DIVERSE PERSPECTIVES ON CRITICAL ISSUES

Six Ways Cities Can Reach Their Economic Potential

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The Brookings Institution

Federal urban policy needs to reflect our changing economy and society.

The relationship between the federal government and American cities is intricate and complex. Major federal policies on tax, trade, transportation, and immigration have a substantial influence on the health and vitality of city economies and the shape of metropolitan growth and development. Other federal policies on education, job training, wages, financial services, health care, and housing help shape the life opportunities of urban residents, particularly those who earn low or moderate incomes. Each of these policies influences and is influenced by the nation's changing demographic and economic reality, which in turn has significant implications for cities.

With the right policies, government can promote far greater production of goods and services for the global marketplace.

In theory, federal "urban policy" should encompass the cumulative impact of these broader federal decisions and interventions on cities and their residents. In practice, federal urban policy has been narrowly defined across the political and ideological spectrum as a handful of strategies that primarily aim to revitalize distressed urban neighborhoods. Such a narrow definition largely ignores the broader demographic and market forces and federal policies that grow economies, shape communities, and influence people's lives.

This paper represents an effort to place federal urban policy in the broader context of federal policy, national transformation, city renewal, and family opportunity. It will make three central arguments:

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Living Cities: The National Community Development Initiative *is a consortium of major financial institutions, philanthropic foundations, and federal agencies investing collaboratively in the vitality of cities to increase opportunity and improve the lives of people in urban neighborhoods.*

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1. **Profound demographic, market, and cultural changes** are taking place in the United States, increasing diversity, broadening consumer demand, and dramatically altering the rules of economic prosperity. These changes give cities their best chance in decades to compete for business, workers, and residents. To many prospective city dwellers, the advantages of well-established educational and health institutions and distinctive downtowns, neighborhoods, and amenities look better than ever.

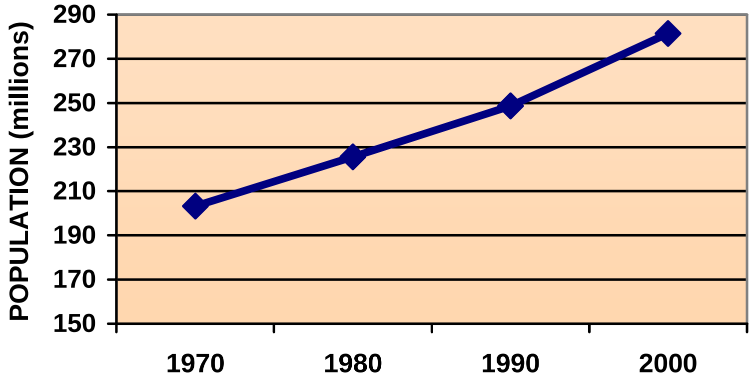
2. These changes are already spurring an **urban resurgence**, albeit one that is incomplete and uneven, as well as changing the suburban landscape in some distinctly urban ways. Cities are finding an important new niche as the economy increasingly rewards knowledge, innovation, and entrepreneurship. But they still face the troubling legacy of persistent poverty and racial separation as well as the continued decentralization of economic and residential life.

3. It is time to **redefine urban policy** and rethink the relationship between the federal government and cities for a new competitive era. The current, narrow definition of federal urban policy, while helpful in some respects, ignores the new economic relevance of cities as well as the needs and demands of older suburban communities. The **overarching goal** of federal policy should be to bring cities and urban places to their economic potential. Achieving this objective will not only improve the condition of cities but substantially aid the economies of entire metropolitan regions and the nation as a whole.

A NATION IN TRANSITION

The 2000 census confirms that the United States is going through a period of dynamic, volatile change, comparable in scale and complexity to the latter part of the nineteenth century. The 1990s were a period of remarkable population growth in the country. The nation grew by 33 million people during the past decade (a number equal to the population of the entire country on the eve of the Civil War). By contrast, the nation grew by 22 million people during the 1980s and 23 million during the 1970s (see below). Every state experienced population growth during the 1990s – for the first time in the twentieth century.

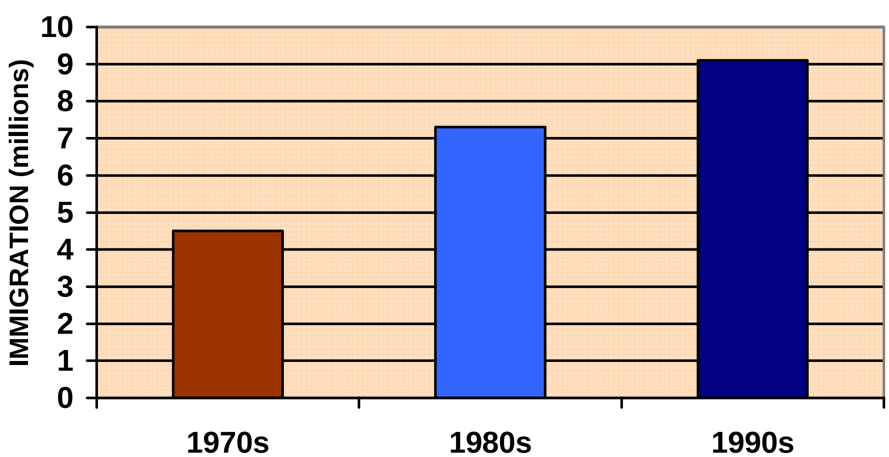
Accelerated Population Growth During the 1990s



Broad demographic forces are fueling national growth and increasing consumer demand for urban living.

Immigration. An enormous wave of immigration has helped fuel national population growth. During the 1990s, some 9.1 million immigrants arrived legally in the United States, compared to 4.5 million in the 1970s and 7.3 million in the 1980s (see below). Immigration accounted for more than a third of the overall population surge in the 1990s. Incredibly, some 34 million of our residents were born outside the United States. That is 12 percent of the population, the highest share since 1930.

Increase in Immigration Each of the Last Three Decades



An aging population. Immigration is offsetting another major demographic trend – the aging of our population. Like much of the industrialized West, the U.S. population is growing older and living longer. In 2000 an estimated 35 million people in the United States were 65 or older, accounting for almost 13 percent of the total population. In 2011 the "baby boom" generation will begin to turn 65, and, by 2030, it is projected that one in five people will be age 65 or older.

Significantly, the population age 85 and older is currently the fastest-growing segment of the older population.

