## EXECUTIVE SUMMARY

**Despite the historic economic gains of the past 6 years, America is facing a triple threat: a new urban challenge affecting many of our Nation's cities; the spread of problems traditionally perceived to be urban—crime, poverty, homelessness and more—to many "graying" suburbs; and islands of poverty—economic flatliners—that persist in rural America, virtually untouched by cycles of boom and bust.**

President Clinton and Vice President Gore's economic policies have had a tremendously positive impact on many American communities and generated significant results, including 18 million new jobs, the lowest peacetime unemployment and inflation in decades, the fastest and longest real wage growth in two decades, a 44 percent drop in welfare caseloads since January 1993, a drop of one-tenth in the central city poverty rate, the biggest declines in poverty rates of African-Americans and Hispanics in more than two decades, an off-the-charts stock market, and a record homeownership rate thanks to 7.8 million new homeowners. Community policing, youth opportunity areas, urban job creation, public housing revitalization, school reform and construction, and other vital initiatives have helped make many communities more prosperous overall. Cities, in fact, are fiscally healthier than they have been in a decade, with many downtowns enjoying a renaissance, a steady drop in urban crime and unemployment rates, and a majority of city dwellers owning their own homes—for the first time in history. But President Clinton wants to do even more and sees a historic opportunity to help more people and places share in our national prosperity. In his 1999 State of the Union Address, the President urged America not to forget the places that have been left behind in the new, stronger economy and to view those places not as national burdens but as untapped markets that can fuel continued economic growth for the Nation.

This study is part of a series on "Places Left Behind in the New Economy," in which the U.S. Department of Housing and Urban Development (HUD) reports on the state of communities still struggling in the slow lane of the Nation's remarkable economic recovery. This report focuses on a rarely seen dimension of that expansion—cities likely to face long-term economic troubles if they are not able to address core problems now, during the current boom. A future study will take up a second important task: identifying the economic potential of the untapped markets in many of our struggling communities.

## I. THE NEW URBAN CHALLENGE

The focus of this report, the "new urban challenge," differs in striking ways from the urban challenge of decades past. Our perception of the old urban crisis was driven by the woes of a handful of big cities and their massive rates of disinvestment and "white flight" to the suburbs—in Newark, the South Bronx, Detroit, Chicago, and elsewhere. That crisis was memorialized by the Kerner Commission Report (1968), a statement on the race riots that tore the social fabric of major American cities. Kerner spoke of two nations already "separate and unequal" and drifting apart.

Although clear patterns of disinvestment and racial segregation—hallmarks of the urban crisis highlighted 30 years ago—continue in some of America's cities and metropolitan regions, *the new urban challenge is driven by changing global economics as well as by other factors, such as race or a preference for suburban living.* Furthermore, the new urban challenge touches all parts of the country, not just the largest cities that became symbols of de-industrialization and urban decay.

### MAJOR FINDINGS OF THE REPORT

**How is the economic health of America's cities at the end of this century?** To get beyond the anecdotal evidence, we examined the 539 U.S. central cities (the principal cities of larger metropolitan areas) against three important indicators of economic distress—unemployment, population loss, and poverty—highlighting those central cities that continue to trail the national economy in significant ways.[1]

**This report concludes that the vast majority of those 539 cities are doing quite well and have benefited significantly from the economic recovery of the past 6 years. However, this report also warns that major challenges remain for a number of central cities—challenges that could pose a long-term threat to their health. Our main findings highlight particularly significant, and in some cases chronic, challenges at a time when America's economy offers the best opportunity in a generation to effectively address these problems**.[2]

**FINDING #1** **UNACCEPTABLY HIGH UNEMPLOYMENT REMAINS IN ONE IN SIX CENTRAL CITIES**. ***Despite a dramatic drop in the overall urban unemployment rate over the past 6 years, many central cities face unemployment rates much higher than that of the Nation as a whole—1 out of 6 central cities (17 percent) has an unemployment rate 50 percent or more above the national***

