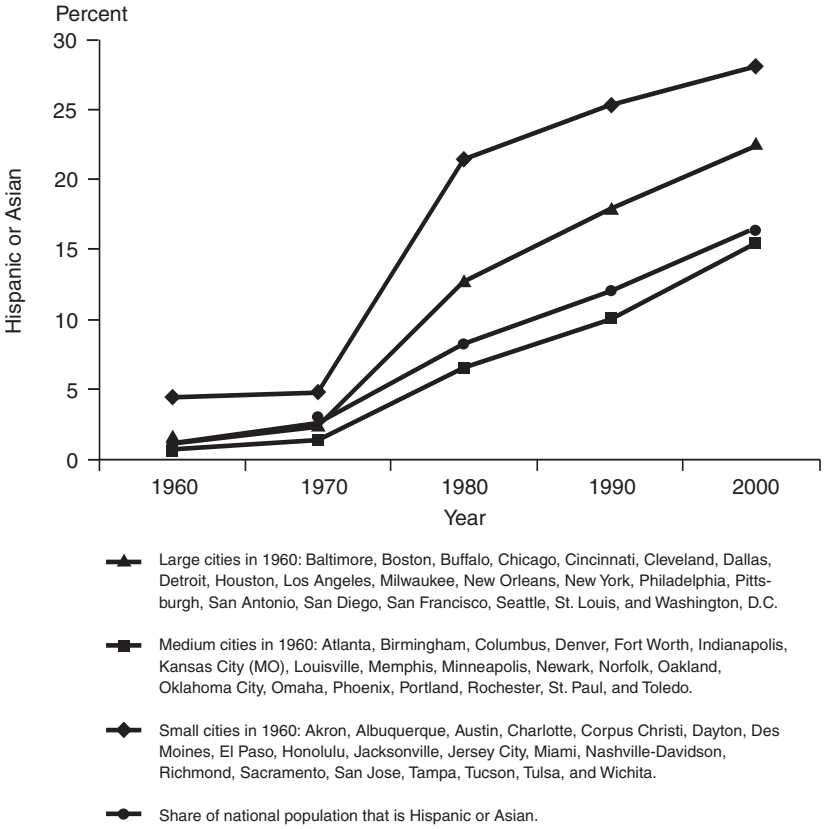

Fig. 1.4 Share of City Population That Is Hispanic or Asian

as middle-income families exit city public schools and perhaps the city itself when neighborhood poverty rates get too high, so too do they leave when the share of new Hispanic residents grows. Card estimates the "tipping point" to lie between 5 and 15 percent of a neighborhood's population. If there is a crucial adverse effect of the new immigration on city economies, Card concludes, it will most likely be in these unsettling effects on city neighborhoods and possibly the decisions of middle-income families to live within the city.

In chapter 7, Jacob Vigdor summarizes what we know about city neighborhoods and their impacts on the economic as well as life prospects of city residents. Untangling neighborhood effects from those of an individual's own unmeasured attributes and talents, however, is difficult. Vigdor steers us through these brambles, and four conclusions emerge. First, while racial segregation has declined substantially in the

forty years since the start of the civil rights movement, black-white economic inequality has not. There is no simple and enduring causal link from spatial segregation to black-white economic inequality. Second, neighborhood segregation has continued, though now not from legal barriers but rather from an apparent misalignment of black and white preferences for the racial mix of neighborhoods. When surveyed, whites say they prefer neighborhoods with at least a few black families, but their ideal neighborhood is never more than 20 percent African American. From the same surveys, a typical African American family says it prefers neighborhoods that are 25 to 50 percent black. Thus, if a neighborhood were to become slightly more than 20 percent black, it could easily "tip" into a predominantly black neighborhood; residential segregation can occur even without legally prohibited discrimination. Third, some city families may have no choice as to where to live. The decline of overt segregation allowed middle-class African American families the chance to leave historically black neighborhoods for better housing and better public services elsewhere in the city or the wider metropolitan area. As a result, many black neighborhoods have suffered profound population loss and falling home values. The remaining residents in these declining neighborhoods have become isolated, both socially and economically. Fourth and surprisingly perhaps, the best current evidence suggests that living in such a poor neighborhood does not by itself greatly damage an individual's life prospects. Being poor and having access to poor public services do significantly impact one's economic future, but living next to other poor neighbors does not. It is family and city resources that matter most. Chapters 8 through 11 make this clear.

