DELIVERING THE NEXT AMERICAN ECONOMY

Amid a sluggish recovery and a rancorous political climate, the United States is desperately searching to create jobs in the near term and retool the economy for the long haul. As Dorothy found in the Wizard of Oz, the answers surprisingly lie no further than home, or, more precisely, the top 100 cities and their environs—the major metros—where most Americans live, work, and play.

If we unleash the energies that concentrate in our metros, we can compete with anyone. Our largest 100 metropolitan areas constitute a new economic geography, seamlessly integrating cities and suburbs, exurbs and rural towns. Together, they house two-thirds of our population, generate 75 percent of our gross domestic product (GDP), and disproportionately concentrate the assets that drive economic success: patents, advanced research and venture capital, college graduates and PhDs, air, rail, and sea hubs.

This intense concentration is the magic elixir of modern economies. It explains why Silicon Valley and Boston lead the world in technological innovation, why San Diego and Indianapolis are global players in life sciences and why Wichita, Kansas and Portland, Oregon specialize in advanced manufacturing and exports.

This dynamic holds not only for the U.S., but across the globe. The rise of Brazil, India, and China is a direct product of their rapid urbanization and the growth of super-sized metro economies like Shanghai, Mumbai, and São Paulo.

We mythologize the benefits of small-town America, but it's *major metros* that make the country thrive. Why? When cities collect networks of entrepreneurial firms, smart people, universities and other supporting institutions in close proximity, incredible things happen. People engage. Specializations converge. Ideas collide and flourish. New inventions and processes emerge in research labs and on factory floors. New products and new companies follow. Henry Cisneros, former U.S. Secretary of Housing and Urban Development, likes to say: "Cities are places where two plus two equals five."

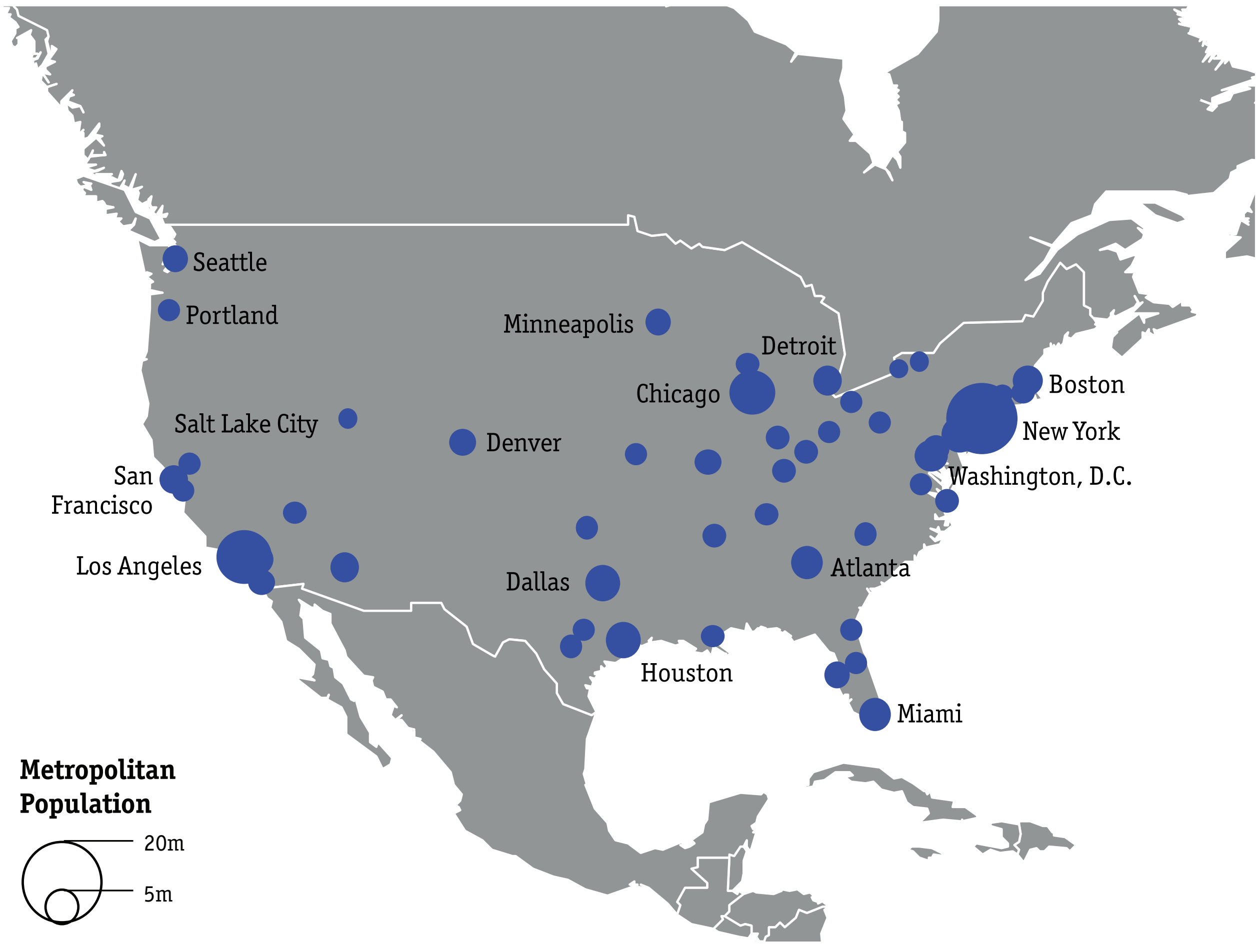
The U.S. needs its metro powerhouses as it makes a painful transition from an economy powered by debt, speculation, and excess consumption to one where we grow in productive, sustainable, and inclusive ways. A chorus of business leaders, such as *Bill Gates, Andy Grove,* and *Jeff Immelt*, as well as leading economists, have called for a new American economy. It's an economy driven by exports that takes advantage of rising global demand. It's powered by low carbon, to lead the clean energy revolution. It's fueled by innovation to spur growth through ideas and rich with opportunity, to reverse the troubling, decades-long rise in income inequality.

