

Central City Decline: Regional or Neighborhood Solutions?

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Local control holds a powerful appeal for many Americans. Residents of small suburban jurisdictions point with pride to their high-quality schools and relatively low taxes. The scale and role of local government, however, have changed over time. During the first half of this century, the central city government, by virtue of its overwhelming share of the region's population, was effectively a local and a re-

gional government. In the second half of the century, rapid suburban growth dramatically increased the importance of smaller scale, local suburban governments while economic and social problems became increasingly concentrated in central cities. As we approach the end of the 20th century, the diverging economic paths of cities and suburbs suggest the need to reexamine the appropriate roles of suburban, city, and regional governments. Are regional approaches to problems concentrated in central cities warranted? Or should we seek local solutions by transforming cities into a group of smaller, more autonomous communities?

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CAN WE SUSTAIN THE CURRENT SYSTEM OF LOCAL GOVERNMENT?

In recent decades, most city governments have confronted the problems of declining population and declining relative incomes of city residents. Increasingly, American cities have become wards for the poor, while middle and upper income Americans have chosen to live in the suburbs.¹ The increasing concentration of poverty in central cities creates fiscal problems for central city governments. As the concentration of poverty increases, the tax base for providing basic services such as public safety, sanitation, and education shrinks. At the same time, the costs per capita of providing basic services are higher when the recipient population is poor (see the article by Janet Pack). To provide uniform levels of basic services, city governments tax middle and upper income residents at high rates, implicitly redistributing income from more wealthy city residents to poorer ones.²

Tax revenues used for redistributive purposes are, at least in part, "capitalized" into city property values. Economic theory predicts that the costs of redistributive taxation

are partially offset by lower land prices, which reduce the incentive to move out of the city to avoid taxes. As long as the taxes do not exhaust a city's intrinsic comparative advantages, lower land prices restore equilibrium, although fewer people and firms choose city locations. In recent years, however, technological changes have eroded the economic advantages of cities and have, therefore, reduced their ability to pursue redistributive policies. And as residents with higher incomes leave the city, providing the same level of government services requires even higher tax rates, which in turn induces more people to leave the city. Thus, while cities have some latitude for income redistribution, it is not without negative consequences, and the level of redistribution that cities can sustain in the long run has greatly diminished.³

Charles Tiebout first analyzed the consequences of voting with one's feet. In Tiebout's world, people move to communities that have tax and expenditure policies that best suit their preferences. Tiebout argued that competition among small jurisdictions would lead to a system of homogeneous communities that efficiently provide the desired public services.⁴ Because Tiebout's communities are homogeneous, local income redistribution is irrelevant.

¹Nationally, the percentage of city residents with incomes below the poverty line increased from 14.9 percent in 1970 to 18 percent in 1990. However, the percentage of people in poverty in suburbs was 8.1 percent in 1970 and in 1990 (*Census of Population*, June 1972, Table 17; April 1973, Table 90; and November 1993, Table 3). In the Philadelphia metropolitan area, 15.4 percent of Philadelphia's population in 1970 had incomes below the poverty line; this figure increased to 20.3 percent by 1990. In the Philadelphia suburbs, the poverty rate fell from 6.4 percent in 1970 to 5.6 percent in 1990.

²Jere Behrman and Steven Craig note that cities do not always provide uniform services across neighborhoods, perhaps recognizing that some communities will not accept standards of service below a certain level, given their tax rates. Still, as the level of poverty increases, there is more political pressure for policies that explicitly redistribute income from the relatively wealthy to the poor.

³Robert Inman found that tax rates in the city of Philadelphia were generating near their maximum revenue. In other words, a tax increase would induce so many residents to leave the city that no net new revenue would be generated.

⁴Most economic analyses of the appropriate size of local jurisdictions have focused on the tradeoff between the benefits of policies that closely match the desires of the residents and potential economies of scale in the production of public goods that may be available in larger communities. Studies of public service production find that economies of scale for most services are exhausted at communities of 50,000 or less, suggesting that communities do not have to be larger to be efficient providers of public goods (see the article by Bryan Ellickson).

