

# Rethinking the Theory and Practice of Local Economic Development

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*Scholars of urban law and policy tend to assume that local officials can exert some influence over city well-being. More specifically, the literature assumes that government policies—either at the federal, state, or local level—can influence local economic growth and decline, the most important determinants of a city’s health. This connection between policy and local economic outcomes implies a theory of how cities form and grow, however, and legal scholars have not adequately articulated such a theory. This Article argues that we need a better (and more self-conscious) account of city formation and local economic growth. The Article then tests our intuitions about the relationship between policy and economic development by considering a number of explanations for why cities have resurged over the last fifteen to twenty years. Finally, the Article contrasts two economic development policies that have been adopted in New York City—one that preceded the recent financial crisis and one that followed it. The Article concludes that we do not know enough to be able to predict how one policy or another will affect city growth and decline.*

## INTRODUCTION

Both the law and economics and participatory literature on local government law share the assumption that policymakers can exert some influence over city well-being. More specifically, the literature tends to assume that cities can influence local economic growth and decline, the most important determinants of a city’s health. The law and economics literature most forcefully adopts this assumption, for it generally holds that competition among localities will induce them to enact policies that will attract mobile residents and firms.<sup>1</sup> That com-

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<sup>1</sup> At the heart of this literature is an emphasis on Tieboutian sorting. See, for example, Vicki Been, “Exit” as a Constraint on Land Use Exactions: *Rethinking the Unconstitutional Conditions Doctrine*, 91 Colum L Rev 473, 511–17 (1991) (using Tiebout’s theory to argue that local governments will be constrained in their ability to engage in predatory land use practices). See generally Paul Peterson, *City Limits* (Chicago 1981) (analyzing urban public policy as a product of the city’s limited ability to constrain the flow of resources into and out of the jurisdiction); William Fischel, *The Homevoter Hypothesis* 58–61 (Harvard 2001) (arguing that mobile homebuyers are knowledgeable about the amenities available in different locations and can “shop for a community” that best fits their preferences).

petition would be relatively useless if local government policy had little effect on local economic outcomes. By the same token, participationist scholars have claimed that given enough and the right kind of power, cities can do a great deal to improve the lives of their citizens.<sup>2</sup> Implicit in this argument is that law is significantly to blame for poor urban outcomes. Fixing law would go a long way, on this account, to generating prosperous cities.

What is often missing in these accounts is a theory of how urban economic development happens. Without such a theory, we are left to assume that generally good policies will induce growth in the economy and generally bad policies will induce decline. But this is an assumption. If cities do not have much control over their economies, then neither competition induced by exit (on the law and economics account) nor innovation induced by voice (on the participatory account) is particularly relevant to urban outcomes.

This Article claims that local government law scholarship often rests on a set of unstated assumptions about how cities form and how local economic growth and decline occurs.<sup>3</sup> Part I describes these assumptions, observing that the law and economics scholarship in particular adopts a relatively incomplete notion of how cities form and develop.<sup>4</sup> Tieboutian public choice scholarship is not alone, however. The literature on local government law generally assumes that economic development follows, at least in part, from government policy, whether scholars are advocating increased decentralization, regionalism, or some other set of policy prescriptions. The wider fiscal federalism literature also shares this assumption.<sup>5</sup>

One way to test our intuitions about the relationship between local policies and economic development is to consider the urban resurgence of the last fifteen to twenty years. Part II reviews a number of reasons that have been offered to explain the renewed vitality of ci-

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<sup>2</sup> See, for example, Gerald E. Frug and David J. Barron, *City Bound: How States Stifle Urban Innovation* 231–33 (Cornell 2009).

<sup>3</sup> In two prior articles, I touch on the question of how cities form, grow, and decline, but only indirectly. See Richard C. Schragger, *Mobile Capital, Local Economic Regulation, and the Democratic City*, 123 Harv L Rev 482, 520–26 (2009) (observing that local economic growth may not be undermined by local redistributionist policies); Richard Schragger, *Cities, Economic Development, and the Free Trade Constitution*, 94 Va L Rev 1091, 1100–07 (2008) (noting that the diversity and specialization of industry in cities plays an important role in driving growth).

<sup>4</sup> See David Schleicher, *The City as a Law and Economic Subject*, 2010 U Ill L Rev \*3–6 (forthcoming), online at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1471555](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1471555) (visited Jan 4, 2009). See also Schragger, 123 Harv L Rev at 492–97 (cited in note 3).

<sup>5</sup> See, for example, Barry Weingast, *The Economic Role of Political Institutions: Market-Preserving Federalism and Economic Development*, 11 J L, Econ, & Org 1, 24–25 (1995).

ties. Scholars and policymakers have offered numerous policy prescriptions based on these reasons, all of which are aimed at cities seeking to ride the wave of urban popularity. Those policies, however, seem somewhat beside the point when considered in light of large-scale economic trends that affect city prosperity. Indeed, the recent financial crisis might make us hesitant to attribute a strong link between local economic policy and economic outcomes. City and regional policies *might* matter in terms of urban outcomes, but we should have a healthy skepticism about *how* they matter.

This is important, for local economic development policy assumes a theory of local economic growth. In Part III, I compare two economic development policies that have been adopted in New York City. The first policy involves the granting of location subsidies to large-scale business. This approach is relatively unremarkable. Attracting and retaining significant employers by offering them subsidies has been a central tool of local government economic development offices for some time. The second policy is somewhat different. It still entails a distribution of public monies to private enterprise, but, in this case, the city retrains laid-off workers and subsidizes new startup ventures. This policy represents a shift away from attraction and retention to an emphasis on small-scale, homegrown innovation.

Both the attraction and retention policy and the homegrown innovation policy provide a window into what local industrial policy looks like in a post-industrial era; the efficacy of either approach turns on whether one's theory of economic development is correct. Unfortunately, we do not have a consensus account of how cities form, develop, and grow or decline. Thus, any claim that one policy or another will generate local economic growth should be made with a great deal of caution.

#### I. IS THE CITY A BYPRODUCT, A PRODUCT, OR A PROCESS?

To what extent we believe that local policy can affect local economic outcomes depends in part on how we describe what a city is and our account of how it grows and declines. Some stories of city development leave little room for policy. The conventional historical story of the economic rise and fall of the great industrial cities, for example, seems mostly devoid of local agency. These stories often begin with agricultural surpluses.<sup>6</sup> In explaining the great industrial cities,

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<sup>6</sup> But see Jane Jacobs, *The Economy of Cities* ch 1 (Random House 1970) (arguing that cities were a necessary precondition for increases in agricultural productivity).

they start with trading and transportation nodes. Cities came into existence at the confluence of goods and services, the terminuses of ports or railheads, or along stagecoach lines, where raw materials could be transformed into goods to be shipped, or provided to a large local market. There, too, the legal, financial, and governance expertise necessary to coordinate these large entities and provide them with capital developed. With the advent of the automobile, the subsequent extraordinary decline in transport costs, and the lessening importance of coal-fired plants, the industrial city lost its technological reason for being.<sup>7</sup> On this account, government policy has comparatively little to do with urban economic growth and decline; cities are essentially by-products of distance-changing technologies.

This relatively deterministic narrative sits somewhat uneasily alongside a different conception of what the city is and how it grows and declines: the notion that cities are a product that one can understand in terms of the supply and demand for urban space (and for particular urban spaces).<sup>8</sup> On this account, individuals and firms choose city space (versus other kinds of space) and choose among cities based on various costs and benefits—say, the costs of transport and congestion balanced against local amenities, or balanced against the gains of propinquity to customers, other firms, labor markets, and raw materials.<sup>9</sup>

The supply and demand story does not have to be at odds with the technological story—in fact, those stories are often told in tandem. But sometimes the supply and demand story implies that cities control the factors that make them desirable in the spatial supply and demand market. It is not a difficult conceptual leap from positing a market in city space to the idea that cities “compete” with one another to attract persons, goods, and capital. Indeed, the rhetoric of “competition” follows somewhat easily.

That rhetoric has been most fully embraced by law and economics scholars who start with Charles Tiebout’s construct of a market in local government.<sup>10</sup> Tieboutian governments compete to provide services to residents. This competition must *be* for something; if the demand for city space (and for a particular city’s space) was outside the control of any particular city, then the language of competition would

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<sup>7</sup> See Douglas Rae, *City: Urbanism and Its End* 215–16 (Yale 2003).

<sup>8</sup> See Edward Glaeser, *The Death and Life of Cities*, in Robert Inman, ed., *Making Cities Work: Prospects and Policies for Urban America* 22, 25–26 (Princeton 2009).

<sup>9</sup> See *id.* at 26–27.