Smaller households. America's family structure is also changing, as women and men are delaying marriage, having fewer children, and heading smaller households (which are also a byproduct of the aging of the population). The prototypical family of the suburban era, a married couple with school-age children, is now less than 25 percent of American households.

These demographic changes mean that Americans demand more choices in how and where they live.

Diverse population, diverse demand. Real estate surveys consistently show that a growing segment of the population prefers communities that are walkable and livable. Elderly individuals increasingly seek places with easy access to medical services, shopping, and other necessities of daily life. Middle-aged couples whose children have left the nest are newly receptive to urban neighborhoods, cultural amenities, and shorter commutes. Young people, in particular, are experimenting with urban lifestyles popularized on television shows like *Seinfeld*, *Sex and the City* and *Friends*. Many cities also have a history of tolerance and acceptance, critical elements for immigrants and nontraditional families.

Cities as centers of consumption. The increase in wealth in America has also helped to remake certain cities as centers of consumption. As Ed Glaeser has written, cities possess many distinctive amenities that are valued by wealthier households.

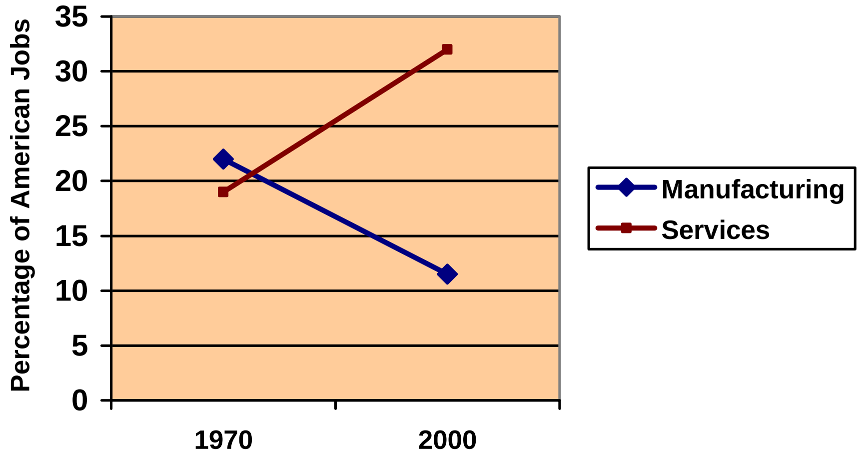
> The Internet … means that manufactured goods are national goods. However, restaurants, theaters and an attractive mix of social partners are hard to transport and are therefore local goods. Cities with more restaurants and live performance theaters per capita have grown more quickly over the past 20 years both in the U.S. and France.[1]

Economic restructuring makes knowledge and innovation the keys to competitiveness, giving cities a renewed purpose and function.

The pace of demographic change in the United States is matched only by the intensity of economic transformation and restructuring. Globalization and technological innovation are integrating markets, countries, citizens, and corporations in transformative ways. While innovations in travel and technology have been taking place for decades, they are now accelerating the pace of globalization in all aspects of the economy – from financial markets to access to information to the movement of goods, capital, and labor.

Most prominently, globalization has accelerated the shift of our economy from the manufacture of goods to the conception, design, marketing, and delivery of goods, services, and ideas. Between 1970 and 2000, manufacturing employment in the United States declined by 3 percent, while services employment grew by 214 percent. As a consequence, the share of American jobs in manufacturing slipped from 22 percent in 1970 to 11.5 percent in 2000; the share of jobs in services increased from 19 percent to 32 percent during the same period.

Shift in the American Economy from 1970 to 2000



This transformation of our economy has significant implications for people and places.

Trade and technology. The United States has seen a quantum leap in the volume and character of trade over the past decade. Precipitous declines in the cost of transporting goods, and the relocation of manufacturing plants to developing countries, have caused America to import an ever-larger proportion of its consumption goods. Between 1990 and 2003, the value of goods imported by the United States grew at nearly double the rate of goods the country exported. Technology has also enabled business supplies and consumer products to be ordered and delivered "just in time," substantially increasing the volume of freight traffic.

Knowledge and innovation. The shift from a manufacturing-based economy to one based on services alters the rules governing family and community prosperity. Knowledge and innovation have become the primary drivers of high wage growth. This trend is expected to persist despite recent evidence that "offshoring" is starting to occur in service sectors of the economy. Some economists predict, for example, that globalization will result in even stronger demand for certain types of information technology and service production at home. The Bureau of Labor Statistics predicts that jobs requiring IT skills will grow at a rate three times higher than overall job growth through 2010.[2]

These changes place a high premium on acquiring more advanced levels of education and skills – for families, communities, states, and ultimately the nation. They also alter the rules of competition between communities, which now vie fiercely for talented workers rather than for individual firms or facilities.

The "law of wages". With the restructuring of the economy, there is a new "law of wages" in the United States: the more you know, the more you will earn. Whereas a high school degree was sufficient to enter the middle class in the manufacturing economy, an associate degree or above is now the ticket to family prosperity.

The continued decline of manufacturing has diminished labor demand in a sector that has traditionally paid good wages to semiskilled workers. In 2000, 52 percent of manufacturing workers had no postsecondary education, versus 41 percent of all U.S. workers, yet median earnings topped $31,000 (versus $25,000 nationwide).

Reduced opportunities in the manufacturing sector have dovetailed with the rise of services employment. Fewer jobs for semiskilled workers and significant productivity gains in the services sector helped raise the premium paid to the most educated workers by a considerable amount. At the turn of the decade, upwards of 45 percent of workers in such sectors as information technology, finance, and health care possessed college degrees. They earned, on average, two-thirds more than workers without degrees, more than double the disparity that existed two decades earlier.

