A Blueprint for American Prosperity:
Unleashing the Potential of a Metropolitan Nation
Washington, D.C.
November 6, 2007
Presentation Delivered by Bruce Katz
Vice President, Brookings Institution

Thank you Jim and Strobe for those introductions and, more importantly, for your leadership of this institution and your unwavering support of this endeavor.

I would like to add my welcome to Brookings. Many of you here today, and watching by web, have worked closely with the Metro Program over the past 11 years and we are grateful for your guidance, collaboration, and friendship.

One year from today, the United States will elect its 44th president, the first election since 1952 when no incumbent president or vice president will run as the nominee of either political party.

But the 2008 election is important for other reasons.

My talk today will offer the following propositions:

First, dynamic, often unsettling forces are transforming the world in which we live, posing stark, urgent challenges for the nation.

Second, to prosper, nations must leverage four key assets—innovation, human capital, infrastructure, and quality places—which concentrate at an unprecedented level in metropolitan areas.

Third, across the U.S., city and suburban leaders are at the cutting edge of innovation. Yet they are, for the most part, "going it alone" since the federal government is outdated and out of step with rapid change.

Finally, the U.S. needs a Blueprint for American Prosperity, a new federal partnership with state, local, and private sector leaders to strengthen metropolitan economies, build a strong and diverse middle class, and grow in environmentally sustainable ways.

At a time of great national challenge, where the stakes could not be higher, we need our federal government to be purposeful, deliberate, disciplined, and cognizant of the new spatial realities in America.

In sum, we are a full fledged Metro Nation and need to change our mental map of the United States, from a union of 50 states to a network of 363 highly connected, hyper linked, and economically integrated metropolitan areas.

The calculus is quite simple: our nation's ability to grow and prosper and meet the great social and environmental challenges of our time is **at risk** unless these metropolitan engines of national prosperity are healthy and vital.

We are a Metro Nation; it is high time to start acting like one.

So let me begin with the initial frame: dynamic forces pose stark challenges that test American prosperity.

America begins a new century in an enviable position. Our $13.2 trillion economy is the world's largest by far. We represent just 5 percent of the world's population, but generate 20 percent of the world's economic output. This compares well with our major competitors: countries like Japan, Germany, and China.

Yet beneath these positive realities lie signs of intense disruption and structural change.

Three challenges stand out.

First, our ability to extend prosperity is tested by rising competition abroad and continued restructuring at home.

<u>We are experiencing a global economic revolution:</u>

The global labor market has literally doubled since 1980 as previously isolated nations—China, India, Brazil, Russia—have embraced mainstream capitalism.

China alone accounted for roughly 30 percent of global economic growth during the first half of the current decade. And fully half of the Fortune 500 companies in the United States have established off-shoring relationships in India.

Both countries and others aspire to compete directly with us at the highest, most knowledge intensive levels of the economy.

<u>Economic changes abroad have fundamentally altered what Americans do at home:</u>

Since 1970, the share of our labour force employed in manufacturing has declined from 25 percent to 10 percent. Today, service industries employ more than two thirds of our workers.

While this shift has enabled many Americans to be employed in high-value service sectors such as finance, consulting, and legal, many more are employed in lower-skill, low-paying niches such as hospitality, child care, and food services.

Our people are anxious and uncertain about the nation's economic future … and rightly so.

Second, our ability to share prosperity is threatened by widening income inequities and a growing demographic divide on education and skills.

With economic changes, wages have grown more unequal:

U.S. workers without a high school diploma saw their real wages stay virtually the same over thirty years.

By contrast, individuals with a college degree experienced significant real wage growth over this period.

Our changing economy has created an "iron law of wages:" namely, "the more you learn, the more you earn."

The real income gains, of course, are at the upper end of the economy. The top 300,000 earners in our country collectively have almost as much as income as the bottom 150 million—nearly half the population.

Given changing demographics, income inequality could worsen over time:

An estimated 51 million baby boomers will retire by 2030, a number greater than the cumulative population of our 25 smallest states.

Who will take their place? A younger, more diverse workforce.

By 2050, African Americans and Hispanics will grow from about 25 percent to nearly 40 percent of the working-age population, and will account for more than 90 percent of total growth in that age range.

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

In 2006, only 13 percent of Hispanics and 18 percent of African Americans between the ages of 25 and 44 held a bachelors degree, compared with 34 percent of non-Hispanic whites and 59 percent of Asians in the same age group.

Our workers are anxious and uncertain about their own futures and those of their children … and rightly so.

Finally, our ability to sustain prosperity is challenged by rapid population and development growth.

The United States already faces hard choices on the environment:

We are the world's largest energy consumer and the largest emitter per capita of greenhouse gases. This is not just about coal fired power plants or lagging auto technology.

