

CHAPTER 1

The Investment Trap



MANY CITIES IN THE UNITED STATES and other countries face an impending investment disaster. Promising plans for city development and infrastructure are put aside for lack of funds. Often even the most necessary maintenance lacks funding. Public resources for investments in infrastructure and services are deeply constrained for reasons originating at the national, state, and local level. The national government is adrift. Many states are hostile or encumbered with debt. Local municipal finances are often saddled with obligations.

The funding crisis is much wider than just physical investment. Many cities are unable to invest in promising social development and training for those among their citizens who are at risk of being left behind by globalization or automation. One stark warning sign is the decreasing life expectancy of lower-income white men in many U.S. cities.¹ Around the world, in much poorer cities, millions live in squalor, and public investment in utilities and basic services is dramatically underfunded.

This matters because the 1.5 billion people who already live in the world's four thousand cities with a population above 100,000 will be joined by additional billions in coming decades.² Countries stagnate when too many of their cities fail to build economic, social, and human wealth.

In spite of the many eyesores that meet strollers on city streets, urban agglomeration is often hailed as one of mankind's most important fulcrums for human development.³ But such progress does not come

automatically with population growth. While some cities spearhead human and economic advance, many others simply do not pull their weight or provide good quality of life for their citizens and their countries. Often cities find themselves administering the results of poverty and crumbling infrastructure. Instead, they could be investing in smart solutions that improve lives at an affordable cost—a lower cost than what is generally considered possible. They could become “smart cities.”

Smart cities can become growth engines that boost both their inhabitants’ quality of life and their country, even when national governments fail them. Smart cities provide ladders for their inhabitants where other cities leave them untended or even create chutes (trap doors). The difference between the ladder and the chute cities is so glaring—is so important for the children who grow up in them and therefore for human development—that understanding what successful cities do is critical. In fact, helping more cities to build social and economic wealth may be the most promising route to national success. After all, essentially all currently rich countries with high average incomes and living standards were initially pulled along by pioneering successful cities, and many still are. For example, London, New York, and Hamburg were locomotives for their countries and still are.

We start this book by taking a fresh look at what separates what we call wobbling “treadmill towns” from blooming “turbo cities.” Cutting through the mountains of myths, hypotheses, excuses, and self-serving contentions, we find a robust dividing line between the flailing and the healthy conurbations. Treadmill towns cannot get off the fiscal treadmill of living from hand to mouth, budgeting from tax revenues directly to public consumption—not unlike hunter-gatherers. Often these cities have assets that are hidden or locked into inefficient uses. The lack of long-term perspective keeps cities from developing them and putting them to work.

In contrast, turbo cities, like turbo-charged engines, generate more power from the resources they have. These cities have, at least in periods, invested in their economic, social, and human assets, and they keep developing them. Like investors, they can often flourish on the yield from previous good investments. As turbo cities continue to unlock their assets

and put them to good use, they become engines for growth and quality of life for their citizens.

A focus on asset governance makes all the difference for cities' success. In fact, we claim that putting city assets to better use could self-finance a remarkable boost in infrastructure investment, perhaps even double it. Furthermore, a canny asset strategy can increase household incomes by much more than, say, minimum wage laws ever can, and mitigate many of the social ills that plague too many cities.

The coming decades also offer cities an extraordinary menu of investment opportunities in digital technology. Some can generate enormous value, and not just in cutting administrative costs. According to some studies the wise use of digital technologies could provide people in need of care with much better-quality care and services at two-thirds of current cost.⁴ As another example, local transport with self-driving cabs could reduce the number of private autos and free up 25 percent of road space, very valuable space often owned by cities and towns. Also, paving the way for thriving innovations hubs in cities can boost incomes and tax revenue.

But these opportunities are the gold nuggets in a menu that also contains many duds: technologies that don't work, do not spread, or are implemented poorly. Only cities with a professional approach to asset governance will be able to cherry-pick skillfully among investment proposals.

To some city leaders a focus on unlocking public wealth may come naturally. For most it does not. Yet city politics, administration, and institutions can be shaped to develop a knack for governing public wealth. We offer a practical guide to developing cities' social, human, and economic assets, and to designing institutions for professional caretakers of city assets. In fact, we argue that less political meddling in the governance of public wealth actually strengthens democracy.

