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## The case for dynamic cities

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## The Case for Dynamic Cities

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## The Case for Dynamic Cities

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## The Case for Dynamic Cities

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#### ABSTRACT

Cities today are confronting never-before-seen challenges to their top spot in the economic hierarchy. In this chapter, we lay out four challenges, past and future, that cities face today and identify policies that can help address the problems we identify. We call attention to the need for many U.S. cities to redevelop the large amount of aging postwar single-family housing, while reforming past exclusionary zoning and infrastructure decisions that exacerbated inequality. Cities will have to fix these past mistakes against the backdrop of an aging population and the rise of remote working, both of which undercut cities' traditional source of growth by reducing the flow of younger and middle-aged people willing to live in urban centers. The common theme running throughout this paper is that cities, their residents and their business leaders will need to embrace a dynamic ethos and be given a freer hand to reposition their municipalities to face a future that is shaping up to be quite different from the past.

**JEL Classification Codes:** R11, R12, R58, J10

**Key Words:** Zoning, infrastructure, housing, population aging.

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Things change. And what if, tomorrow, cities woke, and went walking? If Tokyo engulfed your town? If Vienna came striding over the hill toward you? If the city you inhabit today just upped and left, and you woke tomorrow wrapped in a thin blanket on an empty plain, where Detroit once stood, or Sydney, or Moscow? Don't ever take a city for granted.

—Neil Gaiman, *SIMCITY*

## 1 Introduction

Cities are constantly caught between two interlocking challenges: addressing past decisions that hinder the present while simultaneously anticipating future needs. The case for dynamism is simply that cities cannot pilot a successful path forward without the willingness to disrupt a deleterious or calcified status quo. In this paper, we make the case for why policymakers must be prepared to embrace change, even as we acknowledge that past experiments have sometimes been harmful to poor, vulnerable, or minority populations. We do so by highlighting two important past policies presently ailing many U.S. cities. The first is infrastructure and zoning decisions that often disproportionately hurt the poor and racial minorities. The second is the hangover from the building boom of the postwar period. We also identify two future trends that will reshape cities in the coming decades: 1) global and national population aging and 2) the rise of remote working. We conclude our paper with a review of policies that could address the problems we raise. The common thread uniting our recommendations is that some of the best solutions are found when cities and private citizens are freed to pursue growth and innovation.

## 2 Past Decisions and Current Problems

One reason that current policymakers may be more reluctant to embrace dynamic policies is that past policymakers were often quite happy to make radical changes, often to the detriment of oppressed groups or poor people. We are sympathetic to this thermostatic

reaction (“If they were too hasty, we should course-correct by being more cautious”), and the first section of our paper treats some of these consequential past policies that lie at the root of many of today’s urban problems. Nonetheless, we will argue below that this thermostatic reaction is wrong: even accounting for haste, the only answer to past dynamic mistakes is current dynamic policies; else the past becomes a straitjacket on the future.

**Urban Planning Policies of the Past.** While this chapter seeks to make a forceful case for dynamism, we begin by acknowledging that past infrastructure and planning decisions often have persistent effects that influence current urban issues. From zoning to infrastructure construction, the consequences of these policy decisions are often far-reaching and constrain current policymakers.

Federal neighborhood classifications are a classic example of a past urban planning mistake that weighs on the present. This started in the 1930s, when those seeking a new home loan would go through the Federal Housing Administration (FHA) to apply. The FHA did not handle existing loans; it only created new ones, which were required to be “economically sound” by the federal government. In order to mitigate the risk to collateral values presented by racial transition (i.e., Blacks and other minorities moving into neighborhoods and thus altering their racial composition), the FHA would not insure mortgages in neighborhoods potentially subject to change (Fishback et al., 2021). The FHA used data sources created by New Deal statistical projects to identify neighborhoods vulnerable to change, and for these neighborhoods, FHA administrators would be less likely to lend to minority groups.<sup>1</sup>

Another example is the construction of the interstate highway system. Deciding where and when to build a highway through a central city involves considering a host of factors: Will buildings have to be torn down? Will individuals have to be relocated? How will this

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<sup>1</sup> Additionally, recent research has shown the persistent harmful effects of the arbitrary boundaries drawn on the 1930s “redlining” maps of the Home Owners Loan Corporation (HOLC). The HOLC was a temporary program created to handle existing home loans. Not only were factors such as home ownership and home values stunted in neighborhoods that were deemed more risky by the HOLC in the 1930s, but racial segregation by neighborhood grade was found across the maps’ drawn boundaries. Areas graded “D,” or most risky, became more heavily African American than nearby “C”-graded areas over the course of the twentieth century (Aaronson et al., 2021).

highway impact travel times of suburban commuters? What about the commute and travel patterns of inner-city dwellers? Yet once the pavement is laid, the policy path in the United States tends to treat that pavement as a permanent part of the urban landscape.

