The crash of 2008 continues to reverberate loudly nationwide—destroying jobs, bankrupting businesses, and displacing homeowners. But already, it has damaged some places much more severely than others. On the other side of the crisis, America's economic landscape will look very different than it does today. What fate will the coming years hold for New York, Charlotte, Detroit, Las Vegas? Will the suburbs be ineffably changed? Which cities and regions can come back strong? And which will never come back at all?

by Richard Florida, ATLANTIC MONTHLY, March, 2009

How the Crash Will Reshape America

IMAGE CREDIT: SEAN MCCABE

This article has been corrected since it was published in the print magazine.

MY FATHER WAS a child of the Great Depression. Born in Newark, New Jersey, in 1921 to Italian immigrant parents, he experienced the economic crisis head-on. He took a job working in an eyeglass factory in the city's Ironbound section in 1934, at age 13, combining his wages with those of his father, mother, and six siblings to make a single-family income. When I was growing up, he spoke often of his memories of breadlines, tent cities, and government-issued clothing. At Christmas, he would tell my brother and me how his parents, unable to afford new toys, had wrapped the same toy steam shovel, year after year, and placed it for him under the tree. In my extended family, my uncles occupied a pecking order based on who had grown up in the roughest economic circumstances. My Uncle Walter, who went on to earn a master's degree in chemical engineering and eventually became a senior executive at Colgate-Palmolive, came out on top—not because of his academic or career achievements, but because he grew up with the hardest lot.

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My father's experiences were broadly shared throughout the country. Although times were perhaps worst in the declining rural areas of the Dust Bowl, every region suffered, and the residents of small towns and big cities alike breathed in the same uncertainty and distress. The Great Depression was a national crisis—and in many ways a nationalizing event. The entire country, it seemed, tuned in to President Roosevelt's fireside chats.

The current economic crisis is unlikely to result in the same kind of shared experience. To be sure, the economic contraction is causing pain just about everywhere. In October, less than a month after the financial markets began to melt down, Moody's Economy.com* published an assessment of recent economic activity within 381 U.S. metropolitan areas. Three hundred and two were already in deep recession, and 64 more were at risk. Only 15 areas were still expanding. Notable among them were the oil- and natural-resource-rich regions of Texas and Oklahoma, buoyed by energy prices that have since fallen; and the Greater Washington, D.C., region, where government bailouts, the nationalization of financial companies, and fiscal expansion are creating work for lawyers, lobbyists, political scientists, and government contractors.

No place in the United States is likely to escape a long and deep recession. Nonetheless, as the crisis continues to spread outward from New York, through industrial centers like Detroit, and into the Sun Belt, it will undoubtedly settle much more heavily on some places than on others. Some cities and regions will eventually spring back stronger than before. Others may never come back at all. As the crisis deepens, it will permanently and profoundly alter the country's economic landscape. I believe it marks the end of a chapter in American economic history, and indeed, the end of a whole way of life.

GLOBAL CRISES AND ECONOMIC TRANSFORMATION

"One thing seems probable to me," said Peer Steinbrück, the German finance minister, in September 2008. As a result of the crisis, "the United States will lose its status as the superpower of the global financial system." You don't have to strain too hard to see the financial crisis as the death knell for a debt-ridden, overconsuming, and underproducing American empire—the fall long prophesied by Paul Kennedy and others.

Big international economic crises—the crash of 1873, the Great Depression—have a way of upending the geopolitical order, and hastening the fall of old powers and the rise of new ones. In *The Post-American World* (published some months before the Wall Street meltdown), Fareed Zakaria argued that modern history's third great power shift was already upon us—the rise of the West in the 15th century and the rise of America in the 19th century being the two previous sea changes.

But Zakaria added that this transition is defined less by American decline than by "the rise of the rest." We're to look forward to a world economy, he wrote, "defined and directed from many places and by many peoples." That's surely true. Yet the course of events since Steinbrück's remarks should give pause to those who believe the mantle of global leadership will soon be passed. The crisis has exposed deep structural problems, not just in the U.S. but worldwide. Europe's model of banking has proved no more resilient than America's, and China has shown that it remains every bit the codependent partner of the United States. The Dow, down more than a third last year, was actually among the world's better-performing stock-market indices. Foreign capital has flooded into the U.S., which apparently remains a safe haven, at least for now, in uncertain times.

It is possible that the United States will enter a period of accelerating relative decline in the coming years, though that's hardly a foregone conclusion—a subject I'll return to later. What's more certain is that the recession, particularly if it turns out to be as long and deep as many now fear, will accelerate the rise and fall of specific places *within* the U.S.—and reverse the fortunes of other cities and regions.

By what they destroy, what they leave standing, what responses they catalyze, and what space they clear for new growth, most big economic shocks ultimately leave the economic landscape transformed. Some of these transformations occur faster and more violently than others. The period after the Great Depression saw the slow but inexorable rise of the suburbs. The economic malaise of the 1970s, on the other hand, found its embodiment in the vertiginous fall of older industrial cities of the Rust Belt, followed by an explosion of growth in the Sun Belt.

