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December 9, 2009

Before the United States Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Economic Policy

Thank you Senator Brown and members of the Subcommittee for the opportunity to testify before you this afternoon. I am Bruce Katz, vice president and director of the Metropolitan Policy Program at the Brookings Institution.

Yesterday at Brookings, President Obama laid out three priorities for new investments to create jobs, including bolstering small business growth, added investments in transportation and communications infrastructure, and rebates for home energy efficiency retrofits. These are important steps, but, as the president himself noted, there is no silver bullet or single law that will address our current situation. There is more to be done on several fronts, and my testimony will address some complimentary and overlapping issues.

I will make three main points today.

First, the American economy, like most developed economies worldwide, is a network of metropolitan economies, which envelop not just cities and suburbs but a good portion of our rural areas. Because the American economy is metro-led, Congress and the Administration must understand that national recovery will also be metro-led, and so will depend on restoring economic health and vitality in our metropolitan engines.

Second, the Great Recession has affected different metro economies in radically different ways. The bubble-led economies in the Sun Belt and the auto-dominated industrial economies in the Great Lakes have borne the brunt of this downturn. It is important to recognize that, even as economists talk about national recovery and unemployment numbers improve, a large number of our metropolitan economies are still mired in recession.

Third, federal efforts to bolster job creation need to connect "The Macro to the Metro." Our research shows that metros need two kinds of federal responses.

They need the federal government to intervene quickly to prevent further job losses from the collapse of general and specific tax revenues. It would be the height of folly to focus on creating new jobs in the near term while ignoring the fact that metropolitan areas are on the verge of losing municipal jobs due to a steep and foreseeable drop in tax revenues.

Metros also need the federal government's support in creating jobs that build a balanced, productive future economy, which is low carbon, innovation-fueled and export-oriented. There can be no return to normal after this recession since what preceded it was anything but normal.

So let me start with the broader metropolitan frame.

Our research and that of others shows that our nation's metropolitan areas, which encompass cities, suburbs, exurbs, and a large portion of our rural communities, are the engines of the national economy. As Harvard Business School Professor Michael Porter notes, there is really no such thing as the "U.S. economy," but rather a network of interlinked metropolitan economies across the country.

There are 366 metro areas in the U.S., housing 83 percent of our population and generating 88 percent of our GDP.

The top 100 metros alone sit on only 12 percent of our land mass but house two-thirds of our population, generate three quarters of our GDP and concentrate the advanced research institutions, innovative firms, talented workers and sophisticated infrastructure that are needed to compete globally.

The majority of the GDP of 44 of our 50 states is generated by their metropolitan areas. Ohio is a quintessential metro state since the largest seven metropolitan areas alone generate 80 percent of state GDP. South Carolina's five largest metropolitan areas are responsible for 60 percent of state GDP, and its full complement of 10 metros contribute 82 percent of state GDP. In Oregon, the Portland metro by itself generates 59 percent of state GDP.

We are a Metro Nation, and we need to start acting like one.

Second, metros vary considerably in size, assets, economy, and in how hard they have been hit by the recession. Some specialize in finance and real estate, others in manufacturing and production, still others in advanced services. Some act as hubs for the movement of goods; others for the development and commercialization of ideas.

Since April of this year, Brookings has made a quarterly assessment of the impact of the downturn on each of the top 100 metros. Our latest Monitor, to be released December 15, shows what the recession looks like from the ground up.

We find that every metro is struggling to convert GDP growth into new jobs. Employment continued to decline in 87 of the nation's top 100 metros through the third quarter of this year, and unemployment varies dramatically from metropolitan region to metropolitan region, ranging from a high of 16.7 percent in Detroit to a low of 4.8 percent in Omaha.

The metro focus shows that how long the road to recovery will be. Only six metro areas in the top 100 (Albuquerque, Austin, McAllen, San Antonio, Virginia Beach, and Washington DC) have exceeded their peak pre-recession output. Only one metro area (McAllen) has exceeded its peak pre-recession employment.