Our sprawling patterns of development help explain why the U.S. continues to rank first among major world economies in per-capita carbon dioxide emissions, with roughly double the emissions rate of the United Kingdom and Germany.

Our projected growth will exacerbate these challenges:

Unlike European nations, the US is projected to grow rapidly—by another 120 million people by 2050. Incredibly, that is the equivalent of growing another Northeast and Midwest in just the next 43 years.

It is estimated that just between now and 2030 we will develop another 213 billion square feet of homes, retail facilities, office buildings and other structures. That's double the amount of built space in the United States today.

How we accommodate a growing population and economy—whether we break the pattern of "sprawl as usual"—will significantly influence whether we secure our energy independence and forge solutions to global warming and climate change.

Our citizens are worried about the environment that they are passing on to the next generation … and rightly so.

So here is our second proposition: to prosper, our nation must leverage four key assets—innovation, human capital, infrastructure, quality places—that principally concentrate in metropolitan areas.

What matters today?

Innovation matters, because a nation's ability to invent and exploit new products, processes, and business models, is critical both to compete globally and resolve challenges like climate change.

Human Capital matters, because innovation demands a workforce with levels of education and skills that are continuously furthered and upgraded.

Infrastructure matters, because state-of-the-art transportation, telecommunications, and energy distribution are critical to moving goods, ideas and workers quickly and efficiently.

And, ***quality places matter***, because a changing economy, expanding population and challenged environment revalue cities and the attributes of urban places—dense form, diverse populations, distinctive neighborhoods, downtowns, and waterfronts.

Leveraging these four assets and maximizing their impact and potential is the only way that the United States can meet our historic challenges.

So where do we find these central assets?

Well they do not exist in the abstract, nor are they evenly distributed across the landscape of nations. Rather, they come together, gather, and strengthen in metropolitan America.

Here is the real heart of the American economy—100 metropolitan areas that after decades of growth constitute 65 percent of our national population and concentrate the workers and firms that fuel the economy.

In the U.S., as abroad, high-value economic activity is clustered in major metropolitan areas.

Globally competitive firms crave proximity—to thick pools of qualified workers, to specialized legal and financial support, to institutions of higher learning, to modern infrastructure, to other firms so that innovations can be rapidly shared.

This is not just an American phenomenon. A majority of the world's population now lives in urban and metropolitan areas; by 2030, that share will grow to 60 percent.

Across the globe, national economies are largely fuelled by metropolitan economies.

There are now over 400 metros in the world with over one million residents, compared to only 12 in 1900 and 83 in 1950.

There are now 20 mega-metros with populations of more than 10 million people—only two of which, New York and Los Angeles, are in the United States.

The big places are getting bigger.

So what is a metro?

Well, the official definition is pretty straightforward: A dense area of 50,000 or more people, together with the surrounding jurisdictions from which it draws the bulk of its workers.

But the best way to get a handle on this question is to view these places from the ground up.

Let's take Chicago as an example, a humming, thriving economy with a population of 9.5 million people spread over 3 states, 1 major city, 6 satellite cities, 14 counties … and 554 separate municipalities and townships.

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

Yet these differences melt away under economic inquiry.

The assets Chicagoland 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 Illinois portion of Chicagoland contributes more than 78 percent of the state's economic output but houses only 67 percent of the population of the state of Illinois.

Incredibly, 93 percent of the states' economic output is generated by the state's 11 metropolitan areas.

Illinois is a Metro State.

Chicago's story is a fairly typical American narrative.

Across the U.S., our metropolitan areas concentrate those assets that matter most in today's economy.

The top 100 metro areas alone take up only 12 percent of our land mass but house 65 percent of our population and generate 75 percent of gross domestic product.

On innovation, they produce 78 percent of all patents, 80 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 handle 75 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.

With these assets, our major metros concentrate the economic clusters that drive our national economy:

- Motor vehicles in Detroit, Cincinnati and the metros of the industrial heartland;
- Aerospace in Seattle, Dallas and St. Louis;
- Pharmaceuticals in Northern New Jersey, San Francisco and the Research Triangle;
- Finance in New York, Chicago, and Boston;
- Information technology in Silicon Valley, Atlanta and Washington, D.C.;
- Energy in Houston, New Orleans and Los Angeles; and so on and so on.

The bottom line is this: U.S. metros are driving not just our economy but the global economy.

But just as the economy is concentrated in major metros, so are many challenges:

- 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.

This now takes me to my third point: local and regional leaders are innovating to resolve these challenges, but they cannot go it alone.

Across the U.S., city and suburban leaders are at the cutting edge of innovation, bubbling up the energy and ideas for national change

Metros like Greater Cleveland, Milwaukee, Raleigh-Durham, and San Diego are making strategic investments in the clusters that drive their economies and the myriad institutions —job training firms, community colleges and research universities—which support those clusters.