Firm fragmentation. Competitive pressures and technological change are also altering the way businesses conduct their operations and how they make location decisions across and within metropolitan areas. Firms are increasingly disaggregating their location decisions by function – locating their "command-and-control" functions (e.g., headquarters, marketing) in one place, research and development in another, consumer servicing in another, distribution centers in still another.[3]

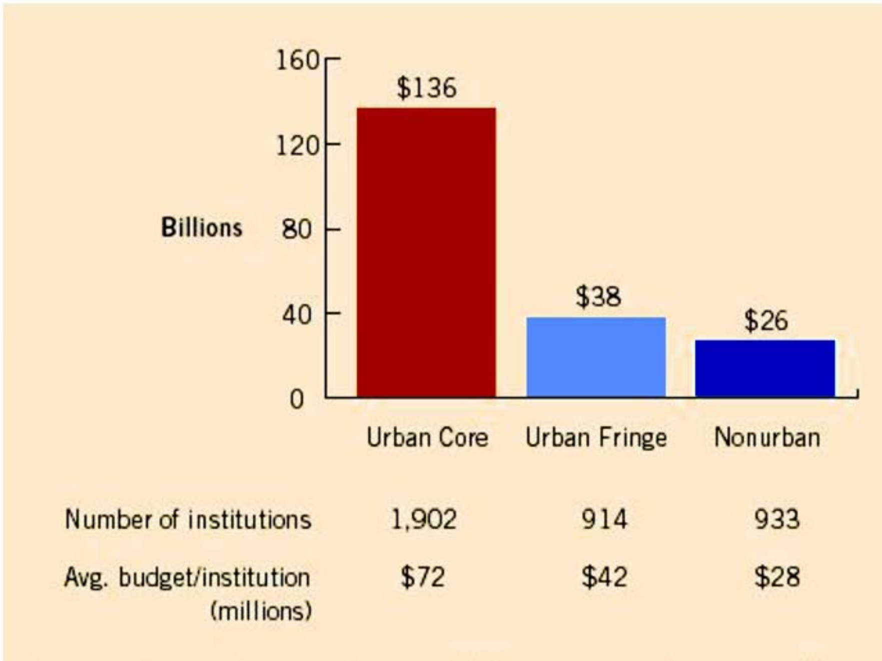
These economic changes position cities well in the competition for firms and workers.

City assets. Many cities possess the physical and economic assets that the changing economy needs and rewards:

- As in **Los Angeles** or **Atlanta,** they manage the seaports and airports essential to trade.
- As in **Chicago** or **Denver**, they have the amenities – the distinctive downtown, cultural, historic neighborhood, and waterfront areas – that are attractive to young, educated workers of the creative economy and other key demographic cohorts.
- As in **Boston** or **Seattle**, they host a concentration of the universities, professional firms, medical centers, research labs, banks, and investment companies that drive innovation and underlie the emerging economy.

Colleges and universities. Over 1,900 colleges and universities, more than half the nation's total, are located in the urban core of metropolitan areas. These universities contribute substantially to local economies and help explain the location of new knowledge-based economic activity. An ICIC/CEOs for Cities report finds that urban-core universities spent a total of $136 billion in 1996 on salaries and goods and services; nationally, colleges and universities employ 3 million workers, with 65% of them in urban areas (see below).[4] A recent Brookings report shows a high correlation between the nation's leading biotech clusters and the strength (e.g., medical research capacity, NIH grants, PhD graduates) of local universities.[5]

Colleges' and Universities' $200 Billion Operating Budgets[6]



The services sector. Urban economies lead the national transition to a services-based economy. As Alice Rivlin and Alan Berube have shown, the services industry accounted for more than one in three jobs (36%) in urban counties in 1999, up from one in four (26%) in 1979, compared to 30% and 20%, respectively, for the rest of the country. Manufacturing declined from 18% of jobs in 1979 in urban counties to 10% in 1999; and from 19% to 12% in the rest of the country.[7]

Urban density and innovation. With some notable exceptions, cities assemble in close quarters an aggregation of people with drive, talent, and ideas, who, in their own exchanges with one another, produce what the urban historian Sir Peter Hall calls "a dynamic process of innovation, imitation and improvement."[8]

In essence, an economy based on ideas and innovation changes the value and function of density. The large number of employers within an urban area allows workers to change jobs more easily, giving them both greater flexibility and stability than employees in non urban locales. The concentration of employment also contributes to labor productivity. One seminal study found that doubling employment density increases average productivity by around 6 percent.[9]

Further, residential and employment density enhances innovation. This happens partly by enabling a "quality of place" that attracts knowledge workers and partly by enabling interactions and knowledge sharing among workers and firms, within and across industries. As Gerry Carlino has shown, the concentration effect is significant: for every doubling of employment density, the number of patents per capita increase, on average, by 20 to 30 percent.[10]

Cost-efficient development. Finally, the evidence shows that the urban form is not only competitively wise, but fiscally sound. We have known for decades that compact development is more cost-efficient – both because it lowers the cost of delivering essential government services (e.g., police, fire, emergency medical, school transportation) and because it removes the demand for costly new infrastructure. The cost differential is substantial: the most cited study in the field found that building high-density developments reduces infrastructure costs by 47 percent.[11]

THE EARLY RESURGENCE OF AMERICAN CITIES

The broad demographic, economic and cultural forces discussed above have sparked a remarkable shift in fortunes of many American cities. The 2000 census painted a general story of city growth and rebirth, fueled by immigration, demographic change and a strong economy,

City populations. During the 1990s the top 100 cities grew by 9 percent compared to 6.3 percent during the 1980s; 74 cities grew in population during the past decade compared to 62 in the 1980s. **Atlanta, Chicago, Denver**, and **Memphis** literally "turned around" by converting a 1980s population loss into a 1990s population gain.[12] Significantly, the bulk of large central cities have continued to add population since 2000.[13]

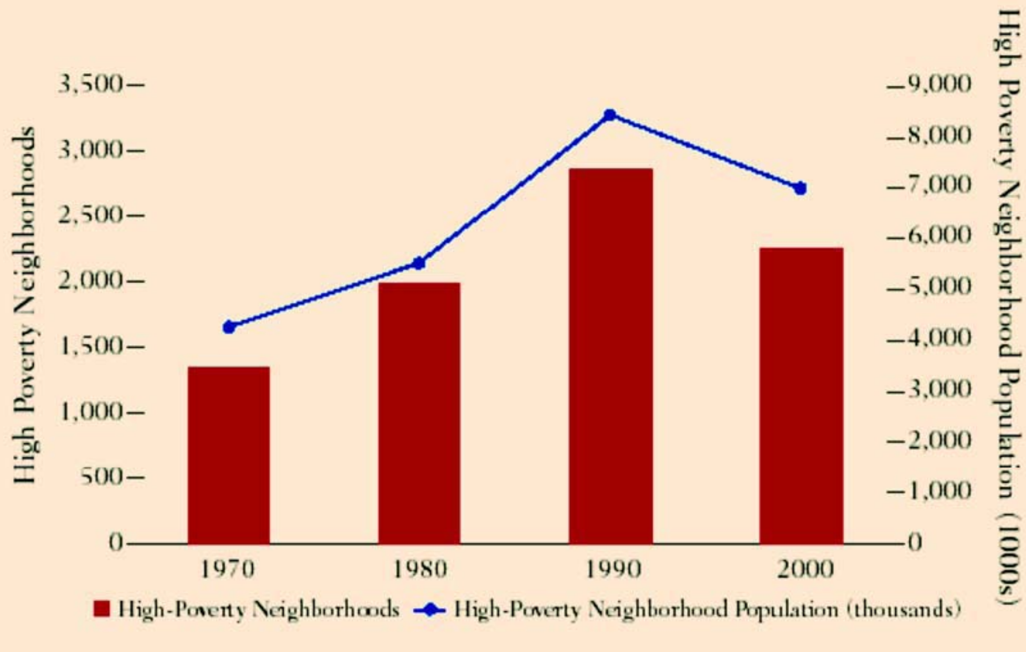
Immigration to cities. Immigrants are fueling population growth in cities and, in the process, renovating housing, revitalizing neighborhoods, and spurring entrepreneurial activity. The Hispanic population in the top 100 cities grew by 43 percent during the 1990s, or 3.8 million people. The Asian population in the top 100 cities grew by 38 percent during the 1990s, or 1.1 million people.[14]