Suburbs, which frequently have a large number of small municipal jurisdictions, approximate the Tiebout model and, hence, avoid the local income redistribution conundrum confronting cities. Large cities, on the other hand, do not fit well into the Tiebout framework. Formed prior to the technological changes and public investments in transportation that made suburban alternatives attractive, cities provided public services to and imposed taxes on a population with diverse preferences and incomes. With little competition from other local jurisdictions, cities were able to spread the burden of poverty broadly across the population.⁵ Redistribution was sustainable because the cost of avoiding local taxes was very high; one had to leave the metropolitan area to change one's tax and service bundle. However, with the opening of the suburbs, city residents had alternatives through which they could avoid the costs of their neighbors' poverty. Tiebout's observation that people vote with their feet implies that any city policy that implicitly or explicitly redistributes income has negative consequences for the city, as net contributors depart to join more homogeneous suburban communities.

The success of suburbs and the relative failure of central cities have tended to reinforce Tiebout's speculations about the benefits of smaller jurisdictions. But the Tiebout model, which suggests that competition among small communities will lead to efficient production and delivery of public services, depends on the assumption that communities are completely independent of one another. However, accumulating evidence indicates that there are substantial spillover effects from one community to another.

⁵The lack of jurisdictional competition also reduces the incentives for efficient government. Government inefficiency can be viewed as a kind of income transfer in which funds are diverted from taxpayers to individuals working for the government.

My recent research, as well as research by Charles Adams and associates and by Henry Savitch, offers evidence that central city decline has adverse effects on its suburbs.⁶ My 1994 study, for example, found that increases in the growth rate of incomes of central city residents had a positive impact on the growth rate of incomes of suburban residents and on the appreciation of house prices in the suburbs. Adams and associates found that central city problems adversely affected the rate of suburban population growth because fewer people are willing to move into the region's suburbs from other regions. Negative factors associated with central city decline suggest that cities and suburbs have common interests.

REGIONAL APPROACHES TO CENTRAL CITY DECLINE

If city decline adversely affects the overall economic health of a metropolitan area, both city and suburban residents alike have a stake in the economy of the city. In theory, if central city decline is not being driven exclusively by basic economic forces, but rather by public policy choices and costs associated with poverty, cooperative actions by cities and suburbs to provide public services more efficiently and to share resources to finance the burden of poverty can be mutually beneficial.⁷ The key element in any regional approach is that costs and benefits are shared across jurisdictions. There are many forms of regionalization, including regional governments, regional tax

⁶Keith Ihlanfeldt presents a critical analysis of the literature on the interdependence of cities and suburbs.

⁷See Peter Mieszkowski and Edwin Mills for a discussion of the roles of basic economic factors, public policies, and urban problems in the process of metropolitan decentralization. Most economists would agree that we should not attempt to reverse central city decline caused by underlying changes in technology and increasing real income.

sharing, annexation, and creation of regional authorities that provide specialized services.

While regional planning agencies, which attempt to coordinate policies across city and suburban jurisdictions, are common in the United States, regional governments are not. Local governments have, in general, been unwilling to relinquish local tax revenues and local control to metropolitan governments. (One notable exception is the Minneapolis Metropolitan Council, which collects taxes throughout the metropolitan area and redistributes the tax revenues according to prespecified formulas. See *Regional Government and Tax Sharing in Minneapolis-St. Paul.*) In many cases, however, county governments are partially regional governments in that counties frequently contain both cities and suburbs. To the extent that county governments provide services, such as court systems, corrections facilities, and the administration of the welfare system, they provide a mechanism by which cities and suburbs can share fiscal burdens. Counties are not truly regional governments, though, since one county seldom contains an entire metropolitan area. In addition, 15 large central cities, including Philadelphia, are counties themselves and, hence, have no opportunity to share fiscal burdens with their suburban neighbors.

Another form of regionalization is annexation, which allows cities to grow by incorporating the suburbs into the city jurisdiction as the metropolitan area grows. Annexation effectively limits the competition among local governments by reducing their number. Annexation is common in all areas of the country except the New England and mid-Atlantic census divisions.⁸ The city of Houston, for example, annexed 219 square miles from 1960-90, increasing its overall land area 68 percent. Annexation has allowed the city to retain the lion's share—58 percent—of the metropolitan area population. On the other hand, annexation is uncommon in most older metropolitan

areas that have well-established suburban jurisdictions.

The most common form of regionalization is the formation of authorities that span several jurisdictions to provide specific services. Transit authorities are perhaps the most common manifestation of authorities that provide regional services. Regional authorities frequently share local tax revenues and provide services that are in the interest of the entire region. These organizations also tend to redistribute resources because the net benefits may not be distributed equally throughout the metropolitan area.

