
America's Central Cities, Jobs and Economic Development

Presentation to US Conference of Mayors, Akron, Ohio

October 8, 2004

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Jobs, the future and America's cities

- Rate of return to education:
What have we learned from the 1990's?
- A depressing thought:
Maybe we will not have enough lousy jobs?
- There is real competition within metropolitan areas

Economic Development and Cities

1. Seven rules to live by
2. There are no silver bullets
3. Cities and Competition
4. The macroeconomy
5. Challenges from a global labor market

Seven rules for the practice of economic development



"Are these just guidelines, or are they actual new policies?"

The practice of economic development

Seven rules

1. Economic development is a generative, not redistributive.
2. Economic development is about products, not jobs
3. Productivity is the basis of sustained higher incomes
4. Formula to economic success maximizes regional value added
5. Avoid rubeaphobia, think for yourself, and avoid silver bullet thinking
6. Do the hard stuff, focus on the basics
7. The economy is regional and markets will beat politics into submission over time

The practice of economic development

Seven rules

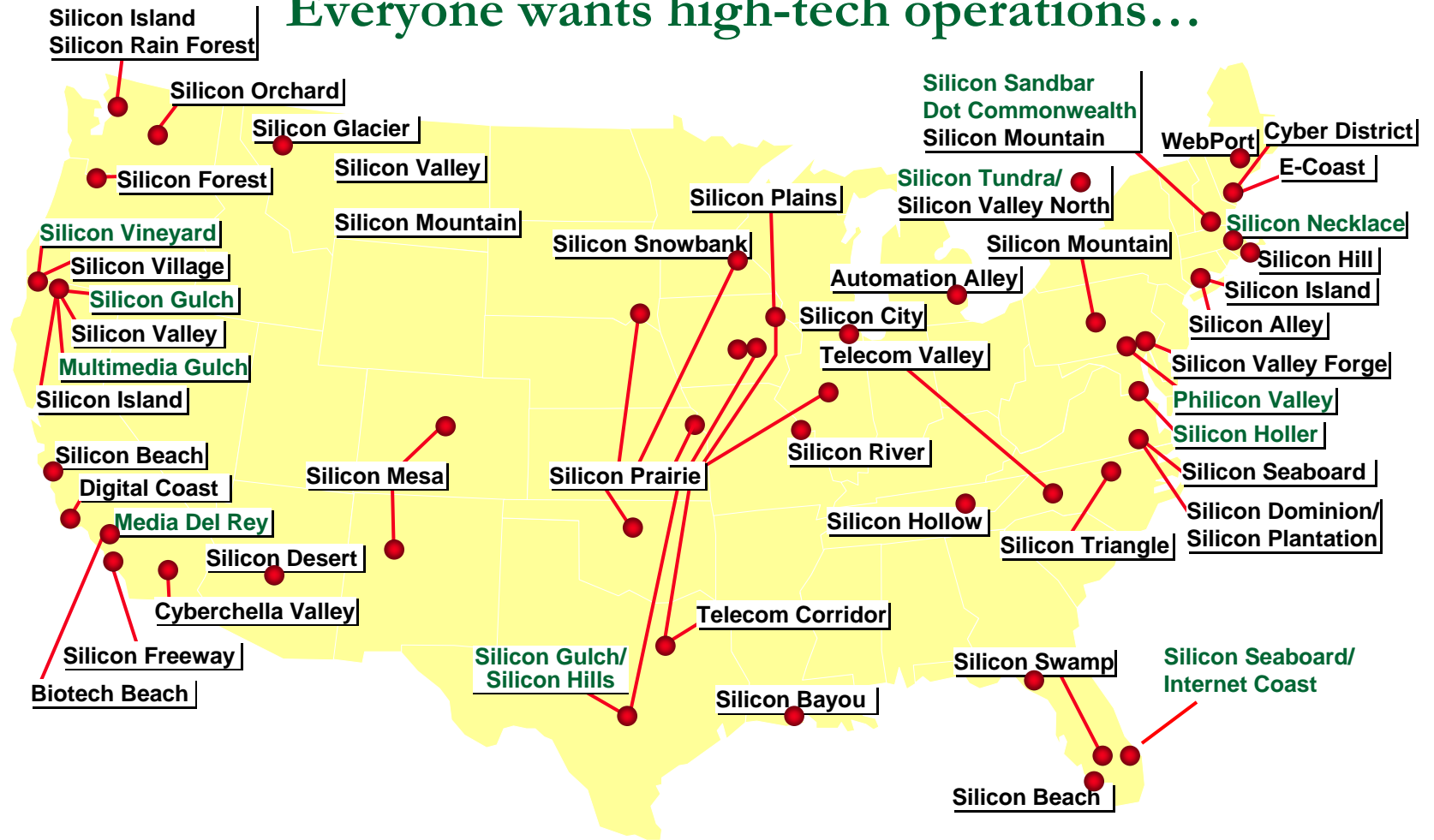
1. Economic development is a generative, not redistributive.
 - Economic development is practiced through the firm's cash statement
 - The measure of economic development success is change in per capita income.
 - Government must be concerned with the distribution of income and social mobility
2. Economic development is about products, not jobs
 - Employment is derived from product demand
 - The Product Cycle is real and affects strategy and implementation
3. Productivity is the basis of sustained higher incomes
 - Increases in earnings come from increases in productivity
4. The formula to economic success:
 - Sell highly valued products
 - With a great deal of capital
 - Mix in technologically sophisticated occupations with scarce knowledge-based regional resources and the economy will become "sticky"

The practice of economic development

Seven rules

5. Avoid rubeaphobia, think for yourself, avoid silver bullet thinking
 - Economies are not built through jealousy or envy
 - Skepticism is good. Do not assume or assert competitive strengths
 - Build economies from areas of strength while intentionally addressing weaknesses
 - Think of technology and product development as a portfolio
6. Do the hard stuff; Focus on the basics
 - Innovation is the key to long term prosperity
 - Education is at the foundation of economic success
 - Invest do not spend
7. The economy is regional and markets will beat politics into submission over time
 - Either work effectively regionally or the economy (investment) will vote with its feet
 - Most regions have effective competitors
 - All municipalities have effective competitors

Everyone wants high-tech operations...



... fight the allure of economic development fads; do not lose sight of true competitive advantage

Three Headlines

Economic development is complicated. There are no silver bullets.

- Beware the public policy entrepreneur.
- Economic development is not susceptible to prepackaged public policy solutions.

Three Headlines

Economic development takes a long time.

There is a mismatched in time frames

- Business time—the length of the deal cycle
- Economic time—the length of the business cycle
- Political time—the length of the election cycle
- Economic development time—the length of the investment cycle (time to change the product mix)

No one is smarter than the market

- **Participate** based on self-interest (economic, political, ethical).
- **Focus** on economic development fundamentals.
- **Think** in portfolio terms.
- **Act** opportunistically within a loose strategic framework.

There Are No Silver Bullets

Economic development public policies are often fad-driven and imitative. This means that they are right for somewhere else. Remember Portside!



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"You chant for inner peace. I'm chanting for a development deal."

There Are No Silver Bullets

- Every region has different resources, cultures, and histories
- One-size fits all economic development solutions or development planning by imitation does not work
- Economic development policies and investments should be built using a set of fundamental principles.

Economic Development and Political Context are Critical to Success

What is Context?

- Economic resources & current economic base.
- Competitive strategies of local establishments.
- Position of their products in the product cycle.
- Political and business cultures (**Apple**)
 - ✓ Attitudes toward risk-taking,
 - ✓ Personalities and motives of those who maintain the
 - ✓ civic agenda (leadership styles).
 - ✓ Public sector efficiency & effectiveness
 - ✓ Labor management relations,
 - ✓ Elastic civil society—strength, flexibility, and permeability of social structure. Are you plug and play?