RICH CITY, POOR CITY

Cities do many things. Each has its array of flagship programs, awards, showcase projects, and slogans whose purpose is to propound unique selling points. Alas, most cities also have a plethora of financial black holes, deadbeat programs, and political stalemates. This concoction is

frustratingly difficult to interpret. Are all the good initiatives sufficient to compensate for the mishaps? How can one even tell?

While the net effects of a city's recent policies are hard to assess, it is easy to see that some cities are blooming and others are not. Some keep both their citizens and their finances healthy and wealthy, without closing doors to newcomers. In others, debts pile up, and some neighborhoods deteriorate while others become unaffordable to most. We argue in this book that there is a dividing line between winning cities and tottering ones that is rarely formulated explicitly. Yet it is intuitively quite obvious and is similar to the difference between success and stagnation for individuals or corporations.

For most people, born without a silver spoon in their mouths, the early adult years of life demand emphasis on gaining employment and a wage. Part of this income is set aside over time and accumulates into assets. Later in life, the importance of a person's savings—his or her balance sheet—grows. The quality of housing, ability to invest in children's education, and ability to handle shocks hinge more on accumulated assets and returns than on current income.

Some people are much better than others at building assets, and not just because they have higher incomes. In a widely read book, *Rich Dad, Poor Dad*, Robert Kiyosaki and Sharon Lechter argue entertainingly for how a focus on building assets early in life and managing them well to earn a return makes a big difference in peoples' ability to move from the "rat race to the fast track," that is, moving from consuming out of current wages to having more of one's consumption covered by asset yield.⁵ Having been raised by two fathers, Kiyosaki compared their two different approaches to life. His educated dad advised him to work for a wage. His rich dad advised him to consume little and invest more and end up paying wages to employees. Both life paths required education, but the subjects of study were completely different. His educated dad encouraged Robert to be a knowledgeable person. His rich dad encouraged Robert to know how to invest wisely, hire smart people, and use the right tools.

A similar logic applies to companies. Many of today's multinational retailers such as Walmart, Tesco, and IKEA were able to build up a vast portfolio of real estate assets to serve their expansion of retail outlets. As

the retail industry is shaken up by globalization and online retail, these legacy firms can fall back on their real estate cushion when necessary to revamp their business model and prosper again.

A similar logic also shapes the fate of cities. Even poor cities usually sit on a gold mine of assets that are not being used well or developed. These include real estate, municipal firms such as utilities and bus companies, and commercial ventures that cities often own. Cities that have a good understanding of the assets they own and that govern them well to help develop the city and earn a return, can spend and invest more without raising taxes. This would be comparable to Wall Street working for Main Street rather than the other way around. They will not be shaken by recessions or pension debt, which can push less well-organized cities to the brink of bankruptcy.

This may seem trivial. But in fact, cities rarely have a good understanding of the assets they own. And they rarely manage them with an eye to long-term value creation. Yet having this perspective makes all the difference.

The totality of a city's assets comprises not just money in the bank or real estate, but also social and human assets. A city that makes the right kind of long-term social investments can face lower costs twenty years down the line. For example, an intensive program to help school beginners at risk may reduce social costs resulting in unemployment, crime, or drug addiction decades later. Such a delay between social investment and social return will be easily accepted in a city that focuses on developing the long-term value of its assets, but risks being rejected in cities that are preoccupied with making ends meet during the coming budget year.

A focus on assets changes how cities think of education. Rather than counting years of schooling or the share in the population of the college-educated, the important question becomes, what value do citizens' knowledge and skills have? That shifts focus to the quality of education, specifically: how well does education and knowledge match employers' needs? And how can more employers be attracted that demand the skills that inhabitants have?

Some very successful cities around the world, such as Singapore, have built public economic, social, and human wealth out of seemingly

nothing—without help from circumstances, such as natural resources or economic trends—while their surroundings remained poor. Although cities are certainly affected by their surroundings and circumstances, they are not slaves to them. Their fortunes are largely of their own making. Today, comparing Singapore with, say, Jamaica, or with Jamaica's capital of Kingston, appears completely unreasonable, even though both small countries became independent from Britain in the same year and were initially equally poor.

