SUMMARY

INDUSTRIAL CITIES INITIATIVE

Edited by Susan Longworth

Summary of findings

"Rust Belt" is often an epitaph for cities large and small throughout America's midwestern and northeastern regions. It encapsulates social and economic changes: "population loss, rising crime rates, loss of union jobs, particularly in manufacturing, White flight to the suburbs, and a generally declining urban environment," in which, "massive, but abandoned factories rusted away and scarred the landscape of once vibrant cities."[1]

More recently, some observers have suggested that globalization is putting the finishing touches to the decline that began in the 1970s and 1980s. "In the age of globalism," one writer asks, "do many of the Midwest's towns and cities, and their people, have a future? For that matter, does the Midwest have a future?"[2]

The CDPS division of the Federal Reserve Bank of Chicago undertook the ICI to gain a better understanding of the economic, demographic, and social trends shaping industrial cities in the Midwest. In this report, we profile ten midwestern cities whose legacy as 20th century manufacturing centers remains a powerful influence on the well-being of those cities, their residents, and their regions.

We begin this report by explaining the motivation and context for the ICI and some thematic observations that emerged from interviews with city leaders and residents in ten cities. We take great care not to impose judgments or arrive at conclusions that were not reflected in on-site conversations. We then present profiles of each of the ten ICI cities, as reflected through interviews with leaders and supplemented by data to illustrate the opportunities and challenges these cities face as they define their places in the 21st century economy.

The loss of manufacturing jobs, which has shaped the Midwest landscape for more than a half-century, is the central characteristic of all of the cities profiled. Just as all of these cities have lost manufacturing jobs to a greater or lesser degree, all are working – to a greater or lesser degree of success – to offer a higher quality of life to their residents, and communities that are more resilient to social and economic changes.

The ICI was motived by questions about why some Midwest towns and cities outperform other (at one point) similar cities with comparable histories and manufacturing legacies. And, can 'successful' economic development strategies implemented in 'outperforming cities' be replicated in 'underperforming cities?'

The ICI explored the trends and experiences of each city individually, in comparison to peers and in comparison to their home states and the nation. The effort to improve the economic and social well-being of these cities and their residents occurs in an environment shaped by:

- **Macroeconomic forces:** globalization, immigration, demographic trends including an aging population, education and training needs, and the benefits and burdens of wealth, wages, and poverty.

- **State and national policies:** economic development leaders contend that state and national policies pit one city against another in a zero-sum competition for job creating and wealth generating firms.

- **The dynamic relationship of city and region:** Strong cities exist in strong MSAs and weak cities exist in weak MSAs. Cities that try to ignore their relationships to their regions do so at their peril.[3] "The problems of economically distressed, or weak-market, cities are inextricably related to the problems of the metropolitan area in which they are located. As a consequence, it may well be that the efforts to improve the conditions of economically distressed cities must be metropolitan area-wide in scope."[4]

Modern, advanced manufacturing remains an important part of these cities' economies, building on their historical strengths as industrial centers. Manufacturing's dual role as both an economic driver and as an employment base leads to divergent views about manufacturing's role in both national and local economies. While the number of people employed in manufacturing today has fallen back to roughly the same number as 1950, manufacturing output is more than 600 percent higher than it was in 1950.[5] So, many of these cities, like the country, are producing more and more while employing fewer and fewer people.

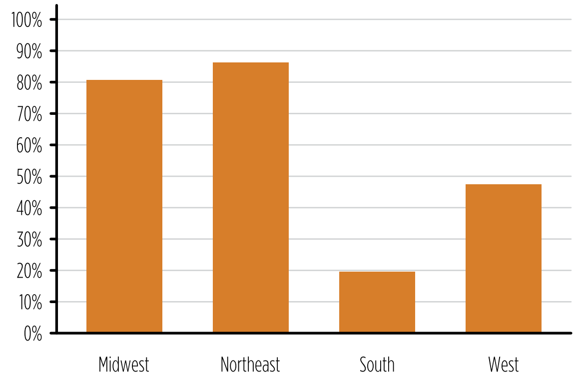
The narrative of "rust belt" cities commonly focuses on their legacies as twentieth century industrial centers and concludes that their destinies in the 21st century are as declining backwaters. Research has demonstrated that the extent to which a city's employment was concentrated in manufacturing at the beginning of the study period, and the level of educational attainment in a city's population, may explain as much as 40 percent of the variation of a midwestern city's economic growth since 1969.[6] This leaves much more performance to be accounted for, and the leaders interviewed for the ICI noted other important variables that contribute to their cities' performance over time.

Manufacturing in the United States

Maps 1 and 2[7] demonstrate the shift in U.S. employment away from manufacturing, especially in the Midwest and Northeast, between 1960 and 2010.

Historically, the South and the West were never as heavily industrial as the Midwest and Northeast as shown in maps 1 and 2.[8] While industrial cities in the Midwest and Northeast looked similar in terms of their concentrations of manufacturing employment in 1960, their paths began to diverge in the 1980s and continue to diverge today (chart 2). Interestingly,

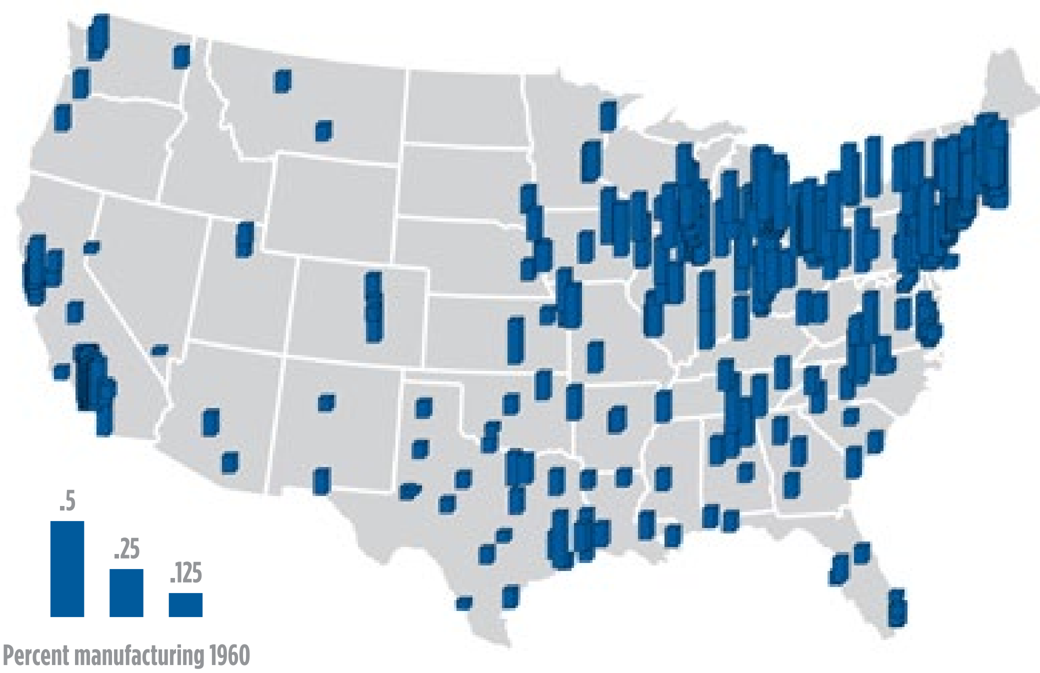
Chart 1. Percentage of cities that were "industrial" as of 1960 by region



Source: U.S. Census Bureau (A–1).