The consequences of family poverty are profound. From Janet Currie in chapter 8, we learn that poor individuals have significantly worse physical and mental health, poorer schooling outcomes, higher rates of early teen parenthood, and greater rates of risk-taking behaviors, including increased criminal activity. These adverse results of poverty fall not just on the poor. There are critical spillovers from city poverty to high-skilled city residents in the form of higher rates of urban crime, higher rates of city taxation, and less effective public schools.

In chapter 9, Richard Murnane clarifies the causes of poor performance by inner-city schools, and here too poverty concentration matters. Children from lower-income families have unique educational needs demanding increases in school resources. Immigrant children for whom English is a second language compound these demands. Given the challenges of such classroom environments, it is not hard to see that attracting and retaining qualified teachers will be difficult for city schools. All this leads to the exit of middle-class children to the suburbs

or private schools, thereby denying lower-income children a valuable classroom (and political) ally. An inadequate supply of skilled (or trainable) labor for city firms is one important consequence of failing city schools.

In chapter 10, Philip Cook's exploration of urban crime stresses the connection of poor schools and low earnings prospects for dropouts and even graduates to teenage crime. Peer pressure to engage in criminal behaviors and the availability of illegal guns, both found in poverty neighborhoods, also contribute. The consequences for firms and middle-income residents are significant expected property losses and, perhaps more important, a rising threat to personal safety.

In chapter 11, I outline what is needed for city government to effectively combat city crime as well as provide quality schooling and other city services to residents and firms. Figures 1.5–1.7 show the large increase in city-financed spending for services most closely associated with increased city poverty: welfare, protection (police and fire), and public education. The implication is a significant rise in the tax rate for middle-class families, measured by the share of these expenditures in cities' median family income (see figure 1.8). Unless these tax dollars are managed to deliver equal or greater benefits for each dollar paid, firms and the middle-class families will leave for the suburbs or other cities, resulting in lost agglomeration economies and market productivity.

Cities are the centers of production and innovation in the modern U.S. economy, and for many, a center of consumption too. Yet U.S. cities face sizable obstacles because of roadway congestion, urban poverty, and low-skill immigration to maximizing their full economic potential. Federal and state governments are not likely to contribute new money toward removing these barriers to city growth. The place-based strategies of the past three decades have proven ineffective. Cities are on their own, and new approaches to city growth and prosperity are needed.

The authors understand these new realities. When making policy recommendations, they focus on helping city residents and firms to be as productive as possible, and on ensuring city government is efficient and responsive. In contrast to past policies, the strategies proposed here are *people*- not place-*based* ones. Most can be implemented by cities alone, but none are free. Thus city government efficiency is essential. Only those policies that return more benefits than costs to city residents and firms should be adopted.

By this criterion, federal and state governments will be the most efficient providers of direct income transfers to poor city residents to meet national or state income standards, though city taxpayers should certainly be allowed additional payments to their poor residents if they wish. When recommending regional, state, or federal assistance for a

