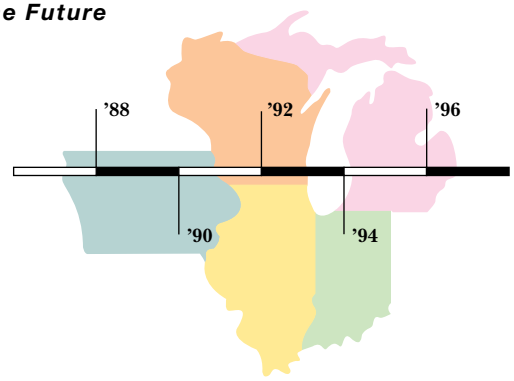
Number 1



Midwestern Metropolitan Areas: Performance and Policy

First in a series of workshops to be held at the Federal Reserve Bank of Chicago.

The Federal Reserve Bank of Chicago recently initiated a comprehensive, long-term study of the regional economy, *Assessing the Midwest Economy: Looking Back for the Future* (see page 15). The study is intended to foster a better understanding of the Midwest's prospects by examining the turnaround in the region's economy since the early 1980s. On November 28, 1995, the Bank held its first project workshop as part of the year-long study. The workshop focused on the economies of the region's metropolitan areas. This is the first in a series of reports which will summarize the findings/directions identified at project workshops.

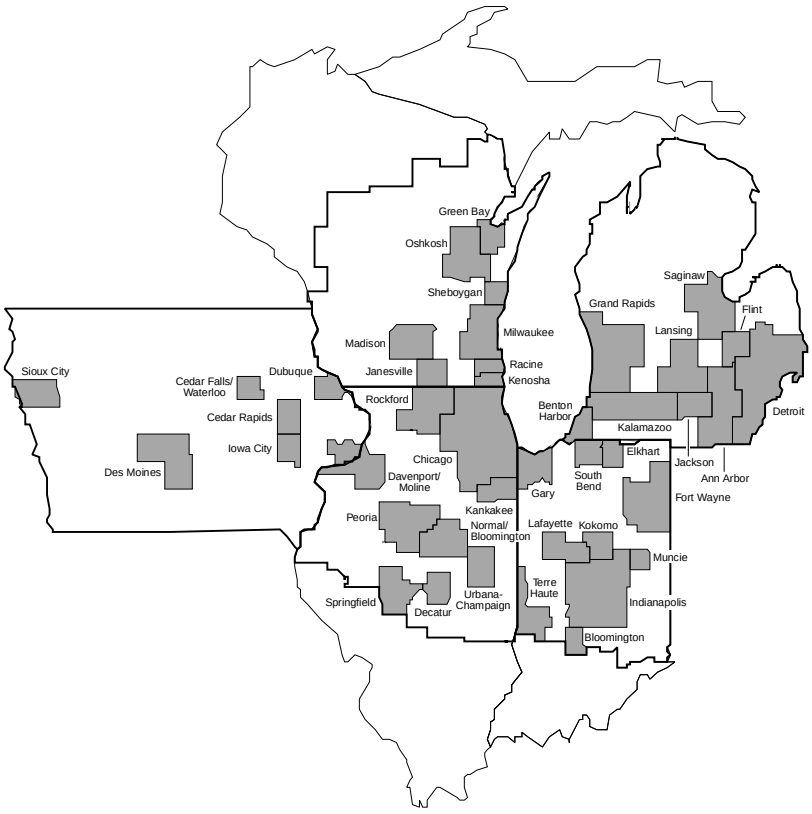
Federal Reserve Bank of Chicago

Conference Summary

In the Seventh District, 76 percent of the population resides in the region's 41 metropolitan areas and, similar to the nation, 46 percent of the region's population resides in metropolitan areas that have one million or more residents—Chicago, Indianapolis, Detroit, and Milwaukee.

Why approach the changing Midwest economy from the perspective of metropolitan areas? Most fundamentally, we have become a nation of metropolitan areas. In the Seventh District and throughout the U.S., population and jobs continue to become concentrated into metropolitan areas. Over the course of this century, metropolitan population has increased from 30 to 40 percent of the nation to almost 80 percent today. In the Seventh District, 76 percent of the population resides in the region's 41 metropolitan areas and, similar to the nation, 46 percent of the region's population resides in metropolitan areas that have one million or more residents—Chicago, Indianapolis, Detroit, and Milwaukee (figure 1, table 1).

Figure 1 Geography of Metro Areas, Seventh Federal Reserve District



Note: Heavy black line indicates border of the Seventh District.
Source: U.S. Office of Management and Budget.

