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Growing Inclusively: Why Doing the Right Thing Is the Competitive Thing in the Twin Cities

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Introduction

I want to thank the Minneapolis Foundation for the opportunity to speak at this Forum. It is an absolute pleasure to be back in the Twin Cities. As many of you know, Brookings worked closely with the Itasca Project, the McKnight Foundation and a host of corporate, civic, political and community leaders to produce a report entitled "Mind the Gap: Disparities and Competitiveness in the Twin Cities." I want to particularly thank Mary Brainerd, Jennifer Ford Reedy, and Rip Rapson for all their advice and guidance throughout this project. I also want to thank Rebecca Sohmer, senior research analyst at Brookings, for co-authoring the presentation that I will give today.

These are challenging times to govern in the Twin Cities 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 determine economic success—for families, for communities, and for regions in the US.

In my view there are five new rules of economic prosperity that now guide metropolitan and state decision making.

My sense is that the first four rules will be quite familiar to you.

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 discovery of big ideas… together with the discovery of millions of little ideas... that make persistent economic growth possible."

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 and skills are the keys to prosperity for families and competitiveness for regions.

How a Region Grows Physically Also Affects How It Grows Economically. Density, compact development, and amenities—or, more simply, cities and cityness—matter in the innovative, knowledge economy.

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.

I believe there is a fifth rule of increasing importance to metropolitan health and vitality ... **The Extent to Which a Region Grows Inclusively Affects How It Grows Economically and Socially.** Reducing persistent racial and ethnic disparities on education, income, and wealth is not just the right thing to do, it is the competitive thing to do if our regions are going to adapt to the changing demographics of the workforce.

The central challenge for every metropolitan area in the United States, cities and suburbs together, is to understand these rules, ascertain how they stack up, and make the investments and policy adjustments necessary to remain competitive.

So let me talk briefly about these new rules and what they mean for the Twin Cities region. I'll be focusing particularly on the final rule since it was the principal subject of our recently released report, "Mind the Gap."

I will then make some recommendations on how policy and governance need to change to respond to this new world.

So let's start.

George Bernard Shaw once said that, "The sign of a truly educated person is to be deeply moved by statistics."

That definition of education is even more appropriate at a time of volatile economic and societal change.

The American economy remains in a state of major transition and evolution, from manufacturing to knowledge and services. As recent as1970, 22 percent of jobs in the U.S. were in manufacturing. By 2000, that share had halved to 11 percent. By contrast services grew from 19 percent of the US economy to 32 percent.

Ideas, innovation, and creativity now drive the economy.

The shift to an innovation economy place a high premium on acquiring more advanced levels of education and skills, or “human capital”—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 metro’s share of college grads, income grew above one percentage point during the 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.

The new emphasis on education and skills places racial and ethnic minorities in the United States, and the places where they disproportionately live, at a severe disadvantage.

Nationally, African-American adults have a college educational attainment rate of only 10 percent, whereas whites have a college attainment rate of 27 percent. (Latinos are at 14 percent).

Education translates immediately into incomes. The white median household income in the country is $45,367. The Latino median household income is $33,676 and the black median household income is $29,445.

But education and income only tell one part of the story. In many respects, wealth tells us even more.

Nationally, according to the Pew Hispanic Center’s report on wealth disparities among race and ethnic groups, African Americans had less than seven cents for every dollar of wealth owned by whites. In 2002, that meant that nationwide, whites had a median net worth of $88,651, but black households median net worth reached only $5,988.

Nationally, the median white family has a net worth more than thirty times greater than the median Latino family.

Why the large gaps?

Well, African-Americans and Latinos are much less likely than white Americans to own their own home. While 72 percent of white households own their own home, 47 percent of black households and 46 percent of Latino households own their own homes.

And even when minority households do own a home, their asset is often not worth as much. Part of this is due to the fact that minority households tend to live in parts of metropolitan areas that have lower property values. Urban expert David Rusk describes this as a “segregation tax”. Rusk found that, equalizing for income, black homeowners received 18 percent less value for their homes than white homeowners.

Now why do these racial and ethnic disparities matter to American society in general and individual metropolitan areas in specific?

The Hamilton Project points out that, “In an increasingly integrated global marketplace, the United States simply cannot afford to have substantial segments of its population underutilized because they lack educational or work opportunities.”

Over the coming decades, the baby boom generation will begin to retire. In 2011, the oldest baby boomers, aged 54 in 2000, will start to retire. By 2029, the youngest baby boomers (who were 36 years old in 2000) reach retirement age. This means that by 2029, the country will have had to fill 63 million workers as the baby boomers retire.

