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Madam Chair, Chairman Oberstar, Congressman Graves, and distinguished Members of this Subcommittee, I am pleased to be here. This subcommittee has the responsibility to determine how the federal government can best stimulate economically competitive regions, and I appreciate your invitation to offer my thoughts on this topic.

At The Brookings Institution, I have two areas of focus:

- the federal role in stimulating economically competitive metropolitan areas, and
- the federal role in producing the socioeconomic data—for example, population, employment, transportation—needed by governments and businesses to make intelligent investment decisions.

To give you some context for my remarks: In the 1980s, I co-founded Mt. Auburn Associates, a regional economic development consulting firm in Boston; in the 1990s, I created a solo consulting practice; two years ago, I become a fellow in the Brookings Institution's Metropolitan Policy Program. I received a doctorate in economic development and public policy from MIT.

I have consulted with 60 states, regions, counties and cities, helping them understand how their economies work and advising them on how they could work better. Congressman Arcuri, I was part of a team working with Oneida County on a plan to reuse Griffiss Air Force Base and increase technology transfer from Rome Laboratory. Congressman Cohen, I helped develop an economic strategy for the Memphis area and a growth plan for Collierville.

I have carried out a substantial amount of work for the Economic Development Administration (EDA) and other federal agencies such as the Small Business Administration and the Department of Housing and Urban Development. My involvement with EDA has included:

- managing or participating in four program evaluations—revolving loan fund, technical assistance, incubators, and public works;

- carrying out three research studies—on the extent of and reasons for manufacturing plant closings in Rhode Island (which became my doctoral dissertation), on the extent to which the federal statistical system meets the needs of local economic developers, and on the role of technology transfer and commercialization in regional development;
- co-authoring two handbooks—"Socioeconomic Data for Understanding Your Regional Economy" (EDA's most widely used publication in its history) and one on regional strategic planning; and
- developing EconData.Net (www.econdata.net), which provides links to over 1,000 sources of on-line data relevant to regional economic developers (approximately 15,000 users a month).

In addition, I am a board member of the Council for Community and Economic Research (C2ER), a national association of regional development organizations and professionals who use statistics and research to drive policy. C2ER has over 500 members—such as chambers of commerce, county development departments, and utilities—a number of which are in the Congressional Districts represented on this Subcommittee.

The world of economic development has changed dramatically since the Public Works and Economic Development Act of 1965 was passed by Congress. In the 1960s and 1970s, economic development was the work of lagging regions, of places left behind in the general postwar boom that brought middle class prosperity to much of the nation. The law's finding notes succinctly that "while the economy of the United States is undergoing a sustained period of economic growth . . . , there continue to be areas suffering economic distress."

In 1965, the nation seemed to have a very stable economic structure, with well understood regional roles—for instance, Detroit for cars, Akron for rubber, Toledo for glass, Hartford for insurance, Pittsburgh for steel, South Carolina for textiles, Southern California for entertainment and military, Houston and Denver for natural resources, New York for finance and publishing. Places such as these were not in need of economic development; the concern of President Johnson and Congress was how to expand the benefits of prosperity beyond the well-developed areas.

The emphasis on less developed areas ended with the recession of the early 1980s and a surprising new vulnerability to international competition that shook the once stable regional economies to their core. The term "Rust Belt" came into vogue, with some reason.

In response to the cyclical and structural shifts, every state and nearly every county, city, and region created an economic development organization to attract industry, retain existing firms, and create new jobs from within. No area could take its future for granted. A new regional competition ensued, a constant fight to attract, retain, and create decent jobs.

However, in the last 25 years, a significant disparity has grown among U.S. regions; some have done extraordinarily well in the global economy, while others have struggled. In 1980, average annual pay per job in the following six cities were all within 110-120 percent of the national average—San Jose, Boston, New York, Pittsburgh, Gary, and Toledo. In 2005, average pay in the first three cities ranged from 132-177 percent of the national average; that for the second three cities fell to the range of 88-96 percent. While pay in Austin, Texas jumped from 88

percent to 107 percent of the national average, that for non-metropolitan Pennsylvania fell from 86 percent to 75 percent and that for non-metropolitan New York went from 84 to 78 percent. The differentials in job growth among these various regions were similar in nature.

Even the regions that have done well are vulnerable to change. Between 2000 and 2004, Silicon Valley lost nearly one in five jobs after the tech bubble burst, a rate of decline similar to those seen in Midwest cities in the early 1980s.

