

## **The Case for Regional Cooperation**

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### **INTRODUCTION**

Will metropolitan Philadelphia be better off in the global economy if the city at the core of the region collapses? If you live in the suburbs, do you believe that what happens to Philadelphia is without significant consequence for you and the community in which you reside?

Let us be clear about the argument. It is not that the suburban communities surrounding a failed Philadelphia will be wiped out by virtue of their proximity to ground-zero in an atomic blast. They won't. But suburban residents are wrong if they think they won't suffer any fallout. The fact is they have a compelling economic interest in Philadelphia's viability.

Ample evidence documents that suburbs surrounding healthy central cities are better off than those surrounding relatively sick ones, and proof is mounting that regions -- not cities or counties -- will be the pre-eminent competitive units of the global economy. The issue is not whether the city and suburbs are tied together in a regional economy -- they are -- but how to ensure that the region will prosper in the future. The fear and frustration felt by so many suburbanites about the problems of big cities is understandable, but their economic interests are not well served by turning their backs and ignoring the troubles next door. Such a course guarantees that problems will grow, opportunities will be lost, and, in the long run, everyone will be worse off. The time has come to recognize the mutuality of interests across the region and to begin a rational dialogue about what it will take to work with each other to shape a prosperous future.

Regional cooperation spins on two axes, not simply one. Although the focus of this essay is on the more familiar and difficult city-to-suburb relationships, suburb-to-suburb cooperation remains an important part of the larger challenge facing the region. Southeastern Pennsylvania has 239 municipalities and 63 school districts. These units of government offer citizens highly-valued local control, but they also give rise to a cloud of parochialism that obscures the necessity for change demanded by the competitiveness of the new global economy.

### **NEW GLOBAL ECONOMIC REALITIES**

There is an apocryphal story about an American in the 1930s who grew weary with the world rushing off to war. To get away from the madness, he sold all his possessions in the states and bought a piece of land on a remote South Pacific isle known for its beauty and tranquility. Unfortunately, he settled on Guadalcanal, the site, as World War II buffs know, of the fiercest fighting in the Pacific Theater. The moral of the story is that the past

is not always a useful guide for the future. The global economy ensures the future will differ from the past. International trade, which equaled only 11 percent of America's GNP in 1960, reached 25 percent in 1990 and is growing rapidly. Already 25 percent of agricultural produce is exported, 30 percent of autos sold in America are produced by foreign manufacturers, 40 percent of corporate profits among Fortune 500 companies and 20 percent overall are derived from international activities, and 40 percent of all commercial loans in the U.S. are made by foreign banks. Ten percent of American pension funds, \$500 billion, is invested in Asian companies alone.

Many Americans, particularly those in positions of leadership today who came of age in the years between 1945 and 1970, still have not fully understood the nature of this change. The subconscious assumptions they hold about America's place in the world order were formed when we were the world's undisputed leader after World War II decimated the economies of our friends and our enemies alike. In the late 1940s, America's GNP was half of world's; in 1950, American per capita GNP was four times that of West Germany and fifteen times that of Japan.

But world dominance was temporary, and it gave way rapidly in the years following 1970. By the late 1980s, America accounted for only 23 percent of world GNP, and by 1990, Japan's per capita GNP slightly exceeded our own. Since 1970, dominance has been lost in industries that were once synonymous with America -- steel, machine tools, chemicals and autos -- while consumer electronics has been virtually wiped out.

As the rest of the developed world caught up to us in these difficult decades, the lives of working men and women were affected. Real wages have been flat since 1970: only the top 20 percent of American male workers have improved their standing; 20 percent were stagnant and 60 percent actually experienced a decline. Our standard of living did not fall at the same time, largely because women entered the labor force in record numbers, but absent polygamy there will be no third spouse to send into the labor force to bail us out in the future. Moreover, since 1989, even median household income has fallen despite the fact that Americans now work longer hours and a greater proportion now hold at least two jobs than in the last half century. According to Lester Thurow (1995), income inequality is also growing -- among men working full time the earnings gap between the top and bottom quintiles doubled in the last 25 years -- and the distribution of wealth is worsening, with the share of wealth held today by the top 1 percent of the population (more than 40 percent), rising to what it was in the late 1920s. Although these troubling statistics result from many factors, including new labor-saving technologies and the decline of unions, it is clear that America must adapt to the competitive challenges of the global economy."

The global economy has already affected the lives of all Americans in powerful ways, and its impact will increase as barriers to free trade continue to fall, global capital markets become more fluid and telecommunication technologies accelerate the flow of information. If we understand the future, we greatly increase our chances of successfully adapting to the changes it will bring.

