Metropolitan Policy Program
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The Next Economy: What's at Stake for New York?
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Introduction

Thank you Jim for that kind introduction… and for your sustained support and intellectual contribution to the work of Brookings and the Metropolitan Policy Program.

Six months from now this state will elect a new governor, incredibly the fourth person to occupy the office in four years.

The new governor will take office at a transformative period in our nation.

The "Great Recession" has been a wake-up call.

It unveiled an economy dangerously out of whack: frenzied with consumption, wasteful in its use of energy, more adept at increasing inequity than sharing prosperity, more successful at exacerbating rather than easing divisions between Wall Street and Main Street.

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

In that spirit, I will make 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 which must emerge from the rubble of this recession.

Second, New York can play in the next economy, but it requires the state to recognize the dominant roles played by the New York City metro and five other upstate areas—Buffalo, Rochester, Syracuse, Albany, and Poughkeepsie. New York is one of the most metropolitan states in the country, and it is high time it acted like one.

To build the next economy, New York must connect the macro vision to metro reality—the Macro to the Metro. The state must find creative ways, even in these difficult fiscal times, to invest in infrastructure and innovation. It must reform and restructure its post secondary education system. And it must overhaul local government to better align with the metropolitan geography of the economy.

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 13 percent of the GDP of the U.S. compared to 36 percent in China, 35 percent in Canada, 24 percent in India, 18 percent in Japan, and 15 percent in Europe.

As Howard Rosen of the Peterson Institute recently summarized, exporting is almost an unnatural act in the U.S.: 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.

The U.S. can play in this expansion. We still manufacture a range of advanced goods that the rest of the world wants including aircraft, spacecraft, electrical machinery, precision surgical instruments, and high-quality pharmaceutical products.

The U.S. already has a trade surplus in services—$144 billion in 2008—and we are poised for a quantum leap in the export of high-value services.

America's—and New York State'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 renewable energy manufacturing revolution in New York and elsewhere.

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.

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.

And the homes we live in and the school, 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.

Need job creation? The low carbon economy will be delivered by millions of new workers: financiers to finance, scientists and engineers to invent, entrepreneurs to take to market, laborers to build and install new infrastructure, facilities, and products.

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.

For decades, innovation has been the driver of American productivity and growth. Innovations in computers and telecommunication enabled the information revolution. And advancements in health care sparked growth in pharmaceuticals and medical devices.

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 national workforce by 2050, up from 25 percent today.

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: New York has strengths, some long-standing, some nascent, that can help it play in this next economy.

At the outset we must understand that the New York economy is essentially the sum up of the economies of the state's six large metropolitan areas.

The New York portion of this metropolis contributes more than 75 percent of the state's economic output but houses only 64 percent of the population of the state.

Incredibly, 92 percent of the state's economic output is generated by the state's six large metros – New York, Albany, Buffalo, Poughkeepsie, Rochester and Syracuse.

New York is a metropolitan state.

So how are New York's metros positioned for the next economy?

On exports, the New York metro is the largest exporter of goods and services in the nation, topping other global metros like Los Angeles and Chicago, as well as powerhouses like Houston, Dallas, San Francisco, Philadelphia and others.

Almost 60 percent of the exports in this metro are driven by just five sectors: chemical manufacturing, financial services, travel and tourism, royalties, and management-consulting.

But many upstate metros are even more export-focused. Buffalo, Poughkeepsie, Syracuse, and Rochester all have larger shares of their gross metropolitan product driven by exports than the New York metro and nearly meet or exceed the national average for large metros. Manufacturing, despite conventional wisdom, is not dead in these places. New York may be hobbled in continuing to be an export leader, however, by infrastructure challenges.

New York is currently unprepared to take advantage of the widening of the Panama Canal, scheduled to be completed in 2014. The Bayonne Bridge, which spans a section of the New York-New Jersey port—the largest on the east coast, is not high enough to accept the largest ships. The ports of Norfolk and Charleston, which each handle less than 40 percent of the container volume of New York-New Jersey, could be ready much sooner.

On low carbon, this state has some competitive advantages.

In 2007 it state ranked eighth among U.S. states for renewable power generation, with 19 percent of electricity generation coming from renewable sources.

And the state's strong renewable portfolio standard for power generation will require the state to increase that share to 25 percent by 2013.

And there are other bright spots: the state ranks second among states for clean energy patents in the last decade (behind California), and ninth in venture capital investments.

The manufacturing and tech legacy of upstate metros also give them a workforce primed for clean energy development sectors like the wind and solar industries.

As with exports, the condition of infrastructure remains a serious concern. According to a recent report: "the energy infrastructure of the state is old, decaying, and struggling to serve an ever-growing demand."

On innovation, the six large metros present a similarly varied picture.

Albany, Poughkeepsie, and Rochester all exceed the large metro average for patents per capita.

And Buffalo, Syracuse, and Albany perform particularly well in the share of employment in research and development, due to the legacy of industrial product development.

The challenge in the state owes partly to the fact that this state and its metros are lacking in top-funded research universities—New York is the only metro in the state with a top 25 research funding recipient in Columbia, which ranks 21st.

Without flagship research institutions like Johns Hopkins or the University of Washington, New York ends up exporting its talent. While nationally, 43 percent of startup founders established their companies in the same state where they received their academic degrees, in the New York that number is just 21 percent.