We have also seen intense variation in economic pain. The housing collapse has been felt in the sun-drenched, bubble real estate economies such as metros like Phoenix, Tampa and Jacksonville, which have continued to lose jobs at two to three times the rate of the U.S. as a whole over the last quarter. The auto collapse has devastated the "motor metros" concentrated around the Great Lakes. Detroit, which has been hemorrhaging jobs throughout this decade, has had more than twice the rate of job loss as the nation as a whole since the beginning of the recession in December 2007. Youngstown and Akron, which have also outpaced the national rate of job loss throughout the recession, have shed jobs two and three times faster than the United States, respectively, over the last quarter.

By contrast, metros I mentioned earlier like Austin, San Antonio and Washington, D.C. have fared fairly well during this downturn, buoyed by strong health and education sectors and government.

This variation reinforces the point: there is no single American economy.

Finally, any further federal response on job creation and economic recovery must connect "The Macro to the Metro" if it is to be successful. More specifically, the federal government must address the needs of metros and their contribution to the economy in two ways.

In the immediate term, the federal government must act quickly to stop additional job losses that are large and foreseeable. We must not overlook the importance of job retention in a rush to job creation.

Thinking more broadly, the federal government must catalyze job creation that helps build the next economy and sets the country on the path towards long term, sustainable growth. We cannot return to the unbalanced, consumption-led growth of the past decade, driven by unsustainable, speculative increases in housing values and reckless engineering of new loan products and secondary market vehicles. True economic recovery will depend on the nation finding a different economic path, one that is more productive, sustainable and inclusive.

Given this framework, we recommend that this Subcommittee and the Administration and Congress consider five discrete interventions that prevent further job losses and help build the next economy.

Stop Additional Job Losses

While the recently released unemployment numbers indicate that hemorrhaging of jobs has been staunched somewhat, the brutal fact is, because of the delayed effects of the recession on local budgets and its continuing effects on the ready availability of capital, our metros will see significant job losses absent federal intervention. It does no good to bring in new jobs through the front door if we're losing them out the back window.

Strategy 1: Direct assistance to cities and towns

One critical strategy for job retention is direct fiscal assistance to local governments, which employ 10 percent of the nation's workforce.

Local government finances, local government employment, and private sector jobs that depend on local projects are on the verge of a crisis. Local government finances typically feel the full impact of larger macro trends 18-24 months after their onset because property tax assessments lag the real-time decline in property values. For fiscal year 2006-2007, local governments generated $370 billion in revenue from property taxes, according to U.S. Census data. Property values, through the third quarter of 2009, have fallen 9.5 percent meaning that the local budget gap may be as large as $35 billion – and this excludes declines in sales and income taxes (which have dropped by $3 billion, according to Census data). The mismatched timing between housing prices and revenue will also mean that the recovery of local governments will occur considerably later than the recovery of the housing market.

Moreover, one third of local revenue comes from states, and yet states saw a 16.6 percent revenue decline from the second quarter of 2008 to the second quarter of 2009. If state transfers fall in proportion to state revenue, local governments could lose out another $74 billion. All told, the local government shortfall could be well over $100 billion.

A National League of Cities survey found that in FY2009, 67 percent of cities dealt with budget shortfalls through layoffs, furloughs, and hiring freezes—a response that might be expected to continue without some sort of intervention, possibly leading to massive reductions in jobs and vital services.[1]

But fiscal aid to cities would not just keep municipal payrolls stable. It would also stall cuts in local spending on construction, procurement, and other areas that directly affect private sector firms that provide construction, printing, and other services. NLC reports that 62 percents of cities delayed capital projects in FY2009 due to budget shortfalls.[2] Bringing these back online would provide jobs in site management, planning, and technical assistance, as well as construction. This local spending also advances national priorities such as infrastructure improvements, retrofits and other "green jobs."

