Metropolitan Policy Program at BROOKINGS

Delivering the Next American Economy: The Central Role of Exports

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I want to thank the International Trade Administration and the Kansas World Trade Center for this opportunity to take part in such an important conference. We at Brookings have been spending the past few years focusing on ways to build a sustainable, post-recession economy in the U.S., one powered by the metro areas that make up the global economy. At the heart of the next economy is exports. And we have been grateful for the conversations and collaborations we have had with ITA, Ex-Im Bank, and others who are part of the National Export Initiative on how we can work together to make sure the goal of doubling exports begins at home, in the very regions where firms and workers are located, and where the processes of innovation, production, and marketing take place.

You've already had a stimulating morning learning about the benefits and opportunities of exporting and all of the great resources available to help you achieve your export ambitions.

My goal today is to step back and place export expansion into a broader, more holistic economic framework. An export strategy will be most successful if it sits not in its own silo but is integrated into a comprehensive economic vision and strategy for growth. Further, NEI will only succeed if states, regional leaders, and the private sector are equal partners in strengthening American innovation and bringing American products and services to foreign customers.

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Let me start by stating the obvious. Even though the National Bureau of Economic Research declared that the Great Recession officially ended in June 2009, it is not time to celebrate. The challenge for all of us in the U.S. is that we need to create more jobs, better jobs, and more accessible jobs.

We need more jobs because the U.S. has lost 8.4 million jobs over the course of the recession, and we have regained only one-fifth of them to date. Yes, the U.S. jobs machine has been picking up pace but, at that pace, we will need to wait an additional 29 months to regain all of the jobs lost during the Great Recession.

We need better jobs because this has been a brutal decade for low, moderate and middle income workers. The 2000s was the first decade on record in the U.S. where median family income actually declined—by about $2,000 per household.

We need more accessible jobs for workers. Recent studies show that some workers may not have the requisite skills or transportation choices to access today's jobs, especially if the jobs are located far from their home.

The result, in part, is that we have too many people that remain disconnected from the job market. Nearly one in ten working Americans remain without a job. Half of those people have been unemployed for 27 weeks or longer.

While Kansas unemployment rate is faring better than the national average, the rates for the two major job centers in the state, greater Wichita, and the Kansas City region, mirror that of the nation and remains unacceptably high. These are March figures. April unemployment rates for states and metro areas were just released yesterday, showing signs of modest improvements.

Further, the lack of economic growth has wreaked havoc on state and local budgets.

So, where do we go from here?

What's clear is we can't go back to the prior economy, one highly fueled by debt, overconsumption, and real estate speculation that proved unsustainable.

We need a new growth model that focuses on the productive end of our economy, the tradeable sectors that create quality jobs and support local serving jobs. We must enter new economic territory, tapping the demand from growing markets in nations like Brazil, India and China that can serve as a source of growth for our sluggish economy.

Today, I want to make three arguments.

First, we must shape a different kind of U.S. economy, a "next economy" that is driven by exports, powered by low carbon, fueled by innovation and rich with opportunity. This is a vision where we export more and waste less, innovate in what matters, produce and deploy more of what we invent and ensure that the economy actually works for working families.

Second, the next economy will be largely driven by metropolitan areas. Metro areas are the hubs of trade, commerce and migration and the centers for talent, capital and innovation. They are home to firms, workers, and families located in cities, suburbs, exurbs, and rural areas. In fact, about half of the nation's rural residents live inside metro areas. This is not about promoting a rural-urban divide but about leveraging the true economic units of our economy.

Finally, it is time to build the post-recession economy by unleashing the entrepreneurial energies and dynamism of the state's regional engines. Federal and state leaders can pursue low-cost, high-impact, market-oriented ideas to advance the next economy. But strategies to expand export opportunities and grow jobs are best when they are customized and tailored to the unique assets and industry clusters of individual regions and metro areas. Further, public and private sector leaders in metro areas must lead by creating their own metropolitan export initiatives… an MEI to ground and further the NEI.

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So let's begin with exports and our need to fully engage the world.

We need to rebalance the U.S. economy. Americans have been consuming too much and exporting too little. Over the last 30 years, the share of GDP in the U.S. fueled by consumption has risen by 7 percentage points to 70 percent; in other large developed countries (Canada, France, Germany, Italy, Japan, and the United Kingdom) private consumption has stayed at a constant share of GDP.

