

Local Economies: The U.S. Common Market of Local Economic Regions

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Executive Summary

The pervasive image of a single “national” economy is an incomplete, incorrect, and often harmful picture of America’s economy. Treating government jurisdictions as economic units also is misguided. Some new ways of thinking about economics are needed, ways that focus on local economic regions and the linkages among them rather than on national averages or jurisdictional indicators. This article presents evidence of that need for new ways of thinking about economics; outlines a framework that incorporates local economies, as well as national and international contexts; and suggests actions for federal, state, and local governments.

From an economic perspective, the United States is overlaid with *local economic regions*. These are mostly metropolitan-centered, integrated economies, of which central cities and suburbs are interdependent parts. Large disparities within the economic region are not associated with higher growth. Distress in any significant part of the local economy will negatively affect the whole.

All local economic regions are linked to other local economic regions, both inside and outside the United States. The

boundaries of the United States and the strength of federal powers have created a *common market* of local economies—a complex web of economic interdependence. In the global marketplace, local economic regions may be increasingly important, as compared to nation states.

This two-tiered economy—the local economic regions and the national common market—constitutes a kind of “economic federalism.” This economic federalism, however, is not congruent with the three-tiered political federalism that characterizes our governmental arrangements, i.e., federal, state, and local.

The lack of alignment between these two federalisms makes economic policy making difficult and presents two great governance challenges:

- How to make good economic policy for each local economy and
- How to make good economic policy for the U.S. common market.

This article suggests a strategic agenda for each level of government to begin to address the governance and policy challenges that are raised by this approach to the political economy. Continuing effort and leadership will be necessary to fill in the outline of common-market regionalism and specify its implications.

Beyond Abstract “Nationalist Economics”

Overview

The pervasive image of a single “national” economy is the lens that focuses U.S. public policy. That lens gives an incomplete and incorrect picture of America’s economy. It leads to actions that actually harm our economic capacities and thwart effective policy making. U.S. competitiveness and domestic problem solving in an era of economic restructuring depend on our doing a better job of economic thinking.

Political jurisdictions are governmental entities, not economies. The jurisdiction of the federal government, the nation, is not an economy. The real U.S. economy is the linked, interdependent system—the common market—of local economic regions. By the same token, state and local governments are polities, not economies.

The local economic region is the basic unit in the common-market system. Economic policy, therefore, should focus on local economic regions and the linkages among them, as well as their linkages with other places in the global economy.

The distorting effect of the nationalist paradigm is illustrated by the reliance on national averages that are viewed as indicators of the national economy’s performance and used as the basis for policy decisions. In 1994, for example, the Federal Reserve raised interest rates to dampen inflationary pressures based on national trend data. Unemployment, one indicator, illustrates the problem of reliance on national averages. Unemployment rates vary widely across the eco-

omic regions of the nation. Thus, local economies with low growth rates and high unemployment, not threatened by inflation, are harmed by higher interest rates that slow regional growth rates. For other regions, with economies already heating up, increases in interest rates determined on the basis of national averages may be insufficient or too late.

This report proposes some different ways of thinking about political economy, a new paradigm. Following this overview, the next section presents evidence of the need to incorporate local economies into policy frameworks. Section 3 outlines a *common-market regionalism* approach. The next three sections explore the implications of this perspective for current issues of policy and policy making: city/suburbs disparities (section 4), metropolitan governance (section 5), and federal and state governments (section 6.) The final section suggests that more work along these lines is urgently needed.

All Economics Is Local

The main thrust of this research is that all economics is local. Just as we’re sure that Tip O’Neill did not take his epigram (from which we have borrowed) literally, we recognize the national elements and the linkages in the U.S. economy that make it a successful common market. We do not argue that no U.S. economy exists. The powers of a strong central government, along with shared history and culture, have created a national economic entity. We do argue that the “national economy” is spatially differentiated and that local economic regions are the crucial units for focusing analysis and policy. The “national economy” is a com-

mon market of these local economies. As a corrective to the omission of space and place in current economic policy and thought, the importance of less abstract economics-on-the-ground must be emphasized in order to achieve an essential balance between "central" and "local."

All the great nation-building economic politicians have sought to achieve dynamic balance among *national* and *locals*, among the components of the American economic federalism within the evolving global pattern. Albert Gallatin's plan of 1808 proposed canals and roads to link dispersed markets into a national economy. John Calhoun, urging these "internal improvements" in 1817, proclaimed, "We must conquer space." Now, as we shape the nation's third century, American economic policy making and its theoretical bases seem not to have conquered space but to have ignored it. Current ways of thinking treat the economy as if it were all linkages, multinational corporations, and centralized financial functions where there are no nodes, no places where real people and businesses function in communities. The challenges to today's economic politicians are as follows:

1. to attain an effective balance in economic federalism between national and local components,
2. to create intellectual and political frameworks within which shared interests and apparently divergent interests can be addressed, and
3. to render economic abstractions real and thus to reconnect citizens and voters with responsible economic policy making.

Common-market regionalism, which is outlined later, offers a better framework for meeting these challenges than

the now-dominant nationalist paradigm. It is also a better perspective than one that emphasizes only unrestrained globalism or pure localism. It provides a way to see Wall Street and Main Street, the bond market and the supermarket, in the same framework. And, it brings inequality squarely into the economic picture, not leaving it to an afterthought in social policy.

Implications for Policy Making

The effectiveness of federal, state, or local economic policies depends, in part, upon each government's ability to correctly identify those elements of the U.S. economy that are susceptible to being influenced by its actions. The accountability of public officials for their economic policy decisions is also dependent, in part, on citizens having an understanding of that basic economic conceptualization. Thus, policy and politics, or efficacy and democracy in the economic arena, are dependent upon an adequate concept of what the U.S. economy is and how it works.

An inappropriate economic paradigm causes citizens and decision makers to describe problems incorrectly, and this inevitably leads them to select ineffective solutions. The aging nationalist paradigm currently, for example,

- rationalizes federal or state disengagement from local economic affairs,
- encourages an arbitrary view of sub-national economic activity,
- confuses jurisdictions with economies,
- creates counterproductive competition for local tax bases, and
- minimizes local communities' perceptions of their abilities to affect the economic destinies of their regions.

The mesmerizing power of the nationalist economic paradigm also hurts American politics and democracy. It sets up false choices between local and national interests, and it allows some state and local officials and citizens to treat the economy as something beyond their control, as *forces* that just happen to their communities. It encourages some federal and state officials to lay claim to and use powers over the economy that ignore the variety of local economies and end up mistreating most of them. It thus befuddles accountability and weakens democracy.

The paradigm shift identified here is especially important for citizens and officials of local governments. It contradicts the debilitating notion that local economic policy is fruitless or minimally important. It challenges local officials to take greater responsibility for their common regional economic destinies. It provides a rationale and framework, as well as a responsibility and challenge, to local officials to participate in national economic policy making, not only on behalf of their local economies, but also in the context of common-market needs. Further, it challenges citizens and local government officials to find new ways of working collaboratively for the economic future of their region and to develop new partnerships with states and the federal government that promote the economic welfare of individual regions and the common market.

The new paradigm also provides a framework for understanding the debilitating effects of pervasive localized economic distress on the performance of regional economies and the common market. In other words, great inequities

are economically inefficient. It provides a firmer economic rationale for policies that target distressed areas and disadvantaged people wherever they may be found in the local economic region and the common market of regions.

In short, it matters very much how people think about economics.

This article, then, is about ideas, basic images that underlie and shape people's thinking on economics, politics and government, and policy and policy making. These ideas are important—they have consequences—in ways that range from the theoretical to the very practical. Thus, the report is also—and in the end, mainly—about doing things, especially making economic policy, as a result of the ideas we propose.

All Economics Is Local

In the United States in the late twentieth century, the real economies are mainly metropolitan-centered regions. They are not congruent with the nation's boundaries, nor states', nor municipalities'. There is plenty of evidence for believing this. Focusing on the actual evidence can help eliminate the nationalist economic perspective and provide a clear view of the economic world. The evidence includes three major sets of information: (1) variation in performance across local economies; (2) variation and internal coherence over time in the form of differentiated local business cycles; and (3) indicators of internal integration of local economies.