<sup>10</sup> See generally Charles M. Tiebout, *A Pure Theory of Local Expenditures*, 64 *J Polit Econ* 416 (1956).

make little sense. Competition implies some level of agency, an ability to improve the product being offered. So we arrive at the notion that cities compete to provide amenities to firms and residents, that this competition disciplines local governments so that they provide efficient public services, and that this competition further encourages salutary innovation.<sup>11</sup>

The competition model supports the idea that cities can do something about economic growth and decline if they have good management. Moreover, good management means adopting a business model that entails keeping costs down while keeping quality up. Thus, a conventional view is that cities can do well by keeping their fiscal houses in order, keeping taxes relatively low, not redistributing monies from rich people to poor people, keeping crime down, and by otherwise providing an environment conducive to capital attraction and retention, either with policies that attract skilled labor or with policies that attract firms that will employ skilled labor.<sup>12</sup> The idea that good management can make a difference to the city economy is what animated supporters of Mayor Michael Bloomberg's recent successful campaign to repeal term limits in New York City. Supporters argued that Bloomberg had the skills to guide the city through tough economic times.<sup>13</sup> The folk wisdom seems to be that the occupant of the mayor's office matters in terms of urban outcomes.

Of course, many local government scholars argue that local managerial competence is not sufficient. A popular view among local government scholars (including myself) is that cities are not well positioned to help themselves because they do not have the legal and structural tools to do so.<sup>14</sup> The prescriptions that follow are geared toward giving cities the capacity to govern effectively. Thus, policymak-

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<sup>11</sup> See *id.* at 418–23; Fischel, *Homevoter Hypothesis* at 58 (cited in note 1). See also Weingast, 11 *J. L., Econ., & Org.* at 5 (cited in note 5) (noting that the mobility of capital gives rise to a diverse array of public goods packages); Wallace Oates, *Fiscal Federalism* 49–50 (Harcourt, Brace 1972). But see Hongbin Cai and Daniel Treisman, *Does Competition for Capital Discipline Governments? Decentralization, Globalization, and Public Policy*, 95 *Am. Econ. Rev.* 817, 818 (2005) (arguing that competition has a polarizing effect, causing cities that are unable to attract mobile capital to abandon business-friendly policies in favor of predation or the interests of existing citizens).

<sup>12</sup> See Peterson, *City Limits* at 25–27 (cited in note 1).

<sup>13</sup> See Michael Barbaro and David Chen, *Term Limits Get Notice in Crisis*, *NY Times* B1 (Sept 17, 2008).

<sup>14</sup> See, for example, Richard Schragger, *Can Strong Mayors Empower Weak Cities: On the Power of Local Executives in a Federal System*, 115 *Yale L.J.* 2542, 2564 (2006). For the seminal work along these lines, see generally Gerald Frug, *The City as a Legal Concept*, 93 *Harv. L. Rev.* 1059 (1980) (detailing “city powerlessness” within the government structure that places both federal and state restrictions on a city’s ability to self-govern, tracing this development through history, and arguing for the increased power of cities).

ers argue that cities should have more legal authority so that they can innovate,<sup>15</sup> that they should be able to annex suburban land so that they can capture economic growth,<sup>16</sup> or that there should be legal rules that make it more difficult for suburban jurisdictions to avoid their own responsibilities for the regional poor.<sup>17</sup> The notion here is that certain legal and political structures make cities more or less able to affect their own outcomes, but that these structures can be reformed, thus placing cities in a position to pursue prosperity unconstrained.

What these accounts share is an emphasis on city agency. Whether one believes that local governments currently have too little, enough, or (in some cases) too much power, the assumption is that city, suburban, and—more generally—regional policies have consequences for local economic growth and decline. One can assume that there is a fairly full-fledged market in location because of the mobility of residents and firms and that this market is, on the whole, a positive one (for the same reasons that all markets are good). This is the stance of many Tiebout-inspired public choice scholars. One can assume, more cautiously, that there is something of a market in location, in the sense that some residents and firms are mobile, but that it is shaped to a significant extent by government policy. This is the stance of many reformist local government scholars. In either case, jurisdictional competition remains. Either cities themselves are to blame for their decline or the policies that circumscribe cities are to blame.

As I have noted, these kinds of claims sit uneasily alongside technological accounts of the city. Nevertheless, one does see the argument that cities will more likely develop and prosper in relatively open societies, where trade is encouraged and predation by despots is limited, and where there is a relatively stable legal regime.<sup>18</sup> In these stories, the quality of government—an amenity over which policymakers exert a great deal of control—matters a lot.

But we should be cautious. First, there is a causal problem: it is far from clear whether urban life requires stable political and legal insti-

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<sup>15</sup> See, for example, Frug and Barron, *City Bound* at 50–51 (cited in note 2).

<sup>16</sup> See, for example, David Rusk, *Cities without Suburbs* 85 (Woodrow Wilson Center 1993).

<sup>17</sup> See, for example, *Southern Burlington County NAACP v Township of Mount Laurel*, 336 A2d 713, 724–25 (NJ 1975) (holding that zoning restrictions may not be employed to eliminate low- and moderate-income housing). See generally Richard Briffault, *Our Localism—Part II: Localism and Legal Theory*, 90 Colum L Rev 346 (1990) (criticizing local autonomy as insulating suburbs from the problems of urban poverty).

<sup>18</sup> See Robert Inman, *Financing City Services*, in Inman, ed, *Making Cities Work* 328, 328 (cited in note 8).

tutions or that it generates those institutions.<sup>19</sup> Cities do not arise *after* the establishment of cultural, legal, and political institutions. The city may in fact be a necessary precondition for them.<sup>20</sup> Second, urbanization is occurring in the absence of good institutions. The mega-cities of the developing world are growing dramatically, often despite the absence of stable political institutions or formal property rights, let alone the provision of basic municipal services.<sup>21</sup> To say that the worldwide process of urbanization represents intercity competition for providing urban amenities seems absurd. Urbanization is occurring, but it is simply not plausible to describe it as the outcome of a market in local governments or to claim that some cities are winning in a kind of good governance race.

I do not mean that institutions do not matter in the growth or decline of cities. They might, though in ways that we cannot necessarily anticipate. My main point is that “competition” is an unconvincing story of how cities come to be, grow, and decline. Indeed, as David Schleicher has recently observed, Tiebout-inspired competitive accounts of local government cannot tell us why cities form in the first place.<sup>22</sup> The competition story treats the city as a product (to be sold in the “location services” market), while the technological story views the city as a byproduct (of distance-changing technology). Neither account gives us an adequate insight into why cities exist and why in particular places.

A different way to look at the city is as a process. Consider Jane Jacobs’s famous *The Death and Life of Great American Cities*.<sup>23</sup> Jacobs approached the urban environment—the city, the neighborhood, the street—ecologically.<sup>24</sup> She showed us how a safe street emerges from tiny interactions among hundreds of independent and noncoordinated

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<sup>19</sup> This is the causal problem that bedevils the international law and development literature and particularly the “new institutional economics.” See Adam Przeworski, *The Last Instance: Are Institutions the Primary Cause of Economic Development?*, 45 *Eur J Sociol* 165, 165–68, 185 (2004) (arguing that it is incoherent to argue that institutions cause economic growth because institutions and economic growth have a reciprocal relationship).

<sup>20</sup> See Jacobs, *The Economy of Cities* at ch 1 (cited in note 6) (asserting that agriculture may have originated in cities and pointing out the fallacy of mistaking the results of city economic development for preconditions of this development).

<sup>21</sup> See Barney Cohen, *Urban Growth in Developing Countries: A Review of Current Trends and a Caution Regarding Existing Forecasts*, 32 *World Dev* 23, 48–49 (2003); National Research Council, *Cities Transformed: Demographic Change and Its Implications in the Developing World* 362–84 (National Academies 2003).

<sup>22</sup> See Schleicher, 2010 U Ill L Rev at \*4–5 (cited in note 4).

<sup>23</sup> Jane Jacobs, *The Death and Life of Great American Cities* (Random House 1961).

<sup>24</sup> See generally *id.* See also Jacobs, *The Economy of Cities* at 125–26, 129 (cited in note 6).

actors, how an urban economy emerges from small-scale production and invention, and how small changes at the street or neighborhood level can cause catastrophic changes in the urban landscape.<sup>25</sup> In short, *Death and Life* shows us how order arises out of the seeming disorder of urban life. It is a caution to those who would attempt to create a pre-packaged and attractive urban landscape—a product—out of a process.

Similarly, the “new economic geography”—for which Paul Krugman recently won a Nobel Prize—approaches cities as “self-organizing” systems: “systems that, even when they start from an almost homogeneous or almost random state, spontaneously form large-scale patterns.”<sup>26</sup> The new economic geography holds that given particular parameters, urban systems will exhibit certain spatial regularities—seemingly natural development patterns that emerge from a set of basic assumptions. A growing city, on this account, is more “like a developing embryo” than it is like a widget that is produced and sold in the marketplace.<sup>27</sup>

Thinking about cities as processes rather than products highlights the role of contingency and path dependence in city growth and decline. And it does so without relying on technological determinism. It thus steers a middle path between predestination and agency. What the new economic geography seeks to show is why agglomeration happens, that is, how cities, business districts, and regional and local industrial clusters occur. Krugman starts with some basic assumptions—namely, that there are forces encouraging people and businesses to clump together, and that there are forces encouraging people and businesses to disperse.<sup>28</sup> He then models how a city might form under these circumstances even if individuals and firms begin by being relatively uniformly distributed throughout a particular geographical

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<sup>25</sup> See generally Jacobs, *The Death and Life of Great American Cities* (cited in note 23); Jacobs, *The Economy of Cities* (cited in note 6).