The historian Scott Reynolds Nelson has noted that in some respects, today's crisis most closely resembles the "Long Depression," which stretched, by one definition, from 1873 to 1896. It began as a banking crisis brought on by insolvent mortgages and complex financial instruments, and quickly spread to the real economy, leading to mass unemployment that reached 25 percent in New York.

During that crisis, rising industries like railroads, petroleum, and steel were consolidated, old ones failed, and the way was paved for a period of remarkable innovation and industrial growth. In 1870, New England mill towns like Lowell, Lawrence, Manchester, and Springfield were among the country's most productive industrial cities, and America's population overwhelmingly lived in the countryside. By 1900, the economic geography had been transformed from a patchwork of farm plots and small mercantile towns to a landscape increasingly dominated by giant factory cities like Chicago, Cleveland, Pittsburgh, Detroit, and Buffalo.

How might various cities and regions fare as the crash of 2008 reverberates into 2009, 2010, and beyond? Which places will be spared the worst pain, and which left permanently scarred? Let's consider how the crash and its aftermath might affect the economic landscape in the long run, from coast to coast—beginning with the epicenter of the crisis and the nation's largest city, New York.

WHITHER NEW YORK?

At first glance, few American cities would seem to be more obviously threatened by the crash than New York. The city shed almost 17,000 jobs in the financial industry alone from October 2007 to October 2008, and Wall Street as we've known it has ceased to exist. "Farewell Wall Street, hello Pudong?" begins a recent article by Marcus Gee in the Toronto *Globe and Mail*, outlining the possibility that New York's central role in global finance may soon be usurped by Shanghai, Hong Kong, and other Asian and Middle Eastern financial capitals.

This concern seems overheated. In his sweeping history, *Capitals of Capital*, the economic historian Youssef Cassis chronicles the rise and decline of global financial centers through recent centuries. Though the history is long, it contains little drama: major shifts in capitalist power centers occur at an almost geological pace.

Amsterdam stood at the center of the world's financial system in the 17th century; its place was taken by London in the early 19th century, then New York in the 20th. Across more than three centuries, no other city has topped the list of global financial centers. Financial capitals have "remarkable longevity," Cassis writes, "in spite of the phases of boom and bust in the course of their existence."

The transition from one financial center to another typically lags behind broader shifts in the economic balance of power, Cassis suggests. Although the U.S. displaced England as the world's largest economy well before 1900, it was not until after World War II that New York eclipsed London as the world's preeminent financial center (and even then, the eclipse was not complete; in recent years, London has, by some measures, edged out New York). As Asia has risen, Tokyo, Hong Kong, and Singapore have become major financial centers—yet in size and scope, they still trail New York and London by large margins.

In finance, "there is a huge network and agglomeration effect," former assistant U.S. Treasury secretary Edwin Truman told *The Christian Science Monitor* in October—an advantage that comes from having a large critical mass of financial professionals, covering many different specialties, along with lawyers, accountants, and others to support them, all in close physical proximity. It is extremely difficult to build these dense networks anew, and very hard for up-and-coming cities to take a position at the height of global finance without them. "Hong Kong, Shanghai, Singapore, and Tokyo are more important than they were 20 years ago," Truman said. "But will they reach London and New York's dominance in another 20 years? I suspect not." Hong Kong, for instance, has a highly developed IPO market, but lacks many of the other capabilities—such as bond, foreign-exchange, and commodities trading—that make New York and London global financial powerhouses.

"A crucial contributory factor in the financial centres' development over the last two centuries, and even longer," writes Cassis, "is the arrival of new talent to replenish their energy and their capacity to innovate." All in all, most places in Asia and the Middle East are still not as inviting to foreign professionals as New York or London. Tokyo is a wonderful city, but Japan remains among the least open of the advanced economies, and admits fewer immigrants than any other member of the Organization for Economic Cooperation and Development, a group of 30 market-oriented democracies. Singapore remains for the time being a top-down, socially engineered society. Dubai placed 44th in a recent ranking of global financial centers, near Edinburgh, Bangkok, Lisbon, and Prague. New York's openness to talent and its critical mass of it—in and outside of finance and banking—will ensure that it remains a global financial center.

IN THE SHORT RUN, the most troubling question for New York is not how much of its finance industry will move to other places, but how much will simply vanish altogether. At the height of the recent bubble, Greater New York depended on the financial sector for roughly 22 percent of local wages. But most economists agree that by then the financial economy had become bloated and overdeveloped. Thomas Philippon, a finance professor at New York University, reckons that nationally, the share of GDP coming from finance will probably be reduced from its recent peak of 8.3 percent to perhaps 7 percent—I suspect it may fall farther, to perhaps as little as 5 percent, roughly its contribution a generation ago. In either case, it will be a big reduction, and a sizable portion of it will come out of Manhattan.