Four Problems with Imported One-Size-Fits-All Solutions

1. Limited public discussion and **decision-making** tends to be **top-down**, results in limited public support.
 - Cuts off options.
 - Do not recognize true opportunity costs.
2. Imported solutions tend to focus on a narrow industry, product, or technology—the silver bullet, which lends itself to two economic disadvantages:
 - Government acts as an investment banker.
 - Lose early mover advantages.

Four Problems with Imported One-Size-Fits-All Solutions

3. Distracts local government from doing the basics.
4. Does not focus on long-term patient investing in regional



"No, I didn't. I never said there should be no government regulation."

Four Traps From Following Fads

1. Susceptible to *policy peddlers* – like me
2. Embrace *not invented here syndrome* (opposite of the private sector version of this syndrome).
3. Suffer from a terminal case of *rubaphobia*.
4. Resist the hard job of looking at their strengths, opportunities, weaknesses, and threats (SWOT) and create an economic development strategy that will not build from their own strengths and they will not address real weaknesses.

Cities and the Geography of Competition

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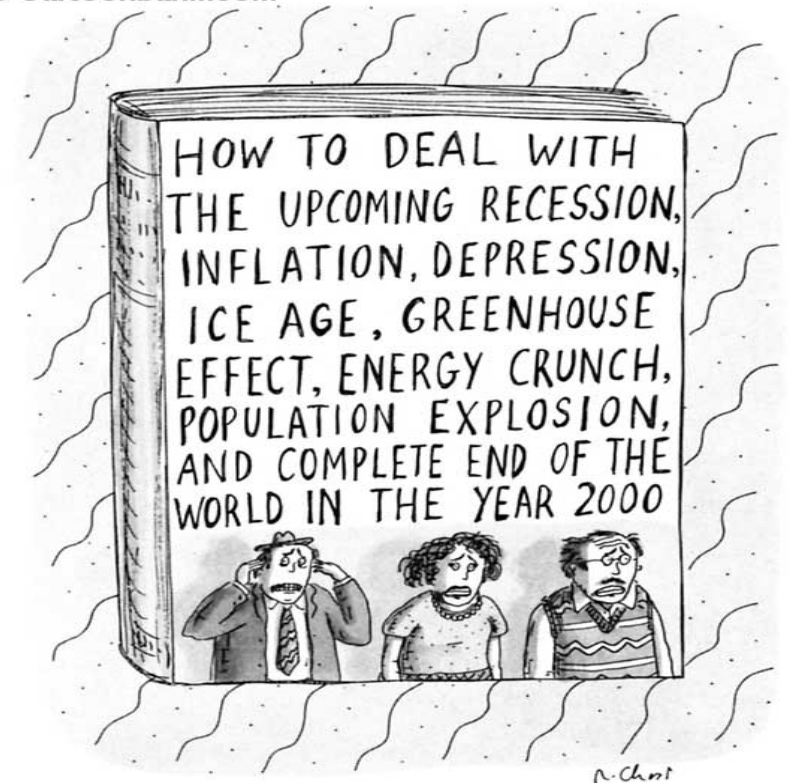
"I don't know what the hell happened—one minute I'm at work in Flint, Michigan, then there's a giant sucking sound and suddenly here I am in Mexico."

Competition Grows

- Findings from “Where are the Jobs?”
- The curse of the Central Business District
- Clusters versus optimal location—it’s about fragments

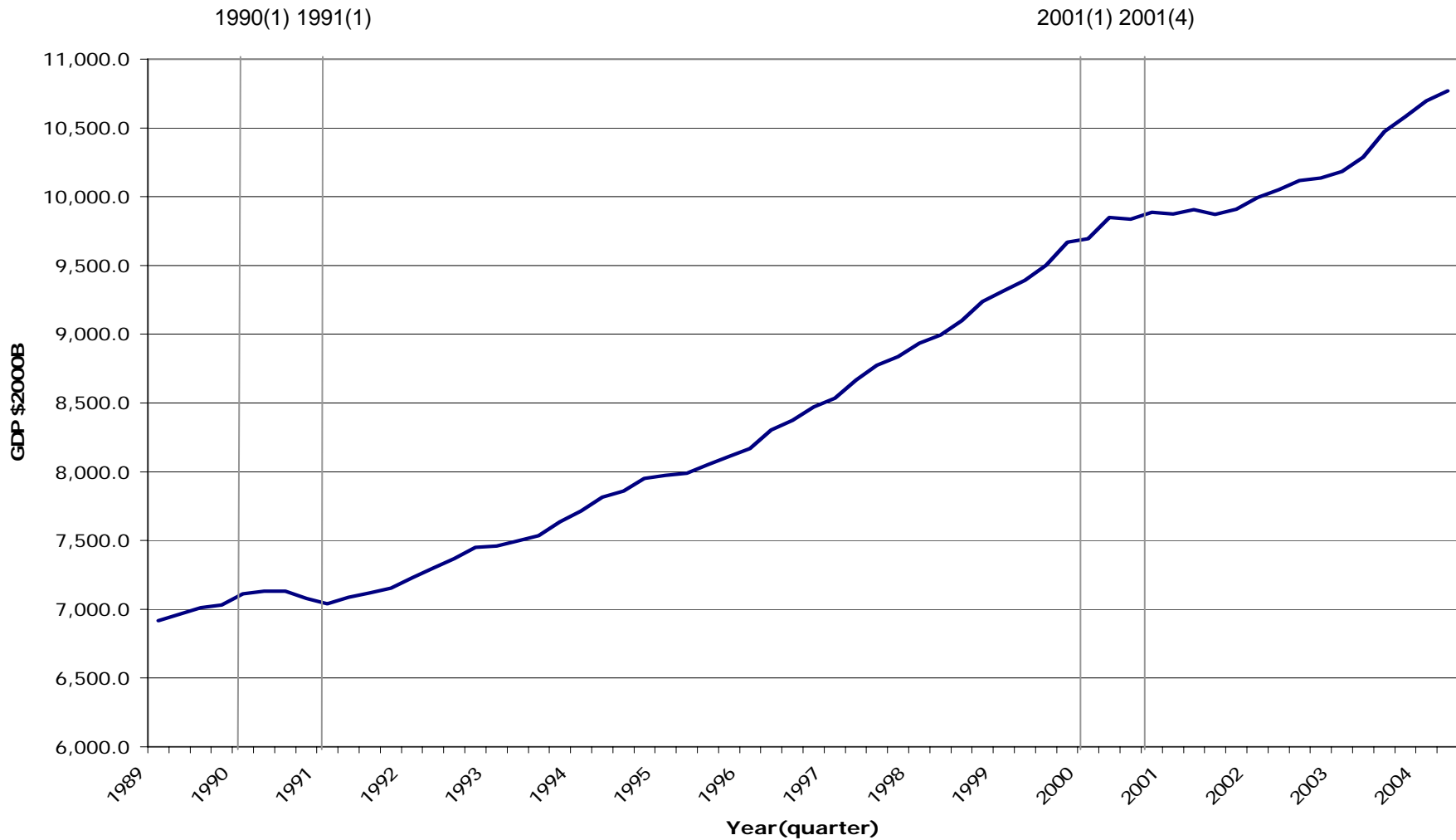
The macroeconomy: Employment is now a lagging indicator of macroeconomic performance

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US Real GDP show modest recessions in 1990 and 2001

