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Editorials

Shaking off the rust

The Democratic presidential primaries in Ohio, Pennsylvania and other northern states have reminded people of the difficult transition that the Rust Belt has faced as its cities "deindustrialize." Detroit, Cleveland, St. Louis, and Pittsburgh all saw at least a 5 percent decline in population between 1990 and 2000. The Rust Belt seems to be rusting away.

Unfortunately, that has led to a lot of campaign talk about how to protect workers from competition. The North American Free Trade Agreement has been a handy target.

It would be a whole lot more productive for candidates to talk about how to generate new jobs in a new economy, about how to take best advantage of international competition.

Chicago has been an exception to the Rust Belt malaise. The city's population grew in the 1990s. The city has done a better job than many northern cities of evolving from a manufacturing center into a place that employs people in industries ranging from finance to leisure services to education, while it has kept some of the manufacturing jobs.

Chicago's success can be attributed in part to something economists call New Growth Theory -- new work comes from innovation. Unlike labor or capital, which are fixed goods, innovation and ideas cannot be used up. As awareness of new ideas spreads, they lead to economic growth.

One good example: Chicago's futures markets. In the early 1970s the Chicago Mercantile Exchange began to trade derivatives -- financial assets that derive their value from other assets. Leo Melamed, the chairman of the CME at the time, realized that a floating dollar would create uncertainties and businessmen would

want to hedge this risk. The result: creation of the International Money Market, the world's first financial futures exchange, which traded on the future price of the dollar. A few years later the Chicago Board of Trade began to trade treasury-bond futures. Today, more than 85 percent of the world's derivatives are traded with the exchanges of the CME Group. The hog butcher to the world, it's been said, has become the world's risk manager.

This has spun other economic growth. The trade in futures products created more need for financial and legal services, which created more jobs.

And Chicago's markets keep innovating. The Chicago Climate Exchange is becoming the place to trade carbon emissions in the U.S. This city is poised to be a major center in the business of environmental protection.

There are, of course, other factors to Chicago's growth aside from its futures markets.

It is an enviable air and rail transportation hub. Do not underestimate how important it is to modernize O'Hare International Airport, keep Midway Airport thriving and build a south suburban airport.

The city has benefited from immigration, which has expanded the available workforce. It has had solid, pro-growth political leadership under Mayor Richard Daley.

But if there is an overriding theme to Chicago's efforts to thrive while other Rust Belt cities wheeze, it is that sense that new work comes from innovation. Somebody tell the Democrats running for president.