While some cities, like Kingston, never developed their assets well, others have stumbled more recently. A city like Detroit was not just the latest victim of deindustrialization but also very much of poor governance of its assets. We will show examples of cities around the world that lost as many industrial jobs as Detroit, but now are doing better than ever. The difference is that Detroit over long periods administered its affairs from hand to mouth. Much of its wealth, and its debts, remained hidden and did not show up in any accounts.

Detroit, like most local governments, sits on unexploited gold mines way beyond the obvious well-known official buildings in the city center, or operational assets such as the local airport, harbor, and railway station, or utilities such as water and electricity. Underneath this tip of the iceberg cities usually own less obvious real estate assets, often portfolios of buildings for now outdated needs, such as telephone exchanges, post offices, or administrations that nowadays should be automated and on the Internet. Undeveloped land and brownfield spaces, if professionally managed, can be transformed into attractive and valuable assets, as can the land around and above railway tracks and stations.

Cities are often much wealthier, in terms of public assets, than nation-states, but their holdings remain strangely opaque and largely ignored. U.S. cities are home to more than 90 percent of the country's GDP and own vast portfolios of commercial assets, greatly in excess of their debts (which can be quantified as the \$3.7 trillion debt market in municipal bonds). Even poor cities own large swaths of poorly utilized real estate, utilities, and other commercial assets.

Since the early twentieth century, a polarized and polarizing debate has pitted privatization against nationalization. We don't propose sneaky

ways to open the door to turning museums and libraries into amusement centers, or the City Hall into a bowling alley. It is time to stop focusing on this phony war about ownership, and instead focus on the quality of asset management.

Developing city real estate and other assets is also an indispensable tool for creating human and social value: innovation hubs instead of decaying city centers, a healthy mixture of high- and low-cost housing instead of segregated communities, proximity to workplaces instead of long-haul commutes. These are dimensions of city development that turn out to make a big difference to many city dwellers' life prospects.

Our calculations suggest that achieving a reasonable yield on publicly owned real estate and other commercial assets could free more resources than total current investments in infrastructure, including roads, railroads, bridges, water, electricity, and broadband put together. In other words, most cities could double their investments in infrastructure with smarter use of their commercial assets. Unlocking public assets should be a core urban renewal strategy.

CITIES ARE THE LOCOMOTIVES OF NATIONS

Dysfunctional national governments have become a cliché across the developed economies in Europe and the Americas. Often unemployment, inequality, and poor schooling, housing, or health care emanate from political failures at the national level. Even in rich countries such as the United States, faith in the political system and the social contract appears to crack in the face of actual social deterioration such as the remarkable decline in labor market participation among white men. In spite of a healthy recovery from the 2008 financial crisis the U.S. employment rate remains considerably lower than in the year 2000, in fact lower than that of France, and productivity growth is anemic. Many economists point out that the kind of national policies that are important to encourage growth and social progress have seen very little reform for decades.⁶

Cities are also hostage to national policy failures such as lagging infrastructure investments, regulatory deadlocks, and misdirected social policies. Therefore, much of economists' research has focused on the effect of

nations and national policy on growth and development. For example, Daron Acemoglu and James Robinson recount vividly in their famous book *Why Nations Fail* how the town of Nogales is poor on the Mexican side of the border and relatively much better off on the U.S. side of the border.⁷

Yet such illustrative comparisons also miss an important point. In many respects the people who live in and run their cities form their own living and working conditions. Some cities can actually find creative ways to untangle themselves from the shackles of national policy that would otherwise hold them back. In some cases they manage to become more like city-states, which have always had to rely on their wit and economic acumen to survive and prosper in hostile environments, such as ancient Athens and Sparta, or medieval Florence and Venice.

Consequently, it should be no surprise to find fairly well-off and destitute towns close to each other within the same country. For example, Detroit is often described as a city that was hit by deindustrialization and therefore lost half its population. Yet many other cities that were hit by deindustrialization have adapted more successfully, such as Akron, Albany, Raleigh-Durham, Minneapolis–St. Paul, and Portland in the United States. In Europe, some cities, such as Munich, have lost as many manufacturing jobs as Detroit, but nevertheless are blooming.

