

Chicago Fed Letter

Dealing with the impact of manufacturing job losses in the Midwest

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The Community Development and Policy Studies division (CDPS) of the Federal Reserve Bank of Chicago hosted the Industrial Cities Initiative Symposium (ICI) on February 28, 2012. More than 50 economists, development professionals, city representatives, and analysts from business, academia, and city government attended the symposium.

This *Chicago Fed Letter* provides a brief overview of the Industrial Cities Initiative and summarizes discussions from the symposium.

CDPS initiated the ICI in order to better understand the economic, demographic, and social trends shaping industrial cities throughout the Midwest. Although the initiative is ongoing, the symposium provided a forum to share our methodology and findings to date, draw on complementary academic and policy research, and explore policy initiatives that might foster economic growth in former industrial hubs. For the purposes of this project, we define a manufacturing hub as a city that had a population of at least 50,000 in 1960, with at least 25% of its employment concentrated in manufacturing. Forty-seven cities in the Seventh District fit those criteria.¹ We used statistical regression analysis to identify cities with outlying levels of “well-being,” holding constant respective declines in manufacturing. The well-being metric was based on three criteria: 1) change in population; 2) change in employment; and 3) change in median family income.

This process allowed us to narrow our sample to the following ten cities: Cedar Rapids, IA; Waterloo, IA; Aurora, IL; Joliet, IL; Fort Wayne, IN; Gary, IN; Grand Rapids, MI; Pontiac, MI; Green

Bay, WI; and Racine, WI (see figure 1).² While all these cities share the common characteristic of having lost manufacturing jobs since 1960, some have maintained their economic well-being better than others, as measured by changes in population, total employment, and median family income relative to changes in the percentage of people employed in manufacturing. We interviewed community leaders to gain further insights into economic, demographic, and social trends in these ten cities.

What do the data and studies tell us?

William Testa, vice president and director of regional programs at the Federal Reserve Bank of Chicago, kicked off the symposium by presenting economic trends for an assortment of Midwest cities, along with overviews of their manufacturing histories. Testa explained that manufacturing jobs in the Great Lakes region have declined by 50% since 1969. The rest of the country has exhibited a similar trend. However, the Midwest historically had a higher concentration in manufacturing than the rest of the nation; accordingly job losses—and their impact—have been more acute in this region (as shown in figure 2). Testa also explained how an educated work force, which has been shown to foster innovation and entrepreneurship as

Access materials from the conference at www.chicagofed.org/webpages/events/2012/ici_symposium.cfm. Read more about the ICI on the CDPS blog at <http://cdps.chicagofedblogs.org/?cat=3>.

well as attract amenities, has a positive impact on both income and employment. However, many midwestern manufacturing cities remain challenged to overcome their manufacturing legacies and leverage the benefits of a skilled work force.

1. Case study cities and major cities in the Seventh District



SOURCE: U.S. Department of Commerce, Bureau of the Census.

ICI overview and findings

Jeremiah Boyle, managing director of economic development at the Federal Reserve Bank of Chicago, discussed the development and progress of the ICI and certain findings to date based on both quantitative and qualitative data. Based on a preliminary analysis of data and interviews, the ten cities were grouped into four categories, as follows:

1. Resurgent³ industrial cities—cities that have relatively small declines in manufacturing employment with relatively large increases in measures of well-being. In our sample, Cedar Rapids, IA, Fort Wayne, IN, Grand Rapids, MI, and Green Bay, WI, are resurgent cities.
2. Transforming cities—cities that, despite relatively large declines in manufacturing employment, have seen relative improvements in measures of well-being. Aurora, IL, and Joliet, IL, are in this category.
3. Fading cities—cities that have relatively small declines in manufacturing

employment with relatively small declines in measures of well-being. Racine, WI, and Waterloo, IA, are fading cities.

4. Overwhelmed cities—cities that have relatively large declines in manufacturing employment and relatively large decreases in measures of well-being. Gary, IN, and Pontiac, MI, are in this category.

While each city has a unique story, certain themes emerged consistently during our interviews. These themes shed some light on why these cities trended one way or another.

Work force development/skills mismatch: There is a mismatch between the skills sought by employers and those demon-

strated by the work force. Even cities that understand the problem fully have not succeeded in improving the educational attainment of young people entering the work force. Vocational programs in public schools have largely been lost to budget cuts over time. Resurgent and transforming cities tended to fare better than fading and overwhelmed cities by employing cooperative strategies that engaged multiple partners, including employers, community and technical colleges, and public sources of support.

Regionalism versus parochialism:

Creating a regional and global mindset can be difficult for a city. However, both resurgent and transforming cities adopted at least a regional, if not a global, mindset, whereas fading and overwhelmed cities did not leverage their geographic location or sustainable assets. Geographic location and sustainable assets help cities focus on the issues of job creation, retention, and work force development.

