

EXECUTIVE SUMMARY



Few states possess either greater potential or a more troubling history of recent underachievement than Pennsylvania.

Even as it weathers a new bout of deindustrialization and global competition, the Commonwealth remains blessed—by its natural beauty, by its proud business traditions and universities, by the high quality-of-life available in many of its towns, cities, and traditional neighborhoods.

And yet, for all its strengths, Pennsylvania must be counted a case of failed promise and dissipated advantage in recent decades.

In many ways the state remained stuck during the 1990s as much of the nation surged.

Population growth has remained minimal. Development is occurring mainly thanks to household shifts out of older places and into new ones. And the economy ranks near the bottom of states in employment growth and below-average on wage growth.

Equally troubling has been the fact that the worst consequences of these trends are being borne by the state's cities, boroughs, and older townships—the established communities that forged the state's past greatness, and will make or break its future prosperity.

Populations in older Pennsylvania are sagging and with them long-vibrant neighborhoods. Tax bases are stagnating. And jobs continue to relocate to the greenfields, leaving deserted factories and abandoned commercial blocks behind. Pennsylvania, quite simply, is squandering the enormous human and material investment it has made in its older communities over three centuries. Frequently, the state's hundreds of municipalities and fragmented state bureaucracy are working at cross-purposes.

This report—funded by The Heinz Endowments and the William Penn Foundation—probes these realities. Intended to help the Commonwealth as it seeks to revive itself, *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania* speaks to the simultaneous desire of Pennsylvanians for vibrant communities and economic revival by offering a sober assessment of the state's current status, some suggestions of how it arrived there, and a policy agenda for renewal.

In keeping with those objectives, this report draws a number of conclusions about the state as it considers how to build a new Pennsylvania:

1. Pennsylvania possesses fundamental assets. Going back decades, the state's metropolitan areas, world-class farm regions, and small towns embody a unique heritage of success. The state's mountains and rivers maintain their appeal. Its cities and other older communities retain top universities, superb hospitals, major business and technology clusters, and distinctive, human-scaled neighborhoods. And the state's manufacturing sector, while constantly tested, still contributes mightily. Even more important, Pennsylvania's towns, cities, and boroughs (both rural and urban) boast a core strength few communities elsewhere can tap: an extraordinarily committed, rooted citizenry. Nearly 80 percent of Pennsylvania's residents were born and raised in the state. Pennsylvanians consequently love their state and are unusually committed to making sure it flourishes. Perhaps for that reason the Commonwealth invests some of the most dollars per capita of any state on job-creation and business expansion. With such effort and so many assets Pennsylvania possesses much of what it needs to flourish.

2. However, the Commonwealth ranks low among states on demographic and competitive trends, even as it undergoes one of the nation's most radical patterns of sprawl and abandonment. In this regard, the trends are stark, and pose serious challenges:

- **Pennsylvania is barely growing and it's aging.** During the 1990s, Pennsylvania garnered the third-slowest growth among states, as it grew by just 3.4 percent—or 400,000 residents. That growth at least improved on the declines and stasis of the 1970s and 80s. But the recovery remained anemic. Making these trends starker are the tepid population



dynamics they mask. In the latter half of the 1990s the sixth-largest state experienced the fifth-largest net out-migration of residents, and the ninth-largest percentage loss of young people aged 25- to 34-years old in 2000. Meanwhile, the state added relatively few births and captured only modest immigration. Consequently, the Commonwealth now ranks second among states for its share of Americans over age 65. Pennsylvania lacks the vibrant population dynamics usually associated with flourishing economies.

- **Pennsylvania is spreading out—and hollowing out.** Notwithstanding the state's miniscule growth, the Commonwealth decentralized rapidly during the 1990s, extending and accelerating a long-term shift of population outward. During the last decade, some 538,000 people—many of them from within state—poured out into the Commonwealth's outer townships to hike the population there nearly 12 percent. Simultaneously, the population of the state's cities, boroughs, and more established suburbs dwindled by nearly 2 percent, or 139,000 people, collectively. In keeping with these flows, 90 percent of the state's household growth and 72 percent of its new-housing production occurred around the state's outer townships. Job-creation has also shifted outward. The result: Pennsylvania's cities, towns, and older suburbs continue to decline as the locus of the state's growth shifts decisively toward outlying newer communities.
- **The state's transitioning economy is lagging.** Nor has Pennsylvania's once-formidable economy come to terms with the downsizing of its manufacturing sector. Instead, the Commonwealth ranks near the bottom of states in employment growth. Pay lags behind both the nation and other Mid-Atlantic states. And while the state's top-flight health