Lean times undoubtedly lie ahead for New York. But perhaps not as lean as you'd think—and certainly not as lean as those that many lesser financial outposts are likely to experience. Financial positions account for only about 8 percent of the New York area's jobs, not too far off the national average of 5.5 percent. By contrast, they make up 28 percent of all jobs in Bloomington-Normal, Illinois; 18 percent in Des Moines; 13 percent in Hartford; 10 percent in both Sioux Falls, South Dakota, and Charlotte, North Carolina. Omaha, Nebraska; Macon, Georgia; and Columbus, Ohio, all have a greater percentage of population working in the financial sector than New York does.

New York is much, much more than a financial center. It has been the nation's largest city for roughly two centuries, and today sits in America's largest metropolitan area, as the hub of the country's largest mega-region. It is home to a diverse and innovative economy built around a broad range of creative industries, from media to design to arts and entertainment. It is home to high-tech companies like Bloomberg, and boasts a thriving Google outpost in its Chelsea neighborhood. Elizabeth Currid's book, *The Warhol Economy*, provides detailed evidence of New York's diversity. Currid measured the concentration of different types of jobs in New York relative to their incidence in the U.S. economy as a whole. By this measure, New York is more of a mecca for fashion designers, musicians, film directors, artists, and—yes—psychiatrists than for financial professionals.

The great urbanist Jane Jacobs was among the first to identify cities' diverse economic and social structures as the true engines of growth. Although the specialization identified by Adam Smith creates powerful efficiency gains, Jacobs argued that the jostling of many different professions and different types of people, all in a dense environment, is an essential spur to innovation—to the creation of things that are truly new. And innovation, in the long run, is what keeps cities vital and relevant.

In this sense, the financial crisis may ultimately help New York by reenergizing its creative economy. The extraordinary income gains of investment bankers, traders, and hedge-fund managers over the past two decades skewed the city's economy in some unhealthy ways. In 2005, I asked a top-ranking official at a major investment bank whether the city's rising real-estate prices were affecting his company's ability to attract global talent. He responded simply: "We are the cause, not the effect, of the real-estate bubble." (As it turns out, he was only half right.) Stratospheric real-estate prices have made New York less diverse over time, and arguably less stimulating. When I asked Jacobs some years ago about the effects of escalating real-estate prices on creativity, she told me, "When a place gets boring, even the rich people leave." With the hegemony of the investment bankers over, New York now stands a better chance of avoiding that sterile fate.

AMERICA'S "FAST" CITIES: CRISIS AND REINVENTION

In his 2005 book, *The World Is Flat*, Thomas Friedman argues, essentially, that the global economic playing field has been leveled, and that anyone, anywhere, can now innovate, produce, and compete on a par with, say, workers in Seattle or entrepreneurs in Silicon Valley. But this argument isn't quite right, and doesn't accurately describe the evolution of the global economy in recent years.

In fact, as I described in an earlier article for this magazine ("The World Is Spiky," October 2005 [link opens PDF]), place still matters in the modern economy—and the competitive advantage of the world's most successful city-regions seems to be growing, not shrinking. To understand how the current crisis is likely to affect different places in the United States, it's important to understand the forces that have been slowly remaking our economic landscape for a generation or more.

Worldwide, people are crowding into a discrete number of mega-regions, systems of multiple cities and their surrounding suburban rings like the Boston–New York–Washington Corridor. In North America, these mega-regions include SunBelt centers like the Char-Lanta Corridor, Northern and Southern California, the Texas Triangle of Houston–San Antonio–Dallas, and Southern Florida's Tampa-Orlando-Miami area; the Pacific Northwest's Cascadia, stretching from Portland through Seattle to Vancouver; and both Greater Chicago and Tor-Buff-Chester in the old Rust Belt. Internationally, these mega-regions include Greater London, Greater Tokyo, Europe's Am-Brus-Twerp, China's Shanghai-Beijing Corridor, and India's Bangalore-Mumbai area. Economic output is ever-more concentrated in these places as well. The world's 40 largest mega-regions, which are home to some 18 percent of the world's population, produce two-thirds of global economic output and nearly 9 in 10 new patented innovations.

Some (though not all) of these mega-regions have a clear hub, and these hubs are likely to be better buffered from the crash than most cities, because of their size, diversity, and regional role. Chicago has emerged as a center for industrial management and has rolled up many of the functions, such as finance and law, once performed in smaller midwestern centers. Los Angeles has a broad, diverse economy with global strength in media and entertainment. Miami, which is being hit hard by the collapse of the real-estate bubble, nonetheless remains the commercial center for the large South Florida mega-region, and a major financial center for Latin America. Each of these places is the financial and commercial core of a large mega-region with tens of millions of people and hundreds of billions of dollars in output. That's not going to change as a result of the crisis.