A more accurate diagnosis of Detroit's ills is that it is an extreme example of a city that did not stop digging when it found itself in a ditch. Many of its inhabitants moved to more successful suburban cities that surround Detroit. The overall population of the larger urban area has changed little over the past decades.

If the United States had been dominated by cities that acted like Detroit, its overall growth might have turned out to be more like Italy's. There, GDP growth and incomes have flat-lined for the past two decades, as too many cities seem incapable of fixing even basic services such as garbage collection. In fact, recent studies that we will review later make a convincing case that cities that build their social and human assets experience significantly better employment and income growth by lifting their current inhabitants, not just by attracting high-income earners from elsewhere.

Surprisingly, some U.S. cities with impressive economic growth still do little to raise national U.S. growth, according to a recent thoroughgoing study.⁸ The reason for their disappointing contribution is that these cities grew more by attracting already successful people and putting them to work in high-productivity industries. But these cities performed way below their potential in terms of lifting resident middle-income or poor people into jobs with higher productivity. National GDP would be nearly 10 percent higher, the study concludes, if New York, San Francisco, San Jose, and other cities like them had developed their assets in ways that made them more accessible to average earners to the same extent as the median U.S. city.⁹

Even booming cities could often do even more for national growth and balancing out weaker communities. For example, Stockholm, the capital of Sweden, does extraordinarily well by most measures, but it could compensate even better for smaller towns' faltering industrial growth. Smaller towns' traditional manufacturing firms are reeling from the world's most demanding environmental and labor regulations and highest marginal income tax, which has left Sweden's industrial output, mostly spread out in towns all over the country, trailing far behind that of its main trading partner, Germany. But this has been more than compensated for by a booming digital growth sector in Stockholm, which is happily unfettered by environmental and union demands. Stockholm, with just a fifth of the country's population, contributes half of the country's productivity gain and is the fastest-growing metropolitan area in Europe.¹⁰

This is not just a large-city effect. The other two larger Swedish cities, Malmö and Gothenburg, are doing noticeably less well. The main reason for Stockholm's leading edge appears to be that many of the municipalities that make up the Stockholm region also top the league in providing good schooling and a good business environment. Yet, Stockholm also has an Achilles heel, an unwillingness to open for enough building of new residential housing. Without that brake on growth, Stockholm might be Europe's answer to Silicon Valley, and would contribute even more to overall national growth.

The drag on national growth owing to cities that do not live up to their potential is much larger in, for example, Italy, where many cities impose

a burdensome bureaucracy on top of national regulations. In another country, India, many cities seem willing to do what is needed to boost growth, but Indian democracy locates too much power at the state level rather than the city level. State governments are often dominated by the choices of rural voters, leaving cities less room to control their own destinies.

One reason that the role of cities' varying success for national growth has been ignored is that research on the role of cities has largely focused on so-called agglomeration effects. It has been easy for researchers to correlate the size of cities with subsequent growth. This has made it appear as though city growth is mainly a result of agglomeration—the role of agglomeration is viewed almost like a natural law. Studies in both developed and developing countries do find that wages and productivity rise faster in larger cities.¹¹ Causality of course goes both ways, and there is a chicken-and-egg aspect to the issue. Some cities grow larger because they are better organized and more innovative. These cities attract more workers—in particular, the most productive ones.

But size is hardly the most important factor. In fact, many large cities are by no means overachievers in economic vibrancy. A recent World Bank study finds that cities vary enormously when it comes to their economic performance.¹² Twenty-eight percent of cities grow more slowly than their countries, while the top 10 percent of cities increase their GDP at almost three times the rate of the remaining 90 percent. The report finds that this is no accident. Cities that drive national growth take a host of constructive initiatives that slow-growth cities do not. Silicon Valley, and the cities it spans, is an extreme example of a region that is a growth engine for the rest of the country—a turbo region—and is known the world over. But there are many other turbo cities that are not as well known. Some international examples are Kigali in Rwanda, Saltillo in Mexico, Meknes in Morocco, and Coimbatore in India. Conversely, some cities that have been drags on their country's growth would be Glasgow in Scotland (at least until recently) and Mt. Isa in Australia.

