Metropolitan Policy Program
at BROOKINGS

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Delivering the Next American Economy: From Macro Vision to Metro Action
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Introduction

Thank you Strobe for that introduction. And thank you Dr. Ackermann for your support of this Summit and your compelling vision of a sustainable economy. And thank all of you for coming here today.

About two years ago, almost to the day, I took a tour of several suburban communities to get a sense first hand of the impact of the housing crisis and economic downturn. What I saw was stark and sobering: foreclosed homes, abandoned properties, empty stores, eerily deserted streets.

Where did I visit? A group of Chicago's inner suburbs—Riverdale, Harvey, Blue Island, and Crestwood—less than 30 minutes from where we sit today

What I witnessed was not an isolated case.

It was a microcosm of the failed economy … and failed economic policy … that has deeply touched the lives of tens of millions of Americans during this Great Recession.

We had an economy … and an economic policy … which elevated consumption over production, financial chicanery over real innovation, near term speculation over long term growth.

We lost our way … and we got the economy …and the Great Recession … we deserved.

The devastation I saw in Chicago's suburbs will not fundamentally change unless we chart a different path for this country.

Today I make the following proposition.

First, we must shape a different kind of U.S. economy, a "next economy" that is driven by exports, powered by low carbon, fueled by innovation, and rich with opportunity. This is a vision where we export more and waste less, innovate in what matters, produce and deploy more of what we invent, and ensure that the economy actually works for working families.

Second, the next economy will largely be metropolitan, in form and function. Our major metros already generate more than three-quarters of our gross domestic product. Despite nostalgia over small town America, it is metropolitan America that drives our national economy and determines our national prosperity.

Finally, it is time to build the next economy by unleashing the entrepreneurial energies and dynamism of America's metropolitan engines.

In an ideal world, the federal government would set a strong platform for metro growth: embracing trade, pricing carbon, investing in advanced R&D, transforming infrastructure, and overhauling immigration.

But the United States circa 2010 is not an ideal world. Ideologues rule our airwaves. Washington is fundamentally broken. Most states are broke.

So we must build the next economy the hard way through a "pragmatic caucus" of public, business, and nonprofit leaders who spur economic recovery and renewal from the ground up despite political odds and fiscal obstacles.

Make no mistake. The stakes are very high. The urgency to act is very real. Other nations are moving with deliberation and discipline to exploit the full potential of their metro engines.

We can … and must … do the same.

So let me begin by offering a vision for the next American economy.

And let's begin with exports and our need to fully engage the world.

Visualize an economy where more firms in more sectors trade more goods and services seamlessly with the world, particularly with nations that are rapidly urbanizing and industrializing.

Why exports?

Because we have crossed an economic Rubicon.

Together, Brazil, India and China … the BICs … are expected to account for about one-fifth of global GDP in 2010, surpassing the United States for the first time. By 2015, the BIC share will grow to more than 25 percent.

The rise of the BICs reflects the rise of metros. For the first time in recorded history, more than half of the world's population lives in cities and metropolitan areas. By 2030, the metro share will surpass 60 percent. Rising nations and their rapidly growing metros now power the world economy and drive global demand.

The locus of economic power in the world is shifting. The top 30 metro performers today are almost exclusively located in Asia and Latin America. The 30 worst metro performers are nearly all located in Europe and the United States.

The U.S. needs to reorient our economy to take advantage of this new demand. In 2008, exports made up only 13 percent of the GDP of the U.S. compared to 36 percent in China, 35 percent in Canada, and higher levels in India, Japan, and the entire EU.

The movement of freight in the United States is compromised, undermined by transport networks that are clogged and congested and an infrastructure that is third class.

And, culturally, Americans don't get out much. Only 28 percent of our population has a passport.

Can we get back into the export game? The answer is decidedly "yes."

We still manufacture a range of advanced goods that the rest of the world wants including air craft, space craft, electrical machinery, precision surgical instruments, and high quality pharmaceutical products.

And we already have a trade surplus in services—$152 billion in 2008—and are poised for a quantum leap in the export of high-value services.

America's potential for exports is hidden in plain sight. President Obama's challenge to double exports in five years is exactly the kind of ambitious, far reaching goal we need at this moment.

Low carbon is the second hallmark of the next U.S. economy. Let's imagine a world where America is the vanguard of the clean, green revolution …or, as Dr. Ackermann has suggested, "the second industrial revolution."

Everything … is about to change.

The energy we use will migrate from an almost exclusive focus on carbon based fuels to a more sustainable mix.

The infrastructure we build will shift from outmoded transport and energy to systems that are smarter, faster, and technologically enabled.