Yet a metro cannot "go it alone." A metro can focus on building its economic strengths, but its economy is profoundly influenced by federal monetary, trade, regulatory, and investment policies.

Metros like Greater Chicago, Los Angeles, Miami, and New York are building the middle class by working to integrate immigrants into mainstream economies, produce affordable workforce housing close to employment hubs and boost educational attainment rates.

Yet a metro cannot "go it alone." A metro can focus on reducing income disparities, but only the federal government can close the gap between wages and the cost of living.

Metros like Greater Dallas, Denver, Kansas City, and Seattle are trying to grow in sustainable ways by remaking traditional downtowns, investing in state-of-the-art transit or advancing the building of energy efficient housing.

Yet again a metro cannot "go it alone." A metro area can focus on environmental sustainability, but only the federal government can regulate industries on a national scale.

A rapidly changing world, in short, demands an accountable, strategic, dependable partner at the national level if metros are to resolve their myriad challenges and realize their full potential.

Our global competitors are beginning to provide this kind of leadership.

China is well on its way to building the most sophisticated network of ports and freight hubs in the world while trying to replicate our network of advanced research institutions and universities.

Germany is strengthening the rail and telecommunication connections between major metropolitan areas like Berlin and Hamburg and Frankfurt and Munich … and the rest of their country.

Spain has become a hothouse of alternative energy production in wind and solar power, spawning new specializations in finance, investment, and legal fields.

Yet America's metros find our national government strangely adrift, ignorant of the dynamic changes sweeping the country and the new spatial geography of our economy.

Our federal government is mostly a legacy government, a collection of ossified agencies carrying out decades old programs and policies through means and mechanisms suited to a pre internet world.

As a result, our federal government is out of step with rapid change and is failing to leverage those assets that drive, secure and sustain prosperity.

We know that innovation is the fuel that drives our economy and the key to unlocking sustainable solutions.

Past federal investments in science unleashed new domestic markets in health care and information technology. Yet federal innovation policies today are highly fragmented, insufficiently attentive to the commercialization of research and blind to how innovation and jobs arise from the intense interaction of firms, industry associations, workers, universities, and investors.

The result: America's historic lead on innovation is shrinking, productivity growth is faltering, and the nation's ability to compete in next generation clusters like renewable energy is slipping.

We know human capital is the raw material that furthers innovation and that education is the ticket to the middle class.

> Past federal policies helped build a network of higher education institutions which are the envy of the world. Yet federal education policy today is intensely compartmentalized, failing to draw the critical linkages between K through 12, college education and skills training so that proficiency in lower grades translates into high school diplomas and college degrees.
>
> The result: America's education pipeline is leaking, with the U.S. ranked 16th among industrialized nations on the share of individuals who start and then complete higher education and with only 10 of every 100 African Americans and Latinos entering ninth grade earning a post-secondary degree.

We know infrastructure is the tissue that connects us to the world, knits our nation together, *and makes our metros function.*

> Past federal investments in road, rail, and air made this country what it is today. Yet federal infrastructure policy today is an unaccountable free for all, geared more to building bridges to nowhere than maintaining the ones we have, developing world class transit or unblocking the movement of freight at our sea, rail, and air hubs.
>
> The result: physical neglect and congestion now seriously compromises the efficiency of a network crucial to the national interest, with a price tag conservatively estimated in the hundreds of billions.

We know quality urban places are critical to our ability to attract and retain innovative firms and talented workers and grow in energy efficient and environmentally sound ways.

> As Secretary Cisneros will attest, federal policies in the 1930s and 1970s helped transform the downtowns of cities like San Antonio. Yet federal housing policies today fuel the expansion of McMansions at the periphery of metropolitan areas, while failing to address the rapid suburbanization of poor people and employment opportunities.
>
> The result: dispersed, low density growth—energy sapping, congestion inducing, fiscally dissipating—dominates the American landscape. We are simply unprepared to accommodate the next 50, let alone 120, million Americans.

So we come to our final point: changing times demand a Blueprint for American Prosperity, a new federal partnership with state, local, and private sector leaders to strengthen metropolitan economies, build a strong and diverse middle class, and grow in environmentally sustainable ways.

We have come to a point in our nation's economic evolution where the roles and relationships between different levels of government need to be reexamined and radically rethought.

The mid 20th century model of a federal government sitting on top of a pyramid, raining down resources to states and localities, worked well for the 1930s and 1950s, when the nation was still building out and connecting within.

The late 20th century model of devolution pushed responsibilities out of Washington, down to states and localities, sometimes with sufficient resources and flexibility, oftentimes not.

We now need a 21st century compact, a shared partnership which reflects the distinctive realities of our moment: fast moving, super-competitive, volatile, and metropolitan led.

Clearly, there are critical areas of domestic policy where the federal government must lead because of the need to have national uniformity or match the scale or geographic reach of certain problems.

