In Borosage, Robert and Roger Hickey, eds., *The Next Agenda: Blueprint for the New Progressive Movement* (New York: Westview Press, 2001). With B. Katz.

7

METROPOLITAN POWER: THE NEXT URBAN AGENDA

Bruce Katz and Joel Rogers

Despite recent talk of urban revival, investors' discovery of "new markets" in the inner city, and the emergence of "new urbanism" and "smart growth," America's urban crisis continues. Although the long expansion of the 1990s has finally begun to draw urban residents into the labor market, the inner cores of our major metropolitan regions continue to be plagued by social problems—crime; unemployment; concentrated poverty; rotting infrastructure; and poor transportation, health, social services, and schools. The resulting fiscal and other strains long registered in central cities are now appearing in older suburbs, particularly "inner-ring" suburbs. In many respects, these suburbs—lacking a core commercial base—are even less prepared than cities to grapple with these myriad economic, fiscal, and social challenges.

Consider, from an urban perspective, the recent numbers on population, jobs, and income. Between 1980 and 1997, twenty-three of America's twenty-five largest cities either declined while their metropolitan areas grew or grew more slowly than did their surrounding suburbs. From 1994 to 1997, in a booming labor market, only one-fifth of our 100-odd largest cities posted job growth rates exceeding those in their suburbs, while most trailed miserably behind. Over that period, for example, the central business districts in Ohio's seven major cities experienced a net increase of only 636 jobs, even as their suburbs gained 186,410 new ones. From 1989 to 1996, cities posted a net loss of more than 4 million

middle- and upper-income households, and the suburban median income advantage swelled from 58 to 67 percent.

Cities have a disproportionate share of households with income below the national median. Urban poverty rates are double suburban rates—18 percent versus 9 percent—and urban poverty is increasingly concentrated. Between 1970 and 1990, the total number of residents in high-poverty neighborhoods—defined as neighborhoods in which at least 40 percent of residents are poor (virtually all of which are in our central cities)—doubled, from 4 million to 8 million. In addition to being largely detached from the broader economy and exponentially more troubled than neighborhoods with more modest poverty rates, high-poverty neighborhoods are racially segregated from the white majority. In 1990, only one in twenty poor Whites lived in them, compared to one in three poor Blacks. Defining a ghetto as a high-poverty neighborhood in which two-thirds or more of the residents are black, we find an increase by more than 50 percent between 1970 and 1990 in the number of ghetto census tracts.[1]

The trends described above are not inevitable results of market and demographic forces. Rather, they are the result of decades of antiurban public policy—a bias that in some measure is distinctive to America. In contrast to most developed capitalist nations, the United States slights urban renters in favor of suburban homes, urban bus and subway riders in favor of suburban automobiles, and urban infrastructure in favor of exurban and rural development projects. We have spent trillions building nonmetropolitan roads, but nowhere near that on metropolitan ones or on mass transit, on which federal spending has never exceeded one-fifth of highway funding. The overwhelming share of federal and state economic development program support also goes to nonurban sites—more highways and other sprawl-supporting infrastructure, exurban tax credits, and low-interest loans for new development.

Nonmetropolitan regions are not required to pay the costs of maintaining the poor and dispossessed, the largely nonwhite populations left behind by such acts of favoritism. Burdened with concentrations of poverty, cities are forced to spend more on social services of all kinds: police, fire protection, health care, and even education. Every one-point increase in municipal poverty rates is associated with an increased cost to urban residents of more than 5 percent for police protection. And among larger cities, more than 40 percent of school budgets are currently devoted to costs associated with greater poverty.

In large part due to the increased urban concentration of poverty, real municipal costs for basic services increased some 15 percent in the 1980s, and likely did so again in the 1990s. But during the same period federal and state support for cities actually declined. The federal share of county government revenues declined by better than three-quarters (from 8.8 to 2.0 percent), and of city revenues by better than two-thirds (from 11.4 to 3.6 percent), from 1980 to 1992. State governments also joined in the general withdrawal of funding, often with devastating consequences for urban fiscal stability. Consider the largest population centers: Between 1975 and 1992, the combined federal and state share of local revenues dropped from 53 to 32 percent in New York City, from 24 to 6 percent in Los Angeles, and from 28 to 18 percent in Chicago.[2] Funding has not yet been restored to previous levels, at the same time as local government has taken on ever greater responsibilities.

The effect of these policies and of the resulting income and fiscal dynamics is straightforward. They lower the costs to individuals and firms of living and working outside or on the outer fringes of our metropolitan regions, and increase the costs of living and working in the core. They push investment out of high-tax, low-service urban areas and into low-tax, high-service, favored suburban quarters, concentrating poverty in the central city core and increasingly squeezing the working class suburbs in the middle.