## **THE REGIONAL IMPLICATIONS OF THE GLOBAL ECONOMY**

The starting point is to recognize that the competitive unit of the global economy is the region -- not the city, suburb or county. Victor Petrella (1993), Director of Science and Technology Forecasting for the European Union, believes: Within 50 years, such nation-states as Germany, Italy, the United States and Japan will no longer be the most relevant socioeconomic entities and the ultimate political configuration. Instead, areas like Orange County, California, Osaka, Japan, the Lyon region of France, or Germany's Ruhrgebiet will acquire predominant socioeconomic status. The real decision making power of the future . . . will be transnational companies in alliance with city-regional governments.

Kenichi Ohmae (1995), former senior partner at McKinsey & Company and leader of a Japanese reform movement, put it this way in his new study, *The End of the Nation State: The noise you hear rumbling in the distance is the sound of the later 20th century's primary engine of economic prosperity -- the region-state -- stirring to life. No longer will managers organize the international activities of their companies on the basis of national borders. Region-states have become the primary units of economic activity. It is through these region-states that participation in the global economy actually takes place.*

Neal Peirce, national columnist and, with Curtis Johnson and John Stuart Hall (1993), co-author of *Citistates*, contends that "Only when the central city and its surrounding counties work together will they be able to compete effectively. It won't be America versus Japan or Germany, but Greater Philadelphia versus metropolitan Tokyo or Stuttgart."

It is not difficult to understand why. Only regions have the necessary scale and diversity to compete in the global marketplace. Only regions have an asset profile capable of projecting overall strength in sharp contrast to the much less attractive profiles of individual counties or cities which lack either key infrastructure or a sufficiently skilled labor force.

Regions, moreover, are the geographic units in which we create our goods and services. We hire from a regional labor force. We count on a regional transportation system to move the people and the materials involved in their production. We rely on a regional infrastructure to keep the bridges and roads intact and our sewers and pipelines functioning. We live in a regional environment whose water and air do not recognize political boundaries.

Finally, although most people don't realize it, regions have always been the geographic units of economic competition. The national economy is a set of summary statistics drawn from the performance of distinct regional economies. The global economy has important implications for regions. Let us consider three: develop human resources, lower the costs of goods and services, and use scarce investment capital wisely.

### *Develop Human Resources*

The source of comparative advantage in the future will be human capital. Future competition, argues Lester Thurow (1992) in *Head-to-Head: The Coming Economic Battle Among Japan, Europe, and America*, will be characterized by competition over seven "brain intensive" industries -- computers and software, robotics and machine tools, civilian aviation, microelectronics, materials sciences, biotechnology and telecommunications -- that offer high paying jobs to their workers and bring prosperity and world prestige to their countries. But even jobs requiring lower skills will be far more demanding than in the past. While only 30 percent of the jobs in the year 2000 will require college degrees, fully 89 percent will require post-secondary training.

Employers may recruit their top managers from a national labor pool, but they must rely on the regional labor force for the lion's share of their workers. If the region's schools and training institutes are not producing workers with adequate skills, the premium employers will have to pay to attract qualified labor from outside the region will erode their competitiveness. Even though big corporations have the resources to compensate by retraining their workers, such a strategy unavoidably adds to their costs, while small businesses, utterly dependent on the quality of local institutions, lack even this option.

The central argument of *America's Choice: High Skills or Low Wages*, the Report of the Commission on the Skills of the American Workforce (1990), was summarized by William Brock, a Commission co-chair and former U.S. Labor Secretary. If companies in every country in the world can now buy "idiot-proof machinery" to compensate for workers with terribly deficient skills, and if there are people elsewhere in the world who will work for \$5 per day with the same equipment as Americans who want \$10 or \$15 per hour, then we cannot compete on the basis of wage. We can only compete on the basis of skill.

Suburban schools generally have lower drop-out rates, better achievement scores, and higher college enrollment rates than city schools, but there should be no comfort in this comparison. Nor does it matter if our schools are somewhat better than they were twenty years ago. The appropriate comparisons are first to schools in the rest of the developed world and here the results are sobering. On average, American students are measurably far behind students in other nations -- their future competitors -in math, science and critical thinking skills. Only the top 10 to 20 percent of our kids can be considered truly competitive.

The second comparison -- how does the human capital of our kids match up with the skill requirements of twenty-first century jobs -- is equally troubling. Of new entrants to the nation's labor force between 1985 and 2000, roughly 80 percent have the skills for only the bottom 40 percent of the jobs, and only 5 percent have the skills for the top 40 percent of the jobs.

