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An Urban Agenda for Economic Growth

By Richard Florida

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With the first wave of my magic wand, I would do one thing to brighten America's prospects for long-run economic growth. I would strengthen and empower our cities — the fundamental drivers of innovation and economic growth.

Let me say at the outset, I am extremely optimistic about America's economic future. Technologically, we stand head and shoulders above other nations. America's emerging knowledge-energy economy is more powerful than the older industrial model that powered our growth for much of the last two centuries and which we are now leaving behind. As I wrote in *The Atlantic*: “what other nation has even one start-up ecosystem that can rival Silicon Valley's, San Francisco's, New York's, or Boston's—to say nothing of Seattle's or Austin's? What other nation boasts the number of world-class universities and college towns that America has? What other advanced nation can combine such knowledge resources with such abundant energy resources?”

But to realize our impressive potential, we will need to empower our great cities and metro areas — from the great Boston-New York-Washington corridor to Atlanta, Miami, and Houston and the great West Coast hubs of San Francisco and L.A. and everything in between — which power our capacity for innovation, spur our connections to the global economy through trade and talent flows, and underpin our prospects for sustained long-run economic growth.

Harvard economist and former Treasury Secretary Larry Summers has been very vocal about what's wrong with our economy. He fears that it is in a permanent state of “secular stagnation,” which by his [definition](#) is what happens when “the normal, self-restorative properties of the economy might not be sufficient to allow sustained full employment along with financial stability without extraordinary expansionary policies.”

The term was coined during the Great Depression by another Harvard professor, [Alvin Hansen](#), often called the “American Keynes.” The U.S.'s declining population growth, he [told](#) the American Economic Association in 1938, a lack of new territories for it to expand into, combined with the “failure of any really important innovations of magnitude sufficient to absorb large capital outlays,” was the very “essence of secular stagnation,” a condition, he said, that causes “sick recoveries which die in their infancy and depressions which feed on themselves and leave a hard and seemingly immovable core of unemployment.” Hansen's prescription, like

Summers', was an open-ended regime of economic expansionism—not just low interest rates but substantial government investment in infrastructure to spur demand and get and keep the economy moving.

[Paul Krugman](#) has been voluble on the subject of public investment too. “We have huge infrastructure needs,” he wrote in *The New York Times*, “especially in water and transportation ... borrowing to build roads, repair sewers and more seems like a no-brainer.”

Listening to them brings to mind John Maynard Keynes' famous prescription for the economy in his *General Theory of Employment, Interest, and Money*: “fill old bottles with banknotes, bury them at suitable depths in disused coalmines” and wait for the private sector to employ people to dig them up.

Simply pumping federal dollars into random infrastructure projects won't do the trick. What really powers economies out of great crises (what I call “[Great Resets](#)”) is focused spending on a new geographic growth model. Economists call this a “[spatial fix](#),” a concept initially advanced by the geographer David Harvey, who argued that technology-powered growth is insufficient to restore economies; what is also needed are new patterns of geographic development.

Perhaps the best example of how a spatial fix works is the great suburban expansion of the 1950s, 1960s, and 1970s. The economy sputtered in the years after World War II. What ultimately powered the great golden age of American economic expansion was neither the New Deal nor military spending. During that period, the U.S. did not randomly fill “old bottles with banknotes” to borrow Keynes' famous phrase, it used those funds to build an enabling infrastructure that could spur and support the economic engine of industrial capitalism, mass suburbanization. Enabled and accelerated by massive public subsidies for roads and home loans, suburbanization enabled Americans to conquer the “[crabgrass frontier](#),” in Kenneth T. Jackson's memorable phrase. Moreover, it provided a powerful form of geographic Keynesianism in the form of demand for houses, cars, appliances, and durable goods flowing off the great production lines of factory complexes in the Midwest.

But, as we all recognize, that old growth model has outlived its shelf life. In fact the last attempt to prop it up and inflate it with loose financing techniques and sub-prime loans was a primary cause of the great financial and economic collapse of 2008. Homeownership has dropped to its lowest level in two decades and the housing market seems unlikely to recover.

The key to recovery lies in our cities. Talented and ambitious people and investment are already flocking back to them from the suburbs—a process Alan Ehrenhalt has dubbed the “[great inversion](#).” Restoring and strengthening our cities and urban areas — encouraging density not sprawl, and building denser, more mixed-use, transit-connected suburbs — is the new spatial fix of our time.

For one, cities are the key source of creativity and innovation—and have been so all along. Tyler Cowen argues that we are enduring a “[great stagnation](#),” in which the low-hanging fruits of technological advance have largely been exhausted and the rates of innovation and economic growth have slowed. That may be sure in the short-term, but history suggests that is not likely to

be the case going forward. It's not Hansen, but his Harvard colleague Joseph Schumpeter who got this right, by identifying the role of innovators and entrepreneurs in powering the great wave of "[creative destruction](#)" that ultimately powers long-run growth. As the late [Christopher Freeman](#) has shown, though innovation declines greatly during the lead-up to great crises and their immediate wake. But, that innovative engine restarts again every more powerfully as recovery sets in. According to the economic historian [Alexander Field](#), the most "technologically progressive decade" of the past century was not the boom years of the 1950s or 1960s nor the high-tech years of the 1980s or 1990s; rather, it was the 1930s. Innovation appears to be picking up again today, according to the detailed analysis of patent records by the economist [Deborah Strumsky](#).