These decisions have reshaped their cities right down to the present. Brinkman and Lin (2019) explore the construction of the Interstate Highway System and the political channels that influenced the placement of segments of the interstate. They find that actual interstate construction deviated quite a bit from planned construction routes in central cities as compared to suburban interstate segments. The authors argue that policymakers did not expect white city dwellers to be so opposed to the potential negative externalities of the highways. Minority neighborhoods thus bore, and continue to bear, the brunt of the negative secondary effects of interstate highway construction.<sup>2</sup>

The consequences of both midtwentieth century policies are that central cities have many physically divided neighborhoods that are often highly racially and ethnically segregated. Specifically, these policies helped facilitate white flight and suburbanization (Baum-Snow, 2007; Patterson, 2020). As economic opportunities and a large share of the tax base left the inner city for the suburbs, minority groups were generally left behind on many fronts. These troubled neighborhoods now have concentrated poverty, higher commute times, and the other environmental harms that come from living near busy highways, such as air pollution, crime, and increased risk of traffic-related pedestrian deaths (e.g. Anderson, 2020; Herrnstadt et al., 2021, and sources within).<sup>3</sup>

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<sup>2</sup>Mohl (2004) discusses the urban history of freeway revolts. In the city of Baltimore, for example, city planners hired Robert Moses to draw up a plan of where highways should be located. The Moses plan projected the displacement of some 19,000 people in the central city, mostly in slums. In stating the supposed benefits of this plan to cut through poorer neighborhoods, Moses was quoted as saying, “The more of them that are wiped out[,] the healthier Baltimore will be in the long run.” The Moses plan drew widespread opposition, primarily from people in the targeted neighborhoods, but also from respected Baltimoreans.

<sup>3</sup>Using recent American Community Survey data, Patterson (2020) notes important current trends: 20% of Black households do not have access to an automobile; 24% of public transit riders are Black (the second-largest group of riders), even though they are 12% of the U.S. population; 24% of Blacks live near highly trafficked roads; and 18% of traffic-related pedestrian deaths are of Blacks.

**Excesses of the Postwar Housing Boom.** Cities throughout the United States are confronting myriad housing challenges, and much of the academic literature and public debate has focused on sky-high housing prices in thriving metropolitan areas like San Francisco, Los Angeles, and Boston (*e.g.*, Asquith et al., 2021; Buntin, 2017; Hsieh and Moretti, 2019). The dynamic policy case for these cities—permit more housing, streamline environmental reviews, and institute upzoning—has been made in many venues. In this chapter, we seek to call attention to another acute challenge which has received less popular and academic attention: what should cities do with the hangover from the postwar housing boom?

The discrepancies between the nature of the postwar housing stock and the needs of today’s economy are stark (Parolek, 2020).<sup>4</sup> The postwar period saw a large, sustained housing boom catering to the working and middle classes across the entire country, partially in response to provisions in the 1944 GI Bill, which allowed returning World War II and Korean War veterans to obtain mortgages with zero down payments and interest rates capped at 4 percent (Chambers et al., 2014). These policy innovations helped spur a massive building boom in the central cities’ outer neighborhoods, as well as in the former farmlands and small towns along their peripheries, turning them into today’s inner-ring suburbs (Jackson, 1985). The baby boom, coupled with strong postwar wage growth for young adults, made even small houses on small lots enormously appealing (Chambers et al., 2014). In consequence, the average MSA in 2019 had 25.6% of its housing stock built in just that 20-year period of 1940–1960 (encompassing World War II and the immediate postwar era). Some MSAs, such as Detroit, Flint, and Los Angeles, have closer to 40% of their housing stock dating from that period.<sup>5</sup>

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<sup>4</sup>Houses built prior to World War II but after the turn of the previous century tended to cater to a rising class of relatively affluent automobile owners, and building housing for working-class people (such as duplexes and triplexes) tapered off (Harris, 2013). These houses tend to be somewhat easier targets for redevelopment, because they were built quite close to city centers, as the infant paved-road network made it impractical to build too far out. There were some exceptions during this period, as the 1920s also saw a large number of small, single-family detached houses being built for the rising manufacturing workforce in certain established cities, such as Detroit (Farley and Danzinger, 2000; Martelle, 2014), or in new boomtowns, such as Greater Miami (Knowlton, 2020).