In summary, across the nation, regions cannot take their economic future for granted. Most regions now recognize the need to be competitive in a larger market. The sense of uncertainty and vulnerability regarding economic structure has been with us for 25 years and will be for the foreseeable future. (Interestingly, while structural volatility has increased, business cycle volatility has declined, in part the federal government, particularly the Federal Reserve, and businesses have a better understanding of how to reduce the turbulence of the business cycle.)

What are the reasons for this transformation from stability to uncertainty, and what are the implications for the federal role in economic development? The reasons for change are several:

- ***Markets went from being national to international in scope****,* enabled by technological innovations in transportation and communication and by institutional innovations such as global trade agreements, multi-national corporations, and organizationally complex, geographically dispersed supply-chains. In 1960, imports equaled four percent of Gross Domestic Product, the most recent figure is over 16 percent.
- ***Financial and physical capital became highly mobile.*** Firms now readily disperse operations across the nation and the world; for many operations, place is increasingly irrelevant. In industries that compete on the basis of cost, developing nations have had a clear advantage in the market place. American firms in these industries find it in their interest to shift American jobs off-shore.
- ***Productivity in many industries, particularly manufacturing, has skyrocketed***—we can make more goods with far fewer people. The productivity of one manufacturing worker in 2005 was 410 percent of that of a worker in 1960, and 240 percent of a worker in 1980.
- With global competition, off-shoring, productivity increases, and greater wealth for many, ***less of our economy is focused on producing goods than ever before.*** In 1960, manufacturing directly provided 31 percent of the nation's work earnings; in 1980, the figure had dropped slightly to 27 percent; by 2005, only 14 percent of earnings came from manufacturing.
- ***Mergers and acquisitions, and the resulting non-local leadership, have greatly lessened the commitment that firms have to remaining in particular places.***
- ***Firms' ability to create and bring to market innovative products and services has grown substantially.*** The result is increased competition around product and service attributes, and so greater industry volatility.
- ***The intensity of competition has greatly increased from decades past.*** The structure of America's economic base was once largely oligopolistic. That is, in any one industry, a handful of firms controlled the market, prices were stable and sufficiently high, and union power was such that large numbers of relatively uneducated workers could move into the middle class. With global competition and substantially greater

> productivity, the wages and numbers of jobs available to workers in such industries have declined dramatically.

More than ever, the nation's regions are experiencing what economist Joseph Schumpeter, 60 years ago, called "creative destruction."[1] In a world of creative destruction, regional economic stability requires creating ***defensible market niches***, one that cannot easily be replicated in another location. Regions around the nation are striving to develop and sustain such niches, whether in key international industries (e.g., Boston and San Francisco in biomedical) or in sectors that provide support functions (e.g., Louisville and Memphis in distribution). In any particular sector, only a handful of regions are able to have defensible niches.

The nation's prosperity is very much the sum of the economic competitiveness of its various regions. Forty years ago, the U.S. did not need to worry about its international competitiveness. Now, clearly, it must. I believe this state of affairs has several implications for the federal role in regional economic development, and by extension, the work of this Subcommittee.

In the interests of the nation's prosperity, ***the Subcommittee should consider broadening EDA's mission from one of aiding distressed regions to one of facilitating the competitiveness of all economic regions.*** While distressed regions still deserve particular attention, the dramatically changed nature of the global economy requires a significant redefinition of the EDA role, which in turn will require ***a significant restructuring*** of how EDA approaches its work.

EDA was created in 1965 under the assumption that depressed regions lack the resources to build the physical assets necessary to attract industry. We can see this in a quote from the Report of the House Public Works Committee (1965):

> It appears that there is a substantial dearth of needed public facilities in our most distressed communities, and that their inability to make such improvements results in an every-increasing loss of new job opportunities. Communities in these areas find themselves in a crippling cycle of economic deterioration.

EDA was created in the belief of the effectiveness of a formula for economic development that certain federally-financed tangible inputs (roads, industrial parks) will lead to certain outputs (jobs). There was a large civil engineering dimension to this work; the attitude was "build it and they (branch plants) will come." Over time, additional inputs have been added to EDA's programmatic toolkit—revolving loan funds, technical assistance—but the basic formulaic approach to economic development has remained.

