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Restoring Prosperity: Transforming Ohio's Communities for the Next Economy
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Introduction

Thank you Lavea for that concise overview of the *Restoring Prosperity* report and for the strong partnership with Greater Ohio over these past few years.

I also want to thank Senator Sherrod Brown, Lt. Governor Lee Fisher, Chief Justice Tom Moyer, and our distinguished panelists for being here today, as we come together to think about how to move Ohio forward.

As Ohioans know all too well, the "Great Recession" has been a wake up call.

The housing sector is battered, and your communities are littered with foreclosures. The manufacturing sector has lost almost 150,000 jobs over the duration of the recession. Income tax receipts dropped 36 percent in the past one year.

It is time to get back on track and lay the foundation for a radically different kind of growth both in Ohio and in the nation.

In that spirit, this report makes the following propositions:

First, the shape of the next American economy must be export-oriented, low carbon, and innovation fueled. This is a vision where we export more and waste less, innovate in what matters, produce and deploy more of what we invent. This is the kind of productive and sustainable economy that must emerge from the rubble of this recession.

Second, Ohio has some strengths—both historic and emerging—that will help it find a stable footing in the next economy. In many cases, these strengths have been nurtured and amplified by smart policy decisions at the state level and far-sighted collaborative efforts at the metropolitan level.

Finally, to build the next economy, the state and its metros need to do three essential things:

- Build on the assets in its metropolitan areas that will drive prosperity in the future

- Catalyze transformative changes in governance at the state and metropolitan level

- Engage and align with the federal government, to maximize new opportunities and tailor the federal response to the challenges that states like Ohio are facing now.

The agenda we propose is ambitious—and realizing it will not be easy.

Ohio has been hit very hard. Not only has the current recession been devastating, but the state never fully recovered from the *last* recession. The broad restructuring of the economy, from the auto industry to manufacturing more generally, has presented brutal challenges to the state for decades.

Your challenge, America's challenge, is to convert the dynamism emerging in Ohio's metropolitan areas into solutions that are pragmatic, far reaching and critical to this moment. The most important action you take in the aftermath of this recession is to build for the future. The stakes could not be higher.

So let me begin by offering a vision for the next American economy… one that is export oriented, low carbon, and innovation fuelled.

Imagine an economy where more firms in more sectors trade more goods and services seamlessly with the world, particularly with the rising nations that are rapidly urbanizing and industrializing. As President Obama said in the State of the Union, "The more products we make and sell to other countries, the more jobs we support right here in America."

For the past several decades, the U.S. economy has been driven by imports rather than fueled by exports. According to the World Bank, exports make up only 11 percent of the GDP of the U.S. compared to 40 percent in Europe, 40 percent in China, 36 percent in Canada, 22 percent in India and 16 percent in Japan. Only 4 percent of U.S. companies export. Less than 0.5 percent of U.S. companies operate in more than one country.

Can we get back into the export game? The answer is decidedly "yes."

For the first time in recorded history, more than half of the world's population lives in urban and metropolitan areas. By 2030, the metro share will surpass 60 percent. Across the globe, metropolitan economies are driving demand for increased trade and commerce, only temporarily abated by this downturn. Ohio benefits from this explosion: Brazil and China, two rapidly growing and hungry economies, are Ohio's third and fourth largest trading partners.

The U.S. can play in this expansion—and Ohio has key role. You still manufacture a range of advanced goods that the rest of the world wants including aircraft, spacecraft, electrical machinery, and medical instruments.

The U.S. and Ohio are also poised for a quantum leap in the export of high value services—educational, health care, professional, management, architectural and engineering.

Educational services are already a key export with some 670,000 international students flocking to our world-leading institutions of higher learning. Some of them come to places like Ohio State, the University of Akron, Cleveland State, Case Western, and your other colleges and universities.

America's, and Ohio's, potential for exports is hidden in plain sight. President Obama's challenge, to double exports in five years, is exactly the kind of ambitious, far reaching goal we need at this moment.

Low carbon is the second, related hallmark of the next U.S. economy. America could not only lead the global transition to sustainable growth but use breakthroughs in technology and practice to spark a production revolution in Ohio and other manufacturing states.

We have a long way to go.

The United States has been slow to embrace the potential of the green economy, despite having twice the per-capita carbon dioxide emissions of other industrialized nations. Ohio still gets 86 percent of its electric power from coal.

China is seeking to dominate the race to green, dedicating $221 billion of their recent stimulus package on renewable energy and other green investments, compared to $94 billion in the United States.

Make no mistake: The transition to a low-carbon economy is fundamentally about markets.

The energy we use will migrate from an almost exclusive focus on carbon-based fuels to a more sustainable mix: natural gas, solar, wind, hydro, geothermal, ocean waves, and bio mass.

The infrastructure we build will shift from 20th century models of transport and energy transmission to rapid bus, ubiquitous broadband, congestion pricing, smart grid, distributed power generation, high speed rail, and intelligent transport.