Indeed—with a few notable exceptions, such as the Community Reinvestment Act—even most federal policies dedicated to "urban renewal" have created more problems than solutions. Until recently, federal public housing policy tended to encourage the concentration of poverty and the spatial isolation of the poor. More than half of all public housing residents still live in high-poverty neighborhoods. Targeted investments to spur economic development have had mixed results. A succession of variations on the "enterprise zone" idea—in which businesses get tax breaks and other regulatory relief in return for their investments in central cities—have been strikingly disappointing in results. Such plans have generally ignored important variations in local circumstances and ideal business strategies, and typically have produced only lower-end jobs. With some exceptions, brownfield reclamation efforts have been torturously slow. The problem with "place-based" strategies is that they are inattentive to the broader regional dynamics that determine the fate of individual places. As a strategy to relieve the distress of our central cities, this is the equivalent of pouring water on a hot skillet rather than turning down the flame.

Federal efforts to give the central-city poor greater access to educational and employment opportunities likewise have rarely had the desired effects. Despite the metropolitan nature of labor and residential markets, the federal government has delegated responsibility for workforce and housing voucher programs to thousands of local public housing authorities and workforce investment boards. The Detroit metropolitan area, for example, has more than thirty separate public housing authorities, which greatly limits the residential mobility of poor families. The hyperfragmentation of governance makes it difficult for low-income recipients to know about suburban housing vacancies or job openings, let alone to exercise choice in the metropolitan marketplace.

Could we do better? Yes, but only if we recognize, after better than a half century of sprawl, that "urban" means "metropolitan"—central cities, but also their surrounding, older suburbs, and even the larger economic regions delineated by the effective labor market. Thus broadly described, metro regions house about 80 percent of the U.S. population and produce virtually all of the national wealth. How these metropolitan regions are organized and governed will thus largely determine how most Americans do in life, and how the nation fares—but the nation appears not to recognize this fact. Cities also got to be cities in the first place because they had distinct advantages as places to work and live. Those advantages still exist, and in some ways are being further underscored by developments in the "new economy"—but this too is largely unrecognized, even sneered at, by a set of policies that continue to undermine urban centers.

One reason, of course, is politics. The U.S. political system is highly federated, and locally fragmented. The Chicago metro region alone includes 265 separate municipalities, 1,200 separate tax districts, and parts of six different megacounties—all with clear incentives not to cooperate with each other. If "all politics is local," the essence of local politics, of course, is to make sure that your ward or district does better than the one next door. That means reducing calls on revenues and securing as much taxable wealth as possible. From exclusionary zoning to tireless competition to lure prospective business to the local exurban site, the natural impulse is to beggar thy neighbor and put up walls—the very antithesis of regional cooperation in pursuit of shared prosperity.

What is newly hopeful in this picture, ironically, is that suburban sprawl has reached a point where this sort of politics is no longer viable

for the majority of residents of metropolitan areas. Having "run against the city" for years, the residents of both older and newer working-class suburbs now have a material interest in joining with the city to insist on greater equity within their regions. In virtually all major U.S. metropolitan areas, for example, those who would benefit from regional tax base sharing—in the form of lower tax burdens and better services—now comprise about two-thirds of the voting population. And the generally white, working-class suburbanites are the decisive swing voters in virtually all elections. The numbers are there, in other words, for a new metro coalition, and the incentive is certainly there for one or another of the major parties to try to form it.

In addition to pitting jurisdictions against one another, urban politics in the United States has long featured an effective war among different communities of interest. Old urban politics, from which we have not yet escaped, pitted labor against community, and untamed development against environmentalists and those concerned about quality of life. It obscured relevant divisions within business and let the rich exurbs off too cheaply. But many of the mutual antagonists in this old politics are at least beginning to see an interest in alliance. Elected officials from cities and inner suburbs; downtown corporate, philanthropic, and civic interests; minority and low-income community representatives; environmentalists; slow-growth advocates in the new suburbs; unions; farmers and rural activists; and religious leaders all are realizing that uncoordinated suburban expansion brings needless costs.

As a public philosophy or style of administration and self-government, regionalism has a long and generally tattered political history in the United States. Of the 80 percent who live in metropolitan areas, only about 5 percent are subject to some democratic regional government. This situation will not change absent prior changes in our political culture—most pointedly, perhaps, around issues of race. Local governments will need to be shaken up as well. The points of resistance clearly are many, and a democratic metropolitan strategy will need to be fought for to be achieved. This time, though—if the facts cited above are any indication—the project would have political legs.

Lastly, even though many of the steps we recommend would actually save the government money, this moment of national fiscal health seems ready-made for new investment. No one can claim that the United

States cannot afford to save its cities. It is merely a matter of political leadership and will.

Why Save Cities?

Before outlining the components of that project, however, let's consider again why it is worth pursuing. Specifically, why do virtually all Americans, not just residents of our central cities, have a stake in metropolitan revival?

One reason is political morality: American democracy is supposed to be "for the people"—ideally, all of them, or at least the majority. With some 240 million people in our metropolitan areas, 140 million people in the central cities and older suburbs, and some 70 million (including 20 million children) in the declining central cities, antiurban policies don't qualify on either count. Whatever the enduring appeal of western movies filmed on desolate plains and in reimagined frontier towns, or the importance of the continuing crisis in family farming, American society is basically metropolitan. The country is composed of cities and a series of connected suburbs; its economy is made up of a series of regional labor markets and sites of production and exchange. With most of the public consisting of metropolitan residents, not to have a sensible metropolitan policy is not to have any sensible public policy, period.

