Research Article

Structural Analysis and the Reintegration of Poor Urban Neighborhoods into Local and Mainstream Economies

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Abstract: Since Adam Smith's An Inquiry into The Nature and Causes of the Wealth of Nations, economists have been attempting to explain cross-country differences in the rates and levels of economic growth. By focusing on these measures, economists have faced the difficult problem of aggregating heterogeneous economic activities and resources. Orthodox economists have attempted to solve this problem with a methodological individualist approach pining neo-classical microfoundations to macroeconomic growth and development theory. One popular example is the Solow growth model and its adaptations. By proceeding with these types of models, variables such as human capital, physical capital, and labor lose explanatory power through the inadequate proxies and restrictive assumptions that are necessary for the aggregation of these models to be mathematically viable. Despite the obvious flaws created by this process of extreme simplification, these models have led to a strong belief in macroeconomic policies such as privatization, liberalization of trade, and deregulation. The impact of these policies has been felt throughout the world and have helped make a minority of the world's population extraordinary wealthy while exacerbating income and social inequalities and facilitating environmental destruction.
“Cities must strive to be places of nature: they should be sheltering, cleansing of air, water, and spirit; and restorative and replenishing of the planet, rather than fundamentally extractive and damaging.”

Timothy Beatley, Professor of Urban and Environmental Planning

Introduction

Since Adam Smith’s An Inquiry into The Nature and Causes of the Wealth of Nations, economists have been attempting to explain cross-country differences in the rates and levels of economic growth. By focusing on these measures, economists have faced the difficult problem of aggregating heterogeneous economic activities and resources. Orthodox economists have attempted to solve this problem with a methodological individualist approach pining neo-classical microfoundations to macroeconomic growth and development theory. One popular example is the Solow growth model and its adaptations. By proceeding with these types of models, variables such as human capital, physical capital, and labor lose explanatory power through the inadequate proxies and restrictive assumptions that are necessary for the aggregation of these models to be mathematically viable. Despite the obvious flaws created by this process of extreme simplification, these models have led to a strong belief in macroeconomic policies such as privatization, liberalization of trade, and deregulation. The impact of these policies has been felt throughout the world and have helped make a minority of the world’s population extraordinary wealthy while exacerbating income and social inequalities and facilitating environmental destruction.

An alternative approach to these models is the use of structural analysis. Structural
analysis deals with variations in the composition of economic activity by focusing on many factors such as, institutional evolution and changes in technology or natural resources, which are often taken as given in orthodox growth models. By analyzing the economy at these lower levels of aggregation, we can uncover a more meaningful collection of data and institute policy changes and plans to develop community specific growth strategies. While this approach may not yield generalized theorems and principles capable of explaining all cross-country differences in growth, it has the advantage of providing practical solutions on a localized level to alleviate social ills such as poverty resulting from the existing conservative macroeconomic policies.

To illustrate an example of structural analysis, and how investigating our economies at the intra-industry, balance of payments, labor and capital supply levels of aggregation may uncover solutions to complex problems, this paper will discuss two very distinct parts of the world that have faced similar institutional and technological changes during the last half of the century. With specific attention paid to the role of: property rights, labor and capital composition, and technological change, it will be shown that, “change becomes progressive and propagates itself in a cumulative way” (Young 1928) both in positive and negative feedback loops.

The urban cores of U.S. Cities such as Chicago and Kansas City are not small Communist island nations, but they may be able to utilize some of the development techniques implemented by Cuba following the collapse of the Soviet Union. Much like the island nation, our urban cores have experienced structural changes to their industries and technology, which have effectively isolated them from their surrounding cities and the mainstream economy. While Cuba has not become an economic super power, it has
survived the Soviet collapse by making structural changes to their agricultural industry. Through these adaptations of new technology and a restructuring of the institutional framework, Cuba has developed a self-sustaining and highly productive urban agricultural sector, and hence an economy that is much less susceptible to macroeconomic shocks has begun to emerge. Similar to Cuba, our inner cities can also experience a positive evolutionary process and become a stabilizing force for our national economy with localized efforts to change institutional structures and take advantage of existing capital and labor supplies.