Yet there are other areas of domestic policy where metros should lead—where we should, in essence, "flip the pyramid," and put the federal government squarely in the service of state and local leaders whose quintessential knack for solving problems are driving this country forward.

So what does this look like in practice?

Over the course of the next year, our Blueprint for American Prosperity will lay out concrete reforms for the next Administration and Congress that can measurably advance key national priorities:

- Boosting innovation and productivity;
- Making work pay for low-wage workers;
- Replicating the best examples of urban school reform;
- Achieving higher and higher levels of educational attainment;
- Integrating immigrants into the mainstream of American life;
- Increasing the supply of workforce housing;
- Improving transportation within and across metros; and
- Making energy efficiency in our homes part of the solution to climate change.

We are working closely with our metropolitan partners to ensure that each of our recommendations builds from their innovations and is geared to unleashing the energies and talents of entrepreneurs and leaders across the country.

Here are some specific ideas we are thinking about.

First, what if the federal government **leads where it must**, engaging in those crucial areas that demand national vision, scale and capacity?

> We will recommend embracing a federal infrastructure vision for **our** times that is evidence based, outcome driven and performance measured and uses infrastructure to advance broader national priorities rather than narrow, parochial aims.

We will, of course, recommend funding states to maintain and preserve our vast interstate system. But we will propose focusing targeted attention on those gateways and corridors that are the critical nodes of international trade and inter-metropolitan commerce—ports like Los Angeles/Long Beach (the fifth busiest in the world), rail freight hubs like Chicago, passenger rail corridors in the Northeast and the Southeast, air freight hubs like Memphis and Louisville.

We will also recommend giving major metropolitan areas the resources they require to expand transportation choices as well as the incentives they need to reduce congestion through smart interventions: technological advances, market pricing, innovative financing, sensible growth.

Second, what if the federal government **empowers metros where it should,** giving cities and suburbs the ability to tailor federal tools to metropolitan realities?

We will recommend that federal housing policy be revamped to enable cities and suburbs to produce economically integrated workforce housing in the right places — near employment hubs, near quality schools, near transit corridors—and give localities the incentives to reduce regulatory barriers that unnecessarily constrain market supply and inflate costs.

For the first time, housing planning would be tied directly to transportation decisions, and the administration of housing programs like vouchers would be carried out by metropolitan entities rather than parochial bureaucracies, so that the geography of housing opportunities matches the geography of housing markets.

Finally, what if … what if … the federal government **organizes for success** to maximize its own effectiveness and further release the creative energies of states, localities, and the private sector?

We will recommend a new national innovation policy.

At the heart will be a purpose-driven National Innovation Foundation to bring under one roof and ramp up the government's fragmented efforts to boost commercial innovations in fields such as precision manufacturing, information technology, clean energy, and the environment.

Modeled on successful efforts in Europe and Asia, the Foundation will both align with the new reality of mass innovation—investing in smaller firms, a broader array of sectors—and enable metros to tailor what are now a blizzard of separate, unrelated programs and policies to their own clusters of economic strengths.

Now I know what some of you might be thinking.

You may be asking, as *TIME Magazine* famously queried months ago, "Who Needs Washington?" After decades of federal drift, isn't state and metropolitan innovation sufficient to take America forward?

We believe the right question is "What could we accomplish as a nation if Washington got smart?" Whether we appreciate it or not, the federal government **is** involved—with money, rules, powerful institutions—in large sectors of national life. The challenge is to how to make the federal involvement catalytic and current with the dynamic changes at play in our nation.

And we believe Change Is Possible, because we see it every day in dozens of metro areas across the country where bipartisan coalitions come together to solve pressing challenges. Our national leaders need to be equally pragmatic and results oriented.

Let me end where I began.

A new global order has positioned metropolitan areas as the engines of our national prosperity and the vehicles for achieving social progress, and environmental sustainability.

Our metropolitan communities face historic challenges that test their prosperity and that of the nation … but they also have ample assets, dedicated leaders, and boundless potential.

In the next year, we need to use this historic presidential election to galvanize a discussion of what is possible in our Metro Nation.

> We can spur innovation in our firms and workers and create vast new markets for high value American products and services … and, by so doing, attain the good life for hundreds of millions of Americans.
>
> We can build an educated and highly skilled workforce that is racially and ethnically diverse and, by so doing, both maintain our competitive edge, and narrow the historic disparities that have marred our democracy.
>
> And we can accommodate the next 120 million Americans in quality communities and, by so doing, augment our energy independence, protect our environmental treasures, and enhance our quality of life.

These things are possible but they require a new national vision and a new federalist compact that recognizes once and for all that we are a strong and vibrant Metro Nation.

I firmly believe that America can act with vision, with imagination, and with confidence.

I firmly believe that our nation can master the possibilities of the 21st century.

We are a Metro Nation … and now it is time to start acting like one.