In sum, some cities can do much better than others, and in fact can pull their countries along toward better growth and social development. Successful cities seem to be able to compensate for many of the policy

errors of their national and federal governments. National growth and quality of life, we argue, hinge on prospering cities.

So how do thriving cities do it?

THE TURBO CITY

Given the widely varying fortunes of cities, one might expect to be able to access a large body of research that provides clear evidence and recipes for turning cities around. Alas, this research is minuscule. Most narratives about the success of cities are based on anecdotal evidence, not actual research.¹³

Academic economists have often been guided by a presumption, perhaps a prejudice, that national policies determine growth and development with only a marginal role for local policies. We think this is a questionable stance, as we noted earlier.

More important, the connection between a city's policies and how well it is doing turns out to be unexpectedly difficult to prove statistically. One source of confusion in the attempt to understand true causes and effects is that as with a self-playing piano, the music continues to play once the mechanism has been cranked up. A city that has built its assets at one point in time can continue to enjoy the music for years or decades. When it comes to cities, "Nothing succeeds like success." Assets continue to generate a yield, even in periods when their management or city policies are less inspired.

Our term for this kind of city is a "turbo city." A turbo, or turbo-charged, engine uses energy from its exhaust to help inject fuel into the cylinders, rendering the engine leaner and more powerful. Similarly, a turbo city has made canny investments that make its daily operation cheaper and more effective and sometimes even yield a direct return. This provides economic muscle for further investments.

For example, a town that has managed to attract some high-tech start-ups may see these grow for decades thereafter, attracting more tech wizards that start more firms. Similarly, a city that at one time fostered many local entrepreneurs finds that these provide good models, entrepreneurship know-how, and capital to young people starting new firms.

As another example, a city that has managed to establish social norms that are positive to education and respect for the law has “social assets” by which citizens influence each other. Parents emphasize law-abiding behavior to their kids. Neighbors keep an eye on each other. Crime rates remain under control.

All these things build up over long periods and take on a life of their own. Cities that succeed in this way have lower costs for social services and employment services. They may earn higher tax revenue. If the economic competence of their citizens spills over to city administration they may find it easier to maintain good programs and put the city firms, utilities, real estate, infrastructure, and other wealth to good use and manage pension funds well. Putting all this together, they can maintain better services with lower taxes.

Such a city is a humming engine with an unstoppable momentum. City politicians really have to kick and abuse it to make it stop running.

THE TREADMILL TOWN

Quite the opposite happens in a city on the brink of ruin. Debts have piled up and pension liabilities and budget costs skyrocket in relation to income from taxes and assets. Taxes need to be raised to pay bills, not to improve services. People with better options move out, further eroding the tax base and entrepreneurial talent. Higher unemployment and crime rates require high costs in social programs just to handle acute situations.

Such a city finds itself on a treadmill. It has to work hard just to stay in place and make ends meet. There are no resources to invest in big changes. A city on the treadmill is also a fragile city. When a treadmill town does try to mend its ways it finds that things may get worse before they get better. Closing the budget shortfall and paying down debts may require cuts in services that make the city less attractive in the short run. This may erode political support for reforms and push the city back onto the treadmill, even if current bills have been paid.

For example, when New York City narrowly escaped bankruptcy in 1975 with the aid of a federal loan and concessions by city unions on pension cutbacks, the first order of business was serious budget cuts: over the

next three years, the number of police officers and teachers each dropped by about 6,000 and the number of firefighters by about 2,500, transit fares were raised, and tuition was imposed for the first time at the City University of New York. These cuts added an extra economic burden and political uphill battle for efficiency-oriented reforms. It took great effort and skill to implement some of these reforms, which laid the foundation for New York's much improved development in recent decades.

Today Rome finds itself in a similar bind as New York in 1975. After decades of mismanagement, a new leadership has to handle an acute economic crisis and cutbacks while trying to tackle long-term reforms at the same time.

