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Towards a Competitive Capital Region

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Introduction

These are challenging times to govern in the Capital Region… not because of any immediate crisis or controversy but because of profound changes in our society.

Broad Market forces—globalization, technological innovation, standardization—are restructuring the US economy, changing what we do, how we do it, and where we do it.

Large demographic forces—population growth, immigration and domestic migration, aging—are changing patterns of consumption and settlement and lifestyle.

These forces often seem abstract but they are fundamentally altering the role and relationships of cities, suburbs, and metropolitan areas.

They are also changing the rules that now determine economic success—for families, for communities, for regions in the US.

Today, I am going to discuss four new rules of economic success.

Rule Number One: How You Stimulate, Support and Sustain Innovation Determines the Pace and Shape of Economic Growth. As Paul Romer wrote in the early 1990s, "In a world of physical limits, it is the discoveries of big ideas… together with the discovery of millions of little ideas... that make persistent economic growth possible."

Rule Number Two: What You Know Affects What You Earn as a Family and Whether You Prosper as a Community. In our changing economy, higher and higher levels of education are the keys to prosperity for families and competitiveness for regions

Rule Number Three: How You Grow Physically Affects How You Grow Economically. Density and compact development matter in the innovative, knowledge economy.

Finally, Rule Number Four: How You Govern… and Whether You Govern Regionally… Determines Your Economic, Social and Physical Destiny. In a changing economy, regional cohesion and less governmental fragmentation is the only way to adapt to rapid demographic and economic change.

So let me talk briefly about these new rules and what they mean.

Let me also give you a brief sense of how the Capital Region, which I will define as the six county Albany-Schenectady-Troy MSA, fares in light of these new rules.

Let me then make some recommendations on how policy and governance need to change, particularly at the state level, to respond to this new world.

In describing the major trends affecting our metropolitan areas, let me remind you first of the words of George Bernard Shaw who said that "The sign of a truly educated person is to be deeply moved by statistics."

So lets start with Rule Number One

American economy is still in a state of major transition, from manufacturing to knowledge and services.

In 1970, 22 percent of jobs in the US were in manufacturing. By 2000, that share had halved to 11 percent.

By contrast, services grew from 19 percent of US economy to 32 percent.

The restructuring of the US economy has changed the rules driving metropolitan prosperity.

Ideas, innovation, and creativity now drive the economy.

More so than ever before, over the past several decades big and little ideas have fundamentally altered the way that goods are developed, produced, and distributed within and across nations, profoundly influencing how—and how successfully—regions around the world compete with another.

In the old economy, based on mass production, firms succeeded by reducing the costs of making what by today's standards was a limited range of physical products. Regions, in turn, focused their economic development efforts on attracting and keeping those firms, often by providing them with packages of incentives more attractive than those offered by their competition.

The new innovation economy, by contrast, requires that firms of all types and sizes constantly develop—or in many cases adopt—new ideas, and use them to design new or improved products and production methods that are readily adaptable to continually shifting consumer preferences.

To be competitive, then, regions must cultivate an environment and contain a broad range of institutions—colleges and universities, private industry labs, professional and trade organizations—that supports all facets of this process.

Where does the Capital Region stand in this innovation economy?

The transition to a services economy is well underway in the Capital Region.

> In 1970, manufacturing was 19 percent of the region's economy. By 2000, it had declined to less than 7 percent of the region's economy.
>
> During this period, the number of manufacturing jobs fell from 62,500 in 1970 to 35,100 in 2000.

The decline in manufacturing has been accompanied by a rapid growth in the services sector.

> In 1970, the service sector comprised 18.2 percent of the jobs in the MSA; by 2000, that share had risen to almost 35 percent. During the same period, the number of service jobs tripled, from 61,000 to 182,000.

The Albany story of deindustrialization and the rise of services has played out in many metropolitan areas in the United States. What sets this MSA apart is the heavy concentration of higher educational institutions and health related facilities—the so called "eds and meds."

> 17.6 percent of the workers in this metro area, for example, work in the educational and health services sectors, compared to 12.9 percent for the nation
>
> Since the turn of the decade, the concentration of jobs in educational and health care services has grown at rates that are higher than the national average.

The concentration of the "eds" sector is of particular note. Some 24 institutions of higher education are located in the Capital Region, ranging from private tech powerhouses like Rensselaer Polytechnic Institute to the State University at Albany to private liberal arts colleges like Union and Skidmore to community colleges in Schenectady and the Hudson Valley.