Meanwhile, exports as a share of GDP rose by almost 7 percentage points in other G7 nations while barely budging in the U.S.

As a result, exports are only 13 percent of the U.S. economy, compared to those of mature and developing economies like Canada, China, and India.

Exporting has become almost an unnatural act in the U.S. Incredibly, according to the Department of Commerce, **less** than 1 percent of American companies sell a product or service outside of the U.S. And of those that do, less than half exported to more than one country.

While some of the barriers to exporting may come from trade and financing barriers, the reality is that we have untapped potential among American firms to reach new customers.

And there are a lot of customers. With rapid urbanization and the rise of the middle class around the globe, it is no surprise that 95 percent of the world's consumers live outside of the U.S.

In short, boosting exports is an economic imperative. The Great Recession has further shifted the growth map away from the U.S. and Europe. The top 30 regional markets that grew or rebounded the fastest one year after the recession, shown here in orange, were almost exclusively located in emerging markets in Asia and Latin America.

The 30 worst metro performers? They are nearly all located in Europe and the United States. U.S businesses will have a hard time expanding if they are solely reliant on our uneven domestic market.

Finally, the movement of freight in the United States is compromised by an infrastructure that is third class, a network of roads, trains, air, and ports that are not well-connected, and transportation routes that are clogged and congested.

Can we get back into the export game? Based on our research, we think the answer is decidedly “yes.”

The U.S. remains the largest exporter of goods and services in the world, manufacturing a range of advanced goods the rest of the world wants to buy including aircraft, space craft, medical instruments, and high quality pharmaceutical products.

The U.S. is also the world’s largest exporter of services in sectors such as higher education, business and management consulting and architecture services.

And we already have a trade surplus in services—$152 billion in 2008—and are poised for a quantum leap in the export of high-value services.

The Obama administration is right to set the goal of doubling exports in five years. If we achieve that, it is estimated that we will create at least 2 million jobs.

Low carbon is the second hallmark of the next U.S. economy. Let’s imagine America at the vanguard of the clean, green revolution … in ideas, in technology, in production.

No matter your views about climate change, steady population growth at the global scale is mounting pressure on scarce resources, leading to higher environmental standards worldwide. More than 75 countries and major states in the U.S. have adopted some level of national emission reduction targets. Businesses are now rushing to meet the sharp demand for low-carbon or environmentally friendly goods and services. In other words: 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: nuclear, solar, wind, and biomass.

The infrastructure we build will shift from outmoded transport and energy transmission to systems that are smarter, faster, and technologically enabled, like smart grid and high speed rail.

The products we buy will move from high carbon gas guzzlers to an eclectic basket of sustainable goods, such as electric vehicles, smart meters, and organic foods.

And the homes we live in and the 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.

Our competitors—China, Germany, Brazil—have embraced the green economy, creating markets, growing jobs and stimulating investment.

China is highly focused on being the world's greenest producer, out investing us on renewable energy, high speed rail and a host of other sustainable products. PAUSE

The U.S. can play in the low carbon revolution. As our forthcoming research shows, we already have a strong base of more than 2 million green jobs, in sectors ranging from renewable energy to pollution reduction that we can build upon.

And already, U.S. clean economy products are proving to be in greater demand globally than our exports as a whole. Exports of biofuels, green chemicals, electric vehicles technologies, and wind/battery technologies are bringing in two to ten times more value per job than the typical U.S. export.

Naturally, to boost exports and lead in the low-carbon economy, we must innovate. The U.S. must be the world's Innovation Nation, a hot house of ideas and invention and the platform for advanced production.

We are on the cusp of an historic era of technological progress.

The future is already here, with the coming arrival of self driving vehicles, smart homes, and remote monitoring of health.

These technologies are not just "cool toys" … they will change lives, save lives, drive investment, create jobs, and transform economies.

In order for the U.S. to be the world's Innovation Nation, we need to fully embrace science and technology.

Unfortunately, We now place just 45th out of 93 countries in the share that science and engineering degrees make up of bachelors degrees. Hey, at least we do better than Honduras.

