Taking the Urban Road to Connecticut's Future
Benchmarking Connecticut 2006 Conference
Keynote Address by Bruce Katz
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Introduction

I want to thank you for the invitation to speak today… and to share my thoughts on the superb report released by the Connecticut Economic Resource Center.

This report is issued during a transformative period in the United States. Our country is going through a period of dynamic, volatile change, comparable in scale and complexity to the latter part of the 19th century.

Large demographic forces—population growth, immigration, domestic migration, aging—are changing patterns of consumption and settlement and lifestyle. Broad market forces—globalization, technological innovation, standardization—are restructuring the US economy, changing what we do, how we do it, and where we do it.

These forces change the rules that now determine economic success—for families, for communities, for regions in the United States.

I believe four new rules now drive prosperity.

Rule Number One: How You Stimulate, Support and Sustain Innovation Determines the Pace and Shape of Economic Growth. As Paul Romer wrote in the early 1990s, "In a world of physical limits, it is the discoveries of big ideas… together with the discovery of millions of little ideas... that make persistent economic growth possible." Contrary to popular perception, innovation permeates and is critical to all sectors and clusters of the economy.

Rule Number Two: What You Know Affects What You Earn as a Family and Whether You Prosper as a Community. In our changing economy, higher and higher levels of education are the keys to prosperity for families and competitiveness for regions

Rule Number Three: How You Grow Physically Affects How You Grow Economically. Density and compact development matter in the innovative, knowledge economy. For the first time in a long time, cities and urban places and the urban form matter again as a competitive proposition. And affordable housing – its supply and location – also matter.

Finally, Rule Number Four: How You Govern… and Whether You Govern Regionally… Determine Your Economic, Social, and Physical Destiny. In a changing economy, regional cohesion and less governmental fragmentation is the only way to adapt to rapid demographic and economic change. Irrespective of administrative geography, communities need to make a few big bets—on innovation, on quality places, on government efficiency—and stick to them over time, through political and market cycles.

The Benchmarking Report that is released today is remarkable for its thoughtful, grounded discussion of the first three rules… and its unvarnished picture of how the state is performing economically.

I cannot impress enough how important independent, rigorous and objective analysis is in charting a course for this state that builds on your real assets and special attributes.

I particularly applaud your commitment to advancing the goal of economic growth in a state where growth is neither in the DNA of the state, as in Arizona or Texas or North Carolina, or an aspiration, a hunger, shared by political, corporate and civic leadership, as in Ohio, Pennsylvania, and Michigan.

Given your work, I think I will add the greatest value to your conference by focusing my remarks on the "what next" part of the report.

In doing so, I would first like to discuss the **primacy of states** and describe why states are the right focal point for addressing the five critical areas that you have identified for action—education and training, vibrant cities, affordable housing, effective transportation and business investments.

I would then like to hone in one of the central themes of your report—the **importance of cities and urban places—**and argue for a five point plan in restoring the urban cores of Connecticut. This five point plan—to be unveiled in a major Brookings report on "weak market cities" next spring – frames and encompasses the other policies you recommend and builds on policy innovations and advances that are underway in States throughout the Northeast, Midwest and Mid Atlantic, states comparable to Connecticut.

And I would like to conclude by circling back to my fourth rule of prosperity and focus on the real **need for governance reform** in the state of Connecticut—both to free up resources for necessary investments as well as guard against the fiscally wasteful, economy draining development patterns that permeate this state.

So let us begin with the **Primacy of States**

As your recent Congressional elections illustrated, America is a republic that is obsessed with the goings on in the nation's capital, the federal level of our government. Since the 1960's, the federal government has been seen by many constituencies as a deus ex machina; able, if not willing, to set all things right economically, spatially, socially, and environmentally.

This national obsession with all things federal belies the central role that States play in promoting competitiveness and sustainable prosperity.

Five state roles deserve particular consideration.