Table 1 Metro/Nonmetro Population, 1993 (000s)

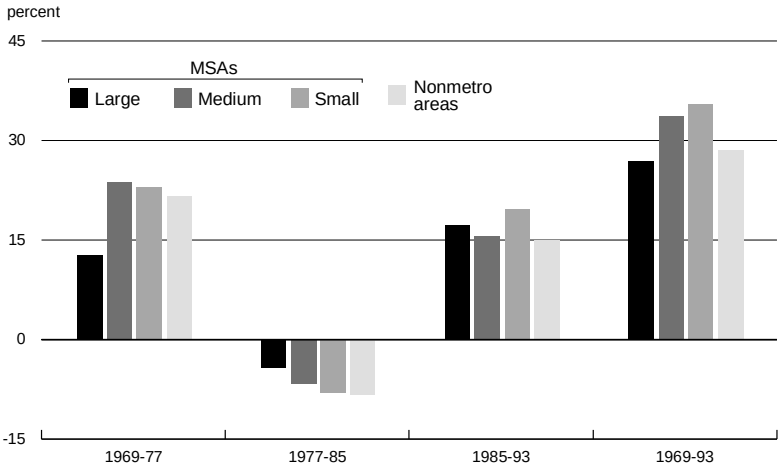
	Metro	Non-metro	% Metro	% Non-metro
U.S.	205,489.0	52,294.0	79.7	20.3
Illinois	9,817.6	1,868.3	84.0	16.0
Indiana	4,088.0	1,617.5	71.7	28.3
Iowa	1,238.5	1,582.8	43.9	56.1
Michigan	7,813.3	1,646.4	82.6	17.4
Wisconsin	3,431.2	1,312.8	72.3	27.7
Seventh District	26,388.6	8,027.8	76.7	23.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA), Regional Economic Information System (REIS).

It is not surprising, therefore, that the Midwest's current economic turnaround has been manifested in metro-area performance (figure 2). Metro and nonmetro counties alike have rebounded from the late 1970s through the first half of the 1980s when income and production fell sharply in both manufacturing and agriculture. The common direction of income growth experienced by metro areas (irrespective of size) and nonmetro counties suggests that the Midwest often experiences a common economic fate, either because of market links with other regions or because of tight economic links within the region.

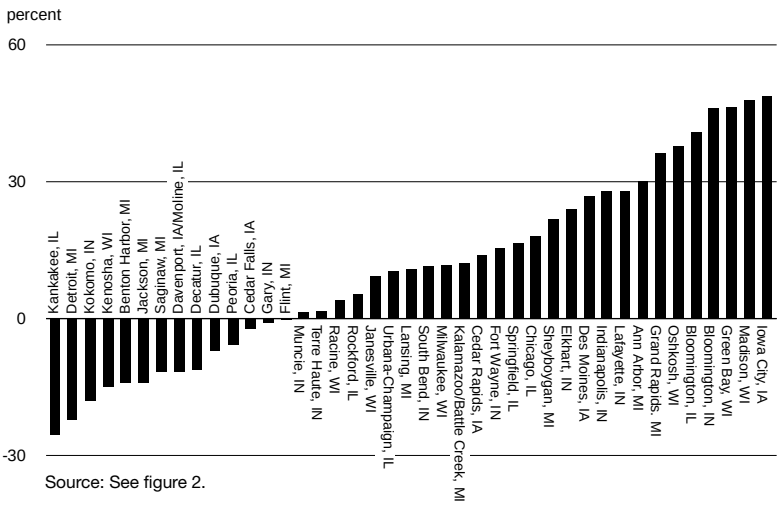
Despite the region's aggregate fate, individual metropolitan areas of the Seventh District experienced sharp disparities in income growth from 1977 to 1993 (figure 3). An understanding of these disparities could provide important insight into the region's performance. Many analysts assert that the metropolitan area has become the fundamental and cohesive geographic unit. Any individual metropolitan economy relies on a common labor force, federal and state government (typically), location, climate, and infrastructure. Over time, barriers to world trade and investment have fallen, and the typical metro area's specialization in production has increased. Consequently, metropolitan areas have become more distinct as their trading relationships with the world economy have grown.

Figure 2 Change in Real Personal Income by MSA Size, 1977–93



Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA), Regional Economic Information System (REIS).

Figure 3 Change in Real Personal Income by MSA, 1977–93



Source: See figure 2.

One example of the increasing economic specialization of the metropolitan area was offered by Geoff Hewings, director of the Regional Economics Applications Laboratory (REAL) at the University of Illinois at Urbana-Champaign, and Phil Israilevich, senior economist and research officer at the Federal Reserve Bank of Chicago. In their innovative approach to modeling and analyzing the Chicago-area economy, they found that many of the factory-to-factory trading linkages *within* the Chicago-area economy have disappeared during recent decades as the region has lost 300,000 manufacturing jobs. Overall, this industrial transition, in which the Chicago-area economy has been "hollowed out," has been less harsh than expected. Israilevich suggested that economic transformation is often a less difficult process than may be thought. As jobs relating to outdated or unproductive functions are eliminated, new jobs tend to be created. To understand the labor force implications of economic change, it is increasingly important to view labor growth relative to output. Israilevich stressed that increases in final demand for products were critical in determining trends in manufacturing employment.

Chicago's estimated exports to Mexico amount to approximately $1 billion per year and Canada $7 billion per year, while the region's trade with the rest of the U.S. is gauged at $140 billion.

Hewings stressed that productivity and output growth have been sustained as the Chicago metro area has replaced its internal trading linkages with external partners—not necessarily with foreign trading partners, but rather with other large U.S. metro areas. Chicago's estimated exports to Mexico amount to approximately $1 billion per year and Canada $7 billion per year, while the region's trade with the rest of the U.S. is gauged at $140 billion.

As metropolitan areas become more linked and competitive with external economies, what characteristics will determine their economic fortunes (and those of their regions)? Richard Mattoon, senior economist at the Federal Reserve Bank of Chicago, suggested that the arrangements by which metropolitan areas are governed in the U.S. vary greatly. Our highly decentralized system of local government has yielded a highly fragmented system in many of our metropolitan areas, with much variance from region to region and from state to state (table 2).