The products we buy will move from high carbon gas guzzlers to an eclectic basket of green, sustainable goods.

And the homes we live in and the office and retail buildings we frequent will be more sustainable in design, more efficient in their use of water and energy, and better arrayed so that people can spend less, walk more and live a higher quality of life.

Our competitors—China, Germany, Brazil—have embraced the green economy, creating markets, growing jobs and stimulating investment.

China is hell bent on being the world's green producer, out-investing us on renewable energy, high speed rail, and a host of other sustainable products.

Can the U.S. even play in the low carbon revolution?

Our research shows that we already have a strong base of more than 2 million green jobs, in sectors ranging from renewable energy to pollution reduction.

No other nation can match us in domestic demand, advanced research, venture capital, entrepreneurial dynamism.

It is time for us to fully engage the shift to low carbon … and leapfrog other nations on a market transformation as profound as the information revolution.

So this leads naturally to a discussion of innovation. The U.S. must be the world's Innovation Nation, a hot house of invention and the platform for advanced production.

I believe we are on the cusp of an historic era of technological progress which will dramatically change how people live, companies operate, communities function.

This could be our future [Jetsons Clip airs]

Ok … maybe we won't have that much innovation, at least this century.

But self-driving vehicles? Smart homes? Remote monitoring of health?

The future is coming soon and, in some cases, is already here. These technologies are not just "cool stuff" … they will change lives, save lives, drive investment, create jobs, and transform economies.

Can the US seize the future and be the world's innovation nation?

We now place just 45th out of 93 countries in the share that science and engineering degrees make up of bachelors degrees. Going forward, we will innovate less if we do not fully embrace science and technology.

The U.S. lags on the conversion of innovation into home grown production. We have gone from running a trade surplus in advanced technology products to running a trade deficit over the past decade.

Going forward, we will innovate less if we do not produce more. We must make things again.

It is time to rediscover our innovation "mojo": in our vocational and tech schools, in our research labs, on our factory floors, in the tradeable goods and service sectors that drive wealth creation and sustainable growth.

Finally, the next economy has the potential to be **opportunity rich**.

Research shows that firms in export-intense industries pay workers more and are more likely to provide health and retirement benefits.

A low carbon economy could be an engine for job creation, delivered by millions of new workers across a range of professions and occupations.

And innovation has always been the historic catalyst and fuel for economic growth.

All of this will require the United States to get real smart … real fast.

Over the next several decades, African Americans and Hispanics will grow from about 25 percent to nearly 40 percent of the working-age population.

Yet the rates of educational attainment are lowest among these fast-growing groups.

In 2006, only 13 percent of Hispanics and 18 percent of African Americans held a bachelors degree, contrasting sharply with the educational attainment figures for Whites and Asians.

In the decades ahead, upgrading the education and skills of our diverse workforce is no longer just a matter of social equity. It is fundamentally an issue of national competitiveness and national security.

So here is my second proposition: the next economy will be largely metropolitan, in form and function.

This is true abroad, as I mentioned before, but it is also true here in the United States. This is the real heart of the American economy—100 metropolitan areas that after decades of growth take up only 12 percent of our land mass, but harbor two-thirds of our population and generate 75 percent … 75 percent … of our gross domestic product.

These metropolitan areas form a new economic geography—seamlessly enveloping cities and suburbs, exurbs and rural towns.

And they pack a powerful punch.

Chicagoland is home to 67 percent of the population of this state, but contributes 78 percent of your state's GDP.

Greater Seattle houses only 51 percent of residents in the state of Washington, but generates 69 percent of the economic output of that state.

And metro areas generate the majority of GDP in 47 of the 50 states, including such "rural" states as Nebraska, Iowa, Kansas, and Arkansas.

Bottom line: There is no national American economy. Rather, the U. S. economy is a network of powerful metropolitan economies.

And metropolitan economies are powerful precisely because they bring together networks of large firms, small enterprises, skilled labor, advanced research institutions, schools and colleges, business associations and, yes, government.

The top 100 metro areas together dominate our trade in goods and services … and, given their edge in sectors like chemicals, computers and consulting, they are on the front lines of commerce with China, Brazil, and India.

The nation's four largest exporting metros, NY, LA, Chicago and Houston, are supersized performers, exporting more than $50 billion apiece in 2008.

Other major metros … Dallas, San Francisco, Boston, Philadelphia, Detroit, and Seattle … are also global players**,** exporting more than $24 billion apiece that year.

Incredibly, these 10 large metros generated 28 percent of national exports in 2008.