(1) *Condition and performance of local economies*: National averages are often the basis for policy discussions and the triggers for policy measures. If the

conditions of regional economies are relatively similar, and, what is more important, the timing of changes in the economic performance of these regions is relatively the same, then the use of national averages to drive national policy can be justified. If not, this practice, which is predicated on the nationalist paradigm, is called into question.

In reality, the condition and performance of local economies vary widely. Data indicate a wide range of variation around these national averages across local economic regions. When discussion and decisions are driven by these national averages, the variety of circumstances and needs of local economies are ignored.

Figures 1, 2, and 3 examine median household incomes, employment growth, and unemployment rates across the 50 largest metropolitan areas and also identify the comparable national averages.² These charts clearly illustrate the extent of the variation around the national average measures.

In 1989, the nation's median household income was \$30,056. The variation of metropolitan areas around this average is illustrated in Figure 1. Median household incomes in the fifty largest metropolitan areas ranged from a high of \$46,848 to a low of \$24,442—a difference of \$22,406.

Eight metropolitan areas fell below the national average, and forty-two areas were above. Of these higher income metropolitan areas, eighteen exceeded the national average by more than \$5,000, ten by \$10,000 or more, and five by \$15,000 or more. This diversity of income is not related to metropolitan size,

at least within the fifty largest metropolitan areas examined.

Metropolitan areas also exhibit significant variation in rates of employment growth (see Figure 2). Among the fifty largest metropolitan areas, the rate of employment growth between 1980 and 1990 ranged from a high of 43.5 percent to a low of -1.4 percent.

The national average growth rate over this period was 18.2 percent. Twenty-six of the fifty large metropolitan areas had growth rates in excess of the national average. Ten had rates higher than 30 percent over the ten-year period, and ten experienced a rate of growth less than 10 percent. The rate of growth in employment was negative in three of the areas. Figure 2 indicates that rates of employment growth experienced between 1980 and 1990 were not related to metropolitan size.

In March 1994, the national rate of unemployment averaged 6.8 percent (see Figure 3). Again, the range in unemployment rates across the fifty metropolitan areas is wide, from a high of 9.5 percent to a low of 3.2 percent. The majority of these metropolitan areas experienced unemployment rates below the national average; the remaining thirteen had rates in excess of the national mean. But 40 percent of all unemployed people in the fifty areas lived in the thirteen local economies with higher rates. Again, there is no consistent relationship between size of the metropolitan area and unemployment performance.

Most measures of economic performance reveal similar patterns of variation across local economic regions. The breadth and depth of these patterns of variation indicate that the notion of a

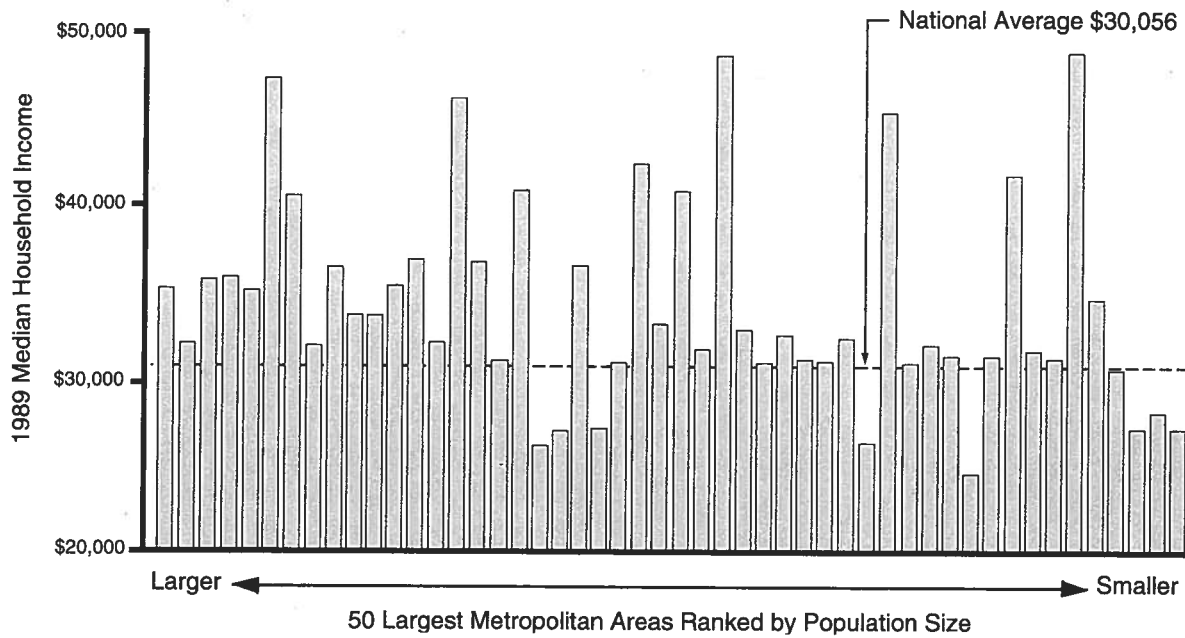


Figure 1. 1989 Median Household Income in the Fifty Largest Metropolitan Areas

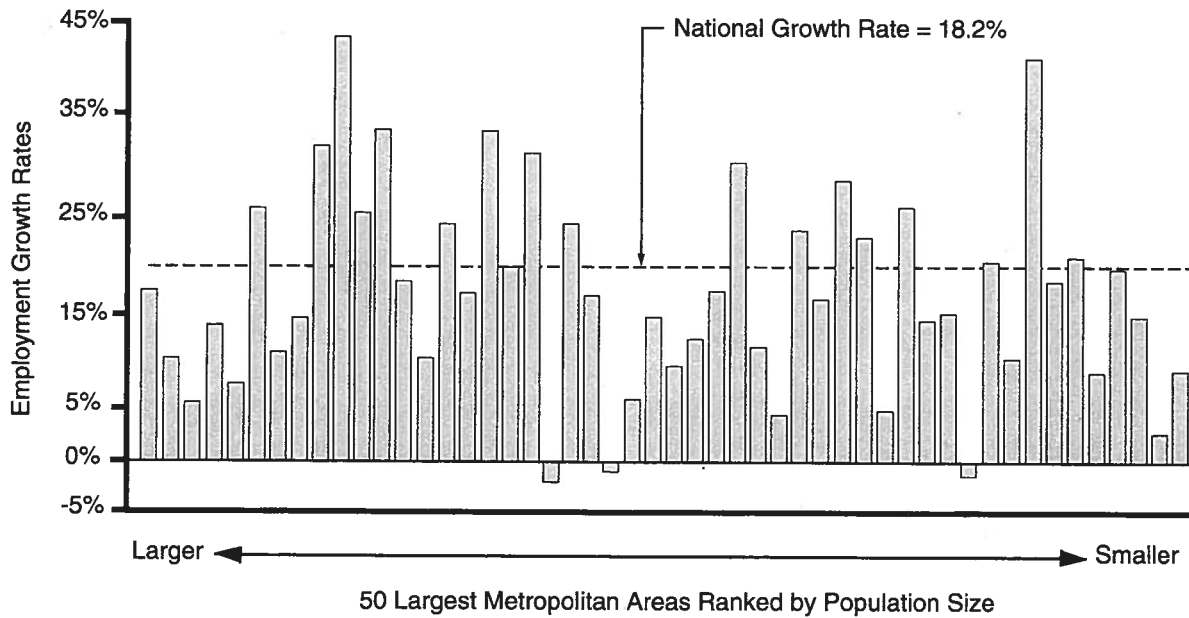
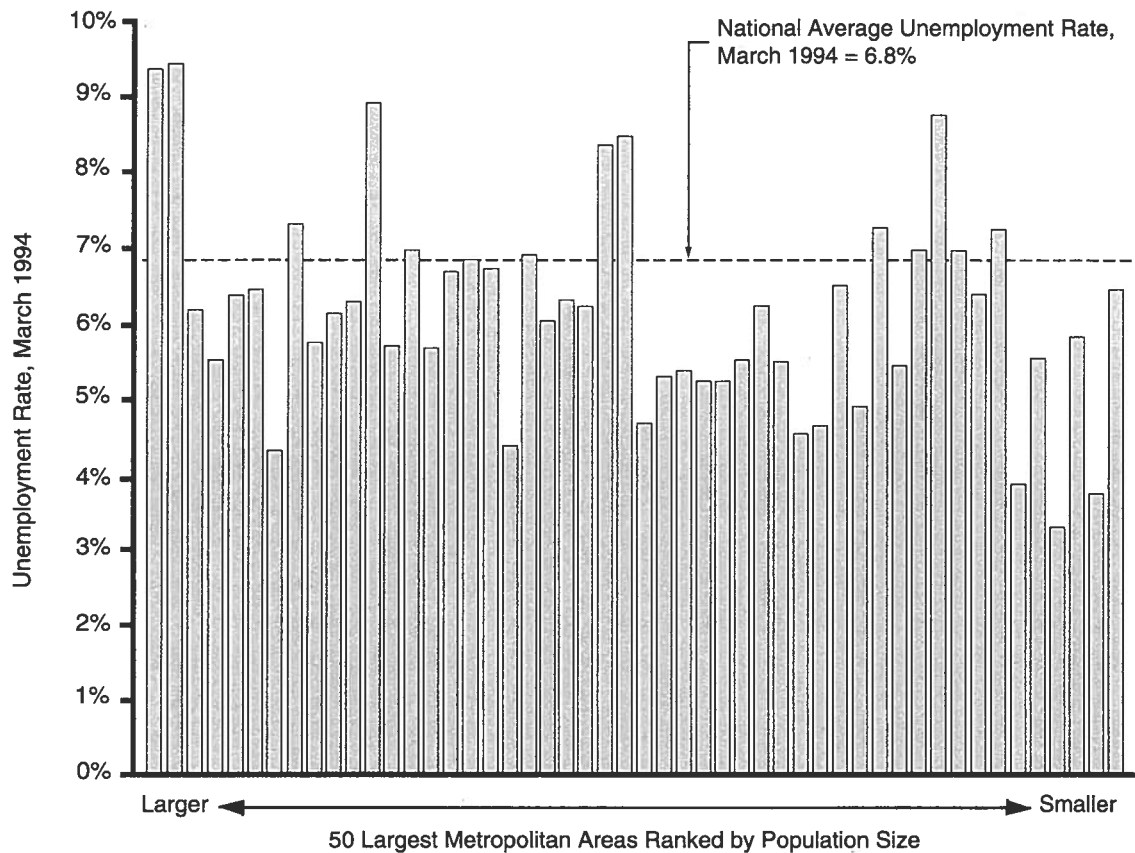