By making smart investments and managing for growth, as opposed to maintenance, our major cities and metro areas can lead this transformation. The San Diego region shows how. In 1985, an energetic non-profit organization, CONNECT, sprang up to link the scientists and inventors at top research institutions—including UC San Diego, the Salk Institute, and the Sanford Burnham Medical Research Institute—with investors, advisors and support services to commercialize their new ideas.

The inventive brew that CONNECT fermented has made San Diego home to a cluster of life sciences and technology companies such as Qualcomm, Biogen Idec, Life Technology, and Gen-Probe. New York City has its eye on San Diego's success, and announced its own undertaking in February. "When we emerged out of the period when the defense industry left San Diego, CONNECT was there. They helped to create eight clusters of technology that have been employment drivers in San Diego, and we've been able to build on that ever since," says San Diego mayor Jerry Sanders. In terms of jobs, the region's technology sector has fared better in this recession than its broader economy.

Yet America has been slow to recognize, and build on, the power of our metropolitan economic engines.

For decades, the federal government has treated cities like disaster zones, pursuing an "urban policy" devoted to



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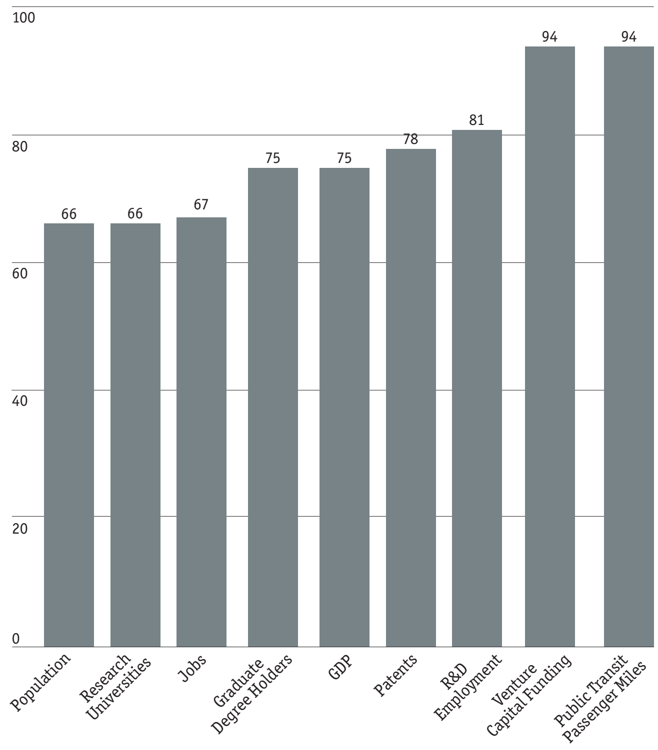
More than two-thirds of the U.S. population lives in metropolitan areas. This map shows the 50 U.S. metros analyzed for the *Global MetroMonitor*.

Percentage of the U.S. Economic Activity in the Top 100 Metropolitan Areas



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The country's economic activity is disproportionately concentrated in metropolitan areas.

subsidized housing and urban renewal schemes rather than creating policies that, for example, support powerful and promising industry clusters. There has been improvement under the Obama administration, but old habits die hard, and legacy interventions still get more support than new approaches.

If the federal government is outmoded, states are often openly hostile to their major cities. Greater Chicago contains 67 percent of the residents in Illinois but generates 78 percent of the state's economic output. But Illinois has pursued transportation and infrastructure policies that divert tax revenues from Chicago to subsidize inefficient investments in the rest of the state.

By contrast, our competitors understand that prosperity in this century will come via the distinct assets and attributes of their metro engines. Mumbai, Shanghai, and São Paulo are investing in wholesale change through advanced research, renewable energy, modern ports, high speed rail and urban transit in the metros that drive their economies. We must do likewise.

Here's how:

First: Stop refueling the old economy's bad habits. Why, for example, provide huge tax subsidies for consuming more and more expensive housing? Incredibly, the amount the government forgoes from the mortgage interest deduction is projected to grow from $79 billion in fiscal 2009 to $150 billion in 2015. What if we capped these expenditures at the current level, and directed half of the savings to reducing the federal deficit and the other half, some $35 billion a year, to efforts that grow exports and create jobs?

Second: Start investing to help American businesses innovate and have access to a world class infrastructure to connect them with global markets. For example, the federal government can invest in new Energy Discovery Institutes to develop breakthrough technologies like solar power that's cheaper to generate and deliver than fossil fuels. Washington should also create a National Infrastructure Bank, to help finance projects that are too complex to be funded in conventional ways and too important to defer. Think port infrastructure in global trade gateways like Los Angeles, or freight corridors in and around Chicago.

Finally, let's challenge every metro area to meet and exceed the national goal of doubling exports. Instead of subsidizing businesses to move across municipal lines—a complete waste of taxpayer dollars—cities and suburbs need to team up with businesses to devise export initiatives that build on regional competitive advantage. We can't as a nation double exports unless our metros and their businesses (large and small) do.

America's cities are the nation's centers for talent, capital and innovation. They are our hubs for trade, commerce and migration. With the market-based incentives and the proper business climate, they can be unparalleled engines for the next spurt of American growth and prosperity. If our political leaders can put aside rancor, habit and outdated ideas about what kind of nation we are, and should be, we can find success not over the rainbow but in our very own metros.

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A version of this article recently appeared in *Time* magazine.