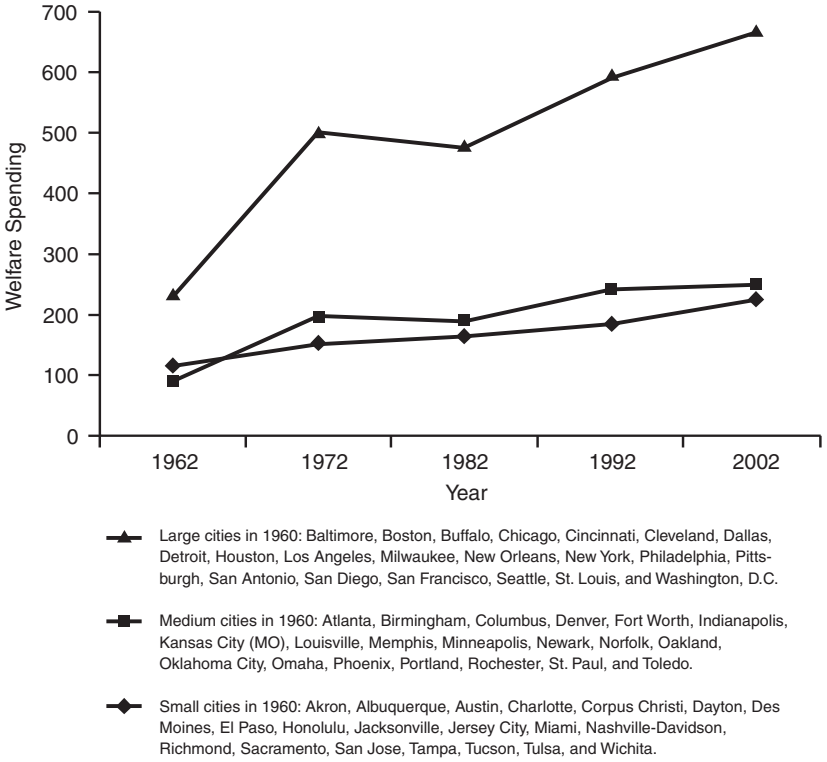

Fig. 1.5 City Welfare Spending per Resident (2006 Dollars)

city policy, there must be a clear and compensating benefit for the residents of the assisting government. Any call for outside aid must be accompanied by a demonstrable "win-win" policy emerging from clear regional, state, or national external benefits from improved city economic performance. Further, state and national urban policies should be coordinated, and since each city's economy and demographics differ, the political temptation to treat all cities equally, perhaps even adding in all suburbs, must be resisted. With any policy, the place to start and finish the policy debate is by answering this question: *Are all citizens—city, state, and national taxpayers included—better off with the policy than without?*

To lower the barrier caused by roadway congestion, Small recommends as an ideal a more efficient use of existing infrastructure through the expanded use of metropolitan-wide roadway tolls and access pricing for our denser downtown business districts, such as Manhattan, San Francisco, or Washington, DC. Pricing highways will do more to help