Advantages of Regional Approaches. To the extent that city decline is driven by factors associated with high concentrations of poverty, there are strong arguments in favor of regional approaches to improving the economy of cities.⁹ First, the fiscal burdens of supporting poorer residents can be spread over a wider tax base. In particular, taxes to finance implicit and explicit income transfers are no longer paid only by middle and upper class city residents; rather, all middle and upper income

⁸States differ widely in their laws governing annexation. See the book by David Rusk, pp. 98-101, for a brief discussion of differences across states. Annexation is the rule in the Mountain and West South Central census divisions, where only 1 of 56 central cities in MSAs did not annex during the period 1960-90. Annexation is common in the South Atlantic, East North Central, East South Central, West North Central, and Pacific divisions as well. About 78 percent of central cities in these census divisions annexed land.

⁹Most examples of regional cooperation are not directed explicitly toward solving central city problems. Regional cooperation is most common where there are direct benefits to both city and suburbs. For example, there may be large economies of scale in production of some public services, such as sewage and water treatment, or network economies associated with coordination, as is the case with transit systems. In these cases, there are direct benefits to both cities and suburbs, and, hence, cooperative agreements are relatively easy to forge.

Regional Government and Tax Sharing in Minneapolis-St. Paul

Like many metropolitan areas, Minneapolis-St. Paul has a complex local government structure, with three cities designated as "main central cities" (Bloomington is the third), seven counties, 138 cities, 50 townships, and numerous other jurisdictions serving specific purposes.^a What is unique about this metropolitan area, however, is a relatively strong metropolitan governmental unit—the Metropolitan Council—which is complemented by formula-based regional tax sharing.

Judith Martin (1993) cites several reasons why Minneapolis-St. Paul developed relatively strong metropolitan governance and regional tax sharing: the relative homogeneity of the population; a tradition of cooperation, perhaps born of geographic isolation; and the fact that there were originally two central cities (together having less than 30 percent of the population). Martin suggests that the presence of these factors meant that foes of regionalization had less of a focal point for opposition. However, the Metropolitan Council is not a regional government born out of an agreement of local jurisdictions to cede part of their power for the region's welfare. Rather, a sufficient number of communities supported the formation of the Council and the implementation of tax sharing and thus were able to bring both into being through the state government.

In 1967, an act of the state legislature created the Metropolitan Council, which replaced the Metropolitan Planning Commission formed 10 years earlier. The Council reviews and coordinates plans for long-term investments among local and county governments as well as oversees the budgets of various regional operating authorities such as the transit system, the airport, and the sewage system.^b The truly unique aspect of regionalism in Minneapolis-St. Paul, however, is regional tax sharing. The Fiscal Disparities Act of 1971 stated that 40 percent of the net gain in new commercial and industrial property tax revenue would go into a metropolitan area pool and would be distributed by formula. The formula was designed to provide greater shares to jurisdictions with larger populations and a lower property tax base.^c

Most observers believe that the Metropolitan Council has had a positive impact in resolving regional transportation, environmental, and housing issues. The effects of the tax-sharing plan are mixed. In the early years, the central cities were net recipients, but by the 1990s, they were net contributors. Martin notes that in recent years, residential suburbs, which have little commercial growth, have benefited increasingly from the tax-sharing plan. Neither the Metropolitan council nor the tax-sharing plan has reversed the trend of declining tax bases and increasing concentration of lower income residents in the cities of Minneapolis, St. Paul, and Bloomington.^d Moreover, creation of the Metropolitan Council and regional tax sharing have not eliminated regional controversies. Distant suburban areas often view the council as a hindrance to growth. Furthermore, growth has spread beyond the boundaries of the council into areas over which it has no control, illustrating that regions, like central cities, have boundaries, and people can avoid even regional policies by moving just over these boundaries.

^aSee Judith Martin's article for an in-depth discussion of governance in the Minneapolis-St. Paul metropolitan area.

^bWhile the Metropolitan Council has a fairly strong oversight role in the planning and investments made in areas deemed of regional significance, it had not undertaken direct investment until recently. In this respect, organizations such as the Port Authority of New York and New Jersey, which is self-funded through operations, have been more direct players in the regional economy, investing in a wide range of development projects, most of which are regional in nature.

^cAndrew Reschovsky gives a detailed discussion of the sharing formula.