American democracy is also supposed to be about equal opportunity to enjoy a decent life. Yet especially in our central cities, large portions of the population are exceptionally poor, poorly served by exceptionally bad public services, and subject to exceptional violence. No one disputes the results—in high infant mortality, poor health, stunted development, and shattered lives—or the fact that these results unmask any pretension to having given all citizens an equal shot at the American dream.

Lastly, American democracy is supposed to be about healing the scars of racism first scored 400 years ago, and claiming our ethnic and racial diversity as the strength that it obviously is. But even as we have made great progress is removing formal barriers to racial equality, our urban policies have had the effect of drastically limiting its substantive achievement. In combination, the antimajoritarian, discriminatory effects of urban decline compel our collective attention.

Other reasons why all Americans have a stake in the health of U.S. cities are related to public health, the environment, and the general

quality and stress of everyday life. Our cities now have half the population density they had two generations ago. Some effects of this peculiarly American form of metropolis are all too visible: water and air pollution, the ongoing destruction of natural beauty, and the greater stress created by traffic congestion. Some implications remain hidden—for example, the rampant fiscal disparities that undermine the ability of older communities to support public goods of all kinds, from opportunities for safe recreation to quality public education.

A third reason, suggested above, is purely economic. Sprawl and central city degradation are wasteful. They waste land, water, and energy, and squander existing assets; as new houses, factories, and schools go up in the outer rings, perfectly good buildings, with established links to usable infrastructure, get boarded up farther in. Take the excess costs on new construction and natural resources and add in the untimely depreciation of old capital stock: The result is annual waste of staggering proportions. Then there are also the economic costs of human neglect. Abandoning our central cities means forsaking the productive potential of their inhabitants and paying heavily to contain their resentment, as ballooning budgets for new prisons and police make evident.

The opportunity costs of all that unrealized potential productivity are enormous. Forget about the exceptional talents that might be squandered—the potential future Nobel prize winners or great artists who are not learning how to read. Simply subtract the average lifetime earnings of those without decent health, education, or job access from those with these basic goods. Multiply by 70 million, or even 20. It's a big number—in the trillions—which translates into a lot of foregone tax revenue for the general population.

Then there is the cost linkage. Many suburbanites are prepared to pay the costs and forego the benefits just mentioned, as the price of their isolation. But that isolation is an illusion. Within regions, the economic fortunes of central cities and their suburbs, especially their inner-ring suburbs, are increasingly entwined. By the late 1980s, across a very wide range of metropolitan regions, every $1,000 gained or lost in per capita city income was associated with a $690 gain or loss in per capita suburban income. And indeed, recent evidence suggests the urban-suburban economic linkage is getting tighter over time.[3] Declining central cities mean a poorer suburban future.

The greatest economic cost, however, derives from the role that metro regions play in determining the pattern of national economic activity.

Put baldly, revived urban regions are key to reviving broad wage growth and reversing current trends toward increasing inequality.

Why? Because, despite all the talk about how American wages are now set in Beijing, adverse trends in American income and wealth distribution today result as much from domestic policy choices as from the downward pressures of international competition.[4] Specifically, we have made "low-road" strategies of response to new competitive pressures too easy and "high-road" strategies too hard. Low-road firms compete by keeping prices down, which means keeping costs down—beginning, typically, with wages. Applied across the economy, low-road strategies lead to sweated workers, economic insecurity, rising inequality, poisonous labor relations, and degraded natural environments. High-road firms focus on "value competition" (with higher wages supported by customer willingness to pay for higher quality, better design, and superior service) and require continual innovation in quality, and thus depend on more skilled and more cooperative workers. In general, high-road strategies are associated with higher productivity, higher pay and better labor relations, reduced environmental damage, and greater commitment by firms to the health and stability of surrounding human communities—all needed to attract and keep skilled workers and managers.

Firms can make money on either path, but social gains are vastly greater on the high road. The principal failure of the past two decades—and it is political as much as economic—is that we have not done what we must to move the economy onto the high road. Embarking on the high road is associated with various transition costs, and staying on it depends on a variety of social supports. Those supports include effective educational and training institutions; better functioning labor markets, with fuller information about requirements for job access and advancement; advanced infrastructure of all kinds; modernization services to diffuse the best manufacturing practices; and throughout, barriers to low-road defection (e.g., high and rising wage, safety, or environmental performance floors). Because such supports typically lie beyond the capacity of individual firms, they need to be provided socially. We have not provided them, and the results are clear in the sorry U.S. labor market and productivity data of the past two decades—stagnating or falling wages, rising inequality, and until very recently, anemic productivity growth.

