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GREAT LAKES ECONOMIC INITIATIVE

The Next Economy:
Economic Recovery and Transformation in the Great Lakes Region

Jennifer S. Vey, John C. Austin, and Jennifer Bradley

“Although battered by decades of declining economic health, the nation’s heartland still has many of the fundamental resources necessary to create a better, more sustainable economic model.”

Executive Summary

As the American economy works its way slowly out of the Great Recession, a consensus is developing among public and private-sector stakeholders that simply re-constructing our old economy, one based on highly-leveraged domestic consumption, would be a serious mistake. The nation must instead focus on building the next economy, one that is oriented towards greater exporting, powered by a low-carbon energy strategy, driven by innovation, and that creates opportunities for all.

The Great Lakes region, too long tagged with the misleading nickname, The Rust Belt, could show the rest of the country the way forward to the next economy. Although battered by decades of declining economic health, and particularly by the recession, the nation’s heartland still has many of the fundamental resources—top-ranked universities, companies with deep experience in global trade, and emerging centers of clean energy research to name just a few—necessary to create a better, more sustainable, economic model.

This is not to disregard the region’s challenges. Its major metros have neither the economic development strategies nor the transportation infrastructure in place to fully take advantage of their export generating capacity. Many have inefficient physical development patterns, hollowed out urban neighborhoods, and concentrations of energy-intensive industries, and thus remain the epicenters of the nation’s fossil fuel-reliant economy. They lack the early-stage capital and other supports needed to strengthen existing firms and encourage start-up enterprises. And many suffer from deep, entrenched poverty, and have low educational attainment levels compared with their peers nationwide.

With both the strengths and challenges clearly in mind, this report provides a roadmap to economic recovery and transformation in the Great Lakes region, powered by its metropolitan areas. It describes how federal, state, and local stakeholders can leverage the region’s substantial assets to create a more productive, sustainable, and inclusive economic future.

The report finds:

First—The Great Lakes region, particularly its metropolitan areas, has significant resources essential to creating the next economy:

- ***Global Trade Networks***—These networks, developed in large part by the auto industry, are critical to an export economy. Seven Great Lakes metros—Dayton, Detroit, Grand Rapids, Indianapolis, Milwaukee, Toledo, and Youngstown—are already among the country’s top 20 metro areas in terms of the share of their metro output that is exported. In particular, Great Lakes metros can capitalize on the growth potential of knowledge exports, as they have a concentration of top universities and associated medical complexes.

A more detailed discussion of the Great Lakes metropolitan context and these policy ideas can be found in the full paper, available at **http://www.brookings.edu/papers/2010/0927_great_lakes.aspx**

- ***Clean Energy/Low Carbon Capacity***—Industries and universities in Great Lakes metros have created the research capacity and manufacturing prowess needed to build a clean energy, low-carbon economy. They have an outsized ability to lead on wind and solar renewable component manufacturing, and to capitalize on the "green-blue" potential of the Great Lakes and their waterways. The region's research and innovation infrastructure is already spurring the development of new products and processes: Michigan, Ohio, and Illinois are among the top states in terms of green tech patenting, focused on new technologies in battery power, hybrid systems, and fuel cells.
- ***Innovation Infrastructure***—Great Lakes metros have the industrial and institutional infrastructure necessary to power an innovation economy. The 21 largest Great Lakes metros alone are home to 32 major public and private research universities, which attract substantial federal research investment. The region produces approximately 36 percent of America's science and engineering degrees each year. Between 2001 and 2007, an average of nearly one-third of the country's patents each year were awarded to the Great Lakes states.
- ***Opportunities***—Like innovation, opportunities grow in the presence of a robust educational network, such as the one that exists in the Great Lakes region. In addition to its public and land grant universities—the latter created in the 19th century to promote agriculture, science, and engineering—the region is also dotted with community colleges, which help the region's workers develop skills and credentials necessary to secure jobs in the region's industries, and in so doing maintain a pool of skilled employees to attract and support them.