As corporate leaders well understand, America cannot succeed in the global economy unless every able-bodied citizen has the skills required by the demanding jobs of the new economy. The results of the recent National Adult Literacy Survey are shocking: half the

adult population in the U.S. is ill-equipped for the job requirements of the 21st century global economy. Although this makes clear that the challenge is national rather than solely urban, the fact remains that great efforts to improve human capital must be made in our cities. Here is where a disproportionate number of the fastest growing segment of new labor force entrants -- immigrants and minorities -- reside, which means they are attending some of the nation's worst schools and living in some of our worst environments. The cost of supporting people who are unable to contribute to the economy -- those without skills, on welfare or in prison -- will hold us down just as surely as a weight tied to a kite's tail. The suburbs cannot be hermetically sealed off from the city or the world. The future standard of living of the children of the haves will be determined to a significant extent by the productivity of the children of the have-nots. The region -- city and suburbs together -- must work to adopt rigorous academic performance standards for its students and its schools benchmarked against the toughest in the developed world, expand greatly training for high school graduates not going to college, make admission to its colleges and universities far more demanding, and increase the availability of advanced on-the-job training in the work place.

#### *Lower the Costs of Goods and Services*

The good news is that the global economy means vast new markets: with 5.5 billion people, the world has more than twenty times the population of the United States. The bad news is that our goods and services must now compete with firms around the world. As the latest round of corporate downsizing suggests, the competition is fierce, in part because of a dramatic shift that is making commodities out of what used to be specialized products. A decade ago an IBM personal computer was unique. Today many manufacturers produce high quality clones, making computers a commodity, like so much rice, wheat and potatoes. The result in industry after industry is rapidly falling prices, and the message is clear: firms that can keep costs down will remain competitive; others will fade away.

It is absolutely essential to grasp how global competition differs from domestic competition. For 30 years, critics have pointed out the inefficiency of duplicated services, facilities and personnel that result from too many local governments. Others have lamented the inadequate management of regional resources such as labor force, transportation, infrastructure and environment. But despite the higher costs resulting from inefficiencies found outside the firm and beyond the direct control of company managers, reformers found few supporters.

There are two reasons why these inefficiencies did not matter very much when the competition was domestic. First, the inefficiencies noted above did not cut into profit margins because producers passed their costs onto their customers in the form of higher prices. Second, since all domestic producers did the same thing, no one derived competitive advantage.

But when the competition is international -- and for whatever reasons the prices for foreign goods and services are coming in lower than our own -- inefficiencies that spring from domestic practices undercut our competitiveness. Thirty years ago, 20 percent of

General Motors' assembly line workers were illiterate, but it didn't matter, as David Osborne and Ted Gaebler (1992) remind us, because 20 percent of Ford's and Chrysler's workers were illiterate as well. Today, when 100 percent of Toyota's workers are literate, it matters a great deal. When voters understand that the choice they will increasingly face to maintain the competitiveness of American goods and services in a global economy is either to lower their wages or to find ways of reducing costs and managing resources outside their firms more efficiently, they will, not surprisingly, choose the latter. Behaviors and governance structures considered sacrosanct today, I contend, will change far more rapidly than most people currently appreciate.

The time has come to scrutinize a host current behaviors. In metropolitan Philadelphia, for example, fiscal policy, land use, growth management and zoning decisions are being made by municipalities -- 239 in Southeastern Pennsylvania and 100 in South Jersey -- rather than at the level of multiple municipalities, the county or the region. But the response should not assume that the regional scale is automatically best. Rather, the political smog that obscures our choices should be blown away by an objective cost-benefit analysis to determine what size "service shed" -- geographic scale -- is appropriate for what service and, for that matter, whether government should produce the service or contract it out to the private sector. The issue before us, as Richard Nathan (1994) has argued, is not structural -- requiring the consolidation of local governments into larger units, but functional - offering services at the most efficient geographic scale.

#### *Use Scarce Investment Capital More Productively*

When crime, drugs, homelessness, and other social problems spill over into adjacent suburban communities, the response of those who can afford it has been to move even farther away to more pristine areas at the peripheries of our regions. This process is embedded in the concentric rings of growth that emanate outward from our central cities.