Table 2 Number of Governments

	Municipal		Special Districts	
Metropolitan Area*	**1957**	**1992**	**1957**	**1992**
Chicago	248	315	333	605
Des Moines	42	41	21	38
Detroit	106	120	23	46
Indianapolis	70	62	28	136
Milwaukee	59	65	15	39

*Defined identically for 1957 and 1992.
Source: U.S. Department of Commerce, Bureau of the Census, *Census of Governments* (various years).

Accordingly, it has been suggested that regionwide governance policies might promote the health of the metropolitan area by redressing the inefficiencies associated with a fragmented system of government. There are only a few regional institutions available to serve as case studies for evaluating this thesis. Still, some midwestern models do exist, and Mattoon suggested that their experiences may encourage some metro areas to adopt more

cooperative or even unified government structures. For some time now, Indianapolis and Minneapolis-St. Paul have operated various forms of metropolitan government in an effort to channel growth while fostering more efficient delivery of government services.

Much discussion of regional metropolitan governance centers on the relationship of central cities to their suburbs, perhaps because lagging performance is evident in many older central cities of the Northeast and Midwest. Some have suggested that the changing needs of the economy in the 1990s has rendered these older, high-density central cities obsolete. Businesses and people have spread out across metropolitan areas because doing so is rational and efficient. However, recent empirical and anecdotal evidence also suggests that healthy suburbs may stagnate without healthy central cities. Others assert that the decline of central cities has been unduly subsidized—perhaps deliberately—through an array of government tax policies and expenditure programs which have encouraged expansion toward the urban fringe.

A corollary of these findings might suggest that entire metropolitan areas—both city and suburbs—should be optimally configured. Some cite evidence that the current pattern of economic and population deconcentration may not be beneficial to the prospects for the entire metro area, as suggested by increasing congestion on suburban roads, income inequality among communities, and towns entering into unproductive bidding wars to capture commercial development. Without a regional government structure, or a structure in which disparate governments can reach agreement, it will remain common for towns to consider only their narrow self-interests in pursuing new development.

In Indianapolis and Minneapolis, policies such as regional tax base sharing for commercial development and regionwide planning for land-use decisions reduce the tendency for towns to bid destructively for commercial development, and arguably improve siting decisions for large regional developments.

In Indianapolis and Minneapolis, policies such as regional tax base sharing for commercial development and regionwide planning for land-use decisions reduce the tendency for towns to bid destructively for commercial development, and arguably improve siting decisions for large regional developments. In addition, the regional tax base makes revenues more diversified and improves the bond ratings of the area. Furthermore, it is easier to support the development of parks, open space land, and other public land uses when all communities in the region feel that they directly share in the benefits of any commercial development. In contrast, fragmented government often leads suburban residents to eschew support for those city assets benefiting the entire metro area, such as museums and zoos. At the same time, fragmented government itself arises from the residential location process in which higher-income residents collect in exclusive suburbs to avoid subsidizing public services consumed by the poor. As one prototype solution to underprovision of central city facilities, Mattoon cited Pittsburgh's "regional asset" approach, whereby facilities such as museums, parks, and zoos are funded on a regionwide basis even though they may be located in or controlled by the central city.

A second argument in favor of metropolitanwide governance arrangements is to improve the cost-efficiency of the delivery of public services. Mattoon suggested that, just as firms have increasingly focused on improving their internal efficiency, they will soon begin to demand similar efficiency from government in providing public services. Currently, many metropolitan areas have overlapping governments that may be providing uncoordinated services. Economies of scale and scope might be achieved if metropolitanwide structures could deliver many of these services. Most research suggests that technical services, such as sewers, transit, waste disposal, and infrastructure, can be provided more efficiently by a metropolitanwide structure. However, where metropolitanwide provision appears less efficient is in the area of social services, such as education and welfare; many large inner city school systems are seen as failures.

With political power increasingly shifting to the suburbs, it is possible that all of the desirable public services will come to be provided through a metropolitan structure, while the undesirable services pertaining to crime and welfare will be retained by central city governments.

In response to Mattoon's presentation, William Oakland, chair of the economics department at Tulane University, suggested that some metropolitan services should be provided by a metropolitan government, and noted that in many cases this already occurs through single-function metropolitan governments, such as transit authorities and sanitary districts. However, Oakland cautioned against being too enthusiastic about the prospects of "metropolitanizing" many services as a means of achieving fiscal equity between have-not city residents and more-prosperous suburbanites. With political power increasingly shifting to the suburbs, it is possible that all of the desirable public services will come to be provided through a metropolitan structure, while the undesirable services pertaining to crime and welfare will be retained by central city governments. It is also possible that metropolitan-wide land-use control could end up stopping development altogether if the dominant political structure turns anti-growth.