Quarterly Real Gross Domestic Product in billions of \$2000 1989:1 to 2004:2

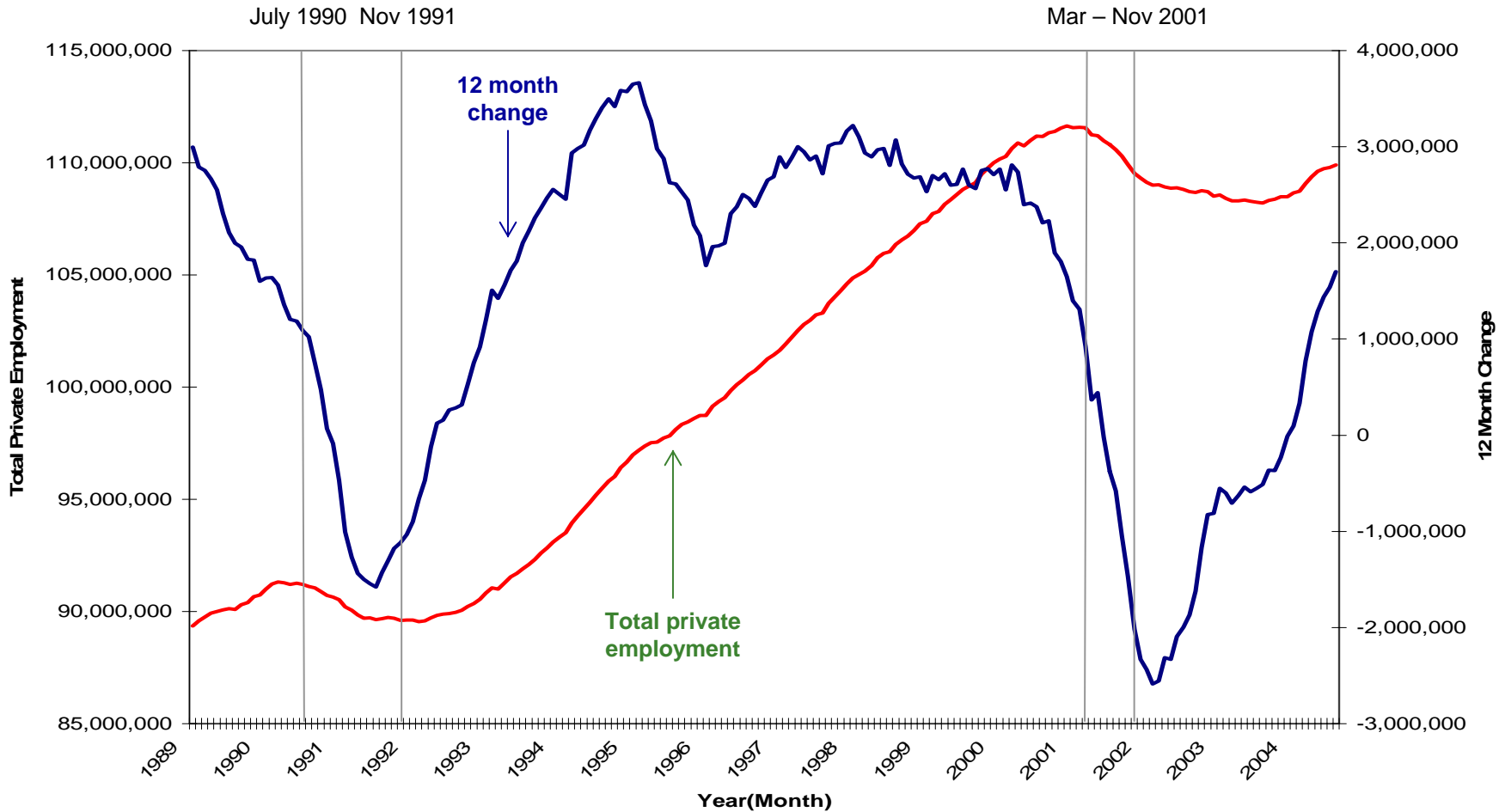


Source: US Bureau of Economic Analysis
National Product and Income Accounts

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Employment shows sluggish recoveries, more so after 2001 recession

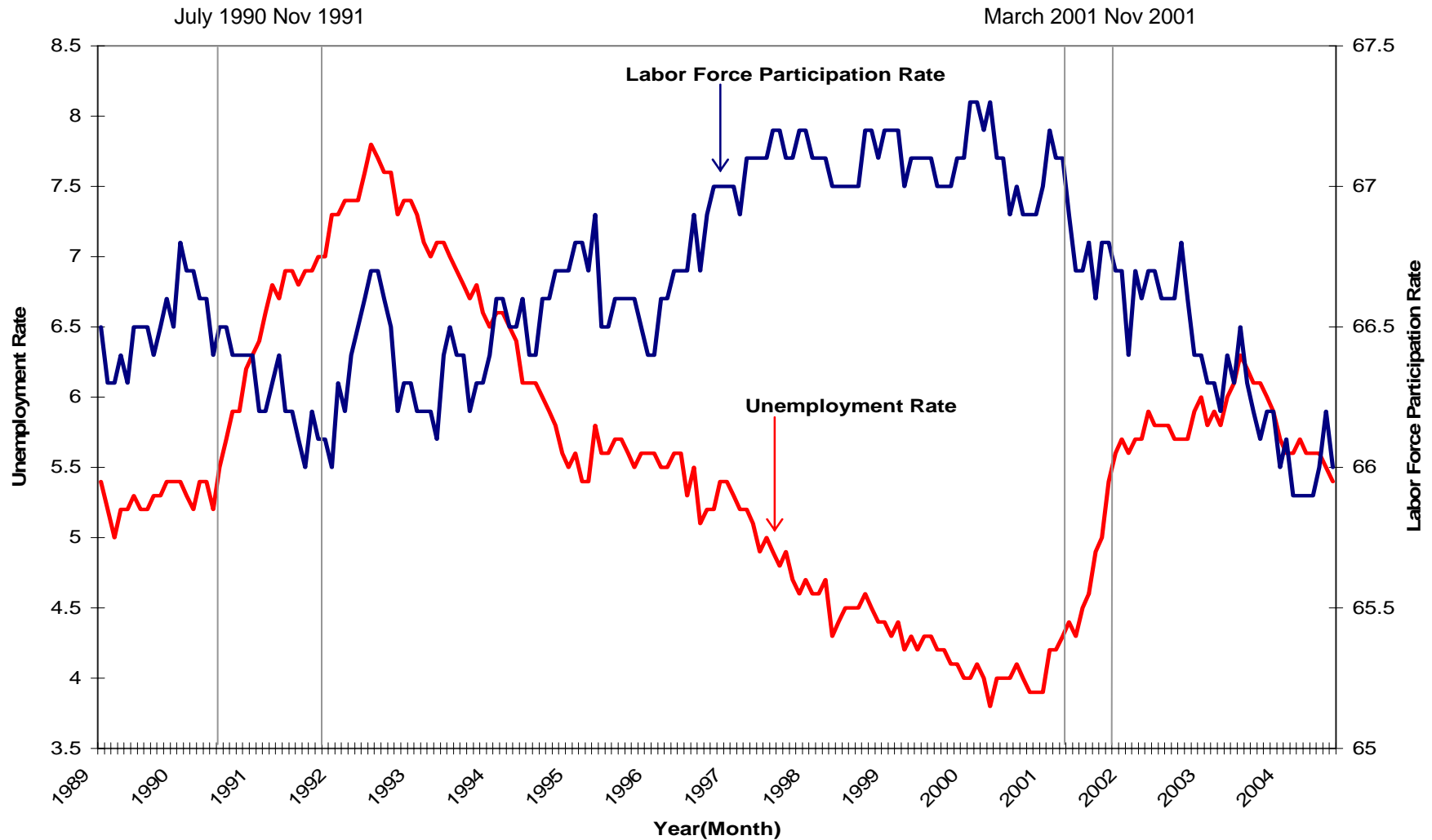
Total employment (CES) and 12 month change: January 1989 to August 2004



Source: US Bureau of Labor Statistics, Current Employment Survey, Seasonally Adjusted

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Unemployment Rates increase after recessions end Civilian Labor Force Participation Rates drops after 2001



