Metropolitan Policy Program
at BROOKINGS

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**"The Great Recession: What Comes Next for Our Metro Nation"**
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## Introduction

Thank you for the invitation to speak today. It is a pleasure to return to Seattle and the University of Washington

These are challenging, tumultuous times for our nation.

The "Great Recession" has dramatically disrupted the lives and livelihoods of tens of millions of our fellow citizens through lost jobs, foreclosed homes, diminished incomes, and vanished wealth.

The recovery, we now know, will be long, messy and uneven. Key sectors of the economy—housing, finance, manufacturing, trade—have been hard hit. American consumers are spending less, saving more. There will be no "return to normal," since what preceded the downturn was anything but normal.

At the same time, a confluence of events—an ambitious president, urgent energy and environmental imperatives, brutal fiscal challenges, and deeply rooted demographic and social trends—has set the conditions for the kind of historic, national "reset" we witness once or twice a century.

History teaches us that crisis begets innovation.

Our collective challenge is to rise to this moment and master its possibilities.

As U.N. Secretary Ban Ki Moon has admonished, "This is not a time for tinkering, this is a time for transformation."

In that spirit, I want to discuss "what comes next" for this metropolis and this nation. To be specific, I want to describe how Greater Seattle can use this crisis to advance a new kind of growth and a new kind of governing and seize the possibilities of a new era.

I want to make four major points today.

First, in the midst of rising unemployment, increasing poverty and battered industries, the shape of the next economy is slowly coming into view:

- It will be a lower carbon economy, as we struggle with the existential threat of global warming.

- It will be innovation led, as we strive to make quantum leaps on everything from clean technology and renewable energy to high speed rail, the smart grid and health care information technology.

- And it will be less driven by domestic consumption and more oriented towards exports, particularly to rising nations that are rapidly urbanizing and industrializing.

This economic transition, of course, will have winners and losers, across places and individuals. But it raises the tantalizing prospect for the kind of productive, inclusive, and sustainable growth that has eluded America over the past several decades.

Second, the next economy will be metropolitan led. This is, in essence, a "Metro Moment" for the U.S. and the globe. Metropolitan areas, here and abroad, are the unequivocal engines of national prosperity because they concentrate at an unprecedented level the assets that matter, assets like innovation, human capital, infrastructure, and quality places. There is, in essence, no U.S. or German or Chinese economy but rather a network of sophisticated, hyperlinked and globally connected metro economies.

Third, Greater Seattle is well positioned to take advantage of this Metro Moment… and you are already taking steps to do so. You are a gateway for trade, commerce, and migration. You are a center of knowledge, advanced manufacturing and technological innovation. You are a magnet for talent and creativity of all kinds. You are a recognized leader on climate and energy. The challenge now is for the metro to act like a metro and pull all this together… to set a more cohesive vision for the future, identify and prioritize the most transformative investments and interventions and execute with focus and discipline over a sustained period.

Finally, Greater Seattle, like all U.S. metros, cannot go it alone. The "Two Washingtons," DC and Olympia, must become true strategic and accountable partners and embrace a 21st century "Metro Policy," placing their policies squarely in the service of metropolitan prosperity. That's a tall order since these levels of government have spent most of their time over the past several decades treating their metropolitan engines as "cash cows" rather than investment opportunities. But change is happening, particularly at the federal level, which has the potential to finally treat the U.S. as a "Metro Nation."

**So let me begin with the initial frame: the contours of the next economy and future prosperity are slowly coming into view.**

This may seem counterintuitive to say in the midst of the worst economic downturn in seventy years.

In the last year, the U.S. unemployment rate rose almost 4 percentage points, and now stands at 9.8 percent. The rate is 15.4 percent and 12.7 percent for African Americans and Hispanics respectively. There are nearly 15 million people unemployed—the highest number since records started being kept in 1948.

Some 39.5 million people are now living below the poverty level, compared to 31.5 million people in 2000. The poverty rate has now hit 13.2 percent, and leading experts predict we will not see a return to 2007 levels for another decade.