***rate,***[3] ***about 1 in 12 has a rate 75 percent or more above the national average, and about 1 in 15 central cities has a rate 100 percent above the national average.*** A total of 95 central cities in 25 states had rates of 6.75 percent or more in 1998 (50 percent above the national average rate for that year), 64 had a rate of 7.9 percent or more (75 percent above the national rate), and 37 had rates of 9 percent or more (100 percent above). In other communities, including economic giants such as New York City and Chicago, low citywide unemployment rates mask pockets of very high unemployment in particular neighborhoods. And although unemployment rates have dropped in the 6 years of the recovery in most of these cities, they remain unacceptably high in the context of the lowest peacetime unemployment in over 40 years for the Nation as a whole. In part, these patterns reflect the loss of both households and jobs to suburban areas over the past quarter century. Contrary to the narrow image of distress only in the "rust belt," the high unemployment areas, most of which are small or mid-sized cities, are found throughout the Nation, from farm cities to former industrial giants, from timber towns to former mining centers: Yuma, Arizona saw its unemployment rate fall modestly, from 19 percent in 1992 (pre-recovery) to 18.8 percent in 1998; Madera, California's rate fell more than 5 percent over the last 6 years but remains high at 18.3 percent; North Chicago, Illinois saw a modest drop from 10.7 percent in 1992 to 10.3 percent last year; and unemployment in Yakima, Washington has declined from 13.7 percent to 10.2 percent, still more than twice the national average in 1998.

**FINDING #2** **STEADY POPULATION LOSS AFFECTS ONE IN FIVE CENTRAL CITIES**. ***Many central cities suffered significant population loss at a time when the overall U.S. population grew rapidly—one in five central cities experienced a population decline of 5 percent or more during 1980–96, despite rapid population growth (17 percent) for the Nation during those years.*** A total of 116 central cities in 28 states lost 5 percent or more of their people, and 57 (1 in 10) lost 10 percent or more during that period. These cities lost workers and consumers to grow the economy, as well as the tax base needed to protect livability and strengthen the local business climate. As HUD noted in the *1998 State of the Cities* report, these loss patterns reflect a longer-run loss of families, and of middle-income households in particular, in cities nationwide: the number of suburban families grew 60 percent between 1990 and 1997, compared to 12 percent growth in cities; from 1970 to 1997, nearly 6 million middle income and affluent families left the cities; and from 1985-1995, the number of high income families—those with 150 percent or more of area median income—grew in suburbs by 16 percent, against only 2 percent in cities. These patterns translate into a widening income gap between cities and suburbs—median household income in suburbs in 1996 was 67 percent higher than median income in central cities, up from 58 percent in 1989. Of the 1 in 10 central cities that lost over 10 percent of their population during 1980-96, the most extreme cases reflect a massive exodus of people as jobs moved away—East St. Louis, Illinois lost over 30 percent of its population during the period; Gary, Indiana 27 percent; Johnstown, Pennsylvania 26 percent; Youngstown, Ohio 24 percent; St. Louis, Missouri 22 percent; and Parkersburg, West Virginia 18 percent.

**FINDING #3** **PERSISTENTLY HIGH POVERTY PLAGUES ONE IN THREE CENTRAL CITIES.** ***Many central cities are struggling with high rates of poverty that appear not to have dropped significantly in the first half of the decade. Close to one in three central cities (32 percent), or 170 cities total in 34 states, had poverty rates of 20 percent or more in 1995—50 percent higher than the national rate—and it appears that these rates have remained high since the last full census at the start of the decade, despite some drop during the recovery. Even with a strong national economy, these places have a long way to go.*** Evidence from the most recent HUD estimates, and from school district data on student eligibility for free or reduced-price lunch, strongly suggests that extraordinarily high poverty rates persist today in the most distressed cities. For example (showing estimated poverty rates in 1995): Washington, D.C. (20 percent); New Orleans, Louisiana (34 percent); St. Louis, Missouri (30 percent); Philadelphia, Pennsylvania (24 percent); Richmond, Virginia (25 percent); Miami, Florida (43 percent); San Bernardino, California (30 percent); Mobile, Alabama (24 percent); Detroit, Michigan (33 percent); and Laredo, Texas (36 percent). In Washington, D.C., estimated poverty rates were virtually unchanged between 1993 and 1995, and the proportion of public school students eligible for lunch subsidy actually grew, from 59 percent to 66 percent. In other central cities, poverty estimates show a modest *increase* during the early part of the recovery (between 1993 and 1995), such as in Rochester, New York (from 27.3 percent to 28.3 percent), Beaumont, Texas (21.5 percent to 22.4 percent), Charleston, South Carolina (23.7 percent to 24.5 percent), and San Luis Obispo, California (28.5 percent to 30.0 percent). (See Appendix, Tables 10, 11.)