Figure 2. Civilian Labor Force's Employment Growth Rates, 1980-1990



Source: City & County Compendium 1993 (CD-ROM), Slater-Hall, Inc.

Figure 3. Varying Unemployment Rates in the Fifty Largest Metropolitan Areas

single national economy is seriously flawed. There is a need for economic analysis and for policies that are sensitive to the diversity of local economic regions and their unique circumstances and needs.

(2) *Business cycles and the internal coherence of metropolitan regions:* If there is a single national economy, and if regions respond uniformly to federal macroeconomic policies, then the business cycles experienced by regions should conform to the pattern of the national business cycle and, hence, to one another. The national business cycle and

regional experiences, measured by rates of change in cyclical indicators, would be one and the same, or similar enough that the differences do not matter.

The youthful art of macroeconomics tends not to deal with differences in the timing and severity of business cycles across regions or with differences in the responsiveness of regional cycles to federal fiscal and monetary policies.

Economic theory and federal policy appear to assume that (a) there is a single national economy, (b) there are uniform regional responses to federal macroeconomic policies, and (c) variations in re-

gional business cycles and their responses to national policies are not the concern of national policy and can be safely ignored. Policies targeted to regions or industries are dismissed as *structural* and considered by mainstream economists not to be appropriate concerns of cyclical stabilization policies.

The existence and persistence of substantial regional variations in business cycles, however, is well documented.³ This evidence, largely ignored by the mainstream economics profession, discredits the assumptions of uniform regional business cycles and uniform responses to federal stabilization efforts through aggregate monetary and fiscal measures.

As World War II drew to a close, Rutledge Vining at the University of Virginia began to explore the thesis that national economic fluctuations are simply an average of the fluctuations of regions.⁴ He found that regions experience different rates of economic change over business cycles and that the national rate of change was only a measure of the central tendency of a frequency distribution of regional rates of change. In the intervening years, studies using improved analytical tools and data sets have supported and expanded Vining's thesis and conclusions.

The timing and duration of business cycles vary considerably across states, regions, and labor market areas. Some areas have not experienced cyclical behavior during national business cycles. Others have local cycles during periods of uninterrupted national economic growth. In general, the timing of turning points in state and market area cycles

has not corresponded with the timing of turning points in national cycles.

Studies of the cyclical performance of metropolitan areas have found that some metropolitan areas tended to lead the national business cycle, while others lag behind and still others correspond to the pattern of the national cycle. Further documentation of the diversity of regional cyclical behavior was provided by Victor and Vernez in their study of three major business cycles between 1960 and 1976.⁵ This finding, the researchers argued, "again demonstrates the need for efficient targeting of counter-cyclical relief based on local rather than national indicators."

The severity of business cycles also differs among regions. Wide variations are found in the response of states, metropolitan areas, and manufacturing sectors to patterns of national economic change. Further, the sensitivity of urban areas to national business cycles and the importance of local factors in determining unemployment differ greatly. Given these variations in the timing and severity of business cycles, the capacity of macroeconomic policy alone to respond to persistent differences in the regional impacts of recessions should be questioned.

(3) *Internal integration of metropolitan-centered economies:* In his 1993 speech to the Congress, President Clinton declared, "We are all in it together." If cities and suburbs are "all in it together," a strong economic justification can be made for addressing the needs of distressed areas, especially central cities, and for cooperation among cities and suburbs to meet the mutual economic needs of their metropolitan area. If, on

the other hand, the fate of cities and suburbs are not economically intertwined, the case for addressing the problems of distressed areas, including central cities, must be made in terms of social equity and avoidance of the longer-term costs of failure to address these problems. In the current politics of the nation, the economic argument appears to be more compelling than the call for social equity.

An important debate about this topic has begun. The debate is most severely formulated in terms of whether suburbs can prosper and succeed regardless of the fate and fortunes of their central city or whether the prosperity of cities and suburbs are intertwined and interdependent.

Cities and suburbs, although disparate as to performance levels, go up and down together. They share, as HUD Secretary Henry Cisneros says, "interwoven destinies."⁶

The 1990 median household income data provide an opportunity to test the hypothesis that the economic futures of cities and suburbs are interdependent.⁷

If cities and suburbs are economically independent, rather than interdependent, then changes in suburban incomes and central-city incomes should not be related or move together. A plot of these relationships will appear randomly scattered.

If there is some degree of interdependence, changes in suburban incomes would be related to changes in central-city incomes and vice versa. A plot of these relationships, the scattergram, will cluster in a clear and discernible pattern.

In the scattergram in Figure 4, each point represents a metropolitan area positioned to present the relationship be-

tween the city and its suburbs on the income measure. The pattern is sharp and distinct. The relationship is very strong. The percentage of the variation explained (statistically, the R^2) is 82 percent. The scattergram provides clear evidence of a strong and consistent relationship between changes in central-city incomes and changes in suburban incomes.

The interpretation of this relationship is as follows. For every \$1.00 increase in central-city incomes, suburban incomes increase by \$1.12. Conversely, for every increase of \$1.12 in suburban income, central-city incomes increase by \$1.00.

The relationship does not imply causation, i.e., that change in one causes the change in the other. Rather, the relationship is mutual, interactive, and interdependent. This evidence strongly suggests that the economic fates and fortunes of cities and suburbs are inextricably interwoven, that they form, together, a coherent regional economic entity.

