

## **I. Introduction**

In 1980, Boston was a declining city in a middle-income metropolitan area in a cold state. Over the 60 year period between 1920 and 1980, Boston's population had fallen from 758,000 to 563,000, and Boston's real estate values in 1980 were so low that three quarters of its homes were worth less than the bricks and mortar cost of construction (Glaeser and Gyourko, 2001). There was little reason at that date to suspect that Boston would be any more successful than Rochester or Pittsburgh or St. Louis over the next few decades.

Twenty years later, Boston looks like the future not the past. The city and the metropolitan area have grown. More strikingly, the Boston primary metropolitan statistical area (the core city and its close suburbs) is the eighth richest metropolitan area in the country ranked by per capita income; it is the richest metropolitan area that is neither a suburb of New York nor in the Bay Area. Housing prices—always the surest sign that people want to live in a city—have soared. According to the 2000 census, Boston's median housing value of \$233,000 makes it the fourth most expensive metropolitan area (after Boulder, Honolulu and Orange County) that is neither in the New York nor San Francisco metropolitan statistical areas. In one sample of 541 cities, four of the five cities with the fastest housing price growth between 1980 and 2000 were Somerville, Newton, Boston and Cambridge.

The source of Boston's recent success is not unknown. Most skilled cities have done well over the past two decades, and Boston in 1980 had a strong skill base relative to its rustbelt peers like Syracuse and Detroit. Today, Boston is one of the most educated metropolitan areas of the country. This skill base, which is most strongly related to the educational history of the region, enabled Boston to become a successful city in the information age. The Boston region's dominant industries are now high technology, higher education and financial services. These industries have done extremely well over

the past 20 years and have strengthened Boston's economy, but Boston's ability to be a center for these sectors was itself a result of its historic commitment to skills.

But Boston's transformation from a dying factory town to a thriving information city is only the latest of the region's remarkable rebirths. Boston's history is not a seamless story of steady success, but rather a series of crises and restructuring. For the first century of colonial America, Boston had been the largest city in the colonies and had thrived as a conduit of goods between the old world and the new. But during the second half of the 18<sup>th</sup> century, the city stagnated. New York and Philadelphia were superior ports because of better river access to the rich hinterland and because they were more southern and less isolated in New England. Boston looked as if it was likely to become a nostalgic backwater just as the United States were being formed.

However, during the first fifty years of the 19<sup>th</sup> century, Boston was able to capitalize on its remarkable base of seafaring human capital to become a center for global shipping and sailing. Boston's comparative advantage was not in its port, but in its people who crewed, captained and owned ships that sailed in and out of ports from New York to China. One way to understand this change is that peace and technological improvements created an increasingly global maritime economy during the early 19<sup>th</sup> century. Boston's comparative advantage in seafaring became increasingly valuable during this era, and the city changed from being an important port for goods coming and going to America, into the capital of a vast seafaring empire.

The source of Boston's early 19<sup>th</sup> century success—sailing skills—ensured that Boston's maritime empire would not survive the switch from clipper ships to steam. Steamships required far less human capital than sailing ships, and all of a sudden Boston seemed like it was in danger of becoming obsolete. Indeed, its New England competitors such as Salem and New Bedford never really recovered from the switch from sail to steam. But unlike those cities, Boston had acquired, as a last product of its sailing supremacy, a vast population of Irish immigrants. Boston became Irish because the potato famine happened to have coincided with the last decade when it was cheaper to get from Liverpool to

Boston than from Liverpool to New York. If the famine had occurred ten years later, it seems likely that there would have been no substantial Irish population in Boston because steerage fares on steamships to New York had become sufficiently cheap.

The initial Irish population which served as the nucleus for a growing city of immigrants during the nineteenth century helped to turn Boston from a maritime city in 1840 to an industrial city in 1890. Other factors also mattered. Fortunes, made off the China trade, were reinvested in Boston area manufacturing plants. Railroads, sometimes also built from trading wealth, turned Boston into the railroad hub of New England. Finally, the switch from water power to steam enabled factories to move from rivers like the Merrimack to a more central location to save on labor and transportation costs. Like most large American cities during the late 19<sup>th</sup> century, Boston did well as a center for the industrializing country.

But Boston's heady period of growth was over by 1920. Between 1920 and 1950, the city population stayed flat, while the country's population grew by 50 percent. Between 1950 and 1980, the city lost population. In 1910, Boston was the fifth largest city in the country. By 1980, 19 cities were bigger than Boston. Boston declined for at least four separate reasons. First, Boston was a cold city and over the 20<sup>th</sup> century, warm cities grew much more quickly than cold cities. Air conditioning and improvements in public health greatly increased the quality of public life in the sunbelt. Declining transport costs freed workers from having to live close to rivers or natural resources. Instead, people could move to warm places that were pleasant to live in. Second, Boston had been a manufacturing town and all manufacturing towns were declining. Third, the automobile was supplanting older forms of personal transportation and central city Boston was particularly tied to these older forms of transportation and particularly bad as a driving city. Finally, Boston was a city with high taxes and heavy regulation. All of these factors suggest that Boston's mid-twentieth century decline was pretty inevitable.

Yet, again Boston has reinvented itself and the past twenty years have been a period of enormous success for the region both in terms of incomes and in terms of property

values. In the labor market, education is the dominant factor in today's economy, and Boston has been specializing in skills for almost 400 years. Among the 200 or so metropolitan areas with more than 160,000 residents, the Boston primary metropolitan statistical area ranks fifth in share of the population over the age of 25 with college degrees (after Boulder, Stamford, Madison, and San Jose) and third in the share of the population between 25 and 34 with college degrees (after Boulder and Stamford). It ranks seventh among all metropolitan areas in its share of employees in managerial, professional or related professions after Boulder, Corvallis, San Francisco, San Jose, Stamford and Washington. The region's success has meant that the most pressing problem for the area is that its regulation of new construction has meant that not enough people have been able to take advantage of the area's high levels of productivity.

The story of Boston's history yields the following implications about urban dynamics. First, long run urban success does not mean perpetual growth. Long run urban success means successfully responding to challenges. The basic pattern of Boston's history is that the city specializes in one area and inevitably either this area declines or their dominance in the area is challenged. The survival of the city hinges on re-orientation. Boston is a large city while Salem is not, because Boston responded to the decline of sail by becoming a manufacturing city while Salem did not. Boston is a thriving city while Detroit is not because when manufacturing declined, Boston was able to redefine itself as a high technology city, while Detroit was not.

Second, Boston's ability to re-orient itself hinged on industrial diversity. Boston had never been just a port and from the beginning, artisans in the town had manufactured goods which were then taken on Bostonian ships abroad. As such, the switch from seaport to factory town required a large re-emphasis, but not inventing industry from scratch. Likewise, Boston's seafaring commerce had always needed financial services, and as a result, the city had always had banks, brokers and insurers. As Boston's manufacturing declined, finance was able to take up its slack.