

## **WHAT ARE THE RUST BELT CITIES, HOW DID THEY GET THAT WAY, AND WHAT IS THEIR ROUTE TO RECOVERY**

Starting in the later part of the 1970s many of the larger industrial cities around the Great Lakes region including Detroit, Flint, Gary, Cleveland, Youngstown, Pittsburgh, Erie, Reading, and Buffalo, found that their major manufacturing industries (in which many of its citizens held high paying factory jobs due to union efforts) could no longer compete with foreign industries producing the same product at equivalent quality but at a much lower cost. The result of this international competition and the fact that many manufacturers were modernizing using computers and robotics and thus requiring fewer workers per unit output, led to massive unemployment, factory shut downs, and the concomitant collapse of many smaller businesses dependent on its local unemployed population to survive. This, in addition to massive job losses and home-foreclosures, led to the erosion of the tax base which negatively affected the infrastructure including city services such as adequate police forces. The upshot was that in a few years these cities were almost completely devastated earning the negative appellation of rust belt cities. A large fraction of the community who did not leave were now living in abject poverty with rampant drug abuse and thousands of abandoned homes and shuttered factories. There was little the local, state and federal governments could do about this situation other than to provide food stamps, limited unemployment benefits plus some free medical and dental services. Attempts of imposing tariffs on foreign products did not work then nor will it work now as presently being tried by the US Administration by imposing tariffs on steel and aluminum. What tariff advocates forget is that tariffs produce counter-tariffs which not only lead to inflation in all countries involved but actually increases in overall unemployment when looked at from a national perspective.

I was exposed the first time to one of these rust belt cities about fourteen years ago. We had been invited to a wedding in Erie, Pa. by one of my nephews and his fiancée. Her family have their home in that city. At one time Erie was prosperous and was the third largest city in Pennsylvania. When my wife and I drove for the first time into Erie from their local airport all one could see were miles and miles of abandoned businesses, shuttered factories and an infrastructure in full decay. The father of his fiancée had run a successful car dealership in Erie for many years. This was obvious when we saw their home in one of the few remaining prosperous sections of the city. Her father realized what was happening early on and expanded his car dealership to Daytona Beach here in Florida. However they also kept their local business working with a skeleton staff. His family's deep roots in Erie made him reluctant to leave even as late as 2004 when I first met him. He told me that although he was very pessimistic about Erie's future, he was still reluctant to abandon the city entirely since all his children had been brought up there. After the wedding my wife and I took a week long side-trip along Lake Erie to Niagara Falls. During that drive we saw many smaller cities along the way which showed no signs of poverty since they had no large manufacturing industries subjected to foreign competition. Niagara Falls itself was booming due predominantly to its tourist business from both the US and Canada. The neighboring city of Buffalo has remained in rust belt mode. On our way back from the Falls we again stopped off in Erie before flying from their local airport back to Florida the next morning. We stayed that evening at a new first class national chain motel at the edge of

town. That evening we tried to find a place to eat but could find no restaurant in the vicinity. So after driving for several miles toward the town center we finally ended up at one of the very few left open diners in the city. This again confirmed the fact that the closing of a major industry in a city has deleterious effect on remaining businesses. Even today (with the exception of Pittsburgh to be discussed later) most of these cities still have high poverty levels which presently stands at 30% in Erie. Last year CBS had a news report on Erie in which one of the individuals being interviewed stated that "Erie is definitely a sinking ship, and you'd be crazy not to get off". He took a job in New Mexico. My own feeling is that these rust belt cities will recover eventually but it will take an educated work force operating in high tech industries and services to do so.

We now come to our thoughts of how the rust belt cities can be rejuvenated. First of all it is futile to try to bring back the old industries via tariff protection. It will produce a few jobs back in the targeted industries but will lead to inflation and net job losses for remaining industries in this country which will be targeted by counter-tariffs.

At the moment the US runs large trade surpluses in (1) military armaments, (2) jets and related aerospace items,(3) pharmaceuticals, (4) agricultural products, (5) entertainment products such cds, video games and movies, (6) advanced computers and associated innovations such as the internet, (7) robotics and artificial intelligence, (8) world leadership in higher education, (9) health care, (10) international finance and (11) scientific and technological innovation. The US runs major trade deficits on (1) imported raw materials including petroleum , (2) inexpensive but high quality industrial products such as cars(3) apparel and clothing(3) luxury cars and (4) consumer electronics.

My idea here (as also suggested by others) is that the rust belt cities and the rest of the country concentrate on producing jobs and offer subsidies to businesses where the country has large surpluses with the rest of the world while ignoring (if possible) those areas where our country runs big deficits. This means, for example, let Vietnam and Bangladesh produce high quality but inexpensive shirts at the expense of Van Heusen but at the same time support the production of Boeing jets for world consumption. The same approach should be used for the rust belt cities. Develop high tech industries and have available a highly educated and trained work force. Although this may not be possible for older jobless workers the next generation should be capable of bringing about such a change. One already sees this working in Pittsburgh which was badly affected after the steel plant closings in the late seventies. Although the city lost about half of its population in the last forty years, those remaining especially the younger generation have made Pittsburgh a city of high tech innovation, trendy restaurants and inexpensive housing. The fact that they have Carnegie Mellon University , a major innovator in robotics , has also helped their recovery efforts tremendously. This model should be followed by the remaining rust belt cities. In time, I expect full economic recovery if the paths of Pittsburgh are followed.

Although this country and its high standard of living cannot compete directly on products with world rivals can produce at much lower cost , I am convinced the US will stay ahead of the game by concentrating mainly on jobs, products and services based on the latest technology and innovative ideas.

There is a reason why present day innovators such as Google, Microsoft, Amazon, and Apple are doing as well as they are. We need to recognize that high and innovative technology requiring a highly educated work force is the path to future job creation in this country and the revival of the rust belt cities.

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