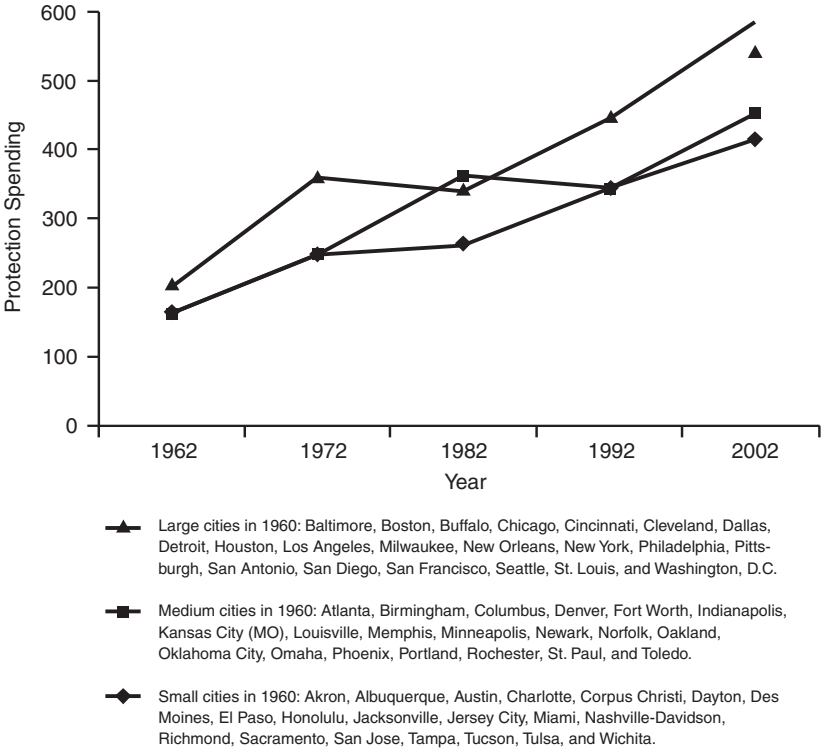

Fig. 1.6 City Protection Spending per Resident (2006 Dollars)

public transit than any infusion of new public money. To move toward the pricing ideal, Small proposes the franchising of existing access highways to private firms and the expanded use of niche, small bus services best competing by price and service quality. Rapid transit investments should focus on the expansion of high-speed bus not rail services, and new highway construction should be designed to ensure the efficient flow of passenger vehicles with perhaps isolated lanes for trucks. The objective is to move people to their destinations and back as efficiently as possible.

To lower the barriers arising from urban poverty and the high concentration of low-skilled immigrants, Currie and Murnane recommend a focus on the education and training for children and young adults beginning with prenatal health care, followed by nurse home visits to teach parenting skills to parents of children at risk, then high-quality preschool programs (e.g., Head Start), school-based breakfast and lunch programs stressing good nutrition, districtwide elementary school cur-

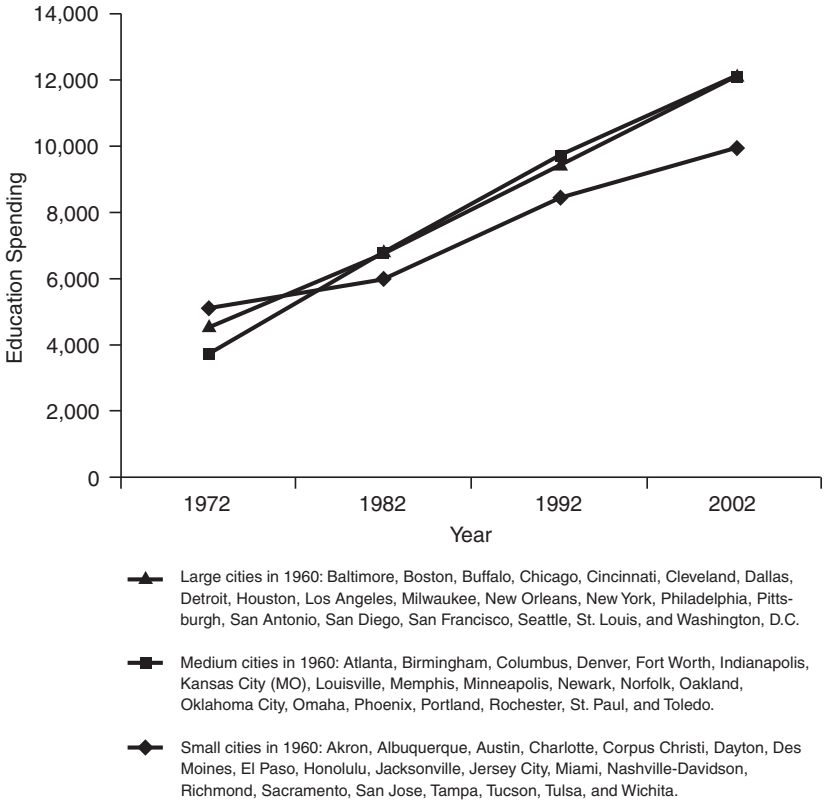

Fig. 1.7 City K–12 Education Spending per Resident (2006 Dollars)

ricula that emphasize mastery of basic reading and math skills and oral communication, volunteer programs providing adult mentors (Big Brothers/Big Sisters), secondary school curricula that prepare students for work with remedial training in basic skills if necessary, and finally, collaborative programs with business and local colleges to ready students for the challenges of full-time employment or higher education. These are all people-based programs. Separately, each has a proven track record of success. There is reason to think that there are program complementarities as well, particularly if grouped by preschool, elementary, and high school ages. Currie's and Murnane's chapters provide the evidence and examples of successful policy innovations. To the extent that the benefits of these programs reach more widely than the children, their families, and other city residents, then regional, state, or federal funding will be needed. It is the task of city