The housing sector is battered. As housing values have fallen nationwide, foreclosures have risen sharply due to a first wave of toxic subprime mortgages and now the ravages of unemployment and loss of income.

We have reached the limits of over-consumption. The household savings rate fell from 10 percent of disposable income in 1980 to close to zero in 2007. Household indebtedness rose from 67 percent of disposable income to 132 percent during the same period.

While we have seen continued growth in services during this downturn, goods production has taken a dramatic hit. Incredibly, half of the auto manufacturing workforce has been shed since 2000.

The ravages of the past several years serve to exacerbate long term structural challenges in our country. Wage stagnation for a growing number of workers. Persistent racial and ethnic disparities on education, income, and wealth generation. Excessive residential sprawl and job dispersal, growing suburbanization of poverty, market sapping and mind numbing traffic congestion.

The bottom line: This economic recovery will be long and hard and uneven, across sectors and sections of the country. The sectors that drove growth in this decade will not drive growth in the next. True economic recovery will depend on the nation finding a different economic path forward than the one pursued in the past decade.

So what is coming?

With the specter of global warming, we are making a slow transition to a low (or at less) carbon economy. To some extent, the narrow discussion of "green jobs" has obscured how profound a transition this is. Shifting to low carbon will affect all aspects of our lives… the source of our energy, the cars we drive, the products we buy, the kinds of homes we live in, the shape and location of our communities, how we get from one place to another.

This transition will demand and trigger a step change in innovation:

- in renewable energy technology—solar, wind, hydro, geothermal, ocean waves, bio mass;

- in state of the art infrastructure—smart grid, high speed rail, rapid bus, electric vehicles, clean coal.

- in green building practice and technology—sustainable design, sustainable construction materials, energy efficient appliances and approaches, water efficiency.

All this innovation will catalyze new markets for private investment.

> Already, venture capital investments in clean technology have skyrocketed this decade, up from just $500 million in North America, Europe, Israel, China, and India in 2001 to $8.5 billion in 2008, a 16 fold increase. Sparked by smart public investments, venture capital investments in clean energy are now eclipsing bio tech and information technology.

All this innovation, coupled with smart public policy, will drive job creation. Jeffrey Immelt, the CEO of General Electric, estimates that 250,000 "green jobs" could be created if the U.S. set a renewable energy standard of 12 percent by 2012, up from 5 percent today.

Alongside the low carbon transition will be a re-balancing of the American economy. As Larry Summers, the head of the National Economic Council recently said, "The rebuilt American economy must be more export-oriented and less consumption oriented."

He, of course, is being polite. The last decade in particular saw a frenzy of consumption, driven by non-sustainable, speculative increases in housing values and reckless engineering of new loan products and secondary market vehicles.

The U.S. economy went out of whack. Consumer spending and residential investment stood at 75 percent of GDP in 2007, up from 67 percent in 1980. Our trade deficit doubled between 2000 and 2007, jumping from $380 billion to $760 billion before the beginning of the recession. Financial services expanded from 10 percent of S&P 500 earnings in the 1980s to 45 percent today.

The next economy must return to a semblance of balance, of economic sanity, of making things as well as providing services.

Hard times are the right times to set a new set of goals for the nation… To double exports… Or double the share of jobs in manufacturing and the production of high value goods.

That's the right direction for us to pursue… and it is attainable.

**So here is my second proposition: The next economy will be metropolitan led and metropolitan dominated.**

The world may be "flat," as Thomas Friedman has famously concluded, but the spatial reality of modern economies is their intense concentration in a relatively small number of places.

Economists refer to this as agglomeration because the assets that matter most to nations gather and strengthen disproportionately in urban and metropolitan places:

Innovation, the new products, processes and business models that drive economy productivity and sustainable solutions.

Human capital, the education and skills that further innovation.

Infrastructure, state of the art transportation, telecommunication and energy distribution systems that move people, goods and ideas quickly and efficiently.

And quality places, that special mix of distinctive communities and responsible growth that is competitively wise, fiscally responsible and environmentally sustainable.

Innovation, human capital, infrastructure, and quality places.

These assets, and the people and firms that leverage them, come to ground in metro America.