Who will replace these workers? A younger, more racially and ethnically diverse workforce.

The basic fact is that the minority population is growing at the same time as the baby boomers are getting ready to retire. 73 percent of the country’s baby boomers are white, 11 percent are African-American, and 10 percent are Latino. But only 62 percent of the replacement generation is white, while 14 percent is black and 16 percent is Latino. If a large educational gap between whites and minorities still exists in ten to twenty years, a much larger share of the nation‘s workforce will be unskilled. It is imperative that this ethnically diverse workforce has all the tools they need to be able to move our economy forward. A decline in workforce quality translates into a decline in overall economic health.

The country, in particular, has a lot of work to do in order to make sure that the children of low income minorities will be able to meet the growing need for skilled workers.

Child poverty bodes ill for the quality of the future workforce for two reasons: Poor children are more likely to have lower educational attainment rates, and poor children are more likely to grow up to be poor adults.

For individual regions, the importance of improving the education and skills of existing minority residents will be particularly pressing.

As the entire nation will be competing for a diminished supply of skilled workers, individual regions cannot rely as heavily on attracting workers from elsewhere. There will most likely be a heavier dependence on existing residents, and economists predict that this means more women and minorities will be in the workforce.

So reducing racial and ethnic disparities on education and skills will be beneficial to economic growth.

But it will also have other salutary effects.

It will, most simply, bring more money into the metropolitan areas. Reducing disparities among race and income groups will increase the tax base and decrease the fiscal costs associated with poverty. Having larger numbers of people earning at least a middle-class income fuels the local economy by creating a larger number of consumers with more purchasing power.

Reducing disparities among places will also make the region stronger and more competitive. Metropolitan dynamics have changed since the early post-war period. In the 1950s and 1960s, suburban growth was not negatively affected by central city decline. Today, however, trends point to a new reality. A growing body of research suggests that the fates of large cities and their metropolitan areas are intertwined—they grow together or they decline together.

So let us recap. The key to succeeding in today's world is to innovate and educate while making sure all residents, regardless of income or race or ethnicity or place of residence, have the opportunity to connect to the workforce in a productive fashion.

How does the Twin Cities region stack up? In some ways very well, and in other important ways there are lurking threats.

Overall, the region has a highly skilled workforce, with one-third of its adults having a bachelor's degree or higher. High school attainment is the highest in the country—91 percent of adults have a high school degree.

The economy is diverse and healthy with per capita income growing by 21 percent between 1990 and 2003.

The two biggest industry sector specializations are finance and management of companies—both high paying, growing sectors that indicate a strong knowledge economy.

So what's the problem?

These large aggregate numbers miss another part of the story, namely that the region is rife with disparities among groups and among places.

What's more is that these gaps—these race, class, and place disparities—will eventually erode any competitive advantage the region currently enjoys.

While the region enjoys high overall educational attainment rates, minority residents fall short of these impressive numbers. While 35 percent of white adults have a BA or higher, only 19 percent of African-Americans, 11 percent of Mexicans, and 8 percent of Hmong do.

And while whites have a median household income of $56,642, American Indians have a median income of only $35,489 and Sub-Saharan Africans only $26,736.

Likewise, homeownership rates vary widely with 76 percent of white households owning homes but only 32 percent of black households owning homes.

(These disparities, by the way, can be found in all parts of the state, not just within the Twin Cities metro although that has been the focus of our Minnesota work. Other metros such as St. Cloud and Rochester have similar disparities. The black educational attainment rate in Rochester is 17 where the white is 35 percent. In St. Cloud, the Latino median household income is $34,651 when the white median household income is $42,801. The disparities aren't just a metro phenomenon either. Smaller towns such as Owatonna follow similar patterns. There, 44 percent of Latino households own their own homes and 78 percent of whites do.)

Disparities have other implications because people and jobs are not evenly distributed throughout the metropolitan area. There are wide gaps among places that dampen the full power of the region's economy.

As jobs and people move outward, the two central cities are now home to the bulk of the region's poor and minority households. In 2000, the cities of Minneapolis and St. Paul had 23 percent of the region's total population, but 54 percent of all poor residents and 54 percent of the region's people of color. Remarkably, the central city poverty rate is 4.5 times higher than the suburban poverty rate, a higher ratio than the ones present in Baltimore, Detroit, Cleveland, and Philadelphia—all metropolitan areas that are struggling economically.