Second—To realize the promise of the next economy, federal, state, and metropolitan leaders should join with the private and philanthropic sector to:

- ***Invest in the assets that matter: innovation, infrastructure, and human capital***
- ***Devise new public-private institutions that are market-oriented and performance-driven***
- ***Reimagine metros' form and governance structures to set the right conditions for economic growth***

The economic transformation of the Great Lakes economy must be led by a strong, innovative, and flexible private sector. But private sector efforts must also be married to effective government and public sector action that will leverage the private sector's strengths, fill roles that sector cannot, and create conditions in which markets, places, and people can flourish.

Neither sector can return to the business-as-usual ossified thinking that became ingrained in our institutions over generations. There must be a new approach that is connected with global economic realities and the fact that metros are the nation's economic engines, engines that need re-tuning for better performance.

As Washington grapples with the next round of economic policy, the Great Lakes region could see a new wave of federalist policy innovation in its states and metros. In an era dominated by fiscal challenges unlike anything seen in decades, leaders will be forced to streamline not just for austerity's sake, but with an eye towards transformation and re-investment. For example, the recession could offer an opportunity for state leaders to tie public funding to results, and pursue voter referendums that seed state investments in new types of economic growth; for metropolitan leaders to accelerate efficiency-enhancing collaborations across jurisdictional lines; and for state and local officials to match economic development efforts to metropolitan economic geography.

Overall, public policy should focus on three key, next-economy driving ideas:

Invest in the Assets that Matter: Innovation, Human Capital, and Infrastructure. In an era when public budgets at all levels are under severe stress, federal, state, and local leadership must resist the temptation to simply cut, cut, cut, and must instead look beyond the current situation to their futures. Long-range economic health is not just a matter of spending less, but spending and investing to spur growth. To advance the next economy in the Great Lakes region, elected officials need to concentrate on several market-shaping areas:

- ***Regional Innovation Clusters:*** The transition to an export-oriented, innovation-fueled, and opportunity-rich economy will require that federal, state, and metropolitan economic development efforts focus intently on the existing regional industry clusters that drive metropolitan growth and give a particular metro its reason for existing. In many cases, cluster strategies could be less a matter of programs and policy products than a paradigm through which to inform, draw in, and organize multiple activities.

The federal government is warming to the cluster paradigm with a variety of programs and undertakings across agencies. For their part, states can undertake state cluster inventories to provide a detailed snapshot of clusters and their competitive advantages and prospects, and conduct surveys to probe particular cluster constraints or challenges. They can make regional innovation clusters a central component of state economic policy, building on the campaign promises of many leading candidates for governor. Governors could direct representatives from multiple state agencies, for example, to work closely with business leaders, universities, and local and metropolitan government officials on cluster strategies that meet rigorous criteria. Some of these initiatives could also have a spatially targeted component, particularly with regard to clusters that naturally congregate around institutions of advanced learning or logistical hubs like ports and airports. The Ohio Department of Development's 2008 strategic plan could serve as a model for many states to replicate.

As part of their cluster-based approaches, states and metros need to develop metropolitan export strategies, since most exports come from particular export clusters. These export strategies must be evidence-driven and metropolitan in scope and scale. They should include, or even be led by, the global universities and private firms that already have global business, commercial, research, and learning partnerships, and that sell education, medical, business, professional, and technical services to customers around the world.

- ***Workforce Development at Community Colleges:*** The region's network of community colleges plays a key role in bolstering the supply of human capital essential to greater economic growth and opportunity. So it stands to reason that state and federal actors need to help leverage this system to create a workforce suited to the next economy. States should use federal workforce resources to encourage dislocated and incumbent workers in the region to enroll in degree or certificate programs that can help move them into new careers, as Michigan has done.