**FINDING #4** **ONE IN SEVEN CENTRAL CITIES FACES "DOUBLE TROUBLE."** ***Seventy-four (74) central cities, or one in seven (14.3 percent), face continued high unemployment relative to the Nation as a whole, plus either significant long-run population loss or persistently high poverty rates or both.***[4] ***Not surprisingly, then, the new urban challenge is not limited to a handful of large cities in a few parts of the Northeast and Midwest—rather, it confronts all regions of the country and a significant number of small and mid-sized communities.*** These doubly burdened central cities experience both high levels of distress *and*, in many cases, have enjoyed much more modest recovery than the Nation as a whole over the past 6 years. For example: Camden, New Jersey, with an unemployment rate almost three times the national average in 1998; Gary, Indiana, with high unemployment, almost one-third of its residents in poverty, and a staggering population loss of one in four residents between 1980 and 1996; Anniston, Alabama, with a 12.7 percent loss of population over that period and poverty estimated at 28 percent in 1995; Niagara Falls, New York, which lost almost one-fifth (18.2 percent) of its population during 1980–96, had unemployment (10.4 percent) double the national average last year, and an estimated 22 percent of its residents in poverty in 1995; and cities in the West and Southwest, where poverty is high and job creation is lagging a population explosion, despite considerable new investment activity, such as McAllen, Texas, where unemployment (12.7 percent) was three times the national rate last year and poverty at 34.4 percent in 1995, alongside a 56 percent growth in population during 1980–96; or Madera, California, which grew 64 percent over that period and faced a 33 percent poverty rate in 1995, as well as unemployment (18.3 percent) four times last year's national average.

***MOST DOUBLY BURDENED CENTRAL CITIES ARE SMALL OR MID-SIZED CITIES. Sixty-six (66) percent of the central cities that are doubly burdened as we describe above are small or mid-sized, with populations of 100,000 or less. The challenges in a handful of the larger cities in this category relate***

***mainly to extending the recovery into the most distressed neighborhoods—the deepest pockets of poverty.*** Most of the doubly burdened central cities studied are not the former poster children of urban decay but are smaller communities like Anniston, Alabama or Elmira, New York, or mid-sized cities like Camden, New Jersey and Youngstown, Ohio. The largest central cities in this category—places such as Detroit and Miami—tend to have pockets of serious distress, despite dynamic investment climates and significant drops in unemployment over the recovery. Some of these places, and a number of cities not on our list of the "doubly burdened," are marked by persistent inequality, with major challenges affecting particular neighborhoods. For example, Miami's unemployment has dropped dramatically from the 15 percent average rate in 1992, but remained high—twice the national rate—at 9.6 percent last year. Despite rapid population growth and a broadening economic base for the larger region, Miami faced a staggering poverty rate estimated at 42.8 percent in 1995. This ghetto poverty persists in Chicago, Los Angeles, New York, and other major urban centers where citywide indicators—of unemployment, for example—mask the concentration of distress. These patterns are holdovers of the more familiar urban challenges of decades past, and these communities may require more focused attention to address their core problems.