Our top 100 metropolitan areas alone take up only 12 percent of our land mass, but harbor 2/3 of our population and generate 75 percent… 75 percent… of our gross domestic product.

More importantly, metros gather what matters and make an outsized contribution on each of the assets that drive prosperity.

On innovation, they produce 78 percent of all patents, 82 percent of NIH and NSF research funding and 94 percent of venture capital funding.

On human capital, they gather 74 percent of adults with a college degree, 75 percent of workers with a graduate degree and 76 percent of all knowledge economy jobs.

On infrastructure, they concentrate 72 percent of all seaport tonnage, 79 percent of all U.S. air cargo weight, and 92 percent of all air passenger boardings.

And, on quality places, they congregate 79 percent of performing arts establishments, 90 percent of our city populations and 95 percent of public transit passenger miles traveled.

Given the economic primacy of metropolitan areas, it is essential that we understand what these places are and how they operate.

These metropolitan areas are not the economies of 50 or 75 years ago. They constitute a new spatial geography, enveloping city and suburb, township, and rural areas in a seamlessly integrated economic and environmental landscape.

Let’s look at the Seattle metropolis, an economy with a population of 3.35 million people spread over 3 counties, four major cities and a total of 78 municipalities.

In the past we tended to focus on the differences between these parochial jurisdictions.

Yet these differences melt away under economic inquiry.

The assets the Seattle needs to compete nationally and globally are spread throughout the region:

Major employment hubs …

Key colleges and universities ….

Major hospitals and health care facilities…

A network of parks and green space…

And the infrastructure—airports, rail and transit, and the road network—needed to move people and freight.

The cumulative impact of these assets is stunning.

The Seattle metro contributes more than 69 percent of the state's economic output but houses only 51 percent of the population of the state of Washington.

Incredibly, 94 percent of the states' economic output is generated by the state's 12 metropolitan areas.

Washington is a "Metro State."

And Washington is not alone. Metro areas generate the majority of gross domestic product in 44 of the 50 states.

The United States is, incontrovertibly, a "Metro Nation." The real question facing the nation is whether we begin to act like a Metro Nation and organize and invest in our assets to achieve productive, inclusive and sustainable growth.

**This leads to my third point: Greater Seattle is well positioned to take supreme advantage of this Metro Moment… but it will require a higher degree of metro focus and collaboration to realize your true potential.**

Seattle is well positioned precisely because you have the assets, the stuff, that drives prosperity.

You are already a hub in the global trade network. Exports—transportation equipment, computers and electronic products—already make up a substantial portion of the metro's gross metro product. In 2007, Seattle's goods exports totaled $46.3 billion, representing 23.4 percent of GMP. By contrast, U.S. goods exports are just 9.1 percent of GDP.

You are a leader on innovation. Patents are twice the national average (for the top 100 metros). NSF and NIH funding are three times the national average. Venture capital, three and a half times.

The University of Washington is the gift that keeps on giving. The university brings in over $1 billion in grants and contracts from outside public and private sources annually. The university wins more federal research funds than any other public university in the country, second nationally behind Johns Hopkins.

According to the Milken Institute, Greater Seattle is the nation's number two high tech sector in 2009… which now places the metro ahead of Boston and just behind Silicon Valley.

Your people and their human capital are your true source of innovation. The metro ranks 11$^{th}$ in the nation among the top 100 metros on share of the population 25 years and older with a bachelor's degree.

Your infrastructure reflects your position as an international gateway for trade and commerce. In 2008, the Seattle-Tacoma combined ports were the third largest maritime port by volume, handling 7.8 percent of the U.S. total container volume. This puts it behind the LA/Long Beach combined ports, which handled 36.5 percent of U.S. maritime container volume and the NY/NJ port, which handled 14.2 percent.

Your light rail system, after decades of delay and diversion, is already out performing initial projections.

And then there is the quality of this place. The breathtaking location. The sheer volume of historic buildings and communities. The distinctive aesthetic mix of manufacturing production and a working port combined with livable, quality neighborhoods.

