I. INTRODUCTION: THE NEW URBAN CHALLENGE

> The greatness and durability of most civilizations has been finally determined by how they have responded to challenges from within. Ours will be no exception.
>
> *National Commission on the Causes and Prevention of Violence, 1969*[1]

Much of our Nation is enjoying a period of economic prosperity unseen, and indeed unheard of, in a generation. Ours is one of the longest periods of peacetime economic expansion America's history. Nationally, 18 million new jobs have been created in the last 6 years, unemployment is at a 40-year low,[2] productivity and consumer confidence are high, interest rates are low, and homeownership is higher than ever before. Much of this progress has been shared by city and suburb, and by whites as well as racial and ethnic minority groups.

But there is more to the story. 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—central cities likely to face long-term troubles if they are not able to address their 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.

A. URBAN FORTUNES AND MISFORTUNES: REVIEWING THE RECENT EVIDENCE

President Clinton and Vice President Gore's economic policies have had a tremendously positive impact on many American communities and generated significant results. In addition to those identified above, we are seeing the fastest and longest real wage growth in two decades, a 44 percent drop in welfare caseloads since January 1993, a 10 percent drop in the overall rate of central city poverty, the biggest drops 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.

Early this year, updating our State of the Cities 1998, HUD reported the following specific findings on the many positive trends enhancing economic vitality and quality of life in our Nation's communities:

- ***The Strong Job Economy Continues to Cut Urban Unemployment.*** The national unemployment rate has fallen from 7.5 percent in 1992 to 4.5 percent in 1998. Over the same period, the unemployment rate in all central cities fell from 8.1 percent to 4.8 percent. In the 50 largest central cities, it fell from 9.8 percent to 5.9 percent.
- ***Poverty Continues to Fall in Cities.*** Between 1996 and 1997, the number of poor persons in the U.S. declined from 36.5 million to 35.6 million—a drop from 13.7 percent to 13.3 percent. During the same period, the number of people below the poverty line who reside in central cities declined from 15.6 million to 15.0 million—i.e., from 19.6 percent to 18.8 percent of the Nation's central city population.
- ***Household Income Is Rising.*** Between 1996 and 1997, the median income of all households in the U.S. rose from $35,492 to $37,005—an increase of four percent. In central cities, household median income grew faster by more

than five percent during the same period, from $30,150 to $31,789. In real dollar terms (adjusted for inflation), both the nationwide and central-city increases in household median income were more modest but still represent real gains: nationwide (1.9 percent) and central cities (3.1 percent).

- ***Historically Disadvantaged Groups are Sharing in Income Gains.*** Following national trends, the median income for black households in cities increased from $21,573 to $23,156 between 1996 and 1997—a gain of 7.3 percent (or 4.9 percent once adjusted for inflation). Hispanic median household income in cities climbed from $21,903 to 23,398—an increase of 6.8 percent (or 4.5 percent, inflation adjusted) during the same period. And median income for Asian / Pacific American households rose $980 (2.2 percent) from 1996 to 1997, from $44,269 to $45,249 (adjusted for inflation).

- ***The Homeownership Boom is Reaching our Cities.*** By the end of 1993, 48.9 percent of central city households owned their own homes; through the fourth quarter of 1998, this percentage had increased to 50.04 percent. This was the first year on record wherein central cities had more homeowner households than renters.

- ***Urban Crime Continues to Decline.*** For all U.S. cities with 100,000 population or more, both violent crime and property crime declined in the first half of 1998 compared with the same period in 1997. The largest declines were for violent crimes (murder, forcible rape, robbery and aggravated assault). Medium-sized and large cities (population 500,000 to 999,999) registered the sharpest drop—13 percent—for that period, while America's biggest cities (population 1 million or more) experienced a 6 percent drop. Property crimes (burglary, larceny and motor vehicle theft) also dipped between 1997 and 1998 but not as dramatically as did violent crimes. Our 9 biggest cities saw the sharpest drop—6 percent. Finally, the longer-run trends for key large cities are astounding: over the past 7 years, violent crime dropped 25 percent in Atlanta, 35 percent in Boston, 32 percent in Cleveland, 44 percent in Dallas, 20 percent in Minneapolis, 36 percent in Kansas City, 45 percent in Los Angeles, 42 percent in Seattle, and over 51 percent in New York City. Nationwide, large cities saw a drop of 27 percent in violent crime between 1993 and 1997.

