Economic Development in the Next Economy:
Charting a New Path to Growth and Prosperity

Remarks by

Amy Liu
Senior Fellow and Co-Director
Brookings Metropolitan Policy Program

Colorado EDCC 2014 Annual Conference
October 2, 2014

I see that the title of my talk is about unleashing the Metropolitan Revolution. That's the provocative title of the book co-authored by Bruce Katz, my colleague and co-founder of our program at Brookings. The premise of the book is simple: With Washington broken, it will be cities and metro areas that will address the seismic issues of our times.

Well, the defining issue of our times is the state of the economy, and the extent to which the vast majority of working America is benefiting from it.

I would argue that THAT should be the objective of economic development leaders and professionals today: to grow not just more jobs and better jobs but to also increase the incomes and opportunities of the citizens in our communities. What is the point of job growth if it is not increasing the quality of life and incomes of people?

My goal this morning is to challenge you, to push the field of economic development to new heights that will unleash economic growth and opportunities in your communities.

As stewards of the economy, it's important to start with a quick look at the economic picture. On the surface, the economy has officially "recovered" in that the U.S. has regained all of the jobs it lost in the Great Recession.

But, our work is not done. Now, in the aftermath of the recession, we are left with three structural problems, which are dominating national debate. We still don't have enough jobs, we are not raising living standards, and we are not producing gains for all segments of society. First, we still have a jobs crisis. Since 2007, we have had new entrants into the labor market, yet the economy is not producing enough jobs to keep pace with worker growth. Thus, we still have a significant jobs deficit, and not enough demand to employ thousands of workers or put upward pressure on wages.

Second, we have a wealth challenge. Economists always talk about how increasing productivity or output per capita raises living standards. The good news is that our economy is expanding. Our economy is generating more wealth per person each year from the production of high-value goods and services.

Yet, that economic expansion has not translated to income expansion. In the 1990s, it did, as median household incomes rose with output per person. But these trends diverged in the 2000s, and that divergence has worsened since the recession. Economic wealth has not translated to personal wealth. Rising income from goods and services (up 36 percent) is resulting in declining incomes for households (down 4 percent).

Finally, we have an inclusion problem. Where economic growth has translated into rising incomes, it has for only the few. The top 1 percent of all earners have enjoyed a 31 percent growth in income since the recession while the bottom 99 percent of earners have seen essentially no income improvements.

We can even see uneven opportunity by age. We have a stark youth employment problem. The unemployment rates for teens and young adults who are looking for work have climbed to 23 percent and 13 percent respectively, while it stands at just 6 percent for those 25 aged years and older.

So I have three messages I want to impart today:

- First, the US needs to adopt a new model of economic growth, one that responds to new macro forces that are challenging our ability to build durable, broad-based prosperity.

- Second, regions will be the vehicle for delivering growth and opportunity, because they are the economic centers—and the pragmatic problemsolving centers—of the US.

- Third: To deliver that high-value growth and opportunity, regions must adapt smarter "habits" to economic development. There are exciting regional economic efforts underway, as exemplified by the leaders on the panel following my talk. The modern economy demands more of such efforts to bring about better outcomes, ones that traditional strategies often do not yield.

So, let's go to the first point: how we need a new model of economic growth.

As I mentioned earlier, these are tough times. We know that preserving the status quo is not going to cut it anymore if we want to create high quality jobs and better opportunities for workers. We need a new growth model that goes beyond debt, consumption and real estate…

…to one focused on the core markets assets of the future economy – around innovation, trade, human capital, infrastructure.

But as we focus on these assets of the next economy, we also need to adapt to changing times, just like any firm would. Globalization, technology, and changing demographics--these market forces are not new, but they are accelerating, taking on new dimensions and challenging what we do to excel in today's global economy in ways that work for all families. And I say challenging because these forces pose both risks and opportunities to our economic goals.

On globalization: In 2013, the US emerged from the recession with more than one-fifth of the world economy, a larger share than the BIC nations—Brazil, India, and China.

However, over the next 5 years, the BICs will continue to outpace the U.S. in terms of growth in their share of global GDP.