<sup>5</sup>Source: Authors’ calculations from the 2019 American Community Survey 1-Year Data (Table B25034).



Today, these houses sell at a discount, particularly in markets where the housing supply has been highly price elastic (Rolheiser, 2020).<sup>6</sup> Rolheiser (2020) gives several reasons beyond age for why postwar housing has increasingly fallen out of favor. The first is that the average size of a newly built single-family home in 1950 was 1,065 square feet, but by 2015 this same figure had risen to 2,721 (see citations within Rolheiser, 2020). Second, these homes rarely have any capacity for home offices or other features that would be desired by many higher-earning white-collar workers. Third, most of the population growth in the next 20 years is going to come from groups who have few reasons to buy a smallish, single-family detached home in a suburban area: older households, single-individual households, and households without children (Spader, 2019). These homes are too far from city centers to compete for home buyers desiring dense, walkable neighborhoods, but are also on lots too small to compete with the wide-open spaces of the exurbs. Last, updating these houses for modern tastes is complicated by the fact that they are overwhelmingly located in neighborhoods and cities zoned exclusively for single-family housing (e.g. Badger and Bui, 2019; Micklow and Warner, 2014). These factors make postwar housing an unappealing target for upscale redevelopment, while also rendering such housing unappealing to downscale home buyers worried about the budgetary implications of buying an aging home. It thus comes as little surprise that suburbs with high concentrations of postwar housing have seen rising poverty rates and deepening population losses, particularly those in the postindustrial Midwest (Renn, 2017).

### 3 Current Trends and Future Outcomes

Restructuring from past mistakes involves retooling not just with current needs in mind, but ideally with future ones as well. There are myriad challenges cities in the United States and elsewhere will face in our tumultuous twenty-first century, such as global warming, mass

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<sup>6</sup>We note that these vintage effects favoring pre-1945 housing and discounting postwar housing also appear in other countries, such as the Netherlands (Rolheiser et al., 2020).

migration, and technological change, but here we want to focus on two that only very recently have received much attention: global population aging and remote working.

**Remote Working and Urban Policy.** A modest but permanent shift toward remote working, particularly among higher earners (Barrero et al., 2021; Dingel and Neiman, 2020), will weaken many cities’ ability to raise tax revenue through traditional channels like property and income taxes. Understanding the nature of this challenge requires looking no further than the celebrated Tiebout (1956) model. Tiebout argues that if consumer voters are fully mobile across localities, then the socially optimal level of public-goods provision can actually be obtained, thanks to self-sorting by individuals according to their preferences and competition between localities. If occasionally life imitates art, then working remotely brings the life of cities one step closer to the simulated world of Tiebout’s model.

Cities will need to be dynamic to embrace the reality of this increased competition for residents. First, cities will be able to count on less commercial property-tax revenues than in the past. Even if workers still have to come in to the office at least a couple of times a month, companies will be more reluctant to pay for the kind of physical office space that would sustain having scores of people in the same building at the same time if that only occurs irregularly.<sup>7</sup>

Second, while cities ideally would simply recoup lost commercial property-tax revenues by taxing residential home offices, there are several reasons why that may be impractical. Many states have both property-tax caps and homesteading exemptions for homeowners, and these effectively limit what cities and school districts can raise from residential property taxes (Twait and Langley, 2018). Furthermore, intensified Tiebout competition for high-earning remote workers will make it harder for cities to try to raise land taxes. Those residents most likely to work from home will be even more sensitive to property and income tax rates than

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<sup>7</sup>While we believe that remote working will be higher after the COVID-19 pandemic than before, we note that although office vacancy rates and utilization declined with the onset of the pandemic, as of this writing in Fall 2021, there is as yet no evidence that commercial rents have declined, perhaps because landlords are reluctant to change their rates in either direction until there is more economic clarity (Chung and Dill, 2021).

they were in the past, now that they no longer have to factor in daily commuting time to their decisions on where to locate. We have already seen some of this pattern emerge during the initial remote-work shock of the COVID-19 pandemic, in which many residents and businesses decamped from their cities' central business district for lower-density suburban ZIP codes (Ramani and Bloom, 2021). While we expect some reaggregation to occur after the pandemic ends, several influential commentators (Glaeser and Cutler, 2021; Florida and Ozimek, 2021; Fox, 2021) expect that attracting (or not repelling) remote workers will be a top-tier concern.