Along with the rise of mega-regions, a second phenomenon is also reshaping the economic geography of the United States and the world. The ability of different cities and regions to attract highly educated people—or human capital—has diverged, according to research by the Harvard economists Edward Glaeser and Christopher Berry, among others. Thirty years ago, educational attainment was spread relatively uniformly throughout the country, but that's no longer the case. Cities like Seattle, San Francisco, Austin, Raleigh, and Boston now have two or three times the concentration of college graduates of Akron or Buffalo. Among people with postgraduate degrees, the disparities are wider still. The geographic sorting of people by ability and educational attainment, on this scale, is unprecedented.

The University of Chicago economist and Nobel laureate Robert Lucas declared that the spillovers in knowledge that result from talent-clustering are the main cause of economic growth. Well-educated professionals and creative workers who live together in dense ecosystems, interacting directly, generate ideas and turn them into products and services faster than talented people in other places can. There is no evidence that globalization or the Internet has changed that. Indeed, as globalization has increased the financial return on innovation by widening the consumer market, the pull of innovative places, already dense with highly talented workers, has only grown stronger, creating a snowball effect. Talent-rich ecosystems are not easy to replicate, and to realize their full economic value, talented and ambitious people increasingly need to live within them.

Big, talent-attracting places benefit from accelerated rates of "urban metabolism," according to a pioneering theory of urban evolution developed by a multidisciplinary team of researchers affiliated with the SantaFe Institute. The rate at which living things convert food into energy—their metabolic rate—tends to slow as organisms increase in size. But when the Santa Fe team examined trends in innovation, patent activity, wages, and GDP, they found that successful cities, unlike biological organisms, actually get faster as they grow. In order to grow bigger and overcome diseconomies of scale like congestion and rising housing and business costs, cities must become more efficient, innovative, and productive. The researchers dubbed the extraordinarily rapid metabolic rate that successful cities are able to achieve "super-linear" scaling. "By almost any measure," they wrote, "the larger a city's population, the greater the innovation and wealth creation per person." Places like New York with finance and media, Los Angeles with film and music, and Silicon Valley with hightech are all examples of high-metabolism places.

Metabolism and talent-clustering are important to the fortunes of U.S. city-regions in good times, but they're even more so when times get tough. It's not that "fast" cities are immune to the failure of businesses, large or small. (One of the great lessons of the 1873 crisis—and of this one so far—is that when credit freezes up and a long slump follows, companies can fail unpredictably, no matter where they are.) It's that unlike many other places, they can overcome business failures with relative ease, reabsorbing their talented workers, growing nascent businesses, founding new ones.

Economic crises tend to reinforce and accelerate the underlying, long-term trends within an economy. Our economy is in the midst of a fundamental long-term transformation—similar to that of the late 19th century, when people streamed off farms and into new and rising industrial cities. In this case, the economy is shifting away from manufacturing and toward idea-driven creative industries—and that, too, favors America's talent-rich, fast-metabolizing places.

The Last Crisis of the Factory Towns

Sadly and unjustly, the places likely to suffer most from the crash—especially in the long run—are the ones least associated with high finance. While the crisis may have begun in New York, it will likely find its fullest bloom in the interior of the country—in older, manufacturing regions whose heydays are long past and in newer, shallow-rooted Sun Belt communities whose recent booms have been fueled in part by real-estate speculation, overdevelopment, and fictitious housing wealth. These typically less affluent places are likely to become less wealthy still in the coming years, and will continue to struggle long after the mega-regional hubs and creative cities have put the crisis behind them.

The Rust Belt in particular looks likely to shed vast numbers of jobs, and some of its cities and towns, from Cleveland to St. Louis to Buffalo to Detroit, will have a hard time recovering. Since 1950, the manufacturing sector has shrunk from 32 percent of nonfarm employment to just 10 percent. This decline is the result of long-term trends—increasing foreign competition and, especially, the relentless replacement of people with machines—that look unlikely to abate. But the job losses themselves have proceeded not steadily, but rather in sharp bursts, as recessions have killed off older plants and resulted in mass layoffs that are never fully reversed during subsequent upswings.

In November, nationwide unemployment in manufacturing and production occupations was already 9.4 percent. Compare that with the professional occupations, where it was just a little over 3 percent. According to an analysis done by Michael Mandel, the chief economist at *BusinessWeek*, jobs in the “tangible” sector—that is, production, construction, extraction, and transport—declined by nearly 1.8 million between December 2007 and November 2008, while those in the intangible sector—what I call the “creative class” of scientists, engineers, managers, and professionals—increased by more than 500,000. Both sorts of jobs are regionally concentrated. Paul Krugman has noted that the worst of the crisis, so far at least, can be seen in a “Slump Belt,” heavy with manufacturing centers, running from the industrial Midwest down into the Carolinas. Large swaths of the Northeast, with its professional and creative centers, have been better insulated.