The interdependence has been highlighted in *New Visions for Metropolitan America* by Anthony Downs. He states that it is a "delusion" for suburban residents to believe they are independent of central cities. The long-run welfare of suburban residents, he argues, is linked to how well central cities perform significant economic functions.⁸

Because of these linkages, jurisdictions within a metropolitan area must consider the welfare of those affected by their policies even if they do not reside or work within that jurisdiction. Downs argues that a legal structure of metropolitan areas that does not require deci-

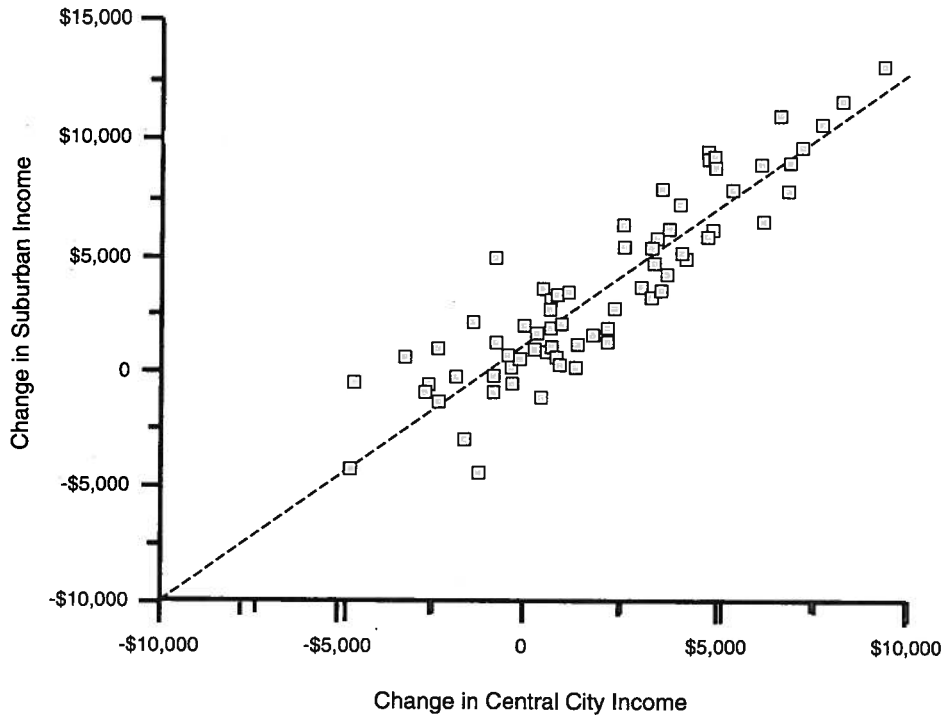


Figure 4. 1979–1989 Changes in Median Household Income in Central Cities and Suburbs

sion makers in a jurisdiction to consider the effects of their actions on people in other parts of the area “violates the basic axiom of democracy stated in the Declaration of Independence; ‘governments deriv[e] their just powers from the consent of the governed’. Everyone who is significantly affected by some public policy has a right to have a voice in determining that policy....”⁹

Toward A New Political Economy

The idea that the metropolitan region is an integrated, interdependent economy has far-reaching ramifications. It changes the way we think about the economy and economies; it shifts the paradigm of economic thinking. No less importantly, it

shifts the way we think about politics and government. Neither cities, nor suburbs, nor states, nor the federal government, nor any other governmental jurisdiction is an economy. These jurisdictions overlay the web of metropolitan economies. They have the ability to affect productivity and other outcomes, positively or negatively, i.e., political decisions can affect, even create, economic realities.

This section proposes a new framework for thinking about political economies from the global to the smallest units within the metropolitan economic region. Much of what follows deals in concepts and images, in the paradigm of the economy. It cannot necessarily be proven; its test is its explanatory capacity and its usefulness. We seek to frame the debate and encourage continuing discussion.

From an economic perspective, the United States is overlaid with local economic regions (LERs). These are mostly metropolitan-centered, integrated local economies of which central cities and suburbs are interdependent parts. (Some LERs may not be metropolitan-centered.)

LERs are linked to other LERs, both within and outside the U.S. The boundaries of the United States and the strength of federal powers have created a "common market" of U.S. LERs, a complex web of economic interdependence. In the global marketplace, LERs may be increasingly important—as compared to nation states.

This two-tiered economy—the LERs and the national common market—constitutes a kind of "economic federalism." It does not fit and is not congruent with the three-tiered political federalism that characterizes our governmental arrangements. The lack of alignment between these two federalisms makes economic policy making difficult and presents two great governance challenges: how to make good economic policy for each local economic region and how to make good economic policy for the U.S. common market.

This section addresses the questions of

- the internal dynamics of the local (metropolitan) economic region;
- the system of these local economies, the U.S. common market, and the global context; and
- policy making under two incongruent federalisms.

The Political Economy of the Local Economic Region

In his book *Edge City*, Joel Garreau¹⁰ achieved a glimpse of the organizational

form of the metropolitan economic region. This view, however, was myopic, bound by the blinders of a singular focus on the suburbs of the metropolitan regions. Garreau's insight was that, in suburbs, there is no single urban center or hub. Rather, the development pattern in suburban areas is characterized by multiple clusters of development and economic activity. In the jargon of urbanologists, the suburbs are polycentric (multiple-centered or multi-nodal), rather than monocentric (organized around a single central core as in the traditional view of the city.)

The limitation of Garreau's vision was that he viewed the edge cities as essentially disconnected from the central city and from each other. He saw the part, but did not see the whole.

There is a single regional economy and the central city and suburbs are parts of the whole, interconnected and interdependent. This local economic region is a complex, integrated system. It consists of multiple clusters, or nodes, of development that are linked and interdependent. Each economic node is grounded in social settings that must be viable if the economic element is to be successful.¹¹

In this system, the central business district of the central city often is a crucial center of functionally specialized economic and social activity. In these central areas also are most often found regional governance functions, as well as more specialized cultural, entertainment and recreational activities that serve a wider regional audience. Clearly, the influence or dominance of this central node varies across metropolitan regional economies.

The health and vitality of a regional economy depend on its ability to change, adapt, and reconfigure its spatial form. These adaptations of the spatial system are necessary and normal, although the effect of these changes on people can be alarming and of urgent concern. Large segments of the system, however, cannot decline without adversely affecting the economic health of the system as a whole.

This view of the metropolitan system as an interdependent nodal system emphasizes the importance of the infrastructure that creates and sustains the interdependence of the system itself. The most obvious of these linkages is the transportation network connecting the system—the greater the efficiency of these linkages, i.e., the lower cost in time and money for movement throughout the system, the greater the productivity of the system itself. Communications are increasingly important linkages that will directly affect the local economy's performance. Other elements are, for example, utility and service systems.

Jurisdictional lines that create barriers or diminish linkages will adversely affect the system. This is apparent in urban transportation systems that are not regionwide but are provided by jurisdictions that often make movement throughout the system difficult and costly. This issue also is important in relation to significant differences in quality and availability of basic utility and services, such as public education, safety, and open housing.

Governance issues emerge from this paradigm. Policy and government are organized by jurisdictions, not by local economic regions. The salient question

(taken up later in the article) becomes how to govern and nurture the metropolitan economic system where politics and governments are organized through multiple jurisdictions, none of which are congruent with the functional economic system.

The Political Economy of the U.S. Common Market and the Global Context

The conventional wisdom assumes that the nation is the appropriate framework for economic policy and practice. Jane Jacobs, in her *Cities and the Wealth of Nations*, vigorously challenged that view.¹² A decade later, that approach is increasingly inadequate for understanding issues of national competitiveness and for making economy policy. The alternative view here is that national boundaries include within them a set of LERs (and parts of LERs) that comprise a linked system. This system of local economic regions in the U.S. common market is the relevant framework for economic policy. This common market is the key to increasing the economic competitiveness of the United States. Economic thinking and economic policy should reflect this orientation and focus on the local economic region as the basic economic entity and the common market of these regions as the *real* national economy.

Metropolitan-centered local economic regions, the sources of economic energy, are not autonomous entities or free-standing, independent economies. Rather, they are the basic building blocks of a dynamic, highly interdependent system. This system of local economic regions is interdependent in such a way

that significant changes in economic activities of one component of the system will directly bring about modifications in related activities or characteristics of one of more other parts of the system.