<sup>26</sup> Paul Krugman, *The Self-Organizing Economy* 3 (Blackwell 1996). See also Masahisa Fujita and Paul Krugman, *The New Economic Geography: Past, Present and the Future*, 83 *Papers Reg Sci* 139, 140–41 (2004); Masahisa Fujita, Paul Krugman, and Anthony J. Venables, *The Spatial Economy: Cities, Regions and International Trade* 1–4 (MIT 1999) (describing urban economic landscapes as “the result not of inherent differences among locations but of some set of cumulative processes, necessarily involving some form of increasing returns, whereby geographic concentration can be self-reinforcing”). David Schleicher is the first local government scholar to address this work directly. See generally Schleicher, 2010 *U Ill L Rev* (cited in note 4). See also Schragger, 123 *Harv L Rev* at 491–93 (cited in note 3) (discussing economic geography); Schragger, 94 *Va L Rev* at 1100–06, 1156 (cited in note 3) (discussing Jacobs and economic geography).

<sup>27</sup> See Krugman, *Self-Organizing* at 1, 49 (cited in note 26). Compare this description with Jacobs, *The Economy of Cities* at 129 (cited in note 6) (analogizing the development of a city’s economy to the differentiation of cells in a developing embryo).

<sup>28</sup> Krugman, *Self-Organizing* at 9, 22–30 (cited in note 26).



space.<sup>29</sup> He also shows how an initially almost uniform distribution of business within a metropolitan region “evolves spontaneously” into a highly structured metropolis with two concentrated business districts.<sup>30</sup> Change the parameters a little bit, and one will generate a metropolis with four business districts—the so-called “Edge Cities” that Joel Garreau describes in his book of the same name.<sup>31</sup>

A key insight in all of these models is that small differences in initial conditions or small perturbations in an otherwise stable equilibrium can lead to dramatically different outcomes; that once growth or decline starts, it does so explosively or catastrophically; and that the spatial order that emerges may have little to do with individuals’ or firms’ preferences understood in isolation. There was nothing particularly unique about the geographical place that became Silicon Valley—given slightly different initial conditions, such an agglomeration of high-tech firms could have arisen elsewhere. Nevertheless, once one sets certain initial conditions, one can make some predictions about where such agglomerations will arise.<sup>32</sup> Similarly, the development of a regional economic core and a less economically developed periphery in a particular nation is not a function of the innate characteristics of those geographic places, but rather the result of historical accident. Nevertheless, that the industrial belt developed where it did in the northeast United States at the turn of the century was predictable considering the initial starting points and the self-reinforcing effects of economic development.<sup>33</sup> Cities—spatial agglomerations—are both contingent and path dependent.

The idea that order arises from chance is not unfamiliar to economists or urban theorists. As Krugman points out, his account of city formation is inspired by Thomas Schelling’s famous model of how a segregated metropolis can emerge even given individual preferences that would be consistent with full integration.<sup>34</sup> As Schelling showed, the integrated distribution of persons in space is unstable; add an almost imperceptible perturbation in the initial distribution of persons and the equilibrium completely unravels, resulting in a spatial order that is almost entirely segregated.<sup>35</sup> Such cascades were familiar to

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<sup>29</sup> Id at 24–25.

<sup>30</sup> Id at 22–30.

<sup>31</sup> Id at 26–27. See Joel Garreau, *Edge City: Life on the New Frontier* ch 1 (Doubleday 1991).

<sup>32</sup> Krugman, *Self-Organizing* at 37 (cited in note 26).

<sup>33</sup> See Fujita and Krugman, *The New Economic Geography* at 147 (cited in note 26).

<sup>34</sup> Krugman, *Self-Organizing* at 15–22 (cited in note 26). See Thomas Schelling, *Micromotives and Macrobehavior* ch 4 (W.W. Norton 1978).

<sup>35</sup> Krugman, *Self-Organizing* at 18–19 (cited in note 26).

Jane Jacobs. She argued that making small changes in a neighborhood—replacing a store with a parking lot, building a road, closing down a local grocery—could lead to a neighborhood’s rapid failure.<sup>36</sup> She also noted how small changes in the other direction—the opening of a store, the influx of a few new residents—could result in cascades in the other direction.<sup>37</sup> Both decline and growth happen in bursts.

The emergence of regularity from randomness seems to be at work at the most basic level of economic geography. Consider Zipf’s law of city size. As Krugman points out, cities in a particular urban system often exhibit a striking regularity: the population of a given city is inversely proportional to its rank.<sup>38</sup> Thus, in any country, we tend to see a distribution of city sizes in which the number 2 city has half the population of the largest city, the number 3 city has one-third the population of the largest city, and so on. This “rank-size” rule has remained fairly consistent in the United States since at least 1890; a universal law of city size seems to be at work.<sup>39</sup>

One can see immediately how Zipf’s law undermines competitive accounts of city growth and decline. One would predict a much different distribution of population if in fact cities were competing for firms and residents by providing particular services or goods, or amenities. Unless individuals’ and firms’ preferences for location exactly tracked the rank-size rule, cities would arguably fall within relatively similar size ranges. Zipf’s law implies that cities exist in an urban system: population increases and decreases operate across the urban system, not solely at the level of a particular city or metropolitan area. Something about the ways in which cities form, become populated, and develop or decline is geographical—that is to say, is a reflection of an emergent economic-spatial order.<sup>40</sup>

Does all this mean that cities cannot do anything about their economic development, as the technological account implies? Not necessarily. City self-organization grants a large role both to historical acci-

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<sup>36</sup> See Jacobs, *The Death and Life of Great American Cities* at 275–76 (cited in note 23).

<sup>37</sup> See id at 279 (discussing the potential for “unslumming” in lively, diverse neighborhoods).

<sup>38</sup> Krugman, *Self-Organizing* at 39–43 (cited in note 26) (discussing the “spooky” consistency of the rank-size rule in US cities). See also Xavier Gabaix, *Zipf’s Law for Cities: An Explanation*, 114 Q J Econ 739, 741–43 (1999).

<sup>39</sup> See Krugman, *Self-Organizing* at 43–46 (cited in note 26). But see Voker Nitsch, *Zipf Zipped*, 57 J Urban Econ 86 (2005) (reviewing quantitatively the empirical literature on Zipf’s Law and suggesting that “cities are on average more evenly distributed than suggested by (a strict interpretation) of Zipf’s law”).

<sup>40</sup> See generally Luis Bettencourt, et al, *Growth, Innovation, Scaling, and the Pace of Life in Cities*, 104 Proc Natl Acad Sci 7301 (2007) (describing additional regular, scalar relationships across urban systems).

dent and the self-reinforcing effects of economic development. Luck matters because small random events (David Packard and William Hewlett begin their business in Silicon Valley) can produce large consequences (once HP is there, other firms want to be there). Thus, cities might be able to intervene in the local economy in such a way as to nudge the process forward. Clustering of people and firms is the chief characteristic of city space and the central economic benefit for which some firms and residents are willing to pay higher rents. Thus, if firms believe that other firms are going to settle in (for example) Chicago, then the city becomes a self-fulfilling prophecy.<sup>41</sup> Chicago is able to beat St. Louis at the start of the urban race for no reason other than firms' beliefs that other firms will want to be there. Indeed, the original city boosters believed that the city was really the *promise* of the city. They might have been right.

Nevertheless, it is very hard to tell what the effects of any particular policy intervention will be over the long term. Certainly, Chicago would do well to set itself up as the gatekeeper to the West by building railroads; in an era in which railroads drive the economy, a city would do well to have as many lines running through it as possible.<sup>42</sup> Nevertheless, the reason that Chicago beat St. Louis, Cincinnati, and Milwaukee to become the leading metropolis of the West had as much to do with luck as with any set of policies. During the first third of the nineteenth century, each of those cities (and many with names less well known) were aggressively pursuing infrastructure development, gathering capital, and positioning themselves to control regional trade. Many of these cities started out with similar geographical, social, infrastructural, and economic attributes—or at least attributes that offset one another.<sup>43</sup> Indeed, in the antebellum period, St. Louis seemed to be better positioned than Chicago, having a larger population and a seemingly firm grip on the Mississippi trade.<sup>44</sup> The rapid emergence of an urban hierarchy with Chicago at the top is a result of the dramatic

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<sup>41</sup> Paul Krugman, *History versus Expectations*, 106 Q J Econ 651, 666 (1991).

<sup>42</sup> But see Robert Fogel, *Railroads and American Economic Growth: Essays in Economic History* 10–16 (Johns Hopkins 1964) (arguing that railroads were not essential prerequisites for economic growth).

<sup>43</sup> For a discussion of the Chicago-St. Louis rivalry, see Jeffrey S. Adler, *Capital and Entrepreneurship in the Great West*, 25 J Interdiscipl Hist 189, 189–93 (1994) (arguing that Chicago emerged as the leading city of the West because it had more extensive connections to the Northeast marketplaces than St. Louis); William Cronon, *Nature's Metropolis: Chicago and the Great West* 295–309 (W.W. Norton 1991).

<sup>44</sup> See Cronon, *Nature's Metropolis* at 296 (cited in note 43).

instability of the urban system during the mid-nineteenth century.<sup>45</sup> It could have been otherwise.