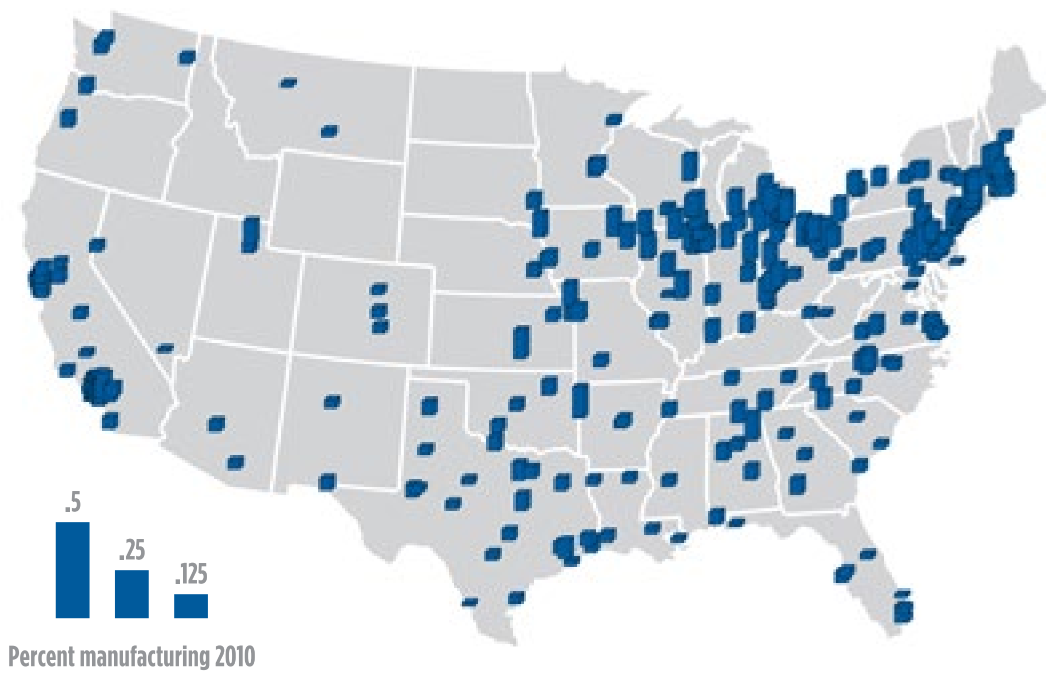
it appears that the Northeast continued to transition away from manufacturing employment in the 1990s, while the Midwest experienced a manufacturing "renaissance" although not to an extent that reversed

Map 1. Percent employed in manufacturing, 1960



Source: U.S. Census Bureau (A–1).

Map 2. Percent employed in manufacturing, 2010



Source: U.S. Census Bureau (A–1).

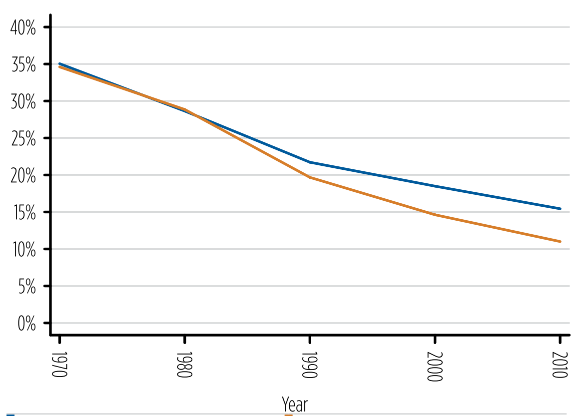
ongoing declines (chart 2). Although, "some cities found new ways to earn a living … nowhere is heavy manufacturing part of the solution. For the Midwest, mass production was a one-shot infusion, producing a boom that lasted one season and is now gone."[9]

This is a story of cities that are changing—some more strategically and some more reluctantly—than others. It is a story of how different cities have responded to national and global economic changes.

Methodology

For purposes of the ICI, we define industrial cities as having a population of at least 50,000 in 1960, with manufacturing accounting for at least 25 percent of total employment. In the five states of the Seventh Federal Reserve District, 47 cities fit those criteria and all of them share the common characteristic of having lost manufacturing employment over the intervening decades.

Chart 2. Percent employed in manufacturing: Midwest vs Northeast industrial cities, 1970–2010



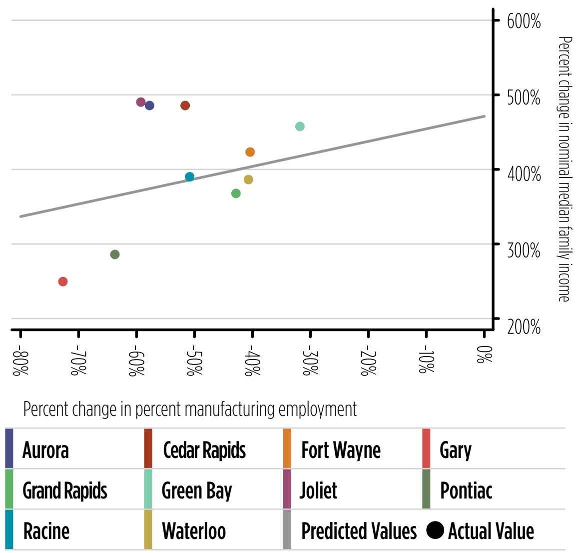
Note: Limited to cities that had at least 50,000 residents and 25% employment in manufacturing as of 1960.

Source: U.S. Census Bureau (A–1).

Although all of these cities have lost manufacturing employment relative to total employment, some appear to have sustained their economic well-being better than others. In our preliminary analysis, we measured their well-being by analyzing changes in population, changes in total employment, and changes in median family income relative to changes in the percentage of people employed in manufacturing.