**Population Aging.** Preindustrial cities were “death sinks” affected by many crises, from the increased spread of disease to poor nutrition. However, as individuals in cities became wealthier, new evidence notes that the positive income effects of industrial urbanization may have outweighed its negative health effects (Gindelsky and Jedwab, 2021). As schooling increased and infant mortality fell, “industrious” residents of large cities likely began decreasing their fertility, focusing on quality of life and parenting over quantity of children.

Fast-forwarding to the present, we see that population growth has experienced steady declines across the globe. Individuals are intending to have fewer children than their immediate predecessors, which may translate into a decline in cohort-completed parity (Hartnett and Gemmill, 2020). Globally, people over 65 are the fastest-growing segment of the population, and in 2019 that group outnumbered children under five for the first time (Jarzebski et al., 2021). This fact creates a mismatch: many amenities in “hot cities” are geared more for young, hip adults, leaving those cities poorly positioned for a world in which people 65 and older are expected to be the largest-growing demographic.

There are several reasons why fertility has declined. One important reason is that many of the cities with the highest living costs have the lowest childbearing rates. In San Francisco, for example, only 13% of the population is under 18, compared to 23% nationally (Fuller, 2017). Other reasons include that younger individuals were forming their childbearing de-

sires during the Great Recession, a time that was a difficult one for financing childbearing (Kearney et al., 2021).<sup>8</sup> Additionally, younger cohorts face larger financial constraints, such as higher student debt, compared with previous generations.

There could be a variety of forces acting to suppress birth rates, but the key takeaway is clear: If birth rates continue to stagnate or fall, the number of prospective in-migrants from rural hinterlands, small cities, and other countries is expected to fall throughout this coming century, barring a remarkable reversal in birth rates outside of sub-Saharan Africa. Thus, the challenge facing cities is that more and more cities will have to cater to the needs of a growing number of aging residents while simultaneously attempting to attract young in-migrants, who will be needed for economic growth and prosperity.<sup>9</sup>

## 4 Policy Responses: Dynamic Is the Answer

If you are the mayor of a city confronting one or more of these challenges—that is to say, practically every mayor in the United States—how do you begin to act? In the past, cities often reinvented themselves either in the aftermath of disasters (e.g., the Great Boston Fire of 1872 (Hornbeck and Keniston, 2017)) or by running rampant over the rights of the poor, as with Baron Haussmann’s redevelopment of Paris or Robert Moses’s midcentury redevelopment efforts in New York City. We as a society have not yet invented the socio-political technology (if such a thing even exists) that would allow urban policymakers to both redevelop and redesign cities as needed while also respecting property rights (and without the pretext of a major emergency). This absence of such a solution is likely playing a role in the frustrations voiced by several cultural and economic commentators about the nation’s increasingly stagnant economic and physical landscape (Cowen, 2011; Douthat,

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<sup>8</sup>Dettling and Kearney (2014) find that increased housing prices lead to fewer children being born. In their analysis, housing prices exert a larger effect on birth rates than unemployment rates do.

<sup>9</sup>Of course, general population decline is not the only demographic threat. Highlighting the U.S. experience, the 2020 census data shows that between 2010 and 2020, domestic migration shifted to smaller metro areas and nonmetropolitan counties as jobs and housing began to disperse outward from cities in the aftermath of the Great Recession. This trend may further solidify itself in the COVID-19 era, thanks to the aforementioned shift toward remote working (Frey, 2020).

2020; Andreessen, 2020).

Fortunately, there are policies at hand that not only ameliorate several of these issues simultaneously but that do strike precisely this balance between redesigning cities and respecting property rights. We now highlight a couple of such policies, but a common thread running through all of our selected solutions is that mayors, policymakers, and, yes, citizens need to embrace the wisdom of the adage, “If we want everything to stay as it is, everything has to change.”