Perhaps no major city in the U.S. today looks more beleaguered than Detroit, where in October the average home price was $18,513, and some 45,000 properties were in some form of foreclosure. A recent listing of tax foreclosures in Wayne County, which encompasses Detroit, ran to 137 pages in the *Detroit Free Press*. The city’s public school system, facing a budget deficit of $408 million, was taken over by the state in December; dozens of schools have been closed since 2005 because of declining enrollment. Just 10 percent of Detroit’s adult residents are college graduates, and in December the city’s jobless rate was 21 percent.

To say the least, Detroit is not well positioned to absorb fresh blows. The city has of course been declining for a long time. But if the area’s auto headquarters, parts manufacturers, and remaining auto-manufacturing jobs should vanish, it’s hard to imagine anything replacing them.

When work disappears, city populations don't always decline as fast as you might expect. Detroit, astonishingly, is still the 11th-largest city in the U.S. "If you no longer can sell your property, how can you move elsewhere?" said Robin Boyle, an urban-planning professor at Wayne State University, in a December Associated Press article. But then he answered his own question: "Some people just switch out the lights and leave—property values have gone so low, walking away is no longer such a difficult option."

Perhaps Detroit has reached a tipping point, and will become a ghost town. I'd certainly expect it to shrink faster in the next few years than it has in the past few. But more than likely, many people will stay—those with no means and few obvious prospects elsewhere, those with close family ties nearby, some number of young professionals and creative types looking to take advantage of the city's low housing prices. Still, as its population density dips further, the city's struggle to provide services and prevent blight across an ever-emptier landscape will only intensify.

That's the challenge that many Rust Belt cities share: managing population decline without becoming blighted. The task is doubly difficult because as the manufacturing industry has shrunk, the local high-end services—finance, law, consulting—that it once supported have diminished as well, absorbed by bigger regional hubs and globally connected cities. In Chicago, for instance, the country's 50 biggest law firms grew by 2,130 lawyers from 1984 to 2006, according to William Henderson and Arthur Alderson of Indiana University. Throughout the rest of the Midwest, these firms added a total of just 169 attorneys. Jones Day, founded in 1893 and today one of the country's largest law firms, no longer considers its Cleveland office "headquarters"—that's in Washington, D.C.—but rather its "founding office."

Many second-tier midwestern cities have tried to reinvent themselves in different ways, with varying degrees of success. Pittsburgh, for instance, has sought to reimagine itself as a high-tech center, and has met with more success than just about anywhere else. Still, its population has declined from a high of almost 700,000 in the mid-20th century to roughly 300,000 today. There will be fewer manufacturing jobs on the other side of the crisis, and the U.S. economic landscape will be more uneven—"spikier"—as a result. Many of the old industrial centers will be further diminished, perhaps permanently so.

THAT'S NOT TO SAY that every factory town is locked into decline. You need only look at the geographic pattern of December's Senate vote on the auto bailout to realize that some places, mostly in the South, would benefit directly from the bankruptcy of GM or Chrysler and the closure of auto plants in the Rust Belt. Georgetown, Kentucky; Smyrna, Tennessee; Canton, Mississippi: these are a few of the many small cities, stretching from South Carolina and Georgia all the way to Texas, that have benefited from the establishment, over the years, of plants that manufacture foreign cars. Those benefits could grow if the Big Three were to become, say, the Big Two.

This phenomenon, a sort of lottery whereby some places win merely by outlasting others, will not be limited to towns built around automobiles, or even around manufacturing. As the recession continues and large companies in a variety of industries fail, their remaining competitors may grow stronger, along with the places where those competitors are situated. Charlotte, North Carolina, offers an interesting case study. The financial crisis left one of the city's two big banks, Wachovia, ailing; this fall, Wachovia was acquired by San Francisco–based Wells Fargo, in a deal that will cost the city many thousands of jobs. But things could have been much worse; the deal also preserved many jobs. What's more, at roughly the same time, Bank of America, Charlotte's other large bank (and the biggest bank in the U.S.) bought Merrill Lynch for pennies on the dollar.

A business truism holds that when your competitors are retrenching, it's a great time to grow your market share. Deborah Strumsky, an economist at the University of North Carolina at Charlotte, told me she believes that in the end, both Charlotte's banking industry and Charlotte itself will emerge from the crisis all the stronger: "The Wells Fargo deal has saved thousands of jobs by keeping Wachovia afloat. More importantly, Bank of America has taken to the banking crisis like a shopaholic with a new credit card; it has been bargain-hunting and cutting some astonishing deals. Bank of America will come out the other side far better than in any fantasy it might have entertained previously."

In recent years, Charlotte's leaders have made some smart decisions about how to attract businesses and professionals, enabling the city to grow into the nation's second-largest traditional banking center; in the lottery of business failure and consolidation, it was well positioned to win. But it was also lucky, and last fall, it escaped losing, big-time, by no more than a hair's breadth. Overall, the roster of places that benefit from the failure of their champions' rivals will probably be pretty short, and the names on the roster somewhat unpredictable. Especially among cities built around declining industries, more places will be weakened than strengthened; as with all lotteries, most players will lose.