First, states set the geography and powers of local governance. They decide how many units of general purpose local government there are and then decide whether the boundaries of these local governments are fixed or subject to change through annexation—whether they are, in the words of David Rusk, "little box" or "big box." They then determine what powers to delegate to lower levels of governments, be it local municipalities, counties or even regional entities, and establish the parameters for how those responsibilities are exercised.

Second, states establish the fiscal playing field for municipalities and school districts. They decide the form of taxes that municipalities can impose on residents and businesses—property taxes, sales taxes, incomes taxes, fees. They also determine the extent to which the state levels the playing field between rich and poor jurisdictions through general or specific tax sharing efforts.

Third, states influence the skeleton of regions through their investments in physical infrastructure, highways, transit, affordable housing, main streets, downtowns, public parks, and green space. How and where states distribute economic development subsidies (whether to lower-end retail projects in the greenfields or high-value pursuits in established areas) also makes a big difference.

Fourth, states help shape the quality of the economic growth that occurs within their borders in a myriad of ways: their investments in schools and skills (K–12, community college, 4 year universities, workforce development); their investments in advanced research and innovation; and their regulation of major sectors of the economy, like insurance or banking.

Finally, the states help shape the opportunity structure for low wage workers, through their own interventions on, inter alia, the minimum wage, state earned income tax credits, health care coverage and immigrant policy.

Our work has convinced us of two things. Given these five roles, states matter. They have a critical impact on America's ability to compete in the new global order—perhaps the central challenge facing the United States in the 21st century. Yet, and here is the kicker, states are a long way from realizing their potential… and, in many respects, are actually undermining their competitive attributes.

Let me give one shining example that goes to the heart of your report and your ability to grow an innovative and entrepreneurial economy: the **importance of cities and urban places.**

Your report acknowledges that how you grow physically affects how you grow economically. Cities and the attributes of "cityness"—diversity, density, distinctiveness—have a central role to play in attracting talented workers, spawning innovation, and stimulating the virtuous cycle of sustainable prosperity.

This is particularly true given the attitudinal shifts among America's youth. When I attended university 25 years ago, the culture's perception of cities was represented by apocalyptic visions of the urban future like Blade Runner or Escape from New York (where the entire island of Manhattan was incredibly turned into a penal colony). By contrast, for the past decade we have been treated to a different vision of cities as expressed by TV sitcoms like Seinfeld, Friends, and Sex and the City.

Cities, in short, have regained a second life … and metropolitan areas without vibrant cities are now at a severe disadvantage in the competition for young workers.

Well here's the rub. In all the states we have worked, the intersection of these disparate powers and policies has created what I call the "rules of the development game"—rules that favor the creation of new communities over the redevelopment of older ones, rules that promote and even subsidize greenfield development rather than brownfield remediation, rules that often consign low wage workers and minorities to the "wrong side of regions."

Our 2003 report in the Commonwealth of Pennsylvania demonstrated the sprawl-inducing and city-emptying effect of an intricate network of state governance, spending, tax, regulatory, and administrative polices. Among these were:

- State governance policies that chop the commonwealth into 2,566 municipalities and then delegate land use and zoning powers to every single one of these municipalities

- State tax policies that leave cities stranded with tax exempt properties, saddled with the costs of maintaining older infrastructure and responsible for supporting a large portion of school expenses through their property taxes

- State transportation policies that spent only 42 percent of road and bridge spending in older urban communities, where 58 percent of the population lives

- State economic development policies that subsidize industrial parks on greenfields in exurban communities, while perfectly suitable sites on historic commercial corridors lie vacant and abandoned three or five miles away

Our report in Maine released this October documented the buildup over time of state and local rules and regulations—building codes, parking restrictions, zoning ordinances—that make the redevelopment of older places and historic structures cost prohibitive and tilt the playing field to sprawling, exurban development. In that state we heard from developers that "you do one urban project and you're done" – the accretion of regulations and rules and guidelines are just too time consuming and profit draining to make the game worth the candle.

And our work in New Jersey this year showed how that state is distorting real estate markets by allocating a disproportionate share of subsidized housing to struggling cities like Trenton, Newark, and Camden. Thus, the state is reinforcing the concentration of poverty and, in the process, crippling urban schools, weakening urban markets, isolating low wage workers and exacerbating sprawl.