**Return to Annexations and Mergers.** Many cities around the world are struggling with sustainable depopulation strategies—Detroit (Owens et al., 2020) and Baltimore domestically, to name just two, as well as cities in large parts of Germany, Japan, and other countries. In response to declining urban populations, cities in the United States have adopted a variety of planning responses. We believe that some of the most important barriers to smart planning are psychological. LaFrombois et al. (2019) summarize these city plans as comprising everything from ignoring population decline to actively incorporating population trends into future plans. For example, they write, Toledo, Ohio, provided no data about past population trends in that city’s master plan. Despite the fact that Toledo’s population has been declining since 1970, the city’s 2010 strategic plan stated an unrealistic population goal of 400,000 for 2020 (the 2010 population was 287,208), while having no data to support or justify these goals. As of the 2020 census, Toledo’s population stood at 270,871, implying 10 years of essentially unproductive spending by the city.<sup>10</sup> Instead of relying on overly optimistic growth forecasts in the face of relative population stagnation likely to continue over the near future, cities may need to rediscover an old solution: annexations.

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<sup>10</sup>That is not to say that population decline is irreversible. For example, Washington, D.C., recovered from a midcentury population slump, in part through active civic engagement and policy planning. In the mid-1990s, business and civic leaders planned and pushed for both a new downtown sports and entertainment arena and the establishment of a downtown business improvement district stretching from the White House to the Capitol Building. Using city-owned land, tax-increment financing, tax abatements, arts grants, and zoning changes, the goal was to produce a “living downtown” to complement office buildings with more housing, culture, and entertainment. However, many cities have been trying similar strategies without Washington’s success, so there is no policy panacea for decline.

In the nineteenth and early twentieth centuries, annexations and mergers were the primary means for cities to grow. In fact, Chicago, Philadelphia, and other cities all aggressively annexed surrounding towns, including land that had not even been surveyed yet (Jackson, 1985). Annexations became less popular as the early twentieth century wore on, and they essentially ground to a halt in the postwar period, as white-fighting suburbanites used their political muscle to have state legislatures pass laws making it much harder for cities to follow them out to the suburbs through annexations.<sup>11</sup>

With these suburbs now facing demographic and fiscal decline, there are many good reasons for states to reconsider their laws hindering municipal mergers and annexations. Many of these inner-ring, white-flight suburbs suffer from problems that are compounded by having a high concentration of postwar housing: declining residential and commercial property values, aging housing, and property taxes higher than those of their anchor cities. A 2017 report by the Manhattan Institute argues that municipal merger and annexation offers a chance to avoid an inequitable situation in which poverty becomes concentrated in a band of suburbs on the outskirts of central cities, while wealth becomes concentrated either near the urban core or in the exurbs—an outcome that the rise of remote working seems even more likely to midwife (Renn, 2017). Many of these suburbs face a future of encroaching poverty and fiscal distress. Thus, while their citizens may resist a merger even when the mayor and city council support it—as has already happened in Ecorse, Michigan, and East Cleveland, Ohio—it probably represents the best path forward for the communities themselves.<sup>12</sup>

Mergers have significant benefits for the central cities as well. One is that if growth is now less likely to come from “natural” population forces,<sup>13</sup> then annexation is one way to

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<sup>11</sup>For example, in the 1950s Wisconsin started making it much easier for outlying areas to incorporate (which makes it harder for them to be annexed) and its courts interpreted the law to make it harder for municipality-initiated annexations to occur. The result is that almost all avenues for growth of Wisconsin cities into unincorporated territory have been closed off (Zeinemann, 2007).

<sup>12</sup>In Ecorse and East Cleveland, efforts by elected officials to pursue a merger with Detroit and Cleveland, respectively, caused a citizen backlash, resulting in recall campaigns. The politics of these mergers should thus not be taken for granted by researchers or policymakers, even in the case of extreme fiscal distress.

<sup>13</sup>By “natural,” we mean migration, net births, or immigration. All of these have either been in decline

help maintain a city’s population size. Another benefit is that expanding the tax base to include a wider variety of housing can be strategic, because development and redevelopment waves tend to occur over very long cycles, interspersed with long periods of sustained low prices (Glaeser and Gyourko, 2005; Rosenthal, 2008). For example, Indianapolis, which has a consolidated city-county government, was able to maintain fiscal stability over the 1980s and 1990s, when the city core was seen as unfavorable and the suburbs were prosperous, as well as recently, when the core has become wealthier and its de facto inner-ring suburbs have seen rising poverty rates (Renn, 2017). Having the age, quality, and design of housing vary over a large area helps ensure that at least some part of the municipality will still have highly desired housing on an ongoing basis.<sup>14</sup>