Yet this is not just about the largest metros. As we see here, these 10 medium sized metros are dependent on exports in ways that larger metros are not. Exports contribute more than 15 percent of gross metropolitan product in these economies.

The top 100 metros dominate exports for another good reason. They are our logistical hubs, concentrating the movement of people and goods by air, rail and sea.

Beyond exports, the top 100 metros also dominate critical sectors of the low carbon economy, concentrating a super majority of the jobs in solar energy and wind energy, and energy research, engineering, and consulting services.

They also harbor 85 percent of the jobs in green architecture, design and construction since making buildings energy efficient will primarily be a metropolitan act, given where most people live and businesses locate.

On innovation more broadly, our metropolitan areas are the nation's knowledge centers.

They gather our most educated citizens, produce the bulk of our patents, receive the lion's share of NIH and NSF research funding, and provide almost all of the venture capital that turns research ideas into production.

In short, the next economy will be shaped, determined, and delivered by metropolitan areas.

That leads to my final proposition: to build the next economy the U.S. must unleash the entrepreneurial energies and dynamism of our metropolitan engines.

We compete in a fiercely competitive world.

Established nations like Germany and rising nations like China, India and Brazil are making transformative investments in modern ports, in renewable energy, in high speed rail, in advanced research institutions … in the precise places … Munich and Shanghai and Mumbai and Sao Paolo ... that drive their national economies.

We must do the same.

To boost exports, we need a next generation of infrastructure to seamlessly connect firms and places within the nation … and to markets abroad.

To lead the green revolution, we must invest in advanced R&D to crack the code on low carbon and spur technological progress.

To stimulate innovation, we need advanced manufacturing … right here at home … so that the U.S. does not outsource the production of every idea we generate.

To ensure opportunity, we must arm our people with the education and skills necessary to compete globally.

Each one of these moves to rebalance the macro economy must run through our metro areas to maximize the returns for people, firms and investors.

For the United States, the question is not what to do but how to do it.

We all know the conventional wisdom: the parties are too divided for anything of import to happen over the next several years.

I beg to differ.

I contend that those of us in this room, and the sectors and constituencies and jurisdictions we represent, can be the adult leadership that America desperately needs.

We form America's natural pragmatic caucus, close to the ground, hungry for results, prizing place over party, solutions over dogma, and collaboration over conflict.

Here is what I contend we do these next few years … together … to spur economic recovery and renewal.

First, let's help each American metro exploit its distinctive competitive edge in the global economy.

The prior consumption led economy minimized the differences between metros. Communities followed a uniform "Starbucks and Stadia" recipe, irrespective of market condition and location.

The next economy, by contrast, accentuates what is unique about different metros. Raleigh specializes in life sciences; Charlotte, finance; Atlanta, transport production. The next economy rewards metros which intentionally build from their special assets and strengthen their strengths.

The prior economy also lacked any fiscal discipline. Cities and suburbs competed to literally move businesses a few miles across artificial political borders.

The next economy, by contrast, rewards cities and suburbs that collaborate to compete rather than compete against each other. That's what Mayor Daley has done here with the Metropolitan Mayors Caucus and what Mayor Nutter is doing in Philadelphia with the Metro Caucus. Collaboration must now be the norm, not the exception.

You will hear later from leaders in two European metros, Torino and Barcelona, who have embraced intelligent economic design and purposeful action.

You will also hear from leaders in Northeast Ohio, Minneapolis-St. Paul and the Puget Sound region, who are working with Brookings to produce what we call "metropolitan business plans."

Each business plan outlines a detailed initiative, tailored to the special assets and challenges of these disparate places: retooling manufacturing firms and retraining industrial workers in Northeast Ohio; spurring entrepreneurial activity and commercialization of innovation in the Twin Cities; becoming a global hub of advanced green technologies in Greater Seattle.

These business plans are low cost but high impact. They are primed to attract public and private investment, produce jobs in the near term and retool economies for the long haul.

Imagine if seven, 10, 15, 25 metros in the United States followed this intentional path in the next several years. We can literally change and define the shape of the US economy from the ground up.

Our second act naturally follows from the first: let's bend state actions to metro vision.

In a month, 37 newly elected or re-elected governors will take office in tough times. They inherit unemployment levels that are unacceptably high and budget shortfalls of historic scale. Thus, they will need to grow jobs while making harsh cuts.

I urge metros to join Brookings and challenge states:

To grow jobs, align state resources to metropolitan priorities. What if Ohio placed its economic and workforce policies in the service of Northeast Ohio's plan to retool manufacturing? What if Minnesota fully leveraged the entrepreneurial potential of Minneapolis and St. Paul? What if the state of Washington got completely behind Seattle's creative plan for green growth? Any successful corporation knows to reward departments that are strategic in focus and disciplined in execution. States … must do the same.