^dSee Karen Baker and associates for a discussion of recent trends in fiscal disparities in the Minneapolis region.

residents in the metropolitan area share these costs.¹⁰ Second, the incentives to sort into rich and poor communities are reduced. When residents of a metropolitan area can avoid taxes without a corresponding loss of benefits simply by moving to another local jurisdiction, they will do so unless the costs of moving are very high. David Rusk found less racial segregation and less divergence in city and suburban incomes in central cities that are more regional in nature—those that can annex land or those that already contain a great deal of open space within their borders.¹¹

Lowering the incentives for individuals to separate into rich and poor communities may increase the productive capacity of the metropolitan area economy. Roland Benabou argues that the presence of highly educated and skilled (and therefore high income) individuals tends to facilitate the education and training of others. Sorting into rich and poor communities is likely to lower the return to time and effort spent on education in poor communities, thereby reducing the economic potential of the poor community and its residents and, ultimately, the metropolitan area's aggregate production and income. Benabou's theoretical result is consistent with my finding that higher growth of income in the city has a positive impact on growth in the suburbs.¹²

¹⁰Based on evidence from the Washington, D.C., metropolitan area, Seth Sacher argues that the primary effects of replacing a system of fragmented local governments with a metropolitan government would be to lower the burden of taxation on upper income city residents at the expense of upper income suburban residents, rather than providing more net resources to the city as a whole.

¹¹Rusk terms these cities "elastic" central cities, for their ability to absorb new growth within their borders.

¹²In an article examining the differences in growth rates across cities, Robert Lucas suggests that there may be gains from concentrations of highly educated people working close together. That is, the return to education and other skills may be higher in labor markets that have high

Regional support for poorer residents frees cities from the adverse economic consequences of pursuing local income redistribution.¹³ Whether the costs to suburban areas associated with regional cooperation in support of the poor are offset by the benefits of a healthier city is an empirical question. While no one has calculated both the costs and benefits of regional efforts to improve a city's economy, in my 1994 article, I provide evidence that the potential benefits to the suburbs of improved growth in the city are large.

For example, in Philadelphia in the 1980s, if real income in the city had grown at the suburban rate of 19 percent instead of the city average of 14.3 percent, the average growth rate for income in the suburbs would have increased an additional 2.9 percentage points and the rate of appreciation for suburban houses would have been 6.5 percentage points higher.¹⁴ These estimates imply that an individual who earned \$50,000 a year in 1980 and who owned a \$200,000 house would have gained more than

concentrations of highly skilled individuals. Lucas's and Benabou's arguments are not necessarily inconsistent with one another. For example, a concentration of highly skilled people could generate Lucas-type benefits, while at the same time suffer from the Benabou-type problems of sorting within the metropolitan area.

¹³David Wildasin notes that communities may have preferences for income equality and that these preferences may differ across local communities. If local communities redistribute income individually, there are fiscal externalities that result in an inefficient distribution of the population. Only through coordinated distributive policies or through the intervention of a higher level of government can these externalities be eliminated.

¹⁴These estimates are based on the preferred models in my 1994 article, tables 3 and 4, column 2. The value of the effect on suburban income is the sum of increased income in each year of the decade (.29 percent in year 1 increasing to 2.9 percent in year 10), based on a Philadelphia population of 1.6 million. The house value increases 6.5 percent. The sum of these impacts is then converted into 1995 dollars.

\$38,750 in current dollars over the decade from the improvement in average income growth in the city. These calculations do not, however, reflect the costs associated with regional policies designed to increase the rate of income growth in the city.

Disadvantages of Regional Approaches. While the regional consequences of city decline provide strong arguments for regional cooperation to solve problems that have become concentrated in central cities, regional approaches are not without shortcomings. Just as local governments suffer adverse consequences when they pursue policies that redistribute income, entire metropolitan areas may suffer as well if redistribution is too large. After all, if the tax burden becomes too large given the services provided, individuals and firms can choose to relocate to another metropolitan area. Of course, the costs of changing metropolitan areas are greater than those of moving from city to suburb, so regions may have more latitude for redistribution, but redistributive policies are best carried out at the highest level of government.

Another drawback is that regional approaches may be less responsive to the desires of local residents. Regional organizations necessarily have constituent populations that are more heterogeneous, so that the likelihood that public policies meet the demands of all residents is reduced. In addition, because regionalization reduces an individual's ability to choose among jurisdictions, public choice economists have pointed out that reduced competition among jurisdictions may result in less efficient production of public services.¹⁵

In a 1993 article, James McAndrews and I considered the likelihood that local communities would adopt a regional agreement that would actually mitigate negative regional impacts, given that there may be significant dif-

ferences in the degree of political power across local jurisdictions. We found the somewhat pessimistic result that unequal political influence reduced the likelihood that solutions beneficial to the entire region can be realized. For example, if declining central cities are too weak politically, they may not be able to strike regional bargains that sufficiently improve the economic competitiveness of the central city, and the long-run regional benefits of city improvement will not be realized.