Fiscal assistance to cities and towns could take several forms. The simplest is probably direct aid, in a new program that is separate from but analogous to the State Fiscal Stabilization Fund in ARRA. One option for delivery might be the general revenue sharing program (GRS) that was in place from 1972 to 1986. However, the lack of institutional familiarity in Congress, agencies, and municipalities, raises questions about this approach. A better option might be to restructure SFSF to provide direct fiscal assistance to local governments that are entitlement communities. This approach would allow a local pass through to be carved out of an extended or expanded SFSF program. Using SFSF in its current form would not be a particularly effective vehicle for providing relief to local governments. SFSF did not have any straight pass-through to local governments, so funds were not directly used by cities and towns. SFSF did probably forestall cuts that state governments would have made in local aid, so probably provided indirect benefit. However, a direct benefit is needed now.

[1] Christopher Hoene and Michael Pagano, "City Fiscal Conditions in 2009" (Washington: National League of Cities, 2009).
[2] Ibid.

Strategy 2: Transit system operating subsidies

Perhaps the best example of the folly of focusing exclusively on job creation and ignoring job preservation comes from our nation's transit systems. As the federal government's Recovery Act funds aimed to create so-called shovel-ready, temporary construction jobs, transit agencies are facing the likelihood of laying people off from stable, permanent positions.

No fewer than 51 transit agencies around the country are facing some combination of service cuts, fare increases, and layoffs.[3] Transit systems that are vitally important for moving workers in major metros like New York, Washington, Philadelphia, and Atlanta have all recently considered job and service cuts as well as far increases to close millions of dollars in deficits. St. Louis had to suspend nearly half of its bus service and one-third of its rail service, and laid off nearly one-quarter of its staff, even though in 2008 ridership on the region's buses grew by almost nine percent, one of the largest gains in the nation over that time.

While the Recovery Act provides $8.4 billion to be spent on transit this year, federal rules stipulate that this money can be spent only on capital improvement projects and not to finance gaps in day-to-day operating expenses for transit agencies in urbanized areas with populations greater than 200,000. While capital is of course critical to transit service, operating costs are also vital to cover the salaries of the workers who keep the system running, as well as the debt contracted to pay for capital projects, and are generally about twice as high as capital expenses for the largest transit agencies.

The federal government should step in and change the rules so that transit agencies can spend transit capital stimulus dollars on operating expenses. Certainly, agencies have capital needs as well, but particularly in these stressful economic times they should have the short-term flexibility to use those federal dollars to meet their immediate problems.

These two strategies – direct municipal aid and transit operating subsidies – would provide a federal finger in the dike, keeping jobs in sectors that are being battered by forces that are not entirely within their control. They would stop the hemorrhaging of jobs.

[3] Transportation Equity Network and Transportation for America, "Stranded at the Station: The Impact of the Financial Crisis on Public Transportation," Washington: 2009.

They will not, however, be sufficient to address the hyper-unemployment levels among some categories of metropolitan workers, particularly Hispanic and African Americans, younger people, and people with less education. These groups will only experience real relief with the implementation of focused job-creation strategies through proven programs like the Community Development Block Grant. CDBG is a well-understood program that provides communities with flexible, easily deployed resources to address local development priorities.

In the current recession, CDBG funds have been a tremendously efficient source of job creation. [4] If program rules were relaxed to allow more funding for jobs and job creation, CDBG could a potent way to deliver public sector employment jobs relatively quickly. Many cities have an established network of community-based facilities experienced in managing and handling CDBG funds that could help bring a public-sector employment program up to scale. Further, if a summer jobs program were a part of this initiative, it could be put in place in short order, as has been done in past years. The FY 1998 summer jobs program, funded at $871 million, provided jobs and training for 480,000 disadvantaged youth.

One note: certain defects in the CDBG formula make it less useful for generating job creation in hard-hit states like California, Nevada, and Florida. Also, the current formula does not take into account the disparate impacts of the recession across metropolitan areas. Both of these defects could be corrected by utilizing unemployment rates as factor in an adjusted CDBG formula.

Build the Next Economy

As Congress acts to stem further job losses, it must not overlook the long-term. We need to lay the groundwork not just for jobs for the next year, but jobs for the next generation.

In the midst of rising unemployment, increasing poverty and battered industries, we need high aspirations for the next economy.

This next economy should be a low (or at least less) carbon economy, as we struggle with the threat of climate change.