Which is where cities come back in. Whatever their present difficulties, metropolitan economies are the natural base for a high-road economy. In fact, to the extent that we have any high-road production and service delivery in the United States, it is disproportionately concentrated in metropolitan regions. And this concentration is no accident. High-roading and metro density naturally go together—an affinity that is expressed in three ways.

First, density helps firms directly. Economists, geographers, and economic development analysts use the concept of "agglomeration" to describe the benefits in skills, productivity, and consumer access that result when activities are concentrated in particular places. In addition, firms in such regions don't just happen to be near each other and share a regional labor market. They do business with each other in a way that connects them as if, in some ways, they were complementary plants of a single enterprise. At the extreme, some of their capacity may even be thought of as shared. Precisely because they want to keep their machinery busy, each has strong incentives to make overflow work available to "competitors"; only by doing so will they earn the quid pro quo of being asked to do the same for those competitors. Agglomerations are in turn associated with "increasing returns" on any given investment. When a single firm in one of these agglomerations improves its cost and quality performance, it creates a competitive advantage for the customers and suppliers in its cluster. Simply put, firms learn more and faster from each other.

Second, density helps relieve the costs of providing the public goods—education and training; formal supports for cross-learning and upgrading among firms; integrated regional labor market services and worker credentialing systems; modern forms of transport, energy, water supply, and communication linkages on which such advanced production depends. It is much cheaper and easier to supply such goods with the human and material resources that density provides.

Lastly, density facilitates worker organization by providing the proximity and sheer numbers needed to support the infrastructure of member servicing and new organizing. Worker organization, in turn, directly helps close off the low road by obstructing the impulse toward wage reduction. And worker organization helps pave the high road too. Without the knowledge and cooperation of workers, firms will find high-roading all but impossible—and both are easier to secure if workers are organized and confident that they too will benefit from increased quality and productivity.

In sum, metro regions historically offered and still hold the promise of extending a virtuous cycle of earnings-led productivity growth. Agglom-

eration—especially when it includes a sectoral mix that favors highly skilled labor—is a clear predictor of higher employee earnings. Those higher earnings justify and call forth a higher level of capital investment per employee. Higher labor quality and this higher capital intensity beget higher productivity, which supports continued premium labor compensation. This in turn attracts skilled employees, and the virtuous cycle is repeated. The virtuous cycle is not only of historical interest; it persists today. According to a recent *Business Week* analysis, "Cities still seem best able to provide business with access to skilled workers, specialized high-value services, and the kind of innovation and learning growth that is facilitated by close contact between diverse individuals."[5] Indeed, as Harvard economist Edward Glaeser has argued, the density of cities offers the perfect milieu for the driving forces of the new economy: idea fermentation and technological innovation.[6]

The Next Urban Agenda

What would it take to harness the economic power of our metro regions, improve the quality and equity of life within them, and move the country more generally onto the high road of shared prosperity? In general terms, the essential tasks are to use public powers to close off the low road and help pave the high road; to target infrastructure and other public investments with a specific eye to exploiting metro economic advantages; and throughout, to provide incentives for greater regional cooperation and leadership. The following ten steps would provide a good start to metro reconstruction.

Invest in the Working Poor

The first step is to invest in working families and their children. This is based on the simple premise that people who work and play by the rules should not be poor. They should have access to quality health care and affordable housing. They should be given the same incentives as middle-class families to save for retirement or important family purchases. Their children should receive lifelong benefits of early childhood education.

The federal government could achieve these goals through several means. It could expand direct supports for families, such as housing vouchers and the Earned Income Tax Credit (EITC). It could create new incentives, like the Clinton Administration's proposed Universal

Savings Accounts, to help working families accumulate wealth and link up with the financial mainstream. Whatever path is chosen, the unifying theme is to invest in people and through people, in the places where they live. These investments will not be cheap; but they are a necessary element of the post-welfare world, in which work is the organizing principle for social policy.

Promote a High-Road Economy

The second step is to remove the subsidies and incentives that the government now provides to low-road firms. Governments at all levels should announce that they will not award contracts or development grants to firms paying wages below a certain minimum (e.g., the poverty line), polluting above a certain level, or with a record of illegal resistance to worker organization. They should then move to mandate such standards generally and gradually to raise them. For example, phasing in a significantly increased minimum wage would do wonders for shutting down the low-road option and requiring firms to compete by improving quality. Or, more radically, we might revive discussion of a negative income tax or basic income grant, which would not directly threaten low-wage employment but would let workers, not owners, decide what should be done about it.

Reinvest in Older Communities

The third step is to reinvest in our older communities and spend public money where the people are. This would encourage local governments to increase density rather than avoid it and reward the natural agglomerations of people and firms by letting them recapture their individual tax dollars for collective self-improvement.