The most difficult hurdle for any regional approach to central city problems is overcoming suburban residents' skepticism that an investment in solving city problems will have a sufficient return for noncity residents. While statistical findings, such as those presented in my 1994 article, suggest common economic interest, most suburban jurisdictions resist regional efforts designed specifically to improve central cities.

NEIGHBORHOOD SOLUTIONS: CAN THE SUM OF THE PARTS BE GREATER THAN THE WHOLE?

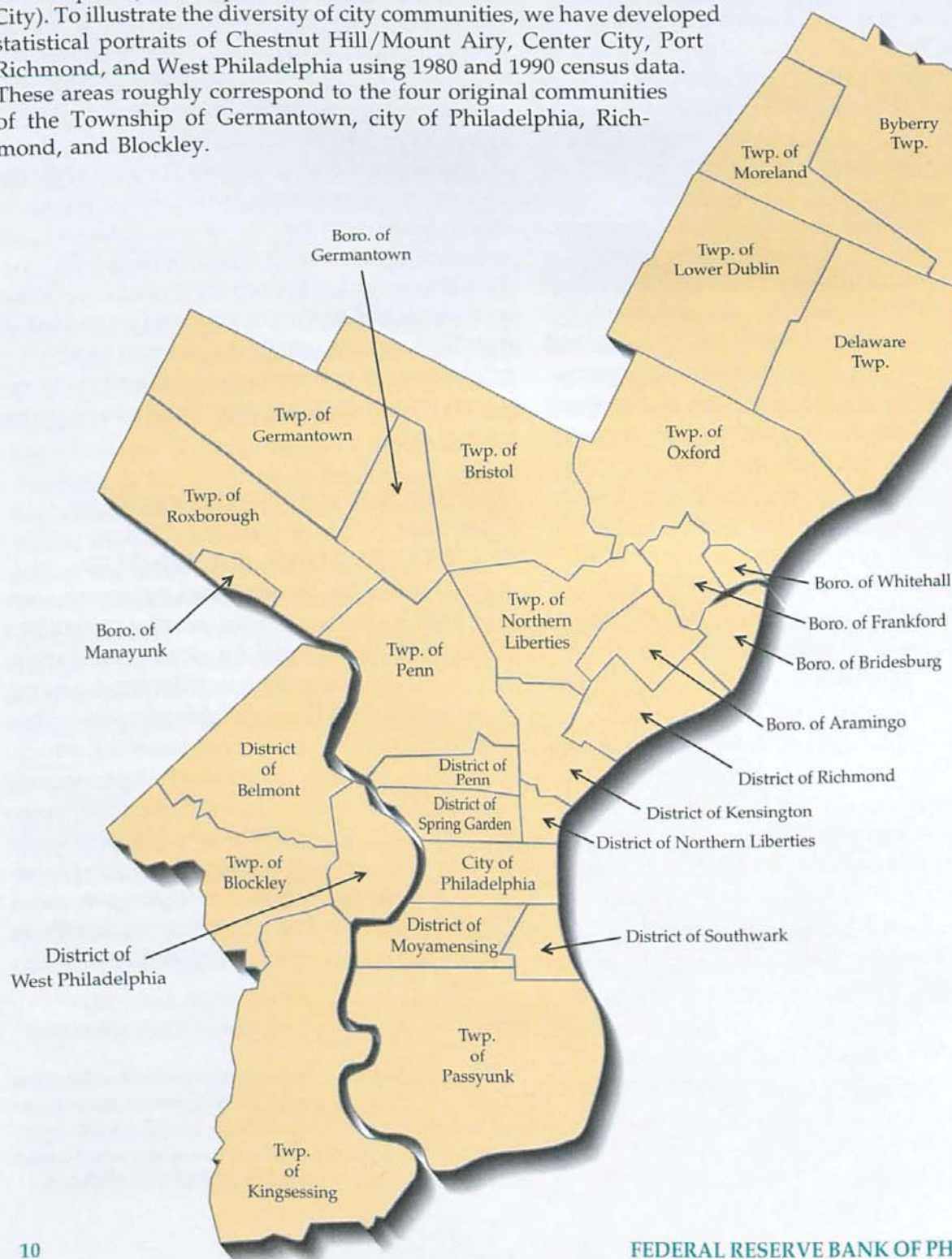
In contrast to the regional approach, one may look to the success of smaller, suburban jurisdictions as a model for city revitalization. Just as there are significant differences among suburban jurisdictions, neighborhoods within central cities are not uniform; incomes, education, social cohesion, and underlying economic potential differ widely across central city communities.¹⁶ (See *Four Philadelphia Neighborhoods: A Profile*.) Many areas within cities have physical and historical attributes that give them unique economic opportunities, while others suffer from disadvantages unlikely to be over-

¹⁵See, for example, Robert Premus.