care and education specialties flourish as the service sector grows, an unusually large percentage of the state's workers (60 percent of them) toil in lower-pay jobs with wages of less than \$27,000 per year. Darkening the prospects for a quick reinvention is Pennsylvania's relatively low level of higher education. In 2000, only 22.4 percent of Pennsylvanians possessed a bachelor's degree, compared to 24.4 percent nationwide. Although that number has been improving, the Commonwealth still ranks just 30th among the states on this key indicator—lower than all its neighbors but West Virginia and Ohio. Pennsylvania does not yet excel on this or other critical indices of competitiveness.

3. The consequences of Pennsylvania's trends are fiscally and economically damaging. Most disturbingly, Pennsylvania's trends are undercutting the very places that possess the assets the state needs most to bolster its competitiveness:

- **Slow growth is still bringing fast sprawl.** Pennsylvania's population grew by just 2.5 percent between 1982 and 1997, but its urbanized footprint grew by 47 percent over that time. That meant that the third-slowest-growing state in the country developed the sixth-largest amount of land, as it consumed more farmland and natural space per added resident than every state but Wyoming. The state is squandering a key source of competitive advantage: its superb natural assets.
- **Neighborhood decline is weakening the cities, towns, and older suburbs in which 58 percent of the state's residents live, and where many of its critical intellectual, health, and business assets cluster.** In particular, the Commonwealth's starkly unbalanced growth patterns are taking a drastic toll on the health and real estate markets of the state's original neighborhoods of choice—its city residential blocks, charming rural and urban boroughs, and inner-ring townships. People are moving out. Vacancy is on the rise in older municipalities. And in the worst-affected areas a "vicious-cycle" of social distress, deterioration, and abandonment is destroying the state's neighborhood appeal.
- **Sprawl and urban decline are each burdening taxpayers.** Low-density sprawl is raising tax bills because it frequently costs more to provide infrastructure and services to far-flung communities where longer distances separate houses and businesses. Urban decay, meanwhile, imposes even more painful costs, as decline depresses property values and therefore tax revenues. In Pennsylvania, real property in the state's cities, boroughs, and older townships as a group failed to appreciate between 1993 and 2000 during years when the outer townships gained more than 17 percent in inflation-adjusted market value. Such trends place heavy pressure on older communities to set their property tax rates higher than developing outer areas, weakening their capacity to compete for new residents and investments.



Pennsylvania ranks high on many indices states seek to rank low on, and low on indices states hope to lead on . . . but there are some bright spots

Measure	Rank among 50 States
Absolute Loss of Young Workers, 1990–2000	#1
Share of Service Jobs in Education, 2000	#5
Net Out-Migration, 1995–2000	#5
Number of College Students, 2000	#6
Share of Service Jobs in Healthcare, 2000	#6
Acres of Land Urbanized, 1982–1997	#6
Percentage Loss of Young Workers, 1990–2000	#9
Share of Population with B.A., 2000	#30
Percentage Change in Foreign-Born Population	#36
Percentage Income Growth, 1990–2000	#40
New Business Starts and Growth, 2001	#44
Percentage Employment Growth, 1992–2002	#47
Percentage Population Growth, 1990–2000	#48

Source: U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis, USDA Natural Resources Inventory

- **Each of these dynamics is exacerbating the state’s loss of young talent, worsening the state’s serious workforce problem.** Given its aging population and losses of young adults, Pennsylvania badly needs to attract and retain more highly educated younger workers, including the enviable flow of top students who pass through its many institutions of higher learning. However, sprawl, on the one hand, and urban decline, on the other, each hinder the state’s ability to create the kinds of places that attract critical “human capital” and reverse a serious “brain drain.” Too rarely do young and mobile educated workers find in Pennsylvania the vibrant downtowns, healthy urban neighborhoods, pristine scenery, and rich close-in job markets to which they gravitate. That makes it harder to build and maintain the skilled and educated workforce necessary to spawn high-paying knowledge jobs and cultivate entrepreneurialism.
- **Current trends are also isolating the state’s growing numbers of low-income and minority residents from opportunity.** Most notably, the movement of jobs and middle-class families away from the state’s cities, boroughs, and older townships and into the outer townships means that low-income and minority workers have become spatially separated from economic opportunities. In fact, no less than six of the 50 metropolitan areas displaying the greatest physical separation of black workers from jobs were located in Pennsylvania in 2000. This physical isolation, compounded by serious skills shortfalls among urban workers, represents a serious drag on the state’s productivity and social health.