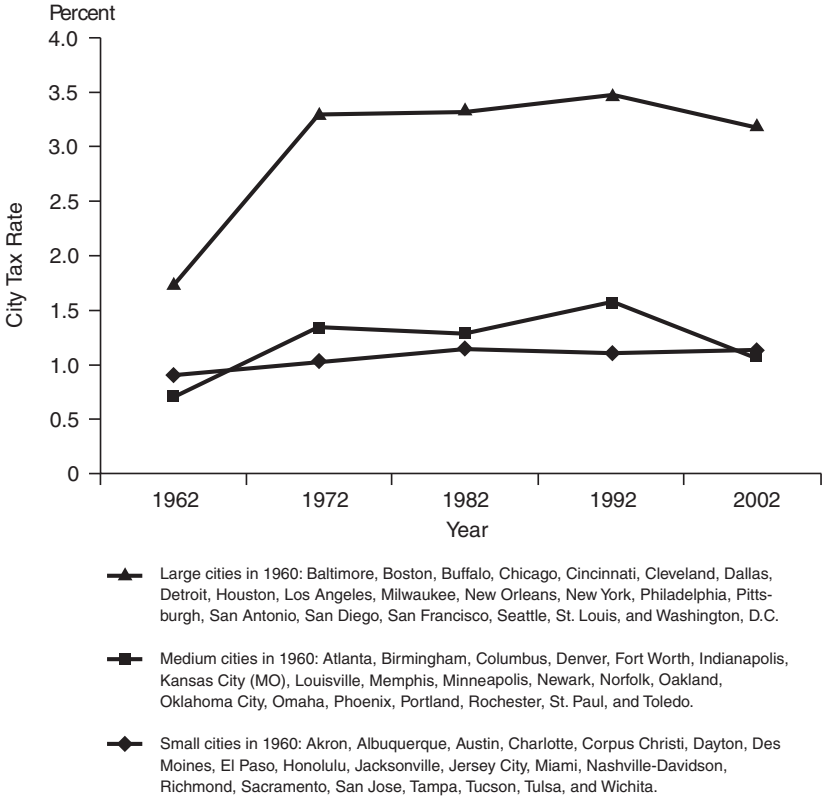

Fig. 1.8 City "Tax Rates" for Associated Poverty Spending (Percent of City Median Family Income)

officials, using the Currie and Murnane evidence, to make the case, however, and then leverage these outside funds with private city resident contributions of money and time.

To lower the rate of urban crime, Cook also suggests human capital policies, but he recognizes that some young adults will still find illegal activities attractive. What can cities do to deter youth crime? First, remove the means and temptation to commit crimes by removing from the street one of theft's high-value items: illegal guns. Locally enforced gun control lowers burglaries and murders. If illegal guns remain, then aggressively penalize their use. Both Boston and Chicago have adopted with success threatened crackdowns on drug gangs if there is any evidence of gang gun violence. Second, deter crime by raising the likelihood the crook will be caught and prosecuted. Police officers are a

demonstrated deterrent to property crime, and new strategies such as "hot spot" policing add to their effectiveness. The Lojack technology is a proven deterrent to car thefts with significant positive benefits for all city residents; those spillovers might justify a city subsidy for adoption by city residents. One of the biggest limitations to controlling violent crimes is the reluctance of witnesses or surviving victims to testify against known assailants. Here Cook recommends more aggressive use of witness compensation and protection. Finally, incarceration has proven effective by removing habitual criminals from streets and neighborhoods. Jails are an expensive strategy, however, and their capacity needs to be used more efficiently. Cook proposes that the really bad guys should be kept in jail, but convicted criminals who have demonstrated an ability to function peacefully in society should be paroled and assisted with reentry. As with Currie's and Murnane's agendas for city human capital policies, each of Cook's crime prevention strategies has a proven record of success. But again, these strategies should be pursued only if city taxpayer benefits exceed taxpayer costs.