Federal transportation policy provides an appropriate starting point for a reinvestment agenda. With the completion of the interstate highway system, Federal transportation funds should now be used in metropolitan areas almost exclusively for the repair and maintenance of existing highways and for the expansion of alternative transportation strategies that relieve congestion, encourage energy-efficient mass transit, and promote more balanced growth patterns. Federal funds should be used to build new highways in metropolitan and adjoining areas only in exceptional circumstances and only when linked to the expansion of afford-

able housing. This makes economic sense on two grounds. First, it compels exurban retail and commercial and residential projects to stand on their own merits. Second, it puts infrastructure money where we know it will have the greatest bounce—in denser sites of economic activity that will leverage the performance of the surrounding region. Other infrastructure investment in our older areas is also recommended—in schools and public buildings, parks and public recreational facilities, and the like. Our urban infrastructure represents an enormous sunk cost, of enormous value. It should be reclaimed.

A reinvestment agenda also could promote the creation of geographically targeted regional investment funds, capitalized with individual or organized worker retirement savings. Under this idea, borrowed from Canada, funds would be invested in a demarcated region, and investments typically would be accompanied by criteria (e.g., environmentalist standards) aimed at advancing the quality of life or improving the infrastructure in that region. Investors in such funds would get a "double bounce" on their investment: a competitive risk-adjusted market rate of return, and an improvement in their own community. The organization of such funds on a multiregional basis would permit regional diversification against risk, yet would be consistent with respect for geographic solidarities. An investor in Los Angeles, New York, or Milwaukee could be assured that his or her dollar into the fund would result in a dollar of investment in his or her region; but actual investment flows could be cross-regional, with the Los Angeles investor actually partially underwriting investment in New York or Milwaukee, and vice versa. However they are structured, sources of alternative investment are an important tool for regional economic development. The U.S. federal government could encourage the development of investment pools like those in Canada by providing a tax credit for savings invested in such funds. If the Canadian experience is any guide, the credit pays for itself within just a few years, all the while building worker wealth.

Land-Use Planning and Growth Management

The fourth step is to put in place responsible land-use planning at the regional level. Unless we begin to manage the process of growth on the metro fringes, we will undermine any remedial efforts happening in the core. If 25 percent of a region continues to develop only expensive homes and jobs, neglecting worker housing, that 25 percent will rapidly

draw off all the wealth and growth in the region. At the same time, it will commit the region to sprawling land use that is vastly disproportionate to population increases—worsening congestion, energy use, and pollution, and increasing social separation.

State governments are critical in rewriting the rules of development. The new rules should include setting outward limits for growth in the form of an urban growth boundary; siting new infrastructure (e.g., roads and sewers) and new housing together; developing at a density that will support some minimal form of public transportation; and assuring the provision in all subdivisions of a fair share of affordable housing. Oregon has already put these new rules in place. Minnesota also has adopted a structure that would encourage regions to develop along these lines, but the state has often failed to implement such statutes.

The federal government should also support the growing interest in land-use planning at the state and local level. First, it should provide resources for the preservation of open space in metropolitan areas and the reclamation of urban land for productive use. The Clinton administration's "Better America Bonds" proposal, modeled on a number of state programs passed in 1998, is an excellent start. The proposal would use tax expenditures to leverage $9.5 billion in state and local bonds for the preservation of open space and the cleanup of brownfields. The proposal could be improved by channeling additional resources toward states and jurisdictions that are practicing smart growth policies in transportation, housing, and economic development. Second, the federal government should enforce environmental laws such as the Clean Air Act and Endangered Species Act. The recent advances made in the Atlanta and Seattle metropolitan areas are in large part due to the federal government's judicious use of its regulatory powers in the environmental arena.

Seek Equity in the Provision of Local Public Services

The fifth step is to promote tax equity between local communities in metropolitan areas. Regional tax equity reduces fiscal disparities between local communities and competition among local communities for businesses that have already located in a given region, and by lessening the direct fiscal consequences for zoning decisions, makes regional land-use planning more possible. Many regions have either ameliorated or solved this problem through consolidation or annexation. Some parts of the nation have progressive school equity systems that eliminate much of the

burden of funding local schools from the central cities and older suburbs. As with land-use planning, the responsibility for furthering regional tax equity will fall mostly on state governments. Minnesota has pioneered a system that preserves local autonomy at the same time as it creates greater regional equity in the provision of public services through the sharing of a portion of the local property tax base. Regional tax equity should be considered by all local governments. In addition to the potential socioeconomic benefits, it carries a number of political benefits: It does not threaten local autonomy; it need not involve difficult discussions of race, class, and housing; and it creates a scenario in which the majority of citizens will immediately receive lower taxes and better services.

Extend Regional Governance

The sixth step (a natural corollary of the last three) is to promote and extend regional governance. Using all of the powers at its disposal, the federal government should encourage the development of democratic metropolitan development authorities, with broad responsibility for infrastructure and other regional investment. Metropolitan planning organizations (MPOs), already set up to develop regional transportation plans and to allocate enormous federal and state transportation resources, might be a natural forum for such oversight activities, but they first would need to be made more representative and accountable to the regions they serve. Presently, MPOs are often dominated by high-growth, suburban political interests and real estate developers and make region-shaping decisions without significant public input. Frankly, part of this is because older, core communities—particularly, areas of concentrated poverty—have never thought these decisions were relevant to their future. Ultimately, MPOs should evolve into directly elected structures and should assume growing responsibility for implementing the initiatives discussed above.