The belief here was not that the federal government was encouraging the movement of manufacturing plants from one place to another, but rather supporting an increase in the number of plants around the U.S. The assumption was that plants usually did not wander, that in a booming economy they expanded locations. As I noted, that world has disappeared.

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[1] "The opening up of new markets and the organizational development from the craft shop and factory to such concerns as US Steel illustrate the process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one ... [The process] must be seen in its role in the perennial gale of creative destruction; it cannot be understood on the hypothesis that there is a perennial lull." From "The Process of Creative Destruction," Joseph A. Schumpeter, 1942.

In 2007, economic competitiveness is less a function of hard assets than of soft assets—***the organizational capacities of firms to be innovative and creative, to battle in an intensely competitive marketplace***. Workforce skills, organizational culture, a capacity to intelligently scan the competitive environment, flexibility and adaptability, and a willingness to seek continuous improvement, import knowledge, experiment and learn, and take risks are key.

By extension, regional economic development organizations need these qualities as well. They must move beyond being civil engineers and marketers, of being technocrats, to being leaders and visionaries, "civic entrepreneurs" who build consensus among public and business leaders about a realistic vision (defensible niches) for the region and the roadmap for getting there, and guide the region's leadership in collectively implementing that roadmap.

To carry out this role, regional development organizations need access to:

- current, accurate information regarding the region's economic performance and structure;
- the expertise to determine the implications of this information for a realistic strategy (avoiding magical thinking that the region can transform itself into the next Silicon Valley);
- knowledge about how to create and sustain defensible industry clusters;
- knowledge about the various building blocks that make for a competitive economy—workforce development, technology transfer, infrastructure development (including telecommunications), entrepreneurship, and venture capital;
- the expertise to create and sustain useful social networks within industry clusters, among entrepreneurs, and other key sectors that promote innovation, knowledge sharing, and new business relationships; and
- knowledge of how to learn what businesses need to be successful (and stay in the region) and how to help them get it.

To be effective, then, development organizations must have a far deeper and wider capacity than envisioned in 1965. The approach to economic development shifts from a formulaic relation between hard assets and jobs to an ongoing process of organizing regional actors around vision, roadmap, and action.

I believe that the mission of EDA should include aiding development organizations across the country to obtain this capacity. I suggest it do so through a focus on a series of ***information-focused activities*** which complement its existing programs. In particular, I recommend that EDA have the resources to:

- ***See that federal statistical agencies produce the types of socioeconomic statistics that regional development organizations need.*** To do a proper competitive assessment, development organizations require current, accurate data on population, jobs, workforce, incomes, transportation, housing, education, and other topics. These statistics are used to distribute federal funds; accurate statistics means each community receives its rightful share. In addition, businesses need these statistics to make intelligent investment decisions. For more than a decade, important regional data series have cut back or eliminated, existing statistical series are regularly threatened,

and new opportunities offered by advances in information technology have not been fully taken advantage of. EDA has been silent as data sets disappear; it needs to be an informed, vocal advocate.

- ***Greatly increase its support for economic development research***—in order to better understand the dynamics of regional economies and, very importantly, what it takes to become a successful development organization. EDA's current annual research budget is $800,000, far too small an amount. EDA once had a meaningful research budget to complement its grant funds. That budget did much to inform the field over 40 years, and I, for one, would not be sitting here without it.
- ***Support electronic peer-to-peer networks among development practitioners that facilitate access to learning and effective practices.*** For years, EDA has held annual national and regional conferences; as useful as they are, EDA can use electronic communications tools to far more productively facilitate real-time exchanges for problem-solving.
- ***Utilize state economic development departments as mechanisms for providing expertise and support to regional agencies.*** These departments are large enough to have economies of scale in delivering services and yet are close enough to the ground to be able to provide hands-on assistance to regional agencies.
- ***Promote the creation of a series on-line references and analytic tools for economic development practitioners.*** The success of our regional statistics handbook and EconData.Net speak to the value of such tools. EDA began to explore the use of such tools, but stopped.

The cost of these various information tools is remarkably modest, a small fraction of EDA's overall costs, even today when the agency is smaller in real terms than it has ever been. For example, the data handbook and EconData.Net each cost $30,000 to create. (The annual cost of maintaining EconData.Net was $15,000.) Low cost and nationwide accessibility mean that the return on the federal investment in information tools would be quite large.

As noted, EDA would retain its role of aiding distressed regions—the bulk of its funding might still go for public works and infrastructure in these places. At the same time, the information-focused activities would be of significant help to these regions.