Instability is endemic. Indeed, it is not at all clear that cities can resist the ups and downs of the urban cycle. That cycle might be independent of city policy, or might be *caused* by the very processes unleashed by an urban boom in the first place. The new economic geography treats spatial economic phenomena the same as temporal economic phenomena.<sup>46</sup> Thus, in the same way that temporal economic busts follow booms, so do spatial economic busts follow booms. Urban systems are simply spatial economic systems, and thus will experience the spatial equivalent of the business cycle.<sup>47</sup>

What policy interventions might work in such a system? The view that cities are location providers tends to support policies like fiscal conservatism, low taxes, minimal economic regulation, and provision of amenities to skilled workers.<sup>48</sup> But if cities are not merely location providers, if they are systems within a larger urban system, then it is not entirely clear that adopting any of these policies (or their opposites) would be bad or good.

It is certainly difficult to say what cities ought *not* to do. For example, a popular assumption among urban economists is that cities cannot and should not redistribute from rich to poor.<sup>49</sup> If they do, the rich will flee to other jurisdictions, thus bringing down the city economy. But this prediction depends very strongly on the notion that cities are products and that mobile residents and firms pick and choose among them. Now, it is true that firms and residents are mobile; the

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<sup>45</sup> Id at 265, 297–309.

<sup>46</sup> See Krugman, *Self-Organizing* at 53, 61–73 (cited in note 26).

<sup>47</sup> Id at 99–100.

<sup>48</sup> For the best statement of this view, see Robert Inman, *City Prospects, City Policies*, in Inman, ed, *Making Cities Work* 1, 1–19 (cited in note 8). A similar view holds in the international development arena. For a critique, see Alfred C. Aman, Jr, *Law, Markets and Democracy: A Role for Law in the Neo-liberal State*, 51 NY L Sch L Rev 801, 814–15 (2006–2007) (criticizing the assumption that markets, not law, will solve global problems and advancing a notion of law as a tool to ensure that individuals participate in the democratic process as citizens rather than mere consumers of services); Curtis Milhaupt and Katharina Pistor, *Law and Capitalism: What Corporate Crises Reveal about Legal Systems and Economic Development around the World* 21 (Chicago 2009).

<sup>49</sup> See, for example, Peterson, *City Limits* at 210 (cited in note 1). But see Schragger, 123 Harv L Rev at 518 (cited in note 3) (noting that cities can accomplish redistribution when capital is differently mobile). The effect of redistribution on mobile taxpayers is at the center of the debate over the imposition of a “millionaire tax” in New York. Compare Nicholas Confessore, *Taxing Rich Won’t Necessarily Make Them Flee, Experts Say*, NY Times A26 (Mar 19, 2009) with Edward L. Glaeser, *Will a “Millionaire Tax” Cause an Exodus of Talent?*, NY Times Economix Blog (Apr 27, 2009), online at <http://economix.blogs.nytimes.com/2009/04/27/will-a-millionaire-tax-cause-an-exodus-of-talent> (visited Nov 3, 2009).

economic models that Krugman deploys depend on firms and residents changing their location. The problem is that mobility across geographic space—toward or away from the city—is not the same kind of mobility that characterizes purchases of consumer goods. Mobility in geographical space is “lumpy” and prone to all the characteristics of self-organizing systems: interdependence, cascades up or down, and feedback loops.<sup>50</sup>

Cities might be competing in particular arenas. No doubt some residents and firms make decisions about where to locate based on the existence of quality urban infrastructure, like a good airport, for example. But cities also emerge without any infrastructure whatsoever—the infrastructure comes later, after people and firms have flocked there.

## II. THE URBAN RESURGENCE (AND THE CRASH OF 2008)

So why are people and firms flocking to particular places? One way to test our intuitions about the role of policy in city growth and decline is by considering the renewed popularity of the central city over the last twenty years or so—what has been dubbed the “urban resurgence.”<sup>51</sup> This resurgence has defied the conventional wisdom that “sun and sprawl” beats “old and cold.”<sup>52</sup> During the second half of the twentieth century, we were told, residents and firms were acting on their preferences for warmer weather and a car-driven lifestyle, thus leading to the decline of the industrial cities of the Northeast in favor of the sprawling cities of the Sunbelt. And even if people were not migrating south, they were migrating out of the cities to the suburbs. These preferences were made possible by technological innovations—relatively cheap transportation abetted by road-building, inexpensive communications, and the end of an era of industrial production, permitting firms to locate at a distance from suppliers and consumers.<sup>53</sup>

The puzzle is that while sun and sprawl cities have undoubtedly been gaining, northern industrial cities have also surged in recent

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<sup>50</sup> Krugman, *Self-Organizing* at 99–100 (cited in note 26).

<sup>51</sup> See generally Michael Storper and Michael Manville, *Behaviour, Preferences, and Cities: Urban Theory and Urban Resurgence*, 43 *Urban Stud* 1247 (2006). See also Edward L. Glaeser and Joshua D. Gottlieb, *Urban Resurgence and the Consumer City*, 43 *Urban Stud* 1275, 1275 (2006). Compare Ingrid Gould Ellen and Katherine O’Regan, *Reversal of Fortunes? Lower-Income Urban Neighborhoods in the US in the 1990s*, 45 *Urban Stud* 845, 866 (2008) (finding strong evidence that “an urban resurgence of sorts did take place in the 1990s and that it extended to the lowest income neighborhoods,” but that higher-income neighborhoods did not experience it).

<sup>52</sup> Storper and Manville, 43 *Urban Stud* at 1249, 1251 (cited in note 51).

<sup>53</sup> See Rae, *City: Urbanism and Its End* at 361–63 (cited in note 7).

years. New York, Boston, Chicago, London, Paris, and to a lesser extent, places like Pittsburgh and St. Louis, have all seen their fortunes rise dramatically. It is difficult to find a single explanation or set of explanations for why both these trends—continued growth in sprawling, sunny cities and resurgent growth in old, cold cities—are happening at the same time.<sup>54</sup> It is even more difficult to point to specific government policies that have led to the rise of certain cities, the decline of others, and the simultaneous growth of suburban and some central city locales.

Consider a number of explanations. One possibility is that certain cities became more efficient in their provision of essential public services. If we saw significant improvements in urban schools or a notable reduction in city taxes with no noticeable decrease in city services, we might conclude that resurgent cities were simply performing better. But we do not see dramatic improvements along those lines, and certainly not consistently across cities.<sup>55</sup> Though it is commonly asserted that cities can only attract and keep the middle class if they improve their education systems, education gains do not seem to have preceded the urban boom in places like New York, Chicago, and Boston.<sup>56</sup> And dramatic improvements in education or increases in education spending do not seem to explain the boom in Las Vegas or other

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<sup>54</sup> See Storper and Manville, 43 *Urban Stud* at 1251, 1269 (cited in note 51) (noting that none of the major explanations adequately explain the increasing popularity of both types of cities).

<sup>55</sup> Consider local tax rates. While a number of booming cities have low local tax rates, others have relatively higher local tax rates. It is true that struggling northeast cities like Bridgeport, Detroit, and Baltimore are at or near the top in terms of local tax burden. It seems unlikely that the higher tax burden has led to the decline of those cities, however. Rather, the decline of those cities has led to the higher tax burden. For an analysis, see Government of the District of Columbia, *Tax Rates and Tax Burdens in the District of Columbia—a Nationwide Comparison* 30–31 (2007).

<sup>56</sup> At best, student achievement during the 1990s shows mixed results. See G. Alfred Hess, Jr., *Understanding Achievement (and Other) Changes under Chicago School Reform*, 21 *Educ Eval & Pol Analysis* 67, 79–80 (1999); Diane Ravitch and Joseph P. Viteritti, *Introduction*, in Diane Ravitch and Joseph P. Viteritti, eds., *City Schools: Lessons from New York* 1, 3–5 (Johns Hopkins 2000); S. Paul Reville and Celine Coggins, eds., *A Decade of Urban School Reform: Persistence and Progress in the Boston Public Schools* 133–34 (Harvard Education 2007). As for New York City, the data arguably show some gains starting in 2002. See generally National Assessment of Educational Progress, *2007 Trial Urban District Assessment: New York City Highlights* (2007), online at [http://schools.nyc.gov/daa/reports/2007\\_NAEP\\_TUDA\\_Results.pdf](http://schools.nyc.gov/daa/reports/2007_NAEP_TUDA_Results.pdf) (visited Oct 27, 2009) (detailing the standardized test results of fourth and eighth graders in New York City and comparing the results to 2002–2003 levels). But see Diane Ravitch, *Mayor Bloomberg's Crib Sheet*, *NY Times* A23 (Apr 10, 2009) (arguing that any gains in the New York City schools have been overstated). City-suburban gaps across all major cities—including Sunbelt cities—are still dramatic. See Sam Dillon, *Large Urban-Suburban Gap Seen in Graduation Rates*, *NY Times* A14 (Apr 22, 2009).