¹⁶In a 1994 study, Richard Nathan and colleagues present an interesting portrait of differences among minority communities in Brooklyn. Contrary to common perception, Nathan finds significant social, economic, and cultural resources among many of these communities.

Four Philadelphia Neighborhoods: A Profile

In 1854, the current boundaries of Philadelphia (map) were formed through the conglomeration of 29 smaller jurisdictions. Philadelphia was a true regional government that included nearly rural tracts in the Township of Germantown (now known as Chestnut Hill and Mount Airy) and the original city of Philadelphia (Philadelphia's central business district, known as Center City). To illustrate the diversity of city communities, we have developed statistical portraits of Chestnut Hill/Mount Airy, Center City, Port Richmond, and West Philadelphia using 1980 and 1990 census data. These areas roughly correspond to the four original communities of the Township of Germantown, city of Philadelphia, Richmond, and Blockley.



Demographically, these communities range from largely white communities (Port Richmond, 96.9 percent, and Center City, 85 percent) to largely African American (West Philadelphia, 79.3 percent). Chestnut Hill/Mount Airy is racially integrated (49.4 percent African American).^a These communities vary widely in the average education of their residents: only 4.8 percent of the residents in Port Richmond have completed four years of college; in West Philadelphia, 12.6 percent; in Chestnut Hill/Mount Airy, 45.2 percent; and in Center City, 62.2 percent. Crime, as reflected in the 1993 murder rate, varies widely across communities. The West Philadelphia murder rate, at 34 murders per 100,000 population, is above the citywide average of 27.1. The next highest, Port Richmond, at 8, was less than one-third of the city average. Both Center City and Chestnut Hill/Mount Airy had murder rates of less than 5 per 100,000.^b

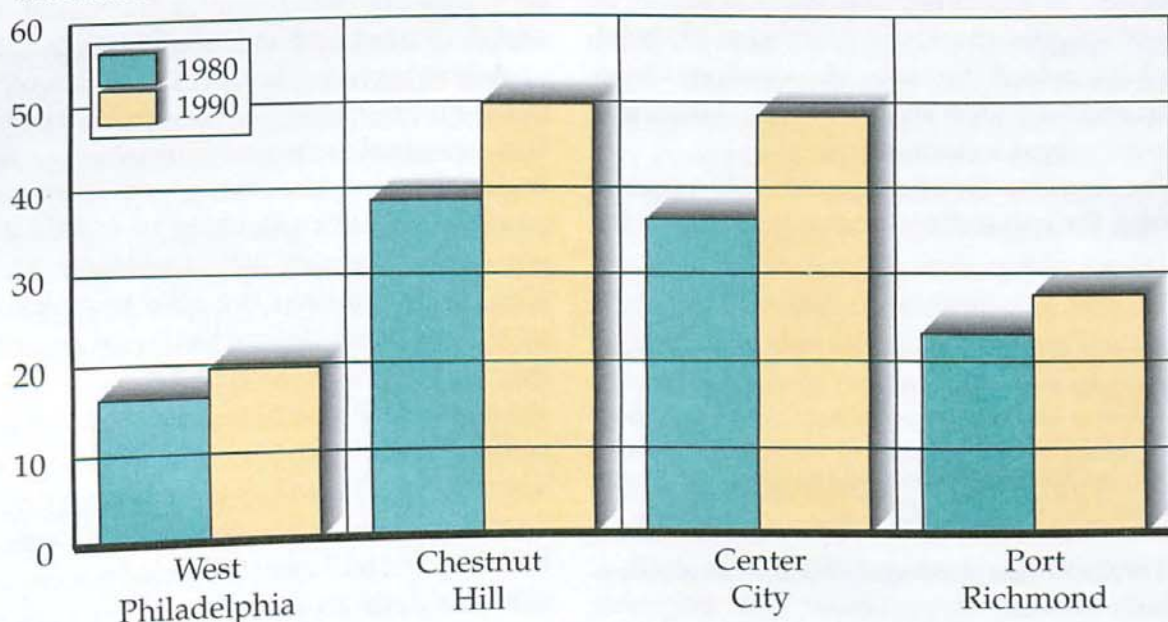
In terms of income, both the levels and growth rates in the 1980-90 period differ markedly across neighborhoods (chart). The average real household income of Chestnut Hill/Mount Airy and Center City residents is almost twice as high as that in either West Philadelphia or Port Richmond. In terms of real income growth, incomes of Center City residents grew 34.1 percent in the 1980s, more than triple the pace of income growth for West Philadelphia residents (11.3 percent) and almost double the pace of that for Port Richmond residents (18.7 percent). At 29.2 percent, income growth in Chestnut Hill/Mount Airy was only slightly slower than in Center City. The growth rate for Center City exceeded the city average of 21 percent and even the average growth of 32.5 percent in suburban Philadelphia. These figures illustrate that, while the average income of city residents grew more slowly than that of their suburban counterparts, the portrait of declining relative city incomes is not uniform.