Charts 3-5 depict percent change in one of the three measures of well-being versus percent change in percent manufacturing employment between 1970 and 2010. The red dots represent actual paired values for each case study city, while the blue line represents the line of best fit.[10] The vertical distance between the blue line and each red dot represents the difference between what would be expected if only the loss of manufacturing employment were used to explain the change in well-being. The underlying assumption – which is supported by the positive slope of the blue line – is that cities that experienced a decline in manufacturing employment would be expected to see a corresponding decline in population or total employment or median family income. By depicting actual performance against a backdrop of predicted performance given each city's unique extent of manufacturing employment decline, these charts help calibrate our sense of which cities "outperformed" their peers, as well as those that lagged what would be expected.[11]

Chart 4. Percent change in employed civilian workforce versus percent change in percent manufacturing employment, 1970–2010



Source: U.S. Census Bureau (A–1).

Chart 3. Percent change in population versus percent change in percent manufacturing employment, 1970–2010

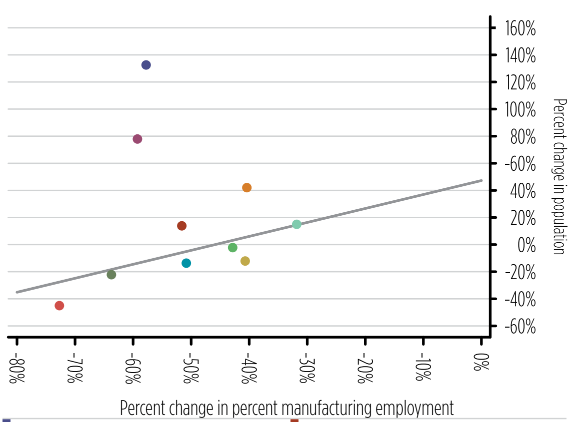
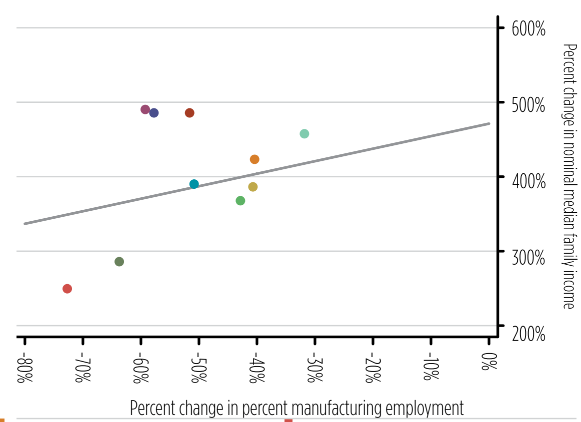


Chart 5. Percent change in nominal median family income versus percent change in percent manufacturing employment, 1970–2010



Aurora	Cedar Rapids	Fort Wayne	Gary
Grand Rapids	Green Bay	Joliet	Pontiac
Racine	Waterloo	Predicted values	Actual values

Source: U.S. Census Bureau (A-1).

For this exploration of cities, we wanted to identify at least two cities in each of the five states in the Seventh Federal Reserve District that captured a spectrum of results of manufacturing decline. Using this criteria, we arrived at the following selections:

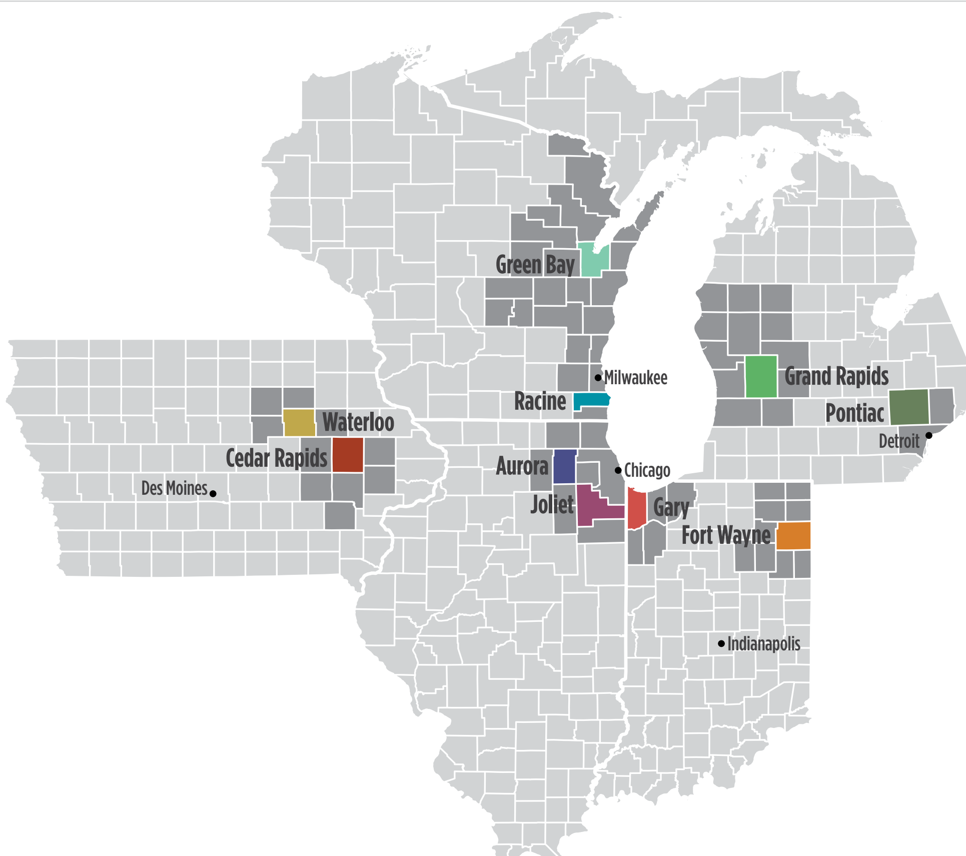
Illinois:	Aurora and Joliet
Indiana:	Fort Wayne and Gary
Iowa:	Cedar Rapids and Waterloo
Michigan:	Grand Rapids and Pontiac
Wisconsin:	Green Bay and Racine

The 10 cities profiled in this report are shown in Map 3.

The initial selection phase was followed by two phases of interviews. The first interview phase took place in 2011 and culminated in a working paper that was presented at a symposium on February 28, 2012.[12] The purpose of the symposium was to solicit feedback on the initial profiles, as well as explore associated research. The symposium was followed by a second phase of interviews, data gathering, and analysis to further explore our findings and deepen our understanding of these cities. During these two phases, dozens of leaders in each of these cities were generous with their time and insights, providing additional resources and data to inform the profiles. (The appendices contain a complete list of those interviewed, as well as detail the data sources employed throughout the profiles.)

The first working paper was organized thematically in an attempt to aggregate findings across cities to facilitate the emergence of common strategies and conclusions. In this report, the profiles stand on their own, but cover many of the same topics to the extent they are relevant in the different municipalities. While the first paper was an attempt to find commonalities,

Map 3. ICI cities and their regions



this paper is more an attempt to highlight the individuality of these cities – their histories, their industry, their populations, and their futures.