After lowering the barriers to growth, get out of the way. While recognizing city governments do provide important city services, Glaeser, Rybczynski, and Gyourko each stress the need for minimal government intrusion into the workings of the city economy. They detail examples where city policies have slowed city growth. Glaeser notes the adverse consequences for city growth of unfunded state government mandates to provide redistributive services to poor city residents. Such mandates shift the financing of redistribution from a broad-based tax to a local tax whose rate rises with the share of city residents who are poor. Local taxes are an inefficient way to finance national or state redistribution standards, particularly so given the importance of agglomeration economies in the new skilled city. Rybczynski underscores the inability of master planning to offer the best environment for city economic revitalization and growth. The new urban environment is best defined by market demand, not planners' preferences. Government should be responsive to the needs of developers and entrepreneurs by facilitating their compliance with safe building regulations as well as providing for complementary public spaces and amenities. Yet Gyourko cautions that city regulatory policies can be captured and abused. In cities with strong growth potential and hence high demand for city land, current residents can use building code and land-use regulations to restrict the supply of new construction. These supply restrictions raise the property values of current city residents, but they also choke off efficient city growth that benefits renters, less skilled workers in the building trades and services, and of course potential new entrants. The job of a mayor

is to recognize these regulatory inefficiencies, fashion a pro-growth coalition, and then allocate the benefits of more efficient regulations among all city residents through city fiscal policies.

Finally, efficient fiscal policies may be how mayors can best help their cities reach full economic potential. Spending money to retain talented teachers and school administrators, hire additional police officers, provide neighborhood bus connections and express commuter bus services, and clear abandoned autos and properties while creating attractive neighborhood public spaces have each been recommended here as a potential high return use for public monies. Reducing the overall size of the public employee workforce through attrition as city populations decline, closing underutilized neighborhood fire stations, libraries, and recreation centers, and expanding the use of user fees are all nontax sources of new money that can help fund these new programs. Reforming, not raising, city taxes should be the city's primary revenue objective. Residential taxes should only pay for resident services, and business taxes should only pay for business services. Cross-subsidies from firms to residents deter city growth and, because of lost efficiency from reduced agglomeration economies, may even have a net negative impact on residential property values. The best tax on businesses is a land tax. To implement these reforms, however, a mayor must have sufficient institutional powers to say no to special interests. A mayor must have the ability to hire, reassign, and fire public employees as necessary. Second, a mayor must be able to set and protect an efficient budget—one where city taxpayer benefits exceed taxpayer costs—through agenda setting and sustainable veto powers. And a mayor needs the authority to competitively hire private firms to provide city-financed services when appropriate and feasible. Crime protection, transit services, infrastructure maintenance, housing and public space provision, and (perhaps more controversial) public education have each been suggested by the authors here as candidates for privatization. My chapter on city finances makes the general case for these reforms.

If there has been a single useful lesson from the past forty years of urban policies it is that federal and state officials are not the ones to be making decisions as to what is best for U.S. cities. National and state politics typically favor suburban economic interests, often to the detriment of productive cities. Facing significant fiscal burdens from concentrated urban poverty and hoping perhaps to join in suburban transfers, elected city officials had naturally turned much of their policy attention toward Washington and their state capitals. In this policy environment, local political success was determined more by how much outside money you attracted and not how well you spent the money you had.