Last, more land (and population) means a greater say over how infrastructure is built and maintained in the future. Currently, many mass transportation services have to operate over several different municipalities, each with its own seat at the table. For example, the Boston-area Massachusetts Bay Transportation Authority serves 78 different towns and cities in Massachusetts and Rhode Island, meaning that Boston (the primary employment hub) has a relatively diluted voting share. In cities like Baltimore and New York, final decisions about public-transit funding and expansion are controlled by the state. A consolidated municipal government could thus have more political sway, leaving it better situated to make sure all of its constituents’ needs are met, particularly if they are low-income or minority.

We note here that while we believe that larger, more powerful cities could theoretically be more effective custodians of the interests of low-income and minority residents, we also acknowledge (as in this paper’s first section) that this historically has often not been the case. It is imperative that cities foster public participation and public trust, either by copying successful policies from other cities, or by coming to terms with how past policies and actions

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for some time or are forecast to decline as sources for population growth (for migration, see Molloy et al., 2017; for births, see Kearney et al., 2021; and for immigration, see Tavernise and Gebeloff, 2021)

<sup>14</sup>Cities should of course aim not to get overzealous in their annexation attempts. Memphis recently began de-annexing some outlying neighborhoods that were simply not generating enough tax revenues to cover their costs. These neighborhoods tended to be exurban or semirural in character, thus much less dense than your average inner-ring suburb.

encouraged or dampened public approval and the quality of life of local residents (Kahn and McComas, 2021). To wit, cities need to do a better job of working with communities and making residents believe that they have a voice and that policies concerning these public goods are community based and oriented.

**Missing Middle Housing.** While we think that the empirical literature strongly backs developing large, multi-unit rental housing to address the worst housing shortages in the coastal United States (Asquith et al., 2021; Buntin, 2017; Hsieh and Moretti, 2019; Li, 2021; Pennington, 2021), we also want to draw attention to what to do with increasingly undesired postwar housing and the “missing middle” housing problem (Parolek, 2020), in which building “middle-sized” housing such as duplexes and triplexes is neglected by developers in favor of larger apartment buildings. The roadblocks to reinventing or repurposing much of this postwar housing are substantial. One major problem is these houses are often found in the neighborhoods where the voices of citizens protest change the most loudly. Specifically, postwar housing is disproportionately found in the little municipalities ringing central cities that are heavily owner-occupied, and these owners are heavily incentivized to protect these areas from any changes that might threaten their property values, often militating against densification or rezoning.<sup>15</sup>

The first step is identifying who now makes up the market for these neighborhoods. In our view, these neighborhoods will be a mix of retirees or near-retirees and the working poor and lower middle class—for example, people like the COVID-19 pandemic’s much-lauded essential workers. Broadly speaking, these are people who cannot work from home, but make enough money to pursue homeownership for their families. This will be in part a consequence of increasingly aggressive sorting along Tiebout lines, with the wealthy, the young, and the upper-middle-class continuing to occupy the city centers;<sup>16</sup> another chunk

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<sup>15</sup>As Mast (2020) shows with ward versus at-large representation, councillors representing small geographical units are much less likely to support new housing development.

<sup>16</sup>We suspect that COVID-19 will not dent young, affluent, unmarried people’s desire to live in “trendy” parts of large cities. Educational sorting and agglomeration economies continue to ensure that these locations remain the best places for dating for young, college-educated people. While dating can occur remotely, most



of people able to work from home will concentrate in the exurbs, as technology slackens the locational tether of a daily commute; and the very poor will probably continue to be disproportionately distributed in rural areas or in certain inner-city neighborhoods.

Thus, this really becomes two questions: 1) How can central cities and their inner-ring suburbs encourage private redevelopment of this housing to accommodate (largely) working-class and lower-middle-class nonremote workers? And 2), given the rising numbers of people retiring in place, what do cities need to do to be able to serve a growing population of older people?<sup>17</sup>