Quality of life in industrial cities

As charts 3, 4, and 5 illustrate, declines in manufacturing can help predict changes in population, overall employment, and median family income, respectively. However, the reasons for deviations from the predicted changes in each well-being measure vary from city to city.

Aurora and Fort Wayne outperform their peer cities on measures of population growth, employment, and median family income. However, some leaders in these communities point out that annexation has played a significant role in those measures, with the supposition that annexation may be masking many of the same challenges faced by underperforming cities.

Cities like Racine and Waterloo perform slightly below what the model would predict in most cases, but their stories indicate advancements in other quality of life factors – such as recreation or a small-town lifestyle – that may be of greater value to residents than some of those cities that have added more jobs or population.

Job creation remains the primary goal of economic development in the ICI cities. However, profiles of these ICI cities reveal patterns of job creation and projected job growth that require more education than the populations in these cities currently have or often pay less than a living wage. In fact, the widening wealth and income gaps of the nation are evident in these cities and present a significant challenge to the sustainability of the economic progress that many of these cities have made.

More families in ICI cities are now living in poverty. Unemployment alone does not explain this phenomenon as the poverty rate is greater than the unemployment rate in most of the cities (see chart 9).

These trends put additional strain on ICI cities as demand for services and support grow while municipal revenue and other supports decrease. Demand for services must also vie for resources with the public pensions, investment in aging infrastructure, and provision of emergency services within diminishing municipal budgets.

Amid these complex dynamics, most of the leaders in ICI cities focused on "deliberate development policies" that they believe they can influence if not control, and which either will or will not yield measurable development impacts. However, more intractable are legacy issues surrounding race and perception, leadership and regionalism, which often hamper the best laid plans.

Human capital

Even as these cities strive to identify those industries that are most likely to thrive and grow, they also struggle to match the skills of current and future workers with the needs of those industries. These cities generally address labor and skill issues under a broader "human capital" approach, which addresses three challenges simultaneously:

- Is there a large enough labor force available to fill the needs of current and prospective employers?
- Does that labor force currently have the skill sets necessary to fill available positions?
- Will there be a stable workforce available for the future needs of growing businesses and industries?

Of the ICI cities profiled here, only one city has a population of more than 250,000 people, while four of these cities have populations under 100,000. The small number of available workers in small cities presents a challenge for growing companies and industries. Many cities reach beyond their borders to aggregate a pool of available workers.

Many of the ICI cities strategically identify themselves as the employment hubs of much larger "labor sheds." Because many people are willing to travel great distances for work, these cities are able to tap into a labor market that spans many counties and may include more than one million workers.

Clearly, coordinating a regional labor market response to business needs requires leadership that thinks regionally as well as locally. Leaders in ICI cities – both elected officials and corporate and civic leaders – highlight the benefits of public-private partnerships, when addressing workforce issues. These partnerships typically identify skills that employers need to fill vacant positions; train new and displaced workers with the skills identified as necessary by industry leaders; and facilitate skilled workers' search for the best available open positions.

The national recessions in the early 1980s were wake-up calls for cities, workers and industries. Many of the public private partnerships that strive to address skills and training issues today find their roots in groups that were convened originally to acknowledge and address the need to diversify local economies in the aftermath of that recession. Some of these partnerships began as business attraction entities, marketing their respective communities to expanding and relocating businesses. Through years of experience, many of these partnerships concluded that a well-trained workforce is the most meaningful economic development incentive – although not the only incentive – they can offer.

Green Bay, Fort Wayne, Cedar Rapids, and Waterloo offer prime examples of the complex networks that train and place workers in the hopes of improving both city competitiveness and workers' success in the labor force. Nimble programs that take resources to where they are most immediately needed are integral to these cities' business attraction efforts.

The challenge for these local partnerships – made more acute by the sheer numbers of workers displaced by the recent financial crisis and recession – is to consistently upgrade worker skills in an environment of dwindling resources. Transitioning from an industrial labor force, to one that is globally competitive requires higher-level skills.

Having been so strongly manufacturing-oriented for much of their histories, midwestern manufacturing cities were left with a "deficit of educational attainment," in part because high-paying jobs did not require post-secondary education, and sometimes did not require a high school diploma.[13]

In places like Racine and Pontiac, leaders assert that unions insulated industrial workers from the early indications that lifelong learning and skill development were becoming more important than seniority. Many of the older, experienced workers in these cities, displaced by the economy, find themselves needing to go back to school, even to obtain jobs that pay lower wages.

In cities like Fort Wayne, Grand Rapids, and Green Bay, corporate leaders, government agencies, and community colleges are banding together to leverage the skills and work ethic of older manufacturing workers to retrain and place those workers as efficiently as possible. Each of these cities, as well as Aurora, Waterloo, and Cedar Rapids, is also looking to its future workforce.

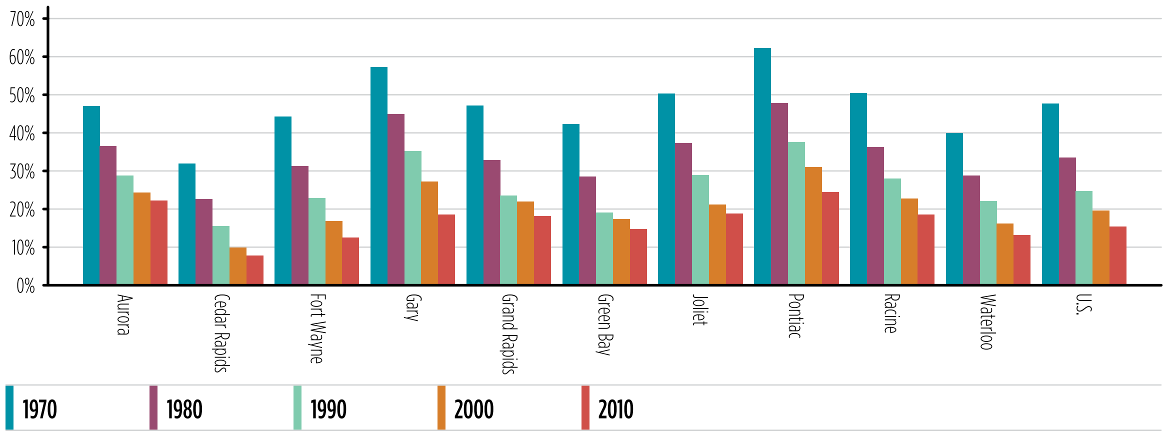
Many ICI cities' business leaders have observed that key segments of their existing labor pools are aging out of the workforce. At the same time, it is not clear that local students are aware of or are being trained for the career opportunities in modern manufacturing. Educational attainment is improving in ICI cities, but not rapidly enough to close the gap with national levels. Even as attainment improves, awareness of opportunities in advanced manufacturing remains low, as parents, teachers, and high school counselors are reluctant to suggest careers in industries they perceive as declining.