Economic development finance: For the industrial cities, economic development finance includes public-private

partnerships; leveraging limited public funds with private investment; and a higher degree of philanthropic support. The resurgent and transforming cities benefited from deeper networks than fading and overwhelmed cities. This, in turn, provided resurgent and transforming cities with a stronger economic development finance base. Additionally, the recent financial crisis caused consolidation in the financial services industry and many cities lost their community banks, the types of financial institutions that build lasting relationships with local businesses, homeowners, and community organizations.

Leadership: The role of leadership varied across the cities, but resurgent and transforming cities tended to have a group of leaders, both young and old, who worked together with a shared vision for the community's well-being. Engaged and visionary leadership helps communities respond to economic challenges, as well as natural disasters. The fading and overwhelmed cities could not reach consensus and often appeared unsure how to proceed when facing challenges.

Related studies and initiatives

Rick Mattoon, senior economist and economic advisor at the Federal Reserve Bank of Chicago, moderated a panel featuring authors of other studies and initiatives exploring the economic fate of industrial cities.

Hal Wolman, professor at George Washington University, presented his research on distressed cities and regions, including an overview of four studies that identified and isolated some of the elements affecting economic performance in local and regional contexts. While the findings varied by study, Wolman reported that: 1) regional performance was affected by both education level/educational facilities and population size; 2) local economic performance was affected by wages, crime rate, and age of population; and 3) leadership is vital, but hard to quantify.

Yolanda Kodrzycki, vice president and director of the New England Public Policy Center at the Federal Reserve Bank of Boston, discussed her paper, entitled

“Reinvigorating Springfield’s economy: Lessons from resurgent cities.” Springfield faces many of the same challenges as other manufacturing cities, including high rates of chronic poverty. This paper is one in a series from the Boston Fed that is part of a broader initiative to

Falls, IL—old factory towns in an area known as the Sauk Valley—focus on their regional strengths to succeed, including agriculture, parks, historical sites, and manufacturing. Muncie, IN, declined for many years after losing two large manufactures—the Ball Company and

Borg-Warner. Recently, however, the city has launched the Muncie Action Plan to help revive its fortunes. The plan outlines five initiatives: 1) linking learning, health, and prosperity; 2) fostering collaboration; 3) strengthening pride and image; 4) creating attractive and desirable places; and 5) managing community resources.⁷⁴ Finally, Youngstown, OH, suffered severe economic contraction due to the collapse of the steel industry 30

years ago. Recently, new civic leadership has stepped in to run the city. These new leaders do not want to rebuild based on the city’s past glory, but rather envision Youngstown as a thriving city, leveraging its location, infrastructure, and educational institutions. These three examples demonstrate the importance of regionalism and leadership, key themes of the ICI.

Longworth closed by noting that each city controls its own fate. While many midwestern cities may ultimately succeed because of their proximity to Chicago, Longworth underscored the need for more work force development throughout the Midwest.

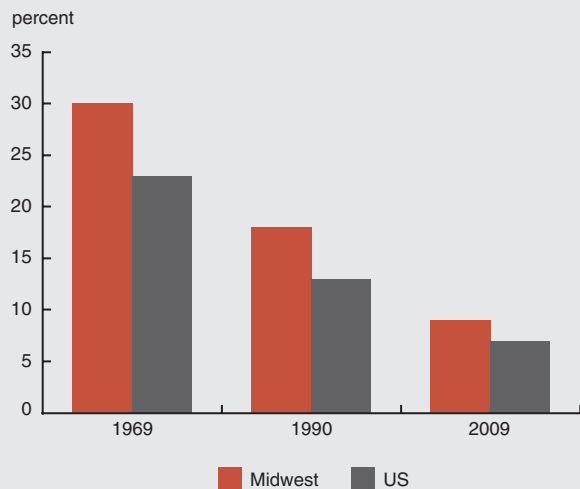
Lessons from manufacturing and automotive communities

The day ended with a panel moderated by Testa discussing lessons from manufacturing and automotive communities. The panelists were Paul Krutko, president and CEO of Ann Arbor SPARK; Kristin Dziczek, director, Labor and Industry Group at the Center for Automotive Research; and Kim Hill, director,

Sustainability and Economic Development Strategies, director, Automotive Communities Partnership, and associate director, Research at the Center for Automotive Research. Krutko pointed out the importance of U.S. manufacturing as a driver of research and innovation. Manufacturing is challenged by a steep decline in employment, despite rising output, due to both off-shoring and technological advancements. Some of Krutko’s recommendations to strengthen the manufacturing sector in the Midwest were: 1) grow from within; 2) develop a skilled work force; 3) invest in innovation; and 4) invest in sustainability.