Sunbelt cities.<sup>57</sup> Dramatic improvements in city provision of other kinds of services—trash pick-up, social services, infrastructure—also do not seem to be forerunners of an urban resurgence, though perhaps they have accompanied it.<sup>58</sup>

Crime reduction might be an exception, but its role in the urban boom is likely overstated.<sup>59</sup> No doubt, many cities became safer in the 1990s. But it is not at all clear that city policies were directly responsible for that outcome.<sup>60</sup> Though community and broken windows policing are credited with the turnaround, especially in New York City, it appears that all cities throughout the United States experienced the same trend.<sup>61</sup> Crime was simply going down in the late 1980s and into the 1990s. The reasons are complex and controversial, but arguably not attributable to any particular city's policing policies.<sup>62</sup> Another more significant problem with the crime explanation is that it does not explain the resurgence of European old and cold cities<sup>63</sup>—which did not have a crime epidemic in the first place.<sup>64</sup> Nor does it necessarily explain the booming of Sunbelt cities. For example, in Las Vegas crime stayed relatively constant through the 1990s but began to spike quite dramatically in 2002.<sup>65</sup>

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<sup>57</sup> For a summary of Las Vegas's progress, see Roberta Furger, *Full House: The Las Vegas Building Boom Has Stretched the Creativity and Resources of the Fastest-Growing School District in the Nation*, *Edutopia* 31, 33–34 (Sept/Oct 2004). But see Dillon, *Urban-Suburban Gap* (cited in note 56).

<sup>58</sup> See Richard Deitz and Jaison R. Abel, *Have Amenities Become Relatively More Important than Firm Productivity Advantages in Metropolitan Areas?* 17 (Federal Reserve Bank NY Staff Reports No 344, Sept 2008), online at [http://www.newyorkfed.org/research/staff\\_reports/sr344.pdf](http://www.newyorkfed.org/research/staff_reports/sr344.pdf) (visited Nov 3, 2009) (observing that it is difficult for any region to change its relative amenity position over a decade).

<sup>59</sup> See Steven D. Levitt, *Understanding Why Crime Fell in the 1990s: Four Factors That Explain the Decline and Six That Do Not*, 18 *J Econ Persp* 163, 163–67 (2004).

<sup>60</sup> See Philip Cook, *Crime in the City*, in Inman, ed, *Making Cities Work* 297, 301 (cited in note 8) (noting that “no expert predicted [the decline in crime] and it remains something of a mystery” and noting that the decline of the 1990s made any policy intervention “look good”).

<sup>61</sup> See id at 301.

<sup>62</sup> See Levitt, 18 *J Econ Persp* at 172–73 (cited in note 59).

<sup>63</sup> See Ivan Turok and Vlad Mykhnenko, *Resurgent European Cities?*, 1 *Urban Rsrch & Prac* 54, 66–72 (2008).

<sup>64</sup> See Martin Killias and Marcelo F. Aebi, *Crime Trends in Europe from 1990 to 1996: How Europe Illustrates the Limits of the American Experience*, 8 *Eur J Crim Pol & Rsrch* 43, 45–54 (2000).

<sup>65</sup> See University of Nevada Center for the Analysis of Crime Statistics, *Uniform Crime Report Database*, online at <http://www.unlv.edu/centers/crimestats> (visited Nov 4, 2009) (showing dramatic increase starting in 2002). See also Police Executive Research Forum, *Chief Concerns: A Gathering Storm—Violent Crime in America* (Oct 2006), online at [http://www.policeforum.org/upload/Gathering-Storm-PRINT-Final\\_110473745\\_1027200610304.pdf](http://www.policeforum.org/upload/Gathering-Storm-PRINT-Final_110473745_1027200610304.pdf) (visited Nov 4, 2009) (describing the recent dramatic rise in violent crime across the country).

If cities have not gotten better at providing goods and services, then something else might explain the urban resurgence. For some theorists, the preferred theory is that firms have chosen to congregate in cities because of the economic gains of agglomeration.<sup>66</sup> The “death of distance” was supposed to have spelled the end of the city altogether. As that story was told, firms in the new service and knowledge economy could locate anywhere and so would avoid the congestion and higher rents of cities, especially old, cold cities.<sup>67</sup> But the opposite seems to have happened, at least in certain industries and in certain cities. While manufacturing has tended to decentralize, “knowledge” and “innovation-based” industries have tended to congregate, either in places like Silicon Valley (technology) or in cities like New York (finance, advertising, art). Having a deep labor pool has always been a defining feature of the city; it is there that firms can find the specialized workers necessary for producing their products and where workers can find multiple firms that might hire them.<sup>68</sup> But in a knowledge economy, the benefits of proximity may be more in the transfer of information and in the cross-industry fertilization necessary for innovation.<sup>69</sup> Cities, far from being dead, may be more important than ever to knowledge- and innovation-specific industries.

This story is a popular one, and it helps explain why cities continue to exist, but it does not tell us why certain cities become the hosts of certain agglomerations.<sup>70</sup> Why did financial services agglomerations end up in London and New York? Why has Charlotte, North Carolina not overtaken both of them? Charlotte has sun, sprawl, and an increasing array of financial firms. One possibility is simply history—New York has been the financial capital of the country since the founding of the market at Wall Street; for that reason, New York retains its preeminence.

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<sup>66</sup> See, for example, Storper and Manville, 43 *Urban Stud* at 1250 (cited in note 51).

<sup>67</sup> *Id.* at 1248–49.

<sup>68</sup> See Alfred Marshall, *Principles of Economics* 271–72 (Macmillan 8th ed 1940). See also Storper and Manville, 43 *Urban Stud* at 1249–51 (cited in note 51).

<sup>69</sup> Storper and Manville, 43 *Urban Stud* at 1249–51 (cited in note 51). See also Edward Glaeser, *Are Cities Dying?*, 12 *J Econ Persp* 139, 147–50 (1998); Masahisa Fujita, *Towards the New Economic Geography in the Brain Power Society*, 37 *Regional Sci & Urban Econ* 482, 484–85 (2007) (incorporating knowledge as a force of agglomeration in the field of economic geography).

<sup>70</sup> See Storper and Manville, 43 *Urban Stud* at 1254 (cited in note 51):

The disadvantage of emphasizing agglomeration economies is the great weakness we discussed before: the inability to explain the *where* question, and therefore the inability to draw policy-relevant conclusions. The firms may attract (or create) the labour and a virtuous circle may begin from there, but why do the firms end up where they do?



Certainly path dependence plays a large role in urban economic growth and decline. But how path dependence will be experienced is often hard to predict. For example, Detroit's long history of dominating the automobile industry could have led it to its current deteriorated state. Because it was undiversified, Detroit could not weather the decline of the American car industry. A different story could be told, however. In this one, Detroit's long engineering history is an asset. Having a deep bench of engineers, manufacturing plants, and specialized labor, Detroit could have been well placed to compete in the post-industrial knowledge economy, and it could now be a leader in spin-off industries. Of course, Detroit is not a leader in practically anything. Detroit's history works against it. New York's history works for it. But how would we know except in retrospect?

One possibility as to why particular cities are thriving is that firms go where the labor is and that labor likes certain amenities. This explanation for the urban resurgence argues that rising cities have been able to attract skilled labor or individuals with high levels of human capital.<sup>71</sup> Certainly, cities with higher growth seem to have higher numbers of college-educated residents. Attracting such residents, famously labeled the "creative class" by Richard Florida,<sup>72</sup> seems an obviously smart strategy. Thus, much effort has been made to create the kinds of amenities that highly skilled people favor. Those amenities might include particular kinds of shops, cultural offerings, a vibrant urban street life, or a generally "bohemian, tolerant atmosphere."<sup>73</sup> The more young, college-educated people there are in a city, the more likely it will be successful. The idea is that if you build it, they will come, and the jobs will follow them.

One has to wonder why they come, however. Between 1995 and 2000, many of the old, cold cities saw a net in-migration of young college-educated people, thus supporting the theory that dense, urban cores were attracting this highly mobile group.<sup>74</sup> But cities like Charlotte and Atlanta grew faster along this demographic, and Las Vegas experienced the greatest increase of all.<sup>75</sup> To be fair, it is possible that preferences for amenities are still at work and that different cities simply offer different packages, depending on their circumstances.

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<sup>71</sup> See Glaeser, *The Death and Life of Cities* at 22, 50 (cited in note 8).

<sup>72</sup> Richard Florida, *The Rise of the Creative Class: And How It's Transforming Work, Leisure, Community and Everyday Life* (Basic Books 2002).

<sup>73</sup> Storper and Manville, 43 *Urban Stud* at 1252 (cited in note 51).

<sup>74</sup> *Id.* at 1253.