Growing economies. Cities made important strides on a wide variety of economic measures during the 1990s. The decade witnessed, for example, impressive gains in central city job growth, self-employment and median family income. Compared to suburbs, central cities remain centers of some of the leading high-wage sectors (e.g., finance, insurance and real estate, professional services) as well as professional, technical and creative occupations (e.g., arts, design, entertainment, sports and media).

Decline in overall poverty and concentrated poverty. Other signs of urban resurgence abound. Overall, the poverty rate in cities declined from 18.6 percent to 18.4 percent, while the poverty rate in suburbs actually increased slightly, from 8 percent to 8.3 percent.[15]

More significantly, the number of people living in high-poverty neighborhoods, where the poverty rate is 40 percent or higher, declined by a dramatic 24 percent during the past decade. The number of high-poverty neighborhoods declined by more than one-fourth (see below).[16]

Decline in High-Poverty Neighborhoods and Their Population During the 1990s[17]



Based on metropolitan areas as defined in year of census.

Rising homeownership. The homeownership rate rose by 1.5 percentage points during the 1990s among a broad sample of cities; that rate had fallen during the 1980s after growing by a bare 0.6 percentage points during the 1970s. Even older industrial cities with histories of decline and distress showed steady, if modest, progress on homeownership. In 36 large industrial cities that experienced at least two decades of postwar population loss, the number of homeowners fell by 25,000 during the 1970s, increased by 90,000 during the 1980s, then exploded by 163,000 during the 1990s.[18]

Rising property values. One final sign of the resurgent city: the path of real estate prices in traditional urban areas. The real estate booms in cities such as **New York, Chicago**, and **Washington, D.C.,** confirm that demand for many of the older urban areas remains strong.

Challenges to urban growth and renewal remain.

The general story of city resurgence is uneven and incomplete, with significant variation among different regions of the country: the South versus the Northeast, the West versus the Midwest. These regional variations get refined and complicated by differences in economic function: cities that excel in the tech sectors of the economy versus cities that retain an older manufacturing base versus cities that have become tourist destinations versus cities that play all these roles.

Uneven population growth. American cities are not monolithic. For every **Charlotte** experiencing a 37 percent growth in city population, there is a **Cincinnati** experiencing a 9 percent loss. For every **Phoenix** experiencing a 25 percent growth in residents who are married with children, there is a **Philadelphia** experiencing a 14 percent decline in this critical group.

Even within cities, population gain and loss – and increasing diversity – stood side by side. Cities like **Buffalo** and **Cleveland**, for example, lost population overall during the 1990s but gained people in the residential communities within their traditional central business districts, the so-called "living downtowns." Cities like **Columbus,** Ohio, and **Wichita**, Kansas, experienced healthy population growth overall, but actually "hollowed out" as population declined in the central business and inner core areas of the city.[19]

The population experience of cities since 2000 has also been mixed.[20] Recent census information, for example, shows that numerous cities that experienced population growth in the 1990s (e.g., **Chicago, Boston, Minneapolis, San Francisco**) have since lost population. In some cities, this sudden shift in city population trends could reflect the rapid appreciation in city housing prices; in others, it might be a sign of regional economic weakness.

Persistent poverty. Cities still house disproportionate shares of low-income families; among large cities, the city poverty rate is more than double the suburban poverty rate. And concentrated poverty rates, while falling, are still high.

Almost 20 percent of the individuals who live in cities do not have health insurance compared to 16 percent nationwide.[21] Just over half of the households that have "worst case housing needs" (pay more than 50 percent of their income for rent or live in substandard housing) reside in central cities.[22]

Research has shown the negative impacts of persistent poverty and concentrated poverty on the life opportunities of low-income families, many of whom work in low-wage,jobs. In addition,. cities with such conditions struggle mightily to attract and retain middle-class families, the backbone of strong and resilient economies.

In **New Orleans**, for example, these conditions significantly exacerbated the impact of Hurricane Katrina. New Orleans had the fifth highest concentration of poverty among the 100 largest metropolitan areas. In the New Orleans area in 2000, about one in five poor people, and one in three poor blacks, lived in neighborhoods of extreme poverty. As a consequence, the city had relatively low shares of middle class households and a highly skewed pattern of income distribution.[23]

The education gap.   Given their higher share of poor households, the educational attainment levels of many major cities are abysmally low. Across the central cities of the 100 largest metropolitan areas, the share of the adult population with at least a bachelor's degree increased from 22 percent in 1990 to 26 percent in 2000.   For the bottom quartile of these cities, however, the college-educated population hovers at 16 percent. The college-educated shares of the cities of **Newark, Detroit**, **Philadelphia,** and **St. Louis** are, respectively, 9 percent, 11 percent, 18 percent, and 19 percent.

Continued sprawl. The renewal of American cities pales before the dominant growth pattern in the country: the continued decentralization of economic and residential life, which is creating new, complex metropolitan communities. Today, five in ten Americans live in suburbs, up from three in ten in 1960. In the largest metropolitan areas the rate of population growth for suburbs was twice that of central cities – 18 percent versus 9 percent – from 1990 to 2000. Suburban growth outpaced city growth irrespective of whether a city's population was falling like **Baltimore**, staying stable like **Kansas City,** or rising rapidly like **Denver**. Even Sunbelt cities like **Phoenix, Dallas**, and **Houston** grew more slowly than their suburbs.