Today it's cities, not individual geniuses or giant mega-corporations that are the great fonts of innovation. They are, in the words of [Matt Ridley](#), "where ideas come to have sex." As [Jane Jacobs](#) taught long ago, and [Robert Lucas](#) later formalized, cities spur the mixing and mingling of talented people that lead to technological inventions and the formation of entrepreneurial enterprises. For this reason, cities are the only biological or social organisms whose [metabolisms](#) speed up as they get larger.

For a short period during the unique age of American hegemony and suburban expansion we veered from that course, and believed that innovation could come from insulated suburban corporate R&D campuses and high-tech [nerdistans](#) in places like Silicon Valley and the suburbs surrounding Boston, Seattle and Austin. But now, startups and venture capital, as well as talent, are flowing back to cities and the urban core. Today, San Francisco has outpaced Silicon Valley to become the world's leading center for startups and venture capital investment. Lower Manhattan is home to hundreds of startups and is drawing more venture capital than Boston. My own [recent analysis](#) found that center cities and their walkable suburbs account for the great majority of startups and venture capital investment in America's leading high tech hubs.

Cities form the fundamental platforms for innovation. They are where the talent, the customers, the end users, the large industries in need of transformation, and the funders are. They are the arenas for surfacing the big new problems that need to be solved.

More than that, they are the fundamental social and economic organizing unit of our time, playing a role analogous to the farm in the agricultural age or the factory in the industrial age. As recently as a century and a half ago, the great mass of humanity worked in agriculture. But mechanization has made agriculture more efficient; just one or two percent of the workforce of the advanced countries work on farms today, but they are more productive than they ever were. Later, with the Industrial Revolution, the mass of people in the advanced world took up work in factories. But thanks to the effects of automation and other productivity improvements and globalization, just five to six per cent of the people in the advanced countries work in direct production in factories.

The past several decades have seen the rise of a knowledge-based creative economy. According to my own estimates, roughly a third to forty percent or more of the workforces of the advanced countries are members of what I have dubbed the creative class of scientists, techies, professionals, artists, and media types. They are flowing to cities and denser, walkable, transit-

served suburbs, not simply because they prefer to live there, but because they need to be close to one another. In the reviving urban districts of major cities, the creative class comprises as much as 80 to 90 percent of the workforce.

Just as it transformed agriculture and industry, the inexorable economic logic of capitalism is changing the form and functions of the arena of waste that is the modern city. Although they are still in its infancy, companies like Uber and Airbnb are making far greater and more efficient use of static assets like cars and space. So much more can and will be done.

But this more innovative and efficient city will not simply enact itself. Spatial fixes require whole new sets of fundamental infrastructure. The rise of the railroad unified the nation. The historian of technology Thomas Hughes astutely analyzed the “[system innovations](#)” like the electrical power grid that industrial era innovators like Thomas Edison put into place. Street cars and cable cars and ultimately subways enabled the expansion of the city during the the 19th century, as the great urban historian Sam Bass Warner has showed. And the road building boom and interstate highway system of the 1950s and 1960s paved the way for the great suburban expansion.

What is needed today is a new kind of infrastructure — a more urbanized growth model that can help reset the economy anew and power the next round of growth and expansion. Transit, both within cities and between them, including high-speed rail, needs to be dramatically upgraded and expanded; the barriers that are preventing the construction of more affordable housing need to be removed. This new growth model requires a lot more than fixing random bridges and filling pothole. It demands a focused effort at city-building — incentives and policies that encourage density rather than sprawl; transit rather than highways; and high speed rail that can connect sagging places to more vibrant cities, creating a larger template for growth and expansion.

But if cities enable and drive growth, they don’t distribute it equitably; too many people and too many places are left behind. The new job market is starkly divided between high-skill, high-pay knowledge workers and low-skill, low-pay service workers. Creative class workers may be renovating once-blighted neighborhoods in post-industrial success cities like New York, Washington, DC, Boston, and San Francisco, but the country’s old industrial cities continue to languish and the pace of building in sprawling Sunbelt cities like Phoenix and Las Vegas has slowed to a standstill. And even the richest cities have entrenched poverty—as poor people are priced out of their gentrifying neighborhoods, many are decamping for the suburbs, where poverty rates are rising at a faster pace than they are in cities. Far from being flat, this increasingly urbanized and clustered world is dangerously spiky, concentrated and divided, across cities and within them as well, with clusters of concentrated advantage juxtaposed with those of concentrated disadvantage.

Most worrisome, America’s great middle class is sagging; for the first time in the country’s history, American children’s prospects are worse than their parents’. The recovery may be full-blown for the upper one third of the income ladder, but for the other 67 percent, things are getting worse. Needless to say, none of these trends are sustainable.

It's cities that provide the mechanism for rebuilding our middle class. We forget that the good, family-supporting factory jobs that we now mourn the loss of were not always so. We actively transformed them from dirty, dangerous low paid work in "satanic mills" to safer, more stable middle class jobs via the social compact between industry, labor and government. Cities were where we first did this.

Today, cities and mayors are already beginning to take steps to upgrade low-skill, low-wage service work, and in some cases are establishing a wage floor by imposing minimum wages tied to local costs of living. Most importantly, large vibrant cities continue to attract immigrants and provide avenues for upward social mobility that are declining in too many other places across the nation and the world.

At the end of the day, I am an optimist. America's future can be even better than its past. But the key to getting there — to reigniting innovation, spurring long run prosperity and rebuilding our sagging middle class — lies in strengthening and empowering our system of cities, our greatest asset of all.

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