The rise of emerging markets reflects growth in middle class. Today, the bulk of middle class consumers are found in the mature markets of the US, EU, Japan, and our NAFTA partners. But by 2050, the Organsation for Economic Co-operation and Development, a think tank, predicts that this picture will change dramatically, with more than half of the world's consumers to come from the 1 billion-plus populations of China and India. Meanwhile, North America's share of global middle class consumers will shrink to 6 percent.

The risk is greater global competition but the opportunity is more consumer demand around the world for US made goods and services.

To take advantage of global demand, we need to continue to produce cutting edge products and services. To do that, we need to embrace technology which is the next big force. McKinsey & Company, a consultancy, estimates that there are 12 disruptive technologies – from 3D printing, renewable energy, mobile internet, to automated knowledge work – that are rapidly changing how we work and deliver products across industries, across supply chains, and across the globe, with $33 trillion in global economic impact per year.

Yet, technology also comes with a cost. One study found that, nearly half of U.S. jobs, particularly routine and low-skill work, are at risk of being replaced by technology.

Finally, we have a major demographic shift underway. As more of the nation's current workforce reaches retirement age, the workers who replace them will be majority persons of color. As a result, the U.S. workforce is projected to be majority minority within 20 years.

In general, population growth and diversity is a competitive advantage for the United States, with healthy birth rates and in-migration. We just need to make sure this future workforce is equipped with the education and skills they need to contribute to the jobs of the future.

To prosper, then, we must harness the fundamental drivers of economic growth and prosperity. These drivers directly match the forces of change. Globalization demands greater focus on the strength of our traded sectors, and the extent to which our industry specializations are bringing income into the region through sales to markets across the US and worldwide. Technology, demands a focus on innovation to ensure we have a robust ecosystem that enables universities, firms, industries, and entrepreneurs continually create those high-value competitive products. And changing demographics means we need to make sure we have strong human capital pipeline, an ability to attract, retain, and produce skilled workers that allow us to innovate in our traded clusters.

So why trade? First, firms in traded sectors, like natural gas and energy production, computer/electronics, life sciences and medical devices, or high-end business services, have an outsized impact on the economy. Because firms in traded sectors are forced to compete on a national or global scale on price, value, or niche they are more likely to invest in innovation and skills, than firms in local serving industries. As a result, traded industries generate higher paying jobs, often support up to three local jobs, and generate the overall productivity and wealth of a region.

With growing global demand, international trade has additional benefits to jobs and income growth. Even though only 4 percent of all firms export, those international sales generated 8 percent of all jobs, and 30 percent of all US output in the last 4 years. Further, exporting firms, whether in services or manufacturing, pay 20 and 17 percent more in wages than their non-exporting peers.

We need to focus on innovation, which is essential to retaining your competitive advantages in key clusters or in developing new areas of expertise. One measure of innovation is the share of your economy in advanced industries. Advanced industries are manufacturing and services firms that make relative high investments in R&D and employ relatively high shares of scientists and engineers (STEM workers) who can translate research into commercial applications. Electric vehicle technologies, computer electronics, aerospace are all considered advanced industries.

Here too, advanced industries contribute to growth and wealth creation. But by the numbers, they also matter. Advanced industries make up nearly 9 percent of all jobs, nearly one-fifth of GDP, and contribute vast majority of patents and private sector R&D.

Advanced industries also deliver a disproportionate impact on growth, in jobs and output.

Finally, in an advanced economy, we need a skilled workforce. This chart reinforces that the more you learn, the more you earn. So upskilling all workers is the path to income growth and opportunity.

However, if you hold these degrees and work in a science, technology, engineering, or mathematical (or STEM) occupation, your wage advantage is even higher, even for those with just a high school degree.

And there are lots of STEM jobs today. 26 million by our count.

In fact, one fifth of all jobs require STEM skills, such as computer specialists and medical technologists. The good news is you don't have to have an advanced degree to fill a STEM job. About 50 percent of STEM jobs are filled with workers with 2 yr degrees or less.

In sum, traded sectors, innovation, and talent in the next economy can lead to growth, wealth, and inclusion.