Very troubling signs in the older, inner-ring suburbs suggest that the pace of out-migration and other indicators of deterioration -- job loss, housing depreciation, drugs, crime and related social problems -- are accelerating faster than in the central cities they surround. The reason is that these small communities lack the basic resources the big cities rely on to slow down and mediate the process of decline. These inner-ring communities do not have large central business districts generating substantial tax revenues to underwrite essential services in the neighborhoods; they do not have large police forces to maintain safety and a sense of social order as the crime rate climbs; and they do not have the sizeable public and not-for-profit human and social service agencies to address the needs of the poor and disadvantaged.

This out-migration from the cities and the inner-ring suburbs leads to new development in the exurbs, requiring new roads and highways, water mains and sewer lines, schools and libraries, homes and shopping centers, office and sport complexes. When this happens, we end up spending our scarce investment dollars redundantly because we are essentially duplicating an infrastructure that already exists in older suburbs and central cities. Such growth also often represents a highly inefficient use of our land. In

Southeastern Pennsylvania between 1970 and 1995, for example, while population declined by 140,000, one quarter of the region's prime farmland was lost to development.

This redundant spending imposes heavy opportunity costs because these dollars are not available for vital investments in productivity. To improve our competitive position in the global economy, America's regions would be far wiser to undertake more cost-effective development by adopting metropolitan growth rings, by increasing residential and job densities in existing suburbs and cities, and by investing the savings in research and development, plant and equipment and human capital. The current practice of redundant spending is akin to eating our seed corn. America can ill afford public policy that leads to throw-away cities, throw-away suburbs, and throw-away people. "It's the economy, stupid" read the now famous sign on James Carville's wall, announcing the central message for the 1992 Clinton presidential campaign. For those of us who want to see our metropolitan areas prosper in the twenty-first century, the sign should be amended to read: "It's the global economy, stupid!" In sum, the global economy has forever changed the rules of competition. Either we adapt intelligently or we face a significant deterioration in our standard of living and an increasingly worrisome unequal distribution of wealth within our regions that threatens the stability of our democracy.

## **ECONOMIC LINKAGES BETWEEN THE CITY AND THE SUBURBS**

The nation's economy is an aggregation of metropolitan economies in which the fortunes of the cities and suburbs are intertwined. Here are just a few examples of the economic linkages that bind them together. We'll first consider relationships between cities and suburbs in general and then review some of the specific linkages between Philadelphia and the surrounding suburban counties.

### *Detroit and Its Suburbs*

Skeptics about regional cooperation often pose the "Detroit question": If cities and suburbs are so interdependent, then why are Detroit's suburbs doing well while the city is an economic wasteland? While the Detroit suburbs are doing well relative to the city, it turns out this is a misleading comparison. According to a Philadelphia Federal Reserve Bank study (Voith, 1992) of 28 metropolitan areas in the Northeast and Midwest, the better off the central city, the better off are its suburbs. The Detroit suburbs have experienced considerably slower job, population and income growth than the suburbs surrounding healthier central cities. For example, although the population of the Detroit suburbs grew 2 percent between 1980 and 1990, the average for northeastern suburbs during that period was almost 7 percent.

### *National League of Cities*

In its recent study, *All In It Together: Cities, Suburbs and Local Economic Regions* (Ledebur and Barnes, 1993), the National League of Cities documents that in each of the 25 metropolitan areas with the most rapidly growing suburbs, central city incomes also increased from 1979 to 1989. "No suburb in this high growth set experienced income growth without corresponding growth in their central city. . . For every one dollar in increase in central city household incomes, suburban household incomes increase by

\$1.12." Cities and suburbs are not two distinct economies, the report concludes, "but a single highly interdependent economy. . . their fortunes [are] inextricably intertwined. Cities and suburbs grow or decline together."

#### *Cities Without Suburbs*

In *Cities Without Suburbs*, David Rusk (1993), the former Mayor of Albuquerque, New Mexico, describes a fascinating set of differences between elastic cities (those that have been able to annex or merge with their suburbs so they are "without" suburbs) and inelastic cities (those whose growth stopped at their historic political boundaries and therefore are surrounded by suburbs). It turns out that in elastic cities, income distributions are more equal, poverty is less concentrated, crime rates are lower, residential segregation is lower, and schools are less segregated. By contrast, Rusk argues that inelastic cities like Philadelphia "are programmed to fail." He does not write off the Philadelphias of the world, however, because he believes public policies promoting regional responses can produce greater social and economic equity.