But as HUD reported in last year's *State of the Cities*, there are two sides to America's remarkable economic boom. With so many positive indicators hitting record highs, many of our people, and too many of our communities, are more vulnerable than ever before.

There are more millionaires than ever, for example, but America is also home to 600,000 people who have no home on a typical night. As HUD reported in *Rental Housing Assistance: The Crisis Continues* (1998), the number of "worst case housing needs"—renters who earn less than 50 percent of area median income, pay more than 50 percent of that meager income to rent, and receive no housing assistance although they are eligible for it—is at a record high of 5.3 million households (about 12.5 million persons). Families in the transition from welfare to work are hit especially hard by this shortage of housing assistance, since housing tends to be their greatest financial burden.

Recently, HUD reported in *Waiting in Vain: An Update on America's Housing Crisis* (1999) that the poorest renters are waiting longer for fewer affordable housing units and that already lengthy waiting times for assistance increased substantially between 1996 and 1998—as the economic recovery surged forward. Waiting times for public housing are now a staggering 8 years in New York City, 6 years in Oakland, and 5 years in the Nation's Capital. Waiting times for housing vouchers (rental subsidies) have also increased—to 10 years in Los Angeles and Newark, 7 years in Houston, and 5 years in Memphis and Chicago. The typical waiting list studied by HUD increased 10–25 percent in the last year alone.

Although the forces driving these trends are complex and vary widely at the local level, the big picture is remarkably simple: rents are rising faster than income for those 20 percent of America's households with the lowest incomes; the dramatic loss of affordable housing continues—with a stunning drop of 1.3 million units (19 percent) from 1996 to 1998; and Federal support to expand affordable housing has declined over the last two decades. With nowhere to turn, and with so many families in the transition from welfare to work burdened with housing as their greatest expense, millions of the most vulnerable American families seem to be waiting in vain.

Furthermore, a "jobs gap" may loom for many cities with large welfare populations facing time limits on assistance. As HUD indicated in last year's *State of the Cities*, in the 74 principal urban counties for which welfare caseload and job growth forecasts exist, the number of current welfare recipients who will face time limits on assistance—and therefore need jobs over the next 5 years—could exceed the growth in low-skilled jobs by 353,000.[3] While poverty has dropped nationwide, and dropped 2 percent in central cities over the six years of the recovery, it is still much higher in central cities (18.8 percent) than in suburbs (9 percent). Poverty is also high among central city Hispanics (31.8 percent) and African-Americans (27.8 percent), when compared to whites (9.6 percent) who live in central cities.

B. THE "OLD" URBAN CRISIS . . . AND THE NEW URBAN CHALLENGE

Thirty years ago, with reports like that of the Kerner Commission[4] on the big-city riots of the 1960s, America focused on the striking patterns of urban disinvestment and white flight to the suburbs that were creating two societies, "separate and unequal." The divisions were defined by race, space, and class, and our perceptions of the old urban crisis were colored by the woes of a handful of places that came to symbolize the decay of cities—Newark, the South Bronx, Watts, Chicago, Detroit, and elsewhere. The Kerner Report urged metropolitan solutions to inequality—regional solutions that we have yet to embrace as a Nation.

Compounding the changes of the 1950s and 1960s, when first rushed to the suburbs, the 1970s, 1980s, and early 1990s saw the dramatic "de-industrialization" of our economy. Jobs moved from central cities to the suburbs—sometimes following the consumers and workers already living there. Business capital also migrated overseas in search of lower labor and other costs. Cities like Gary, Indiana and Flint, Michigan reeled under the loss of jobs, private investment, tax base, and then people. Many of their residents chose to move away, and, given the scarcity of economic opportunity, few new in-migrants replaced them.

Escaping the high inflation rates and enormous budget deficits of the 1970s and 1980s, America has, in the last six years, enjoyed record economic growth and fiscal health, including the first Federal budget surpluses in three decades. Many communities have revitalized or adapted their economic base, mobilizing new skills in the workforce, retaining or recruiting new forms of manufacturing, and building clusters around information and services. The knowledge economy has emerged.

Other places have not fared so well. This is a report about the new urban challenge—about cities in the "slow lane" of the comeback, places not yet sharing adequately in the boom in investment and productivity that is sending so many economic indicators off the charts. This report is about places like Gary, Indiana, which lost much of its high-wage industrial job base and a quarter of its population between 1980 and 1996. There, poverty was estimated at a staggering 29.8 percent in 1995. And despite a significant drop since the pre-recovery rate of 17 percent in 1992, Gary's unemployment rate of 8.2 percent in 1998 was still almost twice the Nation's rate last year.