These institutions contribute to the region's economy in many ways: importing talented students, procuring local goods and services, and promoting research and innovation. It is this final piece—and its promise of systemic impact—that is attracting special attention through public and private investment in such exciting ventures like Albany Nano Tech and the new biotech centers at RPI and the University at Albany.

And progress is already being recorded—on research grants obtained, on jobs created, on corporate, civic, and university energy engaged.

As the state and region goes forward, leveraging of these early gains needs to be focused and strategic. The hard fact is that the competition across states and metros for these innovative sectors is fierce and unrelenting.

So the state and Capital Region needs to ask tough questions about your special niche broadly, and with regard to specific clusters. And you need to overcome some structural hurdles; in particular, the historically low performance on entrepreneurship and the relatively low level of venture capital available in the region.

Focus and discipline is essential at this stage of your development if you want to ensure that ideas generated in the Albany MSA lead to jobs created here, rather than San Diego or Seattle or the Research Triangle.

A discussion of innovation naturally leads us to our second rule on education and skills.

The shift to an innovation economy place a high premium on acquiring more advanced levels of education and skills—for families, communities, states, and ultimately the nation.

With the restructuring of the economy, there is a new "law of wages" in the United States: the more you learn, the more you will earn. Whereas a high school degree was sufficient to enter the middle class in the manufacturing economy, an associate degree or above is now the ticket to family prosperity.

At the turn of the century, upwards of 45 percent of workers in such sectors as information technology, finance, and health care possessed college degrees. They earned, on average, two-thirds more than workers without degrees, more than double the disparity that existed two decades earlier.

Success at the metro level now requires large numbers of people with a college education and high skills. For every two percentage point growth in a metros share of college grads, income grew about one percentage point during 1990s

At the family level, there is a direct connection between education and income.

A high school graduate will earn $1.2 million over their lifetime.

By contrast, an individual with a bachelor's degree will earn $2.1 million.

An individual with a master's degree will earn $3.3 million.

And an individual with a professional degree—a doctor, a lawyer—will earn $4.4 million.

The break in this virtuous cycle of education occurs only with individuals who have doctorate degrees in some arcane subject like medieval literature.

As a state capital and as an "eds and meds" power, the educational levels in the Capital Region are healthy… on the surface.

> The MSA's share of adults with a bachelor's degree is 28 percent, comparing well with the state's 27% rate and the nation's 24 percent rate.
>
> The BA share is even higher in Albany—33 percent—representing the impact of the state university.

Yet a significant "BA" gap persists in this region, particularly in the cities and among particular minority groups.

> In 2000, only 19 percent of Schenectady's adults over the age of 25 had a bachelor's degree.

The same was true for Troy.

And black BA attainment trails the rest of the MSA and that of other minority groups. Only 15 percent of adult African-Americans in the area had a bachelor's degree in 2000, up only slightly from the 1990 rate of 14 percent.

With educational attainment low, it is not surprising that incomes lag in the cities.

The median household income is a little above $30,000 in Albany (representing the heavy concentration of students); a little below $30,000 in Troy; and a little above $29,000 in Schenectady.

That compares poorly to the $43,250 median household income for the MSA as a whole.

Let me be very clear. Until the educational indicators move in the cities and among minority groups, the critical measures associated with family health and community vitality will not dramatically improve.

Well that brings me to Rule Number Three since a discussion of education naturally leads to a discussion of development patterns.

Because we now know that how you grow physically affects how you grow economically.

Or, in other words, educated workers—who can increasingly go anywhere in the US—are attracted to places that are distinct and special and livable and increasingly compact and densely populated

Even a cursory look at the past two decades shows that the successful metropolitan areas in the United States are those places—Seattle, Austin, Denver, the Twin Cities, Boston —that are revitalizing their central cores, even while continuing to sprawl.

Americans don't usually think about the connection of density to economic performance and fiscal responsibility

But research tells us that density provides both productivity and innovation gains—and saves taxpayers money

On one hand, average labor productivity increases with more employment density, and "accessible cities" with efficient transport systems have higher productivity than more dispersed places

On the other hand, density contributes to innovation by attracting young, educated workers.

High density brings amenities that create high quality of place that attracts young educated workers.

Density also enhances innovation by increasing interactions and knowledge sharing among workers.

Dense labor markets, efficient transport, and high clustering of jobs lead to knowledge spillovers, both within and across industries.

And, as we have discussed before, educated metros win in the new economy by enhancing incomes and by being better positioned to reinvent themselves and adapt to changing economic needs

Another point, low density has a sticker shock.

On one hand, we have known for decades that low-density development increases demand for new infrastructure: schools, roads, public facilities, and sewer and water extensions.