Then there are two "enablers" that further create the conditions for growth.

Infrastructure is really about how you organize your physical space – to link workers, firms, and suppliers – using roads, rail, air, technology, land use, housing and even neighborhood development policies. Traffic congestion or high-poverty neighborhoods devoid of market access are costs to efficiency and productivity.

Governance -- the way government is organized and the quality of services affect market decisions of firms and workers. This also includes the capacity of civic actors to come together to nimbly address market failures and design and execute solutions.

Together, these five, highly synergistic drivers create growth, productivity, and opportunity for a region. Any weakness in one affects performance in the other. This is the framework that should govern economic growth strategies.

Second, it will be leaders in regions that will deliver quality growth and opportunity.

The first reason is economic. The United States is not one monolithic economy.

Instead, as Michael Porter once said, the United States is made up of a network of metropolitan economies, each with their own distinctive competitive advantages and market opportunities. The United States has over 370 metro areas. I want to note that metro areas are labor market sheds, and so are not about the urban versus rural divide. More than 50 percent of rural residents live in metro areas, working in regionally significant industries as diverse as agriculture, manufacturing, and services.

The starkest evidence of this is that the United States does not have one economic crisis, but over 370 different economic narratives, reinforcing that macro policies alone are not sufficient. We need customized solutions that reflect the diversity of experiences across the country. For instance, the United States as a whole has recovered the jobs it has lost since the recession. But if you look at all metro economies, you have a more complex story. About half of all metro areas have NOT recovered their pre-recession jobs numbers. Denver and Portland have, but Grand Junction, Cleveland and Detroit metro areas have not.

Since 2000, poverty in the nation's largest metro areas grew to 15 percent by 2013, up from 11.6 percent in 2000. Here, Denver and Portland experience fast growth in the number of the poor, both in their cities and suburbs, while the number of poor grew more slowly in Detroit and Cleveland.

Fortunately, because metros are the units of the global economy, they concentrate the assets needed to address growth and opportunity.

The 100 largest metro areas in particular power the nation. They sit on just 12 percent of the nation's land area but they produce 75 percent of the nation's economic output.

They do so because they attract and nurture the very assets the United States needs to compete and thrive. They are the centers of trade, generating 72 percent of all services exports and moving the bulk of our air cargo. They are the hubs of innovation, home to the vast majority of all advanced industries and patents. And they are magnets for talent, attracting and retaining a disproportionate share of our skilled workforce.

Finally, metro areas matter politically. At one time, we may have turned to Washington to help us address our biggest challenges. But Washington is gridlocked. Yet American democracy is another U.S. competitive advantage. In the absence of national leadership, we can turn to a vast network of business, civic, political, nonprofit, university, and philanthropic actors who can step up, work together, and get stuff done.

Gone is what we learned in high school government text books. **Its time to flip the pyramid.** Economic and social progress will be delivered, not top down, but by a pragmatic caucus of leaders in cities and metro areas, with their state partners.

Last point: With regions in the driver's seat, facing some of the largest economic challenges of our time, it is imperative that regional leaders adopt the right model of economic development to deliver growth and opportunity.

This is a provocative statement. In light of today's big structural economic challenges, can local or regional economic development make a difference? The answer is yes. In fact, in her recent paper for the Economic Development Administration about is the purpose of economic development, Professor Maryann Feldman of the University of North Caorlina at Chapel Hill made a forceful case that markets alone will not deliver wealth and opportunity for workers. And we see that in the numbers. Instead, the power of economic development is about its intention… the intention to invest in market assets and the capacities of institutions to unleash the market potential of firms, communities, and people in ways that lead to sustained prosperity.

That means that business-as-usual economic development—what we call Starbucks, stadia, and stealing businesses—or consumption, real estate, and zero sum business recruitment—is no longer sufficient.

It means that we must acknowledge the real the source of economic growth in our region: the base of existing firms and startups, not jobs recruited in. We need a broader economic development toolkit to grow good jobs, generate income for existing firms and workers, and ensure that all parts of the community are participating in economic growth.