Assure Affordable Housing Regionally

The seventh step is to provide affordable housing throughout a region. Close to half of the total hours people spend commuting are due to their inability to find housing closer to their workplaces. Poor families are particularly affected by the lack of affordable housing in the suburbs, persistent discriminatory patterns in the rental market, and the paucity of

transportation options. Providing affordable housing throughout a region could produce substantial benefits. It could reduce the concentration of poverty, reduce racial segregation, and stem the polarization occurring between the region's communities. It could get workers closer to new jobs and reduce congestion on roadways. And it could expand housing choices by allowing a variety of households (e.g., older people and newly single mothers and fathers) to remain in their communities even though their financial and physical conditions have changed.

States and localities have a clear role to play in the affordable housing arena, through land-use and zoning decisions. Yet the federal government remains a prime player through its spending programs (e.g., housing vouchers), tax expenditures (e.g., low-income housing tax credit), credit enhancement activities (e.g., FHA, Fannie Mae, Freddie Mac), and oversight responsibilities (e.g., the Fair Housing Act). The time is ripe for the federal government to reengage in the affordable housing business.

The most important step for the federal government is to close the gap between low-wage incomes and market-rate rents. Investing in the working poor by increasing the minimum wage, expanding the EITC, and increasing the number of new housing vouchers will help to meet this goal.

Yet the federal government also needs to expand the supply of affordable rental housing. Effective federal tax incentives—like the low-income housing tax credit—should be expanded. Because housing is a regional issue and not just a local one, the federal government should also use tax incentives to help create new regional housing trust funds. These trust funds would enable cities and suburbs to work together to expand the supply of affordable rental housing, particularly in areas where jobs are growing fast. A $1.5 billion federal investment could help create a $10 billion pool of housing trust funds, which could leverage tens of billions of dollars more in private sector investment. These funds could be allocated in a way that encourages local communities to carry their "fair share" of the low- and moderate-income housing needs of a region.

Federal tax incentives could also be expanded to boost home ownership in places where home ownership rates are exceedingly low. Incentives could include a tax credit that goes directly to first-time home buyers (as in Washington, D.C.) and a tax benefit that entices developers to construct or renovate affordable homes (e.g., the existing tax credit for rental housing). Such incentives would enhance the ability of working

families to accumulate wealth and would contribute to the stability of neighborhoods by lowering the costs of home ownership.

Federal action, however, should not be limited to additional investments. The federal government should shift governance of the housing voucher program to the metropolitan level. As described above, the federal voucher program—now serving over 1.6 million families with rental subsidies—is administered by thousands of separate public housing bureaucracies operating in parochial jurisdictions. Competitions should be held in dozens of metropolitan areas to determine what kind of entity—public, for-profit, nonprofit, or a combination thereof—is best suited to administer the program locally.

Fix Labor Market Administration

The eighth step is to design and implement regional workforce strategies. In an ideal world, labor markets would be "transparent" to participants, and job requirements and opportunities would be universally understood. Career ladders, permitting advancement from entry-level jobs to more advanced ones (both within individual firms and across industry sectors or clusters), would be known too, and respected by employers. Those seeking employment or advancement would have opportunities to acquire the human capital needed to achieve their goals, with public supports in training and other monies directed toward preparing people for jobs that were known to exist or to be coming open. Employers intent on taking the high road would have confidence that they would be able to draw on a skilled workforce. This "ideal" world—very far from present urban realities—is in fact not that difficult to achieve. It simply requires the organization of employers, industry-wide, for the purpose of identifying and declaring their common skill and employment needs; the connection of such employer consortia to the public training system; and the broadcast of opportunities to the community at large. Experience in Milwaukee (with the Wisconsin Regional Training Partnership) and elsewhere indicates that this can be done. The Milwaukee effort enjoyed support from businesses (which experienced reduced search costs for qualified employees, and increased planning capacity), organized labor (which experienced higher wages and greater job security), and traditionally neglected central city communities (which finally found out precisely what job requirements were, in sufficient time to satisfy them). The recent efforts of the Department of Labor to encourage such "regional skills alliances" or "high-road regional partnerships," are welcome, but their role in labor market administration should be better integrated into the administration of the new Workforce Investment Act.

Regional workforce strategies also require regional transit systems that meet the real needs of firms and workers in economies that are rapidly decentralizing. In many metropolitan areas, city buses continue to stop literally at the border of the central city, greatly impeding the ability of urban workers to access suburban jobs. Express bus services from labor markets in central cities to job centers in suburbs are the exception. Here, too, federal intervention would go a long way. In the near term, federal incentives should be tailored toward transforming the small "job access" demonstrations in the Department of Transportation into initiatives that have more systemic effects on the commuting patterns of low-income workers. Ultimately, the federal government should require the integration of metropolitan transit systems as a condition for receiving federal funds.