Bit by bit, piece by piece, key leaders in this region—public, corporate, civic, university, environmental, community—are taking steps to leverage these incredible assets and address the daunting challenges that metros face:

- the constant pressure to innovate in the face of global competition;
- the legacies of the industrial economy—aging infrastructure and polluted lands, rivers and lakes;
- the imperative of educating disadvantaged youth in inner cities and older suburbs;
- a shortage of housing that is affordable to workers;
- growing traffic congestion; and
- the environment shaping effects of climate change

Led by the Seattle Trade Development Alliance, you have become one of the most globally fluent of America's metros with deep and growing networks between metropolitan leaders and your key trading partners, nations like China, Japan, Canada, India, South Korea, Taiwan, and Singapore.

Led by the Puget Sound Region and Council and its Prosperity Partnership, you are getting better at metro-wide collaboration and smarter on cluster-based economic development.

Led by Mayor Greg Nickels, the city got a head start on climate action and energy innovation. According to the Pew Center on Global Climate Change, Seattle has already reduced greenhouse gas emissions 8 percent since 1990, partially through the implementation of green building standards in public facilities and alternative fuel vehicles. That meant you were ready to be creative with the American Recovery and Reinvestment Act and use new resources to catalyze new markets in residential energy efficiency and jump start the use of electric vehicles.

Led by civic and philanthropic efforts like Thrive by Five and SkillUp Washington, you are setting game changing goals and taking ambitious around early learning and post secondary educational attainment.

Led by the Cascade Land Conservancy, you are actively planning for growth, making the links between revitalizing your cities and older suburbs and conserving your forests and farmlands and shorelines and parks and natural areas.

The fact is this. There are some remarkable initiatives at work in this metropolis and smart examples of multi-jurisdictional, multi-dimensional alliances that are geared to market shaping change.

But there are limits to such discrete interventions.

All these separate initiatives do not quite add up to a clear, crisp, consensus vision for the metropolis. The metro is inching towards the kind of decisive, nimble, wider-reaching governance networks that are necessary to master today's super-sized problems. But the metro still seems overly fragmented by government structure and issue silos and stovepipes. Now is the time to pull these disparate activities together, forge a common vision and then align federal and state investments in service of the goal.

And there are cultural attitudes and approaches to governance and community action that seem at times a relic of an earlier, simpler time. As I wrote in an op-ed for the *Seattle Times* yesterday,

> The metropolis is well known for its laudable commitment to community engagement and democratic process. Yet the "Seattle Way" has a nasty habit of delaying decisive actions. Light rail transit took decades to achieve. The hard-negotiated Alaskan Way Viaduct solution, crucial to the port and the family wage jobs it supports, may be headed in the same direction. Transformative investments like Forward Thrust in the 1960s seem near impossible today.

So there is room for improvement at the metro scale.

Perhaps it is time to formalizing and routinizing a Metro Mayors Caucus, as in Denver and Chicago.

Perhaps it is time to consider expanding the powers of the Puget Sound Regional Council, as in Stuttgart (where a regional entity is given the authority to set and implement economic development strategies for the metropolis).

Perhaps it is time to consider using your full technological power and apply the broader use of market mechanisms and congestion pricing as in London and Singapore.

Perhaps it is time to consider shifting to a direct, elected government as in Portland to sharpen and heighten public discourse in the metropolis and give the disparate, ambitious innovations mentioned above more legitimacy with the body politic.

It is time, in short, to take Greater Seattle to a higher plane of intentionality and impact. A Metro Moment demands that metros act like metros.

**That leads me to my final proposition: Greater Seattle cannot go it alone: realizing your potential requires the Two Washingtons, Olympia and D.C., to embrace a 21$^{st}$ Century brand of Metro Policy.**

**N**o matter how much Seattle focuses and innovates, it does not have the resources or powers to "go it alone." And it shouldn't have to.

The forces affecting metros are the same ones that are buffeting our nation.

The movements of talent and capital or the drift of carbon emissions take place at the global scale and have impacts and implications that transcend parochial borders.

Thus, a metro can focus on building its economic strengths and finding new ways to further innovation, but its economy is profoundly influenced by federal monetary, trade, energy regulatory and investment policies.