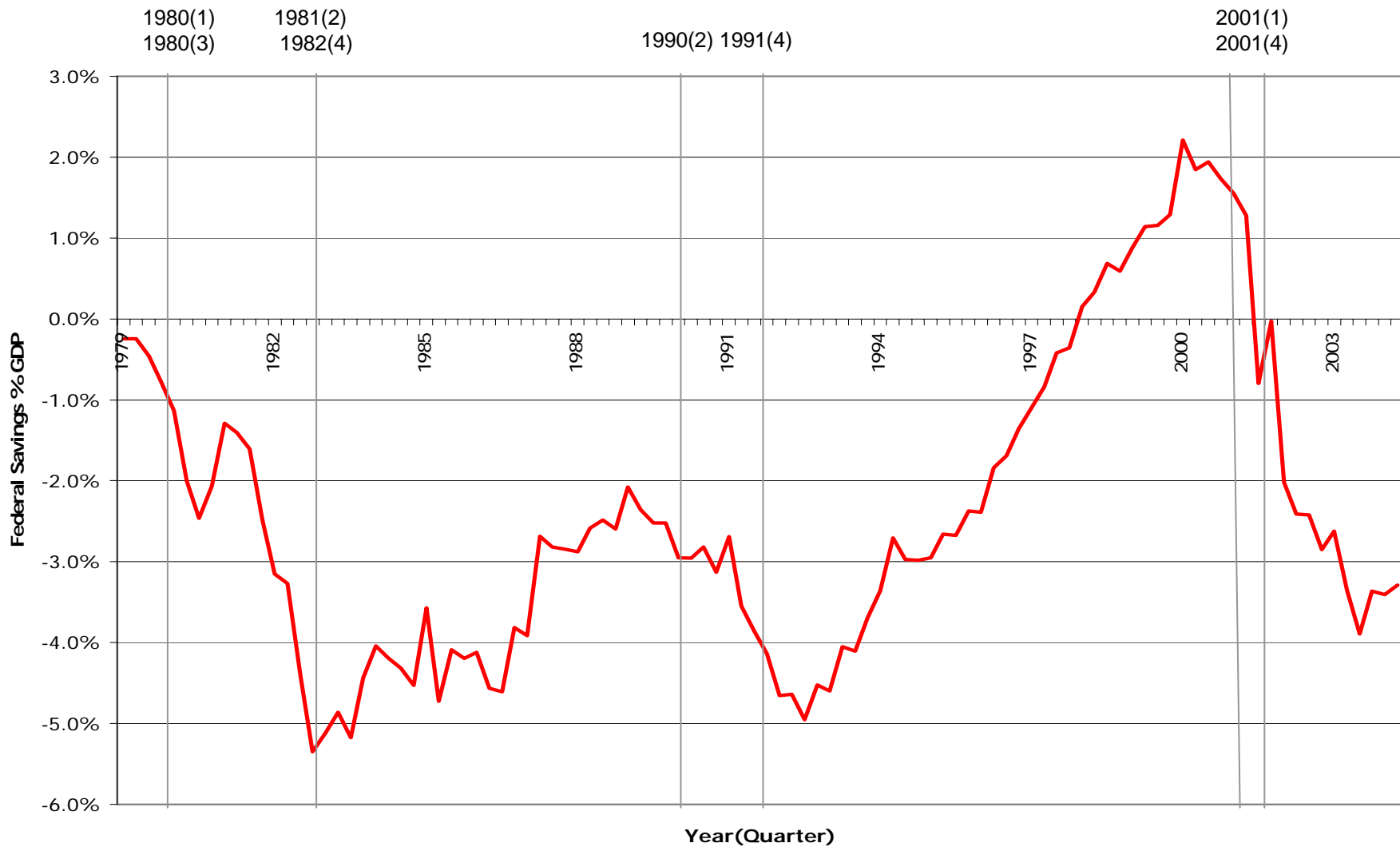
Source: Bureau of Labor Statistics, Current Population Survey, Seasonally Adjusted

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Data are quarterly and seasonally adjusted

Government Savings as a percent of Gross Domestic Product

Near term deficits are good, long term prospects are troubling 1979:1 to 2004:2



Source: US Bureau of Economic Analysis
National Product and Income Accounts
Seasonally adjusted

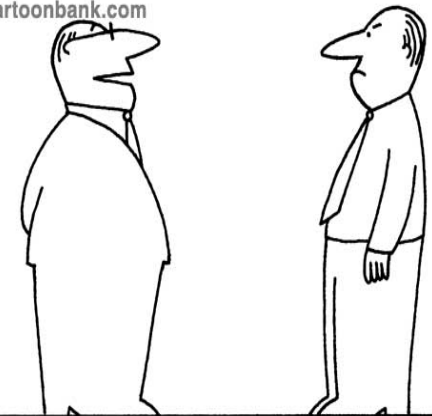
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Why is job growth so slow?

Five changes in the cyclical pattern of job growth

1. **Macroeconomic uncertainty**
2. **Creative destruction** —fewer recalls, job growth comes from job creation not revitalization, In the US capital investment may be the job creation driver.
3. **Productivity Growth** —better, faster, smarter, fewer throughout the recession; a combination of technology, management and global supply chain integration
4. **Benefits wedge** —difference between wage and salaries and total compensation and revenue generated per worker
5. **Cost uncertainty** —health care, torts, mandates, energy.

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C. Brown

"No, no, your job's not going out of the country to some foreign bastard. We're just firing you."

The new global labor market

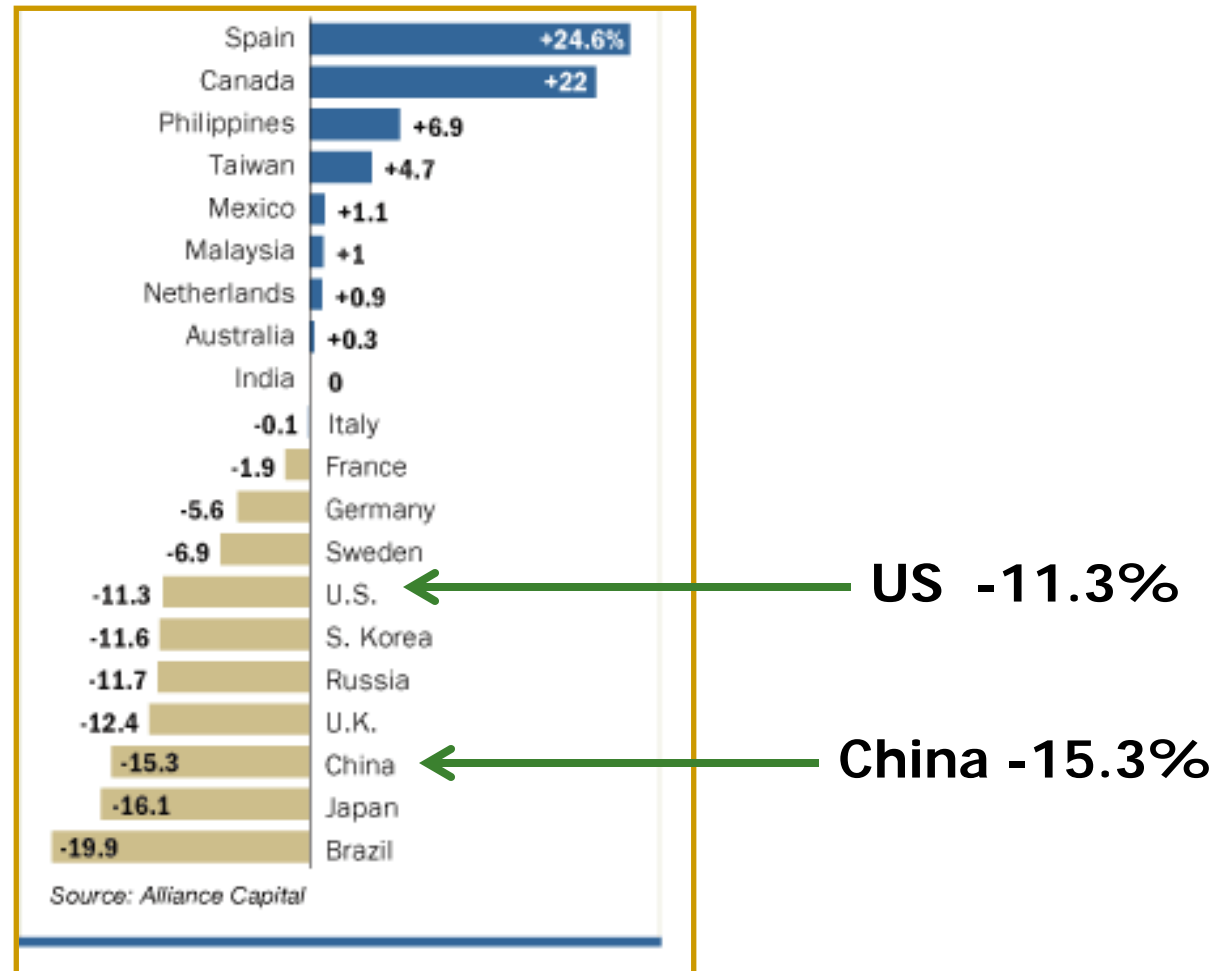
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"We design them here, but the labor is cheaper in Hell."