Low-density development also increases the costs of delivering key services like police fire, emergency medical and school transportation.

The Capital Region is barely growing—only 1.6 percent in the 1990s. That's slower than the state (5.5 percent), much slower than the nation (13 percent) and much slower than the region's 4.4 percent growth during the 1980s. But you are spreading out, sprawling fast in a slow growth environment.

These development patterns are troubling, given the nexus between quality, balanced growth and competitiveness and fiscal health.

In the past decade, the population of the city of Albany declined by 5.4 percent.

The population of the city of Schenectady declined by 5.4 percent.

The population of the city of Troy declined by 9.4 percent, dropping below 50,000.

At the same time, population growth dispersed outwards. Incredibly, Saratoga County's population grew by a heated 10.7 percent in the 1990s and 17.9 percent in the 1980s.

And the growth out—of people and jobs—is of a particular kind: low density, non-compact, decentralized, and dispersed. The Capital Region now looks like is a crazy quilt of haphazard residential, commercial, office, and retail development flung across a vast physical landscape.

Perhaps we could understand this in Arizona or Texas or North Carolina or Georgia—states characterized by double digit growth.

But the Albany region is sprawling fast in a slow growth environment, which is more difficult to explain or justify.

That brings us to the final rule of governance.

In the changing US economy, metropolitan success is dependent on metro areas adapting to economic change.

Sophisticated new research by Jerry Paytas of Carnegie Mellon University concludes that metropolitan fragmentation exerts a statistically significant negative impact on competitiveness and weakens long-term regional economic performance.

This makes intuitive sense. As Paytas argues:

> "How well a region organizes and utilizes its assets and resources are the key to its ability to compete and to respond to change. Long term competitiveness requires flexibility and fragmented regions are less likely to mobilize the consensus for change. Fragmented regions divide the regional constituency, offering opponents of change more opportunities, forums and even institutional support to resist change."

Other work has shown the connection between fragmented government and sprawl.

Paul Lewis, a highly respected California researcher, has demonstrated that fragmentation results in decreased shares of office space in central business districts, less centrality, longer commute times, more "edge cities," more "exit ramp" growth, more sprawl in a word.

The Capital Region does not do well on this score.

You are one of the most fragmented metropolitan areas in the nation. Some 122 municipalities in six counties dot the governmental landscape, each with their own land use and zoning powers. Given the state's reliance on property taxes, each of these 122 municipalities spends a lot of their time competing with each other for development and tax revenues rather than competing together for quality growth and prosperity.

This hyper competition explains well the region's twin patterns of exurban sprawl and urban abandonment. And these patterns reinforce themselves in negative ways. As cities decline and exurbs grow, spatial disparities on taxes and home values and wealth increase, furthering the non-virtuous development trends in the region.

So let us recap.

The region has the potential to perform well on Rule Number One—the Innovation Rule. You are clearly taking the steps necessary to exploit your competitive advantage in "eds and meds." But you will face major structural obstacles as you try to get to scale on investments in various technology sectors.

The region's performance on Rule Number Two—Education and Skills—is mixed. You perform well in parts of the metro due to the presence of universities and the state capital. But your performance in the cities and among certain minority groups needs substantial improvement.

The region's performance on Rule Number Three—Urban Vitality and Quality—is troubling. You are sprawling fast in a slow growth environment, squandering your urban assets and wasting scarce fiscal resources.

The region's performance on Rule Number Four—Governance—is also troubling. You inherit a fragmented and balkanized system built for a different century and out of alignment with the geography of the changing economy.

All that is well and fine. The question obviously is "What do you do about it?"

How do you grow a high road economy of good jobs, educated and skilled workers and nimble entrepreneurs?

How do you grow in a balanced way, nurturing vital, distinctive and quality communities, urban, suburban and rural?

And how do you organize yourselves to compete while respecting the independence and value of your separate municipalities?

The answers to these questions will not be found at the national or federal level or in the cumulative impact of individual decisions and actions.

Rather, the states are the organizing vehicles for competitive, sustainable, and inclusive growth.

We simply cannot overestimate the roles that states play in metropolitan growth and development. The choices they make on economic policy, regulatory and administrative decisions, tax and spending programs all send strong signals to consumers and the market about what and where to build.

Five state roles deserve particular consideration.

First, states set the geography of governance. They decide how many units of general purpose local government there are and then decide whether the boundaries of these local governments are fixed or subject to change through annexation—whether they are, in the words of David Rusk, "little box" or "big box." They also decide the borders of school districts as well as other special purpose governments.