<sup>75</sup> *Id.*

Cities are “bundled” goods: you have to take the weather in New York to get access to the Metropolitan Museum of Art; you can have an exciting nightlife in Las Vegas if you are willing to put up with the desert. Making sure that those amenities are in place to the extent that a city can control them seems like a good bet. Indeed, one urban economist argues that the “best economic development strategy is to provide amenities that will attract smart people and then get out of their way.”<sup>76</sup>

The problem with this claim is that it is not at all clear whether these high human capital individuals are migrating to Boston and Las Vegas because of the amenities or whether the amenities are there because of the high human capital individuals. Indeed, the amenity story might have the causation exactly backwards. As Michael Storper and Michael Manville point out, this is certainly true of places like Silicon Valley, which had no preexisting amenities to offer before it became a technological center; Las Vegas, which was similarly devoid of the kinds of urban amenities that serve a growing permanent population; and Hollywood, which developed its amenities simultaneously with the development of the motion picture industry.<sup>77</sup> Places like Atlanta and Charlotte have all seen their consumer amenities grow with the influx of a more skilled population. The old, cold cities may be able to attract some of the mobile educated with their urban charm, their prewar architecture, and their restaurants, but if there are no jobs, it is unlikely amenities alone will help them. It may be that people generally locate where they can maximize their access to jobs—jobs precede people, not the other way around.<sup>78</sup>

Nevertheless, policy prescriptions for cities have long emphasized attracting the “right kind” of people. The old recommendations were: tear down slum housing, provide festival marketplaces, attract suburbanites by building roads into the downtown, and subsidize manufacturing by providing location incentives. The new policies are: go wireless or green, attract the creative class, subsidize universities and hospitals (“eds and meds”), provide walkable downtowns, and have prewar housing. Of course, some of these prescriptions are not in the

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<sup>76</sup> Glaeser, *The Death and Life of Cities* at 50 (cited in note 8). See also Glaeser and Gottlieb, 43 *Urban Stud* at 1297 (cited in note 51).

<sup>77</sup> See Storper and Manville, 43 *Urban Stud* at 1254 (cited in note 51).

<sup>78</sup> See *id.* See also Deitz and Abel, *Have Amenities Become Relatively More Important?* at 16–18 (cited in note 58) (estimating that the share of wage- and rent-compensating differentials attributable to amenities rose slightly between 1990 and 2000, but observing that firm productivity advantages remain dominant and that it is difficult to change a region’s relative amenity position over a ten-year period).

city's control. A city has as much prewar housing as it will have. But there are other policies over which the city does have some control, such as keeping taxes low or adopting policies that reduce labor or development costs.<sup>79</sup>

These policies sound plausible, but what if they are not actually responsive? The amenity explanation generally leads to policy recommendations designed to attract highly mobile, skilled residents and prevent them from fleeing.<sup>80</sup> But if the industrial agglomeration story is more accurate than the amenity story, then individual highly skilled amenity users are not particularly mobile.<sup>81</sup> They follow the firms that employ them, and those firms need particular locales where other firms are. And where other firms are located might be an accident of history, or a quirk, or a function of a spatial equilibrium that is difficult to predict. It seems unlikely that a city is going to attract those firms by building a municipal Wi-Fi network, by developing a "cool" city persona, or even by keeping development costs down.

Consider New York City. In the 1970s, few would have predicted the kind of real estate appreciation that practically all of New York's boroughs have now experienced. But New York still has very high construction costs and very high development costs.<sup>82</sup> It also has relatively high taxes.<sup>83</sup> While crime declined during the city's ascendancy, the schools did not improve dramatically—whatever education gains have been made are relatively recent.<sup>84</sup> And while the city has attracted skilled workers, its advantage may actually be in its ready supply of low-wage workers, especially recent immigrants. New York

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<sup>79</sup> See, for example, Robert P. Inman, *Financing City Services*, in Inman, ed, *Making Cities Work* 328, 349–52 (cited in note 8); Joseph Gyourko, *Urban Housing Markets*, in Inman, ed, *Making Cities Work* 123, 147–51 (cited in note 8).

<sup>80</sup> For the clearest statement of this view, see Glaeser, *Exodus of Talent* (cited in note 49).

<sup>81</sup> Schragger, 123 Harv L Rev at 514–17 (cited in note 3).

<sup>82</sup> See New York Building Congress and New York Building Foundation, *New York's Rising Construction Costs: Issues and Solutions* 1 (2008) (reporting that nonresidential construction costs in New York City average 60 percent more than in Dallas, 50 percent more than in Atlanta, and that total construction costs for high-rise office towers can exceed \$400 per square foot in New York, compared to \$180 in Chicago).

<sup>83</sup> New York's overall tax burden places it in the top quarter of big cities. See Government of the District of Columbia, *Tax Rates and Tax Burdens* at 14 (cited in note 55). New York City residents pay the highest income tax rate in the country. See Josh Barro, *NYC Income Taxes Going from Ridiculous to Ridiculouser*, Tax Foundation Tax Policy Blog (Dec 5, 2008), online at <http://www.taxfoundation.org/blog/show/24013.html> (visited Nov 4, 2009).

<sup>84</sup> The data arguably shows some gains starting in 2002. See National Assessment of Educational Progress, *2007 Trial Urban District Assessment* at 21, 24–31, 37, 43 (cited in note 56). But see Ravitch, *Mayor Bloomberg's Crib Sheet*, NY Times at A23 (cited in note 56) (arguing that any gains in the New York City schools have been overstated).

illustrates the limits of generalizable explanations for the urban resurgence. Those explanations often seem to be a lot of “just so” stories, not really capable of explaining the renewed popularity of New York, Boston, London, and San Francisco—or Phoenix’s or Las Vegas’s rise (and potential fall?) and Detroit’s continued fall.

Moreover, what if a city’s particular attraction policies are insignificant compared with larger economic trends? In the same way that the urban resurgence tests our theories of urban growth, the crash of 2008 tests our theories of urban resiliency, raising questions about what cities can do in the context of large-scale economic restructuring. New York is again the example. It is telling that Edward Glaeser, explaining New York’s resurgence, has argued that the financial sector has been an “innovation engine.”<sup>85</sup> In the 1960s, Glaeser writes, “the groundwork was being laid for New York’s finance-based resurgence,” after which “idea built on idea, as people in older, denser areas learned from each other” to create “ongoing improvements in the ability to assess the mispricing of assets.”<sup>86</sup> Of course, we now know that what we got was the opposite, a system of learning that reinforced mistake after mistake—a much different story about the actual operation of financial industry agglomerations. The story of New York’s success is thus also the story of its undoing.

But there is a larger lesson to be learned, other than that agglomeration economies do not always produce the best ideas. We now know that the urban boom of the last two decades has been driven by what all urban booms have been driven by—land speculation. Land has always been the engine of spatial booms—land drives the urban political economy and is the initial basis for city wealth.<sup>87</sup> Ultimately, the city has to be based on real productive activity, however—and that holds for the cities that profit from underwriting the creation of new cities. In the 1800s, New York money made Chicago; the New York financiers bet on that city and won.<sup>88</sup> More recently, New York money bet on Las Vegas, Miami, and thousands of other places. The financiers lost those bets, however, and the costs to the New York financial sector (and the New York-area economy) are significant.

More important, for our purposes, are the policy implications. Prior to 2008, many (though not all) urban theorists would have told a relatively positive story about New York’s financial sector. And very

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<sup>85</sup> Glaeser, *The Death and Life of Cities* at 49 (cited in note 8).

<sup>86</sup> *Id.*

<sup>87</sup> Schragger, 94 *Va L Rev* at 1156 (cited in note 3).

<sup>88</sup> See Cronon, *Nature’s Metropolis* at 297–307 (cited in note 43).

few would have argued that the city—were it empowered to do so—should more heavily regulate or tax that sector. New York was blessed with a money-making and innovation-making financial sector agglomeration that was the envy of every other city in the world; to regulate or tax it would be to precipitate its flight. But, of course, it turns out the worst thing for New York was to be so heavily dependent on the financial sector. The best thing the city could have done five or ten years ago was to limit its exposure to that sector and deemphasize it. But how would one have known?

### III. OLD STRATEGIES AND NEW ONES

What should New York do in the face of the general economic collapse that followed the collapse of the city's financial industry? It is worth observing that the city exercises little to no regulatory control over the financial industry—that is the responsibility of federal and, to a lesser extent, state regulators. Even if city leaders had wanted to, they could have done very little to prevent the irresponsible lending and securitization practices that led to the current economic crisis.<sup>89</sup>

Despite the limits of city regulatory authority, New York, like most cities, engages in ongoing economic development activities, and has done so with special regard to the financial industry. In 2004, the city provided \$100 million worth of incentives to Goldman Sachs in response to its threat to relocate to New Jersey.<sup>90</sup> The incentives may have worked; Goldman stayed in Manhattan. In 2009, following the collapse of the financial sector, the city proposed investing \$45 million to retrain finance professionals and provide them with seed capital and office space for startup firms.<sup>91</sup> The city's economic development corporation hopes to make small investments in new ventures with the aim of attracting additional private capital and keeping finance professionals in the city.

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<sup>89</sup> The collapse of the US financial industry nicely illustrates the mismatch between regulatory scale and effects—national regulation seems both too large and too small considering both the disproportionate local effects of the collapse and its global reach. The gap between local and national effects is endemic. Consider the recent argument about financial industry bonuses: for the city, the bonuses would be a tax boon and any decent mayor would want them to be paid. For the nation, however, the bonuses look like the redistribution of federal tax dollars to the undeserving rich. Mayor Bloomberg can weigh in on the bonus issue, but he has almost no tools to put his preferences into policy. See David W. Chen, *Much Vilified, Financial Titans Find a Friend in Bloomberg*, NY Times A17 (Apr 14, 2009); David W. Chen, *Economist's Forecast: Chance of Change 100%*, NY Times A17 (Feb 16, 2009).