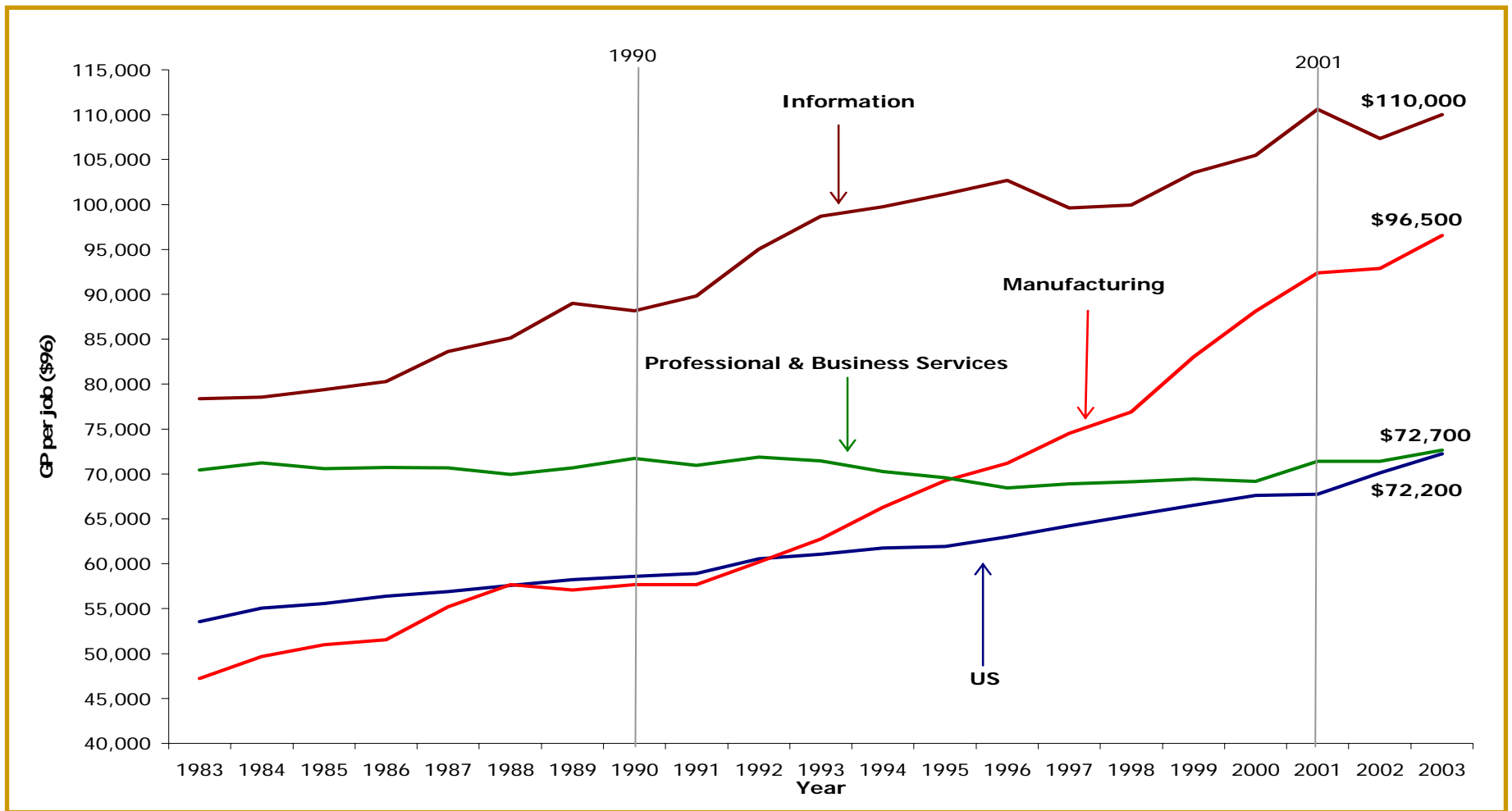
There is a global productivity revolution underway in manufacturing