  The federal government should, over the long run, provide greater direct federal support to community colleges, which currently receive less than one-third of the funding amount provided to their four-year counterparts, despite the fact the majority of post-secondary students start at a community college. In the meantime it should use the Community College and Career Training Grant Program—which allocates federal funding to community colleges to provide retraining for workers who qualify for benefits under the Trade Adjustment Act—to promote new approaches to workforce training and education. Such funding could be used strengthen community colleges' ability to retrain workers through its non-credit programming, while helping them to pursue post-secondary credentials though credit-granting courses.
- ***Smart Spending on Infrastructure:*** The next economy will require a world-class infrastructure, which can only be achieved with smart, targeted investments.

  For example, there are many federal and state reforms that can help Great Lakes states and metros use transportation dollars more efficiently and in a way that points them in the direction of the next economy. Because of their export strengths and close proximity to Canada, a major U.S. trading partner, Great Lakes metros need a transportation infrastructure that provides efficient and effective connections to global markets. The federal government—in collaboration with states, metropolitan areas, the freight-rail industry, and shippers—should develop a comprehensive National Freight Transportation Plan as a framework for goods movement policy and investment. Such a plan should identify freight gateways and corridors of national significance, including the ports and border crossings between the Great Lakes and Canada, and use a rigorous benefit/cost methodology to determine which corridors and transportation modes warrant the highest investment priority.

  States need to rethink their infrastructure spending priorities in several ways. First, there should be a bias towards fixing existing infrastructure (fix-it-first) before building new road capacity, particularly since Great Lakes states and metros generally have not seen robust population growth that would call for new roads. Second, states need to reform their existing infrastructure banks, adopting a tough, merit-based approach to funding and focusing on those transportation projects that will lower carbon emissions, or facilitate the flow of exports, or connect workers to jobs. Third, states need to use some of their federal highway funds to pay for statewide sustainability challenge grants, to encourage metropolitan areas to devise a broad vision for reducing congestion and carbon emissions—a long-term necessity. Fundamentally, states need to change the incentives for metropolitan areas away from the status quo and towards more integrated and strategic use of transportation, housing, and economic development funds.

Devise new public-private institutions that are market-oriented and performance-driven. Our existing institutions will not deliver the next economy, so state and metropolitan leaders, both public and private, need to create a new set of market-oriented, private-sector-leveraging, performance-driven institutions. It may seem odd to recommend new institutions when so many political leaders are preparing the public for more deep cuts in public spending, but the need to balance budgets in the short term cannot blind voters and officials to the need to invest to lay the foundation for growth. State and metro leaders should be prepared to go to voters to support bond issues or dedicated tax sources for these institutions. But they need not be capitalized solely with new money; rather, a large portion of funding could be freed up by reorienting existing investments away from programs and systems that are underperforming.

- ***New Infrastructure Banks:*** As described above, the current system of transportation investments is uncoordinated at all levels, and is largely based on archaic funding formulas that work against many metropolitan areas' efforts to maintain modern and integrated transportation networks. A national infrastructure bank would help remedy these issues by using merit-based criteria to choose large, multi-modal and multi-jurisdictional infrastructure projects to finance. The bank would evaluate projects using cost-benefit analysis, such as the regional or national significance of the project and whether or not the project reduces greenhouse gas emissions. Projects that pass this rigorous screening process would receive a loan or grant from the bank. Electrical grid and broadband development could also be funded and financed through the bank, thereby breaking the traditional silos through which the federal government currently funds infrastructure development. A national infrastructure bank could be capitalized with appropriations amounting to a total of $25 billion over five years (this is the amount put forth in the administration's 2010 budget proposal, and a recent House bill).