The good news is that metro areas around the country "get" the economic mandate today and have been adopting transformative economic strategies in the wake of the recession, and you're going to hear from some of them in the response panel. Eight metro areas are executing comprehensive business plans for growth, like the powerful 16-county, 4-metro area plan for Northeast Ohio. Another dozen are making transformative investments in 21st century infrastructure and placemaking, like Chicago's first-in-the-nation local infrastructure bank, an outgrowth of their regional business plan, or Detroit's Woodward Corridor and emerging innovation district in their urban core. Another dozen metro areas have launched regional export and trade strategies, like the one in Portland and San Diego. These are all live-action, cross-sector partnerships that are executing transformative strategies towards clear performance outcomes on jobs, productivity, and opportunity.

So from our collaborations with dozens of metro areas, I've identified what I call the **7 habits of highly effective regional leaders**

First, these leaders embrace regional markets. They understand that markets are regional. Industries agglomerate in regions because of the full access to suppliers, customers, the labor pool, infrastructure network, and quality of life throughout a metro area. Talent evaluates a location based on the job market and lifestyle choices of the entire region, and then chooses the neighborhood. Neighborhoods, downtowns, suburbs, are not separate or stand-alone markets but have market assets like firms, a port, community colleges, or industrial land that contribute to regional econ health. Let's take Chicago as an example. Chicago is the 3rd largest economy in the US, thanks to an economy that has evolved from manufacturing to a more diversified portfolio with headquarter companies. That economy is spread across 3 states, 14 counties, and over 500 municipalities. Too often, you find a region where the central city, the counties, and the smaller jurisdictions each have their own economic development plans and a singular focus to increase their own tax base. The result is a competition for jobs, workers, and even convention centers and amenities that use taxpayer funds to shift growth around a region versus growing the regional economic pie. To Chicago's credit, they have worked hard to overcome their jurisdictional fragmentation to grow together. They consolidated their two MPOs into one regional transportation planning agency; they consolidated the separate Chicago and Cook County WIBs into one workforce effort; and just earlier this week, Mayor Rahm Emanuel and his county peers announced an unprecedented 7-county collaboration to help each of their own businesses grow through exports versus poach firms from each other. In this day in age, you must collaborate locally to compete globally.

Second, effective leaders compete on value, not cost. The goal of economic development is to create the conditions for economic growth that lead to greater wealth and income for firms, people, and communities. To start, that means focusing on value creation not cost reduction.

The economy needs to constantly produce high-value goods and services that increase the chances to raise living standards. To do that, leaders must boost the total value of a location, not just reducing the cost of one transaction. Globally, we know that competing on cost alone is a race to the bottom, when the rest of the world is moving up the value chain. But, within the U.S. we tend to forget this edict, with traditional economic development spending far too much time trying to create packages that reduce the price of a relocation, when we need more of the former. Studies by the Boston Consulting Group and others have found that more and more, firms make location choices (or reshoring choices) based on a mix of valuable inputs like access to skilled labor, dense supply chains, promixity to customers, good transportation. Again, it's the total value of a location, not its low price that attracts and retains firms.

Third, effective leaders prioritize people, not just profits. In fact, we need people to make profits. In today's knowledge economy, machines and equipment alone cannot replace the unique insights, interactions, and creativity of people. But too often firms have prized technology over people, physical capital over human capital, leaving the primary responsibility for investing in training and skills-building to the cash-strapped public sector.
While workforce training programs struggle are becoming more "demand-driven" they are still primarily public-led. Leading firms and far-sighted sectors are increasingly stepping in and reclaiming the importance of skills, however, and economic development leaders must help them take active responsibility in skilling up their existing or next generation workers. Models along those lines include actively driving the design of curriculum with on-site learning opportunities for career high schools and community colleges. It means increasing their own investments in workforce training and skills-based hiring to expand the eligible applicant pool, and it means more apprenticeship opportunities, which while declining in the past decade has seen a slight uptake between 2011-2013 as German-style apprenticeship programs are beginning to take hold here in the US. When women entered the labor force, we saw notable gains in US productivity and median household incomes. Now we need a concerted effort to bring younger, more diverse workers into the labor market equipped with the skills to compete. The best way to ensure relevant training to real jobs is employer-led skills initiatives.