A metro can focus on reducing income disparities and elevating the education and skills of its workforce, but only the federal government can close the gap between wages and the cost of living.

A metro can focus on reducing congestion and implementing market shaping infrastructure investments, but the federal and state governments are the major financiers of such investments.

And a metro can do what it can to address the "existential threat of global warming," by promoting green building, transit oriented development, urban regeneration and renewable sources of energy, but only the federal government can set standards and regulate industries on a national scale.

A rapidly changing world demands that the federal and state governments serve as strategic, flexible and accountable partners so that metros can address their central problems, realize their full potential and, in so doing, resolve our most pressing national challenges.

At the core of Metro Policy is a call for a new federalist compact.

This compact should have three essential components:

First, the federal government should lead where it must. Global challenges, broad in scale and geographic reach, require national solutions. Only the national government can set a strategic vision for the entire country, address issues that naturally transcend state borders and establish a unified framework for smart private and public sector action.

Next, the federal government must empower metros where it should. A nation of our size and diversity displays immense variation. Minneapolis is not Miami. Charlotte is not Cleveland. Phoenix is not Pittsburgh. Federal policy must enable these and other metropolitan areas to bend national policies to their own distinctive market realities and strengths.

The final piece to our federalist puzzle: the federal government must maximize performance and fundamentally alter the way it does business in a changing world. It is time for Washington to Get Smart and become a fact filled rather than fact free zone.

It is also time for the federal government to use its powers to align the delivery of key investments and policies with the true geography of the economy, the shifting geography of work and opportunity and the broader footprint of the built environment.

We need a 21st century federalism, in essence, that marries national vision and purpose with local and metro implementation and invention and couples public sector engagement with private sector energy and discipline.

The good news is there are early signs that Barack Obama's administration "gets" and embraces this new vision of Metro Policy, but there is still a long way to go.

At the paradigmatic level, President Obama talks about city and metropolitan areas in a modern way, a sharp departure from traditional rhetoric. On July 13th the president launched the White House Office of Urban Affairs, laying out a new vision for a federal/metropolitan partnership in service of productive, inclusive, and sustainable growth. The president's embrace of the new metropolitan framework is critical since policy choices are ultimately derivative of broader paradigms.

Beyond rhetoric and framing, investments in both the American Recovery and Reinvestment Act (ARRA) and FY 2010 budget seem metro friendly on the surface because they are investing in the key assets: Innovation, Human Capital, Infrastructure and Quality Place.

On innovation, ARRA invests tens of billions in federal research and development, both through old agencies (e.g., NIH, DOE, NOAA, NASA) and a new one, ARPA-E.

ARPA-E supports cutting-edge energy technology bridging between the gap between basic research and the commercialization of product

On human capital, there is $77 billion in direct funding for education, including billions in funds for incentives to states and innovations in urban school districts.

On infrastructure, there is $152 billion in spending across a slew of categories, including $57 billion for transportation, $17 billion for energy grid, $13.2 billion for water infrastructure and $10.5 billion for technological infrastructure.

And on quality places, Congress has enacted billions in spending and tax incentives for energy retrofits, inner city business development, community development, transit, and brownfields

The president's FY 2010 budget goes even further, proposing a $150 million Sustainable Communities Initiative to develop integrated regional plans that link housing, transport, jobs and land use, a $250 million Choice Neighborhoods Initiative to make game changing interventions in neighborhoods of high poverty and an Infrastructure Bank to make market shaping investments in a range of infrastructure assets, through, in part, the leveraging of private sector financing.

Yet the Recovery Act also unveiled limitations of existing system.

Take transportation spending, which the Recovery Act primarily runs through state departments of transportation. Where is this funding going? Well, the history of state DOTs is to spread infrastructure funds like peanut butter on a slice of bread... to satisfy the political logic of state legislatures rather than the market logic of investing in major metropolitan areas, the centers of population and economic activity.

Incredibly, many state DOT plans submitted prior to the enactment of the Recovery Act did not identify a single investment within major cities and metropolitan areas. Building new roads in rural counties will create jobs… but will not produce economic recovery.

