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Restoring Prosperity to Cleveland "Mini Summit"
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I want to thank Ned Hill of Cleveland State, Lavea Brachman of Greater Ohio, and Randell McShepard of Policy Bridge for hosting this important forum today.

Last Thursday I attended a keynote speech by Ban Ki Moon, the Secretary General of the United Nations.

The Secretary General provided a sober analysis of the stark challenges facing the global community:

> The worst economic and financial crisis since the Great Depression;
> the acquisition and testing of nuclear weapons by rogue states like North Korea and Iran;
> the existential threat of climate change; and
> the continued instability in the Middle East and other regions of the world.

The Secretary General ended his talk with a clarion call for new international frameworks and structures to govern our troubled world.

"This is not a time for tinkering," he said, "but a time for transformation."

Ban Ki Moon's call for transformative thinking and action frames my talk today.

A housing crisis—fueled by reckless lending and regulatory abdication – has evolved into a full blown economic collapse, here and abroad.

In the last year, the US **unemployment rate** rose almost 4 percentage points, and now stands at 9.4 percent. In March, 13.2 million people were unemployed—the highest number since records started being kept in 1948.

On a whole series of indicators, in fact, we are at the worst levels since the government started tallying this information 40, 50, 60 years ago:

- continued unemployment claims
- consumer confidence index
- housing starts
- new home sales
- new home completions

Ohio doesn't look any better, and on many indicators it is faring worse than the nation as a whole. The state's unemployment rate is currently over 10 percent. Ohio is one of the four states whose metros were hit hardest in terms of employment figures over the last year (with Michigan, California, and Florida).

While the national GDP managed to grow just a bit—less than one percent last year, the state's GDP declined in 2008 by 0.7%, largely because of declines in manufacturing, construction, finance, and insurance. Ohio was one of only twelve states where the GDP shrank. Ohio is ranked 45th in the nation on 2008 GDP growth rates; and 32nd in the nation in per capita GDP.

All of Ohio's major metros have **lost jobs**, and most are losing them faster than the U.S. as a whole. Ohio employment fell 5.3 percent between December 2007 and April 2009, compared to a 4.1 percent decline nationwide.

The state has lost 120,000 manufacturing jobs in the last 18 months, and 23,000 automotive industry jobs – a quarter of the total – in the last year.

Ohio's **prime foreclosure rate** at the end of 2008 was 2 percent, twice as high as the national rate; its subprime foreclosure rate was 10.7 percent compared to the national rate of 8.8 percent.

Ohio also faces a **deep budgetary crisis**, with a shortfall in this year's budget of $600 million, and a possible $900 million gap next year, if the state has to drain its rainy day fund to fill the current budget hole.

Because of a combination of tax cuts and economic decline, general revenue fund receipts are declining, dramatically, from about $19 billion in FY '08, to an estimated $18 billion in FY '09, to $17 billion in FY10. Put another way, the recession is projected to cost the state about $2 billion in revenue for FY '09, and $3billion in FY10.

Cleveland reflects Ohio's troubled state.

Next week Brookings will release our Metro Monitor, assessing the disparate economic fortunes of the top 100 metropolitan areas in the United States, the places that drive American prosperity.

For me, the most poignant statistic was the percent change in gross metropolitan product for Greater Cleveland – from its peak in 2006 to the first quarter of this year.

GMP in this metro fell 5.6 percentage points, ranking it 98th in the nation, just behind Detroit and Jacksonville, Florida.

So what does this mean for Ohio … and for the Restoring Prosperity frame put forward by Brookings and Greater Ohio in September of last year, which seems like a long, long time ago?

In her remarks, Lavea laid out the three pillars of our argument.

First, in the 21st century economy, four assets drive growth and prosperity:

> Innovation, the new products, processes and inventions that fuel productivity and progress;
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> Human Capital, the education and skills that advance innovation;
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> Infrastructure, the roads, rail, transit, energy networks, and telecommunications that move people, goods and energy effectively and efficiently; and

Quality Places, the smart development of land and communities that enhances competitiveness while furthering fiscal and environmental sustainability.

Second, these driving assets assemble and gather, congregate, and concentrate in metropolitan areas.

Ohio's metropolitan areas are the drivers of the state's economy. The seven largest metropolitan areas in the state house 70 percent of the state population and produce 80 percent of the state GDP. All sixteen of the state's metros constitute 81 percent of the population, 84 percent of the state's jobs, and 87 percent of the state's GDP.

