Response: The Use of Economic Analysis in Public Policy

Wim Wiewel
University of Illinois at Chicago

Morales and colleagues deserve credit for extending traditional economic analysis by using anthropological field data and applying midlevel economic tools to policy analysis. However, their analysis is problematic because it exaggerates how many benefits would be lost if the Maxwell Street Market were moved, ignores the costs imposed by the market, and does not consider the economic benefits of the university’s proposed land use. Even very moderate success of the university’s plans will more than compensate for the economic losses caused by the market’s move. It was politically impossible for the university to implement its expansion plans while maintaining the market. Such difficult choices inevitably arise in a complex urban environment. Cost-benefit analysis is a useful tool, but provides only some of the information that enters into the decision-making process. Thus analysts must be modest in the claims they make for the policy relevance of their data.

The analysis by Morales, Balkin, and Persky was originally written in the heat of a political battle over the expansion plans of the University of Illinois at Chicago (UIC) and the possible elimination or moving of the Maxwell Street Market. Now that the battle is over and the market has been moved to a new (but smaller) location, the salience of these arguments has disappeared. The main value in debating the issue at this point is to glean lessons for future policy debates, particularly in regard to how economic analysis ought to be conducted and used.

This response will raise three points regarding the analysis by Morales et al. The first relates to the selective nature of the economic analysis, particularly in regard to the limited number of questions considered. Second is the question of whether UIC could have developed a compromise plan, and whether its actions were inconsistent with other institutional goals. Third, we need to consider how analyses such as these are used in policy debates.

I am raising these issues in my capacity as a researcher and academic in urban planning and policy, not as an institutional spokesperson for UIC. During the period the Maxwell Street issue was prominent, I was in charge of development and implementation of the Great Cities program at UIC. I did not have administrative responsibility for UIC’s actions relating to the South Campus expansion, although I am reasonably familiar with many of the issues involved, and attended several internal and public meetings on the subject. I have not asked any UIC administrators to review this response; thus this does not represent an official position.

SELECTIVE ECONOMIC ANALYSIS

Morales and colleagues fairly state what their analysis is about: the value of benefits of a public street market. That is, they seek to enumerate benefits only, a rather limited form of economic analysis. They do not discuss direct and indirect costs imposed by the Maxwell Street Market in

ECONOMIC DEVELOPMENT QUARTERLY, Vol. 9 No. 4, November 1995 324-326
© 1995 Sage Publications, Inc.
its original location, nor do they consider the opportunity cost of keeping the market in that location, at the expense of university expansion. The benefits UIC’s use of the land would bring are thus ignored completely; a complete cost-benefit analysis should, of course, include these.

For instance, only one moderate-sized research center or laboratory—which otherwise would not have come to UIC—is needed to make up for the economic losses estimated by Morales. Since UIC is located in the central city, just outside Chicago’s Loop, land is a real constraint; it does not take a great deal of imagination to envision the availability of new space drawing development that would not have taken place otherwise. The loss of an estimated net present value of $35 million is not a huge amount; depending on one’s assumptions, a research venture with a budget of a few million dollars annually would generate such a benefit. UIC’s land-use plan anticipates many such uses, in addition to other institutional functions, such as transportation facilities, athletic facilities, and other support functions.

Without going into great methodological detail, one might also question their estimate of the size of the loss. In an earlier version of their article, the authors assumed that the market would be eliminated entirely, and the only option vendors would have was to open up at other markets or go out of business. In the present version, the authors acknowledge that the city created a new market for displaced Maxwell Street vendors, in which approximately 450 vendors participate. Strangely enough, between the two versions, estimates of the loss have remained exactly the same! Clearly, both can’t be right. Since the new Maxwell Street Market accommodates more than half the vendors, the loss estimates probably should be cut by at least 50%, even allowing for a start-up period.

The article also does not adequately address whether sales lost to current vendors translate into sales lost to the economy as a whole, or to whom the sales will shift. Generally, retail sales are assumed to simply shift around the metro area. The article argues that, to the extent sales shift, they shift to higher income business owners, raising a distributional question. This may or may not be true; no evidence is offered.