Second, states set the powers of local governance. They decide what powers to delegate to municipal governments and establish the parameters for how those responsibilities are exercised. They also decide which level of government wields such powers, be it local municipalities, counties, or even regional entities. For our purposes, the most important delegation involves land use, zoning, and planning powers. The devil here is in the details: some states permit and encourage innovative land use techniques; others stifle it. Some states require that local planning conforms to regional or state visions; others allow localities almost unfettered control.

Third, states establish the fiscal playing field for municipalities and school districts. They decide the form of taxes that municipalities can impose on residents and businesses —property taxes, sales taxes, incomes taxes, fees. They also determine the extent to which the state levels the playing field between rich and poor jurisdictions through general or specific tax sharing efforts.

Fourth, states help design the skeleton of regions through their investments in physical infrastructure, affordable housing, main streets, downtowns, public parks, and green space. How

and where states distribute economic development subsidies (whether to lower-end retail projects in the greenfields or high-value pursuits in established areas) also makes a big difference.

Finally, states help shape the quality of the economic growth that occurs in metropolitan areas through their investments in K–12 education, higher education, and workforce development. State activity of this sort may also stress higher-wage industries, such as health care, corporate research, or higher-value producer services as opposed to lower-end service jobs. The regulation of the real estate sector is particularly important and many states, for health and safety reasons, have established uniform rules and codes for construction and building.

In almost all states throughout the country, the intersection of these disparate powers and policies has created in what I call the "rules of the development game"—rules that favor the creation of new communities over the redevelopment of older ones, rules that promote and even subsidize greenfield development rather than brownfield remediation, rules that often consign low wage workers and minorities to the "wrong side of regions."

Let me illustrate how sprawl and regional inequity is embedded and hardwired in the powers and policies of one state: your neighbor, the Commonwealth of Pennsylvania. Brookings released a major report on the state of growth in Pennsylvania in December 2003.

Our report demonstrated the sprawl-inducing and city-emptying effect of an intricate network of state governance, spending, tax, regulatory, and administrative polices. Among these were:

- State governance policies that chop the commonwealth into 2,566 municipalities and then delegate land use and zoning powers to every single one of these municipalities

- State building codes that make it cheaper to build new rather than renovate older properties

- State tax policies that leave cities stranded with tax exempt properties, saddled with the costs of maintaining older infrastructure and responsible for supporting a large portion of school expenses through their property taxes

- State transportation policies that spent only 42 percent of road and bridge spending in older urban communities, where 58 percent of the population lives

- State economic development policies that subsidize industrial parks on greenfields in exurban communities, while perfectly suitable sites on historic commercial corridors lie vacant and abandoned three or five miles away

The list in Pennsylvania, as in New York and other states, goes on and on and on.

The end result of these policies is to create a dynamic in which every community in the state wakes up every morning trying to out-compete its neighbors for growth that brings economic and fiscal benefits: high end residential, high end retail, high end commercial.

But the rules of the competition are stacked in favor of new communities.

> Want to attract a new mall or government facility? The state will generously pay for new infrastructure and roads.
>
> Want to grow your fiscal base? The state will allow newer communities to benefit exclusively from residential and job growth—and garner 100 percent of the tax revenues—without taking any responsibility for the impact of growth on regional traffic patterns or the environment.
>
> Want to avoid serving low-income families? The state will allow newer places to zone out affordable housing for low-wage workers, let alone shelters for the homeless and the most vulnerable in our society.

Given this backdrop, the twin patterns of sprawl and urban abandonment that have defined Pennsylvania's development since the end of World War II are not accidental or happenstance; they are the logical, almost predetermined, outcomes of state policy.

Is New York like Pennsylvania? Are you setting the rules of the development game in such a way that, on balance, promote sprawl, undermine cities, and dissipate your fiscal energies?

The good news is that the policies that I have discussed here today are not inevitable or somehow divinely inspired.

They are the product of political systems and political compromises and political tradeoffs.

Politics, in a word, determines policies, and policies shape markets and growth patterns and family opportunities.

My contention is that throughout the country, sprawl and economic and social change has left in its wake the potential for broad majoritarian coalitions that can reset policies to fit a new time and achieve a new set of objectives.

Our challenge in this room is to realize the potential of this mostly latent, still theoretical political coalition and stimulate the creation of networks of leaders and advocates across municipal jurisdictions, across disciplines, across urban, suburban, exurban and rural lines, across racial and ethnic lines, across "red" and "blue" areas.

Given political and fiscal realities, our first line of offense is the states.