^aWithin the Chestnut Hill/Mount Airy area, there are three distinct communities: Chestnut Hill, West Mount Airy, and East Mount Airy. Of these three, only West Mount Airy is racially balanced, while Chestnut Hill is predominantly white and East Mount Airy is predominantly African American.

^bRobert Warner and Don Russell of the Philadelphia *Daily News* provided these figures. Using original police data, they mapped murders to census tracts. These data were, in turn, used to calculate murder rates in each community.

Mean Household Income

Thousands of 1990 Dollars



come. Many city neighborhoods have the advantage of proximity to major centers of commerce and education, transportation, and the historical and cultural hub of the region. On the other hand, some city neighborhoods suffer from environmental degradation from an earlier industrial heritage, obsolete and substandard residential and commercial structures, and degraded infrastructure and social structure. For central cities to prosper, they need to identify their strengths and develop mechanisms that allow communities that have strong comparative advantages to prosper.¹⁷

One way to enable central city neighborhoods to reach their economic potential may be to increase the autonomy of city neighborhoods. In the extreme, localization could take the form of creating new, smaller, independent jurisdictions on a scale similar to that of suburban jurisdictions. While dissolution of cities into smaller jurisdictions is rare, in the Netherlands, Rotterdam recently considered subdividing into 12 jurisdictions.¹⁸ Somewhat more common, parts of cities seek to withdraw from the larger city, usually to avoid actual or perceived intracity income transfers. Staten Island, a borough of New York City, has had a fairly strong secession movement for years. Similarly, in Philadelphia, local representatives of neighborhoods in Northeast Philadelphia have raised the issue of secession. Dissolution and secession are unequivocal means of achieving local autonomy.

One less drastic and increasingly popular method for expanding local autonomy is the

creation of special service districts. Typically, special service districts are organized by neighborhoods to provide specific services, such as cleaning, maintenance, and security, over and above that provided by the city government. These organizations often have legislative approval to levy a tax to finance their activities and have local control over the expenditures. Philadelphia, for example, has two special service districts and at least two more are planned. These districts allow neighborhoods exclusive control over at least a part of their locally generated tax revenues. They provide a mechanism by which a community can invest in local improvement and better match the community's demand for public services with the supply.

There are other ways to increase local autonomy within a city as well. Decentralization of public education, even within the framework of a single school district, is currently a subject of great interest. Local home and school associations that raise funds for particular neighborhood schools fit hand in hand with decentralization. These types of activities, like the special service districts, all increase local autonomy within the city. For these activities to dramatically increase local autonomy, decentralization must involve both local control and dedicated neighborhood sources of funds.

Advantages of Localization. Localization has a number of significant potential benefits for central city economies. Unlike regionalization, increasing local autonomy can result in a better matching of public policies with the desires of local residents, which, in turn, may improve the quality of basic services. For example, communities may have a greater impact on the quality of local schools if changes involve only a couple of local schools rather than all schools in a large city school district. At the same time, increasing local autonomy would tend to reduce unsustainable local income redistribution that induces middle class residents to leave the city, further reduc-

¹⁷Michael Porter argues forcefully that cities should focus investments—public and private—on the cities' primary areas of comparative advantage. Attempting to go against the grain of basic market forces is unlikely to meet with success. While Porter was not speaking in geographic terms, the principle is the same.

¹⁸The subdivision plan was rejected by Rotterdam voters.

ing city resources. Local residents may be willing to expand their investments in the local community if they are confident that these investments have an impact on that community. Economically viable communities would be on a more level playing field with their suburban counterparts. Not only would they be at less of a disadvantage in competing for residents and firms, but they would also be in a better position to form cooperative agreements with suburban neighbors, when it is in the common interest.