Promote Mindful Devolution and Local Reform

The ninth step is to reinvent the partnership between the federal government and local and regional governments. It is clear from the preceding discussion that the federal government must play a very large role in reviving our metro areas; it is also obvious that local resources and know-how are key to solving local problems. It should be equally clear that devolution will not achieve its aims of more efficient and equitable government service if it is fiscally punitive and procrustean in mandate. The federal government must give local leaders greater opportunities for input in the design and implementation of federal programs and policies. Urban markets are highly diverse and call for distinctive solutions. Cities should get more federal resources, and should be allowed to tailor federal resources to their own market realities and local priorities.

The federal government might, for example, allow high-performing cities to dedicate some portion of their federal grants to priorities that are set by local leaders. In cities facing gentrification, emphasis might be placed on ensuring housing affordability for poor, working families. In cities facing a massive exodus of people and jobs, emphasis might be placed on restoring neighborhood markets or assembling land to attract business investment. But we emphasize that *the trade-off for more responsibility would be more accountability.* Cities would be allowed to exercise

this option only after local leaders agree to be held to high standards and performance benchmarks. Only locales where close collaboration exists between cities and suburbs would enjoy maximum flexibility.

Not all cities, of course, are ready to be effective partners with the federal government. Philadelphia, for example, has fifteen different agencies with partial responsibility for the disposition of urban land; and the bureaucratic mess of most large urban school systems is well documented. In these places, federal investment is presently used to compensate for rather than to fix broken systems. Federal resources should be used to leverage reform and greater openness and accountability, not to conceal inefficiency. Troubled public housing authorities need to be taken over and broken up. Resources for land reclamation should be provided only to places that can show progress in streamlining the process for assembling and disposing of urban land. In many cases, greater diversity of urban service providers, and increased competition among them, should be considered as a tool in administration. This will sometimes mean taking things out of the hands of city personnel and putting them into the hands of community groups or other private providers. Unions, for example, might be encouraged to return to their historic role as sources of worker training. The goal in all cases is to make government and public service provision more transparent, efficient, and accountable—certainly a goal widely shared by the public. In part, that means transferring some authority from the municipality to the region; but it often will require changing the nature of service delivery as well.

Change Local Economic Development Practice

The final step is to overhaul local economic development policies and practices. Most city and county economic development authorities commit a series of self-defeating mistakes in the assignment of public supports to economic development. By and large, they promote job growth without attention to the quality of jobs being generated; this tends to increase fiscal stress even as it increases employment, as the occupants of the low-wage jobs that result draw down services without contributing to the tax base. Authorities tend to focus on attracting new employers to the region rather than on retaining and improving existing, leading employers; this misses the opportunity presented by existing agglomerate effects and distinctive regional strengths. Authorities also tend to lower standards for firms and to resist accountability requirements in extending public assistance to them; both actions encourage low-roading and harm (through increased competition) the high-road firms the region should want to encourage. Authorities tend to underinvest in the public goods (training, modernization, and so on) that high-road firms need, and they have few mechanisms for getting organized, representative input from employers, labor, and the community. The results are waste due to decisions based on bad information, or lack of public support for new development initiatives.

Reversing these practices is the aim of the part of the high-road metro agenda that is more narrowly focused on economic development. This aim also would be immensely facilitated by passage of the other elements, enumerated above, which would reduce the jurisdictional competition for employment that substantially drives present practices. But high-roading can also be supported directly. In all aspects of economic development spending, infrastructure support, pollution prevention, abatement programs, and the like, the federal government should reward regions or states that move toward high-road production. Comparative progress toward the high road can and should be measured, and special federal monies should be contingent on progress achieved. Independent of what the states do, the federal government itself should much more attentively target its resources toward encouraging high-roading. It should target aid to integrated regions, clusters within them, and firms within those clusters.

Are We Dreaming?

But is there really any reason to believe that any of these things will be done? Although we cannot know the future, we are encouraged by the broad economic and political trends noted at the beginning of this chapter, as well as by a number of other developments.

First, although any talk of a general revival of U.S. urban areas would be an overstatement, there are promising signs of life in cities today. Many older cities are experiencing the first sustained renewal they have seen in decades. Particularly in the past several years, an array of social indicators—violent crime, unemployment, poverty, and urban home ownership—have been moving in the right direction. Cities like Chicago, Atlanta, Cleveland, and Boston, which had been steadily losing large numbers of residents for decades, recently have recorded slight

increases or only minor further declines in population. Cities also are rediscovering their competitive assets. They are home to many of the nation's leading universities and medical research centers. They offer the growing number of "empty nesters" an attractive lifestyle, with easy access to cultural amenities, health services, and other necessities of daily life. They remain, and increasingly exploit the fact that they are, the cultural and entertainment magnets of their regions.