#### *Citistates*

In *CITISTATES: How Urban America Can Prosper in a Competitive World*, nationally-syndicated columnist Neal Pierce, writing with Curtis Johnson and John Stuart Hall (1993), argues that the true economic units of the global economy are citistates, a new name for metropolitan areas. With the end of the Cold War, the battleground of the future will be economic, not military, a shift that will diminish the role of nations and enhance the importance of regions. Based on case studies of metro areas that included Baltimore, Dallas, Phoenix and Seattle, Peirce contends that only when the central city and the surrounding suburban communities work together will they be in a position to compete effectively against the metropolitan economies of Frankfurt, Milan and Osaka. Peirce urges metropolitan residents to recognize the indivisibility of the citistate, find a niche for the region in the global economy, focus on workforce preparedness, plan for a multicultural future, fight for fiscal equity, and build a sense of regional citizenship.

#### *Wharton Real Estate Center's "New Urban Strategy"*

The consequences of continued urban decline will be felt well beyond city borders. A 10 percent decline in the value of real estate in just nine of America's largest cities would mean losses of \$160 billion, reports Real Estate Professor Joseph Gyourko (Gyourko and Summers, 1994) of the University of Pennsylvania's Wharton School, an amount roughly equal to cost of the entire savings and loan bailout. A great many suburbanites - shareholders in the banks, insurance companies and pension funds that own these properties -- would be among the losers.

The evidence from around the nation, then, is compelling, but does it hold true for Southeastern Pennsylvania? Despite the striking growth of the suburbs in past decades, research done here strongly suggests that many economic ties bind Bucks, Chester, Delaware, Montgomery and Philadelphia Counties together.

### *Commuting Patterns in Metropolitan Philadelphia*

Although most people live and work in a single county and suburb-to-suburb commuting is on the rise, a great many people cross Philadelphia's borders as part of the "journey-to-work." Each day 395,000 commuters are on the move in and out of the city. Fifteen percent of suburban residents come into the city (down from 20 percent in 1980), and altogether, Philadelphia imports almost one-third of its labor force. Meanwhile, 20 percent of city residents commute to jobs in the suburban counties (up from 15 percent in 1980). These commuting patterns are important linkages between the city and surrounding counties that are experienced by real people in very real ways.

### *Purchases of Goods and Services*

A 1991 survey of over 1,000 area firms conducted by the Center for Greater Philadelphia revealed that despite considerable suburban economic growth the region's economy remains tightly integrated. For example, nearly 20 percent of all goods and services purchased by firms in Bucks, Chester and Delaware Counties are acquired from Philadelphia firms. Overall, when direct and indirect purchases are considered together, roughly one-quarter of Southeastern Pennsylvania's \$110 billion gross metropolitan product in 1991 was a function of city-county business transactions.

### *Best-Case and Worst-Case Scenarios for the Year 2000*

When Philadelphia was at the brink of bankruptcy in 1991, leaders of the Pennsylvania General Assembly asked the Center for Greater Philadelphia to consider the question "what would happen to the suburbs if the city went down the tubes?"

Two regional job scenarios were constructed for the Sixth Southeastern Pennsylvania State Legislators' Conference (Hershberg, 1991). The worst case was based on the 1970s when the city lost 40 percent of its manufacturing jobs, 18 percent of its total jobs, and 13 percent of its population. The best case was based on the 1980s when the city ended the decade with roughly the same number of jobs it had at its start and population loss slowed to less than half the prior decade's rate.

The difference between these two scenarios in the year 2000 is 268,000 fewer jobs in Bucks, Chester, Delaware and Montgomery Counties and 178,000 fewer jobs in Philadelphia. This would represent a loss to the region of \$11.6 billion in wages, and a loss to the state treasury of \$585 million in personal income, corporate net income and sales taxes (in 1990 dollars).

### *It Won't Be a Zero-Sum Game*

Nor would Philadelphia's deterioration be a zero-sum game for Pennsylvania in which city jobs move to the suburbs and the state treasury breaks even because only the location of economic activity changes. Although many city firms would move to the suburbs, some would close rather than relocate, others would downsize, and still others would leave the region entirely. One study of manufacturing firms in the 1970s estimated that at least 30 percent of jobs eliminated in the city did not relocate. Such losses are shared by everyone.

Suburban Housing Values are Affected by Philadelphia's Economy and Access to Commuter Rail Another glimpse into the integrated regional economy comes from the work of Richard Voith (1993), Senior Economist at the Federal Reserve Bank of Philadelphia. Voith set out to learn whether access to commuter rail service in the suburban counties boosts home values. In a careful study that controlled for access to highways and the quality of homes, Voith found that residences in neighborhoods with rail service -- about 258,500 owner-occupied houses -- enjoy a premium of 6.4 percent in housing values over those areas without service. This amounts to \$1.45 billion in the value of residential real estate over the five-county region. In new research examining the value of homes in Montgomery County located near commuter rail lines, Voith found that prices fell in the 1970s as the city's manufacturing economy collapsed and rose sharply in the mid-1980s when the Philadelphia economy, especially downtown jobs, rebounded.