Decentralizing jobs. As population goes, so do jobs. Employment decentralization has become the norm in American metropolitan areas. Across the largest 100 metropolitan areas, on average only 22 percent of people work within three miles of the city center and more than 35 percent work more than ten miles away from the central core.[24] These statistics remind us that the density required for agglomeration economies can be found in dispersed economies like **Silicon Valley** and North Carolina's **Research Triangle Park** as well as traditional business districts like central **Manhattan** and downtown **Chicago**.

Increasingly, urban and suburban interests converge.

With suburbs taking on a greater share of the country's population, they are beginning to look more and more like urban areas. The latest information from the 2000 census paints a picture of dynamic change and incredible heterogeneity – a far cry from the suburban image fixed in our collective mind.

Suburbs are becoming more racially and ethnically diverse. In many metropolitan areas, the explosive growth in immigrants in the past decade skipped the cities and went directly to the suburbs. Racial and ethnic minorities now make up more than a quarter (27 percent) of suburban populations, up from 19 percent in 1990. Every minority group grew at faster rates in the suburbs than in cities during the past decade. The percentage of each racial/ethnic group living in the suburbs, therefore, increased substantially – 38 percent of African Americans now live in suburbs, as do 50 percent of Hispanics and 55 percent of Asians.[25]

The confluence of city and suburban interests is particularly seen in those older suburbs built in the early or middle part of the twentieth century. These older communities are experiencing challenges similar to those in central cities – aging infrastructure, deteriorating schools and commercial corridors, inadequate housing stock. They are also becoming home to working poor families struggling to keep pace with the rising costs of housing, child care, transportation, and other necessities of daily living.

The term "urban" now applies to a broad range of jurisdictions that are experiencing similar challenges and require similar solutions.

STRATEGIES FOR THE NEW METROPOLITAN REALITY

The preceding narrative yields some important conclusions. The United States is undergoing a period of profound demographic and market changes. As a consequence, cities – while still the disproportionate home to poor, struggling families – are reemerging as key engines of regional and national growth, fueled by the presence of educational and health care institutions, vibrant downtowns, and distinctive neighborhoods. Suburbs, meanwhile, are growing more diverse in terms of demographic composition, economic function, and fiscal vitality. In many respects, the difference between cities and suburbs (particularly older suburbs) are becoming less important than their similarities and their interdependence.

Yet demographic, economic, and development changes do not occur in a vacuum. The federal government, in particular – Congress, the executive branch, the Supreme Court, the Federal Reserve Bank, and other federal or quasi-federal entities – has a profound influence on city growth through a myriad of major policies and programs.

Federal policy affects urban areas in numerous ways.

In many respects, the population resurgence in the nation (and in cities) during the 1990s can be traced to the transformative impact of the Immigration Reform Act of 1965. Similarly, the rise of globalization – and the concomitant decline in American manufacturing – has its roots in a range of federal policies affecting international trade, finance, communications, and currency. And the development resurgence in the 1990s and this decade are rooted in monetary policy that has kept interest rates low on a sustained basis.

Other major federal policies directly affect the pace, shape, and location of growth in metropolitan areas. The federal government has a dramatic, multilayered impact on housing markets – through the secondary mortgage market, federal housing insurance, tax expenditures, subsidy programs, and civil rights and anti-redlining statutes. It also sets the skeleton of metropolitan economies through its investment in infrastructure like roads, airports, ports, passenger rail systems, and public transit and shapes growth dynamics within and across regions through its environmental laws.

Still other federal polices help frame the opportunity structure for workers in the United States. Regulatory laws oversee minimum wages, labor relations, and consumer protection. Various programs supplement the meager incomes of low-wage workers, helping them afford the rising costs of housing and health care. Increasingly, the federal tax code is used to reward work through incentives like the earned income, child-care, and savers' tax credits.

Federal urban policy needs to be redefined.

Despite the obvious spatial impact of federal laws and decisions, national decision makers and many urban advocates rarely consider how major policies affect different kinds of places and the people who live there. Debates on trade and immigration, tax and spending, health care, childcare, environmental protection, and welfare generally proceed without any serious regard to the spatial impact of policy reforms.

As currently defined, federal "urban" policy does not address or even recognize the challenges emerging from the new reality of relevant cities and transforming suburbs. Urban policy has traditionally been defined "down" as those policies – subsidized housing, community reinvestment, empowerment zones – that explicitly aim to assist neighborhoods in distress and their residents. (See BACKGROUND: WHERE FEDERAL "URBAN" POLICY HAS BEEN, PAGE 20.)

The almost exclusive focus of these policies on central cities ignores the fact that an entire generation of suburbs now faces city-like challenges. Renewing city neighborhoods in isolation disregards the metropolitan nature of employment and educational opportunities and, by concentrating affordable housing, might actually inhibit the access of low-income families to good schools and quality jobs. Furthermore, many traditional "urban" policies have focused on the "deficits" of communities, failing to realize that cities and older places have assets and amenities that are highly valued by our changing economy.

A redefined federal urban policy will enhance the nation's competitiveness.

Given the demographic change and economic restructuring underway, the overarching goal of federal urban policy should be to lift cities and urban places to their economic potential.

Enhancing the competitiveness of cities is the foundation on which other national and urban priorities rest – alleviating poverty, reducing racial and ethnic disparities, revitalizing low-income neighborhoods, and promoting balanced growth. The positive social and neighborhood trends in many American cities during the past decade were, to a large extent, the natural outcome of improving urban economies. The reverse is also true: the absence of progress on key social and neighborhood measures in such "weak market cities" as **Cleveland** or **St. Louis** attests to the power of healthy markets to expand opportunities for families and communities.

Enhancing the competitiveness of cities is also critical to the health and vitality of suburbs, metropolitan areas, and the rest of the nation. The hard fact is that suburbs do better when their cities perform well. Researchers have shown the strong interdependence of city and suburban economies, discovering (for example) that increases in city incomes positively affect suburban growth in income, house value, and population.[26] Strong cities are also critical to the nation's ability to compete and prosper, in large part because of their historic assets, fixed institutions, and intrinsic amenities.

SIX WAYS FOR CITIES TO REACH THEIR ECONOMIC POTENTIAL

So what should federal "urban" policy be? What should be its central objectives and principles? How can the federal government achieve those objectives?

Cities do well when the nation does well and the nation does well when it gets the fundamentals right. A corollary to this strategy, of course, is that the federal government must understand the impact of its major policies on different kinds of communities in the United States. The starting point for effective urban policy is that the federal government must focus on getting the "big stuff" right – setting the major national policies (e.g., immigration policy, fiscal policy, monetary policy) in such a way as to enhance national growth and prosperity.