The overwhelming majority, 23 of 32, of the core communities that are the focus of the Brookings/Greater Ohio Restoring Prosperity Initiative are located within metropolitan areas. The remaining nine are found in micropolitan areas. These core communities are those places that laid the foundation of the state's 20th century strength, with at least 15,000 residents and a 20 percent share of their county population in 1950.

Given the significant overlap between metros and core communities, it's not surprising that core communities are where Ohio's innovation economy is rooted. For example, 15 of the core communities are in the state's metros that are nationally in the top 100. These metros account for more than 75 percent of the state's patenting activity, and 82 percent of the state's knowledge jobs. Institutions like the Cleveland Clinic and Case Western Reserve University also contribute to important emerging sectors of the economy like biomedicine through spinoffs, patenting activity, and service firms.

Ohio's core communities account for many of the institutions that can attract and generate **human capital**. Of the state's 195 higher educational institutions, 57 percent are located in a core community, as are 66 percent of students in higher education.

The core communities have also benefited from historic investments in **infrastructure**. Five of the seven Amtrak stations are in the core communities of Cincinnati, Cleveland, Elyria, Sandusky, and Toledo. Six of the seven ports that serve the state are situated near core communities.

And, on the factors that determine the **quality of place**, the age and legacy of core communities yield assets that have enormous value today. Many of the cores naturally have the amenities—walkable neighborhoods, historic parks and waterfronts, transit friendly corridors—increasingly sought by young consumers and other demographic groups and demanded by high energy prices and a challenged environment.

This simple insight—Ohio is a metro state, dependent on its core communities for the assets that drive prosperity—has many lessons for policy, even in a world that has changed dramatically since we unveiled this initiative last September.

And, finally, the state of Ohio will not grow and prosper unless its core communities grow and prosper. That requires a new roadmap for the state:

- **set forth a clear competitive vision** for the future of core communities
- **build on the distinctive assets** of core communities, including innovation, human capital, infrastructure, and quality places

- catalyze **bold experimentation on governance reform**—particularly between cities and jurisdictions in their surrounding metropolitan areas.

So what do we make of this frame given today's economic turmoil?

If anything, the recession and downturn validates the intense focus on fundamental, driving assets and reinforces the call for federal and state policy reforms in the service of metropolitan prosperity.

> America's economic recovery will depend on a return to "real" innovation—in bio medicine, in clean, renewable energy, in technology, and the delivery of health and other services. Going forward, we must innovate in what matters and move away from the reckless, false manipulation of mortgage products.
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> This reliance on innovation will require us to get smart—the US continues to fall behind on education generally and science and technology specifically and we cannot import our way out of this talent gap. The Obama administration gets this: They are working on multiple fronts to enhance human capital and skills as a means to enhance economic competitiveness and productivity.
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> This new innovation will fuel the next generation of infrastructure—smart grids, high speed rail, wind and solar energy, clean coal, safe nuclear, new auto technology.
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> All this innovation will be maximized and accelerated if the sharing of ideas takes place in quality, sustainable communities. Other forces—the slowdown in immigration, increased focus on transit and transit oriented development, the shifting preferences of younger individuals and households—will tilt development (in certain metros) towards more balanced growth.

This is a return to basics, to fundamentals, to decisions based on market imperatives rather than political and ideological diversions and distractions.

The validation of driving assets reinforces the centrality of metros.

The world may be "flat," as Thomas Friedman has famously concluded, but the spatial reality of modern economies is their intense concentration in a relatively small number of places.

Politics and policy must align to this reality—fighting it only squanders resources and dissipates focus.

If the foundation of our reform agenda is sound, what about the reform agenda itself, namely: set a competitive vision, build on assets, modernize governance?

Here, too, we find that the downturn generally validates and reinforces our initial frame and advice.

We would, however, make one critical addition.

Given the extent of the economic downturn, and its origin in the housing sector, we would add one element to our original agenda, and that element is **stabilize**. The state has to help stop the hemorrhaging in its older communities, driven by foreclosures, unemployment, and neighborhood destabilization.

Ohio cannot afford for the places that house its economic assets and industries of the future to be overwhelmed by the cycle of neighborhood decline that accompanies foreclosures.

The estimated costs to Cleveland from lost taxes and services like boarding up and maintaining vacant and abandoned properties in just 3 neighborhoods—Detroit Shoreway, Mount Pleasant, and Slavic Village—were over $35 million. The sum in Dayton for vacancy and abandonment citywide was over $12 million. These numbers are from 2006—they can only be higher now.

It is almost impossible for Cleveland or Dayton to create and implement strategies to build on the assets of the Cleveland Clinic or Wright State University with that kind of drag on its budget.