  States also must create new kinds of economic development banks, different from their existing state infrastructure banks. These new state economic development banks should fund not just roads and rails, but energy and water infrastructure, and even school and manufacturing development. The projects should be evaluated according to merit, not selected with an eye towards spreading funding evenly across the state. California's "I-Bank" provides a compelling model for Great Lakes states to emulate. After its initial capitalization from the state, the I-Bank has not needed state funds to continue operating, relying instead on fees, interest earnings, and loan repayments.
- ***Advanced Manufacturing Laboratories:*** To help improve manufacturing performance, the federal government should administer a new national advanced manufacturing laboratory. This lab would focus on research that is more applied than that of other government labs, including engineering research on early-stage applications that are useful in a range of manufacturing processes, but that no one else is doing right now. It would also concentrate on best practices in manufacturing management, especially the management of shared supply chains and the diffusion of up-to-date technology and business processes to new and existing manufacturing firms.

  Great Lakes states should also bolster their own networks of advanced manufacturing institutions, including the universities, industry-funded research centers, federal labs, and community colleges already doing work relevant to some aspect of the sector. In addition, Great Lakes states and metros should work together to determine how to build the advanced manufacturing brand in the region.
- ***Regional Energy Research and Innovation Centers:*** The federal government should foster the region's energy innovation potential by creating a network of high-powered, commercialization-

oriented regional energy research and innovation centers designed to remake the nation's energy system. Involving research universities, national laboratories, and private industry, these centers would address national sustainable energy priorities, generate jobs, and stimulate regional economic activity through the nearby location of start-up firms, private research organizations, suppliers, and other complementary groups and businesses. A competitive award process would designate centers—perhaps as many as six, organized around different themes—for federal support and inclusion in the Great Lakes network. Additional investment would come from state governments, business and industry, and other investors that want to help catalyze innovate energy research in the region. These centers would require funding of between $1 and $2 billion annually.

- ***Venture Capital Fund of Funds:*** The Great Lakes region has several of the prerequisites for successful venture investing, including the capacity to create innovative products and services that can become investable deals, a knowledgeable investor community, and a growing support structure that can help lower investor risks and costs. But concerted, collaborative actions by a range of state and metro stakeholders are needed to create and sustain a virtuous cycle of venture investment, entrepreneurship, and growth in the region. Private investors should create a Great Lakes 21st Century Fund, a $1 billion to $2 billion fund of funds that would invest in early-stage venture capital funds operating in and focused on the Great Lakes region. The work of this new venture institution should be complemented by a variety of private and public stakeholders—including catalytic enterprises like JumpStart Cleveland and Techtown Detroit—working to create a vigorous support system for business development and growth.

Reimagine metros' form and governance structures to set the right conditions for economic growth. Industrial metros in the Great Lakes region must overhaul their physical redevelopment strategies and local governance structures to set the conditions for market growth and innovation in the face of steep population and economic declines.

- ***Right-Sizing Communities:*** For the many older industrial cities in the Great Lakes grappling with severe population and job loss, the move to the next economy will require a dramatic reshaping and repurposing of their surplus land. States need to provide their cities and metros with tools that can help them become, stronger—if smaller—communities, such as the ability to establish a land bank. A land bank allows localities to exercise some control over their land, helping them to take vacant and abandoned properties, particularly tax foreclosed properties, into public control, and to build the capacity to hold, manage, and dispose of that inventory in ways that are consistent with the public welfare, sensitive to variations in market conditions, and that address their long-term land use and economic development goals. The Genesee County Land Bank Authority in Flint, Michigan, is an excellent model.

  By linking state resources to effective local strategies, states can spur collaboration between older cities and neighboring jurisdictions that share the same land market challenges or encourage strategic property redevelopment approaches linked to larger economic development planning rather than simply support distinct, unrelated transactions. States can also work with universities to provide local governments and their partners with access to up-to-date economic and housing market data at the neighborhood or census tract level.

  The federal government could play a role in helping foster planning and innovative strategies around land reconfiguration. The Community Regeneration Sustainability and Innovations Act (CRSI) (2009) would support the development of strategic regeneration plans and demonstration vacant property renewal activities (such as land banking and greening strategies) in cities that meet distress or population-loss criteria.