Putting pressure on zoning for single-family housing is the most effective way to address the shortage of “missing middle” housing, which can best serve these groups (Wegmann, 2020). While most cities’ ability to redevelop housing directly is limited, giving developers a freer hand can make a big difference, even on a parcel-by-parcel basis.<sup>18</sup> Accessory dwelling units (ADUs) and duplexes can appeal to those young working-class and lower-middle-class people whose wages have been stagnant and who are still reliant on a daily commute but want a path toward living in a conventional suburb while they slowly accumulate the money for a down payment. Many duplexes have small backyards for children to play in, allowing a young family to start their small children in a local school system while they look for a home. Duplexes can also appeal to older people looking to downsize, but who, for whatever reason, neither want to live in the center city nor out in the exurbs or rural areas. For example, a 60-year-old in somewhat poor health may find a duplex that is moderately close to the center city appealing. She may need to downsize some years before she finishes her working career,<sup>19</sup> and she can live on the first floor of a duplex without the inconveniences of stairs or lawn maintenance. Similarly, this same 60-year-old could move into her son’s or daughter’s

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people (for obvious reasons) will find this undesirable for longer than short stretches.

<sup>17</sup>We expect both groups to grow, spurred by population aging, which will strongly increase the demand for professions like home health aides and nurses (Goodhart and Pradhan, 2020).

<sup>18</sup>While most developers prefer to operate on large, undeveloped plots of land, great innovations are occurring with manufactured homes and 3D printing to enable small-scale development to be done quickly, cheaply, and well, *e.g.*, Kamin (2021).

<sup>19</sup>Asquith (2021) shows that renting has risen steadily among older workers since the Great Recession, particularly among those without a college education.

ADU to help with child care, while similarly fulfilling her desire to downsize (Micklow and Warner, 2014).

Fortunately, efforts are already underway in many states and localities to encourage greater density, such as Minneapolis’s and Oregon’s recent bans on single-family housing, Massachusetts’s new law forcing towns to permit multifamily housing near commuter rail stations, and California’s new law allowing up to three additional housing units to be built on any plot zoned for single-family housing. For those localities that hold out against densification, the federal or state government can exert further pressure: in exchange for fiscal help to cover property-tax shortfalls or grants to local homeowners to cover some of the costs of updating aging homes, the localities can be required to make changes to their zoning codes to permit “gently” denser housing. Gentle densification will (presumably) not excite as much opposition as putting in large new apartment buildings, but will still help put these suburbs on a more sustainable fiscal and demographic path.<sup>20</sup> This leverage can also extend to improving local transportation options, such as making requirements that these cities cannot have blanket opposition to moves to extend commuter rail, subway, or bus lines from the center city into their neighborhoods, which would help ease some of the inequities of the past in newly diversifying suburbs. The result would, hopefully, be that these inner-ring suburbs could be (literally) rejuvenated, so that new residents could enjoy expanded housing options reasonably close to the city with a lower carbon impact than exurban development would require.

**Fostering Urban Amenities and Valuing Nonmobile Businesses.** Beyond housing and mergers, what else can cities do to maintain their appeal? Here, too, we argue that a dynamic approach that is willing to disrupt the status quo is best suited for orienting a city toward a successful future. For example, one solution to newly underutilized commercial

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<sup>20</sup>This is in part because in most states the effective property-tax rate on an apartment building of any size is higher than the rate for a single-family home because of “homestead” exemptions.

office space could be converting offices into apartments or condos.<sup>21</sup> This greater density can magnify cities' key advantage: the ability to provide large, complex public goods (Glaeser, 2000). This same logic could even be applied to decaying parts of the single-family housing stock, where cities may have a freer hand than suburbs to upzone or encourage redevelopment of residential properties to include home offices.

Cities will also have to consider making a break with a past mindset of pursuing tech companies and the "creative" class, because many of these residents and companies are going to have a much smaller physical footprint going forward.<sup>22</sup> Thus, it will be harder to rationalize throwing millions of dollars of tax breaks at an Amazon HQ3 or a Googleplex2. Conversely, it may increase the value of attracting a major manufacturer or entertainment industry (like an NFL team), whose value is much more tied to the location in question.

Cities also need to figure out how to square the circle of keeping taxes relatively low while offering more amenities to attract new residents. Amenities or industries that increase appeal and city revenues simultaneously are probably the desired sweet spot. For example, if a permanent increase in remote working leads to less road utilization and housing demand, then cities can experiment with amenities like pedestrian malls and urban farming. Pedestrian malls in particular are famously attractive to residents, cheap for cities to implement, and increase the property values of nearby buildings (Amos, 2019).<sup>23</sup> More speculatively, another solution that views amenities as both an attraction and as a source of revenue could be something like a publicly funded "maker space." People could walk in, register, program in computer-aided design (CAD) anything that they want produced in an advanced manufacturing setting, and then leave with the prototype. The maker space, like private spaces, could offer classes on welding, sewing, metal stamping, and other pursuits. This would be a

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<sup>21</sup>In fact, this is simply an extension of a trend begun in the 1980s, when many abandoned urban factories were converted to loft apartments (Hornick and O'Keefe, 1984).