CITIES IN THE SAND: THE END OF EASY EXPANSION

For a generation or more, no swath of the United States has grown more madly than the Sun Belt. Of course, the area we call the "Sun Belt" is vast, and the term is something of a catch-all: the cities and metropolitan areas within it have grown for disparate reasons. Los Angeles is a mecca for media and entertainment; San Jose and Austin developed significant, innovative high-tech industries; Houston became a hub for energy production; Nashville developed a unique niche in low-cost music recording and production; Charlotte emerged as a center for cost-effective banking and low-end finance.

But in the heady days of the housing bubble, some Sun Belt cities—Phoenix and Las Vegas are the best examples—developed economies centered largely on real estate and construction. With sunny weather and plenty of flat, empty land, they got caught in a classic boom cycle. Although these places drew tourists, retirees, and some industry—firms seeking bigger footprints at lower costs—much of the cities' development came from, well, development itself. At a minimum, these places will take a long, long time to regain the ground they've recently lost in local wealth and housing values. It's not unthinkable that some of them could be in for an extended period of further decline.

To an uncommon degree, the economic boom in these cities was propelled by housing appreciation: as prices rose, more people moved in, seeking inexpensive lifestyles and the opportunity to get in on the real-estate market where it was rising, but still affordable. Local homeowners pumped more and more capital out of their houses as well, taking out home-equity loans and injecting money into the local economy in the form of home improvements and demand for retail goods and low-level services. Cities grew, tax coffers filled, spending continued, more people arrived. Yet the boom itself neither followed nor resulted in the development of sustainable, scalable, highly productive industries or services. It was fueled and funded by housing, and housing was its primary product. Whole cities and metro regions became giant Ponzi schemes.

Phoenix, for instance, grew from 983,403 people in 1990 to 1,552,259 in 2007. One of its suburbs, Mesa, now has nearly half a million residents, more than Pittsburgh, Cleveland, or Miami. As housing starts and housing prices rose, so did tax revenues, and a major capital-spending boom occurred throughout the Greater Phoenix area. Arizona State University built a new downtown Phoenix campus, and the city expanded its convention center and constructed a 20-mile light-rail system connecting Phoenix, Mesa, and Tempe.

And then the bubble burst. From October 2007 through October 2008, the Phoenix area registered the largest decline in housing values in the country: 32.7 percent. (Las Vegas was just a whisker behind, at 31.7 percent. Housing in the New York region, by contrast, fell by just 7.5 percent over the same period.) Overstretched and overbuilt, the region is now experiencing a fiscal double whammy, as its many retirees—some 21 percent of its residents are older than 55—have seen their retirement savings decimated. Mortgages Limited, the state's largest private commercial lender, filed for bankruptcy last summer. The city is running a $200 million budget deficit, which is only expected to grow. Last fall, the city government petitioned for federal funds to help it deal with the financial crisis. "We had a big bubble here, and it burst," Anthony Sanders, a professor of economics and finance at ASU, told *USA Today* in December. "We've taken Kevin Costner's Field of Dreams and now it's Field of Screams. If you build it, nobody comes."

Will people wash out of these places as fast as they washed in, leaving empty sprawl and all the ills that accompany it? Will these cities gradually attract more businesses and industries, allowing them to build more-diverse and more-resilient economies? Or will they subsist on tourism—which may be meager for quite some time—and on the Social Security checks of their retirees? No matter what, their character and atmosphere are likely to change radically.

THE LIMITS OF SUBURBAN GROWTH

Every phase or epoch of capitalism has its own distinct geography, or what economic geographers call the "spatial fix" for the era. The physical character of the economy—the way land is used, the location of homes and businesses, the physical infrastructure that ties everything together—shapes consumption, production, and innovation. As the economy grows and evolves, so too must the landscape.

To a surprising degree, the causes of this crash are geographic in nature, and they point out a whole system of economic organization and growth that has reached its limit. Positioning the economy to grow strongly in the coming decades will require not just fiscal stimulus or industrial reform; it will require a new kind of geography as well, a new spatial fix for the next chapter of American economic history.

Suburbanization was the spatial fix for the industrial age—the geographic expression of mass production and the early credit economy. Henry Ford's automobiles had been rolling off assembly lines since 1913, but "Fordism," the combination of mass production and mass consumption to create national prosperity, didn't emerge as a full-blown economic and social model until the 1930s and the advent of Roosevelt's New Deal programs.

Before the Great Depression, only a minority of Americans owned a home. But in the 1930s and '40s, government policies brought about longer-term mortgages, which lowered payments and enabled more people to buy a house. Fannie Mae was created to purchase those mortgages and lubricate the system. And of course the tax deduction on mortgage-interest payments (which had existed since 1913, when the federal income-tax system was created) privileged house purchases over other types of spending. Between 1940 and 1960, the homeownership rate rose from 44 percent to 62 percent.