<sup>90</sup> See Patrick McGeehan, *After Reversal of Fortunes, City Takes a New Look at Wall Street*, NY Times A19 (Feb 23, 2009).

<sup>91</sup> See *id.*

How should we evaluate these two approaches to economic development? The first policy—location subsidies to large employers—has been and continues to be a standard tool of city economic development offices. Their efficacy, however, has been strongly disputed.<sup>92</sup> Cities appear not to gain back what they put in, either in the short term or the long term, and there is some evidence that subsidies do not ultimately alter the location decisions of firms.<sup>93</sup> And even if location subsidies do enhance local welfare, they do not improve overall welfare—one city loses what another city gains.<sup>94</sup> This is especially true if the firm relocates in the same economic region, as Goldman Sachs would have had it moved to New Jersey. From an economic perspective, Goldman Sachs was never going anywhere.

Finally, if firms *are* ultimately influenced by subsidies, those subsidies distort firm location decisions. A move by Goldman Sachs to New Jersey is really a move from high rents to low rents. But there is no reason that owners of commercial real estate in Manhattan should be subsidized; all location subsidies do is keep rents artificially high, which is not good for anyone. Giving money to Goldman Sachs is the post-industrial version of smokestack chasing: firms play one city or region against another, generating a subsidy race with dubious welfare effects.<sup>95</sup>

The city's more recent response to the decline of the financial services industry might be more promising. Instead of giving money to a large, established firm to encourage it to stay, the city is using taxpayer money to retrain finance professionals and subsidize startup firms. The city might have no other choice; it cannot effectively subsid-

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<sup>92</sup> See Yoonsoo Lee, *Geographical Redistribution of US Manufacturing and the Role of State Development Policy*, 64 *J Urban Econ* 436, 436–37 (2008).

<sup>93</sup> See *id.* at 445. See also Terry F. Buss, *The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature*, 15 *Econ Dev Q* 90, 97–99 (2001); Carlos F. Liard-Muriente, *US and EU Experiences of Tax Incentives*, 39 *Area* 186, 189–90 (2007) (reviewing literature).

<sup>94</sup> See William Thomas Bogart, *The Economics of Cities and Suburbs* 237–39 (Prentice Hall 1998) (comparing competition among cities to the “prisoner’s dilemma” problem and arguing that while the overall situation would be improved if cities did not invest resources competing with one another, any given city has good reasons to offer location subsidies); Peter D. Enrich, *Saving the States from Themselves: Commerce Clause Constraints on State Tax Incentives for Business*, 110 *Harv L Rev* 377, 397–98 (1996) (arguing that state tax incentives may provide a benefit to the states if these states are able to attract more businesses, but that incentives do not create a net benefit to the country as a whole because businesses choose one state to the detriment of others).

<sup>95</sup> See Enrich, 110 *Harv L Rev* at 395 (cited in note 94). See also Schragger, 94 *Va L Rev* at 1139 (cited in note 3). Jacobs thought that “transfer economies”—economies that grow by relocating assets from elsewhere—were a weak basis for ongoing economic development. See Jane Jacobs, *Cities and the Wealth of Nations* 208–10 (Random House 1984).

ize the location choices of an industry that is declining precipitously. But even so, the new focus on small startups might be better over the long term. By investing in human capital, the city keeps and improves its labor force, which may be the key determinant for attracting new firms. And by backing small, entrepreneurial ventures the city reduces its vulnerability to one employer or industry, which could leave or decline. Moreover, smaller ventures have the capacity to grow and may be more attached and committed to their original locations. Indeed, by encouraging small-scale innovation, the city might help seed a home-grown agglomeration at low cost. Growing your own is better than stealing from others or preventing others from stealing from you. It enlarges the economic pie rather than just shifting it around.

At least that might be the theory. Jane Jacobs, for one, argued that a growing city needs to generate new ideas, processes, and services—to “add[] new work to old.”<sup>96</sup> She favored a small business strategy, arguing that the city should encourage entrepreneurial firms and the learning that goes on in those firms. In an unavoidably volatile economy, the city’s most important “skill” is its ability to reset its product life cycle by generating new startup firms (Jacobs called them “breakaways”).<sup>97</sup> In her estimation, large, vertically integrated multinationals have less ability to drive such a process; a more fluid and open local economy does better than one dependent on large firms.<sup>98</sup>

Jacobs’s emphasis on startup firms is consistent with a theory Ronald Gilson has offered for why Silicon Valley leads the Route 128 corridor outside of Boston in economic growth.<sup>99</sup> Gilson argues that a quirk in competition law—adopted in the 1800s when California became a state—helps explain the difference.<sup>100</sup> For reasons mostly unrelated to competition policy, California does not enforce covenants not to compete, while Massachusetts does. The result, according to Gilson, is that Silicon Valley employees experience much higher rates of mobility across firms and to new startup ventures, and that this fluidity has given Silicon Valley an innovation edge.<sup>101</sup>

The conclusions Gilson draws are pure new economic geography. He argues that (1) happenstance plays an outsized role in develop-

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<sup>96</sup> Jacobs, *Economy of Cities* at 59 (cited in note 6). See also Schragger, 94 Va L Rev at 1101–02 (cited in note 3).

<sup>97</sup> Jacobs, *Economy of Cities* at 67, 97–98 (cited in note 6).

<sup>98</sup> *Id.* at 71, 79.

<sup>99</sup> See Ronald Gilson, *The Legal Infrastructure of High Technology Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 NYU L Rev 575, 577–79 (1999).

<sup>100</sup> See *id.* at 613–19.

<sup>101</sup> See *id.* at 576–80.

ment; (2) small policy interventions might make a huge difference in outcomes; but (3) it is very difficult to predict what those interventions should look like.<sup>102</sup> In the case of technological firms, a more fluid employment environment seems to encourage knowledge spillovers, but that is not necessarily the case with other kinds of firms or industries. Moreover, Gilson might be wrong about the long-term effects of a serendipitous legal rule on the local economy. As of today—ten years after Gilson’s article—Route 128 is considered a highly successful technological agglomeration, admittedly second to Silicon Valley, but still robust despite the continued enforcement of noncompete clauses in Massachusetts.<sup>103</sup> It turns out to be difficult to predict how policy will affect spatial economies over the long term.

So should cities be in the business of subsidizing existing firms or growing new ones? How one answers this question implicates a long-running debate in urban economic development concerning the degree to which cities should look outward or inward for economic growth. The outward argument is economic base theory, which holds that cities can only grow economically by increasing exports to other places.<sup>104</sup> Fewer exports means less money for local spending and less growth overall. This means that economic development strategy is unlikely to favor small businesses that service the local community, or businesses that are intended to substitute locally made goods for those that the city formerly imported. The export-based theory of local economic development tends to favor large transnational corporations or those corporations that can exploit local resources for cross-border sale. And it favors specialization—for example, producing goods and services that cannot be imported.

Economic base theory has been the dominant approach to local economic development for some time, but it has not been uncritically

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<sup>102</sup> See *id.* at 619–28.

<sup>103</sup> See *Boulangier v Dunkin’ Donuts*, 815 NE2d 572, 582 (Mass 2004) (enforcing a former franchise owner’s agreement not to operate or work for a competing business within five miles of any Dunkin’ Donuts establishment for two years). Moreover, Silicon Valley hiring practices might be more constrained than Gilson describes. See Miguel Helft, *U.S. Inquiry into Hiring at High-Tech Companies*, NY Times B2 (June 3, 2009) (reporting that the Justice Department is investigating allegations that Silicon Valley technology firms have been agreeing not to actively recruit employees from one another).

<sup>104</sup> See Douglass North, *Location Theory and Regional Economic Growth*, 63 J Polit Econ 243, 251 (1955). For an overview, see generally Ted Rutland and Sean O’Hagan, *The Growing Localness of the Canadian City, or, On the Continued (Ir)relevance of Economic Base Theory*, 22 Local Econ 163 (2007). See also John Adams, *Editorial*, 29 Urban Geography 741, 742 (2008) (providing a synopsis of economic base analysis and asserting that the approach does not account for large and increasingly self-sufficient metropolitan economies).



adopted. In the 1950s, Charles Tiebout questioned whether exports were the only mechanism of city growth.<sup>105</sup> Tiebout claimed that as a local economy grows “its market becomes large enough to efficiently produce some goods and services that it had previously imported.”<sup>106</sup> Jacobs also argued, even more strongly, that import substitution could drive city growth, as locals make for themselves what others had formerly made for them.<sup>107</sup> A city can grow by providing more goods and services for itself, and by preventing money and resources from flowing outside the local economy. The implication is that self-sufficiency and leakage prevention should be a large part of economic development efforts.<sup>108</sup>

Current-day import-substitution advocates do not argue that making your own is sufficient—as Jacobs and Tiebout recognized, export growth is still needed. But current advocates do point to trends in the latter half of the twentieth century to support their argument that economies are becoming more local and that those economies are also growing.<sup>109</sup> As US manufacturing declined during the second half of the twentieth century, the portion of the metropolitan-area economy that was produced and consumed locally rose.<sup>110</sup> This increasing localness has been attributed to the rise of the service sector economy in general.<sup>111</sup> In larger cities, localness has increased as a bigger share of the local economy moved towards professional services. Producers of accounting, legal, marketing, and management consulting services tend to locate near their clients, within the same city or metropolitan area. It is this clustering that

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<sup>105</sup> See Charles M. Tiebout, *Exports and Regional Economic Growth*, 64 J Polit Econ 160, 161 (1956) (“There is no reason to assume that exports are the sole or even the most important autonomous variable determining regional income.”); Charles M. Tiebout, *Exports and Regional Economic Growth: Rejoinder*, 64 J Polit Econ 169, 169 (1956). See also Charles M. Tiebout, *The Urban Economic Base Reconsidered*, 32 Land Econ 95, 97 (1956); Rutland and O’Hagan, 22 Local Econ at 165–66 (cited in note 104).