Percent Job Change from 1995 to 2002



Source: Alliance Capital and Wall Street Journal October 20, 2003

Annual Real Gross Product per Job Accelerates 1983 - 2003



Economy.com, Spring, 2004 download

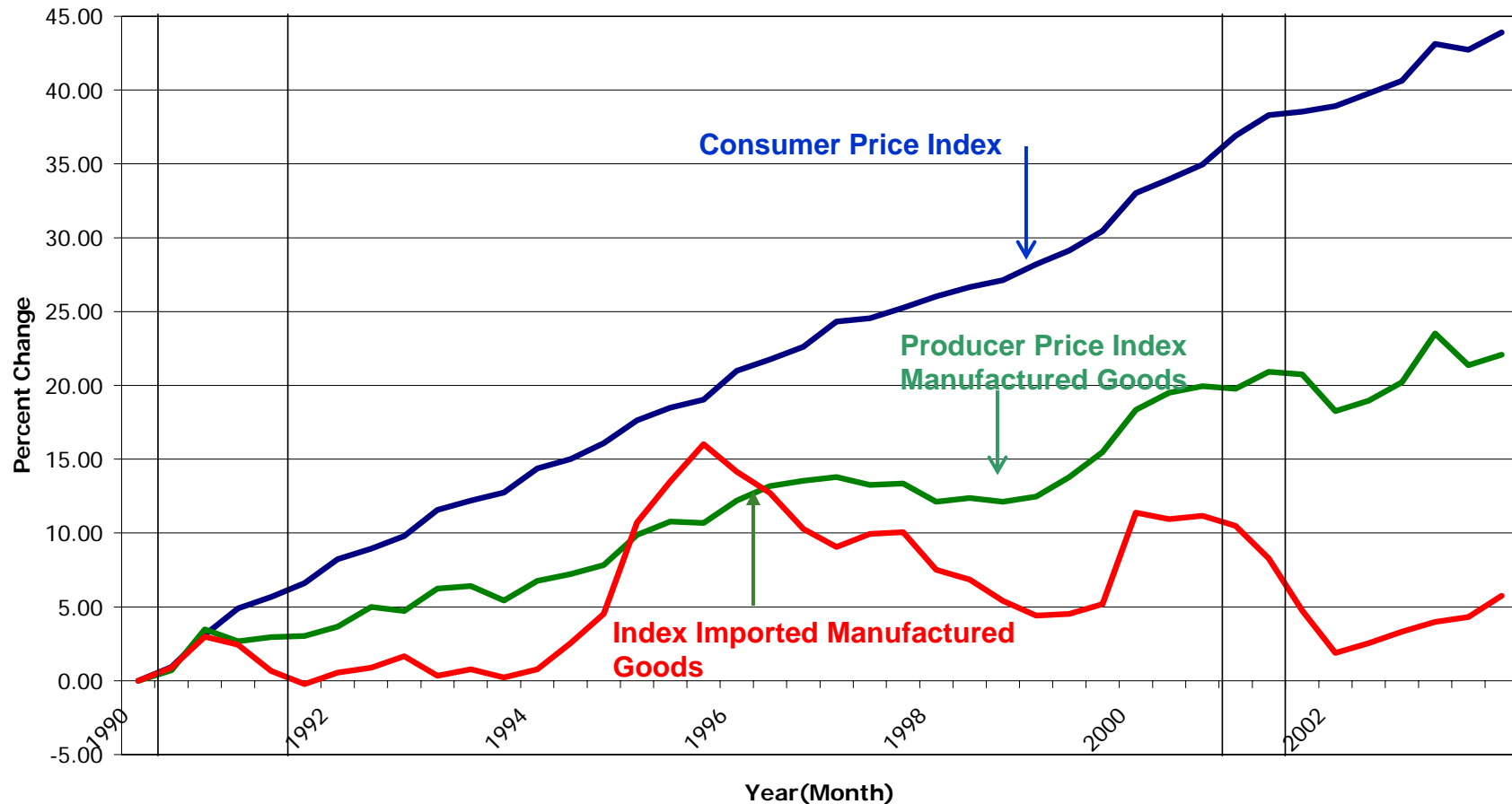
Another sign of productivity

State	Net Job Change over G.W. Bush's term*	State Exports CAGR 1999-2003**
Michigan	-315,900	1.46%
Ohio	-241,100	4.58%
North Carolina	-79,000	1.93%
Pennsylvania	-76,400	0.20%
Iowa	-28,800	6.35%
Missouri	-27,500	4.53%
Oregon	-21,300	-0.27%
Minnesota	-20,900	4.71%
South Carolina	-18,900	13.28%
Washington	-13,800	-1.79%
West Virginia	-4,200	5.89%
Arkansas	3,400	8.00%
New Hampshire	0	0.02%
Maine	3,300	2.10%
Wisconsin	8,000	4.44%
Arizona	63,900	3.03%
Nevada	91,400	17.48%
Florida	271,000	0.82%
18 state total	-413,600	2.32%
US total	-110,000	1.10%

* Change from December 2000 to July 2004
 ** Compound annual growth rate (CAGR)
 source: Joseph P. Quinlan, Market Commentary, Capital Market Outlook, Banc of America, September 13, 2004, p.3

Enormous price discipline—

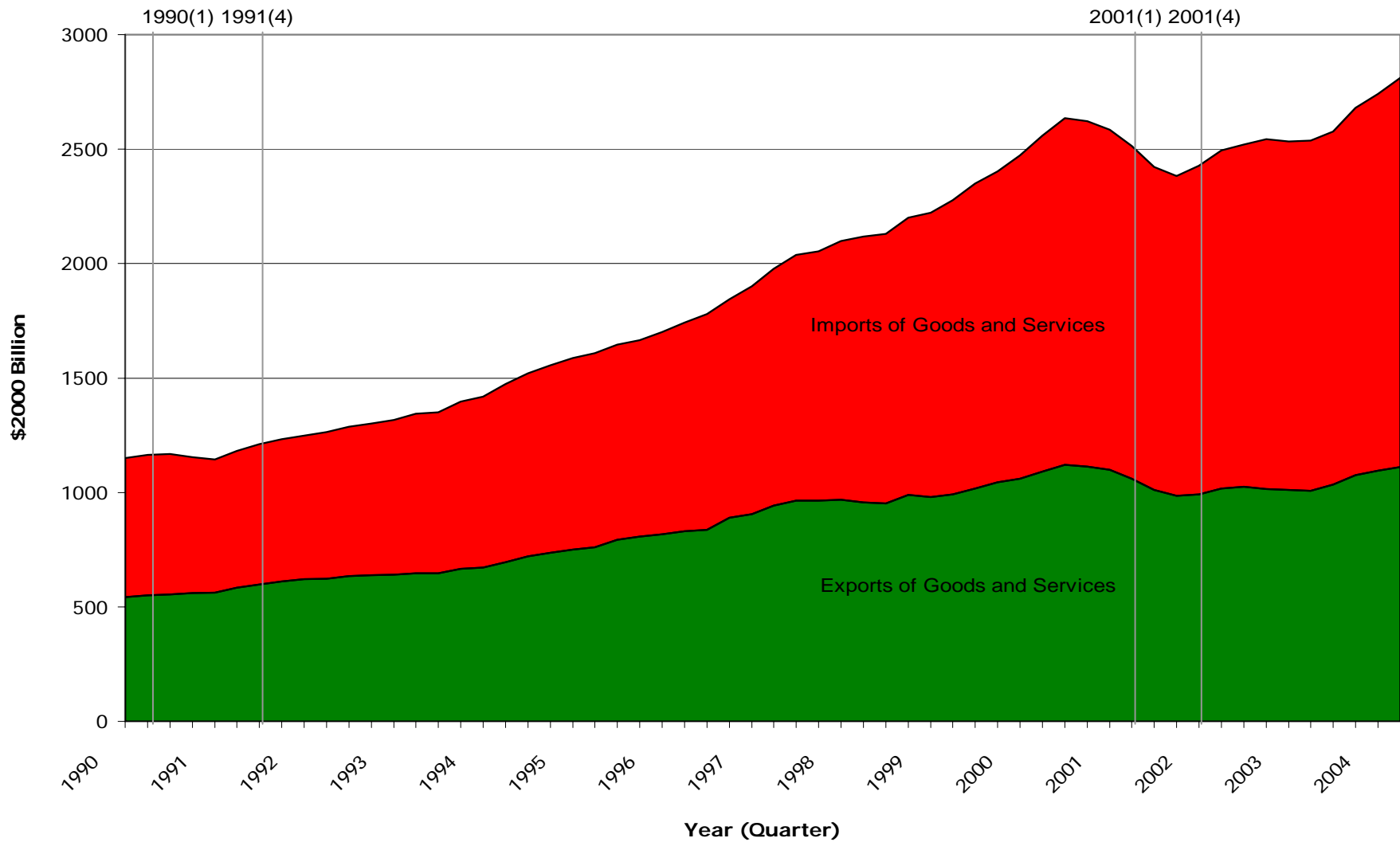
Compare the percent change in three price indices: consumer prices, producer prices for manufactured goods, and the price index of imported manufactured goods



Source: US Bureau of Labor Statistics Percent change in index from March 1990 Data for March, June, and September

