

T H E N E W LOCALISM

IN PARTNERSHIP WITH THE **NOWAK METRO FINANCE LAB** AT **DREXEL UNIVERSITY**

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The Return of New Localism by Bruce Katz and Florian Schalliol

“Fasten your seatbelts, it’s going to be a bumpy night.” So famously said Bette Davis’ character in the classic 1950 movie *All About Eve*. Replace “night” with “four years” and we just begin to have a sense of what Tuesday’s election means for the world and our nation.

The election of Donald Trump and the return of one-party rule to Congress has once again ushered in a period of volatility and uncertainty for US cities and metropolitan areas, the places that house the bulk of our population, generate the preponderance of our GDP and drive the accelerating pace of technological innovation.

As exemplified by Trump’s early Cabinet appointments, these globally significant places are about to experience an unprecedented set of shocks, some aired during the election, many not. To withstand what’s coming, and even take advantage of the disruption, cities and metropolitan areas, individually and collectively, will need to organize themselves in equally unprecedented ways.

Getting organized will require investing time and local resources into critical sectors likely to be under-emphasized by the federal government (such as housing, workforce, neighborhoods, and technological innovation) and re-embracing the very things that make communities resilient (using their economic might, leveraging local loyalties and networks, integrating ideas and delivering projects with real results). Building on the anger and dissatisfaction visibly expressed in this election, this ground-up movement must tangibly lift up people and places left behind.

Cities and metropolitan areas can – and indeed, they must – create meaningful change. DOT Secretary and former South Bend mayor Pete Buttigieg has already called for [a local government “salvation”](#) in the coming years. We argue for a broader interpretation of “local” power; thriving during this period will necessitate cities and metros to realize the full potential of New Localism.

The Power of America(n Cities) and New Localism The election took place a mere week after the Economist published a special report on the state of the US economy. Entitled The Envy of the World, the report marveled at our economy's extraordinary long-run performance.

“In 1990, [the United States] accounted for about two-fifths of the GDP of the G7. Today it makes up half. Output per person is now about 30% higher than in western Europe and Canada, and 60% higher than in Japan – gaps that have roughly doubled since 1990. Mississippi may be America's poorest state, but its hard-working residents earn, on average, more than Brits, Canadians or Germans. Lately, China too has gone backwards. Having closed in rapidly on America in the years before the pandemic, its nominal GDP has slipped from about three-quarters of America's in 2021 to two-thirds today.”

The special report touches upon many aspects of American economic exceptionalism including the world's dominant currency, ample energy resources, substantial risk capital, exceptional universities and a large and open labor market. But nowhere does it discuss the distinctive way in which US cities and metropolitan areas are governed and economies are stewarded by public/private coalitions of institutions and leaders.

That is a fundamental flaw and major omission. The US is economically powerful in part because economic power is distributed across dozens, if not hundreds, of cities and metropolitan areas with special competitive assets and advantages and deep reservoirs of local wealth. Boston, Pittsburgh and San Francisco are driving the artificial intelligence revolution. Columbus, Phoenix and Syracuse are leading the reshoring of semiconductor manufacturing. Dallas, Seattle, New London, St. Louis and Hampton Roads are major hubs of defense manufacturing. Beyond industry, Atlanta, Cleveland and Houston are reinventing the nation's approach to housing and homelessness.

The list goes on and on. The US is not like the UK or Europe, with an economy largely concentrated in the nation's capital and a few other hubs. Rather, our economic performance and advantages are highly distributed. Rather than being a “city-state,” the United States is the world's leading Metro Nation. This explains the ability of US cities and metropolitan areas (and, by extension, the country) to respond to disruptive change, whether that change is prompted by political leaders, market dynamics, technological advances or demographic shifts.

In November 2016, the shock of Donald Trump's first presidential triumph prompted Jeremy Nowak and Bruce to write *The New Localism: How Cities can Thrive in the Age of*

Populism; The book, using examples from a broad array of US and global cities, described why city and metropolitan areas have distinctive strengths and enduring resilience. As we summarized:

“Power increasingly belongs to the problem solvers. And these problem solvers now congregate disproportionately at the local level, in cities and metropolitan areas across the globe.”

The book’s contention rested on the following:

Unlike federal and state governments, cities are led by networks of public, private, civic, university and community leaders and institutions. That’s why local solutions tend to be multi-sectoral, interdisciplinary and customized to distinctive challenges and, thus, more effective than specialized responses created by rigid, stove-piped national bureaucracies.

As networks, cities and metros have more tools in the toolbox that compliment what federal and state governments bring to the table: enactment of legislation, promulgation of rules and allocation of resources. Cities and metros have assets and capital that are more flexible than rigid federal and state programs and products and, if harnessed well, can catalyze strategic private decisions and substantial private investments.

As collections of people committed to place rather than party, city and metro networks are also more nimble and able to adapt to market change and borrow, if not steal, successful innovations from other communities.

This networked governance enables leaders to set authentic visions, design and deliver aligned projects, stay the course and track progress irrespective of election cycles and market gyrations. Cities and metros are organisms that build for the long term and sustain their gains over time.