Increasing the autonomy of local city neighborhoods is likely to result in the economic expansion of communities with unique economic advantages, providing the city with internal sources of growth and prosperity. Healthy city neighborhoods are likely to have a positive influence on other, less advantaged neighborhoods. Consider, for example, Center City Philadelphia (or any large city's central business district). Center City Philadelphia generates a great deal of tax revenue, a significant part of which supports basic services to neighborhoods throughout the city. If Center City were, in the extreme, an autonomous jurisdiction, it probably would require much lower tax rates and would have higher service levels. It would therefore be a more attractive location for businesses and residents. At the same time, a vibrant central business district would likely increase the desirability of neighboring communities, simply because of their proximity.

In addition to improving the conditions of economically viable communities, increasing local autonomy will almost certainly make it easier to target resources, from higher levels of government, that are intended to fight poverty, so that a greater fraction of these funds actually reaches lower income people. Communities no longer economically viable will be painfully evident if they are no longer supported by the rest of the city.

Disadvantages of Localization. The list of

disadvantages of localization is shorter than the list of advantages, but the negative consequences of failing to address the primary disadvantage—that communities with few economic resources will lose the support of the larger city community—are potentially severe. Economically vulnerable communities may be unable to sustain basic services, and in the absence of financial support from higher levels of governments, this inability may involve unacceptable hardships for the residents of these communities. As Bryan Ellickson pointed out in a 1977 article, residents of poor neighborhoods are unlikely to support localization policies without some form of side payment from wealthier communities.

If an aggressively pursued localization strategy fails to address the needs of residents in disadvantaged communities, gains from the localization strategy in potentially prosperous city communities may be undermined. Just as my 1994 study found strong evidence that city decline adversely affects suburbs, it is even more likely that neighboring communities in a city are interdependent. Problems in one community are likely to spill over into neighboring communities simply because of proximity. Although this cross-community interdependence argues against localization strategies, cities cannot, by themselves, sustain the income transfers needed for the residents of failing communities. Increasing local autonomy can potentially increase the economic prospects for many communities in the city, but unless the negative consequences to the residents of economically vulnerable communities are addressed, the potential of localization to generate the metropolitan-area-wide benefits of a healthy central city is unlikely to be realized.

COMBINING LOCAL INITIATIVE AND REGIONAL COOPERATION

Both local and regional approaches have strengths and weaknesses. Careful analysis

suggests that there are clear and distinct roles for local and regional initiatives for improving the economic health of central cities and for generating significant positive benefits for the entire region. Localization strategies are effectively place-oriented policies that enable city communities to pursue their comparative advantages. Local initiatives should focus on policies that eliminate explicit or implicit intracity redistribution of income so that economically viable city communities can prosper. Special service districts, which have the power to tax and spend at the local level, are good examples of policies that enhance local autonomy. As long as there are complementary programs to address the needs of residents in economically distressed communities, localization policies need not attempt to artificially sustain these communities in their current configuration.

My research suggests that the regional benefits of improving central city economies are large. Regional initiatives designed to achieve these benefits should focus on two areas.

First, the needs of lower income residents are best addressed by people-oriented policies. A growing body of research (see the article by George Borjas, for example) suggests that neighborhood environment plays an important role in the social and economic success of individuals. This research suggests that eliminating the incentives that encourage people to separate themselves into rich and poor communities and encouraging residents of failing

communities to make the transition to viable communities have the best chance of improving both city neighborhoods and the welfare of the poorest city residents. Financial support for these programs can be sustained on a regionwide basis, although even higher levels of government would be more appropriate.

Second, regional support is needed for services and amenities that are regionally beneficial and regionally valued. Some services, such as transit systems, are crucial to the survival of densely populated central cities and warrant regional support because of the indirect impact of these systems on the regional economy. Other amenities typically located in cities, including cultural, historical, and recreational facilities, deserve regional support because residents throughout the region value them.

One key to an economically vital metropolitan area is an economically vital central city. To improve central city economies, we need to provide the opportunity for viable city communities to build on their strengths. However, the declining fortunes of residents in economically vulnerable communities threaten the revitalization of viable city neighborhoods. The potentially large regional economic benefits of a healthy central city suggest that it is in the region's interest to provide regional support for residents in economically vulnerable communities and for services and amenities located in the city that have positive regional impacts.

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