4. Ultimately, Pennsylvania has the potential to build a very different future—if it focuses its efforts; leverages the assets of its cities, towns, and older townships; and overhauls its most outdated and counterproductive policies and practices. Make no mistake, though: Change will require hard thinking and hard choices. Most clearly, it will require a major effort to commit the Commonwealth’s disconnected parts to productive collaboration rather than debilitating cross-purposes. To that end, *Back to Prosperity* concludes that at least five policy responses can address factors working “behind the trends” and promote “another way” for the state to grow and develop:

- **Plan for a more competitive, higher-quality future.** Currently, weak planning systems and uncoordinated agendas have left the Commonwealth’s regions and state government less able than others to project a desired pattern of development and manage change. This weakness has contributed to unfocused state policies and chaotic spread-out development.

We recommend that Pennsylvania create a statewide vision for economic competitiveness and land-use, and get serious about planning and coordination.
- **Focus the state’s investments.** Currently, the state’s own uncoordinated spending fails to make the most effective use of scarce resources, and likely exacerbates the state’s sprawl and urban-decline woes. State road and economic development investments, in particular, have contributed to the decline of the state’s struggling older communities by either directly supporting the dispersal of population and economic activity, or failing to target aid sufficiently on established municipalities.

We recommend that Pennsylvania fully assess the spatial impacts of its programs and make reinvestment in its older cities, boroughs, and older townships its explicit priority.

- **Invest in a high-road economy.** Currently, the state lacks a comprehensive response to the shifting structure of the state and national economy. Moreover, it has not fully realized that in today's changing economy what matters most are education and skills. This gap in strategy has let vast trends of deindustrialization and decentralization alter the state without systematic reaction.

We recommend that Pennsylvania invest heavily in education and training, promote development in key select industries, and focus on industries that promote the revitalization of older communities.

- **Promote large-scale reinvestment in older urban areas.** Currently, the state maintains a strong brownfields reuse program, but in other respects has yet to develop revitalization tools and policies equal to the magnitude of its significant redevelopment needs. Consequently, contamination issues, regulatory and legal barriers, outmoded building codes, and disjointed real estate markets all impede the renewal of older urban Pennsylvania.

We recommend that Pennsylvania make itself a world leader in devising policies and programs to encourage wholesale land reclamation and redevelopment in cities, towns, and older townships.

- **Renew state and regional governance.** Currently, Pennsylvanians are justifiably proud of their profusion of accessible, small-scale governments. However, the intense localism of the state's 2,566 municipalities—compounded by the state bureaucracy's own fragmentation—has often caused Pennsylvania jurisdictions to compete against each other rather than act together on tough problems like land-use planning and economic development. These fractures make it hard for local economies to respond concertedly to modern realities and challenges.

We recommend that Pennsylvania assess its state-local government system, foster more coordination through its own actions and incentives, and make it far easier for governments that want to work together to do so.

Of course, these policy suggestions for enhancing the state's competitiveness represent only a partial agenda for revitalizing the Keystone State. Strategies for improving schools and attracting venture capital are also critical. So, too, must substantial tax reform continue to reduce business taxes as well as provide greater relief to the residents of struggling cities and boroughs, where declining property values and increasing school and other taxes are devastating older communities and driving residents away. But for all that, none of these other strategies will succeed unless the state as a whole pulls together, refocuses, and collaborates far more concertedly on leveraging the assets of its cities, towns, and older suburbs to create a new era of prosperity.

In that sense, these pages—far from looking “back” to Pennsylvania's once-prosperous urban heartland in nostalgia—challenge the state to leverage the unique strength of those places to generate a new dynamism. Pennsylvania should turn its focus back to its towns, cities, and older suburbs as a way of reenergizing its future.