The U.S. lags on the conversion of innovation into home grown production. We buy more advanced technology products from other countries than we sell, a reversal from earlier in the decade.

Going forward, we must embrace manufacturing and make things again if are to innovate more.

Finally, the next economy has the potential to be **opportunity rich**.

Research shows that firms in export-intense industries pay workers more and are more likely to provide health and retirement benefits. In 2008, for example, the top five exporting industries … advanced machinery, business services, transportation equipment, chemicals, computer, and electronic products paid better than the national average wage, up to $40,000 or more.

A low carbon economy can also be an engine for job creation, delivered by millions of new workers across a range of occupations and skill levels, from those who design and finance new green products to those who install energy efficient technologies.

All of this will require the United States to get real smart … real fast.

Over the next several decades, African Americans and Hispanics will grow from about 25 percent to nearly 40 percent of the working-age population. In both Wichita and Kansas City metro areas, Hispanics grew by 80 percent in the past decade.

Yet the rates of educational attainment are lowest among these fast-growing groups.

In 2006, only 13 percent of Hispanics and 18 percent of African Americans held a bachelors degree, contrasting sharply with those for Whites and Asians.

In the decades ahead, we must upgrade the education and skills of our diverse workforce. It is not just a matter of social equity but of national competitiveness.

So here is my second point: the next economy will be largely driven by metropolitan areas.

As Harvard Business Professor Michael Porter once observed, there is no U.S. economy, but a network of hyper-linked, highly specialized metro economies, powered by the clusters of large firms, small and mid-sized businesses, research institutions, financial institutions and yes, even government, that together give the regions their economic value.

And these metro areas pack a powerful punch.

The 100 largest metro areas make up just 12 percent of land area and 65 percent of its population but they are home to the bulk of the assets that drive the future economy….on service exports… on talent and human capital… on cleantech jobs.. on research and innovation.

Because of these assets the 100 largest metro areas generate 75 percent of the nation's GDP…. 75 percent.

Metro areas are not just a east coast or west coast phenomenon. In fact, metro areas generate the majority of economic output in 47 of the 50 states, including such traditionally "rural" states as **Nebraska**, Iowa, Kansas, and Arkansas.

Here in Kansas, six metro areas drive the state's economy, producing more than 70 percent of the state's economic output. The Kansas City portion of the state and greater Wichita alone generate more than half of the state's GDP.

Wichita is an export leader, ranking first in the nation in its annual pace of export growth between 2003 and 2008. This region also ranks first in the nation in terms of the share of the region's economic output derived from exports. All this buoyed by the region's strong and sizeable aviation cluster.

The Kansas City region could do more to tap the economic benefits of global engagement. The region ranks below the national average in both export growth and the share of region's GDP coming from exports. Yet the region's overall economy remains a critical economic engine for the state, outperforming its population in attracting and growing scientists and engineers and college graduates.

I want to leave you with two main takeaways from this.

First, we cannot be afraid to embrace our metropolitan economy. With their sheer economic reach, metro areas generate the revenue and opportunities for rural communities, and rural assets benefit regional growth. This state's focus on growing life sciences, animal health, and renewable energy as key sectors of the state's economy are all dependent upon the economic interdependence of urban and rural economies.

Second, the different export performance between South Central Kansas and the Kansas City region reinforce that we cannot have a one-size fits all approach to doubling exports. Each of these regions have different assets and different starting points. We need to tailor economic strategies to different regional economies.

That leads me to my final point: to build the future economy, we must unleash the entrepreneurial energies and dynamism of our regional engines.

Given global competition, global opportunities, and waning revenues, this is not the time to advance status quo policies. Instead, federal, state and local leaders, with their business, civic, and university partners, must use this fiscal and economic crisis to put forward a market shaping agenda that empowers regions, like south central Kansas, like greater Topeka, to grow revenues in the short-term and reposition their economy for the long haul.

This agenda needs to deliver an export-oriented economy that simultaneously focuses on clean-tech, innovation, and opportunity. In other words, an export strategy goes beyond export promotion and requires:

Invention and reinvention of innovative products and services that global customers will buy

Leadership in advanced manufacturing to make the very innovations that drive job growth and opportunity

Arming our young people and existing workers with the skills and education needed to participate in the manufacturing and services jobs of the future

Data-driven, market-based approach to export promotion customized to the firms and industry strengths of each metro economy

A modern freight and infrastructure network that efficiently moves goods and services, including students, business travelers and tourists to our communities

This agenda is possible if leaders at all levels of our federalist system blend responsible budget cuts with strategic investments and governance reforms that empowers the economy from the bottom-up.