John McDonald, economics professor of the University of Illinois at Chicago, questioned the assertion that the deconcentration of economic activity away from central cities and into so-called edge cities is inefficient. He suggested that research into metropolitan patterns of growth is still young, and that these new forms of small, highly concentrated centers of economic activity may improve the performance of the entire metro region. Similarly, McDonald suggested that it is insufficient to try to understand the development of metro areas solely in terms of the relationship between central cities and their suburbs. It must be recognized that there is significant variation in the types and forms of suburbs that exist and that more attention needs to be paid to identifying the unique characteristics of the towns and cities that comprise a metro area. For example, highly concentrated development in specific suburban locations—edge cities or employment subcenters—may not represent sprawl, but rather a positive force for overall metrowide growth. The Schaumburg "subcenter" in the Chicago metro area was cited as one example where economic activity continues to concentrate, even after initial development. New metropolitan forms may be developing that we do not yet fully understand. Unduly constraining new urban forms—by imposing growth controls at the fringe, or channeling development back into the city center—may damage a region's growth prospects.

The Role of Technology in Metropolitan Development

Robert Atkinson, a project director in the U.S. Congress' Office of Technology Assessment (OTA), discussed a recently completed study on the effects of technology on metro areas. Technological forces are clearly shaping new urban forms. In the process, these technological forces may be favoring certain metropolitan areas based on population size, location, or industry structure. The study examines the effects of technology on individual industry sectors, paying particular attention to the effect of information technology on the operations and physical location of service firms. Atkinson stressed that although the effects of changing technology are yet to be fully understood, three broad implications can be drawn.

- Information technology will significantly improve service sector productivity and will cause productivity gains between the service sector and manufacturers to converge.
- Technology will continue to have a significant impact on the workplace and on how business is conducted; services can increasingly be sold and delivered far from the customer.
- Technology implies greater freedom for service firms in choosing locations.

Digital information transfer will allow firms to locate in less expensive areas, improving their chances of survival in increasingly competitive industries.

In particular, the emerging digital transfer of information will become vital to many service firms. At the same time, digital information transfer will allow firms to locate in less expensive areas, improving their chances of survival in increasingly competitive industries.

Nonmetro counties in the Seventh District had a 17 percent lower manufacturing concentration than the overall Seventh District in 1969, but now maintain an 11 percent greater concentration.

Despite increased freedom to produce and deliver services from afar, however, Atkinson cautioned that there is little evidence that these technology-related location shifts will necessarily benefit rural areas. Suburbs and small to medium-sized metropolitan areas appear best able to provide a hospitable environment for those specialized service functions that can be digitized. The optimal scale of service establishments has been growing, even while that of many manufacturing facilities has been shrinking. As a result, it is often the scale at which service workers desire to live—which ultimately translates into the firm's labor costs—that is helping to determine the location of new service establishments. If population density climbs too high, ultimately raising the cost of living and wages, service establishments will attempt to find labor elsewhere. Atkinson cited the rise of many medium-sized Sun Belt cities—Charlotte, Nashville, and Jacksonville—as examples of metro areas where living costs remain low while population size is sufficient to support popular amenities such as professional sports teams. There are important exceptions, however, involving those service firms attracted to large city airport and conference facilities, a very specialized labor force, or highly specialized support service activities. Small entrepreneurial service firms are also often cited as being incubated in large cities where specialized support services and a specialized labor force are available.

The consequences of these technological shifts in optimal scale are reflected in the changing industry concentrations within metropolitan areas of the Seventh District (table 3). As measured by real personal income, the large metropolitan statistical areas (MSAs) have seen manufacturing edge downward since the 1970s, with sharp declines in their core counties. Small and medium-sized metro areas now find that manufacturing accounts for a much larger share of personal income. The most dramatic shift has been experienced by nonmetro counties in the Seventh District, which had a 17 percent lower manufacturing concentration than the overall Seventh District in 1969, but now maintain an 11 percent greater concentration. Reasons behind the rise of manufacturing in rural areas include not only the smaller scale at which manufacturing can now take place but also changes in transportation, which have favored trucking rather than locations at central rail terminals.

Table 3 Real Personal Income (Indexes of Concentration)

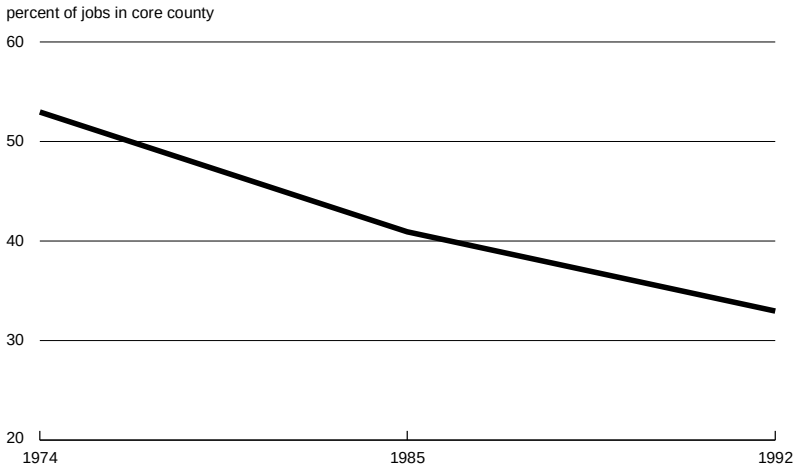
	Versus the U.S.				Versus the Seventh District			
	1969	1977	1985	1993	1969	1977	1985	1993
Manufacturing								
Large MSAs	1.31	1.35	1.29	1.27	0.99	0.98	0.92	0.89
Core counties	1.28	1.34	1.22	1.18	0.97	0.96	0.88	0.82
Med. MSAs	1.52	1.63	1.70	1.67	1.15	1.18	1.22	1.16
Small MSAs	1.41	1.48	1.55	1.66	1.07	1.07	1.11	1.16
Nonmetro	1.10	1.19	1.34	1.59	0.83	0.86	0.96	1.11
FIRE								
Large MSAs	1.00	1.09	1.14	1.14	1.19	1.22	1.27	1.27
Core counties	1.12	1.22	1.37	1.30	1.32	1.37	1.53	1.45
Med. MSAs	0.70	0.71	0.70	0.77	0.83	0.80	0.79	0.86
Small MSAs	0.71	0.73	0.71	0.69	0.84	0.82	0.79	0.77
Nonmetro	0.60	0.62	0.51	0.46	0.71	0.70	0.57	0.51
Business services								
Large MSAs	1.06	1.07	1.16	1.14	1.34	1.32	1.34	1.30
Core counties	1.13	1.02	1.01	1.00	1.43	1.26	1.17	1.14
Med. MSAs	0.52	0.58	0.63	0.74	0.66	0.71	0.73	0.84
Small MSAs	0.43	0.51	0.54	0.62	0.55	0.63	0.63	0.71
Nonmetro	0.49	0.53	0.44	0.40	0.62	0.65	0.51	0.46