In the end, national governments do not build one home, educate one child, skill one worker, manufacture one product, repair one road or bring an idea to market. Places are where the work of a nation actually gets done. And the act of doing spawns more innovation.

The 2024 Elections

Elections have consequences and this one will have more than we can even begin to

imagine or anticipate. Trump has said plainly and repeatedly that he intends to, inter.alia, upheave tax policy, impose tariffs, deport immigrants, eviscerate climate rules, roll back the Inflation Reduction Act, end environmental justice initiatives, unravel health insurance, and further entrench a radical judiciary. Ideas such as the “Department of Government Efficiency,” the relocation of federal agencies and the gutting of the federal civil service add more uncertainty to the mix.

What makes the situation more complicated is the fact that policy ideas have first, second and third order effects. Take the worsening housing crisis, for example. Proposals to cut corporate taxes, however justified, affect the incentive for financial institutions to invest in the Low Income Housing Tax Credit, the primary vehicle for the production of affordable housing in the county. Absent an alternative federal tax incentive, the worsening housing crisis will just get worse absent states and localities compensating for lost investments.

And those are just the high profile, blinking red light policies that were discussed during the elections. Read through the Heritage Foundation’s Project 2025 and one will find an extensive reinterpretation of federalism (send education back to the states) and a raft of reform ideas that range from sensible to provocative to outright irresponsible. And these ideas about programs and policies do not even touch the expressed intent to wage culture wars that will visit harm upon some of the most vulnerable in our society and exhaust already over-burdened public servants, schools, hospitals and civic institutions.

To complicate matters further, the nation quickly needs a separation of what is real and what is posturing. Some roles and responsibilities of the federal level will presumably not change and many of the challenges that cities and metropolitan areas will face are driven by macro forces that the Trump Administration and the next Congress will affect but not fundamentally alter.

The outsized scale and size of investments related to national security will continue to offer opportunities for job growth and technological innovation for those places that seize the defense dividend.

The accelerated pace of technological change (e.g., artificial intelligence, robotics, additive manufacturing and genomics) will upheave sectors, clusters, companies and work in ways predictable and unpredictable.

Continued geo-political tensions will alter the exchange of goods, services and ideas, particularly in advanced elements of the economy.

The raison.d'etre of downtowns, and the tax revenues that these central business

districts generate, will continue to be fundamentally disrupted by the pandemic's cementing of hybrid and remote work.

These macro forces make New Localism even more important now than it was in 2016. In short, the world is smaller. Nationalism is on the rise; globalism is on the decline. Re-shoring, near-shoring and friend shoring are realities of the new order. Supply chains and the flows of capital, critical minerals and advanced technologies are fundamentally altered. This is a new game of multi-level chess, complex, disorienting and burdened with risk.

Where Now?

With the presidential and Congressional contests decided, the strength of New Localism and the resiliency of communities will be tested again. Navigating this uncertain period requires strong organization, clear focus and firm purpose, within and across cities and metropolitan areas. This is a moment for city and metropolitan networks to be determined rather than distracted. Whether or not a network of leaders and institutions in any given community functions in a way where the whole is greater than the sum of the parts is not determined by any federal edict; it is a product of institutional and personal relationships forged through adversity and possibility.

Our unwavering conviction is that many cities and metropolitan areas will step up to the challenges and master the moment. But that will require even more innovation and intentionality than has been mustered to date. Given the likely priorities and dynamics of the second Trump presidency, the following will be critical for cities' success in the coming years:

1. Identify your Niche

As always, cities and metropolitan areas will need to understand and leverage their position in a constantly shifting economy. As Dolly Parton famously advised, "Figure out who you are and do it on purpose." Some of that has already begun; many cities and metropolitan areas have scored major wins in advanced industries given investments through the Inflation Reduction Act, CHIPS and Science Act and Department of Defense Appropriations. Bringing those industries to full fruition, with aligned action on skilled workers, suppliers, R&D, housing and energy, is the next order of business, which is quintessentially local in nature and scope.

Expanding on these early wins is also essential. The reindustrialization of the U.S. economy has just begun. Vanguard cities and metros now have a platform to grow and attract more investment, talent and companies in ways that align with their special

advantages, irrespective of who sits in the White House. Understanding what those advantages are in the altered global economy will take new diagnostics, purposefully applied. It will also require cities and metros to align and deploy the fundamental elements of industrial competition: available land and housing, ample water, reliable energy, skilled workers and modern transport and logistics networks.

2. Invest Where the Feds Pull Back

As cities and metros realize their full industrial and innovation potential, they will also need to fill gaps left by a retrenching federal government. Addressing the housing crisis, for example, will require multiple actions to unlock the value of publicly owned land and buildings, innovate on construction techniques and materials, loosen restrictive zoning, land use and permitting processes and govern as a unified ecosystem rather than a balkanized set of siloed agencies and stakeholders.

A group of cutting-edge cities are showing that this can be done. Austin is using Municipal Property Advisors to put public assets (e.g., empty parking lots, underutilized office buildings) to work in the service of affordable housing production; Atlanta is doing the same through the creation of an Urban Development Corporation and the raising of local concessionary capital. The New York City Housing Authority is starting to address its recapitalization needs by taking full advantage of its vast land holdings. New York State is now reconsidering congestion pricing to renovate the transit system, key to housing solutions. These examples and many others need to be identified, codified and scaled, quickly.