These patterns mean that the two central cities and their older suburbs struggle with meeting the needs of high concentrations of poor, foreign born, and minority populations in the central cities, while the suburbs face the challenge of a booming population over a large, low-density area with inadequate infrastructure.

T*hese gaps among groups and among places matter immensely for the Twin Cities.*

By the time the youngest baby boomers retire, the region will have needed to replace 776,000 workers—and this is just to replace them, it doesn't account for any growth in employment. A very high percentage of Twin Cities baby boom workers are college educated—almost half have BAs or higher. This means that when the youngest boomers retire, the region is faced with 350,000 highly educated workers leaving the workforce.

And the new replacement generation of workers is far more diverse than the boomers.   Only 10 percent of Twin Cities baby boom workers are minority, but at least a quarter of the next generation of workers will be from a minority group. It will be imperative for the region to make sure that minority workers in the replacement generation have the skills they need to take over from the boomers.

So what should the Twin Cities do about this?

First, you need to update the basics. The Twin Cities has long been a region where basic public services such as schools, healthcare, and city services have been invested in. But without attention, what has worked in the past may not continue to be the basis for a competitive region.

The Twin Cities rapidly changing demographics is a potential boon to the region. But unless the region's earlier investments in schools, transportation, and healthcare are retooled and updated to meet the needs of ALL Minnesotans, the region will lose any competitive advantage it might have accrued over the course of the past several decades.

This is not a glamorous proposition. The basics aren't sexy—they don't offer many ribbon cutting opportunities or media ops. But they are absolutely crucial for the competitive future of the region.

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

The region also needs to pay attention to growing income and wealth for low-income minority households. It's a very direct way of trying to reduce disparities among groups.

On income, there is a range of potential and existing state and federal policies that help raise incomes—from raising the minimum wage to increasing the participation rate of programs such as food stamps, and the Earned Income Tax Credit.

Creating more jobs or more programs that provide career ladders is another way of increasing incomes for low-income workers. Many businesses find that providing on-the-job training and helping their existing employees advance into more skilled, better-paying positions is often less expensive than high turnover in entry-level positions.

Another avenue that can help raise incomes in minority communities is to invest in and support minority entrepreneurs. Minority business owners tend to hire minority workers at a higher rate. By increasing the number, size, and health of minority businesses, it multiplies the way minority residents can connect in a productive way to the workforce.

Yet this is not just about raising incomes. The key to sustainable family well being is really about building family assets. The ability to weather economic hardships such as job loss or medical expenses is more about wealth than it is about income. Savings, homeownership, the ability to pay for college, retirement are about wealth-building.

How does the region encourage wealth building among low-income and minority residents? By doing things like helping to reduce the high cost of living for low-income households, by limiting predatory lending and by improving access to mainstream financial institutions and the flow of market information.

Financial literacy is also a fundamental part of any policy agenda to build wealth. More than ever, families need to be savvy consumers of financial products in order to be able to build wealth. Children who grow up in households with low levels of financial proficiency have nowhere to learn how to balance a checkbook, understand compound interest, or know what an individual retirement account is.

Lastly, it's important for the Twin Cities to address the fact that the way people live and work is regional—less than one-quarter of the workers in the region work in the town or city that they live in. Moreover, 40 percent of workers in the region work in a different county than their county of residence.

Housing policy, transportation policy, education policy, workforce development policy—these all need to be implemented on a regional scale. The Twin Cities needs to create ways to deliver these services in a way that actually matches how people need to use them.

More than any other region in the country, Minneapolis-St. Paul has made steps to address this by implementing a form of regional governance and tax-base sharing. But it's clearly not enough… and, in many respects, the region's earlier commitment to regionalism seems to be waning. The region is sprawling rapidly, there are still strong divisions among the central cities, older suburbs, and exurbs, and the full economic and fiscal potential of your cities is still not being realized.

The regional infrastructure that the metro made early strides to create needs to be greatly updated and expanded.

Let me end by ending on a positive note to urge this region forward. Unlike many of the places I visit and speak to, the Twin Cities is operating from a position of strength. It can use its current competitive edge to its advantage by directing its many resources toward programs and policies that will help maintain and further its regional health. As it has been in the past on so many other issues, the Twin Cities has an opportunity to be a leader.

If ignored, however, growing race, class, and place disparities will hamper the region's future workforce and overall economic health.

Now is the time to "mind," and more importantly close, the gap.