Note: Index value is the ratio of industry share in the MSA to the share in the U.S. (or Seventh District).
Source: See table 1.

Financial and business service trends are moving in the opposite direction to manufacturing (table 3). For the finance, insurance, and real estate sector (FIRE), large and medium-sized MSAs have gained concentration—especially core counties of large MSAs. In contrast, small metro areas and nonmetro counties are losing this income base. Business services are also slipping away from nonmetro counties, even while Seventh District MSAs in each size category experienced increasing concentration over the 1969–93 period.

In contrast to the trend for FIRE, core counties of large Seventh District MSAs have lost share in the business service industry sector. In the central city-suburban context, changing information technology has encouraged movement of business service industries to the suburbs, according to Atkinson. Those services that can be "digitized" are the best prospects for moving to the suburbs. As evidence of this, the concentration of data-processing jobs has shifted dramatically (figure 4). Suburban locations have an advantage when it comes to accommodating the needs of digitized services. It is easier to outfit new buildings with "smart" technologies than to retrofit existing urban structures. The brokerage firm Fidelity has established a "megacenter" for processing in suburban Dallas, and insurance firms such as Aetna continue to consolidate claims processing centers into suburban locations.

Figure 4 Core County Employment in Data Processing within Metro Areas



Source: U.S. Office of Technology Assessment, *The Technology Shaping of Metropolitan America,* September 1995, p. 84.

According to Atkinson, one marked characteristic of many large service establishments locating in suburban areas is the apparent absence of interindustry linkage with the remainder of the economy. As specialized service functions are moved out to suburbs, they do not appear to create a significant need for other services. Specialized megacenters are often self-contained and require little in the way of additional professional or other services. The economic multiplier from landing such a center can therefore be smaller than anticipated.

In the wake of these changes, central cities are often left with highly specialized functions that require workers with the highest skill levels. The problem is that such workers may not be available in sufficient numbers in the urban center. Atkinson's view was that, as information technology grows, this mismatch between city jobs and city residents will worsen and the attractiveness of suburban locations will increase.

Randall Eberts, executive director of the Upjohn Institute in Kalamazoo, Michigan, questioned whether the impact of new technology might not provide opportunities for metro areas rather than simply creating problems. The popular literature increasingly attributes the success of firms to the competence and commitment of their work force, and their ability to coordinate both internal and external functions. Eberts suggested that cities need to understand these dynamics and develop ways in which these factors can be enhanced through government services. Additionally, Eberts said that amenities will play an increasingly important role in determining the location of economic activity, and that the concentration of cultural and recreational amenities in central cities may provide some advantage in retaining economic activity.

The loss of manufacturing jobs experienced by central cities is being extended to the service sector. The only way to reverse this trend is to concentrate on the skills of the labor force.

Oakland commented that the OTA report should put us on alert that the loss of manufacturing jobs experienced by central cities is being extended to the service sector. The only way to reverse this trend is to concentrate on the skills of the labor force. Metro areas that are able to develop and offer the best human capital will have a decided advantage in economic development. This calls for an emphasis on people rather than place strategies. Oakland suggested that the development strategy of metro areas take a supply-side perspective. Metro areas that are able to offer a greater supply of resources will attract more economic activity. However, McDonald noted that programs such as the new "empowerment zones" are trying to promote development in communities that lack resources, particularly when it comes to the labor force. For example, 50 percent to 60 percent of the adult population in Chicago's empowerment zones were cited as being without high school diplomas.

Mortgage Lending in Urban Areas

William C. Hunter, senior vice president and director of research of the Federal Reserve Bank of Chicago, presented his research on the issue of lending discrimination.

Hunter's study has taken the Home Mortgage Disclosure Act data used in the Federal Reserve Bank of Boston's 1992 study and extracted a rigorously "cleaned" subset of the original data that examines lending behavior in Boston in 1990. The study then uses 25 variables to determine which aspects of a loan application would be the most significant in determining whether the loan would be approved.

One finding specific to the topic of metropolitan and central city investment is that geographic discrimination was not found to occur.

