Opportunity Knocks
Will the America Economy Be Able to Take Advantage of Post Recession Opportunities?

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When people at a party find out I am an economist, the question I have gotten most often since early 2008 is, "When will we get out of the recession?" Like the surgeon at the patient's bedside after the operation, I assure them that the economy will recover, but it is going to take several years before its effects are over. My answer probably scores no better than barely adequate, but those concerned with the long term health of the economy are not asking the right question. The right question is, "How will the policies of U.S. business and governments have changed when we come out of the recession?"

Since the 1970s, the U.S. economy has been infected with the mutually reinforcing malignancies of a growing trade deficit and slow economic growth. The resulting underlying weakness was a contributing factor to the fall the economy took in 2007. But the recession that became worldwide was actually precipitated by financial imprudence in real estate lending and related banking activities, as well as massive failures in regulatory oversight at all levels of levels of government. The recession has spurred productivity increases, raising output and making the nation's businesses more competitive, while, unfortunately, also depressing employment. The falling value of the dollar has also helped exports, as the shrinking international dollar makes American exports cheaper to our trading partners. But we are a long way from exporting enough goods and services to stop going ever deeper into debt to the countries from which we have been importing ever-greater amounts of goods. Our debt to China is particularly heavy. In March 2011, the most recent month for which we have data, the U.S trade deficit grew by a little more than $48 billion.

Even aside from the need to stop sinking ever deeper into the quick sand of unsustainable foreign debt, U.S exports must increase in order to decrease unemployment and jack up the economy's rate of growth. Our current and pre-recession growth rate is simply not high enough to lower the unemployment rate to acceptable levels, or to reverse the rapid rise in the federal budget deficit before that ticking bomb sets off a destructive inflationary explosion. Hiroko Ota, a former Japanese economic minister, summed up what is also the U.S. situation when he said recently "We cannot have recovery for recovery's sake." But there is a difference between the position of the Japanese economy and that of our own. Their problems are not helped by their recent catastrophes, but the recession from which the U.S. economy is slowly emerging has a silver lining.

As suggested above, productivity has been on the upswing as the stress of the recession has been used by public and private sector negotiators to change work rules, negotiate more flexible wage contracts and lower the burden of pension plans. The picture in the May 11 edition of *New York Times* showing workers at a General Motors transmission plant in Toledo, Ohio cheering the company's announcement that it will invest $205 million and add 250 local jobs provides a visual example of productivity increases, innovations and product quality upgrades that turned around a company that only recently needed a federal bailout to survive.

Those who read annual company reports know that virtually all American businesses have learned that innovation, product quality improvement and productivity increases are three linked paths to staying competitive in global markets. In the manufacturing sector, where overall output is increasing to the point where we are beginning to see gains in employment, consider the history of the steel industry, where a three-decade drop in employment has finally been arrested. Today that industry provides 137,000 jobs that appear secure, after a drop that took that workforce from 400,000 jobs in 1980 to its present level. Productivity increases have decreased the number of worker-hours it takes to make one ton of steel from ten worker-hours in 1980 to two worker-hours today. During the same period, the quality of the steel product has improved.

During the recession, this has led companies like Caterpillar and General Electric to start bringing some foreign work back to the United States.

As another example, productivity and product improvements have enabled U.S. agriculture to be a major source of this country's exports. That is occurring with less than three percent of the country's jobs located on farms and ranches.

To an overwhelming extent, America's industries are located within its urban metropolitan regions. But the firms that have the potential for expanding our exports are not located evenly around the country's urban landscapes. The managers and workers in the firms most likely to grow and increase exports tend to cluster in urban agglomerations, where their technical and conceptual abilities are enhanced by the social capital provided by specialized networks of workers and educators in similar fields of activity. The economic returns from such social capital grow with the size of the clusters and their accessibility to those who benefit from the information provided by the network they house.

America's real estate developers and investors can help themselves and the American economy by building and redeveloping the kind of work and living spaces that will power up the social capital provided by urban agglomerations or activity centers. Better real estate spaces within multi-use activity centers increase the ability of firms in industries with a high potential for expansion into domestic and foreign markets to pick up the pace of improving what they do, increasing their ability to compete.

However, the job of recreating real estate in order to spur economic growth cannot be done by the private sector alone. The needed space cannot be produced by the real estate development sector unless local land use plans and regulations provide increased development flexibility and supply the amount and type of entitled land necessary to keep land prices at or below recession levels. Improving the ability of businesses to compete globally will require development that encourages the kind of urban propinquity or accessibility to the social and technical information that facilitates new and better ways of creating and producing. But such spaces also must be produced without dramatic increases in costs per square foot of work and living space.

The kind of urban regulatory sclerosis that previously slowed the ability of better and higher density development change to take place has been somewhat reduced by the recession. But in too many urban places, planners are hampered by land use regulations and processes in the creation and intensification of urban clusters. Planning regulations need to be reviewed and, where necessary, reformed to be sure that enough land is zoned for work and living spaces, particularly for mixed use higher density development, so that the price of land for such developments remains competitive.

Economic output and employment both benefit when housing costs are kept low, so workers are not forced to constantly push for higher wages in order to maintain and improve their standards of living. Similarly, land use regulators need to re-check zoning maps and other planning regulations to assure that sufficient land is entitled for both work and living spaces so that land costs don't rise to once again increase the real estate costs to businesses and their workforce.

The recession has been painful for all, but it has also taught us that American businesses can increase their rates of productivity, innovation and product quality improvements. There is obviously more to making this happen than changing the types of real estate we build or the land use regulations that guide local development. But such changes are high on the list of what has to be done by the private and public sector if the United States is to emerge from the recession with a higher rate of growth and a level of exports that at least equals that of imports. The recession has given urban America another chance -- we need to take it.

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