- ***Green Development and Infrastructure:*** Using institutions like the infrastructure bank described above, and new urban land banks, Great Lakes metropolitan areas can turn the legacy of the past into an opportunity for the future by creating a cutting-edge model of urban development and become the greenest cities in the country, places where ambitious experiments in urbanism can occur.

  Right-sizing strategies offer a valuable opportunity to incorporate strategies for green reuse of surplus urban land, including ecosystem restoration, urban agriculture, and green infrastructure.

In Cleveland, dozens of groups are undertaking pilot projects under the city's Reimagining Cleveland plan, ranging from single lot side yard expansions, native plant pocket parks, and permeable parking lots to agriculture projects such as community gardens, orchards, and multi-acre market gardens. The use of vacant land for stormwater management can be especially beneficial if it substitutes for costly expenditures to separate outmoded storm and sanitary sewer systems. The Milwaukee Metropolitan Sewerage District has initiated a number of green stormwater management projects and a public education campaign centered on reducing runoff and pollution.

- ***Governance Reform:*** The metropolitan areas of the Great Lakes are ruled by a byzantine network of cities, counties, towns, townships, villages, school boards, fire districts, library districts, workforce boards, industrial development authorities, water and sewer districts and a host of other entities. To compete successfully in the next economy, state and local leaders—from all sectors—need to reduce the barriers caused by too many governments with too many competing priorities. Most importantly, metropolitan areas need to begin speaking with a unified voice on economic development and design and implement a unified strategy: The competition today is between U.S. metros and metropolitan areas in nations across the globe, not between dozens of little jurisdictions within them.

  States need to work toward consolidating units of local governments, starting with school districts and special-purpose authorities, with an eye towards merging towns, townships, and other jurisdictions when it makes good sense to do so. For their part, local jurisdictions need to collaborate better and share services. In Northeast Ohio, for example, more than 20 public and private sector organizations have submitted a joint application for a multi-million dollar regional planning grant under the federal government's new Sustainable Communities Regional Planning initiative. In Chicago, a metropolitan mayors' caucus, formed over a decade ago by Mayor Richard Daley, still meets regularly to develop consensus on shared, cross-border challenges such as air quality, transportation funding, and workforce development. States should establish mechanisms for disseminating, and encouraging, these kinds of innovations in other jurisdictions.

America has a historic opportunity, driven by urgent necessity and new economic and social realities. The familiar domestic consumption economic model has exhausted itself, and a new one must replace it. This country has been there before, during the Industrial Revolution of the 19th Century and the long recovery from the Great Depression. The demands of rapid, fundamental change were met with innovative thinking, risk-taking, and investment aimed at creating a future, not re-creating a past.

Our future security, in the broadest sense of that term, depends on how we rise to this latest challenge. Doing so will require that we invest in the metropolitan assets that will characterize the next economy, and that we create new institutions and new communities that reflect next economy imperatives. This is how we will renew America's leadership not only as an economic power but also as the source of new ideas that will define the remainder of this century.

The bridge between past and future could be built in the Great Lakes region. Its historic strengths, in terms of geography and development, could be marshaled to help the nation transition to the next economy—while putting its own communities back on the path to prosperity.

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About the Authors

Jennifer S. Vey is a fellow with the Brookings Metropolitan Policy Program. John Austin is a Non-Resident Senior Fellow with Brookings; he is also a Visiting Research Scientist with the University of Michigan Institute for Labor, Employment and the Economy. Jennifer Bradley is a fellow with the Brookings Metropolitan Policy Program and Co-Directs with John Austin the program's Great Lakes Economic Initiative.

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For More Information

Jennifer S. Vey
Fellow
Brookings Metropolitan Policy Program
(202) 797-6143
jvey@brookings.edu
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Metropolitan Policy Program at Brookings
(202) 797-6139
www.brookings.edu/metro

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1775 Massachusetts Avenue, NW
Washington D.C. 20036-2188
telephone 202.797.6000
fax 202.797.6004
web site www.brookings.edu

Metropolitan Policy Program
at BROOKINGS

telephone 202.797.6139
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