## **GOOD THINGS HAPPEN WHEN THE CITY AND SUBURBS COOPERATE**

The case for regional cooperation is solid. Intense new competition in the global economy makes regions the strategic units of future economic competition. Moreover, economic linkages between the city and the suburbs make cooperative strategies in everyone's self-interest. But there is a third basis for this approach and that is, simply put, good things happen when the city and the suburbs cooperate. Let's consider three of the leading achievements of regional cooperation in Southeastern Pennsylvania in the last decade.

### *Regional Success Stories*

**Pennsylvania Convention Center:** The new center, the most important economic development project in Philadelphia's modern history, functions as the cornerstone of an ambitious, multipronged effort to make Philadelphia a "Destination City" in the burgeoning global hospitality industry. The suburban counties are now working with the city to develop a regional tourism strategy. The \$525 million facility was made possible with a contribution of \$185 million from the Commonwealth of Pennsylvania, an investment that required cooperation between political leaders from both parties across the region.

**Philadelphia Regional Port Authority (PRPA):** In 1990, the General Assembly created the PRPA, a partnership between the State and Bucks, Delaware and Philadelphia Counties. The Authority has been a "win-win" proposition: the City was freed from a multi-million drain on its annual budget; \$60 million was made available for Port capital and marketing projects, including Philadelphia's first intermodal facility; and PRPA was instrumental in attracting a new rail line to the region. The Ports' competitive position will be greatly improved by the recent affiliation of PRPA and the South Jersey Port Corporation under the auspices of Delaware River Port Authority.

**SEPTA Capital Funding:** In an historic breakthrough in 1991, the Pennsylvania General Assembly provided a source of predictable funding for all 37 of the Commonwealth's mass transit agencies. Numerous studies have documented the significant impact the

Southeastern Pennsylvania Transportation Authority has on the region's economy, and the guarantee of a reliable funding stream allows SEPTA to continue its rebuilding process. Once the region's leaders reached consensus on ensuring SEPTA's future capital needs, the debate between city and suburbs gave way to the search for a politically viable funding formula.

#### *Southeastern Pennsylvania Commands Considerable State Power*

The reason good things like these can happen when city and suburban state leaders cooperate is that Southeastern Pennsylvania is the most powerful region in the state. John Stauffer, the former Majority Leader of the Pennsylvania State Senate from Chester County, recognized this at the first regionwide Conference of elected officials in 1985 when he said: "If we in Southeastern Pennsylvania ever flexed our political muscle on both sides of the aisle, we'd be a formidable force to be reckoned with in Harrisburg."

While Bucks, Chester, Delaware, Montgomery and Philadelphia Counties are only five of the state's 67 counties, they account for 31 percent of the state's population, 33 percent of its jobs and 36 percent of its income. The five counties, moreover, are home to many leaders of the General Assembly. As of November, 1995, these include House Speaker Matthew Ryan (R-Delaware County); House Majority Leader John Perzel (R-Philadelphia), and Senate Majority Leader Joseph Loeper (R-Delaware County); and all four Appropriations Committee Chairmen: Rep. Dwight Evans (D-Philadelphia) Sen. Vincent Fumo (D-Philadelphia), Rep. Joseph Pitts (R-Chester County) and Sen. Richard Tilghman (R-Montgomery County).

## **PHILADELPHIA REBOUNDS**

The 1990s are critical years for Philadelphia and the region. The decade began with a national recession, which in conjunction with an accumulated deficit of \$250 million, brought the City of Philadelphia to the brink of bankruptcy. But in November 1991, Edward G. Rendell won election as the city's new Mayor and has led Philadelphia in a remarkable comeback.

Central to his success was a political alliance with John Street, President of the Philadelphia City Council. This partnership has meant that for the first time since 1980, the city's Mayor and City Council have worked in tandem to promote Philadelphia's best interests. Since Rendell is white and Street is African American, it has also meant that highly divisive racial politics have been avoided in a city where whites and non-whites share political power.