Today's urban political leaders are also a different breed than their predecessors. Mayors in Chicago, Cleveland, Detroit, and elsewhere now control the school systems in their cities. Mayors in Boston and Oakland are spearheading new policing and community strategies to reduce crime. Mayors in Washington, D.C. and New Haven are exercising a creative blend of fiscal discipline and managerial reform. And mayors in Denver and Milwaukee are changing the physical landscape of their cities with ambitious efforts to expand parks, remake downtown areas, and reclaim vacant land for redevelopment. Moreover, the current generation of municipal leaders has a greater appreciation of the fact that cities cannot solve their problems on their own and must actively seek more regional cooperation.

The competitive and other advantages of cities, including their centrality to national economic health, are much more widely recognized now than they were twenty years ago. Indeed, the notion that cities generate positive externalities for the nation—from environmental improvement to a more secure infrastructure for high-wage production, not to mention new ideas and production techniques generated through the interaction of residents—has become central to mainstream economics. For the first time in years, analysts steeped in economic theory are generating arguments for the importance of cities and ideas for policies to resuscitate them. New policy initiatives in this area aim to do far more than just throw money at problems; and the leaders who have authored these policies can proceed with a very secure intellectual foundation for the claim that investment in urban areas makes good sense for business as well as for society.

Consensus is growing in the public policy community—not only on the importance and the economic strengths of metropolitan regions but also on the best ways to harness those strengths. Parts of our new urban agenda may be disputed in some quarters; but the larger portion of it is not new, and its desirability is not in dispute. Sprawl would be reduced, planning capacity would rise, wages would increase and inequalities decrease, neighborhoods would become less segregated and safer, public goods would be more abundant, and democracy would more evidently show its contribution to the economy. The strategy would be self-reinforcing. As subsidies to sprawl decrease, the attractions of metropolitan locations rise. As investment dollars return to metro cores, productivity within them increases, making higher wages more affordable. As organization of the natural high-road basis of the economy proceeds, standards for job entry and advancement can be formalized and publicized, which helps equalize wages. Better wages secure the tax base, which helps pay for the expensive public goods that further reduce inequality and attract high-roading firms. With more abundant public goods and better job access, central city residents look less "different," further promoting their employability. With greater regional power over what employers want—skilled labor, infrastructure, technical assistance, and credit—the ability of regions to enact and discipline free-riders and defectors from common regional norms (e.g., on fair housing and hiring, land use, tax equity– and tax base–sharing) rises.

These all seem like straightforward and politically attractive "wins" for American democracy. They simply await some leadership in their forceful articulation. When we will get it, and from whom, is a question more and more Americans are asking.

Notes

This chapter draws on a number of previous publications, including some that were jointly authored. See Katz, "Beyond City Limits" and "Enough of the Small Stuff: Towards a New Urban Agenda," *Brookings Review* (summer 2000): 4–9; Daniel D. Luria and Rogers, *Metro Futures: Economic Solutions for Cities and Their Suburbs* (Boston: Beacon Press, 1999); and Rogers, Myron Orfield, and David Wood, *Milwaukee Metropolitics: A Regional Agenda for High-Road Growth* (Madison: Center on Wisconsin Strategy, 2000).

1. Paul A. Jargowsky, *Poverty and Place: Ghettos, Barrios, and the American City* (New York: Russell Sage Foundation, 1997).
2. Allen J. Scott, "Global City Regions: Economic Planning and Policy Dilemmas in a Neoliberal World," in *Urban-Suburban Interdependencies*, eds. Rosalind Greenstein and Wim Wiewel (Cambridge, Mass.: Lincoln Institute of Land Policy, 2000), 123–124.
3. The calculation comes from a study of fifty-nine metropolitan areas. See H. V. Savitch, David Collins, Daniel Sanders, and John P. Markham, "Ties That Bind: Central Cities, Suburbs, and the New Metropolitan Region," *Economic Development Quarterly* 7 (November 1993): 341–357. The study notes that the share of sub-

urban income associated with central-city density and income increased substantially over the 1979–1987 period, suggesting tighter linkage. See as well Richard Voith, "City and Suburban Growth: Substitutes or Complements?," *Business Review* (September–October 1992): 31. Voith found that in the northeastern and midwestern states, in the previous two decades, the relationship between city and suburban population growth had turned from negative to positive. The slower population loss (or alternatively, the population gain) in cities was associated with higher suburban growth.

4. Although the internationalization of the economy is an important trend, we believe it has been exaggerated as a factor opposing the sort of reconstructive program offered below. Most U.S. manufacturers predominantly buy from and sell to other U.S. manufacturers, and the long-run trend of the U.S. economy is toward services, which are usually not traded on even a national basis, much less internationally. Even when competition is international, alternative strategies with very different social consequences are available. Choices between them can be shaped by factors clearly under popular control. Even the diminished state, as we shall see, holds many cards.

5. In *Business Week* (November 2, 1998: 22). The article reviewed the findings of a recent study by Regional Financial Associates indicating that businesses that relocated their operations from rural to urban areas experienced sharp increases in productivity.

6. Edward L. Glaeser, "Demand for Density: The Functions of the City in the 21st Century," *Brookings Review* 18(3) (summer 2000): 10–13.