The last measure of metro performance that undergirds the next economy is human capital.

Here, as well, there is work to do. New York State, although 4th in population, ranks 10th in B.A. attainment with 31.9 percent of people over 25 having received a college degree.

The variation across and within metropolitan areas is immense.

The New York metro ranks 13th among the top 100 metros for bachelor's attainment compared to 28th for Rochester and 64th for Buffalo—the lowest level among the New York metros.

And in each of these places, the combined educational attainment of white and Asian adults is more than twice that of blacks and Hispanics, who again make up an increasing share of the workforce.

That leads to my final proposition: to build the next economy at scale, the U.S. and New York must connect macro vision to metro reality—the Macro to the Metro.

The U.S. needs a playbook that is uniquely aligned to our entrepreneurial nation, where quality growth and jobs emerge from the DNA of metropolitan America: the intersect between private firms, regional industry networks, research institutions, universities and community colleges, governments, trade associations, philanthropy, and labor.

The federal and state governments, of course, *should lead where they must*, given the need for common markets and transformative investments.

At the same time, networks of metropolitan leaders *must innovate where they should*, given their distinct clusters and competitive advantages and special responsibilities for developing quality places and educating the next workforce.

Today I will focus on the state role given the November election.

To put it mildly, the next governor will take office during a challenging period. Trust in Albany is nil. The state's budget picture could not be more dire. The state has a projected $9 billion shortfall in the fiscal year that started April 1st. Next year, that shortfall could balloon to $15 billion.

Yet the state cannot just dig out of a hole, you must also build for the future. Three things to consider:

First, the state needs to explicitly pursue a Next Economy roadmap.

Given your challenges, you must be the nation's leader on innovative infrastructure finance. A state infrastructure bank should be created to leverage private investment through public loan guarantees, as in California and Kentucky. The bank should be used to modernize the state's electric grid and make transformative investments in the ports.

All state transportation funding should be subject to performance measures and cost benefit analysis, to weed out inefficient spending.
And the state, working with the city, should revisit the 2007 congestion pricing plan, both to manage congestion and create a revenue base for transit.

As you fix your infrastructure, you must get real on exports. The Empire State Development Corporation needs a global makeover, with particular focus given to exporting to developing nations such as China and Brazil, and finding New York businesses that could participate in international trade.

And, lastly, it is time to overhaul your current investments in science and innovation, the ticket to high quality job growth tomorrow. Existing efforts are too scattered and too removed from market adoption and entrepreneurial take up. And current investments may actually be too small. The call for a $3 billion, 10-year Empire State Innovation Fund, similar to funds enacted in Massachusetts, Ohio, and Connecticut, needs serious consideration.

Second, New York cannot deliver this economy without the proper focus on human capital, particularly its institutions of higher learning.

But the state's fiscal situation has put these institutions are under siege: since 2008, SUNY's campus budgets have been cut six times by a total of $424 million, and an additional $170 million could be cut this year under the governor's proposed budget.

The hard times are the right time to reform the antiquated system of funding for higher education. SUNY and CUNY must be empowered to set tuitions. And they must be freed up to run their operations in an efficient and accountable way. The reforms, in the Public Higher Education Empowerment and Innovation Act are a good start. Pass them.

Growing an innovation-fueled economy, in short, requires strengthening those institutions which disproportionately supply the fuel… and ensuring that qualified individuals have access to those institutions.

And finally, the state must alter the geography of local government and governance to be in synch with the metropolitan geography of the economy.

There is work to do. The New York State Commission on Local Government Efficiency and Competitiveness found in its superb April 2008 report that there are "some 4,720 local government entities, that is, independently managed organizations that can make decisions affecting local taxes either directly or indirectly."

The list defies credulity:

57 counties
62 cities
932 towns
556 villages
685 School Districts
867 Fire Districts
181 Library Districts

993 Local Public Authorities

It is time for systemic and systematic change.

The state should, as Maine has done and Pennsylvania, Indiana and Missouri have proposed, move to consolidate units of local governments, starting with school districts and special purpose authorities. Why not appoint a reorganization commission to develop plans for shrinking the number of school districts. And then put the plan before the legislature for an up or down vote, as under the federal military base closing process.

At the same time, the state should compel neighboring jurisdictions to work together to promote efficiency and smarter development. The Commission on Local Government Efficiency and Competitiveness urged that municipalities be allowed to share the tax benefits of economic growth and partner in the delivery of services, to lower expenses. These are sensible reforms and should be enacted as soon as possible.

Consolidate and collaborate—simple concepts whose time has come.

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.

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 the U.S. back on the path to prosperity. This path runs directly through our metropolitan areas.

The people in this room and the sectors and constituencies you represent are illustrative of the energy and potential of metropolitan America.

As global entrepreneurs, you understand the urgent competitive challenges we face around the world. You have a clear sense of what other nations are doing to lead the clean energy economy. And you have concrete ideas for what our federal and state governments need to do to enable us to stay in the game, let alone succeed.

As leaders who travel in metropolitan space, you understand the power of clusters and concentration, of livability and smart transport, of schools and skills.

You are a unique, pragmatic, grounded voice in the coming debate over jobs and the economy and investment.

Let that voice be heard.

We are a Metro Nation and it is high time we started acting like one.