Most of these cities have partnerships that marshal resources from public, private, corporate, and philanthropic sources to work directly with local public school districts to address these issues. Racine employers were not alone in voicing that their local schools' diplomas did not provide confidence that a job candidate would be ready to work. Aurora is responding to the needs of its student population by training, educating, and testing in multiple languages.

Other cities address future workforce concerns by placing a greater emphasis on science, technology, engineering, and mathematics (STEM) skills in local schools. In Green Bay, the Workforce Investment Board and the Northeast Wisconsin Technical College developed a modern "shop class" curriculum that can be added as a teaching unit in high schools in the region. The technical college offers training to high school teachers during the summer. Ultimately, that leads to a mobile "shop class" with modern high-tech manufacturing equipment visiting schools and offering students the opportunity to apply the lessons learned and actually make something using the technology. Many cities are also working on providing greater exposure and early work experiences at companies.

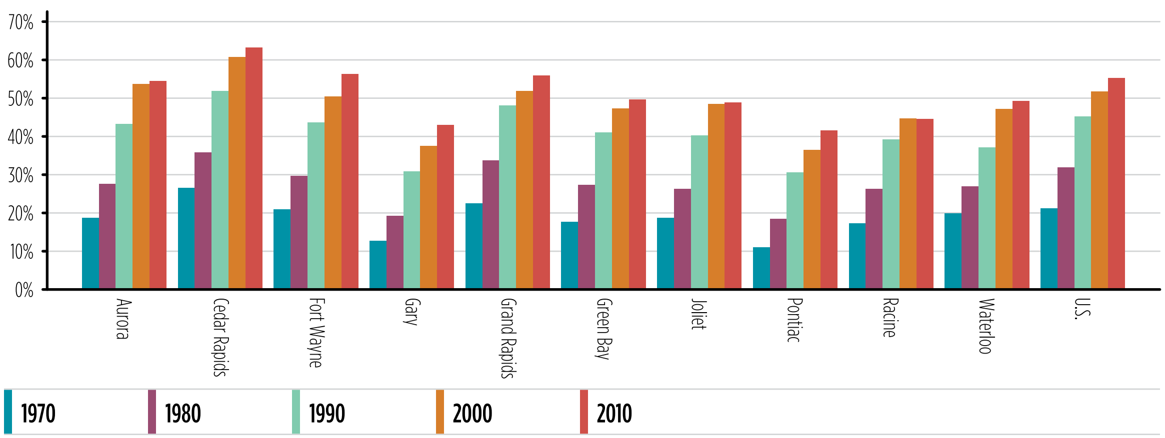
Data demonstrates that some ICI cities are losing ground in terms of educational attainment. In a world where a high school diploma and some further education or training is a basic requirement for employment, the ICI cities are not keeping pace with

Chart 6. Percent less than high school: case study cities and U.S., 1970–2010



Source: U.S. Census Bureau (A–1).

Chart 7. Percent some college and college grad: case study cities and U.S., 1970–2010



Source: U.S. Census Bureau (A–1).

the rest of the country. In 1970, four of the ten ICI cities exceeded national levels for percent of population without a high school diploma (chart 6). By 2010, that number had increased to 6. In 1970, two of the ten ICI cities exceeded national levels for the percent of the population with some college or a college degree. As of 2010, that number has increased to only three (chart 7). So, while overall, all of the cities have made strides in transitioning their populations to higher levels of educational attainment, some continue to struggle to complete the transition to post-secondary education.

Of concern is that a persistent theme across the ten cities was frustration at the lack of properly trained candidates prepared for available jobs. Employers, economic development professionals, and educators spoke repeatedly of well-paying unfilled jobs. Cities employ a variety of strategies to address this problem – sometimes referred to as a 'skills mismatch' in other cases just referred to as a lack of skills. Most commonly, these strategies involve multi-faceted collaborations between community colleges, workforce investment boards, high schools, and employers. Academic proficiency, as demonstrated by K-12 test scores, was reported to be poor across the cities. Remedial training was often mentioned as a 'normal' and necessary part of job training for both incumbent workers and new hires. Unions and employers, in some cases, have taken the situation into their own hands, to provide highly regarded training and on-the-job experience.

Regional presence

A city's ability to participate in regional development efforts – to be connected to its region and the global economy for jobs, revenue, and investment – was often highlighted as a barometer of success. However, regionalism was as much a mindset, as it was the presence of an actual infrastructure for transportation and communication. Joliet and Aurora benefitted from transportation improvements over the past few decades to leverage abundant open land and attract families within commuting distance of Chicago and other nearby job centers. At the same time, cities that were rich in assets, such as Gary, had not yet internalized the need to connect those assets to the region. And, cities with a strong regional mindset, such as Racine, were thwarted by their location away from expressways and other main arteries.

The ICI cities that were not within the shadow of the tri-state metropolitan Chicago region defined regionalism in various ways. Often encompassing multiple surrounding counties and many municipalities, these smaller regions (sometimes defined by their laborsheds) – when successful – were nevertheless connected to the Midwest and the world for jobs and businesses.

However, tension existed across most of the cities between economic development – which was occurring usually on the regional level – and community development that was occurring primarily at the municipal level and involved downtown redevelopment and other efforts. This tension was particularly real for elected officials who might be receiving the most support and encouragement from people other than their (voting) constituencies. Places that exhibit a sense that 'growing the pie' is good for all are the places that tend to outperform their peers.

Elected officials are rarely rewarded at the ballot box for helping a neighboring jurisdiction locate and grow companies. Local elected officials are also often pitted against each other in businesses' pursuit of incentives for expansion and relocation. So interjurisdictional cooperation is not always an obvious choice for elected officials.

Economic development

Each of the ICI cities profiled here is working to maintain manufacturing as a core industry while promoting the growth of other industries in a diversifying economy. The deliberate development policies being pursued in ICI cities involve three elements that are blended uniquely in each city's context:

- Identifying the strongest industries with the greatest prospects for growth given the assets available in a given city;
- Matching the skills of the resident workforce to the needs of those industries; and
- Cooperating on a regional basis to develop large pools of skilled workers and industrial clusters that compete nationally and globally.

Within this context, all cities were challenged to do more with less as they face reductions in revenue. The erosion of property tax revenue, combined with increased needs, have placed strain on municipal budgets. Many cities face reduced state and federal funding, as well. However, downtown redevelopment strategies were priorities for most of the cities, as they sought to bring shops, restaurants, and other amenities back into the central city in the hopes of boosting revenues and attracting more residents. At the same time, these cities have outdated infrastructures and in some cases, sub-standard housing stock, as well as poorly maintained commercial buildings. Although the economic recovery offers some prospects of increasing revenues in the future, structural demographic and social issues present an even greater challenge to some of these cities.