<sup>22</sup>For example, the results from Bartik (2018) on the impact of local incentives are heavily dependent on the assumption that 100% of the directly created jobs will appear in the local area. However, even relatively small reductions in the number of jobs that are local, but that might instead be done remotely, greatly diminish the value proposition of most incentive policies.

<sup>23</sup>They can also be successfully implemented in fairly small cities. The first city to build one, in 1959, was Kalamazoo, Michigan, whose current population is about 76,000.

location-specific amenity that would be valued by entrepreneurs and hobbyists, who would want to live nearby. By the same token, it could also be a tax opportunity, because the city could then claim a small fraction of the royalties generated by any patents or businesses that emerge from its maker space. To keep claims of originality and ownership straight, each CAD design could be registered on a city-operated blockchain. There are of course some significant technical, financial, and legal challenges that would have to be overcome for the municipal assessor's office to establish a stake in the profits or royalties from projects that would emerge from the maker space, and a city would initially not earn any of these tax revenues for quite some time. That said, with capital and labor more mobile than ever before, and labor on track to become scarcer, municipalities will need to find creative solutions to resolve some of the problems created by a smaller, more flighty tax base.

Ultimately, it is in the interest of national and state policymakers to encourage these experiments in local amenity creation and tax collection. While another intriguing possibility is to dangle incentives to remote workers living elsewhere to relocate to one's home community, currently being pursued by places like Tulsa (Tulsa Remote) and West Virginia (Ascend West Virginia), there are still inherent limits to having municipalities chase a finite pool of relatively mobile remote workers. While some of this Tiebout-like competition will probably lead to better public goods provision than in its absence, classic Tiebout competition with property taxes can actually be socially suboptimal (Calabrese et al., 2012), a point policymakers should bear in mind.

## 5 Final Thoughts

Whether we are looking back or looking forward, it is easy to list the problems cities face. We ourselves begin by observing the consequences of past urban policies. Exclusionary lending practices and highway construction through the center of cities have led to disproportionately negative effects on minorities in inner-city neighborhoods. The boom of postwar

housing construction has left present-day city residents with a mismatch of housing stock and housing preference. Current issues, such as the rise of remote workers and population aging, highlight the crossroads cities find themselves at.

Giving cities the ability to experiment in bold and flexible ways with addressing past, current, and future issues is of utmost importance if we want them (and their residents) to thrive. We suggest several policies that will allow cities to do just that. A push for cities to embrace annexations and mergers could simultaneously alleviate concerns about urban depopulation and perhaps strengthen the community’s voice when it comes to expressing preferences for the location and type of transportation infrastructure, as well as the type of housing the community desires. Specifically, focusing on rewriting current zoning laws or incentivizing construction of the “missing middle” housing stock could allow cities to attract new residents and provide current residents with more housing options. Finally, encouraging cities to lean into their comparative advantages in amenities, as well as think about realistic but innovative new amenities, could be a potential cure for population aging and the rise of remote workers.

Ultimately, we view these policy responses as being united thematically by giving cities a freer hand to grow, build, and experiment. We also argue that it is important that policymakers continue to leave room for private actors to innovate and build as well. For example, the Greene Street Project ably demonstrates the limits of policy and the importance of private actors (Easterly et al., 2016). The project maps out the 400-year-long evolution of one block of Greene Street in Manhattan’s SoHo neighborhood. Given that the block is currently highly affluent, it is somewhat of a surprise that the block was much more working-class for most of its history, including hosting brothels and factories. The reader inexorably draws the lesson from the Greene Street Project that policymakers who may have been tempted at any given point in its history to freeze it in time would likely have derailed its socioeconomic ascent and done their city a disservice.

At the end of the day, cities will always have problems to solve. The specific problems

may fade into the past, or they may change and become more acute. The only reasonable response is for cities themselves to retain a willingness to disrupt the status quo (even—or especially—when it is backed by powerful constituents), find ways to harness the vital energies of their residents, and maintain a balance between present decisiveness and future flexibility.

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