Therefore, in the immediate term, the state must work to break the link between foreclosures, abandonment, and neighborhood decline.

Ohio has done a tremendous amount to help individual homeowners, through the Save the Dream Initiative and other efforts to help Ohioans refinance disastrous sub-prime loans. These efforts should be applauded. But the state must also focus on the neighborhood effects of foreclosure, and it can do so in ways that have minimal costs.

For example, as Alan Mallach has written in a recent paper, the state can

- Require that the entity that initiates a foreclosure be responsible for maintenance on the property
- Let responsible renters and former owners stay in foreclosed properties, as tenants of the new owners
- Provide seed money for revolving funds for nuisance abatement
- Direct state funds to places that have a realistic chance of gaining traction once the market recovers, and where local officials can plan and execute a strategy for revival

This is a basic triage strategy: the state and core communities have to simply stop the bleeding. There simply isn't enough money for the state, or the federal government for that matter, to arrest the foreclosure problem in Ohio—it's too big. So the state needs to put some efforts, and again, these efforts are not hugely expensive, towards making sure that foreclosures do not take down entire neighborhoods.

Once that is under control, the state has to look to the future, and, as we laid out in the Restoring Prosperity Initiative, that means **setting a vision for the future of core communities.** This vision must be grounded in hard data about which economic sectors in which places are strong and which sectors are in decline. It has to rest on measurable goals and transparent and accountable processes for realizing them.

When it comes to rebuilding the economy, there are bright spots in Ohio's metros that provide a good foundation.

Akron's polymers, plastics, and rubber products sector has shrunk, but it is still a significant base from which to create materials that might be used in clean energy or in biotech. Meanwhile, the Akron metro

has seen its share of management jobs more than double – how can the state build on that emerging strength?

Cincinnati, under the influence of Procter and Gamble, has a robust chemical manufacturing sector.

Cleveland is a center for diverse manufacturing, as well as biomedicine, with, not surprisingly a particularly strong heath care sector—with a job share in this sector about 25 percent higher than the nation as a whole.

Columbus has a different set of strengths, focusing on warehousing and storage, insurance, and, of course, government.

Toledo's long-standing specialization in glass, an important element of solar technology, coupled with the University of Toledo's long-standing solar-cell research, has made it a strong contender in clean energy. There are 6000 people in the area employed in the solar industry in the Toledo region.

Dayton has a publishing industry that remarkably appears to be growing, Sandusky is strong in tourism; Lima's chemical manufacturing sector shows reasonable growth, and Canton's food manufacturing center, while somewhat smaller, is still a source of strength.

The state Department of Development should revisit its cluster strategy to determine how to align these strengths with emerging industries, such as clean energy, health care, and education. It needs to learn from thriving places across the country. For example, while the manufacturing areas heavily dependent on the auto-industry like many in Ohio, are really hurting, manufacturing in Harrisburg, Scranton, and Allentown Pennsylvania, Rochester, NY, and Hartford, CT is hanging on relatively well. What lessons are there for Ohio in these places?

It is imperative that public, private and civic leaders really understand the state economy and invest for the future in the sectors that are expected to grow and thrive. Get your economic playbook together.

And once state and local leaders have that vision, figure out how to bend federal resources to fit that vision. This brings us to the next element of the Restoring Prosperity strategy, which is: **build on the four assets that drive prosperity: innovation, human capital, infrastructure, and quality places**. Here there is good news—the federal government is engaged in an unprecedented way through its recovery spending on shoring up these assets.

Ohio and its core communities can use this huge, one-time infusion of federal funds in far-sighted ways that will have long-term implications for the state. Or it can take a business-as-usual approach, spread the money thinly around the state like peanut butter, and continue to tread water economically.

So, on **innovation**, the federal government is spending $50 billion in recovery act funds on research, development and deployment to spur new breakthroughs out of universities, labs, health complexes, and research centers. Ohio State could be poised to be a model for energy discovery innovation institutes, which are slated for funding in the FY 2010 budget. How can Ohio use innovation money to support its vision for core communities?

There is a $150 million appropriation aimed at economically-distressed regions, including Appalachia—and offered to states, localities, higher education institutions, and eligible nonprofits—to promote

comprehensive, entrepreneurial and innovation-based economic development efforts. How will Ohio tie that money to a larger innovation strategy for core communities in that part of the state?