These mechanisms also explain why researchers have found it so frustratingly difficult to show which policies actually lead to better outcomes. The actions that turned one city into a turbo city and forced another onto the treadmill may have been taken many years earlier. Even for voters the nexus between good policies and city success can remain muddled.

And it's not just the time lag. The key issue is that a city's success largely depends on whether it has accumulated assets that remain productive over time. One can think of a human settlement by a creek that provides drinking water. The dwellers can drink when there is water, but their existence is fragile. The creek can dry up and force them to move or fetch water from afar.

Now suppose the dwellers build an asset, a water reservoir, where they accumulate water. Now they are less dependent on what the creek provides in any particular month. Even more important, the reservoir provides additional yield in the form of fish and water management that allows fields to be irrigated as well.

This, in short, illustrates the secret of turbo cities. The assets they have and put to good use not only keep them in good financial shape, even in periods when they do not pursue any particularly enlightened policies, but the cities may also reap additional benefits through the improved health and social well-being of their residents.

So, what are these assets? The easiest to define are the economic assets. We identify two types of economic assets, commercial and policy assets, depending on how they are funded. Policy assets are tax funded to

Box 1-1. *Public Commercial Assets*

Commercial assets are economic assets or operations that generate non-tax revenue or could do so if properly structured and used.

Typical commercial assets include the following:

- Incorporated enterprises in various sectors, typically providing services such as energy, water, waste, and transportation
- Noncorporatized activities and services, such as utilities, parking, natural resources, air rights, and broadband spectra
- Real estate, developed and undeveloped, currently used by public entities or third parties
- Infrastructure that is toll-based (such as a highway or bridge) or related to a private-public partnership (such San Diego's Petco Park)
- Financial institutions such as banks, insurance companies, and mortgage institutes

Not included are assets that do not earn returns, such as parks, museums, and historic and legacy real estate and land. Public commercial assets do, however, include the real estate and land currently used by civic entities such as schools, hospitals, and fire and police stations, since the services offered are not especially tied to the real estate, but may actually benefit from being relocated, as well as the specific real estate may be worth more if used for other purposes.

provide a public service, and cannot easily generate revenue. In contrast, commercial assets are those that can conceivably render a revenue stream, if managed properly (see box 1-1).

Equally important are two types of noneconomic assets that have a crucial impact on finances of cities and the well-being of their citizens. These are social assets, which provide ladders rather than chutes for people's health, ambitions, and happiness, and thus minimize the social afflictions that often make life more difficult even for citizens and strain city budgets (see box 1-2). And there are human assets, the value of skills

Box 1-2. *Social Assets*

Social assets are social norms, attitudes, and functioning institutions along with a city structure that reduce the incidence of crime, homelessness, addiction, and other social ills. Social assets can have an impact on lowering a city's costs and making the city more attractive to employers.

Principal social assets are the following:

- A social environment favorable to education, work, and safety
- Functioning and successful schools (inadequately educated children are much more likely to become a social burden later)
- A high level of civic engagement in improving neighborhoods

These assets often characterize areas that have no large, geographically segregated, low-income demographic groups. We do not include equal income distribution as a social asset per se, since this mainly reflects values and is not a direct determinant of social assets, even though it may be an indirect factor.

or knowledge, which are crucial for individuals to achieve economic independence and for cities to elevate municipal tax revenue (see box 1-3).

In the course of this book we will show how municipalities have shaped up their investment in human and social asset management and have been richly rewarded. For now, just consider an instance of rare experimental evidence that arose in southern Sweden in the early 1990s. At the time tens of thousands of people were fleeing from the civil war in former Yugoslavia. Large numbers of Bosnian refugees arrived in Sweden in 1993 and 1994. During those years arriving refugees were more or less randomly assigned to different municipalities rather than being allowed to choose where they wanted to live. This created an unusual natural experiment that made it possible to measure how different municipal environments affect the integration and employment of refugees. It turned out that after a few years the employment rate for Bosnians differed sharply in different towns. Some 80 percent were employed in

Box 1-3. *Human Assets*

Human assets are not easily quantified: they cannot be measured simply in terms of residents' years of education or university degrees. Rather, they represent the value of knowledge and skills that citizens possess and apply in their work or through entrepreneurship. Human assets can be increased by a city administration that supports both its residents and business via the following:

- High-quality schooling
- Effective education that is geared toward developing skills that existing and potential employers value
- Entrepreneurial spirit
- A city administration that provides a good business climate, thus increasing demand for and increasing the value of citizens' skills

municipalities that score highly on the measures of social and human assets that we describe later in the book. This happened in spite of the fact that many of these were relatively small and isolated.