The federal government could also take disparate (but complimentary) paths to achieving the broad goal of urban competitiveness. Each of these paths will trigger its own set of policy responses and reforms. Ideally, all these strategies would be pursued in tandem, yet their collective impact could be significant even if pursued in isolation.

Six Ways For Cities To Reach Their Economic Potential

1. Enhance innovative sectors of the urban economy
2. Transform the physical landscape
3. Grow the middle class through education investments
4. Revitalize cities by rewarding and supporting low-wage workers
5. Create "neighborhoods of choice"
6. Collect and disseminate timely and reliable information on urban economies and neighborhood markets.

1. Enhance those innovative sectors of the economy that are disproportionately located in central cities and other urban places.

As discussed above, many assets and institutions on which the new, knowledge-based economy depends are disproportionately located in urban areas. Federal investments in technology and innovation should, therefore, benefit cities while enhancing the nation's competitive standing.

Investments in medical research, for example, help cities since so many of the institutions that conduct cutting-edge research and compete well for federal grants – Johns Hopkins University, the University of Pennsylvania – are located in the urban core. Likewise, a broader federal commitment to health care would have a disproportionate impact on urban economies, given the importance of the health care sector in cities as well as the lower incidence of health care coverage among central city residents.

Such innovation- and sector-led approaches, while somewhat alien to federal urban discussions, are not new in the United States. Communities with a large number of military installations are particularly attuned to the slightest changes in defense policy. Rural communities are often focused on using federal health care policy to stimulate local economies. Other countries like Britain have understood that a broader commitment to higher education would directly benefit places with a higher share of universities and colleges.

Ideally, such innovation-led approaches can be integral parts of broader strategies to enhance the competitiveness of entire metropolitan areas and regions. As a recent report noted, "In the 21st century America's communities will derive economic strength by acting regionally to compete globally."[27] Recognizing and leveraging the distinct assets of the urban core should be a central component of regional strategies and actions.

2. Help cities transform their physical landscape to benefit from the new economy.

The physical layout and assets of most American cities – mixed-use downtowns, pedestrian-friendly neighborhoods, historic districts and buildings, adjoining rivers and lakes – are uniquely aligned with the preference expressed within the innovative economy for density and amenities. Yet cities face practical challenges in making the most of these physical advantages.

The federal government could help cities address the physical residue of the prior economy. Many cities were once home to manufacturing industries that have decamped for the suburbs or other nations, leaving behind empty buildings and polluted lots known as brownfields. It is doubtful that many of these properties will be returned to productive use without public investments in environmental remediation and cleanup. Despite recent improvements in liability laws, federal investments in brownfields – both on the spending and tax sides of the federal budget – remain anemic.

The federal government could also reinvest in the preservation or, in some cases, the demolition and relocation of urban infrastructure. The infrastructure in many cities – roads, bridges, water and sewer lines, subway tunnels, school buildings – is old and needs to be recapitalized. Yet there are many examples of pieces of infrastructure (such as elevated roadways that divide cities from valuable waterfront properties) that have outlived their usefulness and are impeding economic growth. **Milwaukee** and other cities have already decommissioned and torn down some of their elevated freeways, to great economic and fiscal effect. The federal government could make it easier for cities and their metropolitan areas to choose the infrastructure options that best fit their economic realities and potential.

Further, the federal government could invest in the infrastructure of tomorrow. Such investments might include: (a) extensive transit systems that offer workers an alternative to car use and reinforce dense employment and residential patterns; (b) new approaches to goods movement that maximize the potential of global trade and economic productivity; and (c) state-of-the-art technology networks that give business and broad segments of the populace fast, ready, and reliable access to information and markets.

3. Grow a broad, resilient, and inclusive middle class through education investments and reforms.

A strong middle class is an essential foundation of economic prosperity, fiscal vitality, and neighborhood stability. The key to growing an urban middle class is simple: education. With education now driving wages and incomes, cities need to augment the educational attainment levels of their citizens. With residential choice dependent on school quality, cities need to ensure that their schools can attract and retain families with broader options.

The federal government can play a constructive role in growing an urban middle class – by expanding education opportunities at the K-12 level and beyond. With the No Child Left Behind Act, the federal government has made a start on holding city schools accountable and providing parents of children of failing schools, in theory, with greater choice. Yet the success of this law will be measured over time, not just by the resources invested but by the reforms unleashed and by the range of choices offered to low-income students.

Likewise, the federal government needs to reexamine its investments in higher education generally and community colleges specifically. As college tuitions rise and wages shrink, access to higher education becomes a principal responsibility of government. Yet too few of the higher education resources made available today are going to the people and places that need it most.

Finally, the federal government is a major investor in workforce and job training programs. These efforts have the potential, only partially realized, of preparing urban workers for quality jobs in fast-changing industries and sectors. Current investments could be vastly enhanced by tightening the link between the skills training efforts of high schools, community colleges, and private institutions on the one hand and the real skills needs of city and suburban businesses on the other.

4. Revitalize cities by rewarding and supporting low wage workers.

As discussed above, the social profile of American cities means that a large proportion of residents are working but not earning enough to make ends meet. Helping these families grow their incomes, either directly or indirectly, is smart social policy as well as urban policy.

The federal government increasingly supplements the wages and incomes of working Americans through a variety of spending, tax, and regulatory policies. Most directly, the federal government has become a huge, positive force for supplementing the incomes of tens of millions of workers. Its investments – earned income tax credits, food stamps, temporary assistance for needy families (TANF), childcare assistance, Medicaid – annually amount to tens of billions of dollars. These investments obviously help families afford the basic necessities of daily living; they also stimulate economic activity in cities. By augmenting the incomes of families in urban communities, they help form the basis for neighborhood commerce. By supporting locally based institutions (e.g., hospitals, community health centers), they generate jobs that can be filled by neighborhood residents.

The federal government could bolster its support for low-wage workers and help revitalize cities through several enhancements in tax code. Working families in cities, for example, would benefit from proposals to combine the Earned Income and Child Tax Credits into a simpler "Earned Income Child Credit." Pegging the Earned Income Tax Credit to the rising cost of housing would also benefit low-wage workers in many cities.

The federal government could help cities make more of existing people-based investments by disclosing the spatial allocation of these investments by community. Such disclosure has already been made with regard to the earned income tax credit, and cities have used this information to support "prosperity" campaigns that boost participation rates. Yet we know little about the flow of other major entitlement programs funds and even less about their exact impact on local economies. Incredibly, we know more about where private banks lend than where government bureaucracies spend.