On **human capital**, there is $125 billion in the recovery act to improve schools, raise achievement, and upgrade workforce skills. Much of this money will act as a backstop on state spending cuts. There are flexible funds for states to apply innovative strategies like bolstering teacher quality, collecting student performance data, and raising state standards. There is $650 million reserved for grants for innovative school districts that close the achievement gap and improve high school graduation. How does this money fit into Ohio's larger strategy of building the human capital in its core communities and metros?

On **infrastructure**, the die is basically cast in terms of federal recovery funds. Ohio did some good things, such as adhering to a fix-it first strategy. The state also made some investments in smart, focused metropolitan transportation projects, such as the $20 million in recovery funds allocated to the Opportunity Corridor here in Cleveland, and $25 million for a streets project near the Children's hospital in Columbus—a good example of linking transportation funds to assets like major medical centers.

But even as the state was smart in one respect with its federal transportation funds, it was foolish in other ways. Only about half of the projects and half of the federal transportation dollars are slated for Ohio's metropolitan areas. The seven largest metro areas received about 40 percent of the projects and a little less than half of the spending despite their much greater contribution to the state's GDP. The state sent its recent recovery act transportation funds to just about every county in the state, rather than focusing on its economic engines.

That's not strategic, and it's not transformative. It may relieve a little economic strain now, but it does nothing to build up Ohio's economy for the future.

This is not say "do not invest in non-metropolitan areas." Rather, we advocate that the state invest wisely in these places with a view towards their own intrinsic assets and liabilities and a vision for long term growth.

On **quality places**, the state has a frankly tremendous task, and a tremendous opportunity ahead of it.

Ohio's metros and core communities, supported by the state, need to develop a new vision of being strong, sustainable, and **physically smaller** places.

Again, the way this asset of quality places is used depends on Ohio having the right vision, grounded in hard economic reality, for its core communities. These places have to be smaller, and new investments need to go where there is a functioning real estate market. In the south-central core of Youngstown, there were only four HMDA home purchase mortgages made in all of 2007. That is a non-market area. By contrast in Dayton, 17 census tracts accounted for 77 percent of all of the home purchases, and 93 percent of the aggregate dollar value of home purchases in 2006. That's a market area that has to be shored up and protected. Use your vision, based in real economic understanding, to remake your core communities. Understand what areas are still viable, and which areas need, with state help, to be unbuilt, de-constructed, and returned to greenspace as parks, urban agriculture, or stream corridors.

Cleveland has laid out a vision for this kind of quality place-making. The Reimagining a More Sustainable Cleveland plan lays out a range of innovative options to deal with vacant land, in ways that will help

Cleveland and Ohio's other older cities and suburbs shift from industrial communities of the twentieth century to a green communities of the twenty-first.

Just a few hours away, Pittsburgh continues to move from a steel city to a green city, with a network of waterfront parks and reclaimed brownfields. While other cities are crippled by the recession, Pittsburgh actually has a budget surplus this year. European cities are at the forefront of thinking how to match their physical footprint to their population size—there are models that can be replicated and modified here in Ohio.

As is the case with the other drivers of prosperity, there are federal recovery funds as well as resources from the 2010 federal budget that can support Ohio, its metros, and its core communities in redefining their physical footprint. But these funds have to be used strategically. The state did not make the most of its first round of Neighborhood Stabilization Program grants by targeting the funds to neighborhoods that have a chance of remaining viable in the marketplace. Instead, the state allocated the funds primarily to ensure that all areas of the state received some funds. As a result some areas were deluged with more funding than they could fully use, while others did not have enough money to make a difference.

There are second chances on the horizon. HUD has proposed a Sustainable Communities Initiative, a $150 million program that will reward collaboration by individual jurisdictions and metropolitan planning organizations that seek to implement integrated regional development plans. The program emphasizes planning across jurisdictional borders and across different federal program silos. Another element of the grant program will help localities align their own zoning and land-use rules with larger metropolitan-wide land use visions. Ohio needs to think creatively and imaginatively about how to use these funds to come up with development plans and land use rules that make its cities greener, more compact, and the right size for the population they have now.

Beyond recovery, Ohio needs to inform what comes next at the federal level.

The next 18 months will likely see significant federal reforms in major areas of domestic policy including health care, energy, climate change, and transportation.

There will be substantial tax legislation in 2010 given the expiration of President Bush's tax cuts.

And, as I have said before, there will be initiatives large and small that benefit those urban and metropolitan places that have vision, focus and discipline.

Ohio must inform this legislation as it proceeds (to ensure that federal legislation reflects the distinctive market realities of this state)… and then implement the resulting programs and policies in a way that conforms to your own vision.

The final element of our Restoring Prosperity framework is: **reform governance**.