The inter-relatedness or interdependence of this complex system of regional economies results, in part, from flows of products, services, ideas, information, resources, and materials from one regional economy to another. No single economic region can produce all the goods and services required by its businesses, consumers, and local governments. Therefore, flows of final products and services, inputs and materials, and money will be necessary to meet these requirements.

Transportation and communication technology are key linkages underlying the growth and increasing interdependence of the U.S. common market of local (metropolitan) economic regions. Transportation technology provides physical arteries that connect the economies of regions. Communications technology creates almost instantaneous transmission of information that creates a strong and enduring linkage among metropolitan economic areas. Further, these advances in transportation and communication technology often result in growing interdependence among regions separated by great distances but effectively joined by rapidity and diminishing costs of communication and transportation. Such linkages can also cross national boundaries and may be as important to a local economy as any linkage to another U.S. LER.

The geoeconomic framework of the international economy is the global system of local economic regions. This global system and component common-

market subsystems anchor the global economy in geographical space. Multinational corporations are mirrors of the global systems of local economies and common markets. The trend toward economic integration through trading blocs, common markets, and economic unions also reflects the same geoeconomic reality.

Although they use the term "cities" rather than metropolitan areas, Knight and Gappert point to this new reality of economic life in their book *Cities in the Global Society*.¹³

With the advent of the global economy, nation building is becoming more and more synonymous with city building. Cities serve as the nexus of the global society. As the global society expands, a nation's welfare will be determined increasingly by the roles its cities play in the global society.

Global society is basically an open society: multipolar, multicultural, self-governing, and competitive. Any city may play a role in the global society if it understands the nature of forces, the principles and processes by which they are governed, and the way these forces are linked to or transformed into local development.

The ability of nations to act independently in the economic sphere is thus diminishing. The economic policy focus shifts down to local economic regions, on the one hand, and, on the other hand, outward to the international economy that involves multinational corporations, as well as codes and disciplines such as the international monetary system and the General Agreement on Tariffs and Trade (GATT). For the United States to compete effectively in the globalizing economy, the federal government will increasingly need to gear its policies this way and to secure active economic engagement by states and local governments.

Policy Making under Two Federalisms

The United States has a federal system of government consisting of three tiers of government, a political federalism. The U.S. economy, as delineated by the regional paradigm, consists of two tiers, the LERs and the common market, an economic federalism.

The most salient spatial characteristic of this political economy is that the two federalisms are not congruent. Nowhere are the lines of economic and political federalism aligned. Each set of boundaries—one governmental, the other economic—has its own history, dynamics, and justifications. In principle, neither set of boundaries is more *real* or more *justified*.

Noncongruence of the economic and political federalisms, however, constitutes a major obstacle to economic policy making and policy implementation. Local political jurisdictions are unable to identify their real economic interests because their views are incomplete or incoherent vis-à-vis the LER. State and federal governments mistakenly believe their boundaries constitute economies, and they have no rationale for treating LERs distinctly. The resulting jurisdiction-focused economic policies are ineffective in promoting the nation's real economic interests and, in many cases, may be as harmful as they are productive.

The question is how to construct economic policy in a political economy characterized by two noncongruent federalisms. One option is to attempt to change the boundaries of the functional economy to make them congruent with political boundaries. This is not feasible and probably not desirable. A second approach is

to restructure political jurisdictions to be more closely aligned with economic boundaries. This seems unlikely in most places, undesirable in some. In some areas, however, city-county consolidations or other structural mechanisms may be implemented.

It is important to consider alternatives to formal realignments of boundaries. Every existing government's policy making can adapt to, and thus better deal with, the reality of the LER and the common market. Intergovernmental collaborations (both horizontal and vertical) and public/private/non-profit partnerships can be established. For the foreseeable future in most places, these are the most feasible and productive approaches for using the regional economic paradigm. Later sections of the article deal with policy making in this way.

Metropolitan Disparities and Economic Growth

The issue of the effect of disparities on economic growth has often been cast in terms of cities and their suburbs. This context is too restrictive. It frames the discussion around political jurisdictions, rather than the real economic system, despite the rather clear evidence that polities are not economies.

A different framework is needed—the metropolitan economic region and the larger common-market economic system of which it is a part. The metropolitan economy is a complex, interdependent, multi-centered (nodal) system that is dynamic and evolving. Change and adaptation, therefore, should be recognized as expected and natural features of a productive economy.

The issue is whether a local economic region or the U.S. common market can prosper if large segments are impaired and unable to contribute to system maintenance, productivity, and growth.

The issue is not city versus suburbs or suburban independence or dependence. The political thrust for this unfortunate and restrictive framework for the debate is exacerbated by data availability. Most economic and social data are collected and presented by political jurisdictions rather than the functional economies of metropolitan nodes and economic regions. It is, therefore, very difficult to address the issue of the effects of disparities on economic performance outside this restrictive city/suburb framework.

The following discussion reflects this dilemma. It is presented around jurisdictions because of data, but must be interpreted within the framework of a single regional economy and the nodal network through which it is organized.

A substantial decline in the economic welfare of cities relative to their suburbs has been occurring since at least 1960 (Figure 5).¹⁴ In 1960, per capita income was slightly greater in central cities of metropolitan areas than in their suburbs. By 1973, per capita income in central cities had fallen to 96 percent of the per capita income in their suburbs. Seven years later, in 1980, this ratio had fallen to 89 percent. This decline in the economic welfare of cities relative to suburbs continued in the 1980s. By 1990, per capita income in central cities was 84 percent of that in their suburbs.

A great deal of attention has focused on the polarization of incomes in the United States in the last decade. The

1994 Economic Report of the President devoted a prominent subsection to this topic, calling it a "threat to the social fabric."¹⁵ The data in Figure 5 suggest a spatial dimension to this issue. Quality of life is directly related to geographical places and the economic vitality of these places. The long-term trend toward increasing disparities between per capita incomes in cities and their suburbs means that the issue of the fiscal and economic limitations of cities must be addressed anew.

The focus on disparity has overshadowed other significant aspects of city-suburb relationships. The national average of these local disparities, of course, masks a wide variety of local situations. The disparity focus also undergirds assertions of suburban independence, the idea that the existence and future of suburbs are unrelated to the central city.

Most significantly, evidence suggests that disparities hurt the economic performance of the whole local economy and, thus, of the suburbs and the central city that comprise it.

Evidence of a relationship between disparities and metropolitan economic performance is strong, although additional research remains to be done. Figure 6 examines the average rate of employment growth in 1991 for the largest eighty-five metropolitan areas, categorized by the per capita income disparities between cities and their suburbs.

There is a direct relationship between city-suburban disparity and rates of employment growth. Metropolitan areas with lower disparities tend to have higher rates of employment growth. Those with higher disparities tend to have lower rates of employment gains. In other words,

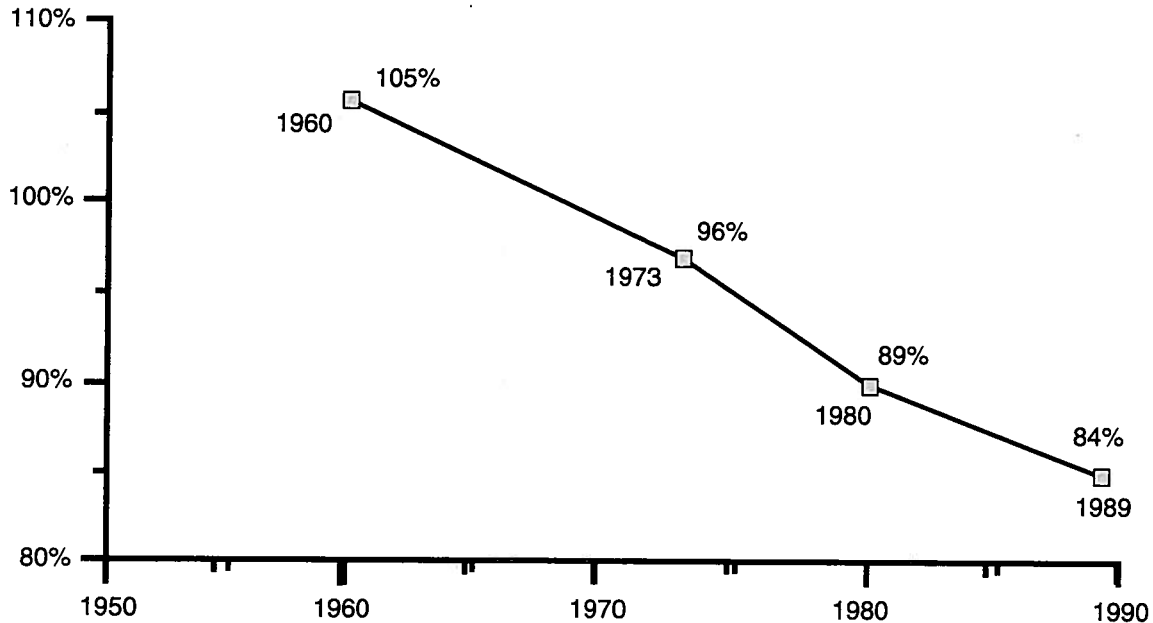


Figure 5. Central City per Capita Income as a Percentage of Suburban per Capita Income, 1960–1990