At the federal level, government no doubt needs to set the rules for global engagement with trade agreements, currency regulations, student and H1B visa reform, and patent protection.

It must also forge umbrella efforts, like the National Export Initiative, to elevate, advance and coordinate the broad spectrum of export-related activities just discussed. The formation of the Export Promotion Cabinet involving 14 federal agencies and The President's Export Council of private and public sector leaders are key to helping identify near-term, cost effective approaches to streamline and improve existing programs, policies, and regulations to meet our national export goals.

States are also critical partners to building the next economy. To start, states must invest in what matters or protect existing investments. Unlike most states, Kansas already has a strong state export promotion program. It would be valuable to complement that with support for manufacturing innovation centers like that in Kansas State University and elsewhere to help firms and suppliers adopt breakthrough technologies or cost-efficient processes that make Kansas products more competitive.

This could also mean ensuring that four year, two-year institutions, technical colleges, and even vocational education in high schools are equipped and rewarded to help students and mid-career workers gain the skills and credentials needed by firms in key industry clusters.

States must also reform for growth, cutting or realigning existing spending and regulations to make room for investment. Governor Brownback has been holding economic summits across the state to learn about the concerns raised by citizens and businesses … tax reforms, tax subsidies, regulatory reforms have been on the table.

In that spirit, it may be time for Kansas and other states to reconsider economic development subsidies that pour tens sometimes hundred of millions of dollars to attract or steal businesses from other states.

Look at the numbers. Research shows that just 3 percent of a state's annual job gains come from recruitment strategies when the vast, vast majority of job growth comes from start ups or the expansion of existing businesses. Governor Brownback released an economic development strategic plan last February that acknowledges this fact. Thus, this severe fiscal climate may present the best time to reevaluate tax and subsidy giveaways and instead use those savings to grow jobs from within, boosting entrepreneurship or helping the large base of existing firms innovate, tap global markets, and hire again.

Finally, the state could reward and nurture bottom-up economic growth through supporting the development and implementation of regions' economic strategies, export strategies, or clusters strategies.

Ultimately, business, civic, nonprofit, and political leaders in south central Kansas, Topeka, Manhattan, and other metro areas in the state must lead the transition to long-term prosperity. Our competitors are not resting. Leaders in Munich, Turin, Shanghai and Seoul in partnership with their regional and national governments are making transformative investments in world class research and innovation, in clean energy, in ports, in physical redevelopment. We must do the same.

So regional leaders can exploit their distinctive assets in two market-based ways.

Regional leaders can create a regional economic development strategy called a metropolitan business plan that follows the logic and discipline of private sector business planning.

Brookings has been working with three distinct regions to help them develop their own business plans, tailored to their special assets and challenges: retooling manufacturing firms and retraining industrial workers across 16 counties and four metro areas in Northeast Ohio; spurring entrepreneurial activity and commercialization in Minneapolis-St Paul; and creating a global hub of advanced green technologies in Greater Seattle. Like start ups, these business plans include ways for "investors" like federal and state government, private sector, and philanthropy to commit resources and program flexibilities to these plans and then realize returns on their investment.

Leaders in south central Kansas or Kansas City can also develop and implement a metropolitan exports initiative, an MEI that grounds the NEI, helping existing firms in your unique industry clusters take their products and services abroad or to expand their sales beyond a single market. Brookings has launched a new initiative, with support from ITA, which helps regional leaders, with their state partners, to create these metropolitan export plans. What would this look like? Here is an example from one region we are currently working in.

CONCLUSION

If every region developed their own plans and strategies for doubling exports, especially within a broader metropolitan business plan, then we will increase our chances to create jobs and opportunities at home, where firms and workers will directly see the benefit.

If every leader and entrepreneur in this room acts with vision, intention, and collective action, we will build a different, more prosperous future for our communities and lead globally. An economy oriented towards exports and clean technology, fueled by innovation, and driven by education and skills is the path back to prosperity.

Thank you.