The products we buy will move from high-carbon gas guzzlers and fluorescent lights to sustainable goods: electric vehicles, energy efficient appliances, smart meters, LED lights, and local food, which could be designed, developed, built, and grown here in Ohio.

And the homes we live in and the schools, office, and retail buildings we frequent will be more sustainable in design, more efficient in their use of water and energy, and better arrayed so that people can spend less, walk more, and live a higher quality of life.

This leads naturally to a discussion of innovation… the historic catalyst and fuel for economic growth. The United States must strive to be the world's "Innovation Nation," a hothouse of ideas and invention and the platform for advanced production. Ohio's future also depends on innovation, in clean energy, in advanced batteries, and advanced manufacturing.

But American leadership on R&D investment and key indicators of science innovation is slipping.

More generally, the next American workforce is ill equipped to drive innovation. African Americans and Hispanics lag on critical indicators. Yet these groups will constitute nearly 40 percent of our workforce by 2050, up from 25 percent today.

In Ohio, educational attainment is low in general—only a third of working-age Ohioans have an associate degree or more – a level below the national average. You rank 38th among the states in the share of workers with a bachelor's degree or more.

And the U.S. lags on the conversion of innovation into home grown production. We have gone from running a trade surplus in advanced technology products in the mid 1990s to running a trade deficit this decade.

Going forward, we will innovate less if we do not produce more.

It is time to rediscover our innovation mojo: in our research labs, on our factory floors, in the trade-able sectors that drive wealth creation and sustainable growth.

This leads to my second proposition: Ohio has strengths, some long-standing, some nascent, that can help it find a stable footing in the next economy.

On exports, the value of products sent from this state to countries across the globe has risen for each of the last eleven years—this is the only state in the country that can make that claim.

Ohio's exports to Brazil increased 47 percent from 2007 to 2008, exports to China grew by more than 20 percent, and exports to India rose 27 percent (albeit from a very small base) over that same time. Export value grew even as the overall state GDP fell slightly from 2007 to 2008.

Your export strength does not come exclusively from manufacturing or the auto industry, either. Columbus, Cincinnati, Dayton, and Youngstown all have a level of service export intensity that's above average for the 100 largest metros in the country – Columbus and Cincinnati are in the top quarter.

Columbus, in large part because of Ohio State's presence, is the 22nd largest metro provider of higher education to foreign students

On low-carbon, Ohio again is surprisingly well positioned. The state ranks seventh in the nation for total green technology patents for 1998–2007, with particular strengths in battery technology, hybrid system technology, and fuel cell technology patents.

The new energy economy is already creating jobs in Ohio. According to a recent report by the Pew Center on the States, Ohio's number of clean energy jobs grew by more than 7 percent between 1998 and 2007 even as the overall number of jobs in the state contracted by 2 percent. The state ranks in the top six states in the country across several categories of new energy jobs.

Metropolitan regions like Akron, Dayton, Toledo, and Youngstown concentrate the technical expertise and physical capacity to manufacture wind turbines.

And, as with the US economy as a whole, the transition to low-carbon in Ohio is driving innovation.

Ohio attracted $46 million in venture capital investments in clean technology in 2008, more than triple the amount invested in the state the previous year.

Cincinnati, thanks largely to Procter & Gamble and General Electric, has a patent rate nearly double that of the U.S. as a whole. Cleveland, too, has a patent rate well above the national level.

The state is in the top ten nationally in science and engineering doctorates awarded; in academic research and development spending; and in small business innovation research awards, according to recent National Science Foundation data.

These strengths arise from many factors, but smart, targeted state policy has played a tremendous role as well.

Ohio has overhauled its tax structure over the last five years, and now the president of the Ohio Manufacturers' Association deems that the state has "the best tax structure for an export-oriented, goods-producing state in the country.

Ohio requires that its new schools be built to LEED silver standards, not only to provide better environments for children, and save school districts money in operations, but build a market for green building products and expertise in green construction.

The state has had an advanced energy portfolio standard—the seventh most aggressive in the nation—in place since 2008, alongside an aggressive energy efficiency standard.

The state's own stimulus bill in 2008 included investments in advanced energy and clean coal.

Governor Strickland recently announced the Energy Gateway Fund, $40 million in federal and state dollars to provide much-needed capital during the current credit freeze for new or growing advanced energy companies

Ohio's ground-breaking innovation-based economic development program, the Third Frontier, has yielded $6.6 billion in economic activity, including 41,300 jobs, from the state's $681 million expenditure thus far, and an independent analysis of the program suggests that many of its benefits are yet to come.

The state's Edison Centers have tapped into particular industry clusters in metropolitan areas, supporting the Edison Welding Institute, BioOhio, TechSolve, and PolymerOhio.

And the state has also fostered entrepreneurial efforts in metros, through Edison-affiliated organizations like JumpStart and BioEnterprise in Cleveland, the Youngstown Business Incubator, Biostart in Cincinnati, and TechColumbus.

The next economy will be powered by the private sector, not the state—or federal—government acting on its own. But, as this litany of smart, focused policy decisions shows, the state can do a tremendous amount to create the context and even the partnerships through which the private sector can move ahead. The government has to build the conditions in which markets, places, and therefore people, can flourish.