***ALMOST HALF OF ALL STATES ARE AFFECTED.* Twenty-three (23) of 50 States have at least one central city affected by two or more distress indicators.** Due to patterns of migration and economic change, some States are home to more than their share of these central cities—for example, California is home to 11; Texas to 10; Ohio to 7; Illinois to 6; Florida and New Jersey to 5; and Michigan, New York, and Pennsylvania to 4. Doubly burdened cities in the "rust belt" tend to be those former industrial powerhouses that lost investment, jobs, and population over the last two decades. Doubly burdened cities in the South and West tend to be smaller and started with a different economic base, such as farming or mining, although those communities have also seen people and jobs leave in dramatic numbers. A number of high unemployment cities in the West and Southwest tend to be gaining population rapidly, like those regions generally, but not generating sufficient job growth to overcome high poverty and unemployment rates, despite the recovery. A population explosion in many of these western and southwestern cities can present challenges quite unlike those posed by the demographic implosion of shrinking places in the Northeast, Midwest, and South.

Later this year, HUD will issue two additional reports in the "Places Left Behind in the New Economy" series. One will examine struggling older suburbs—places once thought immune to "urban" ills like poverty, crumbling infrastructure, and crime. The other will highlight chronically distressed communities in rural America. The next two sections serve as brief previews of those forthcoming reports.

## II. STRUGGLING SUBURBS—THE GREAT SURPRISE

The challenges that were once concentrated in central cities have spread to many older, "inner ring" suburbs—places such as Euclid and Garfield Heights outside of Cleveland, Southfield and Royal Oak near Detroit, Prince George's County, Maryland near Washington, DC, and Chicago Heights, just outside the city of Chicago. These communities, once thought immune to such urban ills as crime and poverty, are increasingly facing those challenges and more. The challenges are not restricted to one or two regions of the country but are national in scope.

Suburban pockets of concentrated poverty are becoming more common. For example:

- In the 1990s, 90 percent of **Minneapolis**' inner ring suburbs have been gaining poor children at a faster rate than Minneapolis itself. Nearly a quarter of all children in these school systems now receive free school lunches. Crime has risen, too.[5]

- Six of the 10 communities in the **San Francisco Bay Area** with the highest poverty rates are older, inner ring suburbs surrounding the Bay. Moreover, areas of income decline in the Bay area are concentrated in these older cities and inner ring suburbs.[6]

The populations of many older suburbs are stagnating or declining. As more affluent households have left our older suburbs in most metropolitan regions for newer suburbs further from the city center, businesses have followed. Many older suburbs have thus experienced job losses as dramatic as those seen in central cities;  some have seen more dramatic declines.  This disinvestment has created blighted areas of vacant lots and brownfields.

Median incomes also tell the tale of continued out-migration from older to newer areas.  In four Atlanta suburbs, the growth in median family income between 1960 and 1990 actually lagged income growth in the central city for that period.  Income growth in the metropolitan area has centered on the newer suburbs further away from the urban core.

Fiscal strain often accompanies these demographic tremors; for example:

- In the older suburbs that surround the central city of **Rochester, New York**, property values are a fraction of those in more affluent suburbs in the same metropolitan area. A study found that assessed property values in three inner ring suburbs were only 40 percent of those in the three southeastern outer-ring suburbs.  Also, between 1977 and 1995, the tax bases in these older suburbs grew an average of 28 percent, compared to a booming 122 percent in the outer-ring suburbs.[7]

These suburban communities, like many cities, have lost much of the fiscal capacity to respond to important new challenges—the capacity to join the new economy and ensure a high quality of life for residents.  Furthermore, these trends are not limited to Minneapolis, San Francisco, Rochester, or a handful of other metropolitan areas.  The decline of older suburbs is happening across the country.  Such diverse metropolitan areas as Philadelphia, Cleveland, and Boston, and States such as Maryland and California, have documented many of these trends in their inner suburbs.[8]

## III. Economic Flatliners—Places Left Behind in Rural America

The Nation's economic challenges are not confined to the cities and suburbs in metropolitan areas. Many rural communities are struggling as well, especially in Appalachia, the Mississippi Delta, Indian Country, and the borderland Colonias. In these and other areas, rural communities have been mired in poverty and joblessness for decades. Their economic fortunes are like flat lines against the cycles of growth and contraction that have re-shaped the Nation over decades.

