

September 18, 2014

## The Economic Effects of Urban Renewal

*Editor's note:* An earlier version of this post inadvertently included a paragraph from last week's post. The corrected post is below, and we apologize for the oversight.

This year, the 50th anniversary of the "War on Poverty," has seen an effort in the news media and among policy commentators to review the success and failure of past efforts to address poverty (see, for example, [this](#), [this](#), [this](#), and [this](#)). Some of these efforts have included place-based policies such as the Model Cities program, which attempted to improve housing stock and reduce urban blight at the neighborhood level. In part, this renewed interest is policy-relevant: many cities are struggling with blight in the wake of the foreclosure crisis, and place-based policy has returned to popularity. For these reasons and more, I was quite interested to read a recent article in the *American Economic Journal: Applied Economics*: "[Slum Clearance and Urban Renewal in the United States](#)" by William J. Collins and Katherine L. Shester revisits the topic of urban renewal programs in the latter part of the last century.

The set of policies loosely referred to as "urban renewal" has been controversial since implementation. In fact, the programs changed a lot from 1950 to 1974, largely in reaction to the outraged response and perceived failures of early efforts. Title I of the 1949 Housing Act, which focused on "slum clearance," was a precursor to the 1954 Housing Act, which shifted the emphasis away from demolition and towards rehabilitation and preservation. Later legislation added programs to smooth the relocation process for those who were displaced by Title I programs and to direct resources towards the elderly poor. Throughout the 1960s, policy shifted away from changing the quality of housing stock towards creating a suite of policies focused on healthy communities. In 1965, as a result of a major reorganization, the Housing and Home Finance Agency, which had administered Title I, became the Department of Housing and Urban Development, commonly known as HUD. Finally, in 1968, the Fair Housing Act passed, further affecting the dispersal of funds.

In the early sixties, Jane Jacobs was one of the more famous critics of the destruction of historic neighborhoods and reconstruction along rationalist, modernist lines. In her 1961 classic, [The Death and Life of Great American Cities](#), she argued that cities embodied organized complexity and that so-called "disorderly" slums were better than the rationally planned spaces that displaced them, both economically and socially. Other research on urban renewal has focused on political, social, and legal implications. This line of inquiry has focused on the impact of eminent domain on property rights, aesthetic concerns about how to incorporate historic preservation into revitalization, and concerns of justice and equity, primarily the issue that urban renewal placed the burden of displacement and disruption onto poor and minority residents without due consultation or compensation (see [Gans 1962](#), [Gotham 2001](#), [Jacobs 1961](#)).

The 2013 Collins and Shester paper cites this literature, but is distinct from it in its quantitative, nationwide study of economic impacts. It evaluates the effect of a series of programs over a 30-year period across 458 cities, and calculates that effect on broad economic outcomes. The authors measure urban renewal by combining the dollars allocated under the various programs implemented between 1950 and 1974. They evaluate the combined effect of these programs using a regression model. This model estimates the impact of federal dollars spent on the change in economic health of each city between 1950 and 1980. Using census-region fixed effects, the authors evaluate the impact of expenditures on median income, median property values, the employment rate, and the percentage of people living in poverty.

The authors' first-stage findings show that federal dollars spent on urban renewal projects between 1950 and 1974 had a **negative** effect on various economic outcomes. However, Collins and Shester suspect there is endogeneity in the relationship they are trying to uncover. That is, they say we cannot be sure what causes what: did urban renewal cause economic growth or decline, or did blighted cities pursue more urban renewal? In the latter case, even if the program improved the economy, these cities might still be doing more poorly than cities that had no blight to begin with.