Federal and state policies do have a role to play in helping our cities

reach their full economic potential, but those policies should be targeted "contracts," not general handouts. As cooperative agreements, the chosen policy must benefit both city residents and residents of the funding government; urban policy must be a win-win situation. This is possible only when the city's economy provides a significant external benefit to the wider society. Two possibilities come to mind. First, as the primary provider of education and child care services, city government will typically be, because of economies of scale, the most efficient provider of any supplemental services required for poverty or first-generation immigrant children. *If* the city's state or national residents value these supplemental services, and *if* a city's government is the efficient provider, then a fully funded contract—not an unfunded mandate—with that larger government is appropriate. Second, as a key location for agglomeration economies often requiring personal interactions, cities need an efficient transit system to move workers into and around the city. Such a system may need large-scale infrastructure investments not easily supported by the private capital market. *If* public capital is needed, and *if* the benefits extend to firms and residents outside the city, then city investment aid may be warranted. Since the benefits of such assistance are likely to be regional, state or regional governments should fund the investment aid. In both instances, though, the city government qualifies for outside funding only if it is the efficient provider of the spillover benefits.

The appropriate new role of federal and state policies will therefore be a limited one. By necessity, then, successful cities today must be self-aware: What makes our city economy work, and how can we best use our own resources to promote the long-run economic fortunes of our residents and firms? Helping city officials to unravel this urban enigma and from this understanding to connect their city's prospects to effective city policies is the agenda of this book.

Notes

1. U.S. Census Bureau, *Statistical Abstract of the United States, 1974* (Washington, DC: U.S. Department of Commerce, 1974), table 23; U.S. Census Bureau, *Statistical Abstract of the United States, 2007* (Washington, DC: U.S. Department of Commerce, 2007), table 32.

2. United Nations, *World Urban Population, 1950–2000, with Projections to 2020* (New York: Department of Economic and Social Affairs, 2006).

3. See Sinai and Waldfogel (2004).

4. On the importance of urban density to firm productivity, see Beardsell and Henderson (1999). On the spatial decline of these productivity gains, see Strange and Rosenthal (2003).

5. See Black et al. (2002).

6. See Glaeser, Kolko, and Saiz (2001).

7. See Carlino, Chatterjee, and Hunt (2007).

8. Peter Hall (1998) provides an encyclopedic overview of cities as historic centers of cultural and artistic innovation.

9. Each chapter was written by the leading scholar of urban affairs at the time: John Kain on jobs, John Meyer on transportation, Dick Netzer on finances, Charles Tilley on race, Marvin Wolfgang on crime, Ted Sizer on education, Bernard Frieden on housing, Edward Banfield on urban riots, John Burchard on design, and Daniel Patrick Moynihan on poverty. The book received excellent reviews from leading journals in economics (*Journal of Finance*, December 1969), sociology (*American Sociological Review*, December 1969), and public administration (*Public Administration Review*, March–April 1970).

10. Some of the large cities in Maryland, Massachusetts, New Jersey, New York, Rhode Island, and Virginia also provide K–12 education, and thus receive state education aid. This aid is excluded from the analysis here.

11. There is no better analysis of how a program initially targeted for large cities is transformed by legislative politics into "money for everyone" than the study by Samuel Beer (1976) of the passage of General Revenue Sharing bill in 1972. More generally, see Inman (1989).

12. See Small (1985); Winston and Shirley (1998).

13. See Mollenkopf (1983); Judd and Swanson (1998).

14. For a careful review of CETA funding, see Barnow (1987). For a review of the incidence of city spending generally during this period, see Inman and Rubinfeld (1979).

15. See Mueller and Schwartz (1998); Mollenkopf (1983, 280).

16. See Mueller and Schwartz (1998).

17. For the argument, see Inman (1979). For the evidence, see Papke (1994); Boarnet and Bogart (1996); Bondonio and Engberg (2000); O'Keefe (2004).

18. Reported as the stock of Hispanic and Asian residents in our largest cities as a consequence of current and previous period immigration flows.

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