<sup>106</sup> Rutland and O’Hagan, 22 Local Econ at 165 (cited in note 104).

<sup>107</sup> See Jacobs, *The Economy of Cities* at ch 5 (cited in note 6) (discussing, for example, how Tokyo’s imported bicycle trade gave rise to a market for locally made bicycle parts which in turn led to the domestic manufacture of complete bicycles).

<sup>108</sup> See *id.* at 169. For advocacy of this strategy, see Michael Shuman, *Going Local: Creating Self-Reliant Communities in a Global Age* 52–58 (Free Press 2000). For a review of the import-substitution debate in the context of international economic development, see Henry J. Bruton, *A Reconsideration of Import Substitution*, 36 J Econ Lit 903, 904 (1998).

<sup>109</sup> See Rutland and O’Hagan, 22 Local Econ at 179–83 (cited in note 104).

<sup>110</sup> See Joseph J. Persky, Marc Doussard, and Wim Wiewel, *Export Orientation and the Limits of Local Sovereignty*, 46 Urban Stud 519, 522–23 (2009).

<sup>111</sup> See *id.*; Michael Thomas Power, *Lost Landscapes and Failed Economies* 37 (Island 1996); Paul Krugman, *Pop Internationalism* 211 (MIT 1996).

appears to account for the dramatic economic growth of particular “global cities,” like New York, London, or Tokyo.<sup>112</sup>

Whether the local share of productive activity will continue to increase is an open question. Some scholars have indicated that the trend is starting to move in the opposite direction, as service firms begin to export more of what they do.<sup>113</sup> This is not surprising. Indeed, it seems consistent with Jacobs’s argument that once cities begin to replace exports with homegrown goods and services, the city is likely to become proficient to the point of creating a new export market for those services.<sup>114</sup> In an industrial era, it made sense to think of local economies as starting with exports, which would in turn generate a demand for local services as residents and workers flowed into the jurisdiction. But in a service economy, that story looks less plausible, and the causation might be reversed.<sup>115</sup>

New York City’s two interventions in the financial industry can be understood in the context of this wider debate. There is a significant shift in emphasis that is reflected in the decision either to support a large-scale multinational investment bank or to fund local startups. Local economic development strategies can seek to enhance “global competitiveness”—an oft-used phrase in city development circles. Or, a local economic development strategy might focus on supporting those firms and industries that mainly provide goods and services to locals. The startups that New York’s business incubator will fund will most likely begin by providing services to local clients and by producing goods for the local market. And the retraining of existing workers seems like a leakage-prevention strategy rather than an export-producing one.

Of course, growing your own is not inconsistent with exporting—Jacobs describes import substitution and export growth in cyclical terms. And we certainly know that having particular industrial agglomerations can be beneficial to the city as long as the city is not overly reliant on them. Incentivizing Goldman Sachs to stay in Manhattan may have been a means of preventing the unraveling of New York’s financial services agglomeration. The city surely feared that Goldman’s move might trigger other firms to follow, though in retrospect

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<sup>112</sup> Persky, Doussard, and Wiewel, 46 *Urban Stud* at 522–23 (cited in note 110). See also Saskia Sassen, *The Global City* 20–22 (Princeton 1991).

<sup>113</sup> Persky, Doussard, and Wiewel, 46 *Urban Stud* at 523–24 (cited in note 110).

<sup>114</sup> See Jacobs, *Economy of Cities* at ch 5 (cited in note 6).

<sup>115</sup> See *id.* at 245–46. See also Persky, Doussard, and Wiewel, 46 *Urban Stud* at 519–20 (cited in note 110).

that fear looks a little foolish considering the current fortunes of the industry as a whole. Relying too heavily on exports is risky because it makes a city vulnerable to global demand crashes. The less self-sufficient one's economy, the more global trends will affect it.<sup>116</sup>

As always, however, there is the question of agency. An export-driven or import-substitution orientation implies different approaches to local economic development efforts. But it does not give us much purchase on the merits of specific, time-bound government decisions. That is because contingency is so hard to plan. New York's location incentives turned out to be a bad bet, but the city's investment in startups might also turn out badly. Innovation is a characteristic of a flourishing urban economy, but it may be very difficult for policymakers to generate or sustain it through specific economic development policies.

Indeed, it may be that cities experience booms and busts over which they have little control. Douglas Rae's story of post-industrial New Haven certainly seems to conclude with this lesson, though he is much more of a technological determinist than he is a believer in business cycles.<sup>117</sup> So does Guian McKee's recent book, *The Problem of Jobs*, which recounts Philadelphia policymakers' attempts to deal with a looming post-industrial future.<sup>118</sup> City officials understood the problem of de-industrialization much earlier than one might have thought. They took steps to address the problem, and even experienced limited success, but ultimately could do little about larger economic trends.<sup>119</sup> One possibility is that they adopted the wrong strategy, concentrating on manufacturing when they should have been looking at something else. In the 1950s, however, it would have been truly visionary for the city's managers to adopt a different approach.

As a practical matter, any economic development strategy that shifts money from taxpayers to private firms has to be measured against some other use of taxpayer money—say, building better schools, providing more policing, or producing better health care. And this gets us back to the question of what makes a city do better or worse economically. Providing good municipal services and creating healthy, smart people is something that any city should aspire to. But doing so does not ensure economic success. There are lots of reasons for this: any given city policy will be mismatched to the metropolitan-

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<sup>116</sup> Persky, Doussard, and Wiewel, 46 *Urban Stud* at 525 (cited in note 110).

<sup>117</sup> Rae, *City: Urbanism and Its End* at 363 (cited in note 7).

<sup>118</sup> See generally Guian A. McKee, *The Problem of Jobs: Liberalism, Race, and Deindustrialization in Philadelphia* (Chicago 2009).

<sup>119</sup> *Id.* at 15–16.

wide scale of economic development; much is driven by chance or path dependency; larger economic and technological events will overshadow local interventions. Some of these problems can be overcome. But the biggest problem is that we do not really know enough about what works and what does not.

#### CONCLUSION

All of which may be beside the point. One might argue that government should provide services to make people smarter, healthier, and safer anyway—whether those policies attract and retain economy-producing residents and firms or not. Indeed, there are lots of good reasons to enact policies that reduce inequality, foster participation, or limit urban sprawl, even if we are unsure what effects those policies will have on economic growth. Certainly, much of reformist local government scholarship is driven by this view.

If one adopts a competitive paradigm of city growth, however—the assumption that a city’s economic development is really a competition for mobile taxpayers—then the city cannot (and should not) engage in policies that attend solely to the well-being of current residents. Those policies will fail, undermining local welfare by inhibiting economic growth. Cities must compete, and one way to do so is to reduce taxes to the point of subsidizing highly mobile residents and highly mobile industry.

Thinking of cities as spatial economic processes undermines this simple assumption. There may be a form of “competition” between cities but it is not as straightforward as providing good municipal services while keeping taxes low.<sup>120</sup> In short, the provision of public services in a hypothetical local government marketplace is not an explanation for local economic growth and decline. Tiebout knew this—his marketplace model was offered as a solution to the problem of public goods provision, not as an account of how cities generate economic growth. His other scholarship—which legal scholars of local government ignore—makes this plain.

I am not arguing that law and policy are irrelevant to urban outcomes—only that they are not relevant in the ways we have sometimes

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<sup>120</sup> See Richard E. Baldwin and Paul Krugman, *Agglomeration, Integration and Tax Harmonisation*, 48 *Eur Econ Rev* 1, 1–2 (2004) (arguing that the existing paradigm misunderstands how localities “compete” in a spatial economy characterized by the uneven distribution of economic activity). See also Richard Shearmur, *Of Urban Competitiveness and Business Homelessness*, 29 *Urban Geography* 613, 613–15 (2008) (dismissing the idea of city competitiveness as incoherent).

assumed. A city is neither a product to be sold in the local government marketplace nor a byproduct of distance-changing technologies. The city is a spatial economic process, a part of a larger urban system. That urban system—like all economic systems—is beset by booms and busts. Any set of local policies must take this fact into account.

Nor am I arguing that the insights of economic geography will provide a definitive answer to the central question of whether cities are capable of controlling their long-term economic fates. Nevertheless, how policymakers address urban problems—and centrally the problem of economic development—turns importantly on how we conceive of the city and the metaphors we use to describe it. Treating the city as an economic process provides for a more nuanced account of the relationship between government policy and economic development. The literature on local government and urban policy has often taken that relationship for granted.