In order to discover what institutional structures need to be changed for revitalization in some of the world’s poorest places, it will be helpful to examine an example of the historical process of political, social, and economic isolation. This will be accomplished by describing some of the institutional changes, which were implemented during the latter half of the 20th century, to transform several U.S. urban cores into isolated islands segregated from their mainstream economies. This analysis will focus on the real estate industry in Kansas City and how restrictions on property rights divided the city by race and social status. The economic impact of this separation will be exhibited through the statistical findings of the 2010 Equality Index State of Black Kansas City developed by the University of Missouri-Kansas City and the Urban League. In addition a greater understanding of the isolation felt in these areas will be provided by a brief exploration into the sociological impacts of the urban core’s economic transformation. Then, a description of the similarities between the isolation and challenges facing Cuba and urban communities, and how Cuba’s survival of their crisis may provide insights into development strategies in the U.S. These insights will be explored by theorizing how
changes to local institutions and the implementation of some “old” ideas can potentially
generate economic success in Kansas City. A brief summary and conclusion section
will complete the analysis.

The Isolation and Segregation Process

At the end of World War II, there were a tremendous number of soldiers returning home
and an increase in the need for housing. In Kansas City, J.C. Nichols took advantage of
this situation as one of the most powerful community builders in the country. His vision
was for new developments with racially homogenous communities. By propagating the
idea that homogenous neighborhoods were more likely to retain and increase in value,
he was not only able to take advantage of the increase in demand due to returning
soldiers and growing population, but also people moving out of integrated inner city
areas. As one of the founders of the Federal Housing Association, the Urban Land
Institute, and the National Association of Homebuilders, Nichols was able to manipulate
public zoning, subdivision controls, and other forms of municipal assistance (Gotham
2003). Racial covenants in mortgage contracts and the ideology of homogeneous
neighborhood superiority are examples of what Douglas North would term “formal” and
“informal” institutions. The formal changes to the property rights greatly restricted the
ability of the African-American community to take advantage of the benefits of home
ownership outside of inner city areas, while the informal changes in the community
would have a dramatic effect on the evolution of Kansas City’s social structure.
While neither of these institutions remains today, their social and economic impacts are
still felt and have deep roots in the community, and “residential segregation and racial polarization remain basic to the ongoing development of this new urban form” (Gotham 2002). From the 2010 Equality Index, Figure 1 geographically displays the median household incomes in the Greater Kansas City area, and the island metaphor takes on a new significance. Rather than describing it as an island, Kevin Fox Gotham explains, “more parts of the Kansas City area were losing population, thus hollowing out the urban core and expanding the hole in the donut” (Gotham 2002). As we can also see from Table 1, the overall living conditions are significantly different between the white and black communities in Kansas City.

<table>
<thead>
<tr>
<th>Table 1. Economic Indicators Jackson County, Missouri</th>
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<tbody>
<tr>
<td><strong>Unemployment</strong></td>
</tr>
<tr>
<td>Black</td>
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<td>15%</td>
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Source: 2010 Equity Index

As striking as this data appears, the isolation of these areas from the mainstream economy is much deeper than they are capable of demonstrating.

In a sociological study conducted by Sudhir Venkatesh of the urban poor in Chicago, Illinois, he displayed that institutional forces have, “made to situate the urban poor within an historical dynamic, elucidating the economic, racial, political forces which reinforce their disadvantaged social status and which plague their attempts at social advancement” (Venkatesh 1994). What these forces create is a “social isolation” that is a
complete lack of interactions with the individuals and institutions in the mainstream economy. This isolation and disconnect further exacerbate the difficulties in which these residents face in attempts at social mobility creating, “ecological niches… in terms of access to jobs and job networks, availability of marriageable partners, involvement in quality schools, and exposure to conventional role models” (Wilson 1987, quoted in Ventakesh 1994).

Because of this separation from the mainstream economy, urban neighborhoods have developed strong social networks and underground economies in order to survive. These economies could be characterized as what Veblin called a “handicraft economy.” Many of the goods and services provided are illicit in nature, but a great deal of it is also legal production with the income going unreported. These jobs include things such as, auto repair, domestic cleaning services, day care, homemade arts and crafts, and many other simple goods and services. These goods and services are typically traded for cash, but in kind trades frequently occur. By becoming dependent on these monies for survival, residents are hesitant to look for legitimate employment opportunities outside of their neighborhoods, for fear of being ‘cut out’ of the system. “The result has been the increasing social isolation of inner city residents from mainstream persons and institutions; this becomes a self- reinforcing process which, by effectively restricting their social networks to others of similar social and economic status, continues to reduce their opportunities for reintegration into the mainstream” (Venkatesh 1994). Not only have the obvious economic barriers emerged to prevent growth and development, but also a social structure has been locked in to “propagate” the institutional changes made nearly 60 years ago.
Characteristics of Isolation and Cuba’s Transition

Through the process of isolation, urban cores have taken on some of the characteristics of the Cuban economy as the collapse of the Soviet Union approached. Just as Cuba faced a food crisis and potential economic collapse, many urban cores are characterized as food deserts—areas with limited access to affordable and nutritious food—from the Food, Conservation and Energy Act of 2008. Another similarity between these two seemingly unrelated places are the structural changes that have occurred to the economies, meaning both have been adversely impacted by a reliance on manufacturing and the large-scale business operations that were symbolic of the industrial revolution.