Echoing some of the other speakers, Dziczek discussed the need for more education and work force development. With current-year U.S. vehicle production projected at over 10 million units and automotive manufacturing employment expected to reach over 750,000 by 2015, a skilled labor shortage is likely. Dziczek concluded that industrial cities need to devote more resources to helping dislocated workers, new graduates, and disadvantaged workers acquire advanced skills to meet future employment needs.

2. Manufacturing share of employment



NOTE: Midwest shares based on data for 83 metropolitan statistical areas.
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

support renewed economic growth in Springfield. The Boston Fed selected a group of similar cities against which to benchmark Springfield’s progress.

Randy Eberts, president of the Upjohn Institute, concluded the panel by discussing the Northeast Ohio Dashboard Indicators project, which provides a framework for understanding regional economic processes while also tracking the progress of the regional economy.

Caught in the middle

The keynote speaker of the ICI Symposium was Richard Longworth, author of *Caught in the Middle: America’s Heartland in the Age of Globalism*. Longworth explained that while many of the ICI topics were not new, the unique contribution of the project was compiling these ideas in one place. Longworth explained that each city has its own story to tell; and some had less of an industrial hurdle to overcome than others.

Longworth also described some of the other cities that he has observed. For example, Sterling, Dixon, and Rock

Charles L. Evans, *President*; Daniel G. Sullivan, *Executive Vice President and Director of Research*; Spencer Krane, *Senior Vice President and Economic Advisor*; David Marshall, *Senior Vice President, financial markets group*; Daniel Aaronson, *Vice President, microeconomic policy research*; Jonas D. M. Fisher, *Vice President, macroeconomic policy research*; Richard Heckinger, *Vice President, markets team*; Anna L. Paulson, *Vice President, finance team*; William A. Testa, *Vice President, regional programs, and Economics Editor*; Helen O’D. Koshy and Han Y. Choi, *Editors*; Rita Molloy and Julia Baker, *Production Editors*; Sheila A. Mangler, *Editorial Assistant*.

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Hill concluded the symposium by discussing the Automotive Communities Partnership, in which companies and municipalities cooperate in places with an automobile manufacturing legacy. The partnership is a forum for topical issues and actions, providing communities with industry information on emerging, current, and obsolescent (or soon to be) technology, green development, risks and opportunities for existing or potential new plants related to supply chains, energy prices and inventories, and other important issues. One significant accomplishment of the partnership has been the repurposing of former auto plants. Some examples of the new uses to which former auto plants have been put are warehousing, education,

and recreation. The redevelopment of these plants has helped to restore property values, as well as having some limited positive impact on employment.⁵

Next steps

Our preliminary findings from the ICI and our discussions at the symposium raise several important questions that the project's next phase will address. How can communities adequately enhance the skills of their work force? How can they best leverage public and private resources in lean economic times? What is the role of a city in a regional or global context? What will be required to develop the next generation of leaders? And, finally, are best practices transferable across cities and

communities and, if so, how can these communities be connected?

These 10 cities and many other similar cities throughout the Midwest face many complex and interrelated challenges, including low educational attainment, new populations, competition for workers and jobs, and strained municipal budgets. Through the ICI, CDPS will explore these cities' responses to challenges, how they define success and failure, and what separates resurgent cities from their less successful counterparts. CDPS will also convene meetings of policymakers and practitioners from industrial cities to explore areas in which their communities can benefit from collaboration across the region.

¹ The Seventh Federal Reserve District includes most of Illinois, Indiana, Michigan, and Wisconsin, and all of Iowa.

² Unless otherwise noted, the data used in this article are from the following sources: National Historical Geographic Information System, University of Minnesota, 2004, pre-release version 0.1. All data from 2000 are from the 2000 Census via American FactFinder. All data from 2009 are from the American Community Survey via American FactFinder. Some of the data (and tabulations) were made available (in part) by the Interuniversity Consortium for Political

Social Research (ICPSR). The data for City and County Data Book (United States) Consolidated Files, City Data 1944–77 were originally collected by the U.S. Department of Commerce, Bureau of the Census. Neither the collector of the original data nor the ICPSR bears any responsibility for the analyses or interpretations presented here.

³ Resurgent cities are cities that “have made substantially more progress than other cities with similar challenges and opportunities in improving living standards for their residents, and are recognized as vital communities in a broader sense by experts on

urban economic development policy” (Yolanda K. Kodrzycki and Ana Patricia Muñoz, with Lynn Browne, DeAnna Green, Marques Benton, Prabal Chakrabarti, David Plasse, Richard Walker, and Bo Zhao, 2009, “Reinvigorating Springfield’s economy: Lessons from resurgent cities,” Federal Reserve Bank of Boston, Community Affairs Discussion Paper, No. 2009-03, August, p. 1, available at www.bostonfed.org/commdev/pcadp/2009/pcadp0903.pdf).

⁴ http://muncieactionplan.org/?page_id=41.

⁵ Center for Automotive Research.