The end result of state policies: the competition—for people, for jobs, for fiscal base—is stacked in favor of new communities.

> Want to attract a new mall or government facility? The state will generously pay for new infrastructure and roads.
>
> Want to grow your fiscal base? The state will allow newer communities to benefit exclusively from residential and job growth—and garner 100 percent of the tax revenues—without taking any responsibility for the impact of growth on regional traffic patterns or the environment.
>
> Want to avoid serving low-income families? The state will allow newer places to zone out affordable housing for low-wage workers, let alone shelters for the homeless and the most vulnerable in our society.

Is Connecticut like Pennsylvania and Maine, or New Jersey? Our work over the years… and our discussions with leaders in the state… has unfortunately convinced us that that is the case.

So how to change?

I don't know if any of you were fans of Seinfeld, but there was one classic episode where George Costanza decides that success dictates that he do the opposite of what he has done before.

Well, that's not a bad place to start when thinking about how state policies need to change to grow a network of sustainable and competitive and livable cities.

When in doubt, do the opposite—don't subsidize residential and employment sprawl, don't concentrate affordable housing in distressed neighborhoods, don't rig the rules of the development game to favor greenfield development over brownfield redevelopment.

Well let me give you a more Brookings oriented schema for policy reform, drawing from our pending report on weak market cities and the positive, reform oriented initiatives that are already underway in many states.

In this upcoming report, we argue that states pursue five interrelated policy strategies to unleash the economic and fiscal potential of cities and urban places.

First, we argue that states build on the economic strengths of cities—the confluence of higher education institutions and major hospitals (the "eds and meds"), the prevalence of regional cultural institutions, the centers of government activity, the valued property along waterfronts and in older downtowns.

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, Yale University—are located in the urban core. Across the country, states are investing billions of dollars in advanced research and innovation and, as a consequence, boosting the economic fortunes of their urban places.

States are also focused on maximizing the economy-sparking, innovation-generating potential of downtown clusters of people and firms, art and culture.

In New York, we recommend, for example, that the new governor, Elliot Spitzer, make attracting 2 percent of metropolitan areas' residents to live in downtown cores the centerpiece of his upstate recovery agenda. As European cities have shown, the critical massing of people would attract amenities that lure businesses and jobs for downtown and metro-area residents, shoppers, and tourists, and help stem the exodus of young workers. Appealing new housing with street-level cafes and shops would bring life and a virtuous cycle of growth to metropolitan hubs. Stamford, Connecticut's strongest city is already realizing the positive impact of having 2.8 percent of its population, 9,860 people, living in its downtown. Just imagine the economic, fiscal and psychological impacts of housing 23,600 residents in downtown Hartford, 10,800 residents in downtown New Haven, and 9,200 residents in downtown Bridgeport.

Second, we argue that states help cities transform their physical landscape. As discussed above, the physical layout of most American cities—mixed use downtowns, pedestrian friendly neighborhoods, adjoining rivers and lakes—is uniquely aligned with the preference of the innovation economy for density and amenities. Yet cities face many practical physical challenges in realizing their economic and fiscal potential.

Pennsylvania and Michigan are at the head of class in helping cities address the physical residue of the prior economy. These states are helping cities return polluted lots, brownfields, to productive use through a mix of tax, spending and regulatory policies.

Pennsylvania and Ohio have passed large bond issues for land conservation and urban revitalization, illustrating the potential for common ground between old and new communities.

Pennsylvania and Michigan have embraced "fix it first" policies in transportation—stopping sprawl-inducing road projects at the fringe in order to fund infrastructure repair and even transit operations in the metropolitan core.

The hard fact is that the infrastructure in many cities—the roads, bridges, water and sewer lines, subway tunnels, school buildings and the like—is old and needs to be recapitalized. Yet there are many examples of infrastructure—elevated roadways that divide cities from valuable waterfront properties, for example—that have outlived their usefulness and are impeding economic growth. Some cities, like Milwaukee, have already decommissioned and torn down sections of their elevated freeways, to great economic and fiscal affect. In many cities, freeway demolition is a critical component of the downtown strategy noted before—again commonplace in Europe since the 1980's.