5. Help create economically integrated "neighborhoods of choice."

Urban neighborhoods function best when they contain families with a broad mix of incomes. Economic integration sets in motion a virtuous cycle of functioning markets, attractive amenities, quality schools, and other essentials of community life.

Federal housing policies have dramatically shaped the social landscape of urban America. It is well known that the location, management and neglect of public housing contributed substantially to the concentrated poverty trends noted above. Even newer federal housing policies have worked against economic integration by targeting the production of affordable housing to urban neighborhoods of distress.

Creating urban "neighborhoods of choice," therefore, will require a major rethinking of current federal housing policy. For example, a new federal housing agenda could expand housing opportunities for moderate- and middle-class families in the cities and close-in suburbs while creating more affordable, "workforce" housing near job centers. Federal housing policies could build on the HOPE VI effort to break up concentrated poverty in inner cities, through demolition, redevelopment, and relocation activities. Federal housing policies could also build on the housing voucher program by giving low-income recipients greater incentives to move to neighborhoods with high-functioning public schools.

Ideally, federal policies could help regional elected leaders balance their housing markets through zoning changes, subsidies, and tax incentives so that all families – both middle-class and low-income – have more choice about where they live and how to be closer to quality jobs and good schools. A new federal housing agenda could build on the replicable models of balanced housing policies that are already emerging in the metropolitan areas of **Minneapolis, Portland, Seattle**, and **Washington, D.C.**

6. Collect and disseminate timely and reliable information on urban economies and neighborhood markets.

In the knowledge economy, information drives market decisions on business location, private investment, and product development. Increased home lending in urban and minority communities, for example, is partly a result of transparent and accessible data (made available through the Home Mortgage Disclosure Act) and the regulatory dictates of the Community Reinvestment Act.

Yet cities, urban neighborhoods, and low-income families generally suffer from a paucity of information, particularly information that is timely, reliable, accessible, and actionable. As Robert Weissbourd has written, "[d]istressed local economies suffer from market information failures – an information gap – and as a consequence, their assets frequently go unrecognized, undervalued and untapped."[28]

The federal government is well situated to close the information gap. Already it is the primary source of market, demographic, and other relevant data. In many cases, the federal government collects highly useful data it does not makes available (e.g., business firm data, data on federal investment flows). In other cases, the federal government has the capacity to easily collect and make available new data. The prime paradigm shift is to recognize the power of information to drive urban markets and then act accordingly to make federal data on the assets of urban economies and neighborhoods more transparent and accessible.

A robust and comprehensive set of urban policies will help the nation, not only cities.

Investing in the growth of urban innovative sectors will have positive impacts for suburban economies and the nation. Investing in metropolitan transit systems supports national energy and environmental goals. Modernizing our key urban ports – the gateways of our economy – supports all corners of the nation. And building a strong urban middle class will, by necessity, help the nation reduce the racial and ethnic disparities that exist in education, income, health, and wealth.

Pursuing a more robust set of urban policies will redound to the benefit of suburban communities. The renewal of cities improves the quality of life in suburbs by taking the pressure off of excessive sprawl and decentralization. In addition, as discussed above, there is now a plethora of research that unveils the interdependence of cities and suburbs. In the words of Henry Cisneros, cities and suburbs have "interwoven destinies" and their futures are bound together tightly.

A broader federal urban policy can be fiscally sound and improve accountability.

Many of the investment strategies described above do not necessarily require additional federal resources. Some resources for urban land reclamation and infrastructure modernization could be freed up by leveling the playing field between older and newer communities. Despite recent changes, for example, federal transportation law still makes it easier to build a highway than extend transit service. Other resources could be garnered through the use of innovative financing techniques, authorized in current law but rarely used.

The federal government could take many creative approaches that would recognize the diversity of American cities, give local leaders greater say in how to design and implement federal programs and policies, and improve the accountability and performance of federal programs.

One idea is to permit high-performing cities to dedicate some portion of federal resources for priorities that are set by local leaders. The tradeoff for more responsibility would be more accountability. Cities would be allowed to exercise these options only after local leaders agree to be held to high standards and performance benchmarks. In all cases, maximum flexibility should go to places that demonstrate working partnerships between political, corporate, and community leaders as well as close collaboration between cities and their suburbs.

A broader national urban agenda must take a more expansive view of what constitutes "urban" in the United States.

As discussed above, there is a strong confluence of interests particularly between older suburban communities and central cities. Like cities, these older communities require reinvestment and redevelopment. Like cities, these older communities need a strong focus on the needs of low-wage workers.

Understanding and acting upon the common needs and challenges of cities and older suburbs could have implications for the design, funding, and implementation of a broad range of federal policies – housing, brownfields, infrastructure, economic development, education – and the orientation of entire bureaucracies like the U.S. Department of Housing and Urban Development. In addition, uniting the interests of cities and older suburbs could dramatically improve the political calculus for "urban" policy, given that the combined population of these places is close to 50 percent of the nation's population.

A broader federal urban policy can complement urban policies at the state level.

It is not only the federal government that shapes the health and vitality of cities and metropolitan areas. State governments also have profound impacts on cities through their governance, spending, tax, regulatory, and administrative decisions. In this regard, it is essential to remember that cities, first and foremost, are "creatures" of states.

In recent years, a growing number of states have begun to reform a host of their policies to bolster the economic performance of urban places. States like **Pennsylvania** are altering the spatial distribution of their investments in roads and highways, striving to curb sprawl and promote urban reinvestment. States like **Michigan** are enacting innovative approaches to urban land reclamation, hoping to return vacant properties in struggling cities to productive use. And states like **California** are making major investments in medical research, partly to tap the transformative potential of universities and research institutions located in cites and urban places.

All of these state policy reforms recognize the economic potential of cities and the power of state policy to unlock cities' hidden value.

In the end, it is to be hoped that a truly "national" urban policy can emerge, combining the best of federal and state policies to promote healthy and vital urban economies.

Conclusion

The United States is a nation in transition, demographically, economically, socially, and developmentally. This transition – with its emphasis on density, choice, and diversity – gives cities the ability to compete for a broader slice of economic and residential growth. This is good for the nation, good for metropolitan areas, and good for suburbs.

The federal government has the potential to help cities realize their economic and fiscal potential. By broadening and sharpening what is considered "urban" policy, the federal government can build on the assets of cities, promote more balanced metropolitan growth, improve the incomes, assets, and life opportunities of urban residents – and bolster the nation's competitive standing in the world economy. This is the promise and challenge of urban policy for a new century.