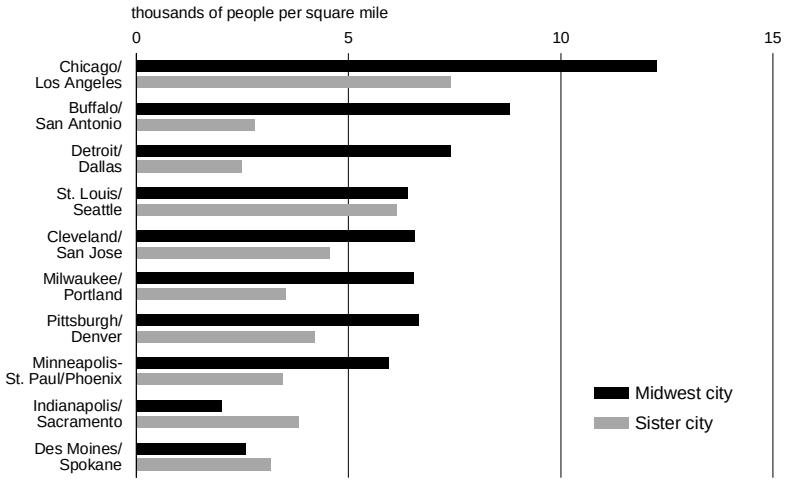
One finding specific to the topic of metropolitan and central city investment is that geographic discrimination was not found to occur. "Redlining" of neighborhoods by lenders was not found, as it appears that individual characteristics of the borrower are far more important than the location of the property when it comes to determining whether a loan is made. However, general workshop discussion concurred that loan application is but one fraction of the community/residential investment transaction. Knowledge and awareness of loan procedures and opportunities, for example, may also determine a community's residential development. More broadly, the dynamics and interaction of community housing decisions with other important activities affecting overall community development, such as schooling and job location, are not fully understood at this juncture.

The findings of the study are interesting with regard to race. When examining the likelihood of a white or a minority applicant with a good credit history getting approved for a mortgage, it appears that race is insignificant. Both applicants have similar approval rates. However, race does become significant in the case of applicants with poor credit histories. In the case of these marginal applicants, the white applicant has a significantly better chance of being approved for a loan than a minority applicant with the same characteristics. Hunter suggested that this may be occurring because white loan officers, owing to their cultural affinity for white applicants, find it easier to determine whether the white borrower will be an acceptable credit risk despite the marginal qualifications.

Urban Land Assembly and Brownfields

Midwest metro areas apparently face larger growth impediments than many of their Sun Belt counterparts. New urban forms are apparently emerging, but new forms are less costly to establish in a developing area than in a long-developed one. Midwest metro areas feature high density urban cores, often having narrow streets, smaller land plots, and a social/governance environment that has evolved to their disadvantage (figure 5).

Figure 5 Population Density in the Midwest and Sister Cities,* 1990



*Cities were paired that had similar census population in 1990. Densities are for the city proper, not the metropolitan area.

Source: U.S. Department of Commerce, Bureau of the Census, *Urban Areas of the United States and Puerto Rico,* December 1993.

Ziona Austrian, associate director of the Economic Development Program, and Thomas Bier, director of Housing Policy Research at Cleveland State University's Urban Center, focused on the particular disadvantage of land availability in central cities and core counties in the Midwest. Austrian and Bier argued that there is demand for urban sites but the lack of pristine greenfield land or contiguous land that can be assembled into appropriate parcels for development makes urban development difficult. For example, in Cleveland an estimated 120 acres of land is sought by developers that cannot be provided by the city. The city has no greenfield land and financial, legal, and political barriers are making it difficult to assemble brownfield parcels in a manner that would make them attractive. Not surprisingly this lack of available land in both the central city and the core county is causing the real property tax base to shift to the outskirts of the metro area.

Since central cities and increasingly core counties lack available, easy to develop land, they must recycle the land they have or face inevitable decline.

Austrian and Bier suggested that this pattern is being repeated all over the Midwest and provided data on seven Ohio cities and seven midwestern cities to support this notion. At the core of this analysis is the proposition that land availability is central to the economic health of the metro economy. Since central cities and increasingly core counties lack available, easy to develop land, they must recycle the land they have or face inevitable decline. Austrian and Bier examined trends in building permits and property values in each of these cities. The central cities' and core counties' share of building permits has been declining, while suburban counties have seen growth in the share of building permits. In Cleveland, this decline also extends to the value of industrial permits.

Each city was examined in terms of building permit trends for all types of construction, including residential, commercial, and industrial. Six core counties (containing the cities of Toledo, Cincinnati, Pittsburgh, Milwaukee, Chicago, and Minneapolis) lost market share in each of these categories. Austrian and Bier argue that without new development in these cities, the property tax base of these core counties is bound to decline as depreciated structures are not replaced by new structures. Given this trend, policymakers may need to focus their attention on reclaiming brownfield land in order to promote growth.

Responding to the presentation, McDonald suggested that it is important to view the findings of slow growth in central cities and core counties in the context of the entire metro region. Why do some entire metro areas grow slower or faster than other areas? McDonald suggested that "structurally unemployed land" may be at the root of the question, but cautioned that economic theory suggests that urban land would be redeveloped if its price declined to a market clearing price. Instead, urban land appears slow to redevelop, and this may have as much to do with the inability to assemble urban land as to other barriers such as crime and environmental degradation.