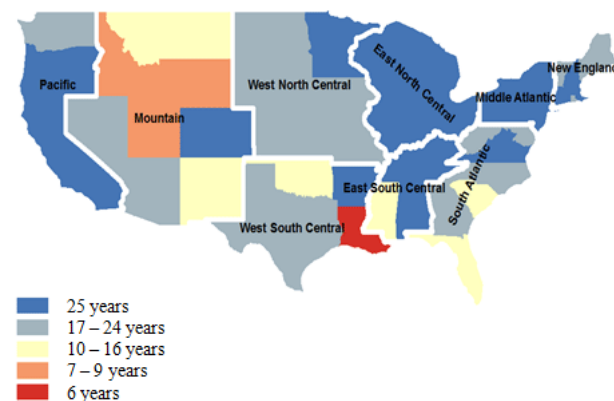
The authors deal with endogeneity using an instrumental variable approach. That is, they seek to use exogenous variation in the allocation of federal funds. The variable they use is the year in which a state passed enabling legislation that made these sorts of projects legal. At first glance, this isn't a great instrument. Instrumental variables have to meet what's called the "exclusion restriction" to be credible. That restriction is untestable; you have to evaluate this claim on its merits. So, for us to believe this instrument delivers credible result, we have to be convinced that a state's decision to pass enabling legislation affects economic outcomes only by the way it influences urban renewal expenditures. There can't be any other chain of effects of related issues that connect those two events—the instrument and the outcome.

Collins and Shester perform several tests to justify their instrument. First, they look just at the effect of the instrument in places where court cases affected the timing of the laws passing. Then they perform a test of known effects to see whether their model predicts the economic growth in rural areas where urban renewal was not pursued. Finally, they use an alternate specification of the instrument. The instrument holds up under these examinations.

The authors then use their metric to predict the urban renewal funds distributed, and then use that predicted value in the original model. In this specification, urban renewal dollars have a strong positive effect on income and property values. These findings are consistent across several specifications and robustness checks. Furthermore, they find no effect on employment or poverty rates, leading them to posit that the positive effects they observe were not generated by displacement of poorer residents from inner cities. As a whole, these results suggest that overall, urban renewal programs created positive growth in average wages and property values.

A concern is that these conclusions rest on the credibility of the instrumental variable, and I'm not sure that the instrumental variable meets the exclusion restriction. I also wonder whether the average effects might reflect underlying variation in the effect of individual programs in urban renewal as well as different contexts where the program was applied. A map of the instrument (below) shows a strong spatial component to the instrument. Of the 458 cities that the authors measured in 1950–80, 68 percent of the cities, or 311, were in states that passed enabling legislation immediately. Regions in the Northeast, Midwest, and West pursued urban renewal programs immediately. These states were the most industrialized parts of the country; they experienced sectoral change and decline of their manufacturing center. The more agricultural, conservative areas of the country pursued funds relatively later, and received funds under later programs.

Instrumental Variable: Years available to apply for urban renewal funds



Source: [Collins and Shester 2014](#), author's calculations

This makes me wonder if there isn't sufficient variation in the manufacturing states, and that the instrumental variable instead down weights these cases, providing in essence a regional estimate. Looking at the first stage results within each census region, we find that the results vary by region. For heavily industrial regions—the Mid-Atlantic, East North Central, and East South Central—urban renewal funding had a negative on growth. The other regions show a positive relationship between urban renewal and growth and economic growth.

There is also inconsistency in the second-stage, or instrumented, results within each region. The two regions in the Midwest, stretching from Wisconsin to New York, drop out as there is no variation. The regions on the eastern half of the nation show a positive effect, while those in the West show a negative effect.

Collins and Shester want to evaluate the treatment effect of urban renewal dollars by creating as-if-random variation in the administration of urban renewal funds. But if we aren't convinced that the instrument meets the exclusion restriction, or that the policy is having a constant effect, then what can we make of the results generated by this instrumental variable? We might surmise that the instrument is telling us something about the impact of the program in the subset of cities where the instrumental variable generates variation. If we believe that the study design can actually capture the effects of urban renewal, we might think of these new estimates as telling us the average effect of later urban renewal projects in 158 cities in the South and rural West, and not so much the effect of the program in the 311 cities where urban renewal was most intensively pursued.

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