In municipalities that scored low on social and human assets, as few as 10 percent of Bosnians managed to enter employment, even in large and growing cities. As a result these towns faced much higher costs for welfare payments as well as lower tax revenue. That made it even harder for them to escape the treadmill.¹⁴

Towns and cities are not slaves to circumstance. They can change their own fortunes.

FROM TREADMILL TOWN TO TURBO CITY

Most cities can point to imaginative initiatives and impressive programs they have created to improve their town. Alas, not all of them work. And most cities also support an array of dysfunctional policies that undermine

the good work. To succeed a city needs a sufficient amount of good policies to more than outweigh the less-inspired ones.

Anecdotal evidence lauds New York and Chicago, where competent mayors and their administrations have achieved significant improvements in important areas. But there is no consensus as to how much specific policies contributed to success. For example, exactly how New York's remarkable reduction in crime rates was brought about is still a matter of contention among researchers. And many young New Yorkers face huge challenges of poverty, finding work, and improving their general life prospects.

Many cities that turn out to be successful have a pattern of not limiting themselves to trying one thing at a time. Instead, they simultaneously do many things, one or more of which might work. Later in this book we will describe turnaround cities that succeed with this approach. Unfortunately, they are not that common. Few cities are blessed for long with a combination of leadership that bases its decisions rationally on evaluation and scientific evidence, and voters that give them carte blanche to do so. More commonly city politics plays out more like dancing the tango—two steps forward, one back, and one sideways.

One reason for such uncoordinated political movement is that many cities actually are complex organisms made up of interdependent entities that, however, function to a great extent independently. For example, Chicago Public School, the Chicago school district, is part of the city government, yet it has its own balance sheet and taxes and funding program. Chicago has an independent metropolitan sewerage district, a parks district, and so on. Yet the city is within Cook County, which encompasses other municipalities and provides another layer of administration. Such balkanization combined with redundant structures is common in cities around the world.

Given such messy structures for political decisionmaking, decisions for long-term investments are easily sidelined as decisions are made to solve acute immediate problems or to satisfy powerful interests or groups of swing voters. Yet it is precisely the long-term investments that can lift a city from a treadmill town to a turbo city. That is why we advocate a

strategy in this book that is all about making the value of long-term investments more transparent and visible to the public, and making better use of professionals who make decisions based on evidence while remaining at arm's length from day-to-day politics.

Our strategy is simple. It consists of three steps:

1. Know your assets, be they economic, human, or social.
2. Use more professional management for better yield and results.
3. Shift resources from consumption to long-term investments.

1. KNOW YOUR ASSETS

Few cities have a balance sheet, and of those that do, few of them reflect the true values of the cities' commercial assets. Therefore city leaders at best fumble in the dark when they make investment decisions, and at worst ignore the effects of short-term decisions on long-term city wealth. The first step in creating a reliable and transparent balance sheet can be the preparation of an annual review. Later chapters describe how this has been done by some national and city governments that want to demonstrate an overview of their portfolios, including market value and yield. This process creates awareness among the general population and thus increases political support to take the next step. Political support is important to counter potential protests from interest groups that might benefit from a status quo that is maintained by hiding a proper understanding of a city's commercial assets. The next step to improve transparency is a more comprehensive, audited consolidated annual report that pulls together data on all city property to clearly show the true wealth of the city. The quality of reporting and transparency should ultimately be in line with the best of any listed company on the stock market, for a city's portfolio is truly a public asset.

Every penny generated through an increase in yield from the portfolio of commercial assets is a penny less that must be found from budgetary cuts or tax increases. Any review or audit of spending should, in parallel, determine the extent to which additional yield can be generated from the government's commercial portfolio.