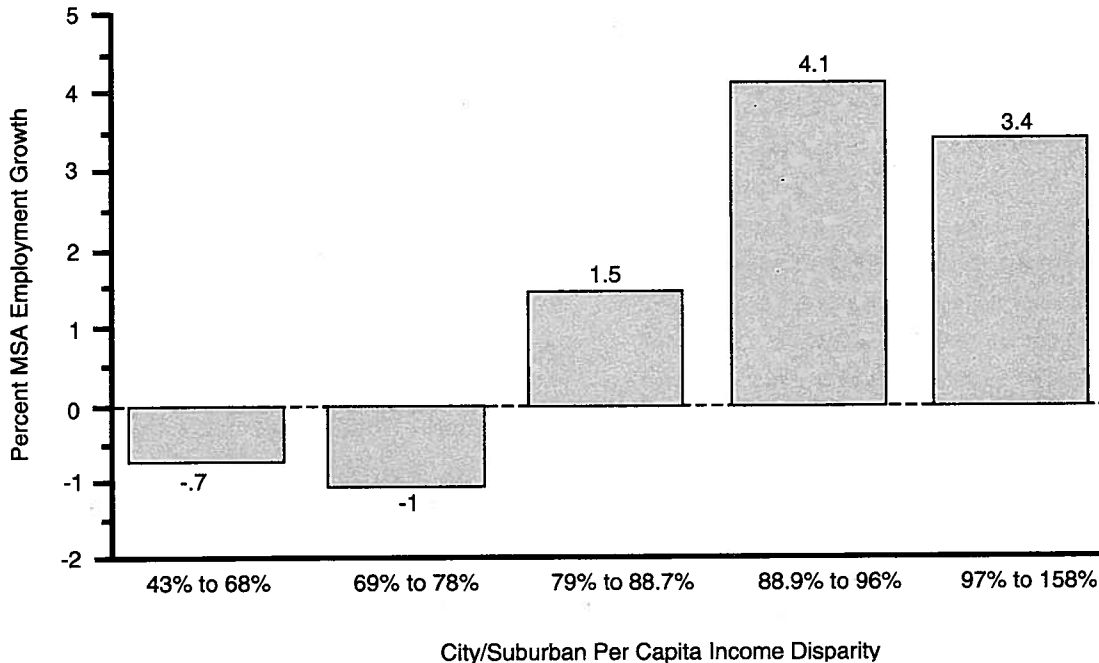
metropolitan areas with smaller per capita income disparities tend to be more prosperous. High disparities and employment growth tend not to go together. As disparities increase, employment growth rates decline. In effect, great inequity turns out to be economically inefficient.

Research by Savitch, Saunders, and Collins also examines the relationship between economic disparities and suburban performance using population growth rather than employment growth as the measure of performance.¹⁶ Critical findings of this research include the following:

- Metropolitan areas that have relatively low population losses in their urban cores tend to have relatively high gains in their suburbs. Those with high population losses in their cities tend to experience population losses or marginal gains in their suburbs.

- Metropolitan areas with growing suburbs tend to have smaller income disparities between city and suburbs than do troubled regions with no substantial population growth. As disparities increase, rates of population growth decline.

This analysis of jurisdiction-based disparities adds a governmental and spatial element to the broader discussion about income and wealth inequality. In the United States, class differences are often expressed and experienced in community terms. Further, both central cities and suburbs are diverse. In an analysis of the Detroit area, for example, Bledsoe describes the suburbs in two parts: a “white collar crescent” and the remainder of working class areas.¹⁷ The latter share more of the economic insecurity of the central city than the afflu-



Calculated for the eighty-five largest metropolitan statistical areas (MSAs) with central cities in 1990. Per capita income ratios are for 1989. Employment growth rates are for January 1988 through August 1991. Bars represent average rates of employment growth for eighty-five cities divided into quintiles (seventeen cities per quintile). Source: U.S. Bureau of the Census, 1990 Census, and the Bureau of Labor Statistics.

Figure 6. City/Suburban Economic Disparities Adversely Affect Metropolitan Prosperity

ence of managers and (what Reich calls) the symbolic analysts.

Creating a common focus on the local economy while also addressing disparities and apparently divergent interests will be politically difficult but necessary.

Even with its complexity and political freight, the disparities issue should retain a central place in economic analysis. Poverty and inequality cannot be relegated to a separate, non-economic realm of social services policy. The extent to which and the ways in which inequities are economically inefficient deserve additional research attention. Economic strategies for reducing poverty and disparities need evaluation, and effective

strategies should be an integral part of economic policy.

Implications for Metropolitan Governance

This section and the next focus on the governance and policy challenges that are clarified by looking at issues in the framework of common-market regionalism. Political federalism (federal, state, local) is not congruent with economic federalism (local economic regions, the common market.) So how can governments develop the appropriate geoeconomic focus? How can they make and carry out policies that nurture the local economy and the common market?

From where things are today, a strategic agenda rather than a programmatic or a comprehensive one seems feasible. This section focuses on the implications for metropolitan governance; the next section focuses on the more general agenda for federal and state governments.

The notion of a paradigm shift implies full-scale, wide-ranging transformation. But the process of change will be incremental; neither a grassroots revolution nor an intellectual coup d'état is a prerequisite for specific innovations to occur. The evidence of innovations that work will constitute the rationale for further innovation. Nonetheless, a hostile environment—institutions invested in the nationalist paradigm—can make life very difficult for new ways of thinking and doing. Thus, the suggestions in this section and the next reflect a search for points for strategic intervention with high leveraging potential, points that establish crucial beachheads from which the new paradigm invasion can continue more fruitfully.

The evidence presented here of the economic interdependence of cities and their suburbs strongly suggests that the capacity and willingness of cities and suburbs to work cooperatively to address their common economic needs will be an important determinant of their mutual economic future. Where suburbs turn their backs on their core cities, or cities refuse to cooperate with their suburbs, they are undermining their own economic prosperity. Cities and suburbs that recognize and jointly pursue their common stake in their common economy are more likely to prosper.

New public discussions about governing in metropolitan America are emerg-

ing. They arise from new ideas about local economies and from new experiments and accumulated experience with problem solving across jurisdictional lines and at the regional level. At stake are future directions for specific places and also the capacity of the U.S. common market (the "national" economy) to compete in the global economy.

Debate about making some governmental unit fit the real urban area dates, in the United States, at least to the late nineteenth century, when suburban municipal incorporations put an end to central-city annexations in many areas. Through the 1960s, these debates focused on issues of government structure, from city-county consolidations to unitary metro-wide jurisdictions to two-tiered local federalisms modeled on London or Toronto.

After several decades of intermittent local activity, a new phase of both local and nation-wide attention to the puzzle of metropolitan governing has developed. This recent attention seems more focused on economic rationales and collaborative processes and less on efficiency of service delivery or on government structure.

The National League of Cities' (NLC's) 1993 Futures Report, *Global Dollars. Local Sense*, for example, states that regional collaboration "is vital" if America's cities and towns are to compete effectively in the global economy.¹⁸ A 1993 meeting of local participants in regional efforts to enhance competitiveness exhibited the variety, the successes and limits, and the seriousness of these endeavors. These efforts have also been encouraged by research, by NLC and others (described earlier), that has shown that cities and

their suburbs exist in the same underlying metropolitan economy.

