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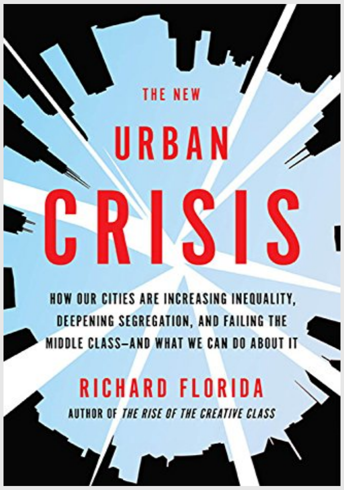

The New Urban Crisis

How Our Cities Are Increasing Inequality, Deepening Segregation, and Failing the Middle Class – and What We Can Do About It

Richard Florida
Basic Books © 2017
310 pages

Rating

8

8 Importance
7 Innovation
8 Style

Focus

Leadership & Management
Strategy
Sales & Marketing
Finance
Human Resources
IT, Production & Logistics
Career & Self-Development
Small Business
Economics & Politics
Industries
Global Business
Concepts & Trends

Take-Aways

- In the 1960s and 1970s, US cities fell into full-fledged crisis.
- Today, some cities are enjoying a renaissance that's bringing soaring property values and explosive growth in economic opportunities.
- New York and London are the undisputed kings of global cities.
- Just 40 multicity "mega-regions" – such as the Boston-New York-Washington corridor – control two-thirds of the world's economic activity, but they house only 18% of its population.
- Superstar cities increasingly hog the world's opportunities.
- In 1970, 65% of Americans lived in middle-class neighborhoods. By 2012, that fell to just 40%.
- Now, more poor Americans live in suburbs than in cities.
- Overly restrictive land-use rules and zoning hinder the building of more rental units and affordable housing.
- In expensive cities such as San Jose and San Francisco, higher wages offset the higher costs of housing.
- In Orlando, which has affordable housing but low wages, an average worker has less money left after paying for housing than an average worker in San Jose or San Francisco.

Relevance

What You Will Learn
In this summary, you will learn: 1) How cities regained economic power, 2) Why "superstar cities" come with significant downsides and 3) How cities could create more equality.

Recommendation
With his 2014 book, *The Rise of the Creative Class*, Richard Florida emerged as a provocative observer of modern cities. Here, Florida sheds his optimism about cities. He's heartened by the resurgence of New York, San Francisco and other urban hubs. But he's startled that these cities are playgrounds for the affluent that exclude the working classes. Florida focuses on the effect on cities of soaring housing values. He researched his topic with care, and writes artfully. However, some may wonder about the feasibility of his proposed solutions: raising the minimum wage, creating a basic income and replacing the mortgage interest deduction with a tax break for renters. *getAbstract* recommends his study to policy makers, real estate professionals and economic developers seeking insight into the renaissance of cities.

Summary

Urban Evolution
In the 1960s and 1970s, American cities fell into crisis. Crime became rampant, and racial tensions and civil unrest boiled over. In 1967, African-American populations rioted in a wide range of cities, including Newark, Atlanta, Detroit and Cincinnati. By 1975, New York City was on the verge of insolvency. As white flight took hold, middle-class residents and their employers abandoned cities to move to the suburbs. Cities, it seemed, had risen and fallen. Cultural centers like New York were still attractive to pioneering types such as artists, musicians and writers. But urban neighborhoods had turned nightmarishly dirty and unsafe; "the American Dream had moved to the suburbs." Fast forward four decades, and cities – at least, a handful of "superstar cities" – are on an upward tear. New York, its flirtation with bankruptcy long forgotten, and London are the undisputed kings of global cities. Other hubs, such as Tokyo, Hong Kong, Paris, Singapore, Los Angeles and Seoul, are bustling cities in the second tier of superstars. In rare circumstances, a city still can decline. For instance, Detroit missed the global rebound of cities. For the most part, a successful city tends to get more so. San Francisco, for example, has a stranglehold on venture capital investment, pulling in $6.5 billion in 2012. That figure outpaced even the more suburban San Jose region to the south, which ranked second in VC funding. The list of the world's 20 top cities for VC includes Boston, New York, Los Angeles, San Diego and London. The rise of these cities marks the victory of the "'three *T*s of economic development': technology, talent and tolerance." The most skilled, most ambitious workers tend to congregate in metro areas with plentiful opportunities. This "clustering" effect brings like-minded people together in a climate of acceptance across lines of race and sexual orientation.

"The problem of urban inequality is most acute today in superstar cities and knowledge hubs."

"The development of vast interconnected systems of global trade has broken apart the historical connection between cities, local agriculture and local industry that powered the more balanced urban economic development of the past."