For Cuba, the loss of subsidies in the form of oil, gas, and industrial equipment from the Soviet Union made large industrial agriculture unsustainable and greatly threatened their people with starvation. In the U.S., the movement of industry out of our urban cores and to either foreign countries or to states without strong union laws has left many workers unemployed and reliant on government entitlement payments. The reliance of many families in our urban cores on these entitlements makes them particularly vulnerable to economic crisis and the recent conservative arguments for government budget cuts.

Without the support of the Council for Mutual Economic Assistance, Cuba was forced to look inward to find a new source of economic stability. Fortunately, “beginning in 1987, the so-called ‘organoponicos,’ collections of roughly 30 meters by 1 meter rectangular walled constructions containing raised beds of a mixture of soil and organic material, started being installed in Armed Forces facilities” (Koont 2008). The organoponico developed into one of Cuba’s primary sources of vegetable cultivation.
through institutional, legal, and technological changes implemented by the government and its people. First, the government created a number of planning commissions and institutes of research to provide a central direction and guidance for the new urban agricultural industry. Next, legal changes were made to the conditions for land ownership and property rights. A great deal of state owned land “was distributed in permanent usufruct to individuals as parcels and cooperatives” (Koont 2008). The terms of the usufruct gave ownership to those individuals provided the land was being used for the production of food. It also gave these individuals the property rights to profits garnered from their production as well as strong sense of ownership and responsibility to their communities.

In addition to the success of these formal institutional changes, there has also been tremendous social change and a strong community impact generated. Cuba’s “informal” sector has played an important role in stabilizing household income in a very similar fashion to the experiences described in the underground economies of the U.S. The combination of the strong social networks and a well educated population allowed for the rapid spread of business opportunities and agro-ecological know how. Also, through advances made in organic growing technology and creative uses of permaculture techniques Cuba has been able to greatly increase their food production capabilities from 1.5 kg/square meter in 1994 to 25.8 kg/square meter in 2001 (Koont 2008). As this industry has grown, it has been “increasingly perceived as one having high levels of scientific and technical content with ample opportunities for further formal education and a healthy, supportive, and dignified work environment” (Koont 2008). With these perceptions, real opportunities have become reality. The growth created by this new
market has exhibited characteristics similar to Kaldor’s model of cumulative causation where, “a positive cycle is engendered as competitive success increases demand, which leads to another round of growth and productivity increases” (Forstater 2001). In this case, increased demand for vegetable production has led to new opportunities including: technical services, biological pest control, marketing positions, and new markets for sustainable and environmentally friendly technologies. For Cuba, “urban agriculture is not just about economics, i.e., about producing food sustainability, or even just about …sustainability and creating employment (350,000 well-paid jobs by 2006). It is also, and seriously, about community development and preserving and improving the environment” (Koont 2008). By making these changes to one industry, Cuba has successfully changed its economic structure from one highly dependent on imports and current accounts deficits into a nation that is largely self-sustaining and insulated from unpredictable changes in the global economy.

Urban Agriculture and a Rival of Old Ideas

Urban agriculture and the idea of “Garden Cities” is not a new one. Peter Kropotkin’s Fields, Factories, and Workshops warned of the dangers to humanity and the environment created by the movement of populations into the cities and away from agricultural pursuits in 1899. One of his greatest concerns was the loss of what he called “brain work” and the over emphasis on “manual work” in the manufacturing setting caused by extreme division of labor driven and specialization. To help prevent this imbalance, Kropotkin argued forcefully against the legitimacy of comparative advantage
as an economic theory, and built a strong case for self-sustaining cities in order to protect against famine and macroeconomic instabilities.

Today, the impact of conservative macroeconomic agendas has left our inner cities in extremely vulnerable states. As in Cuba, our inner cities have been cut off from the mainstream economy and face food shortages and a life style that is extraordinarily fragile. Kansas City’s East Side Neighborhoods are an excellent example. Nearly half of the black population under the age of 18 in Jackson County is living below the poverty line (Forstater 2010). Food shortages, unemployment, vacant land and properties, and social isolation make up a small sample of the difficulties being faced by residents of a larger city with museums, professional sports franchises, fine dining, and other luxuries found in a modern city.