Ohio cannot advance a 21st century economy with a system of local government rooted in the 19th. As many other states are doing, Ohio must take a long, hard look at its fractured, overlapping, duplicative structure of local governments, understand its costs, and then transition to a smarter, more efficient, and more effective system of government, one that recognizes that metropolitan areas, not townships

or villages or even cities in isolation, are the most relevant economic and social units in the modern world.

The state has 3,800 local government jurisdictions, including 250 cities, 695 villages, 1308 townships.

Fragmentation like that tends to hurt a metropolitan area's ability to compete or to remain competitive over the long run. Fragmentation makes it difficult for regions to forge the kind of agreements needed to change and adapt—which is particularly critical in today's rapidly shifting economy.

And fragmentation is costly. Measured as a percentage of per capita income, Ohioans have the 9th highest local tax burden in the U.S. Yet year after year, local governments face multi-million dollar budget shortfalls. This is a structural problem, and it needs a structural change to solve it.

The state has taken the first step towards a more rational, efficient, and globally competitive governance structure by creating the Ohio Commission on Local Government Reform and Collaboration.

This commission would do well to learn from the recommendations of a similar government reform commission in New York State.

Like Ohio, upstate New York has been very hard hit by population loss, sprawl without growth, and wrenching industrial shifts. The New York Reform Commission sought explicitly to tip the balance of state and local policy towards collaboration and cooperation

Two recommendations in particular from the NY commission should be carefully weighed in Ohio, so it can start on the path to more efficiency and collaboration

> First, the state should make local tax base sharing agreements permissive, so that localities that want to share tax base do not have to clear additional state hurdles. Ohio already allows limited tax base sharing through Joint Economic Development Districts and Cooperative Economic Development Agreements. But innovative programs like Montgomery County's EDGE program required a state law change. The state needs to get out of the way
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> Second, consider consolidating local economic development agencies into a smaller number of regional or county-level entities, since labor markets operate at the metropolitan level; New York is not the only model for consolidation: The Fund for Our Economic Future and Advance Northeast Ohio here in the Cleveland region have been working to support government collaborations that strengthen economic competitiveness.
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> Not every kind of government service needs to be regionalized, but economic development certainly should be. Your competitors, not just in other states, but in other nations, have unified economic development entities for their regions—that's one point of contact for new businesses and industries, not dozens, spread out over the county and each individual jurisdiction.
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> The Stuttgart region in Germany is instructive. This manufacturing center was hit hard by downturns in exports. It responded by getting serious about regional economic development. This area of 179 municipalities and 6 counties has a unified economic development corporation that serves as the central contact for companies, research institutes and investors in the region.

It attracts new companies, supports existing companies, helps with site selection, and, critically, creates and promotes regional networks and industry clusters to make better use of the region's innovation and growth potential.

If Stuttgart can do this, Cleveland, and Ohio's other regions, can too.

Beyond these specific recommendations, the state needs to reset its default position to support integrated solutions and regional collaboration

Examine rules and administrative delivery systems for state funds to make it easier for communities or groups of communities to use funds for housing, transportation, and economic development in integrated ways

Award extra points for state aid dollars to applications from more than one jurisdiction or, better yet, a requirement for multi-jurisdictional applications unless a locality can demonstrate a compelling reason it has to go it alone

Skeptics may say that this kind of collaboration on a wide scale, particularly during a time of crisis, is unrealistic. But jurisdictions like Philadelphia, Kansas City, and San Francisco are using the recovery to break old patterns and institute collaborative efforts across jurisdictional lines on a wide range of recovery policies and programs.

There is no reason Ohio and its metros cannot join this list of innovators.

This economic crisis is wrenching. Ohio's people and communities are under tremendous strain. But this is not the time to fall back on strategies that seem safe, but will in fact put the state's future in further danger. Now is instead the time to be bold and imaginative. Stabilize neighborhoods that have a chance to find their footing in the marketplace. Set a competitive vision grounded in facts, in data, in a clear-eyed understanding of the state's economic strengths and weaknesses. Use that vision to guide the way you build on assets, using the unprecedented flow of federal recovery and 2010 budget funds that are directed towards the very things that drive prosperity: innovation, human capital, infrastructure, and quality places. And govern to collaborate, and thrive. Be competitive not with your neighboring communities but with other nations.

As Ban Ki Moon said, "This is not a time for tinkering, but a time for transformation."

This strategy can help Ohio reinvent itself, and emerge from this recession well-positioned to grow and thrive. I know that this state has the resources, the intelligence, and the creativity. It now needs the will.

We look forward to working with you in this vital endeavor.