Third, we argue that states help cities build neighborhoods of choice, communities that give the people who live there access to functioning markets, attractive amenities, quality schools and other essentials of community life. That will require a major rethinking of state affordable housing policies, which have tended to over-concentrate affordable housing in distressed cities—isolating parents from quality jobs and consigning children to urban schools that don't function.

A new state 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 suburban job centers. Ideally, state 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.

Some states, slowly, haltingly, are doing just that. In California, for example, every city and county must develop a "housing element" that identifies sites appropriate for new affordable housing. Anti-NIMBY laws prohibit local governments from withholding approval for any new low-income housing development unless certain narrowly drawn conditions exist. The state also has a "density bonus" law requiring local governments to grant up to a 35 percent increase in allowed density if a prescribed minimum percentage of affordable units per development is attained.

Fourth, we argue that states help cities grow a strong, resilient, and diverse middle class that can fuel and advance the economic potential of these places. A strong middle class is an essential foundation of economic prosperity, neighborhood stability and economically integrated schools.

How can states do this? Partly by enhancing education and skills, partly by supplementing incomes, partly by reducing the costs of living in cities.

And states are acting. On the income side, a growing number of states—currently 18 plus the District of Columbia, comprising 46 percent of the U.S. population—are enacting minimum wages higher than the federal standard, some of them significantly so. And 21 states plus DC now have their own earned-income tax credit (EITC) programs, which—like the federal program—supplement the incomes of workers who earn up to double the rate of poverty with a refundable year-end tax credit.

States are also trying to make inner city markets work by, as in Pennsylvania, catalyzing the construction of grocery stores and, as in New York, creating incentives for mainstream financial providers to set up shop in low income neighborhoods.

Finally, we argue that states level the playing field for cities.

States should remove the regulatory barriers that make urban redevelopment a maddening exercise. Rhode Island is doing this.

States should reduce the property tax disparities between cities and suburbs, particularly on education. A number of states, including Minnesota and New Jersey are taking steps to do this.

And states should target capital spending—roads, university extensions, state office buildings—to communities that already exist rather than places that have yet to evolve. In Pennsylvania and Maryland, new spending criteria target state investments to the existing built environment.

Now obviously Connecticut is already doing some of what I described above.

The state is building on the economic strengths of its cities. Last year, Connecticut created a $100 million fund to support stem cell research. And the state is investing in downtown revitalization – in New Haven's Downtown Gateway project, and Bridgeport's Steel Point project.

The state is working to transform the physical landscape of cities. Earlier this year, the state established a brownfield redevelopment authority. As importantly, the state is strengthening critical rail corridors. In coordination with the New York Metropolitan Transit Authority, the state has dedicated money to purchase 342 new passenger rail cars for the Metro-North New Haven line to increase capacity and reduce service delays/outages caused by aging rail infrastructure. The state is also moving forward with plans to develop commuter rail service in central Connecticut, linking New Haven, Hartford, and Springfield, Massachusetts.

Connecticut is working to create neighborhoods of choice. The state has contributed critical resources to public housing redevelopments in Stamford, New Haven, Hartford, and elsewhere.

The state is helping cities grow the middle class. Connecticut has one of the strongest minimum wage laws in the country, with the state's minimum wage set to increase to $7.65 this January.

And while the state hasn't taken action yet, continuing efforts to pass a state EITC were almost rewarded this past legislative session. Connecticut should join its neighboring states by passing a state EITC in 2007.

I applaud these policies and believe that they are having and will have a salutary affect on cities and the families who live there.

Yet the fact remains that, on balance, the state's rules of the development game still work against urban revitalization and in favor of sprawl and decentralization.

The state, in essence, is taking two steps forward and five steps back.

The only way forward is to enact systemic, structural reforms that give cities the chance to compete fully for businesses and people.