Successful strategies leveraged public-private partnerships, attracted multiple layers of investment, and ensured that the business and civic leaders were engaged in the process and outcome. The most unique example of this is Grand Rapids, which continues to benefit from a legacy of philanthropic support driven by the city's leading families. While many cities lamented the loss of their position as a 'corporate town', Waterloo still benefits from the investments of its leading employer: John Deere. At the other end of the spectrum are leaders in Gary that recognize and value the presence of U.S. Steel, but wish it were more engaged in the community. Leaders in Joliet lament the loss o f corporate leaders with a connection to the city. Some derivation of the following question was posed often: What is the role of 'corporate citizens,' and what can be expected of them in terms of supporting the economic development of the municipalities where they choose to locate?

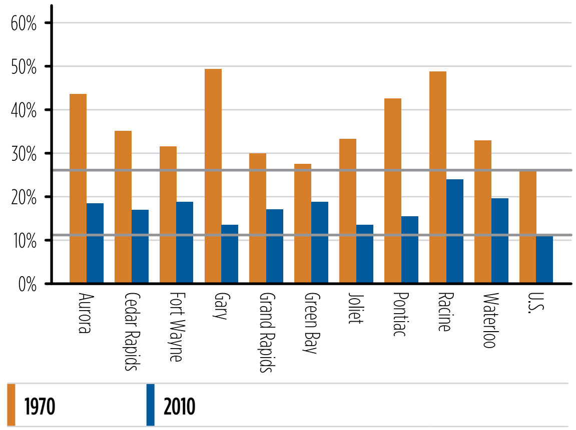
Most, though not all ICI cities, have had a degree of success in business attraction, entrepreneurial development, and workforce development efforts. Across the ten cities, economic development professionals list 'de rigeur' incentives for any city hoping to compete for businesses, TIF districts, New Market Tax Credits, and tax rebates, are but a few. Questions remain, however, as to whether these incentives are enough and what else is needed to attract strong companies with good jobs for local residents. In some cases, local economic development efforts undermine regional efforts. Too often, a municipality's fiscal needs and those of its residents trump the economic development visions of the region.

Industry analysis

Most of these cities are seeing employment growth in a number of sectors that tend to track the needs of local population and demographic trends: education, medical, and restaurants and entertainment are strong generators of jobs in ICI cities. While these industries and jobs are important elements of cities' local economies, these industries do not tend to attract wealth or investment that can build a stronger local economy.

To address the need for "traded" industries, the ICI cities are identifying current and historical strengths and assets to promote the growth and development of advanced manufacturing and emerging industries. Waterloo, Iowa, continues to support John Deere and its local network of suppliers; but they also cull through the intellectual property of John Deere workers, past and present, to develop new products and start new businesses. A deep network of suppliers that grew up serving the paper mills in Green Bay are finding new ways to leverage their expertise in tool and machinery engineering and design to serve a wider range of industries including ship building, military hardware, printing solutions, food packaging, and wind mills.

Chart 8. Percent employed in manufacturing: case study cities and U.S., 1970 and 2010



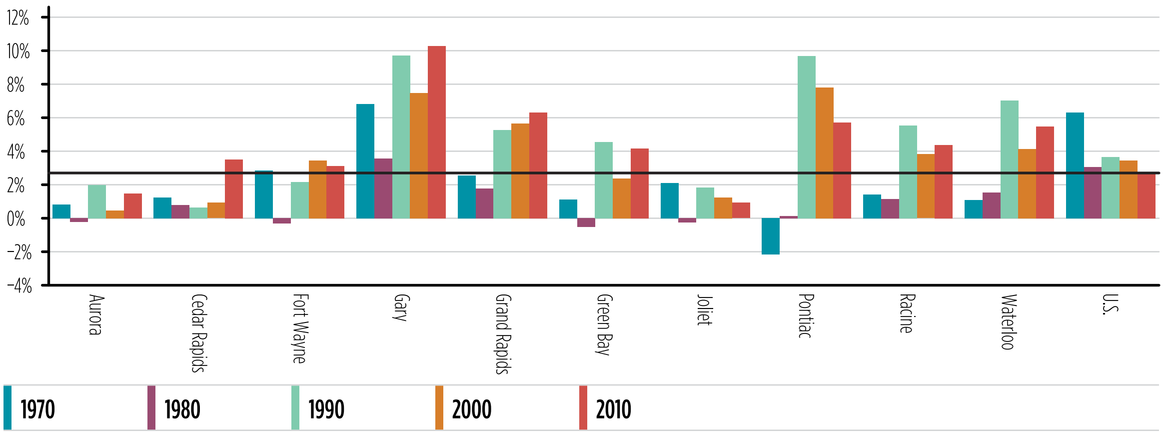
Source: U.S. Census Bureau (A–1).

Agribusiness is an important industry in many ICI cities, leveraging proximity to rural communities and the capacity to process, package, and transport food from America's breadbasket to the world. Some cities are going beyond the food business to develop clusters of bio-science and bio-technology companies that benefit from both the talent and research institutions in urban population centers and easy access to the crops and animals on nearby farms. Cedar Rapids, Fort Wayne and Grand Rapids, for example, are strategically cultivating these types of industrial clusters.

Racine and Gary are among a number of cities in a region that stretches from Milwaukee through Northwest Indiana that leverage Lake Michigan as a resource to develop fresh water technology companies. Racine in particular is emerging as a leader in the field of aquaponics – breeding fish in fish farms in a sustainable manner to alleviate a projected world-wide shortfall in seafood.

Joliet and Gary continue to exploit their advantages as transportation centers. Located at the intersection of the country's major rail lines and interstate highway system, with access to airports and Great Lakes ports, these cities are strategically investing in their abilities to be important hubs of material shipping and handling industries. Green Bay emphasizes that its port on Lake Michigan is closer to European markets through the St. Lawrence Seaway than many east coast cities.

Chart 9. Difference between poverty rate and unemployment rate: case study cities and U.S., 1970–2010



Source: U.S. Census Bureau (A–1).

The case study cities remain centers of manufacturing, although to a much smaller degree than in 1970 (chart 8). Manufacturing jobs, for the most part, still pay well. As manufacturing productivity has accelerated, growth in output exceeds growth in jobs. Unfortunately for many of the profiled cities, many categories of job growth are in industries that do not pay well – retail and entertainment in particular. Cities also see growth industries that follow demographic trends, such as health care and education. However, while many cities have successfully diversified their industry composition in an effort to attract more jobs, attracting good jobs and linking those jobs to a trained workforce remain real challenges.

Although the poverty rate has traditionally exceeded the unemployment rate to some degree at both the national and local level, in the ICI cities this gap is widening (e.g., the poverty rate is increasing faster than the unemployment rate), whereas at the national level it is narrowing (chart 9). In short, people may be working – avoiding the hollowing unemployment experienced by these cities in the 1980s – but current trends in employment and wages do not bode well for a sustained middle class in these cities.

