Kicking the Habit: Unsustainable Economic Growth

On March 7th, 2013, the Young Leader Group of the Urban Land Institute Minnesota convened their annual program. Over 125 attendees from the non-profit, government and business communities came to hear a presentation by Chuck Marohn, entitled *Kicking the Habit: Unsustainable Economic Growth*. Marohn is the president and founder of Strong Towns, an organization devoted to finding a financially stable path for cities in our changing economy.

The presentation began with a depiction of a city from 5,000 B.C. Marohn noted that cities at that time were designed around the main mode of transportation of the day: our own two feet. He then explained that this model, consistent for thousands of years, created sustainable communities, where all jobs and growth came from the local level.

A Young Experiment. After World War II, the United States began a social and financial experiment known as suburbanization. This unprecedented investment in American infrastructure was expected to lead to huge returns in revenue. Coupled with the rise of automobile ownership, Americans now had the freedom to leave then-crumbling cities for the big lots and big houses of the suburbs.

The Growth Ponzi Scheme. Marohn explained how this first wave of outward growth was born of investment by federal, state, and local governments, as well as the private sector. The second wave of growth, in the 70s, continued the expansion, but was paid for through borrowing. By the arrival of the third, current wave, financing of suburban growth included predatory lending schemes, while both public and private sectors assumed there was no end in sight.

The Illusion of Growth. The second life cycle of suburban infrastructure, the need for upkeep and replacement, will soon wipe out years of revenue gains from this continued expansion, Marohn warns. He says that while Wal Mart can easily walk away from a store and move five miles down the road, a government must replace or repair its bridges and sewer systems. The suburban development pattern focused only on short-term gains, while ignoring long-term costs of infrastructure upkeep.

The New Normal. Marohn pointed out that the infrastructure of many cities is now in its second life cycle. Federal and state budgets have tightened, the new economy leaves little room for private sector investment, and local governments find themselves alone in responsibility for upkeep of crumbling infrastructure, and lack resources to pay for it.

Cities are now left with poor choices: commit to large tax increases, accept the failure of their communities, or out of desperation, attempt to pull off large, “build it and they will come” projects, like convention centers, in hope of luring private sector investment.

Marohn says cities of tomorrow cannot afford to take the risks of the past, as our economic growth has peaked and is waning. He claims the mistakes of larger cities, gambling on big projects to lure business while ignoring crumbling infrastructure, has helped in the decline of cities such as Detroit. Suburbs could be next. Fed up with failing cities, citizens will simply leave.

What's the Solution?

While Marohn believes suburban areas will never return to the growth and prosperity they once enjoyed, he did offer some innovative ideas to help move struggling towns towards sustainability.

Reorienting Government. "2013 is not 1950" Marohn said, as he suggested that local governments must re-orient the way they conduct their business. He believes governments operating successfully in the new economy should play two roles: The Conservative Banker and the Venture Capitalist.

1. **The Conservative Banker**. Marohn argues that government investments should be essentially risk-free. By this he means governments should be making safe bets with public money, providing basic upkeep on already profitable areas with a proven rate of return. Investments must have a real rate of return for local governments, in real dollars, not forecasted, future revenues, and must account for second life cycle costs.

2. **The Venture Capitalist**. Local government investment should be small and experimental. Large-scale investment in huge infrastructure projects, while attractive in the short-term, is speculative, and if it fails, has the potential to cripple struggling cities. Marohn argues that cities should instead experiment with smaller, cheaper projects, see what works, and make smarter, larger investments in proven successes.

A Path Forward: Chaos vs. Order. Marohn cited Carlson's Law, a maxim that innovation from the top down is "Orderly but Dumb" while from the bottom up is "Chaotic but Smart." He claims most cities' leaders only see projects in terms of large investments that can attract major businesses to increase their tax bases. "Orderly but Dumb."

He countered this thinking with an example from a recent trip to Memphis: in a dilapidated area of town, a group of ordinary citizens decided to fix up a run down city street after repeated requests were ignored by city leaders. They painted their own bike lanes, parking lanes, and crosswalks. This community investment didn't go unnoticed by business owners, who in 6 months time filled the neighborhood's previously vacant storefronts, providing an enormous return on $500 in paint.

"We must increase the financial productivity of our places." Marohn insists. He argues that this productivity works best at the "fine grain scale", that small projects, like this simple fix in Memphis, that can succeed and fail with low cost and risk, will provide a model to show local governments with limited resources what will and won't work with minimal investment.

If you'd like to learn more, you can visit Chuck Marohn's website, www.strongtowns.org.