But housing is just the beginning. In 2024, the zip code you were born in – and the schools, hospitals, employment opportunities, and infrastructure they contain – still largely determines your outcome in life. Cities and their networks have the potential, rarely exercised, to improve lives in ways the federal government does not. This will require a radically different framing around community wealth building and novel approaches that prioritize speed and tangible impact, such as better integration of public and philanthropic direct services, commercial corridor revitalization efforts, small business procurement and direct grant or loan programs for residents.

3. Learn to Harness Private and Philanthropic Capital

The federal government will favor using private capital to spur growth and investment across the United States. Cities and metropolitan areas, for example, should expect an extension (or even sweetening) of the Opportunity Zone program that was enacted in his first Trump administration. These incentives are both more flexible and less guarded than traditional programs and can either spur long-term growth or finance what would have happened anyway; cities will need to learn to guide and direct it.

All of this will require cities and metropolitan areas to be savvier about private and

philanthropic capital. Too many cities (and philanthropies) became complacent during the past four years of federal largesse; the only competence developed was around applying for federal grants (which, in some cases, were allocated almost lottery like to a small handful of winners). The next four years, by contrast, will require places to leverage BIG pools of private capital through sophisticated capital stacks that involve locally directed market investments from local philanthropies and wealthy families as well as pension funds, universities, corporations, and financial institutions. Many philanthropies, in particular, will need to move from “feel good” community empowerment and engagement to hard edged investment in housing, commercial real estate and local small businesses.

Here too, examples of smart action that unlock local capital and blend public, private and philanthropic resources need to be replicated and adapted across the country. Opportunity Alabama organized local communities and capital to make full use of Opportunity Zones. Similar advances were made in cities like Erie, PA. These accomplishments, to date, have been the exception; they need to become the rule.

4. Activate Broader Networks

Mastering this period will require new kinds of governance, within and across cities and metropolitan areas. The “command and control” style of governance no longer aligns with the pace of economic change and the volatility of politics. Rather the distributed leadership models advanced by Deborah Arcona, Kate Isaacs and other colleagues at MIT Sloan School of Management are now ready for large scale adoption and adaptation. Under these “cultivate-and-coordinate” models, business and civic leadership groups (which are plentiful in the US) can rally behind a broader network of for profit and nonprofit entrepreneurs who have “...passion, expertise, a deep network of relationships, internal credibility, and ready-to-go projects....” Capital is often not the binding constraint; organizing networks is the challenge.

5. Leverage Collective Market Power

In a time when the federal government will loom large, cities can also flex their collective market power. It is common in most mature countries for cities to pool political power and advocate for policy reforms and initiatives at the national level. New Localism requires cities to go further and aggregate their economic power to create market instruments and drive market decisions.

In Sweden, for example, Kommuninvest is a consortium of municipalities that creates financial instruments to serve the disparate needs of individual cities. Over the years, Kommuninvest has innovated on multiple products. Multiple municipalities are able to issue joint bonds, enabling them to raise substantially more capital than they could individually. In recent years, the company has helped to pioneer green financial instruments and negotiated directly with pension funds and large financial institutions.

Applying the Kommuninvest model to the US could drive a new era of multi-metro organizing in the United States that raises large pools of capital, routinizes new forms of investment in housing and other neglected areas, aggregates purchasing power for next generation innovations around modular construction and off-site manufacturing and enables coalitions of cities to engage on equal terms with pension funds, financial institutions and large wealth management firms. The bipartisan National Housing Crisis Task Force, organized by Accelerator for America and the Nowak Metro Finance Lab at Drexel University, has already begun to put this into practice ([Addressing America's Housing Crisis | National Housing Crisis Task Force](#)).

Looking Ahead

The United States has just experienced a political earthquake of monumental proportions. In other countries around the world, where power flows down from national governments and the public sector dominates economic discourse and decision making, a political shift of this magnitude would be game over. But the US is a distributed federal republic, with an economy driven by networks of cities and metropolitan areas which themselves are governed by networks of institutions and leaders.

As former U.S. Senator Daniel Patrick Moynihan once noted: "Federalism is not a managerial arrangement that the framers hit upon because the country was big and there were no telephones. ... Federalism was a fundamental expression of the American idea of covenant.

In the same vein, New Localism is not a clever idea cooked up in a think tank or the academy. It reflects the way the United States functions as a world beating economy, with power distributed across levels of government and sectors of society. Now is the time for cities to fully embrace its power and potential.

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This newsletter is a continuation of a joint effort started by Bruce Katz and Jeremy Nowak, co-authors of *The.New.Localism*. With Jeremy's passing, the newsletter will now be published in conjunction with the Nowak Metro Finance Lab at Drexel University. The Lab will build on Jeremy's legacy by helping cities design new institutions and mechanisms that harness public, private and civic capital for transformative investment. The Lab will be housed within the Lindy Institute for Urban Innovation, headed by our good friend and colleague Harris Steinberg.