Working together, Rendell and Street produced a five-year fiscal plan that won approval from the Pennsylvania Intergovernmental Cooperation Authority, the fiscal oversight committee created by the state with the power to issue bonds on Philadelphia's behalf. Bankruptcy was avoided, budgets were balanced, and new labor contracts containing remarkable wage, health benefits and work rule concessions were signed with all four of the city's municipal labor unions. The public financial markets have responded by buying Philadelphia's bonds at low, prevailing market rates of interest. In 1995, the City reported

an \$80 million surplus, and Rendell was re-elected by a 77 percent margin. The restoration of Philadelphia's fiscal image has been paralleled by other events with high national visibility:

- Metropolitan Philadelphia ranked third in overall livability by the 1993 Places Rated Almanac;
- Fortune magazine rated Philadelphia among the ten "Best Cities for Knowledge Workers" (November 15, 1993); and • FBI statistics documented that the Philadelphia region is the safest of the twelve largest U.S. metropolitan areas.

The city's long-term economic prospects hold real promise. The city and region have considerable strength in higher education with 80 institutions granting degrees in higher learning and 50,000 college graduates annually. The region has enormous strengths in health care, medical education and research, biotechnology and pharmaceuticals. Organized venture capital companies can now be found throughout the region, and they support synergies among universities, entrepreneurs and the growing base of companies in what promoters call "Medical Valley" and "America's High-Tech Mainstreet."

The \$525 million Pennsylvania Convention Center opened in downtown Philadelphia in 1991, and by all measures is living up to its advance billing as the anchor institution for the city's growing hospitality industry that promises to become a major sector of its economy. Efforts valued at several hundred million dollars are now underway to develop the Avenue of the Arts on South and North Broad Street as lively settings for the performing arts, and entertainment-based development is proceeding smartly on the Delaware River waterfront. Along with the city's unique comparative advantage as the birthplace of American democracy, these multiple developments are helping transform Philadelphia into an exciting "Destination City" in a global economy marked by extensive travel, tourism and trade.

#### *Serious Social Problems Remain*

Despite these strengths and the Mayor's Economic Stimulus Plan, Philadelphia's prospects are not without serious threats. The city's tax base has eroded precipitously, as Philadelphia lost 10 percent of its jobs between 1990 and 1993. Although the city added jobs in 1994, other significant weaknesses endure. One family in five is mired in poverty, and unemployment, particularly for nonwhites, remains high. The 1980s saw the rise of new and costly social problems, including AIDS, homelessness, and the crack epidemic. The condition of public housing is disgraceful, and the past performance of public schools has been dismal (although it is gratifying to see the efforts of the new school superintendent, David Hornbeck, to implement fundamental reform through his "Children Achieving" agenda). So it can be argued that despite all the positive trends described above, Philadelphia and America's other big cities are on greased skids. What distinguishes one from the other is the angle of descent. Aid is needed to at least help level the fiscal playing field so that cities can stabilize their revenues by holding on to their job and population base. But without intervention from federal and state governments, America in the long run may well lose all its big cities, Philadelphia included. The time has come to get the suburbs involved.

## **TOWARD A DIALOGUE BETWEEN THE CITY AND THE SUBURBS**

If I've convinced you that the region's best chance for success in the global economy requires city-suburban cooperation, it should also be clear that it is in the counties' and state's best interests to help Philadelphia survive in the face of declining federal aid, an eroding local tax base, and mounting social problems. Philadelphia's neighboring suburban counties can help in three important ways.

First, modest county funds are needed for varied regional projects. Bucks, Chester, Delaware, Montgomery and Philadelphia Counties should undertake joint strategic planning, expand regional marketing strategies, embrace tax base sharing for new economic development, promote regional tourism, dedicate funds for the region's arts and cultural institutions, protect open space, and create a regional airport authority. While the details and the politics behind each initiative differ, they share the common notion that regional opportunities require regional responses. This agenda was advanced by the 2,000 business, civic and political leaders as well as concerned citizens who gathered at the Call to Action Conference on May 25, 1995, which was organized by the University of Pennsylvania's Center for Greater Philadelphia, the Greater Philadelphia Chamber of Commerce and Greater Philadelphia First. They heard addresses by Pennsylvania Governor Tom Ridge, Philadelphia Mayor Ed Rendell and Neal R. Peirce and considered eighty-nine regional initiatives collected in the Greater Philadelphia Investment Portfolio.

Second, Philadelphia will need political support from suburban legislators in the General Assembly to provide additional state funding for the social costs associated with the support of the disadvantaged. Fairness dictates that these costs should be shared more equitably by citizens across the Commonwealth. These disadvantaged people are Pennsylvanians, not just Philadelphians, and their problems are not of the city's making. To overcome the perception that "giving additional funding to Philadelphia is like throwing the money down a hole," most Philadelphians would likely accept some form of state control over social programs in return for adequate state aid to meet needs. Neither economic nor moral ends are served by balancing the city's budget on the backs of the poor or by driving Philadelphia into bankruptcy in a futile attempt to meet social needs beyond its fiscal capacity. Cities cannot solve social problems because they cannot redistribute income without driving out businesses and middle income taxpayers.

