Mother of Reinvention

HOW BOSTON'S ECONOMY HAS BOUNCED BACK FROM DECLINE, TIME AND AGAIN

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Boston is currently the yardstick from which other regions measure success. Its high level of educational attainment and remarkable turnaround from urban decline make it a beacon to other regions. Is there a secret to the city's success?

What a difference two decades make. In 1980, Boston was a city in decline, the hub not of the universe but of a middle-income metropolitan area in a cold-weather state. The city's population had fallen from 758,000 in 1920 to 563,000, and real estate values had sunk so low that three-quarters of its homes were worth less than the bricks-and-mortar cost of constructing them. At that point, Boston seemed to be on its way to joining Rust Belt relics like Rochester, Newark, and Detroit on the dustbin of industrial history.

Boston of today is a high-tech, culture-rich beacon of the future. The city's population has risen, if only slightly, in each of the decennial US Census counts since 1980. The metropolitan area is now the eighth richest in the country by per-capita income — the richest outside the New York and San Francisco regions. Housing prices — the surest sign of how badly people want to live someplace — have soared. In the 2000 census, a median housing value of $233,000 made Boston the fourth most expensive metropolitan area outside New York and San Francisco (after Boulder, CO; Honolulu; and Orange County, CA).

What took place here in the last decades is well known. The region transformed itself from a declining manufacturing center into a burgeoning capital of the information age. Boston was able to accomplish this reinvention because of its skill base, not just relative to its Rust Belt peers, but also compared to the nation as a whole. A region's skill base is among the strongest predictors of its growth rate, and today Boston is one of the most educated metropolitan areas of the country.

It is tempting to see the region's recent reinvention as a product of historical accident, a strong educational tradition fortuitously bumping into a new information age that gives education particular economic value. But reinventing itself is a Boston tradition that's nearly 400 years old. Time and again, Boston has faced economic crises that seemed to doom the city and its surrounding area to second-tier status, if not worse. Time and again, Boston has found new sources of productive growth.

Boston's capacity for phoenix-like rebirth suggests basic lessons not only for New England's largest city but for cities everywhere. How it has accomplished this repeated reinvention also holds within it a cautionary tale for a city desperate not to lose this economic talent.

Boston's Busts and Booms

Boston faced its first economic near-death experience within 20 years of the landing of the Mayflower. The Massachusetts Bay settlers initially survived on supplying goods to religiously oriented migrants seeking to settle in the New World. By 1640, however, the flow of British expatriates dried up, in part because of the political success of like-minded Protestants in England. Midway through the 17th century, Boston redefined itself as the center of a trade network that supplied the colonies of the Caribbean and the American South with food and basic provisions. This arrangement fueled the regional economy well into the next century.

In the latter half of the 18th century, however, Boston's population stagnated for 50 years while the colonies spread inland. New York and Philadelphia had greater proximity to the rich American hinterland and became far more important centers for shipping goods into and out of the 13 colonies. This led to a second major reinvention, when the city capitalized on a remarkable base of seafarers to become a center for global shipping and sailing in the early 19th century. In this economy, Boston's comparative advantage was not its port but its people, who crewed, captained, and owned ships.

But in 1840, at the height of its maritime supremacy, Boston's third crisis was already brewing. Steam technology was quickly improving and making clipper ships obsolete. Steam required both less human capital and different human capital than sails did, and as a result, Boston's maritime workforce lost much of its value. Boston, Salem, and New Bedford all suffered sharp economic dislocations. Salem and New Bedford never really recovered from the shift. But Boston, as a last product of its sailing supremacy, acquired a vast population of Irish immigrants. In what almost seems a freak of fortune, the Potato Famine coincided with the last decade of Boston's seafaring dominance. As a result of unusually cheap fares from Liverpool, large numbers of hungry Irish came to Boston. Had the famine happened 15 years later, the Irish would likely have bypassed the city entirely. Irish immigrants provided the human energy that turned Boston from a maritime city to an industrial city between 1840 and 1890.

This heady period of growth was over by 1920. At that point begins the familiar story of Boston's slide into regional decline. From 1920 to 1950, the city's population remained flat (while the country's population grew by 50 percent) and then began to dwindle, bottoming out in 1980. This decline can be chalked up to at least four separate reasons. First, the climate was cold and harsh, and air conditioning and highway travel made the Sun Belt a much more attractive option. Second, as in other industrial towns, Boston's core manufacturing economy was declining as jobs moved to areas with cheaper labor and less regulation, especially in the South. Third, the automobile itself made Boston's dense urban form somewhat obsolete, as growth spread to the suburbs. Finally, Boston suffered from high taxes and heavy regulation.

Rather than signal Boston's final descent into economic and demographic oblivion, the long mid-century slide set the stage for Boston's reinvention as the high-tech economic juggernaut it is today. The current moment of recession hangover notwithstanding, the Greater Boston area has developed an internal economic skeleton of technology and know-how that should sustain growth for years to come. That is, until the next structural crisis develops. When — or before — the crisis hits, it would serve us well to understand how to reinvent the local economy, as it has been reinvented before. We should look to the factors that facilitated reinvention throughout Boston's history.

Lessons from Boston's Past

1. Innovate or Stagnate

The most obvious lesson of Boston's history is that metropolitan economies develop along quirky, bumpy paths. Staying true to a single model of economic development is almost always a recipe for disaster. At each turning point during its long history, Boston has changed primary industries and revamped itself. For any city to survive as the economic core of a thriving region, such transformations are inevitable.