In many cases, poverty is different in rural America. It is generally more dispersed, not found in the large concentrations we find in America's central cities. Rural poverty is often symptomatic of a region's narrow economic base—a focus on "extractive industries" like mining or agriculture, for example, to the exclusion of other kinds of activity. Isolation also plays a distinct role in shaping rural poverty. Our rural communities are not only isolated from the investment capital that cities are (relatively) more successful at attracting; rural places are also more isolated from the diversity of institutions and networks that can mobilize responses to the complex problems of chronic poverty and joblessness. Despite the many strengths of rural communities and the remarkable achievements of innovative small town governments, committed businesses, community foundations, local nonprofits, and other indigenous institutions, rural America does not have the institutional life and infrastructure from which cities naturally benefit.

The "vital statistics" of these rural places left behind are often staggering, for example:

- ***Mississippi Delta:*** The Mississippi River Delta region, which extends across seven States and has historically faced extreme poverty and high rates of unemployment, continues to struggle. Coahoma County, Mississippi lost one in seven residents (14.3 percent of its population) between 1980 and 1996 and had a poverty rate estimated at 37.4 percent in 1995. Chicot County, Arkansas and Madison Parish, Louisiana both lost more than one in seven residents during 1980–96, and the poverty rate for 1995 in Chicot County was 37.8 percent, while in Madison it was 36.9 percent.

- ***The Colonias:*** The Colonias—informally settled and mostly unincorporated communities located in a four-State region along the U.S.-Mexico border—are home to large numbers of immigrants who secure mostly low-wage employment, if they find work at all. For example, Luna County, New Mexico saw its population increase by

48.1 percent between 1980 and 1996; yet, the poverty rate stood at 31.5 percent in 1995 and the average monthly unemployment rate last year was 26.9 percent—nearly six times the national average. Cochise County, Arizona had a similar experience, with a population increase of nearly 30 percent between 1980 and 1996 and a 1995 poverty rate of 20.3 percent. Hidalgo County, Texas had a poverty rate of 42 percent in 1995 and unemployment of 18 percent—four times the national average rate for last year.

- ***Indian Country:*** Native Americans have long endured high rates of joblessness and poverty and, despite some economic successes on reservations, face continuing challenges in attracting private investment and creating new jobs. Two striking examples: nearly half the residents in Todd County, South Dakota (45 percent), where the Sioux predominate, were poor in 1995. And with a staggering poverty rate of 48.7 percent, Menominee County, Wisconsin, home to the Menominee tribe, is also struggling as it has been for many years.

- ***Appalachia:*** The 12-State Appalachia region continues to reel from the decline in mining and other extractive industries that once loomed large in the national economy. Many of Appalachia's communities persist in isolation and deep poverty. Magoffin County, Kentucky faced an unemployment rate three times the national average (13 percent) last year and poverty at over 41 percent as of 1995. Webster County, West Virginia lost almost 15 percent of its population between 1980 and 1996, and over a third (34.8 percent) of those that remained lived in poverty in 1995. And although it has seen a small gain in population since 1980, Fentress County, Tennessee still faces an extremely high poverty rate, estimated at 32.3 percent in 1995.

Some of the most isolated rural places are literally non-participants in the tremendous economic changes that have swept the Nation over this century. But now, with a record-breaking economy, we can include these places in the promise of growth and vitality that all communities deserve.

## IV. CONCLUSION

Despite the substantial progress on overall poverty and joblessness that the President's economic policies have made possible over the past 6 years, the great project of our Nation—extending opportunity to all—remains incomplete. While overall central city poverty is down one-tenth (from 20.9 percent to 18.8 percent) since 1992, and while poverty has dropped among African-Americans, Asian-Americans, and Hispanics over the past 6 years, too many communities are waiting to share fully in the recovery. As President Clinton and Vice President Gore have said, with so many indicators exceeding the most optimistic expectations of years past and with so much potential growth still within our grasp, now is the time to address the problems that remain.

Our forthcoming work in this series, the reports on older suburbs and struggling parts of rural America, will extend HUD's analysis of communities left behind—so far—in our Nation's current economic boom. Later this year, HUD will also report on key untapped markets that await investment in the places discussed here and other communities, as well as the most promising policy options for responding to these important challenges.