Demand for houses was symbiotic with demand for cars, and both were helped along by federal highway construction, among other infrastructure projects that subsidized a new suburban lifestyle and in turn fueled demand for all manner of household goods. More recently, innovations in finance like adjustable-rate mortgages and securitized subprime loans expanded homeownership further and kept demand high. By 2004, a record 69.2 percent of American families owned their home.

For the generation that grew up during the Depression and was inclined to pinch pennies, policies that encouraged freer spending were sensible enough—they allowed the economy to grow faster. But as younger generations, weaned on credit, followed, and credit availability increased, the system got out of hand. Housing, meanwhile, became an ever-more-central part of the American Dream: for many people, as the recent housing bubble grew, owning a home came to represent not just an end in itself, but a means to financial independence.

On one level, the crisis has demonstrated what everyone has known for a long time: Americans have been living beyond their means, using illusory housing wealth and huge slugs of foreign capital to consume far more than we've produced. The crash surely signals the end to that; the adjustment, while painful, is necessary.

But another crucial aspect of the crisis has been largely overlooked, and it might ultimately prove more important. Because America's tendency to overconsume and under-save has been intimately intertwined with our postwar spatial fix—that is, with housing and suburbanization—the shape of the economy has been badly distorted, from where people live, to where investment flows, to what's produced. Unless we make fundamental policy changes to eliminate these distortions, the economy is likely to face worsening handicaps in the years ahead.

Suburbanization—and the sprawling growth it propelled—made sense for a time. The cities of the early and mid-20th century were dirty, sooty, smelly, and crowded, and commuting from the first, close-in suburbs was fast and easy. And as manufacturing became more technologically stable and product lines matured during the postwar boom, suburban growth dovetailed nicely with the pattern of industrial growth. Businesses began opening new plants in green-field locations that featured cheaper land and labor; management saw no reason to continue making now-standardized products in the expensive urban locations where they'd first been developed and sold. Work was outsourced to then-new suburbs and the emerging areas of the Sun Belt, whose connections to bigger cities by the highway system afforded rapid, low-cost distribution. This process brought the Sun Belt economies (which had lagged since the Civil War) into modern times, and sustained a long boom for the United States as a whole.

But that was then; the economy is different now. It no longer revolves around simply making and moving things. Instead, it depends on generating and transporting ideas. The places that thrive today are those with the highest velocity of ideas, the highest density of talented and creative people, the highest rate of metabolism. *Velocity* and *density* are not words that many people use when describing the suburbs. The economy is driven by key urban areas; a different geography is required.

THE NEXT ECONOMIC LANDSCAPE

The housing bubble was the ultimate expression, and perhaps the last gasp, of an economic system some 80 years in the making, and now well past its "sell-by" date. The bubble encouraged massive, unsustainable growth in places where land was cheap and the real-estate economy dominant. It encouraged low-density sprawl, which is ill-fitted to a creative, postindustrial economy. And not least, it created a workforce too often stuck in place, anchored by houses that cannot be profitably sold, at a time when flexibility and mobility are of great importance.

So how do we move past the bubble, the crash, and an aging, obsolescent model of economic life? What's the right spatial fix for the economy today, and how do we achieve it?

The solution begins with the removal of homeownership from its long-privileged place at the center of the U.S. economy. Substantial incentives for homeownership (from tax breaks to artificially low mortgage-interest rates) distort demand, encouraging people to buy bigger houses than they otherwise would. That means less spending on medical technology, or software, or alternative energy—the sectors and products that could drive U.S. growth and exports in the coming years. Artificial demand for bigger houses also skews residential patterns, leading to excessive low-density suburban growth. The measures that prop up this demand should be eliminated.

If anything, our government policies should encourage renting, not buying. Homeownership occupies a central place in the American Dream primarily because decades of policy have put it there. A recent study by Grace Wong, an economist at the Wharton School of Business, shows that, controlling for income and demographics, homeowners are no happier than renters, nor do they report lower levels of stress or higher levels of self-esteem.

And while homeownership has some social benefits—a higher level of civic engagement is one—it is costly to the economy. The economist Andrew Oswald has demonstrated that in both the United States and Europe, those places with higher homeownership rates also suffer from higher unemployment. Homeownership, Oswald found, is a more important predictor of unemployment than rates of unionization or the generosity of welfare benefits. Too often, it ties people to declining or blighted locations, and forces them into work—if they can find it—that is a poor match for their interests and abilities.

As homeownership rates have risen, our society has become less nimble: in the 1950s and 1960s, Americans were nearly twice as likely to move in a given year as they are today. Last year fewer Americans moved, as a percentage of the population, than in any year since the Census Bureau started tracking address changes, in the late 1940s. This sort of creeping rigidity in the labor market is a bad sign for the economy, particularly in a time when businesses, industries, and regions are rising and falling quickly.