The only way forward is to make some central, market shaping investments that builds on the state's innovation assets to build a prosperous future.

And the only way forward is to make strategic, transformative investments… instead of betting on such dubious propositions as convention centers and even community college relocations.

That brings me to my last point, governance reform.

In the changing US economy, metropolitan success is dependent on metro areas adapting to economic change.

Sophisticated new research by Jerry Paytas of Carnegie Mellon University concludes that metropolitan fragmentation exerts a statistically significant negative impact on competitiveness and weakens long-term regional economic performance.

This makes intuitive sense. As Paytas argues:

> "How well a region organizes and utilizes its assets and resources are the key to its ability to compete and to respond to change. Long term competitiveness requires flexibility and fragmented regions are less likely to mobilize the consensus for change. Fragmented regions divide the regional constituency, offering opponents of change more opportunities, forums and even institutional support to resist change."

Other work has shown the connection between fragmented government and sprawl.

Paul Lewis, a highly respected California researcher, has demonstrated that fragmentation results in decreased shares of office space in central business districts, less centrality, longer commute times, more "edge cities," more "exit ramp" growth, more sprawl in a word.

Connecticut does not do well on this score.

You are one of the most fragmented states in the nation. Some 21 cities and 169 towns dot the governmental landscape, each with their own land use and zoning powers. Given their reliance on property taxes, each of these municipalities spend a lot of their time competing with each other for development and tax revenues rather than competing together for quality growth and prosperity.

This hyper competition explains well the state's twin patterns of exurban sprawl and urban abandonment. And these patterns reinforce themselves in negative ways. As cities decline and exurbs grow, spatial disparities on taxes and home values and wealth increase, furthering the non-virtuous development trends in the region.

And as we have shown in Maine, governmental fragmentation costs a lot. Duplicative services, particularly in K–12, at the municipal level crowds out the ability of the state to invest in the things that really matter—innovation, cluster led economic growth, quality places.

In Maine, we have proposed a Government Efficiency Commission to weed out the administrative inefficiencies and use the savings to capitalize a $200 million Innovation Jobs Fund.

I strongly recommend that Connecticut seriously consider such a mechanism to, at a minimum, streamline administrative functions and program services across school districts and even towns and municipalities.

But don't just cut for cuttings sake.

Cut to invest.

Streamline to invest… in innovation, in downtowns, in quality places.

Let me conclude with these thoughts

I believe firstly that this state (its political, business, and civic leaders) needs an urban and metropolitan vision—not only because it's the right or equitable thing to do but because it's the competitive thing to do:

- A vision of competitive cities and suburbs that nurture strong, resilient, adaptive, innovative economies

- A vision of sustainable cities and suburbs that promote accessible transport, residential and employment density, and energy efficiency

- A vision of inclusive cities and suburbs that grow, attract, and retain the middle class and integrate individuals across racial, ethnic, and class lines

I believe secondly that this state vision needs to be grounded in a clear set of the policy reforms—ax, spending, regulatory, and administrative. These reforms, taking George Constanza's advice, must turn existing state policies on their head, catalyzing the rebirth of your cities and urban places rather than their demise. And these reforms must make some central, urban focused investments—to stimulate growth and spur innovation.

And, finally, I believe that this state vision will only be achieved if there is a sea change in state politics. The current anti-urban state policies, in the end, are not inevitable or divinely inspired; they are the outgrowth of political tradeoffs and compromises. Thus the real challenge following this conference is one of organization and coalition building. No one can argue with your diagnosis of the state's challenges… and few can argue with your prescriptions. What has to happen now, plain and simple, is to organize those constituencies that are naturally disposed to urban regeneration—mayors, leaders in older suburbs, developers, business alliances, banks, universities, hospitals, creative firms—into a pro-urban, pro-innovation coalition. These constituencies currently are less than the sum of their parts. Together, they pack a powerful punch.

Always remember: politics is the art of the possible—and pro-urban policies are now distinctly possible, given the economic, fiscal and environmental imperative of strong cities.

I commend you on your thoughtful, rigorous and visionary work. Good luck.