Chart 9 illustrates the difference between the poverty rate and the unemployment rate. Today, while both the unemployment rate and the poverty rate have increased, the gap is widening. Only two ICI cities do not share this experience: Aurora and Joliet.

Race and diversity

While these cities have a wide range of racial and ethnic composition, from Cedar Rapids which is mostly White to Gary and Pontiac which are predominantly Black to Aurora which is now 40 percent Hispanic, equity and inclusion constitute both a challenge and an opportunity for most of these cities. Leaders in both Fort Wayne and Gary described racial and ethnic inclusion as an "Achilles' heel." Aurora has begun making strides to be more inclusive of a growing immigrant population.

Leaders of the Grand Rapids Chamber of Commerce have designed a program that allows for explicit discussions of how residents and employees experience racial bias while training community and business leaders on how to address and mitigate the impact of those biases in any situation. Businesses in Cedar Rapids and Waterloo often have to go far beyond their borders to recruit the technical workers they need; lessons regarding assimilation, tolerance, and cultural sensitivity are part of the business retention process. Green Bay, on the other hand, has a significant Hmong population and works within that community to improve educational attainment levels.

Trust may be the most important form of social capital that ICI cities can cultivate. In Pontiac and Gary, many of the efforts to address those cities' most pressing issues are met with distrust built up over years of racial tensions. Some residents of these cities find it difficult to trust new ideas and leaders, believing that development projects and new ideas tend to enrich a few at the expense of the many.

Some of the cities have been diverse for generations, while some have fairly recent racial/ethnic shifts. Either way, economic class and race followed similar patterns across the cities. Some cities were burdened by histories of racial tension that stymied efforts to move forward. Others wanted but didn't know how to engage new residents and develop leadership representative of the diversity of the community. For the most part, contacts spoke openly about these challenges and their ramifications for economic growth and social stability.

Housing

The housing markets of ICI cities are struggling on many dimensions. Mortgage lending declined through the financial crisis and recession, and, in most ICI cities has not yet recovered. Lenders indicate that they are ready to lend, but demand for new mortgage loans has diminished along with the decline in property values.

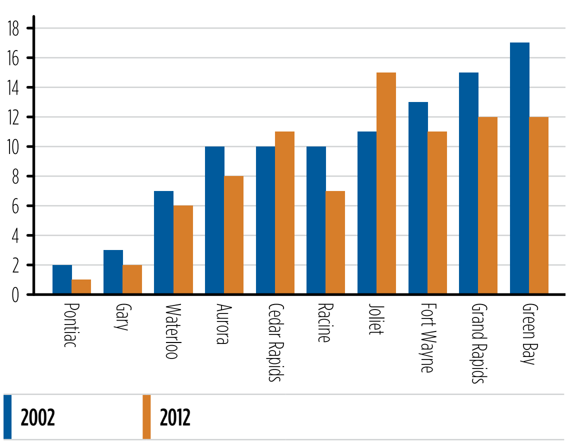
As in many urban markets around the country, ICI cities are facing the dual challenges of a high home foreclosure rate and high unemployment. As more residents seek housing options in the rental market, the overall rent burden has grown putting additional strain on family balance sheets and budgets. Again, this does not appear to be unique to the ICI cities. However, these older cities have aging housing stocks with higher maintenance costs, putting further pressure on affordability. Further, we found that in some of the harder hit cities specifically mentioned in Gary was the need to strategically address a significant amount of (non-contiguous) vacant land. Aggregating land for re-development or land-banking for future use were some of the strategies being explored.

Banking

The number of financial institutions has remained relatively constant over the past ten years, across all of the cities. However, the profile of those institutions has, in some cases, changed significantly, as represented by the number of banks headquartered in the respective states (chart 10). Community banks have been particularly affected, resulting in a loss of a local decision making presence as these smaller institutions close or are acquired. Contacts in most cities lamented the loss of a bank that was part of the community, as these institutions were often important anchors and played vital leadership roles.

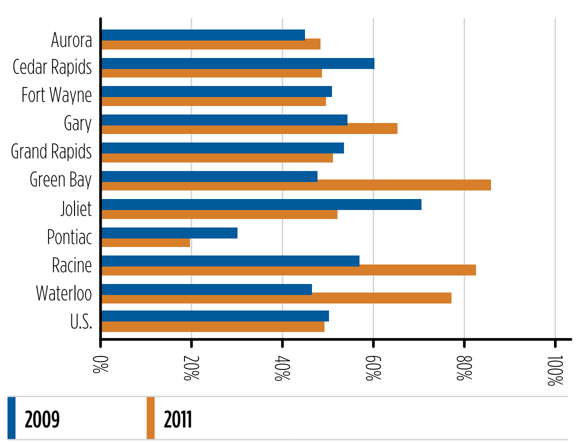
CRA lending across the cities fell dramatically during the recession, as indicated by 2009 levels as a percentage of 2006 levels. As shown in chart 11, none of the cities have returned to pre-recession (2006) levels of lending

Chart 10. Number of banking institutions headquartered in state: all case study cities, 2002 and 2012



Source: FDIC Summary of Deposits (A–6).

Chart 11. Value of CRA loans (thousands of real $, 2010=100) in all case study cities as a percentage of 2006 levels



Limited to loans made to businesses with less than $1M in annual revenues

Source: CRA (A–5).

as captured in CRA reporting. However, in almost half of the cities, the lending rebound (as of 2011) exceeds that of the rest of the nation. Still, in Cedar Rapids, Grand Rapids, Joliet, Fort Wayne, and Pontiac – as well as the U.S. – lending levels, as a percentage of 2006 levels, continued to fall through 2011.

Conclusion

Finding uniform, long-term, historical data for these municipalities is challenging. Equally challenging is understanding the interplay across the variables. In the cities exhibiting the highest levels of distress, all indicators pointed to challenges on every front. Conversely, in those cities that appear to be outperforming their peers, no one single set of indicators pointed consistently to success. Therefore, 'where to start?' and 'what works?' remain questions without clear answers that the ICI will continue to explore.

Nevertheless, some conclusions emerge:

- Manufacturing employment has declined in all of the ICI cities and is unlikely to rebound. Most cities are adding employment in education, medical, and local dining and entertainment. In most cases, higher wage jobs require some post-secondary qualification.

- Overcoming a deficit in educational attainment is an obstacle to linking available jobs with the skills of displaced and future workers. It is also a challenge for economic development professionals charged with attracting new businesses seeking a skilled workforce.

- Housing markets in many of the cities are out of balance. A combination of higher foreclosure rates and a limited supply of affordable rental housing result in high rent burdens, for residents.