[4] An analysis of Recovery.gov data from FY2009 Q4 reveals that CDBGs created 4,773 jobs at a cost of $7,214 each, while the average other grant did so at a cost of $56,220 per job. The general finding here seems to be corroborated by analysis of FY2005–2008 data from regular budget cycles.

It should be innovation fueled, as we strive to make quantum leaps on everything from clean technology and renewable energy to high speed rail, the smart grid and health care information technology.

And it should be less driven by domestic consumption and more oriented towards exports, particularly to rising nations like China, India, and Brazil that are rapidly urbanizing and industrializing.

These three factors will play to the strengths of America's metros, because it is in metros where you find the transit systems and density that reduce carbon emissions. It is in metros where you find the well-educated workers, the concentrations of research institutions, and the streams of federal funding that support innovation. And it is in metros that you find the ideas and products that are valued and sought abroad, and the rail, port, and logistics networks that move these products to markets overseas.

Strategy 4: Next generation transportation

Our competitor nations understand the importance of having state-of-the-art, seamlessly integrated infrastructure systems, from roads to rail to ports to planes. A new approach to infrastructure is not only a competitive necessity for our nation's metros, it also is critical to helping metros realize a number of national goals, such as a reduction in carbon emissions.

Congress should continue to fund, as a matter of course, the U.S. DOT's Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grants, originally devised for the Recovery Act. The $1.5 billion TIGER program will fund competitive grants to support nationally, regionally, or metro-significant projects that may facilitate linking transportation, housing, energy, and environmental concerns, such as greenhouse gas emissions. The projects will be rewarded based on their ability to preserve and create jobs, invest in transportation infrastructure that will provide long-term economic benefits, and assist those most affected by the current economic downturn. In short, these are the type of projects designed to support a new long term vision for infrastructure in this country.

Typical DOT programs do not require formal evaluations, but TIGER provides the regulatory structure to improve employment impacts because it uses job creation as a metric for evaluating applications. In the short run, this ensures that TIGER funding creates construction-related jobs in a time of great need. But as the economic recovery stabilizes, and TIGER takes its place as a regular part of DOT's budget, the job creation criteria could be broadened to balance short and long-term job creation. TIGER-funded infrastructure impacts have a powerful ability to create well-paying jobs now and a stronger economy in the future.

TIGER disbursements are not expected until February 2010 but preliminary USDOT analysis shows that the program is shiningly popular. The nearly 1,400 applications received so far total $57 billion and come from every state. If even one-third of these applications are projects that adhere closely to the objectives of the program, that represents $20 billion in high-quality projects that are ready to start, but lack funding.

TIGER should be a permanent part of the DOT budget, starting with a $20 billion appropriation, so that these and other critical projects can be realized. There are many potential vehicles for an expanded TIGER program. One is the FY2011 budget. By then there should be more information about the projects funded through the first wave of grants, including job creation and retention. This information will help refine the job creation criteria for future grants. TIGER could also be funded through a short-term reauthorization of the current surface transportation law, SAFETEA-LU which expires at the end of this month. Or the new spending on infrastructure that President Obama proposed in yesterday's address could include a new round of TIGER funding.

Strategy 5: National infrastructure bank

Another important idea to support broad competitiveness goals is a national infrastructure bank (NIB), which would serve as targeted mechanism for financing infrastructure. A development bank in essence, a NIB would have to balance the rate-of-return priorities of a bank with the policy goals of a federal agency. Ideally, it would improve the federal investment process and focus on multi-jurisdictional or multi-modal projects with regional or national impact. For these types of infrastructure projects, the NIB could provide federal funding in terms of grants, loans, and loan guarantees.

Another important idea to support broad competitiveness goals is a national infrastructure bank (NIB), which would serve as targeted mechanism for financing infrastructure. Congress establish an independent federal entity to evaluate and fund infrastructure projects "of substantial regional and national significance." A White House Press release following the President's speech yesterday spoke of supporting "financing infrastructure investments in new ways, allowing projects to be selected on merit and leveraging money with a combination of grants and loans…." The NIB would provide grants, loans, loans guarantees to projects requiring federal investment of at least $75 million. The federal government would provide initial capital of $60 billion that NIB would use to issue bonds, with the proceeds used to finance major projects proposed by public entities. The NIB Act should be passed and funded at $60 billion.