To be effective in the proposed new role, EDA would require a different culture and skill set than at present. It would need to be as flexible and adaptable as the firms and regions it hopes to stimulate and as knowledgeable about development processes. I believe it is difficult to modify the agency as currently organized. ***This Subcommittee should consider transforming EDA into a quasi-governmental organization.*** For similar reasons, many states have moved the development department outside of government, and Congress might consider the same step.

I wish to end by coming back to one point I made earlier—in a turbulent knowledge-based economy, access to federal data on economic performance and structure is critical to regional economic competitiveness. The federal government has a unique role in producing accurate, current, objective, readily accessible numbers comparable over space and time. Without federal data, local agencies are flying blind. Of particular importance are the Census Bureau, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Department of Housing and Urban Development, and the Department of Transportation.

I respectfully suggest that not only should EDA be a strong advocate for good federal statistics, but this Subcommittee should be as well. The federal statistical system is highly idiosyncratic; no one committee in Congress is responsible for either appropriations or oversight of the system. Consequently, the statistical system lacks sufficient Congressional champions. This Subcommittee, whose constituency—development agencies—relies on data from across the system, is well positioned to play an advocacy role with appropriations and statistical agency oversight committees, and I urge you to do so. In particular, Madam Chair, I know that you have been a vocal supporter of accurate census population estimates, and that you appreciate the value of the array of socioeconomic data.

As I suggested earlier, the cost of federal statistics for local areas is quite modest and the payoff is substantial. Let me give you some examples:

- The single most important recent innovation in federal statistics is the ***American Community Survey*** (ACS), annually updated detail on population and housing that replaces the once-a-decade decennial census long form. ACS data are very important for providing a current picture of economic performance (e.g., income, poverty), workforce characteristics (occupation, educational attainment, full-time/part-time status, pay), and journey-to-work (important for transportation planning). Every question on the ACS is required by a federal agency. Cost: $180 million annually. The 2005 figures are incomplete; for want of $15 million, people who live in group quarters—such as nursing homes, military bases, dormitories, and prisons—were not surveyed. By the way, Madam Chair, in 2000 over six percent of DC residents lived in group quarters, a figure far higher than any state in the nation.
- The Census Bureau's ***Local Employment Dynamics*** (LED) program is utilizing advanced information technology to determine the "gross flows" of local economies—patterns in hiring and separations by industry, gender, and age, and where people live in relation to where they work. Cost: $2 million annually (the Census Bureau would like $6 million).
- ***County Business Patterns*** is the most utilized jobs series produced by the federal government. Cost: $700,000 annually.
- The Bureau of Economic Analysis is planning to produce a new series, ***Gross Metropolitan Product***, the equivalent of GDP at a local level, which will allow us to fully see the size and structure of regional economies in a way not possible now. Cost to do it most accurately: $1 million. BEA could not get even this small amount of money, so it is doing a less accurate version with existing resources.
- Every five years (including in 2007), the Census Bureau carries out an ***Economic Census***. The Economic Census is used to create the input-output models that regional developers use to determine the impacts of alternative development scenarios. In addition, the Economic Census includes the ***Survey of Business Owners***, which ascertains the extent of entrepreneurship by place, gender, and race and ethnicity.
- Every few years, the Federal Highway Administration produces the ***National Household Transportation Survey***. The last one was in 2001, the next is planned for 2008. The NHTS is important for transportation infrastructure development at the local level. Cost for the national survey: $4 million. At present, the money is not available.

- For the first time, the Census Bureau has prepared ***day-time population estimates*** for counties and places around the nation. These data are important for transportation planning and emergency management. If funds are available, Census expects to produce a more sophisticated, accurate data series.

As you can see, this sample list of data programs is highly valuable to every development organization in the nation, and the costs for most are quite small.

I wish to note that most federal statistical series depend, directly or indirectly, on the decennial census, the constitutionally mandated effort to prepare a complete count of population for the purposes of apportionment. The validity of federal statistics for economic development depends in part on the completeness and accuracy of the 2010 Census. Therefore, I ask this Subcommittee to support an adequately funded and well-performed census.

On behalf of Brookings and C2ER, I'd be pleased to provide Members of this Subcommittee and their staffs with an overview of the array of federal statistics programs needed for economic development.

I thank you for the opportunity to speak, Madam Chair, and I look forward to any questions that Members might have.