I believe that a growing number of states are ripe for change:

- because they are experiencing the fiscal wastefulness of unbalanced growth patterns

- because the recognize that an economy of ideas, innovation, and creativity thrives in dense, urban areas

- because they are worried that endless sprawl is endangering the rural landscapes and environmental treasures that define many places

The states are ripe for change if we can change the political equation that drives decisions in state capitals.

And, if American history has taught us anything, states—as laboratories of democracy, as political battlegrounds for federal presidential contests—have the power through their experimentation to shape federal policies and practices for decades to come.

Let me give you a hopeful lesson from our Pennsylvania work.

What we discovered in Pennsylvania was a smart growth coalition that was less than the sum of its parts. Pennsylvania, like many states, does not lack for talented mayors or business owners or community, faith-based, and civic leaders or real estate practitioners or university presidents or heads of health care systems or environmentalists or conservationists.

Yet these talented people are rarely organized to pursue structural change. City is pitted against city. Urban constituencies are pitted against urban constituencies. The city/suburban divide—sometimes racial, sometimes not—is deep and pronounced. Environmentalists and conservationists rarely talk to, let alone relate to, urban advocates and business leaders.

Urban advocates, conservationists, and many fellow travelers, in short, have perfected the "art of the deal"—the downtown real estate transaction, the major stadium or convention center, the major land acquisition—and neglected the "art of politics"—the mechanics of coalition building.

Sound familiar?

Only a year later, what we are witnessing in Pennsylvania is the slow, gradual evolution of a vibrant political coalition that is leading a discussion about city revitalization, balanced growth, and state competitiveness.

The confluence of powerful ideas, a progressive governor (Ed Rendell, the former mayor of Philadelphia) and a vocal network of advocates is already reforming policies:

> The state is embracing "fix it first" policies in transportation—stopping sprawl inducing road projects at the fringe in order to fund infrastructure repair in the metropolitan core
>
> The state has resuscitated its State Planning Board to bring coherence to the actions of dozens of state agencies.
>
> The state has revitalized an Interagency Land Use Team to better focus the state's actions and investments.
>
> The governor recommended—and voters approved—a $650 million bond issue to further both environmental protection and urban revitalization, illustrating the potential for common ground between old and new communities.

> The governor is pursuing bold new reforms to prepare the Pennsylvania workforce for a radically different economic era.

And policy fermentation is breaking out:

- Should Pittsburgh consolidate with Allegheny County?
- Should metro areas in the state be allowed to experiment with new taxing regimes and governance forms?
- Should the state's fiscal receivership law be turned into a tool for attacking the structural roots of urban decline and distress?

Now the road in Pennsylvania is going to be long and hard. But they have started on the path towards systemic and structural reform. And how far they travel down that path will depend, in large part, I think, on how effective they are at organizing new coalitions.

Is Pennsylvania unique? I do not believe so. In fact, I think if structural reform can happen in Pennsylvania—fragmented, balkanized, riven by divisions—then it can happen anywhere.

I believe it can happen in New York.

In 2006, this state will hold an election for governor and the Pataki era will come to an end.

Why not use the next eleven months to have a rich, robust and provocative discourse about how this state can become more prosperous and competitive by revitalizing its cities and urban places, curbing sprawl and enhancing education and innovation?

Why not hold candidate forums in every major city and metropolitan areas Upstate—perhaps hosted by the Business Higher Education Roundtables and its equivalents in other metros—and have candidates articulate their vision of competitiveness, revitalization, and fiscal accountability?

Why not go further and have a unified urban agenda across a broad cross-section of constituencies—university and business leaders, entrepreneurs, mayors, county officials, philanthropists, developers, faith groups, environmentalists, conservationists, farm preservationists, historic preservationists?

I believe that this state can grow differently.

- I believe you can create competitive cities and suburbs that nurture strong, resilient, adaptive economies.
- I believe you can develop sustainable cities and suburbs that promote accessible transport, residential and employment density and energy efficiency.

- I believe you can build inclusive cities and suburbs that grow, attract, and retain the middle class and give all individuals, irrespective of race, ethnicity or class, access to quality jobs and good schools.

- I believe you can fashion livable cities and suburbs that promote and preserve quality neighborhood design, abundant open spaces, irreplaceable environmental treasures, and distinctive public spaces as a foundation of competitiveness, sustainability, and inclusivity.

But this vision will not just happen.

You will need to fight for it with focus and discipline and, most importantly, as part of new majoritarian political coalitions that demand supportive state policies.

You ARE the majority: Now you need to act, organize and govern like one.