The quarterly trade deficit in goods

1990:1 to 2004:2 Real 2000 dollars

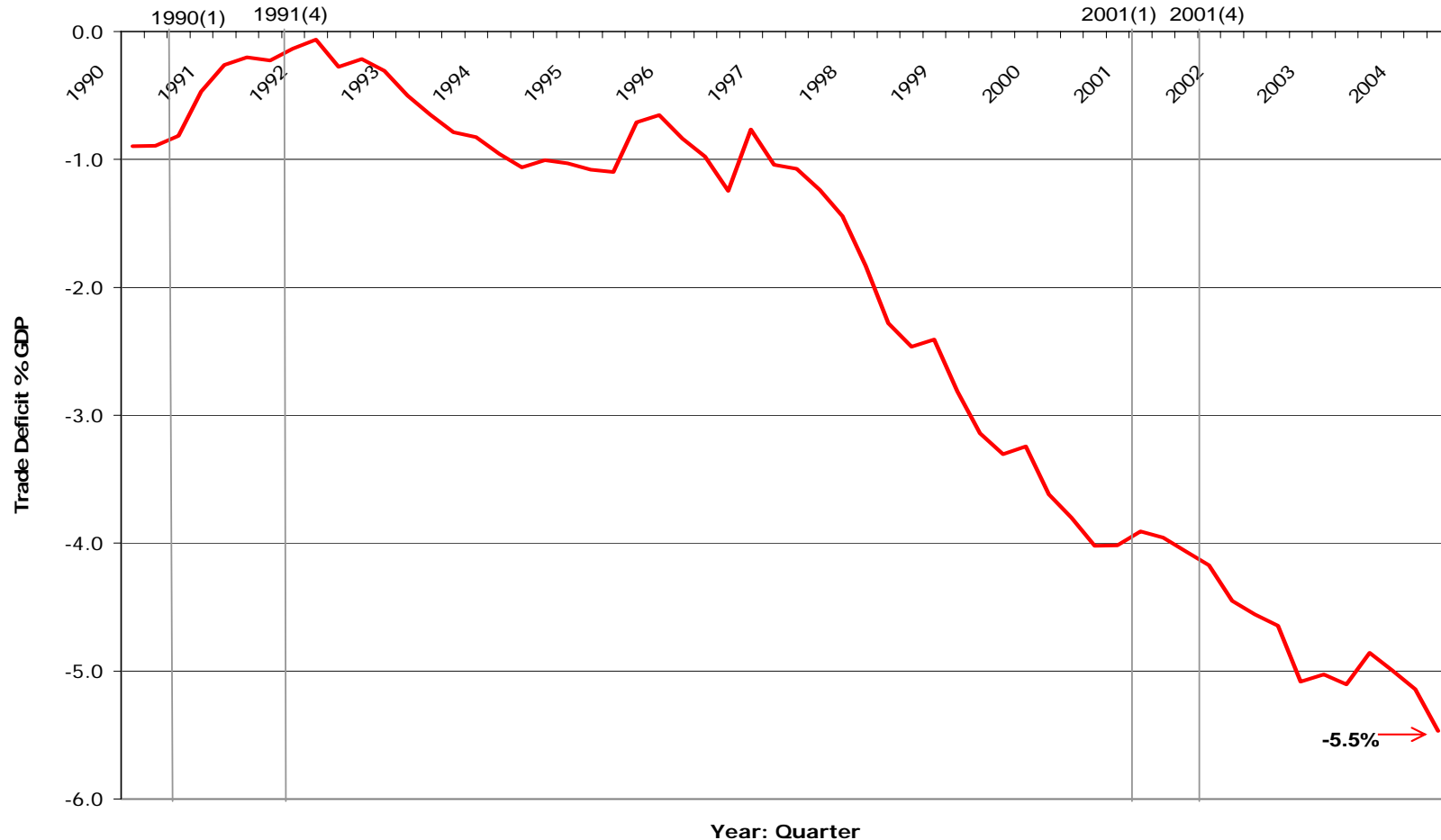


Source: US Bureau of Economic Analysis
National Income and Product Accounts

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Balance of trade as percent of GDP plummets

Exports of goods and services less imports of goods and services as percent of GDP
1990(1) to 2004(2)

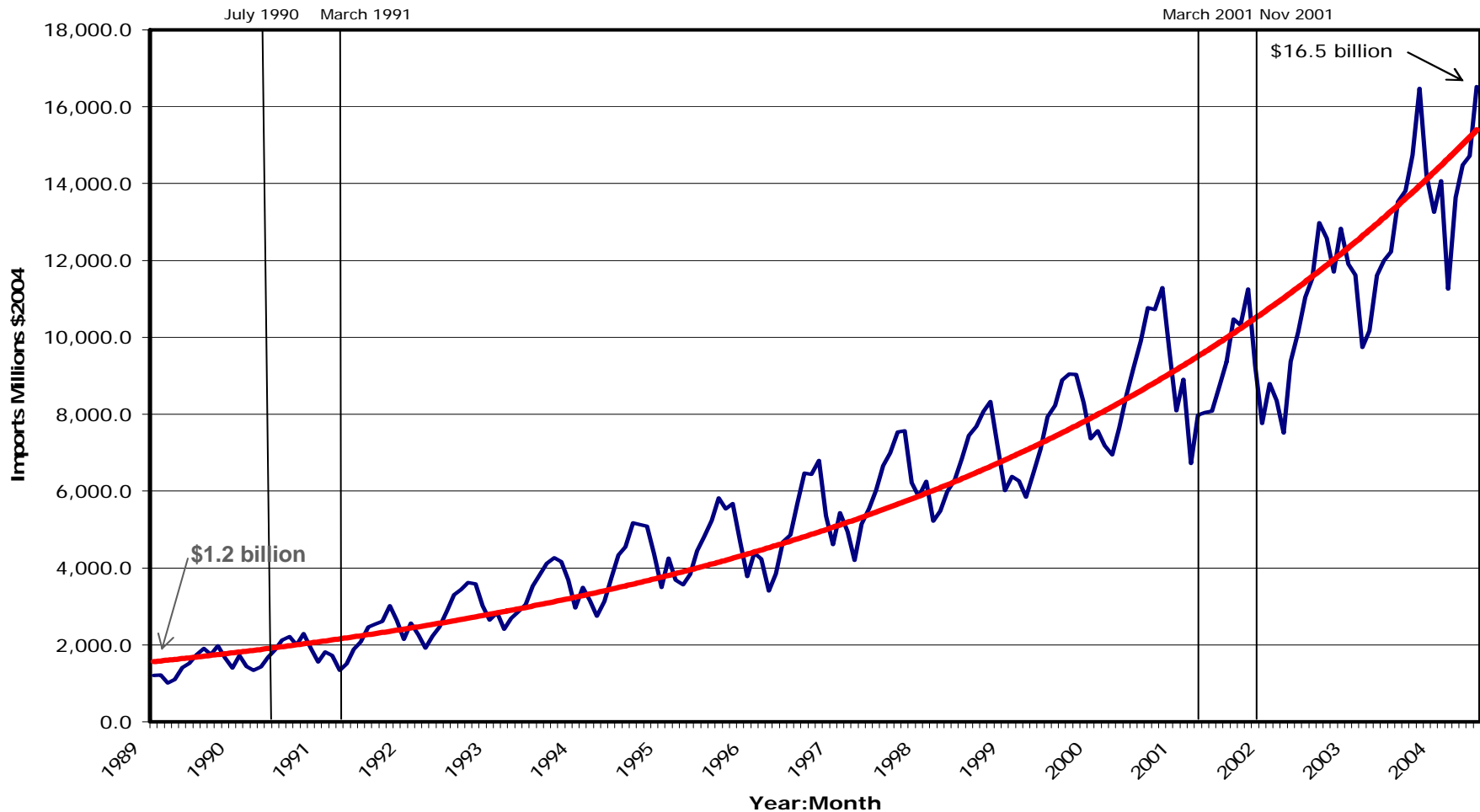


Source: US Bureau of Economic Analysis
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Monthly imports from China grow exponentially