Brownfields

The barriers to brownfield development include the lack of an established process for handling cleanups and certifying them as "clean," the inability to secure financing because of the uncertain potential liability attached to the site, and, of course, the cleanup costs, which can make a brownfield development cost three or four times more than a greenfield site.

Charles Bartsch, senior analyst at the Northeast-Midwest Institute in Washington, DC, discussed efforts to return environmentally contaminated land to productive use. Bartsch stressed that part of the problem in looking at so-called brownfields is that there is no single definition that reflects their status. In some cases, the contamination is minor and the cost of preparing the land for new development is only marginally higher than for a pristine site. However, in other cases, the degree of contamination can be extensive and determining how much a cleanup will ultimately cost can be difficult. This uncertainty often makes these sites so unattractive that they are abandoned.

The barriers to brownfield development are easy to identify. They include the lack of an established process for handling cleanups and certifying them as "clean," the inability to secure financing because of the uncertain potential liability attached to the site, and, of course, the cleanup costs, which can make a brownfield development cost three or four times more than a greenfield site. With an estimated 500,000 brownfield sites in the U.S., addressing these issues must be an important element in any strategy to make land available, particularly in urban areas where these sites are more heavily concentrated.

At the federal level, establishing a liability standard is particularly important. If the federal government could establish clear liability standards for both lenders and property owners, it would be easier to determine the economic viability of brownfields. Federal standards also have the advantage of not allowing each state to set a different liability standard. In contrast, individual state standards often vary and also run the risk of allowing some states to set very lax standards, which will put pressure on other states to lower their standards to compete for economic development. Some success has been achieved through permitting the use of industrial development bond financing for cleanups, providing tax incentives, and even creating Brownfield IRAs, in which firms can put aside pretax funds to pay for future cleanup needs. Permitting banks to include loans for brownfield cleanup as part of their Community Reinvestment Act (CRA) compliance record is another helpful step.

State policy in this area has been particularly active, with programs focusing on capping liability or providing letters that certify the appropriateness of the cleanup effort and releasing the firm from liability for undiscovered contamination being common policies (see table 4). Still, it is unclear what the legal standing of these state release letters will be if they are challenged on federal grounds.

Table 4 Seventh District State Brownfield Initiatives

State	Program Description	Liability Provision	Participant Requirements	State Assurances Provided
Illinois	Pre-Notice Site Cleanup Program	State liability is strict, joint, and several for potentially responsible parties (PRPs).	$5,000 initial fee for oversight costs.	"Clean" letters issued for successful cleanups. Re-openers apply in the case of changes in land use.
Indiana	Voluntary Cleanup Program	Liability is strict, joint, and several.	$1,000 fee for application submittal including site history and description.	Certificate of completion issued by the Indiana Department of Environmental Management. Governor's office then issues a "covenant not to sue."
Iowa	None at this time.			
Michigan	Natural Resources Environmental Protection Act	Strict retroactive liability still applies to potentially responsible parties, although new law exempts owners from liability at current sites if they did not cause the release.	"Affirmative obligations" now exist for owners and operators of sites suspected or known to be contaminated to remediate and restore the site.	Covenant not to sue available for redevelopers of industrial sites. Letter of determination provided to anyone purchasing property. Letter protects purchaser from liability pending approved baseline assessment of site.
Wisconsin	Land Recycling Act	Prospective purchasers and innocent landowners may participate; responsible parties are pursued for cleanup costs in the event voluntary agreements fail. Municipalities and lenders are generally exempt from liability for properties obtained through foreclosure.	Currently no fee is required.	Release from liability offered under the state's Hazardous Substance Discharge Law. Release is transferrable to future owners.

Source: Adapted from Charles Bartsch, "Brownfield Policies in the Midwest," working draft, Northeast-Midwest Institute, Washington, DC, November 15, 1995.

Bartsch concluded that better information is needed about the magnitude of the brownfield problem before we can be certain that the best strategies are being pursued. Each brownfield is a unique site with its own set of issues, and policymakers should resist attempts to create "one size fits all" solutions. Determining the proper level of public support for cleaning up brownfields requires a realistic assessment of the redevelopment prospects of each site. Even a clean parcel of urban land may not attract any redevelopment if other urban problems are really at the root of stopping development.

McDonald suggested that contamination may be a marginal issue in development, in the sense that it only becomes significant when there is demand for redeveloping the site. Looking at how the market discounts the value of contaminated sites would help researchers to define just how significant contamination is in inhibiting redevelopment.

A Clarifying Perspective

How important are such issues and impediments as environmental remediation and urban land assembly policies to redevelopment of urban cores and to the overall growth of metropolitan areas? Much of the workshop dialogue centered on the central city-suburban trend in which urban development has been rapidly moving outward while the core is declining. However, a healthy debate exists as to whether this phenomenon largely derives from artificial subsidies and government policies or from technological changes that will ultimately become necessary for the well-being of entire metro areas. Knowing the answer would help to shape policies—should we dismantle and reverse existing policies which encourage deconcentration, or should we assist older metropolitan areas to take on newer and possibly more efficient forms?