In a 1993 book, columnist Neil Pierce and his colleagues describe metropolitan areas as *citistates*.¹⁹ This term, as much perhaps as any findings of the book, has had a useful impact. It summarizes a lot of actual work that people are doing in the metropolitan areas. The word and the idea of a "citistate" seem to lay out a claim, an ambition, and a rationale for inter-jurisdictional, regional problem solving.

David Rusk, former Albuquerque mayor, argues that cities and suburbs should be "reunified" in order to overcome racial and income-based segregation. His 1993 book, *Cities without Suburbs*, offers strategies for structural change and for policies that would reduce the effectiveness of political boundaries as exclusionary barriers. Rusk, who most explicitly calls for setting up structural forms of metropolitan government, says that jurisdictions that encompass entire metropolitan areas perform better on a range of issues than fragmented areas.²⁰

Debate in previous periods tended to narrow quickly to the issue of being for or against metropolitan government. This narrow focus lowered the level and creativity of discussion and also gave the issue an all-or-nothing quality, and (since such proposals were rejected by voters almost everywhere they surfaced) the result was cynicism.

The fact is that considerable problem solving and governance activity already occur at metropolitan levels. Some areas of the nation also have considerable experience with models of process or semi-formal structures that might be useful to other communities. With more

options from which to choose, real action may become more feasible and more useful.

From these experiences and analysts' observations of them, some conclusions about the current metropolitan governance or regional collaboration emerge. (Although this discussion is focused on metropolitan areas, most of the observations also apply to regional thinking and activities in non-metropolitan areas.)

First, metropolitan governance is not a separate entity or structure, but a way of doing some of what local governments need to do. Metropolitan governance is the invention whose mother is necessity. That necessity arose from drops in federal aid, increases in federal mandates, the globalization of the economy, the resistance to tax increases to cover service demands, and—not least—the radical complexity of problems and challenges that municipalities face.

Second, recognizing the shared economy that underlies all jurisdictions in an area is very important to stimulating collaboration. Sharing the same economic lifeboat—the local economic region—at least creates colleagues with whom to work. The need to face the global economy together seems to be what drives the creation of many inter-local collaborations.

Third, regional frameworks pervade many functional issues, and pioneering work on one matter can be the basis for constructive action on another. Writer/consultant William Dodge urges that such pioneers deserve the support of other problem solvers. Further, the cast of characters is not limited to government employees. Allan Wallis of the National Civic League and DeWitt John of the

National Academy of Public Administration (NAPA), write, "It takes more than governments to mobilize regional energies."²¹ Their report on an October 1993 conference of citistate delegations illustrates their observation.

Fourth, addressing disparities within a region is an important part of building economic and governance capacity. Wallis and John report that several citistate delegations at the 1993 meeting described regional efforts to link competitiveness and anti-poverty agendas. Walter Rostow of the University of Texas told that meeting, "If you can't do this, you haven't addressed the real issue." Similarly, Pierce concludes that American citistates hamper their ability to compete in the global marketplace when they cannot or will not act to diminish glaring internal inequities.

Fifth, metropolitan regions that can develop capacities for internal deliberation and implementation will soon find themselves engaged in bilateral and multi-lateral discussions with other such regions. These inter-regional connections and competition are also the basis for developing policy initiatives toward the federal government; thus, they are potential seedbeds for common-market agendas.

Sixth, there are plenty of good reasons for moderate expectations. There will be few dramatic breakthroughs and no triumphant decimating of all obstacles. Despite the occasional publicity, this race will more likely go to the tortoises than the hares. At this point, for example, the talk about citistates is more of a rallying cry and an ambition than an accurate description.

Seventh, federal and state support and encouragement will be important to the development of effective metropolitan governance and economic policy making. The states hold the key in terms of local fiscal and legal authority. The states and the federal government can also provide significant political, policy, and programmatic support. These roles are explored in the next section.

Eighth, regionalism is as much about how each unit of government (and other entities) conducts its own affairs as it is about doing things with others. Internalizing the regional economic framework and adjusting policies and programs to it will, for many local governments, be a useful first step. It is not necessarily prior, however, to external cooperation; either can come first and both can go forward simultaneously.

Finally, there is not a "right way" toward metropolitan governance, no magic answer. The key is to ask the right question: how can metropolitan perspectives and frameworks help address important problems and issues in our area?

Implications for Local Action

Where, then, are local governments and local officials to start on this regional collaboration and governance for economic policy? The following list is intended to provoke further thought, not be a cookbook.

1. Local governments and others, in any metropolitan area, can inventory regional governance arrangements, experience, and capacities. In almost all metropolitan areas, some inter-local problem solving has been and is occurring. Documenting its existence can provide prece-

dents for further steps toward regional economic policy collaboration.

2. Local governments and other groups can make a number of efforts to improve data availability, describe the local economic region, and work with media and others to inform the public. Indicators of regional economic conditions, for example, reported regularly, help create basic ways of thinking and provide a foundation for public discussion.

3. Each local government can assess the extent to which its own operations and policies, including economic development, take into account the regional context and the needs of the local economic region. The assessment should include an analysis of the ways such account-taking would affect the effectiveness and cost of policies and programs.

4. Local elected officials and other local leaders can make efforts to help educate the public and key groups about the nature and implications of regional interdependence, regional identity, and regional citizenship.

5. Local leaders can establish a regional commission to analyze and report the position of the regional economy in the U.S. common market and in the global economy.

6. Local governments can establish an inter-local joint task force to assess the impact of poverty on fiscal and economic conditions in the area, to examine potential connections and synergy between economic development efforts and poverty reduction efforts, and to make recommendations.

7. Local leaders can establish a task force to develop and present to the public a candid assessment of the advantages and disadvantages of regional collaboration

and the reasons people are for or against regional collaboration in that area.

8. Local governments can analyze all of the economic development goals and strategies being used in the area to identify areas of conflict, duplication, and mutual support and to assess whether they collectively meet the needs of the regional economy.

9. Local officials can identify state and federal barriers and disincentives to effective regional economic policy making and collaboration and can communicate that information to appropriate state and federal officials.

A Strategic Agenda for Federal and State Policy

Local efforts to build governing capacity and to provide regional economic policy will most likely succeed if they are complemented by analogous federal and state efforts. This does not lead directly to any sorting out of intergovernmental roles. To the contrary, in the framework proposed here, each local role has national aspects, and what is national is also local. All so-called levels of government must be engaged, and the emphasis is on shared roles. Through practice, notions of each governments' policy space and of relative independence and interdependence will change.

Further, the U.S. common market must also be viewed as an adaptive, evolving ecological system. Within this system, individual local economic regions may grow or decline as their function within the system changes and the characteristics of the common market and global economic arrangements change. These adaptations may be necessary and

can be productive. If, however, important aspects of the common-market system are impaired, the growth and productivity of the system will inevitably be impaired. Likewise, if local economies are distressed, the system will be impaired. Policy, therefore, must be concerned with system elements and with individual local economic regions throughout the system.

Although this article does not treat the topic fully, states will be crucial to this effort. Their powers over local government's legal, administrative, and financial actions are substantial. This, of course, varies from state to state, but the general situation is clear enough. In 1970, R. Burton suggested to a Congressional committee that state and local government powers be consolidated in new governmental forms at the metropolitan level. He called his proposal a "metropolitan state."²² We do not recommend that approach, but a set of less drastic steps do seem useful.

Implications for State Action

1. The state legislatures can systematically identify the impediments to regional action in state law and then remove or reduce those impediments as well as enact authorization and encouragement for local governments to collaborate in regional governance.

2. Governors can undertake assessments across all state agencies of the ways that programs and administrative arrangements could encourage (and remove impediments to) local government collaboration for regional problem solving.

3. State governments can identify and then remove or reduce the ways that state law and practice regarding local

taxes and revenues promote inter-local tax competition for economic development and thus inhibit inter-local collaboration on economic policy.

4. In all of the above and in other state efforts, the states should engage local governments in the processes. States should encourage and enable regional collaboration, not mandate it.