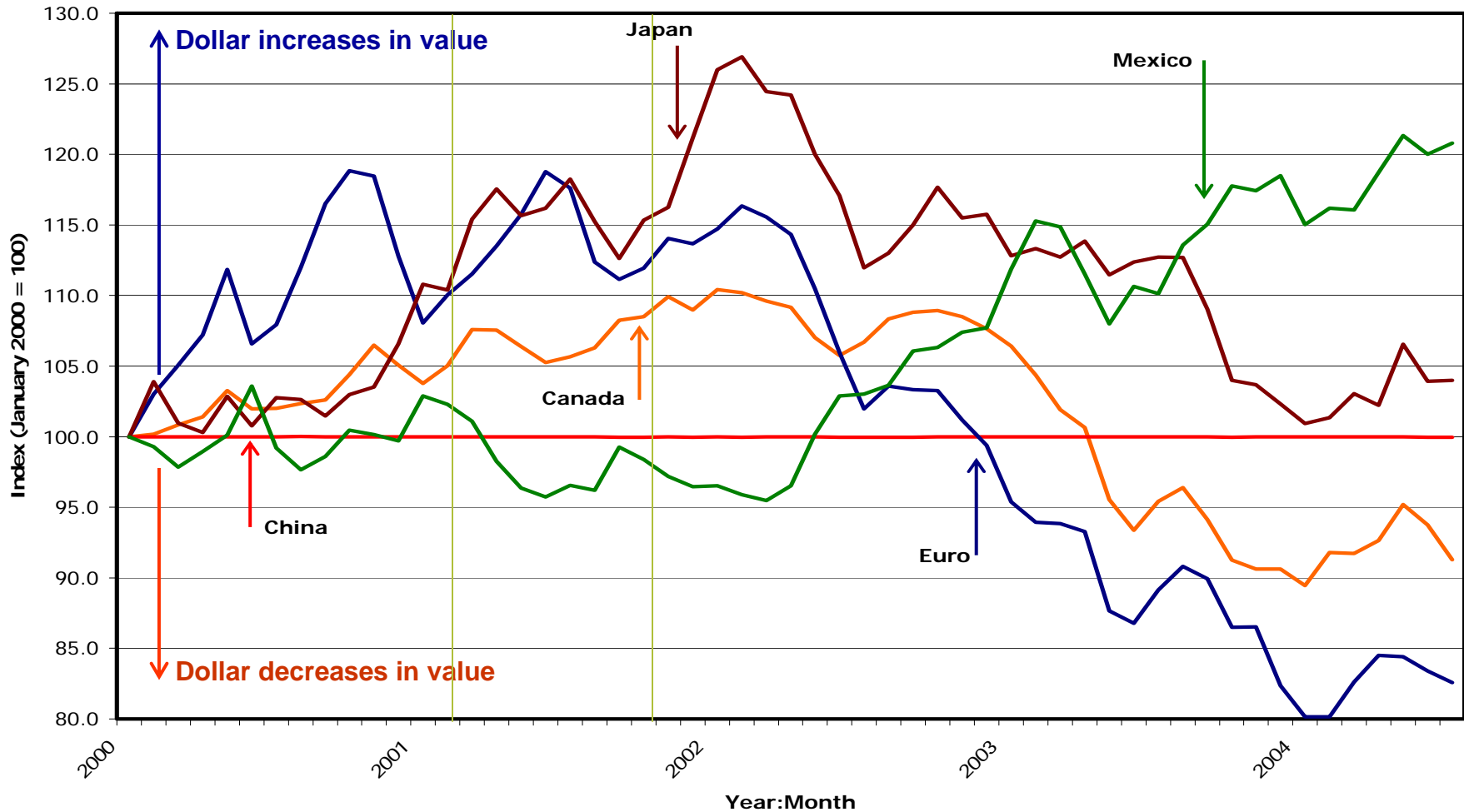
US imports from China, constant 2004 dollars, January 1989 to June 2004
(But this is really not the problem)



Source: US Bureau of Economic Analysis and Federal Reserve Bank of St. Louis

China pegs its currency; Japan slows Yen's fall

Percent Change in Value of US Dollar to currency from January 2000



Source: Federal Reserve Bank of St. Louis and Board of Governors of the Federal Reserve System

Monthly January 2000 to July 2004

Estimates

- Labor Secretary Chao: 350,000 jobs lost last year (2003) to foreign labor while 9 million Americans work for foreign-owned firms
- Maury Harris, UBS: 400,000 job cuts annually due to foreign outsourcing out of 21 million unemployment claims
- Mark Zandi, Economy.com: 350,000 jobs per year going overseas
- Goldman Sachs: 250,000 to 350,000 jobs per year
- Leal Brainard and Robert E. Litan, Brookings Institution: Off shoring accounts for 2% of the total number of jobs lost by Americans involuntarily

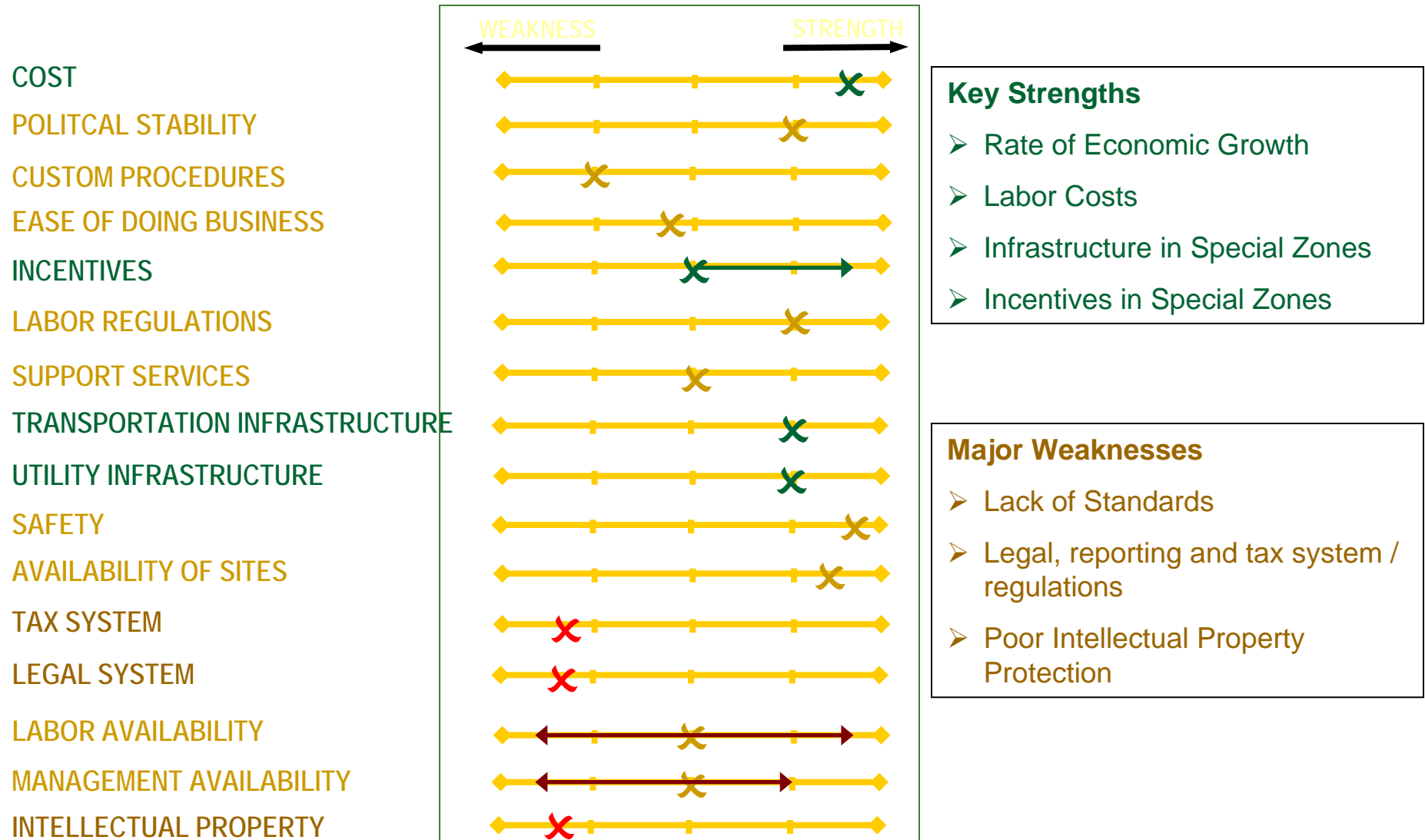
In 2004 the US economy has 135 million jobs;
21 million unemployment claims

Sabots, Luddites and Anti-globalists

Where is Blinder's political middle?

- “One reason there is a concern over the loss of US competitiveness....is that, for the first time in history, low-wage nations have trained large numbers of scientists, engineers, and computer engineers and are investing in research.” – Robert Atkinson, The Progressive Policy Institute
- “Adding to the problem is that there is a skills mismatch between the students coming out of American schools and the demand for them” – Jared Bernstein, Economic Policy Institute
- “...being able to purchase groceries 20 percent cheaper at Wal-Mart does not necessarily make up for the wage losses. ... You need more temporary protection for the losers.” Paul A. Samuelson, NYT September 9, 2004

China: Strengths and weaknesses



Source: Deloitte Real Estate Services/Fantus Analysis

Any Questions?