To grow jobs, govern for growth. This metropolis is awash in municipalities, school districts, and special authorities. In fact, most states have designed local governments for the 18th century rather than the 21st. Fragmentation duplicates spending. Balkanization undermines global competitiveness. To new governors, this is the moment to radically remake the structure of local government.

To grow the next economy, invest smart. That's exactly what voters in Ohio did earlier this year where they approved, by a 62 to 38 margin, a $700 million bond issue to extend the state's proven Third Frontier Fund, which invests in promising energy and technology start ups.

Ohio voters understood that America cannot cut our way to growth. Just imagine if every state offered their voters an opportunity to support market shaping investments tailored to their metro strengths: perhaps clean energy in Colorado, transformative infrastructure in California, advanced manufacturing in Michigan.

That leads to the final step: let's place the federal government squarely in the service of metropolitan growth.

For the foreseeable future, the federal government will be excessively partisan and deeply polarized. But it will *not* be paralyzed.

Even in the most divisive times, work gets done: 1995 produced historic public housing transformation; 1996 yielded welfare reform; 1997, a balanced budget agreement.

Along those lines, Brookings and metros can engage the federal government strategically.

As with states, align federal resources to help those metros that help themselves. Take the 30/10 initiative in Los Angeles. Two years ago, in the middle of the Recession, L.A. voters approved a sales tax to build a state of the art metro transit system in 30 years. Mayor Villaraigosa has offered the federal government a brilliant plan: give L.A. low cost federal credit, backed by the sales tax revenues, and L.A. will finish construction in just 10 years. Accelerating construction would create 160,000 jobs in a metro where 765.000 people are currently unemployed.

This is a new kind of bottom up federalism, which can be repeated across the country as metros innovate not just on infrastructure but on other economy building moves like export promotion, clean energy, and education reform.

As with states, govern for growth. Washington is a legacy government, with bureaucracies designed for a different era and a different economy. We now need more nimble, market oriented institutions to unleash private capital and make investment decisions based on merit and evidence rather than politics. A National Infrastructure Bank can do that for our ports and rail networks. A National Green Bank can do that to spur a low carbon economy. Private capital and private entrepreneurs are sitting on the sidelines ready to be deployed.

As with states, invest smart. The federal tax code is replete with expenditures that fuel consumption rather than incentives that catalyze production. The worst offender, the federal mortgage interest deduction, is scheduled to grow steadily over the next five fiscal years. The single act of capping this deduction at current levels would save $177 billion during this period, more than enough to contribute to deficit reduction and finance every market shaping solution discussed today. The president's Commission on Deficit Reduction has already put the mortgage interest deduction on the table. Will metro leaders weigh in?

Decisions on the national deficit or national economic policy are not above the "pay grade" of metro America. It is time for metros to act like the engines of national prosperity they are. All nations know that metros are too big to fail economically. If organized, they are too big to ignore politically.

Conclusion

Let me end where I began … in the south suburbs of Chicago.

For these communities, the past does not need to be prologue. These places can be hubs of advanced manufacturing. They can be transit oriented centers for living and work. They can be clean and green, diverse and inclusive.

We can build a different future for these communities and compete globally as a nation IF we restructure our economy towards exports and low carbon, in favor of innovation, fuelled by education and skills. This is the path back to prosperity, a path that runs directly through our metropolitan areas.

The people in this room embody the energy and potential of metro America.

I urge you to leave here today and act with purpose.

Set a vision for growth that is intentional.

Align federal, state, private, and philanthropic actions to that vision.

Organize and use your political muscle to drive systemic reforms and transformative investments.

I challenge you in short to act like a pragmatic caucus … across sectors and disciplines and jurisdictions and political parties.

If you do these things, jobs will follow, investment will flow, and innovation will spread like wildfire across the nation.

You are the distinctive, grounded voice in the coming debate over jobs and taxes and economy and investment.

Let that voice be heard, through innovation, action and advocacy.

We are a Metro Nation in a Metro World and it is high time we started acting like one.

I would now like to introduce Henry Cisneros … who will moderate the panel responding to this presentation.

As everyone in this room knows, Henry was the secretary for Housing and Urban Development under President Bill Clinton. He is a former mayor of San Antonio and now runs City View, one of the premier affordable housing developers in the United States.

It was my privilege to serve as Henry's chief of staff during his tenure as HUD secretary.