One might think that a city's noneconomic assets are not easily measured. But our approach is to find simple measures that—even though they may not represent the best “true” measure of value—capture value changes well and work operationally. For example, in theory, social assets might be valued in terms of the net present value of expected social expenditure costs. One might, more correctly, call this “social debt,” although, such forecasts are uncertain and require much expertise. In chapter 4 we present techniques that make it simple and easy for city administrators to assess the value of social assets, and to answer questions such as, What is a social investment in six-year-olds worth that results in a payoff in the form of lower crime rates by the time they are fifteen years old?

Similarly, we show tools for making investments that raise the value of human skill assets and make them transparent and useful in city politics. The wage income per person of working age captures reasonably well how employers value citizens' skills and knowledge. But these are greatly influenced by factors that can be measured separately such as school quality, educational matching, and business climate improvements.

2. USE MORE PROFESSIONAL MANAGEMENT FOR BETTER RESULTS

We claim that cities can achieve better results and do so more systematically, and without relying on the good luck of having exceptional politicians. The key is to rely more on professional managers so as to better separate day-to-day governance from politics.

Some municipal administrations have a natural knack for asset development. For example, the historic center of London and the location of much of the UK's financial sector is actually called the City of London Corporation. This urban corporation claims to be the world's oldest continuous elected local government body. Here both businesses and residents are entitled to vote in elections. The City of London Corporation is just one of the thirty-two boroughs that make up Greater London, but it has an unusual professionalism in its approach to its balance sheet. This approach is comparable to that of the much larger and better-known modern city-states in Asia, such as Hong Kong and Singapore.

A modern version of the City of London Corporation that we advocate for any city is to move its commercial assets into what we call an urban wealth fund, where these assets are governed by professionals with some independence from day-to-day politics. As the successful development projects in the City of London Corporation illustrate, this approach may also facilitate joint development with surrounding local governments of projects that otherwise all too often might fall victim to political haggling.¹⁵ A professional negotiation between managers of urban wealth funds of neighboring municipalities to exploit a common interest is much more likely to succeed than an uncoordinated, patchy approach. In some cases, several municipalities or boroughs may even decide to become part owners in a common urban wealth fund, to help manage and fund assets that cross administrative boundaries, such as bridges and roads, or are shared for reasons of scale, such as airports and port facilities. One example is the Port Authority of New York and New Jersey, which we discuss further in later chapters.

Not only purely commercial and concrete but also social and human assets stand a much greater chance of flourishing if city politicians devolve governance responsibility to professional managers, rather than being involved in many details. That gives politicians much greater leeway to formulate citizens' requirements rather than becoming entangled in operational details. Democracy is actually improved.

3. SHIFT EXPENDITURE FROM CONSUMPTION TO INVESTMENT

Cities have been built to invest in the future of their citizens—in schooling and skills, in quality social interaction, and in enduring infrastructure to move people, goods, energy, and ideas. Cities do these things through a mix of investments by a broad range of public, private, and civic investors. The urban stakeholders are networks of institutions and individuals: homeowners, universities, hospitals, philanthropies, private businesses, utilities. For example, the rebirth of entire sections of Detroit is being led by an eclectic consortium of philanthropies such as the Kresge Foundation and corporations such as QuickenLoans.

Yet, despite this future orientation, short-termism is a constant threat. In order to help cities make wise choices on long-term investments it is important to embrace an intellectually formulated strategy that emphasizes the use of evidence to make informed investment choices. This will automatically tilt investments away from short-term fixes and help cities take account of the fact that their success is not just a function of their current spending but rather of the stock of social, human, and economic wealth that they have accumulated. Evidence-based decisionmaking also encourages experimentation with new instruments such as social impact bonds, which invite outside investors into innovative social programs, or regional venture funds that give city networks the market intelligence to make smart decisions.

In sum, cities can be nations' locomotives if they build their assets and make them pay off, or they can end up as millstones around a nation's neck if they fail to invest their way off the treadmill. In the next chapter we show common ways in which cities fail, before we turn to the success strategies of turbo cities.