These communities represent untapped markets for investment, especially as other markets become "tapped out"—the resurgence of urban retail as suburban markets get saturated is a case in point, as a prominent story in the *Washington Post* recently highlighted.[5] In a report on untapped markets later this year, HUD will focus on those huge opportunities in our domestic emerging markets.

C. Uncovering Cities in the "Slow Lane" of the Recovery

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 our metropolitan areas) against three important indicators of economic distress—unemployment, population change, and poverty indicators that highlight those central cities that continue to trail the national economy in significant ways.[6]

In an economy changing as rapidly and expanding as remarkably as ours is, struggling cities are not a single, homogeneous group. To assemble this statistical portrait of the new, multi-faceted urban challenge***, HUD's Office of Policy Development and Research posed three distinct questions about the Nation's 539 central cities***:

1. ***Which central cities suffered significant (5% or more) population loss—that is, a major loss of the consumers and workers that ensure a***

vibrant economy—over the last 15 years (1980–96)? In which places did population loss continue in recent years (1990–96), even into the period of America's remarkable economic recovery?[7]

2. ***In which central cities does unemployment remain unacceptably high relative to the Nation as a whole?*** We focused on local rates 50% or more above the national average rate of unemployment (4.5 percent) for 1998.[8]

3. ***In which cities was the poverty rate high (20% or greater) based on the most recent estimates available (1995), even if employment and other trends are now positive?*** And which of these cities had similarly high poverty rates in 1990? Cities that began the decade with high rates of poverty face structural hurdles in the race to find a competitive niche in the new global economy. They must "up-skill" their workers dramatically, tackle the challenges of welfare reform, and attract investment. We examined school district data and generated city estimates from recent census data or counties to determine likely trends in poverty since the decennial census. We also asked how shrinking cities—those that suffered significant long-run population decline—compared in poverty and unemployment terms to cities with stable or growing populations.

4. ***Where do several of these negative indicators converge, indicating places that have significantly lagged the national recovery or that otherwise face multiple burdens?*** We looked across the Nation at central cities with a wide array of economic activities and historical growth patterns.

Using these data, we identified central cities in trouble, including a special group of **"doubly burdened cities"** (Question #4 above) where:

- Unemployment remains high (50 percent or more above the nation's average unemployment rate of 4.5 percent in 1998) despite the recovery; and

- <u>Either</u> significant population loss (5 percent or more) occurred over the past two decades (1980–96), <u>or</u> high rates of poverty (50 percent or more above the national average) persist, <u>or both</u>.

Limitations. Focusing on the 539 central cities of metropolitan statistical areas (MSAs) allowed us to examine long-run trends in population and poverty alongside the latest local data on unemployment—a key indicator of the recovery's impact, or lack of the same, on particular communities. Also, central cities tend to be the most distressed parts of the larger regional economies that surround our core cities. On the other hand, relying on central cities means that, in some metro areas, other important cities will not be studied. In the Los Angeles MSA, for example, important (and distressed) cities like Compton are excluded from this analysis. Later this year, HUD's *State of the Cities 1999* will address trends in a wider array of cities and metropolitan regions.

D. A Preview of Our Key Findings

When the census and labor data that answer our key questions were analyzed, a striking portrait emerged. First, we confirmed that most central cities are doing quite well. Still, a significant number, and a regionally diverse array, of central cities face one or more of the challenges reflected in population loss, high poverty, or unemployment. Furthermore, a select group of doubly burdened cities faces several of these challenges. In addition, central cities whose populations shrunk substantially over the last 16 years tend to be places struggling with high unemployment and poverty—many workers and consumers have migrated away to the job magnet cities. Finally, while a significant number of doubly burdened cities are concentrated in the formerly industrial “rust belt” areas of the Northeast and Midwest, or in part of the South with long-documented economic woes (such as Delta cities) a number of cities in the Southwest and West also face multiple challenges if they are to compete in a changing economy. Population boomers like McAllen, Texas and Fresno, California are burdened with high poverty and unemployment despite their explosive growth. Population losers such as Gary, Indiana and Trenton, New Jersey have suffered a demographic implosion—and with that, face quite different challenges. Our key findings are outlined and discussed below.