The foreclosure crisis creates a real opportunity here. Instead of resisting foreclosures, the government should seek to facilitate them in ways that can minimize pain and disruption. Banks that take back homes, for instance, could be required to offer to rent each home to the previous homeowner, at market rates—which are typically lower than mortgage payments—for some number of years. (At the end of that period, the former homeowner could be given the option to repurchase the home at the prevailing market price.) A bigger, healthier rental market, with more choices, would make renting a more attractive option for many people; it would also make the economy as a whole more flexible and responsive.

Next, we need to encourage growth in the regions and cities that are best positioned to compete in the coming decades: the great mega-regions that already power the economy, and the smaller, talent-attracting innovation centers inside them—places like Silicon Valley, Boulder, Austin, and the North Carolina Research Triangle.

Whatever our government policies, the coming decades will likely see a further clustering of output, jobs, and innovation in a smaller number of bigger cities and city-regions. But properly shaping that growth will be one of the government's biggest challenges. In part, we need to ensure that key cities and regions continue to circulate people, goods, and ideas quickly and efficiently. This in itself will be no small task; increasing congestion threatens to slowly sap some of these city-regions of their vitality.

Just as important, though, we need to make elite cities and key mega-regions more attractive and affordable for all of America's classes, not just the upper crust. High housing costs in these cities and in the more convenient suburbs around them, along with congested sprawl farther afield, have conspired to drive lower-income Americans away from these places over the past 30 years. This is profoundly unhealthy for our society.

In his forthcoming book, *The Wealth of Cities*, my University of Toronto colleague Chris Kennedy shows that only wholesale structural changes, from major upgrades in infrastructure to new housing patterns to big shifts in consumption, allow places to recover from severe economic crises and to resume rapid expansion. London laid the groundwork for its later commercial dominance by changing its building code and widening its streets after the catastrophic fire of 1666. The United States rose to economic preeminence by periodically developing entirely new systems of infrastructure—from canals and railroads to modern water-and-sewer systems to federal highways. Each played a major role in shaping and enabling whole eras of growth.

The Obama administration has declared its intention to open the federal government's pocketbook wide to help us get through this recession, and infrastructure spending seems poised to play a key role. Done right, such spending could position the United States for the next round of growth. But that will entail more than patching up roads and bridges.

If there is one constant in the history of capitalist development, it is the ever-more-intensive use of space. Today, we need to begin making smarter use of both our urban spaces and the suburban rings that surround them—packing in more people, more affordably, while at the same time improving their quality of life. That means liberal zoning and building codes within cities to allow more residential development, more mixed-use development in suburbs and cities alike, the in-filling of suburban cores near rail links, new investment in rail, and congestion pricing for travel on our roads. Not everyone wants to live in city centers, and the suburbs are not about to disappear. But we can do a much better job of connecting suburbs to cities and to each other, and allowing regions to grow bigger and denser without losing their velocity.

Finally, we need to be clear that ultimately, we can't stop the decline of some places, and that we would be foolish to try. Places like Pittsburgh have shown that a city can stay vibrant as it shrinks, by redeveloping its core to attract young professionals and creative types, and by cultivating high-growth services and industries. And in limited ways, we can help faltering cities to manage their decline better, and to sustain better lives for the people who stay in them.

But different eras favor different places, along with the industries and lifestyles those places embody. Band-Aids and bailouts cannot change that. Neither auto-company rescue packages nor policies designed to artificially prop up housing prices will position the country for renewed growth, at least not of the sustainable variety. We need to let demand for the key products and lifestyles of the old order fall, and begin building a new economy, based on a new geography.

What will this geography look like? It will likely be sparser in the Midwest and also, ultimately, in those parts of the Southeast that are dependent on manufacturing. Its suburbs will be thinner and its houses, perhaps, smaller. Some of its southwestern cities will grow less quickly. Its great mega-regions will rise farther upward and extend farther outward. It will feature a lower rate of homeownership, and a more mobile population of renters. In short, it will be a more concentrated geography, one that allows more people to mix more freely and interact more efficiently in a discrete number of dense, innovative mega-regions and creative cities. Serendipitously, it will be a landscape suited to a world in which petroleum is no longer cheap by any measure. But most of all, it will be a landscape that can accommodate and accelerate invention, innovation, and creation—the activities in which the U.S. still holds a big competitive advantage.

The Stanford economist Paul Romer famously said, “A crisis is a terrible thing to waste.” The United States, whatever its flaws, has seldom wasted its crises in the past. On the contrary, it has used them, time and again, to reinvent itself, clearing away the old and making way for the new. Throughout U.S. history, adaptability has been perhaps the best and most quintessential of American attributes. Over the course of the 19th century’s Long Depression, the country remade itself from an agricultural power into an industrial one. After the Great Depression, it discovered a new way of living, working, and producing, which contributed to an unprecedented period of mass prosperity. At critical moments, Americans have always looked forward, not back, and surprised the world with our resilience. Can we do it again?

Correction: The print version of this piece incorrectly cited an assessment published by Moody’s Investor Services. The assessment was actually published by Moody’s Economy.com.