Folks, we have a lot of work to do to remake a national government in the image of this century and this Metro Nation.

So what does Metro Policy look like in practice?

Let's take infrastructure as an example of how Metro Policy might work.

What if the federal government leads again, as in the 1950s, and sets forth a national transportation vision that fits the challenges of our time, namely to facilitate the movement of people and goods within and among the metropolitan gateways of international trade and the major corridors of inter-metropolitan travel.

It is economic and environmental suicide to expect our major ports, freight hubs and rail corridors to do what it takes, on their own, to stay one step ahead of global forces.

And it is fiscally irrational and irresponsible to expect that a system of congressional earmarks will get the job done.

Our response: identify, map, prioritize, finance, and then implement those investments that will have the largest return for the nation, economically and environmentally.

Take politics out of the system and invest in what matters: Intermodal facilities at our congested ports and freight hubs. High speed passenger rail in our critical corridors. All capitalized with a mix of public and private sector finance.

Beyond leadership, the federal government must also empower metros where it should by enabling metropolitan areas to tailor national policies to their own realities.

We recommend that the federal government empower metros by issuing a Sustainability Challenge.

Just imagine if the federal government said to the Greater Twin Cities or Greater Dallas or Greater Cleveland or Greater Charlotte: “Show us a plan to reduce greenhouse gas emissions and lower your carbon footprint from combined changes in housing, transportation, land use and energy and we will provide additional resources as well new powers to align disparate federal programs.”

We think metro areas would rise to such a challenge. Metros might propose to concentrate mixed use facilities and mixed income housing around transit stations. Or they might decide to institute congestion pricing, or extend transit and commuter rail.

Let’s face it: With volatile gas prices and the climate threat, unbalanced growth is no longer an option, for people or places.

So that brings us to the final part of the new federalist compact, namely the need to maximize performance of the vast partnership between federal government, states, localities, and the private and voluntary sector.

Here is the challenge is to replicate the intricate web of data, metrics, analytic tools and spatial planning techniques now routinely deployed by Germany, Britain, Denmark and other European nations so the United States can make decisions based on fact and evidence rather than political horse-trading as well as measure our progress towards clear national priorities.

Ask any corporation. Information moves markets. Information creates wealth.

A relatively small federal investment in the tens of millions will ultimately mean that public and private sector investments in the hundreds of billions can be smart and strategic.

But information is not sufficient nor is just sending more funding directly to metros (though that would help).

We need to build a network of competent and capable, representative and accountable metropolitan entities in the U.S.

We need representative metropolitan entities that align decision making proportionally with the populations of cities, developed suburbs and developing suburbs.

We need accountable metropolitan entities that set performance measures for reducing sprawl, ensuring fair share housing, reducing segregation and reducing fiscal inequality between jurisdictions.

And we need to hold states to the same level of accountability and transparency as they make decisions on allocation.

Logically, a true Metro Policy would place the federal government squarely in the service of metropolitan prosperity. The current federal system compels metros to apply for resources from multiple agencies and abide by the disparate, often conflicting rules of dozens of separate programs. A more sensible system would give metros the flexibility to align federal investments with locally driven business plans that lay out clear strategies for investment (following the opportunities of distinct economies) and adhere to a strenuous and sustained set of performance measures.

Such a Metro Policy would literally flip the current federal system on its head, placing responsibility for program design and prioritization where it belongs: at the metro level.

**Conclusion**

Let me end where I began.

The United States enters a new century with a new geography and a new face.

We are no longer Jefferson's nation of rural hamlets and small towns, with economies that are internally focused and self reliant.

Rather we have emerged as the world's preeminent economic power precisely because we are now a network of metropolitan areas that are integrated and connected with their sister economies across the globe.

Our challenge is to get comfortable in our new metropolitan skin and alter the way we govern so that our metro communities can achieve their fullest potential as our engines of national prosperity.

The federal government, at a time of economic crisis, social challenge and unprecedented environmental pressure, can catalyze the move toward metropolitan governance and, in so doing, pave the way for decades of growth and development that is literally smart and sustainable.

We need a Metro Policy for a Metro Nation.