Fourth, effective leaders invest in market assets, not just recruit them. As I mentioned earlier, leaders must invest in the market drivers of economic growth that creates the stickiness for firms to stay or expand in a region. On the left, Albany, NY, like many older industrial cities, saw their leading industries shrink. So they decided to make one bold move: to invest in a pair of inherent assets, a university with an emerging capability in nanoscience and engineering and a history of manufacturing and semiconductor companies. The result is Albany NanoTech, now a world-class industry-driven R&D and commercialization facility that has garnered the interests of IBM, SEMATECH, and GlobalFoundries, which built a $4.6 billion semiconductor facility on site. It has spawned new startups and now houses a STEM high school inside one of the new lab buildings.

Meanwhile, the chart on the right, reflects real business attraction numbers from a region we have been working with, which shall remain anonymous. Regional economic development entities often track and report out the number of firms and jobs they recruit into their market, in this case more than 23,000 jobs. This activity is a “success” b/c it created net new jobs for the region.

However, the region’s recruitment strategy was attracting low productivity firms while it was losing high-productivity jobs. This region’s economic development strategy was contributing to the overall decline in the region’s competitiveness, by attracting a lower-value mix of industries into the market while ignoring the needs of existing, high-value firms and industries which ultimately left. The lesson from Albany: That retention, expansion, attraction, startups and skills development can all happen as result of proactive alignment of your assets that leads to organic growth, versus ad hoc, reactive strategies to firm moves that may not result in net gain in the region’s path to prosperity.

Fifth, effective leaders invest in trade, not consumption. I read recently an economist describe the real economy as “one in which real companies, individuals and governments buy and sell real things for real prices.” Trade is how you create value-added growth and opportunity, and we’ve talked about the importance of trade and traded sectors. Yet, the problem, according Nobel Laureate Michael Spence, is that over the last two decades, only 2 percent of net new job growth in the United States came from traded sectors, while we spent lots of time on debt, consumption, real estate, and other local serving industries. Regional economic leaders need to remember that global trade and unique clusters are drivers of economic growth. Housing, retail, entertainment follow.

Sixth, effective leaders build networks, not go it alone. We live in a network economy today. Gone is the heirarchial leadership chart on the left, where the mayor sits on top and leaders line up behind him. Gone is the entrepreneur who sits in a garage by his or herself inventing products alone. Today, all new ventures, new solutions, and systemic changes come through complex networks and partnerships that reflect the hyper-integrated nature of the economy. In short, economic development is ultimately about capacity. It is the capacity of multiple institutions and actors to come together and forge new and changing partnerships in ways that improves and aligns all of your communities’ assets to produce prosperity. And that capacity must be nimble and ongoing to produce lasting prosperity.

Finally, effective leaders track long-term outcomes, not short-term tactics. On the left is what matters. The ultimate objective is to boost regional economic assets and capacities in ways that will lead to lasting growth and prosperity for all. The indicators then reflect that goal…job growth, output growth, income growth, and increasing labor force participation by age, race, and ethnicity.

On the right may be construed as traditional metrics. This I downloaded from an IEDC-sponsored report on the metrics for high-performing economic development. This is a direct quote: “High performance economic development is the dedicated pursuit of any objective, no matter what the current objective may be, coupled with measured progress along the way.” Then the report listed 40 metrics for success, mostly in response to site selectors…unique website visits, number of conversations with firms about their location decisions, and the number of jobs created <u>per week</u>. And now imagine those metrics being adopted for every economic development officer in every municipality or county in a region. What you measure is what you get. Which outcomes do you want for your efforts?

Let me close with a quote from the man I've been plagiarizing… Steven Covey.

These 7 habits I've outlined are not an abstract concept. It is what we are witnessing in regions across the country, from leaders who are trying to break from the past and rise to the economic imperative of today. While there will always be room for traditional economic development practices, we simply need to make these good habits more the norm. And if we "Begin with the end in mind" we can build long-term growth and opportunity, not just in each of our communities but for the nation as a whole. THAT is the Metropolitan Revolution.