The Rich Grow Richer
Seemingly all of a sudden, superstar cities have grown too successful for their own good. The problem no longer is that nobody wants to live and work in Manhattan or San Francisco. The problem is that everybody does. The unfortunate result is a "new age of winner-take-all urbanism." Soaring property values are the most obvious sign of the cities' ascendance. Back in 1975, when New York was near bankruptcy, buying a typical apartment cost

$50,000. Today, the same unit fetches millions. An apartment that rented for a few hundred dollars a month 40 years ago might go for $10,000 today. Skyrocketing property values underscore the broader inequality that accompanies the rise of superstar cities. Just 40 multicity "mega-regions," such as the Boston-New York-Washington corridor, control two-thirds of the world's economic activity while housing only 18% of the world's population. Superstar cities increasingly hog the world's opportunities. In this self-perpetuating cycle, the most successful cities draw more treasures that make them successful. For instance, San Francisco, as the global VC capital, lures an influx of ambitious entrepreneurs and deep-pocketed investors in search of the next hot start-up. Such opportunity-based migration plays out across the world's superstar cities. The privileged want financial opportunities for themselves, and they want their children to attend top schools. Motivated workers compete for these prizes by moving to superstar cities.

"Profound differences in wealth and productivity divide the less advantaged cities of the developing world from their more affluent counterparts in the advanced nations."

"Paradox of Land"

Once they arrive, the privileged accentuate the paradox of land – while gluts of real estate exist across the globe, land remains scarce in the most desirable sections of superstar cities. Affluent new arrivals crowd out residents who have less money. Economic winners create a thriving market for the types of amenities they value – top-notch restaurants, elite museums and private schools. Their thriving enterprises and hefty paychecks create a river of tax revenue that government administrators can invest in public schools, mass transit and public libraries. The financial companies, technology start-ups and other knowledge-based companies springing up in superstar cities mint new millionaires and billionaires who are likely to endow local universities, hospitals and museums. This "feedback loop" compounds these cities' advantages.

"Gentrification gets a lot of attention, and it is a significant problem in expensive superstar cities and tech hubs."

Five Signs of Crisis

This "new urban crisis" encompasses five areas of dysfunction:

- **Widening inequality between regions** – Superstar cities claim the spoils. New York, London, Hong Kong, San Francisco and a handful of other cities receive "wildly disproportionate shares" of the most desirable industries, the most bankable start-ups and the most skilled workers. This leaves behind cities on the wrong side of globalization and deindustrialization.
- **"Staggering levels of inequality"** – The affluent can pay millions for townhouses in New York and San Francisco. Rising property values push out blue-collar workers and service-sector employees who need housing but don't share the same track of upward mobility. Cities have become places of deepening inequality.
- **"The disappearing middle"** – Before the first urban crisis of the 1960s, cities housed large, stable neighborhoods of middle-class residents. The economic shifts in recent decades shrank the middle class. In 1970, 65% of Americans lived in middle-class neighborhoods. By 2012, only 40% did. The change is extreme in cities, where the "Patchwork Metropolis" trend produces inner areas of privilege within outer rings of poverty.
- **The diminishing luster of suburbs** – The rise of the cities corresponds with the decline of the suburbs. Suburbia once was the gleaming place where middle- and upper class families moved to pursue their dreams. Now, they are home to more poor Americans than live in the cities. Suburbs such as Greenwich, Connecticut, and Bethesda, Maryland, remain wealthy. But today's "flight from sprawl" has replaced yesteryear's flight from the cities.
- **Urban poverty in the developing world** – Cities historically have been a place for the world's poor to seek their fortunes. Increasingly, poor rural dwellers who move to large

"Superstar cities are bastions of the most affluent and the most advantaged."

"The exorbitant real estate prices in superstar cities and tech hubs are a key factor, if not the key factor, in the staggering rise in income inequality across the world."

cities find their economic lot doesn't change. They flock to barrios, favelas and slums only to encounter a lack of opportunity. Teeming cities such as Manila, Jakarta, Cairo and Mumbai have huge populations but undersized economic productivity. These cities are among 30 metro areas that are home to 4.3% of the world's people but produce just 3% of its economic output.

"The more a metro is able to expand outward and create new housing supply, the less its housing prices tend to rise."

Quality Over Quantity

In recent decades, cities in America's Sunbelt have seen large influxes of new arrivals. Phoenix, Dallas and Atlanta experienced population spikes, as the superstar cities of New York, London, San Francisco and Boston show stagnant population growth. The quality of new arrivals – not their quantity – defines superstar cities. For the most part, the people leaving superstar cities don't possess superstar skills. They're midlevel workers whose paychecks don't keep pace with the fast-rising cost of living in superstar cities. This is why growing Sunbelt cities are conspicuously absent from the list of the world's superstars – and why long-established capitals such as Helsinki, Dublin and Geneva stay on the list.

"As the middle has been hollowed out, neighborhoods across America are dividing into large areas of concentrated disadvantage and much smaller areas of concentrated affluence."

Superstar cities' lopsided advantage manifests in real estate values. The United States has more than 11,000 ZIP codes. The median home price is more than $1 million in only 160 of them. Fully 80% of those ZIP codes are in New York, Los Angeles and San Francisco. The median price of an apartment in Manhattan's Soho district is $3 million. For the price of a single Soho unit, you could buy 70 homes in some parts of Detroit and 50 houses in some ZIP codes of Toledo, a downtrodden Rust Belt city. This metric underscores how badly some Sunbelt boomtowns lag in income equality: One Soho apartment equals 18 homes in Las Vegas, 23 houses in Atlanta and 28 houses in Oklahoma City. New York City's outsized home prices are a relatively recent phenomenon. From 1950 to 1993, New York City land values barely budged. Holding a piece of land for that 43-year period would have provided almost no return after adjusting for inflation. In the ensuing 20 years, that same plot of land accrued a 28-fold increase in value.

