From *The Atlantic*

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An Urban Agenda Against 'Secular Stagnation'

Cities provide the mechanism for rebuilding our middle class. Can we support their responsible growth for the sake of the nation's?

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Dec 1, 2014
Reuters/Joshua Lott

After three-plus years of slow growth, persistently high unemployment, and perennially low consumer confidence, former Treasury Secretary and Harvard economics professor Larry Summers has offered a diagnosis. Our economy, he says, is suffering from a chronic malady called "secular stagnation."

Summers borrowed the term from another Harvard economist, Alvin Hansen, who used it to explain the Great Depression of the 1930s. Essentially, it means that in the absence of significant population growth, game-changing new technologies, territorial expansion, or a major war, our economy has ceased to grow. Only expansionary spending on the part of the federal government can keep it moving. Tyler Cowen has similarly warned that, having harvested the low-hanging fruits of technological innovation, the U.S. and other advanced nations are entering a "great stagnation."

Like Hansen, Summers believes that the only short-term (and possibly the only long-term) cure is economic stimulus—not just low interest rates but expansionary federal policies. Paul Krugman has, for example, made a case for ramping up federal spending on infrastructure.

But infrastructure spending alone will not be sufficient to get the economy back on the road to sustained prosperity. Economic revival is not, as John Maynard Keynes once semi-facetiously suggested, as easy as burying bottles filled with banknotes in abandoned mines and waiting for the private sector to hire people to dig them up. Real prosperity comes from an integrated geographic growth model, a new way of living, with new modes of consumption that spur demand and power the economy forward.

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It was not simply the New Deal or even World War II military spending that got the economy out of the Depression. It was the ongoing stimulus provided by a new form of geographic Keynesianism: America's rapidly expanding suburbs. Enabled and accelerated by massive public subsidies for roads and mortgage loans, suburbanization spurred demand not just for new houses, but for all the things that went with them—the shiny new car parked under the carport, the washer and dryer in the basement, all the appliances and durable goods that were flowing off the great production lines of factory complexes in the Midwest.

Geographic growth models are always underpinned by infrastructure. Streetcars and subways enabled the growth of the modern city during the 19th and early 20th centuries; the Interstate Highway System allowed city systems to sprawl out into the suburbs.

But we all recognize that the 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 flowing back from the suburbs, a process Alan Ehrenhalt has dubbed the "great inversion."

The key to recovery lies in our cities. A new urban growth model requires new infrastructure as well as incentives and policies that encourage density rather than sprawl; transit rather than highways; and high-speed rail that can connect struggling places to more vibrant cities, creating a larger template for growth and expansion. It requires a dedicated commitment to city-building.

For a long time, we associated technological innovation with suburban nerdistans. But over the past decade, downtown San Francisco has overtaken Silicon Valley as a destination for venture capital; New York, London, and Berlin have become tech centers. That makes sense, because cities are the ideal ecosystems for innovations of all kinds. They are where the greatest concentrations of funders and end-users live, and most of all, they are where the creative talent wants to be.

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But, if cities enable and drive growth, they don't distribute it equitably; too many people and too many places are left behind. 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. Even the richest cities have their poverty districts.

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 high-skill creative workers who occupy the upper third of the income ladder, but for the other 66 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 and mayors are already taking steps to upgrade low-skill, low-wage service work, and in some cases are establishing a wage floor by tying minimum wages to local costs of living. Most importantly, large, vital 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 propensity and rebuilding our sagging middle class —lies in the strengthening and empowerment our system of cities, our greatest asset of all.

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