Based on its assumptions, the article goes on to claim that the indirect benefits of spending by vendors will be lost to their low-income neighborhoods. This assumes low-income vendors spend most of their money in their own neighborhoods; there is no good evidence for this. On the whole, therefore, the estimate of indirect lost income seems too high.

GOALS AND ALTERNATIVES

Acquiring land south of the campus has been a long-time goal of UIC. This was well known in Chicago and explains why most of the land was vacant—and very little displacement was necessary. Still, if the university could have acquired the land and put in place its development plans while accommodating the market, it would have avoided a fair amount of trouble, including the losses and pain inevitably associated with any form of displacement—even if only of a once-a-week street market. It also would have avoided the appearance of conflict with its recently announced Great Cities program, which emphasizes UIC’s interest in working with partners on urban issues. It would have avoided reigniting the anger, which still exists among certain community activists, about the displacement caused by the original construction of the campus in the mid-1960s, and the ever-present fear of wholesale gentrification. Unfortunately, such accommodation was not possible for several reasons. The mayor’s insistence that the market be moved, the undesirability and liability problems of having stolen goods, rotting vegetables, and pornography sold on university property, and physical constraints on the space all made coexistence an unattractive, if not impossible, option.

The issue of perceived conflict with UIC’s Great Cities program deserves extra attention. Any time an institution formulates a lofty goal, it risks having those who disagree with any specific project raise an accusation of hypocrisy. The Great Cities program expresses UIC’s commitment to the metropolitan area; it aims to highlight the work of the faculty, which directly involves urban constituencies and encourages the use of teaching, research, and service programs to address pressing urban issues. Creating opportunities for joint research ventures—for which there was no
room on the existing campus—is as much a part of that commitment as is working with community organizations. Indeed, such ventures promote entrepreneurship and economic development at least as much as a street market does. Similarly, cooperation with city government, which occurred extensively during this project, is a key focus. Furthermore, half a dozen community organizations, representing areas immediately adjacent to the Maxwell Street Market and the South Campus expansion, strongly supported UIC's expansion and encouraged the removal of the market because of the traffic it generated and its perceived contribution to criminal activity. Thus the South Campus expansion is certainly in harmony with the Great Cities program. On the displacement of the Maxwell Street Market, opinions are legitimately divided.

The belief that an institutional commitment can take many forms, and may not be rigidly unidirectional, was even recognized by one of the community organizations that opposed UIC's plans. This group, Eighteenth Street Development Corporation, employed the lead organizer working with the Maxwell Street vendors and attempted to organize them against the university's land acquisition. At the same time, the organization was negotiating with the Great Cities office about participation in a major grant application. Staff from both UIC and the Eighteenth Street Development Corporation recognized these as complex organizations, with multiple interests, and acknowledged that disagreements in one area do not preclude strategic cooperation elsewhere.

ECONOMIC ANALYSIS AND POLICY DEBATE

For the sake of full disclosure, I should state that Joseph Persky and I have coauthored several articles and economic analyses, and we both firmly believe in the value of promoting the use of midlevel economic tools in policy analysis. Morales, Balkin, and Persky deserve credit for extending traditional economic tools by use of data difficult to come by—which probably could have been collected only through the intensive fieldwork Morales did.

However, even though the title of the article honestly announces its focus on benefits only, this remains misleading. When the paper on which the article is based was released, such niceties were lost in press reporting and the city council debate; the results were generally seen as claiming to present a complete economic analysis. Responsible academics cannot hide behind a carefully chosen title or footnote to deny responsibility for the use of their work. If we want economic analysis to gain respectability—rather than being seen as the work of hired guns—we need to present complete cost-benefit analyses, using state-of-the-art techniques to view both sides of an issue. Anything less may score short-term gains for one side in a debate, but in time diminishes the likelihood that economic analysis will be seen as anything but partisan pleading.

Finally, even the best cost-benefit analysis provides only some of the relevant information. Decision makers will include other considerations explicitly or implicitly, including long-term institutional goals, political alliances, and the effect on future plans. These, too, have economic consequences that often cannot be specified but are highly relevant nonetheless. In order to be taken seriously at all, economic analysts must be cautious and modest in the claims they make for the comprehensiveness of their methods.

NOTE