"The increasingly ferocious competition for space in London's poshest districts means that what we used to think of as gentrification is morphing into a new phase of plutocratization or 'oligarcification'."

Supply and Demand

Simple geography explains some of the rise in property values. San Francisco, New York and Boston were fully built out years ago, and their coastline locations mean that no more land is available to accommodate new people. The obvious result of limited supply and strong demand is rising prices. In Sunbelt cities such as Phoenix, Atlanta, Dallas and Las Vegas, a lack of physical boundaries and a large supply of land mean that builders can add new homes to the housing inventory. That's why those cities have seen population booms without an accompanying affordability crisis.

"The suburbs aren't going away, but they are no longer the apotheosis of the American Dream and the engine of economic growth."

"New Urban Luddism"

Basic geography only partially explains the affordability crisis in superstar cities. Misguided zoning policies and shortsighted building rules play into housing shortages. In many big-city neighborhoods, the default mode is to oppose new development. This mindset is called "Nimbyism," standing for "not in my backyard." Such thinking stems from the days when rapacious developers sought to build factories or prisons near middle-class homes. Now NIMBYs "reflexively block" development. This rabid-response opposition means that developers who propose new housing are almost certain to face legal challenges. New Urban Luddism drove cities to develop complicated tangles of zoning laws. However, overly restrictive land-use rules and zoning are self-defeating. While NIMBYism creates artificial shortages of housing, it's profitable for landlords and property owners. By limiting the number of workers who can move to an area and by pricing out support workers, it hamstrings the growth of superstar cities.

Wage Offsets

Superstar cities have grown prohibitively expensive. But hefty wages in cities such as San Jose and San Francisco more than offset the high cost of housing. In San Jose, the average worker can pay for housing and still have $48,556 in annual income left for everything else. By contrast, in Orlando, a bastion of affordable housing and low wages, the average worker has just $25,774 left after paying for housing. Benefits accrue unevenly. While the typical "creative class" worker in San Jose has more than $80,000 left after paying for housing, the service-class worker has just $14,372 left. Even so, service-class workers fare better in San Jose than in Orlando, where they'd have only $12,903 to spend after paying for housing.

"A gaping intellectual divide splits leading urban experts into two distinct camps: urban optimists and urban pessimists."

Solutions to the Crisis

Policies that could ease the urban crisis include:

- **Rein in NIMBYism and encourage mid-rise development** – In superstar cities, strict land use and zoning are the enemy of new development. Cities need to re-examine regulations that stagnate construction. Completely deregulating development isn't the answer, either. Houston, which imposes no rules on zoning or land use, is notorious as a development free-for-all. Yet Houston ranks with New York, Los Angeles and San Francisco among the nation's most economically stratified cities. Superstar cities need to compromise on development rules.
- **Invest in transit** – Superstar and lower-tier cities such as Dallas, Atlanta and Miami need better, faster public transportation. Cars are inefficient. Cities operate more effectively with fewer people traveling by car and more moving by mass transit. High-speed rail can add capacity to superstar cities – not every worker needs to reside in New York or Boston. Fast new trains can allow knowledge workers to visit these hubs without moving to them.
- **Build more affordable rental units** – American housing policy skews in favor of suburbs and homeownership. The mortgage interest deduction provides a massive subsidy for homeowners, costing the government $200 billion to $600 billion a year. This tax break is useless for workers in superstar cities. They tend to be young knowledge workers who want to live close to work and transit – conditions that exist only in neighborhoods with prohibitively expensive homes. Housing policy should shift tax subsidies away from homeowners and toward renters. Tax breaks for renters would spur demand for rental units and development of affordable apartments.
- **Raise the minimum wage** – To give low-wage workers access to the middle class, raise the minimum wage. The federal minimum wage has not kept pace with the rising cost of living. Thriving employers such as Costco and Zara pay workers more than minimum wage. Policy makers can adjust the minimum wage to reflect the local cost of living – so perhaps $15 an hour in San Jose is equivalent to $9.50 an hour in Las Vegas.
- **Invest in poor people** – Subpar schools are a tragic feature of poor neighborhoods. Investment in early childhood education in impoverished areas could reverse this injustice. The government should pay poor people a basic income. This would be easier to administer than the thicket of government aid for housing and food. While a basic income is controversial, governments could structure it as "a negative income tax" that would allow the poor to raise their children, care for elderly relatives and start businesses.

"The clustering force is the key driver of economic growth, and it is absolutely critical that we effectively harness it to create the broadest possible economic and social benefits."

"As with most things in life, the winners in the competition for urban space are those with the most money to spend."

About the Author

Richard Florida is director of cities at the Martin Prosperity Institute at the University of Toronto and senior editor at *The Atlantic*. He also wrote *The Rise of the Creative Class*.