What is it that makes economic change happen? Every one of Boston's rebirths has been led by smart, ambitious people who had access to capital and who wanted to stay in or come to Boston despite other options that were available to them. Cities make themselves smart by educating their own and attracting the highly skilled from elsewhere. Now and in the future, Boston's success hinges critically on the quality of its schools and on its ability to attract high-skilled residents, even against the tough competition of warmer climes. For many other reasons, education and attraction are key components of Boston's economic success, but perhaps their biggest role is in ensuring a steady supply of entrepreneurs to drive future reinventions.

Government policy also matters, but not in the typical forms of enticement and giveaway, or even in giving the free market free rein. Rather, the key is to have a system of regulation that is relaxed enough to permit innovation, but active enough to protect investors and to preserve Boston as an attractive place to live. One sure sign that a policy is a mistake is if its principal purpose is to preserve and perpetuate the past. Economic reinvention inevitably involves dislocation and hardship. It is surely tempting to try to bolster declining industries to ease the pain that accompanies decline. But given the necessity of invention, such attempts are urban suicide. If Boston had taxed the information economy heavily to keep its dying candy factories afloat, we would not have saved the candy industry, but rather killed the region's economic future.

2. Value Diversity and Complexity

Reinventing a local economy requires diversity. That's because reinvention doesn't mean starting new industries from scratch, but rather expanding industries that were always there, but much smaller, and in a position to grow when they prove a more promising fit for a changing economy. Such economic diversity enables cities to switch horses when their primary industries decline. For instance, there has always been manufacturing in Boston — before it was a manufacturing center, and even now, in the post-manufacturing age. Similarly, technology, professional services, and higher education have been parts of the Boston economy for centuries. They did not have to be imported, or grown from seed, to enable the switch from manufacturing to these more productive sectors over the past 20 years. The broader a city's portfolio of industries, the better it can adapt to shifts in the international economy.

Boston's advantage in economic diversity — and its corollary, complexity — can be traced back to colonial days. Virginia's tobacco trade was simple, hinging on vast plantations. Boats would come down the river to pay cash for bales of tobacco.

Since the trade was simple and enormously profitable, there was no reason for cities or mercantile infrastructure to develop. Conversely, Massachusetts had few products that were worth shipping to England. To make up for this weakness, the colonial merchants developed a complex trading system to handle a variety of commodities, which were shipped to four separate countries. One third of Boston's population was directly involved in the shipping trades. At the time, Virginians were much richer. But in the long run, the institutions that developed around the diverse and complex Boston economy were much more conducive to economic growth.

3. Attract People, Not Companies

Increasingly, urbanists draw a distinction between producer cities and consumer cities. Producer cities grow because of the desire of firms to locate in a particular place where economic returns are higher, while consumer cities thrive because people want to live there. Over the past 50 years, consumer cities have enjoyed increasing success, largely at the expense of producer cities.

Consumer cities are particularly conducive to the process of reinvention. If the only reason people live in a particular place is because of its proximity to some productive asset, such as anthracite coal mines or the Merrimack River, then that locale loses its charm if that asset loses its value. Indeed, Pennsylvania coal country is a vast graveyard of once-prosperous towns telling stories of past economic grandeur. But if a place exists because people want to live there, then the people who live there can respond to the economic downturns by innovating to make their chosen environment productive once again, rather than moving.

Today, Boston is a center for the knowledge economy in part because people want to live there. Boston may not have exactly the same amenities as the Bay Area; it certainly doesn't have the weather. But if Boston isn't Palo Alto, it isn't Detroit either. Its changing seasons, ready access to Atlantic beaches, and rich history continue to attract residents as well as visitors. This allure is crucial for the city's continued economic success. But, the most evident seed of Boston's next economic crisis is its high housing costs, which are starting to price the next generation of reinventors out of the market.

4. Invest in Education and Social Capital

The fact that Massachusetts settlers saw themselves as permanent residents led the new colony to create a number of important legal, social, and educational institutions. Perhaps the most remarkable feature of early Boston was its focus on education. The Boston Latin School was founded in 1635 and Harvard College was founded — with government money, it's worth noting — the next year. The Calvinist attention to literacy surely mattered, but the more complex Massachusetts economy also demanded more widespread learning than did the tobacco culture of the South. Harvard's earliest graduates were men of the cloth, but increasingly a Harvard education provided valuable background for merchants and lawyers in a world where knowledge increased earnings. Education was not a luxury, as it was for Southern aristocrats; it was a central ingredient in the evolving economy.

Human capital has been Boston's strongest asset throughout its 400-year history. Skills with sailing ships enabled the city to reinvent itself as a global maritime center in the early 19th century. Yankee technology and Irish labor together fueled industrialization. And today more than ever, Boston's skills provide the impetus for economic success in technology, professional services, and higher education.

Conclusion

Boston will never be anything other than what it is. It will never have the climate of Los Angeles or the developable land of North Carolina; it will never have oil wells or uranium mines. What has always made Boston dynamic — and does so to this day — is its reinventiveness, its ability to find new ways to fit into an evolving national economy. The economic power of education and cultural dynamism is news to some people, but it's old news to Boston. Still, the Bay State's long tradition and first-rate institutions should not lull us into complacency. Even as we look to reap further rewards from the information-age economy of today, there's no time like the present for laying the groundwork for Boston's next rebirth.

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