How should America respond to the new urban challenge reported in this study? First, as the President recently urged, we must not allow the Nation's overall trajectory of record economic growth and vitality to distract us from the work that remains. Many cities are adapting well to the changing global economy by finding and investing in their comparative advantages—the distinctive assets that make each community competitive—and by using the many tools developed by community organizations and businesses, by State and local leaders, and by the Federal Government over the last half decade. The new Federal —tools include the Empowerment Zones/Enterprise Communities initiative, the Community Development Financial Institutions (CDFI) Fund, the Welfare to Work Partnership, the Continuum of Care to fight homelessness, HOPE VI to redevelop public housing, Affordable Housing Vouchers (including the first-ever Welfare-to-Work Vouchers enacted last year), a strengthened Community Reinvestment Act, an increase in loan limits for the Federal Housing Administration, 100,000 new Community Police on America's streets, support for 1,000 Charter Schools, 21st Century Community Learning Centers providing safe after-school opportunities, Youth Opportunity Areas, School Modernization Bonds, the Earned Income Tax Credit, the Economic Development Initiative, and the doubling of fair housing enforcement actions to fight discrimination, to name a few.

Now we need to extend the impact of that wide array of tools to more communities, including those still struggling to adapt to the economic changes sweeping the globe. We should recognize that many of our still struggling cities have competitive advantages and substantial assets. Along with distressed rural communities and older suburbs, many of these places are ripe for investment. They represent America's most important emerging markets—markets reflected in locally unmet consumer demand, underutilized labor resources, and developable, well-located land that is rich in infrastructure. HUD's forthcoming work on untapped markets will highlight those assets and outline the ways that private, public, and nonprofit local leaders can work together, with enhanced tools but not top-down mandates from the Federal Government, to respond to the new challenges and to seize the many opportunities offered by a rapidly changing global marketplace. Since we must act, we cannot afford to ignore either the challenges or the opportunities that lie ahead.

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[1] HUD focused on the 539 "central cities" of metropolitan statistical areas (MSAs), which are defined in the Appendix to this report. Central cities have a minimum population of 15,000 persons. Using this set of places, is that HUD was able to examine long-run trends in population and poverty alongside the latest data on unemployment—a key indicator of the recovery's impact, or relative lack of the same, on local communities. Also, central cities tend to be the most distressed parts of the larger regional economies that surround our core cities. However, other key cities are not included. In the Los Angeles MSA, for example, important (and distressed) cities like Compton are excluded in this analysis. Later this year, HUD's *State of the Cities 1999* will address trends in a wider array of cities and metropolitan regions.

[2] The data presented are: 1998 average rates for unemployment from the Bureau of Labor Statistics; 1995 estimated and 1989 actual rates for poverty, combining HUD and U.S. Census Bureau estimates where appropriate; and 1980 through 1996 figures for population from the Census Bureau.

[3] To eliminate seasonal variation, HUD used the average annual unemployment rate for central cities in 1998 and compared those to the national average rate of 4.5% for that year. The latest reported monthly rate was 4.2% for March 1999. Source: Bureau of Labor Statistics.

[4] Our definition of "double trouble" therefore requires that unemployment—the most direct and recent indicator of the recovery's impact—be comparatively high. In addition, these central cities have either significant population loss over the past two decades (a problem more common in the "rust belt" and parts of the South), or high poverty (which also affects some booming parts of the West and Southwest, including "job magnet" agricultural areas), or—as is the case in the most extreme examples—both of the latter two conditions.

[5] Myron Orfield, *Metropolitics: A Regional Agenda for Community and Stability*, Brookings Institution Press and Lincoln Institute of Land Policy, Washington, D.C. 1997.

[6] *Interdependence: The Changing Dynamic Between Cities and Suburbs in the San Francisco Bay Area,* Association of Bay Area Governments, 1998.

[7] The Metropolitan Forum, "The Health of Monroe's Suburbs: Stagnation in the Inner Ring," Staff study, Rochester NY, 1996.

[8] Rob Gurwitt, "The Quest for Common Ground," *Governing,* June 1988, pp. 16-22.