Chicago's economic transformation: Past and future

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Hog butcher for the world,
Tool maker, stacker of wheat,
Player with railroads and the
nation's freight handler;
Stormy, husky, brawling,
City of the big shoulders.
—Carl Sandburg, "Chicago" (1916)

The charismatic city that Carl Sandburg depicted in 1916 has since undergone a dramatic transformation. By the late 1970s, deep recessions had all but eliminated much of the romanticism associated with Chicago's industrial economy. Indeed, the city and the entire Midwest seemed to produce almost daily reports of manufacturing plant closings and layoffs. The dire straits of those times appeared to portend only more gloom for the future. But during the same period, Chicago was fostering a growing service sector. By maintaining the growth of the industries in this sector, Chicago has reconstructed itself into a strong, thriving economy.

As several recent studies have shown, Chicago's economic structure changed dramatically during the 1970s and 1980s, with services coming to dominate both output and employment. In fact, by the early 1980s, service employment had surpassed manufacturing employment in the metropolitan area, foreshadowing a similar transformation nationally a few years later. Not only did Chicago lead the nation in this trend, but the relative degree to which services took over from manufacturing was more dramatic in Chicago than in the nation as a whole. Meanwhile, with manufacturers retiring old inefficient factories, the relics of what some would call Chicago's glory days, and replacing them with establishments featuring new highly efficient capital, manufacturing output exhibited little or no growth in real terms. With more efficient factories now in use, labor requirements were not as high as in the past; accordingly, between 1970 and 1992 manufacturing firms within Chicago cut over 280,000 jobs.

Chicago's new economic character has arisen because of two fundamental changes, each of which may have different policy implications. First, through the difficult transitional period of the 1970s and early 1980s, firms survived because they became more efficient and were able to compete in the increasingly globalized marketplace. Second, the growing dominance of the service sector has fundamentally altered the composition of Chicago's exports. These changes combined to reduce the importance of the pro-cyclical manufacturing exports in favor of those from the less cyclically sensitive service industries.

At the same time, Chicago's interaction with other midwestern or national economies has also been affected. Despite the fall of manufacturing's share of total exports, Chicago's

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