In order to reintegrate the East Side of Kansas City into the economy, the example set by Cuba can be a guiding force. Just as the segregation of Kansas City started with a small change in the institution of property rights in the city, a positive turn of events can take place by returning the vacant and closed school properties to the communities. The institution of usufruct land ownership and worker owned enterprises has the potential for stimulating the development of an urban agricultural industry in these neighborhoods in the same manner as it has in Cuba. This small change in property rights has the potential for a tremendous economic impact and a reversal of the negative feedback process started by Nichols and the real estate industry.

An additional factor in developing the negative feedback cycle was the reliance on manufacturing and large industry. The risk associated with a dependence on immobile and specialized capital is that conversion is a very costly and time-consuming task.
Adolph Lowe describes the needs of a capital-intensive development strategy:

Large-scale technology and long-term financial commitments, coupled with the spread of monopoly in the markets of goods and productive services, are progressively immobilizing the flow of resources, extending the time span over which dispositions must be made, as well as reducing the subjectivity certainty and objectivity accuracy of business expectations (Lowe 1969).

Cuba did not have the time or the financial resources for capital conversion as it faced economic collapse and starvation. In Kansas City, large-scale capital investments in the inner city carry the perception of substantial financial risk, which prevent this strategy from being a possibility. In order to avoid these difficulties, Lowe advocates for small scale, labor-intensive production carried out by individual producers with low capital cost, high mobility, and adaptability. Following this model has led to tremendous success in Cuba and expansion of markets well beyond labor-intensive farming and production.

As the Cuban experience has shown, the humble labor-intensive beginnings of their urban agricultural sector have produced a wide variety of dignified and environmentally friendly employment opportunities. Two important aspects of this success were the existing land, labor, and human capital stocks in Cuba, as well as the strong social networks developed in the “informal” economy. In Kansas City there are eight closed school buildings within the Historic East Side Neighborhoods Coalition alone. This area also struggles to provide work (unemployment estimated at 25%) and many of its
residents have difficulty maintaining and establishing employment elsewhere due to many of the constraints described above. By establishing new employment opportunities within the neighborhood and allowing for a decentralization of the input provisioning, marketing, and production, individuals will be able to take advantage of the mobility and adaptability of these new markets to utilize the skills and services they have acquired in the existing underground economy. As these markets strengthen and grow, these small businesses will be allowed out of the shadows and back into the mainstream economy.

However, while decentralization and freedom is necessary at the micro level, an organizational structure to provide guidance and direction will be essential for a complete reintegration of Kansas City’s urban core back into the local and mainstream economy. Fortunately, a great deal of expertise exists in the area of Urban Farming in Kansas City. The Center for Urban Agriculture, Kansas City Community Gardens, and the Food Coalition are just a few of the organizations already working to make urban farming a permanent part of the local economy. With proper planning organic production of foods in Kansas City not only can help provide essential nutrition and help eliminate the existence of food deserts, but also create an industry capable of generating export possibilities for the city. In a recent report published by the USDA detailing the rapid growth of the demand for organic foods in the U.S., “sales increased from $3.6 billion in 1997 to $21.1 billion in 2008 and Sales of organic foods increased annually between 12 and 21 percent during this period”(USDA 2009). In addition to meet these increased demands certification of organic foods handlers has been streamlined to facilitate international imports, but
“consumers at farmers’ markets, independent restaurants, small food shops, and other
direct markets are explicitly seeking locally grown organic products” (USDA 2009).
This is an opportunity for Kansas City to generate economic success and growth that
spans the neighborhood, city, region and possibility well beyond, and a roadmap has
been provided by the structural analysis of a small communist island nation.

**Conclusion**

From high levels of aggregation it would not appear that there are any applicable lessons
to be learned in the U.S. from the economic ramifications of the Soviet collapse in Cuba.
But, by looking at the structure and composition of Cuba’s labor and capital, technology,
and institutional framework, similarities do appear to exist between the island nation and
Kansas City’s inner city. While urban agriculture is probably not a silver bullet capable
of solving all the macro economic difficulties in the U.S. and the world, it does appear to
have many qualities that make it particularly conducive to experiencing Allyn Young’s
vision of increasing returns to scale. Not only are these growth markets directly related
to food production, they have the potential to create vast advances in other areas of the
economy through energy conservation and environmental sustainability for this
generation and beyond.
Works Cited


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