Delineating the policy arenas in which states, and particularly the federal government, should focus their efforts must, for now, be a tentative exercise. There is no received theory, no accumulated experience with a regionally oriented framework from which to draw. For now, five major areas seem to be the most important for policy development: LER's capacity and performance, linkages among LERs, fiscal and monetary policy, trade and the global economy, and collaborative processes. These policy arenas are terrains to be reinvented and explored using the common-market regionalism paradigm. As first steps in that process, the following set of federal initiatives may be useful.

Implications for Federal Action

1. The President can establish a Council of Local Economic Advisors that would explore these issues, test new ideas, and ensure a continuing dialogue between local and national leaders.

2. The Office of Management and Budget (OMB) can coordinate the relevant agencies to assess the quality and availability of federal data needed to support research to develop indicators of local economies' capacity and performance. OMB would make recommendations about needed improvements and how to

make better use of what is now available. The effectiveness of many other initiatives depends on adequate data.

3. The Federal Reserve System can develop more systematic reporting and analysis on local economic regions for its deliberations and for the *Beige Book* (the periodic report on conditions in each Federal Reserve region). The Federal Reserve should assess the potential of more discriminating application of its monetary policy tools among local economic regions.

4. The President can establish several demonstration Intergovernmental Labor Market Task Forces, each focused on one local economic region to identify and seek to reduce or remove impediments to efficient and effective functioning of the local labor market. Each task force would include federal, state, and local representatives and could be chaired by the Secretary of Labor.

5. The Vice President and Congress can ensure that local economic regions and local government voices are heard in the debate about the National Information Infrastructure (NII)—the “information superhighway.” This significant infrastructure will be crucial to economic growth of local economies. The White House can, for example, convene an NII Forum that uses a specific metropolitan area as an example to explore the local dimensions of the NII, including capacity to participate, impacts of innovations, barriers to access, the balance of public and private interest, the potential for economic growth, etc.

6. The Council of Economic Advisors can include a chapter in the 1995 *Economic Report of the President* on local economies.

7. The President can direct the National Economic Council (NEC) to coordinate an analysis, in every department and agency, of potential initiatives within existing programs that would encourage regional cooperation, focus federal programs on the local economic regions, and/or reduce intra-regional disparities. The NEC could recommend a set of such initiatives to the President.

8. Congress can hold hearings on the relationships of investment strategies to common-market regionalism. One focus could be, for example, to reexamine the “Metropolitan Trust Fund Initiative,” submitted to the Senate’s Urban Revitalization Task Force in May 1992 by Tim Honey with John Tayer. It proposes (a) federal two-year matching grants to metropolitan economic regions for formulating long-term economic development plans and (b) federal support for implementation of those plans.

9. The President can establish a mechanism to develop targeted anti-recession tools that could be used in the future. The triggers for using those tools would be some combination of national average indicators and local economic region indicators. The targets for the tools would be downturning LERs and particularly vulnerable areas and groups within them. (Improved and timely data will be important for this.)

10. The Advisory Commission on Intergovernmental Relations (ACIR) can examine and report on the implications of the common-market regionalism paradigm for federalism.

11. The Administration can establish a process of consultation with local leaders highlighted by a President’s summit on local economies. This event would

focus attention on the importance of local economies, advance knowledge about the issues and challenges, and establish a basis for continuing federal-local consultation on economic matters.

12. The Secretary of Housing and Urban Development (HUD) can establish an Intergovernmental Local Economies Advisory Group. In conjunction with it, he could conduct an on-going consultation and discussion with local leaders about the importance of local economies and their interaction with housing markets and with housing and development policies.

13. In all of the above and other federal efforts, the federal government should engage local governments in the processes. The federal government should encourage and enable regional collaboration, not mandate it.

Reprise: A Framework for Further Work

The nationalist paradigm assumes a single "national economy." This is an incomplete, distorted, and potentially harmful image of economic reality. The fading utility of this view becomes increasingly apparent in the face of a globalizing world economy and the ongoing restructuring of local economies in the United States and throughout the world.

This article has outlined the need for a better way of thinking about economics and government. We have proposed "common-market regionalism," based on the central importance of local economies, as the foundation for a new political economy.

This emerging paradigm or framework is composed of some central tenets or

concepts. Key to this new view is the recognition that political jurisdictions are not economies—neither federal, nor state, nor local.

1. The local economic region is the real and functional local economy. These economies, in the main, are metropolitan-centered.

2. These metropolitan-centered regional economies are the critical engines of economic innovation and growth in the United States.

3. Local economic regions are internally coherent and integrated. They are structured through a complex, interdependent network or web of development clusters or nodes that spans each region. Within each local economy these clusters are linked by transportation corridors, communications systems, governmental arrangements, and patterns of commerce and social interaction.

4. Debilitating distress that adversely affects large segments of any large, complex, interdependent system inhibits functioning and threatens that system. Economic distress of segments of the interdependent nodal system of the local economy inhibits their ability to contribute to maintenance, growth, and productivity of the system and is economically inefficient.

5. The U.S. common market of local economic regions is the real national economy, and this economy is a highly interdependent system of local economic regions. Local economies within the common market are linked structurally and dynamically.

6. The two-tiered economy of local economic regions and the U.S. common market constitutes an economic federalism. The federal government, states, and

local governments constitute a political federalism.

7. In the United States, economic federalism is not congruent with political federalism. The strengths of federal powers, however, have created the boundaries of the U.S. common market.

8. These two federalisms—one political, one economic—are conceptually separable but together they constitute the real political economy in which we live.


9. This new political economy—this common-market regionalism—is the relevant framework for policy making. It poses challenges to established ways of thinking, governance, and decision making.

This political economy poses new challenges to political leadership and policy making at all levels of the political federalism of the nation. It brings to center stage two critical issues. The first is how to govern and make good economic policy for local economic regions, and the second is how to govern and make good economy policy for the U.S. common market. Meeting these challenges will require new skills and substantial political leadership.

Further, the political economy of the two federalisms focuses attention on the urgent need for building new partnerships, for finding new ways to build consensus for coordinated regional action, and for innovations in the processes of governance. New partnerships must be created among (a) jurisdictions within the local economic region, (b) among regions within the U.S. common market, and (c) among federal, state and local institutions that focus on the economies of the local regions.

The common-market regionalism framework also underscores the critical

need for improving the data available to describe local economies. We must be able to monitor performance in each local economic region, including small areas that cross or lie within government jurisdictions. Reporting on the U.S. economy should reflect the variety of local conditions.

This article has presented only the broad outline of common-market regionalism and the issues and challenges it poses. We have raised as many questions as answers. The ideas here are a beginning, not an end, for understanding the fatigue of the nationalist paradigm and for working out the content and the implications of a better way of thinking about economics and government. The outline presented here can provide a framework for the debate and discussion that should occur and for the work that needs to be done. 

Notes

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² These figures and data are from Larry C. Ledebur and William R. Barnes, *All in It Together: Cities, Suburbs, and Local Economic Regions* and *City Distress: Metropolitan Disparities and Economic Growth*, Research Reports of the National League of Cities (Washington, D.C.: National League of Cities, 1993 and 1992, respectively).

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⁷ These figures and data are from Ledebur and Barnes, *All in It Together*.

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¹¹ The view seems consistent with Robert Fishman's vision of the new city of the twentieth century, "Megalopolis Unbound," *Wilson Quarterly* 14 (1990): 25-48.

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¹³ Richard V. Knight and Gary Gappert, eds., *Cities in a Global Society* (Newbury Park, CA.: Sage Publications, 1989), 11-12.

¹⁴ From Ledebur and Barnes, *All in It Together*.

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¹⁹ Neil Pierce, *Citistates: How Urban America Can Prosper in a Competitive World* (Washington, D.C.: Seven Locks Press, 1993).

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²¹ Articles by Dodge and by Wallis and John appeared in a seven-part series on regionalism, "The Metropolitan Perplex," in NLC's *Nation's Cities Weekly*, November 1, 1993, through January 3, 1994.

²² R. Burton, *The Metropolitan State*, reprint from Testimony before the Subcommittee on Urban Affairs of the Joint Economic Committee (The Urban Institute Press, Washington, D.C., 1970).

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