This brings me to my third point, which is that Ohio needs to do more at the state and the metro level to bring the next economy to this state and restore prosperity. That is what our Restoring Prosperity agenda is about: the next steps Ohio has to take to build on what's gone before and move ahead strongly.

Ohio has to build on the assets that are in its metropolitan areas. Modern economies—and the next economy—concentrate intensely in a relatively small number of places.

Here is the real heart of the Ohio economy—its metropolitan areas that are home to 81 percent of the population, 84 percent of the jobs, and 87 percent of the state's GDP.

Metros are the true economic geography, enveloping city and suburb, exurb and rural town in one seamlessly integrated whole. Because of Ohio's multiplicity of metros, concentrating on and investing in metropolitan regions as the economic drivers and the hubs of activity is practically a "leave no place behind" strategy. Almost every single Ohioan lives within an hour's drive of an urbanized area, and half of the state's population lives within 10 miles of an urban core

Metros matter precisely because they cluster in close proximity networks of large companies, small and medium sized enterprises, advanced research institutions, specialized services, skills providers, and business associations. Smaller metros provide links between agriculture and consumers and broader markets, between biomass distributors and inventors and the rural feedstocks they depend on.

As I mentioned at the start, our Restoring Prosperity agenda has three inter-related steps.

First, Ohio must support and leverage the key assets that drive prosperity: innovation, human capital, infrastructure, and quality places. These assets concentrate disproportionately in your metropolitan areas.

Our key recommendations:

On innovation, make a full court press on passing the Third Frontier ballot initiative and then find a dedicated source of revenue for the effort going forward.

On human capital, enhance support for workforce intermediaries that train workers for real jobs in key industries: particularly sectors like clean and advanced energy that are poised for growth.

On infrastructure, make "fix it first"—the preservation of your existing roads, bridges and rail—the priority for investing scarce resources. This includes paying for the maintenance of state highways that pass through cities with state funds, instead of stopping maintenance at a city's edge.

On quality places, make strategic choices—with county land banks, with overhauled planning statutes, with anchor innovation zones—to develop smaller, stronger, greener cities. Your core cities have shrunk in population by as much as 50 percent since the mid twentieth century. Now they need to reconfigure their physical landscape to recognize that brutal fact and prepare themselves for a smaller but prosperous future.

Second, Ohio must change the way it governs locally. We challenge the state to get smarter about how many governments, including school districts, there are in this state, how they operate, and how they collaborate across outdated jurisdictional boundaries.

Let's review the math. Ohio has 3800 local governments, including 250 cities, 695 villages, 1308 townships and 88 counties. Ohioans must love government because you have so much of it!

To take just one example, you are awash school districts, 611 in total. Incredibly, Ohio ranks 47th in the nation in the share of elementary and secondary education spending that goes to instruction and 9th in the share that goes to administration.

Ohio's share of education spending that goes to school district administration is 49 percent higher than the national average.

Is that the best use of education dollars, which consumes the largest share of state spending, at a time when state revenues are at their lowest level in years?

One recommendation: The Governor and state legislature should appoint a state education reorganization commission to recommend how to reduce the number of school districts by a third. This recommendation should then go before the state legislature for an up or down vote.

At the metropolitan level, Ohio needs governance reforms, to make tax sharing easier in regions that are ready to take that important step, and to encourage local governments to collaborate and share services across the board.

Finally, the federal government can be—and must be—a partner with Ohio in these efforts. Restoring prosperity in Ohio will require a purposeful alignment of federal and state priorities, policies, and practices.

Here is the deal: the federal government has already appropriated funds for investments that matter to Ohio—new advanced energy innovation hubs, new regional industry cluster efforts, new funds to drive sustainable growth and help create smaller, stronger, greener communities.

You can and must compete for these funds.

But, as Senator Brown well knows, current federal policies are not sufficient to transition Ohio's economy to the next economy. We need a national debate on the future of manufacturing in the United States, and Ohio must lead that debate.

In April, the White House and Brookings will co-host a summit on the federal role in reviving auto communities, and we are already engaging Ohio business, political, and civic leaders for their ideas and guidance.

Conclusion

Let me end where I began.

The Great Recession set the conditions for the kind of historic national reset that we witness once or twice a century.

In Ohio, as in the nation as a whole, we need to get about the business of restructuring our economy, toward exports and low carbon, in favor of innovation, so we can compete globally and place this state back on the path to prosperity. This path runs directly through Ohio's metropolitan areas, and links up metro, state, and federal efforts.

It will not be easy. The tremendous changes in the world economy over the last 18 months, and in fact the past several decades, have not been kind to Ohio's communities or its workers.

It is understandable if Ohioans are wary of promises of the "new" and the "next," but the fact is that the next economy is happening, like it or not. The question is: will Ohio benefit from it or not?

Given your resources, your innovation strengths, your manufacturing prowess, your metropolitan assets, the answer should be a resounding yes. I look forward to making that happen.