- Infrastructure and commercial buildings are aging and in need of repair and investment – a challenge in the face of declining revenues. Making these older cities functional for and attractive to growing businesses and young professionals often requires significant investments in redevelopment.

- Populations are becoming more diverse, and greater inclusion remains both a challenge and an opportunity for these cities.

There are some characteristics of ICI cities that seem to be outperforming their peers:

- Leadership is the necessary but unquantifiable key for all of these cities. Successful cities have a group of leaders that share a vision of what the city can be and the wherewithal to execute a stratey to implement that vision. In some cases, key leaders are the elected officials. More commonly, successful cities have private-sector and/or philanthropic leaders that engage the residents and elected officials, allowing them to marshal the resources necessary to realize long-term strategies to address economic challenges that have been decades in the making.

- Those cities that outperform their peers display a greater propensity to think regionally and globally. They accept their roles as the central hubs of their wider regions and strive to develop partnerships and collaborations that will help make these cities and regions more competitive. As one observer summed it up, "It's hard to be regionally competitive if you're not regionally cooperative."

- Even as these cities strive to be more cooperatively open to their surrounding regions, those that are outperforming their peers appear to be more directly engaged in strategies and initiatives to be conscientiously more inclusive of racial and ethnic minorities and lower-income residents.

There are several things that clearly require more analysis and attention as they have been raised as issues by leaders in these communities but have proven difficult to analyze or quantify.

- A need for increased access to credit and capital for individuals, families, and businesses was mentioned in most cities. The loss of locally owned financial institutions is believed to have restricted credit for these communities. However, the data indicates that lower demand may play a greater role than what is perceived in the communities. Nonetheless, many believe, as one observer has put it that, while larger banks' branches are "still in the community, they are no longer of the community."

- All ICI cities are working to address human capital issues, from K-12 education to job training for displaced adult workers. These challenges are the one area where everyone agrees resources need to be deployed strategically and effectively, but all cities continue to seek more and better ways to do so. Creating an inventory of best practices in workforce development may illuminate strategies that are replicable and/or scalable to different communities or across regions.

- Examining ten cities that exist within their own context (here, the Midwest) becomes problematic when trying to draw conclusions, comparisons, or analogies. Examining the universe of 300 cities that met the original selection criteria (population greater than 50,000 in 1960, with more than 25 percent of employment concentrated in manufacturing) would allow deeper analysis and understanding of trends affecting cities that fall within the Federal Reserve's seventh District footprint.

How should "success" be measured for these cities? Our initial analysis focused on measures of population growth, employment growth, and median family income.

The presumption is that population growth is a sign of good health and population loss is a sign of declining well-being in these cities. But the question may be, "can a city shrink and thrive?"

Employment growth as a measurement of well-being follows a 'more is better' mentality. However, for many of the ICI cities that had been successful in creating jobs, they struggle to create quality, permanent, well-paying jobs. A growing gap between poverty and unemployment merits further exploration as working families struggle to make ends meet.

Median family incomes may be subject to a variety of forces. The flight of wealth from a city can drive down median family incomes, without the incomes of the remaining population changing, indicating a concentration in poverty. Some cities benefit from being close to large job centers that provide a wealth of both earning and training options. Therefore, the city is not the job generator, although it benefits from the wealth its residents bring home.

In closing, we return to our original questions:

Why have some of these cities outperformed others? As demonstrated above, there is no single definition of success. While these cities have faced similar issues – loss of manufacturing jobs being the core example – strategies for recovery have ranged from leveraging local infrastructure to capitalizing on natural beauty to cultivating the growth of new industries as legacy industries restructure, among others. Ingredients that support those strategies include: a regional mindset; a collaborative, interdisciplinary approach to economic development; and well-orchestrated efforts to retain and add jobs in growing industries. Cities that struggle, however, demonstrate the same signals of distress: loss of population, low levels of educational attainment, and persistent poverty, among other indicators.

Are there regional trends that impact the economic performance of these cities? Research has shown that it is hard for a city to be 'healthy' if its MSA is struggling.[14] Most, but not all, cities that were close to Chicago capitalized on that proximity for jobs, higher education opportunities, and other amenities. Some cities that are more remote from major metropolitan areas strategically seek to leverage their roles as urban cores of multi-county regions.

Are there state level trends? Contacts reported that they were very much affected by state level decisions and politics. Some of the states faced dire financial situations and this impacted local revenue, as well as jobs. In other states, local leaders saw recent legislative initiatives – right-to-work for example – as shaping the environment in which they work to attract and retain businesses.

To what degree do macro-level forces impact these communities (globalization, aging populations, education, poverty, wealth)? One contact said, "All macroeconomic forces play out [here]." These smaller cities, regardless of their location or levels of connectivity, are not immune to these larger forces. In fact, many seem to lack the scale to fully address these issues.

Can other cities replicate successful economic development strategies? We saw no evidence that would enable us to answer this question. ICI cities are more concerned about connecting with their region and beyond than with each other. Nevertheless, opportunities for exchange would appear to exist around the topics of workforce development, municipal finance, integration and equity, affordable housing, and others.

As ICI proceeds, we will continue to engage local leaders in these ten cities and perhaps other midwestern industrial cities to identify best practices in local governance, and community and economic development policies and practices that promote sustainable, resilient cities that can employ, house, and educate their populations. We will continue to share results, solicit feedback, host convenings, and create new opportunities for leadership and information exchange across these geographies.

Notes

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6. Testa, Bill and Norman Wang, Manufacturing as Midwest Destiny, on the Federal Reserve Bank of Chicago's Midwest Economy blog, February 3, 2012. Available at http://midwest.chicagofedblogs.org/archives/2012/02/industrial_citi.html.

7. U.S. Census Bureau (see Appendix A-1). Full citations and descriptions for datasets used throughout the ICI profiles are provided in Appendix A. These include data from the U.S. Census Bureau, U.S. Bureau of Labor Statistics, HMDA, CRA, Summary of Deposits, Lender Processing Services, Brown University, and Living Wage Project.

8. U.S. Census Bureau (A-1).

9. Longworth, Richard C., 2009, p. 27.

10. Based on a linear regression of the change in each well-being variable on percent change in percent manufacturing. Note that each regression took into account all 47 industrial cities in the five Seventh District states.

11. Note that the second period population figures used in this graph derive from the 2005-2009 American Community Survey. (In most other cases, population figures derive from the 2010 Census Short Form.

12. http://www.chicagofed.org/digital_assets/others/events/2012/ici_symposium/ici_white_paper.pdf.

13. William Testa's presentation at Symposium on February 28, 2012.

14. Blumenthal, Pamela, Harold Wolman and Edward Hill. March 2009. Understanding the Economic Performance of Metropolitan Areas in the United States. Urban Studies, 46(2), 605-627.

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