BACKGROUND: WHERE FEDERAL "URBAN" POLICY HAS BEEN

As discussed above, traditionally federal "urban" policy has been defined as a collection of housing and community development programs and policies. In broad strokes, the federal government has over the course of the past several decades pursued four distinct sets of strategies to address the challenges of distressed communities and the families who live there.[29]

Improving the neighborhood. This has been the dominant federal strategy and a mainstay of urban policy since the 1960s. A place-based strategy, it focuses on making urban communities quality places for the people who already live there – principally through improvements in the housing stock of the neighborhood. This was a response to the excesses of the urban renewal movement, which flourished in the United States from 1930 to 1970. Urban renewal used large-scale housing demolition, slum removal, and major infrastructure projects to reposition central cities economically in the metropolis.

Neighborhood improvement essentially inverted the approach taken by urban renewal, embracing bottom-up, community-based responses rather than centralized planning. The ultimate goal is to benefit residents of distressed communities in their place—whether through the construction of new housing, the creation of a new park, or the attraction of new businesses. Over time, the strategy has evolved to embrace and build upon the "hidden assets" of distressed communities: informal networks, social capital, churches, and other civic institutions.

Federal policy has principally used the production of community-based affordable housing as the nation's principal vehicle for neighborhood improvement and revitalization. Support for these community-based efforts draws from a fairly sophisticated web of federal spending, tax, and regulatory programs and policies for financing and subsidizing affordable housing. Key spending programs include the Community Development Block Grant, the HOME Program and the Community Development Financial Institution program. Key tax incentives include the Low Income Housing Tax Credit program. Key regulatory policies include the Home Mortgage Disclosure Act and the Community Reinvestment Act (both enacted in the 1970s) as well as Government Sponsored Enterprise modernization law of 1992.

The improvement strategy has been very successful in expanding access to mortgage capital for lower-income families and communities and stimulating the production of community-based housing.[30] Yet the extensive focus on producing affordable housing in distressed neighborhoods may be consigning low-income families to neighborhoods that do not offer what middle-class consumers seek in their housing: good schools and proximity to quality jobs and quality services.[31]

Expanding opportunity. This strategy has also been a critical part of federal urban policy since the 1960s. It focuses on giving the individual residents of distressed neighborhoods greater access to quality jobs and good schools in the broader metropolis, wherever they may be. This is a people-based strategy that seeks, either by moving residents to areas of lower poverty or by linking them to employment and educational opportunity in the metropolitan area, to improve family outcomes first and foremost.

The opportunity strategy reflects the intense drive towards desegregation – in schools, in housing, in the workplace – that originated with the general civil rights movement. This drive took on extraordinary power in the aftermath of the 1967 and 1968 riots, the enactment of the Fair Housing Act following the death of Martin Luther King, Jr., and the active engagement of the judiciary in remedying education and housing segregation. Housing mobility strategies also gained favor as a market-oriented (and even conservative) alternative to the development-driven programs of the 1960s and 1970s.

Like neighborhood improvement, the opportunity strategy has used a variety of tools to achieve its ends. Housing vouchers, by far the most important and durable tool, have given low-income families the ability to choose private rental housing throughout their metropolis (and beyond). Workforce programs have been used to connect residents who remain in urban neighborhoods to jobs through skill training, child care, transportation, and so forth. School choice programs have also been used to give residents who remain in the neighborhood educational choices beyond the local school.

There is extensive research that housing vouchers – by helping families relocate from high-poverty neighborhoods to areas of lower poverty – have had positive impacts on such critical indicators as family health, rates of juvenile delinquency, and rates of employment.[32] Yet research also tells us that vouchers provide better outcomes for suburban residents than for central city residents, for white residents than for African Americans and Hispanics, and for the elderly than for non-elderly families and people with disabilities.[33]

Regenerating neighborhood markets. The third strategy took hold in the late 1970s and has grown in importance over the decades. This strategy focuses on realizing the untapped economic potential of inner-city neighborhoods based on, inter alia, their proximity to infrastructure and central business districts, the absence of sufficient retailing activity in the local area, and the undervalued purchasing power of their residents.

With its market orientation, this place-based strategy has focused on enticing business investment through two principal policy tools: tax incentives and regulatory reform. In this respect, the strategy has been highly influenced by Jack Kemp's public embrace of the British enterprise zone experiment in the late 1970s and early 1980s and by Michael Porter's influential treatise on the competitive advantage of the inner city in the mid-1990s.

In programmatic terms, this strategy has been manifested in three signature initiatives of recent vintage: the Empowerment Zones and Enterprise Communities program, enacted in 1993; the Community Renewal program, enacted in 2000, and the New Markets Tax Credit, also enacted in 2000. Unfortunately, we know very little about the economic impact of these regeneration initiatives. In contrast to the improvement, opportunity, and even transformation strategies, few formal studies have assessed the economic impact of regeneration strategies on distressed neighborhoods and the people who live there.

Transforming the neighborhood. The latest entry to federal urban policy focuses on fundamentally altering the socioeconomic mix of distressed neighborhoods and creating communities that are economically integrated and attractive to a broad range of households. The transformation strategy emerged as a viable alternative in the late 1980s. This period – characterized by intense urban gang violence and drug activity – witnessed an explosion of powerful academic and popular exposés of inner-city poverty (e.g., William Julius Wilson's *The Truly Disadvantaged* and Alex Kotlowitz's *There are No Children Here*).[34] These contributions locked in the negative image of concentrated poverty and emboldened policymakers to consider the most extensive reshaping of inner-city neighborhoods since the discrediting of urban renewal.

The transformation strategy is best reflected in the 10-year HOPE VI effort to demolish the worst public housing in the country and replace it with housing that is economically integrated, less dense, better designed, and fundamentally integrated into the fabric of local neighborhoods and city economies. Significantly, a growing number of HOPE VI redevelopments are using federal housing resources to attract additional investments in neighborhood schools as well as their reform and modernization.

Almost a decade later, the initial verdict on HOPE VI is generally favorable, but tempered by the newness of the program. In most cities, HOPE VI is stimulating the production of a new form of affordable housing, leveraging substantial resources from the public, private, and philanthropic sectors, and sparking positive improvements in a range of economic and social indicators. Yet nagging questions persist about the impact of HOPE VI on the original residents of the public housing slated for demolition.[35]

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