The devolution of federal authority to the states in the form of block grants also presents an excellent opportunity for the states to stimulate regional approaches. Instead of distributing all block grant funds directly to individual counties, states would reserve portions only for counties who joined together as regions and submitted strategic plans spelling out how they would allocate funds for health care, welfare, job training, education, environment, and the like. The metropolitan planning organizations or MPOs, which determine how to spend the "flex" dollars set aside by the Intermodal Surface Transportation Efficiency Act, suggest a mechanism through which regional decisions could be made.

Third, and perhaps most importantly, political leverage from the suburban counties is needed to help the city continue government reform and to use more effectively the large sums of money it already spends on education and government operations.

I am not suggesting that the suburbs should come to the table with a blank check -- that would be both counter-productive and politically impossible. But the time has come to begin a candid dialogue about what can be done to keep central cities like Philadelphia fiscally stable and economically viable. Voters in the city and suburbs must ask Republicans and Democrats to stop the histrionics and get on with the difficult task of finding solutions because partisan politics is now a luxury neither the region nor the nation can afford.

If suburban residents believe state funds have been put to poor use in Philadelphia, this is the moment to sit down and agree on the changes that need to be made to use these funds more effectively. If further aid is required in the city, suburban political support could be conditioned on the adoption of fundamental reforms. A possible model is the Wharton Real Estate Center's "New Urban Strategy," which proposes no new net funding for urban America. However, cities which undertake serious reform should be rewarded with additional dollars while those which refuse to make the tough political choices should receive fewer dollars. In short, many desired changes in cities may prove impossible without this new politics of leverage from the suburbs.

Although there is no line item in the federal budget for "cities," as HUD Secretary Henry Cisneros (1995) has pointed out, the aggregate impact of the cuts proposed by the Congress for Medicaid, food stamps, welfare, Head Start, education, job training, mass transit, and the earned income tax credit will have a devastating impact on urban America because this is where those in poverty and with low incomes disproportionately reside. Suburban leaders need to understand that these cuts will further destabilize the cities they surround, with serious consequences for their communities as well. We also must not become captives of our own language. Words such as city and suburbs suggest monoliths where none exist; they give rise to false, but powerful images of We/They and Us/Them. The images are reinforced with census data and the political numbers favor the suburbs: nationwide one quarter of Americans live in cities and one-half live in suburbs.

Yet many older, inner-ring suburban communities more closely resemble the cities than they do the affluent suburbs where the wealthiest 20 percent of Americans live. During the 1980s, these older, inner-ring suburbs generally lost population, had little or no job growth, saw housing values stagnate or decline, and watched urban social problems such as homelessness, crime, and drugs spill-over into their communities. The city-suburban duality distorts reality, buttresses partisan approaches, and complicates the cooperative arrangements that should follow economic self-interest.

Not too long ago regional cooperation was an oxymoron, but efforts by a great many people and organizations in the last decade have made it a strategy taken seriously by business, civic and political and leaders. Although substantial progress has been made, much of what remains to be done will be more controversial. When asked to move in

these more difficult directions, elected officials in the city and suburbs first look over their shoulders to see if their constituents are behind them. For those of us who believe in regional cooperation, it is time to build a host of parades. Of course the barriers of race, class and politics that divide the city and suburbs are formidable. But we must accept the fact the global economy is putting Americans on the same team. The economic realities of the 1990s make clear that we are in this together and that cities and suburbs must work cooperatively. In our region people must recognize that "Philadelphia bashing" is old politics. The failure to respond to the fiscal factors that undermine the city's competitiveness is old economics. It is time to change. It is time for city dwellers and suburbanites to develop a quid-pro-quo, to ask what they expect from each other and to explore what they will do if each lives up their respective commitments.

Although a compelling argument based on morality and social justice can be made to bring the city and suburbs together, the case presented here is based on economic self-interest. This is not an exercise in what we should be doing, but in what we have to do to be competitive in the global economy.

Lest this task seem overwhelming, it is good to recall in closing that truly radical changes can occur: the Soviet Union has collapsed, the Berlin Wall has come down and the Germanies have united, Arabs and Israelis are making peace, and black and white South Africans are peacefully building a new nation together. Surely we can have regional cooperation in metropolitan Philadelphia.

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