Strategy 6: Cluster initiatives

As SBA administrator Karen Mills wrote last year before joining the Obama Administration, "Due to rising global competition, the nation's capacity for generating stable, well-paying jobs for a large number of U.S. workers is increasingly at risk. In this environment, regional industry clusters represent a valuable source of needed innovation, knowledge transfer, and improved productivity…. Many U.S. industry clusters are not as competitive as they could be, to the detriment of the nation's capacity to sustain well-paying jobs."

Clusters encompass both existing industries and the emerging industries, such as alternative energy, that will grow to meet the challenges of the next economy. In fact, strong clusters promote the product and process innovation, technology transfer and knowledge sharing that help industries shift from the now to the next, and move from making tires to making polymers or making auto glass to making solar panels.

The federal Economic Development Administration's FY 2010 budget request seeks $50 million for a regional innovation clusters initiative that would award competitive, bottom-up grants to strengthen local efforts and establish a national clusters research and information center. The House appropriations bill trimmed that back to $10 million, while the Senate pared it to $35 million. To ensure that a fully-rounded clusters program becomes operational, House and Senate conferees on the Commerce-Justice-Science appropriations bill should agree to the Senate funding level for the EDA economic adjustment, technical assistance, and research/evaluation accounts, which would allow the clusters effort to be funded at about $35 million.[5] A well-designed and implemented EDA clusters program would serve as an important symbol and demonstration of a new federal approach to economic policy.

[5] As a compromise, the conferees should also accept the higher House funding level for EDA assistance programs ($255 million), which would allow conferees to split the difference between House and Senate appropriations for public works.

Two other bills currently in Congress would encourage the development and success of industry cluster initiatives, and they should be passed in some form to bolster the productivity and competitiveness of America's regional and metropolitan industries. The SECTORS Act of 2009 ("Strengthening Employment Clusters to Organize Regional Success Act") would award grants to local industry-based organizations to enhance the competiveness of the industry, improve workforce skills, and coordinate state and local economic development activities. The SECTORS Act appropriately recognizes the employment aspects of clusters, calling for federal support for "[I]dentifying and aggregating the training needs of multiple employers, helping postsecondary educational institutions and other training providers align curricula and programs to meet industry demand, and improving job quality through improving wages, benefits, and working conditions for workers." I'm sure the Chairman is quite familiar with the bill, which he introduced with bipartisan support.

Likewise, the Senate and House both referred a bill to Subcommittees on Technology and Innovation that would promote the construction of research parks with $7.5 million for each of four years. The title said it all: "A bill to provide grants and loan guarantees for the development and construction of science parks to promote the clustering of innovation through high technology activities." Passing this bill now would promote innovation by encouraging the concentration of technology industries, but it would also create short-term jobs in construction related industries.

Conclusion

I will conclude with these summary thoughts.

I think the time is long past due for national economic policy to align more closely with metropolitan economic realities, given the economic primacy of our metropolitan areas.

In the near term, that will require Congressional action to deal directly and forcibly with the coming fiscal storm in our nation's metros, given the foreseeable declines in tax revenues as economic stress (and declines in income, sales and housing values) undermines state and municipal finance. This metro focus also requires deliberate and purposeful action to build the economy and the future.

I spoke at the beginning of my testimony about the variations in assets and economic strength between metros. We must also recognize variations in institutional capacity. Some municipalities and counties lack the staffing and experience to design and implement various federal programs. Some metropolitan areas, particularly in older industrial sections of the country, have been in economic decline for decades. The federal government, therefore, must acknowledge this variation in capacity and take steps to put in place a national network of firms, non-profit organizations, and individuals that can provide technical assistance to make sure our national project of economic renewal can reach its fullest potential. HUD has already started doing this with regard to neighborhood stabilization funds but more intensified efforts are needed in such areas as energy retrofit, transportation and education.

I thank you again for the opportunity to testify here today, and welcome any questions.