Joseph Persky, professor of economics, and Wim Wiewel, special assistant to the chancellor of the University of Illinois at Chicago, assessed the optimal location of hypothetical firms—a service firm and a manufacturing firm—in both a central city site and a suburban site in the Chicago metro area. The model attempted to measure the costs and benefits of each type of site by accounting for social considerations, such as traffic congestion and better use of existing infrastructure, while it also considered the firm's perspective of differences in wages and other operational costs. For this reason, both public and private costs and benefits of the choice of site location were compiled. The approach measured the marginal effects of a single facility (one manufacturing facility, one service facility) locating at a suburban and city site.

Strong private market incentives continue to propel economic activity toward more spread out formations in metropolitan areas; a reversal of this trend would require broad and concerted policy efforts.

When these factors were summed for each location, the total societal benefits were found to be roughly the same. While the societal benefit of the firm locating at an urban location was higher in terms of the public benefits that the investment generated, the suburban location was markedly better in terms of private benefits. This raises a distribution question—namely, who is capturing the benefit of suburban versus urban development?—but it does not suggest that suburban development is inefficient. In terms of the aggregate benefits of development, both locations appeared to provide roughly equal benefits to society. Most importantly, these results, although case-specific and preliminary, suggest that there are strong private market incentives that continue to propel economic activity toward more spread out formations in metropolitan areas; a reversal of this trend would require broad and concerted policy efforts.

Summing Up

The first conference of the Federal Reserve Bank of Chicago's year-long effort to assess the performance and prospects for the Midwest economy found that understanding metropolitan areas and enhancing their growth prospects will be important in sustaining the region's economy. Metropolitan areas have become a dominant feature of the economic landscape, and individual metropolitan areas are becoming distinct and specialized as they establish important economic linkages throughout the nation and the world. Technological changes are taking place in the processing of information which portend dramatic changes for the workplace and for the desired location of emerging service firms. Metropolitan areas that are suitable or those that can adapt to these changes will be more likely to grow and prosper. Quality of life and cost of living as they relate to labor supply have become increasingly important for many types of service establishments.

Historically, Midwest metro areas have been more heavily oriented toward manufacturing, so that the nation's service industry conversions may be more challenging for this region. So too, environmental remediation of former industrial sites may present a larger hurdle for the Midwest.

Midwest metropolitan areas can be distinguished from those in other regions, and their differences will affect their prospects for growth and influence their optimal public policy focus and direction. Historically, Midwest metro areas have been more heavily oriented toward manufacturing, so that the nation's service industry conversions may be more challenging for this region. So too, environmental remediation of former industrial sites may present a larger hurdle for the Midwest.

The region's most rapid development took place during the world's age of mass industrialization from the late 1800s into the early 1900s. For this reason, midwestern cities often have a very dense core of population, with older buildings and infrastructure. Residential and, more recently, economic activity has been spreading out toward the urban fringe, leaving behind redevelopment problems for the core. It is an open question whether the current pattern of economic deconcentration can or should be stopped. A richer understanding of the factors that favor deconcentration and the linkages within and between metro areas is needed.

Many central cities will continue to face the many problems of transforming to a lower density of living and working. Fragmentation of governmental arrangements have made public service provision to the poor a central city responsibility—along with other public facilities that benefit the wider region. Moreover, policies such as federal legislation to remediate environmentally contaminated sites seem to have ample room for improvement—even with such policy improvements, decontamination alone may not suffice. Central cities may also need to fashion policies to assemble large parcels of land for redevelopment, even though the financial resources for such projects may not be readily available.

Finally, if they are to achieve growth or prosperity, city and suburb alike will need to address the supply side of the development equation. Workplace changes which require a changing level and mix of skills will be an important determinant. Some areas will also need to address development from a "human" perspective, involving social issues such as health, crime, and education.

About the Workshop

Correspondence related to the November 28 workshop should be directed to conference convenor Richard H. Mattoon, senior economist in the Research Department at the Federal Reserve Bank of Chicago. Participants in the workshop included the following:

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Single copies of this summary are available free of charge. Please send requests for single and multiple copies to Public Information Center, Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, Illinois 60690-0834 or telephone (312) 322-5111.

About the Project

The Federal Reserve Bank of Chicago is undertaking an extensive analysis of the Midwest economy. The goal of the project is to understand the Midwest's turnaround in economic performance since the early 1980s. In the Seventh Federal Reserve District—which includes Iowa and large portions of Illinois, Indiana, Michigan, and Wisconsin—unemployment rates are, at the time of this writing, lower than at any time since the 1977–78 period, as well as being below the national average.

The Midwest project will involve a series of workshops and research studies which will be carried out by Federal Reserve analysts and other researchers from the region. An advisory board representing a cross section of Midwest leaders will provide guidance for the project (see next page). Workshops scheduled for 1996 will consider (1) the economic performance of the broad Midwest economy and the transformation of its manufacturing industries; (2) the rural economy of the Midwest; (3) labor force training and education; (4) global linkages with the region's economy; and (5) tax, spending, and regulatory influences on regional performance. The findings of the workshops will be communicated through a series of publications and broad public forums. The project will conclude with a conference and publication toward the end of 1996.

At the Bank, the "Assessing the Midwest Economy" project is being conducted through a cooperative effort of the Office of the President, Michael H. Moskow, president; Research Department, William C. Hunter, senior vice president and director of research; and Community and Information Services, Nancy M. Goodman, senior vice president.

Inquiries should be directed to William A. Testa, senior economist and assistant vice president, Research Department, or James Holland, public affairs officer.