



THE ECONOMICS OF GEOGRAPHY: CITIES, GROWTH, AND ECONOMIC DEVELOPMENT

CONFERENCE SUMMARY

Federal Reserve Bank of Cleveland Conference Focuses on Economic Development

Why do some cities thrive while others struggle? That was the question considered by more than 140 civic and business leaders, researchers, educators, and economic development professionals who gathered April 3–4 at The Economics of Geography: Cities, Growth, and Economic Development conference, hosted by the Federal Reserve Bank of Cleveland.

The first day, economic researchers looked at “big picture” issues such as, the relationship between IT adoption and the education level of a city’s workforce; the gentrification of urban centers; the role of cities as idea generators; the relationship between new plant openings and productivity at incumbent plants; the effects of tax and other business incentives; and enterprise zones and resident employment.

On the second day, business and civic leaders discussed the need for regional collaboration, what drives innovation, and how their economic development efforts have fared.

Opening Remarks | April 3, 2008

Mark Sniderman, Executive Vice President and Chief Policy Officer, Federal Reserve Bank of Cleveland

Mark Sniderman opened the conference by stating its objective: “To provide a forum for discussing cities—more specifically, cities as places where economic activity occurs.” He noted that, “we hope to learn from one another what factors support dynamic economic cities, and what factors inhibit dynamism.”

Education, Technology Adoption, and Wage Growth: Evidence and Trends from American Cities

Mark Doms, Senior Economist, Federal Reserve Bank of San Francisco

Mark Doms examined 230 U.S. cities over the 1980 to 2005 period. His goal? To provide a better understanding of how workforce skills and education influence the adoption of new information technologies and to describe how the adoption of such new technologies has impacted the wage structure in cities.

Doms’ research suggests that the most successful cities had an abundance of cheap, skilled labor, college-educated workers, and residents who aggressively adopted personal computers. Wages in these types of cities, his research demonstrated, changed: Wage differences between college- and high school-educated residents widened; male-female wage gaps narrowed; and these cities all witnessed higher wage growth. Why are some cities more educated than others? Doms said one factor is an abundance of local colleges and universities, which allows residents to be educated at a lower cost.

Agglomeration and Productivity Spillovers

Enrico Moretti, The Michael Peevy and Donald Vial Chair in Labor Economics, University of California, Berkeley

Local governments increasingly compete to attract new businesses by offering millions of dollars in subsidies. Enrico Moretti analyzed what happens to local employers when a county offers incentives and wins a new, large manufacturing plant.

He examined 82 new manufacturing plants that cost at least \$1 million each to build and how they affected existing plants. Seven years before a million-dollar plant opened, trends in productivity were similar among the plants in winning counties and in counties that narrowly lost the competition. Five years after a new plant opened, existing plants in winning counties experienced a 12 percent increase in productivity across nearly all industries.

Moretti asked, “Is there evidence of productivity spillovers from local firms? Do these policies increase the cost of labor?” At the 82 sites studied, existing manufacturing plants became more productive and paid higher wages to compete for the pool of skilled labor in the restructured market. Overall, the existing plants in winning counties experienced growth in employment and investment. The closeness of the old and new plants also “led to better sharing of ideas and faster adoption of new technologies,” Moretti reported.

Gentrification and Neighborhood Housing Cycles: Will America’s Future Downtowns be Rich?

Jan Brueckner, Professor of Economics, University of California, Irvine

Many U.S. city downtowns seem to be gentrifying, with higher-income households moving to the city center, as witnessed in Chicago and Los Angeles. Is gentrification just a curiosity that affects a handful of neighborhoods or is there more behind it?

Jan Brueckner examined the age of housing stock, which affects where high- and low-income households are located, as a new factor in the gentrification process. In his study, Brueckner developed a simple idea: "Initially, cities expand at the edge, so that new housing and rich households are usually found in the suburbs." As cities age, their central stock wears out, and, "redevelopment of aging dwellings in the city center creates a young downtown housing stock." Because dwelling age matters in determining where people live, with young dwellings attracting high-income households, "renewal of central cities can be expected to attract high-income households, leading to some degree of gentrification."

Brueckner explained that gentrification is driven by the passage of time and predicted "between 2000 and 2020, central-city/suburban changes in economic status will narrow in cities of all sizes and especially in larger metropolitan areas as American cities become more gentrified." However, he noted that the force is not powerful enough to completely reverse location patterns in U.S. cities.

City Growth and Human Capital

Edward Glaeser, The Fred and Eleanor Glimp Professor of Economics, Harvard University

Edward Glaeser spoke on urban change, city growth and decline, the role of cities in transmitting ideas, and the connection between skills and urban success. He noted that the economic approach to urban growth should start with the view that urban change is driven by individuals' choices on where to live. "Leaders must respect the mobility of their populations and not set policies expecting that firms or wealthy residents are fixed," he said.

Throughout history, cities that prospered did so because they attracted smart and talented people: "You become smart by being around other smart people. Smart people learn from one another." Glaeser continued: "The idea-producing function of cities used to be an interesting side product of people living close to one another; today, idea production is increasingly the primary function of America's most successful cities."

Glaeser asserted that local policymakers looking to improve their city's fortunes should set policy toward retaining and attracting smart people who will then lead the economy. How to attract the skilled? Good schools, low crime rates, good transportation, innovative improvements in housing regulations, and general improvements to the quality of life.

Business Incentives and Employment: What Incentives Work and Where?

Kenneth Troske, The William B. Sturgill Professor of Economics and Director of the Center for Business and Economic Research, University of Kentucky

Kenneth Troske examined the practice of state-supplied incentives to attract new businesses. He focused on firms that located in 120 different Kentucky counties between 1992 and 2004 and were offered incentives to do so. The objective? To determine whether incentives achieved their goal of improving economic activity.

The data he examined is unique—containing information on actual incentives received rather than incentives offered. This distinction is important: Actual incentives received represent true program costs for states and are more accurate measures of benefits received by businesses.

His analysis found that training and tax incentives "have positive effects on employment in counties along state borders," but tax incentives seem to work only in the urban border counties. "The fact that incentives primarily affect economic activity in border counties suggests that they work by attracting businesses that otherwise may have located in a neighboring state," he said.

Troske reported no evidence of spillover effects between counties. "Incentives don't appear to simply shift employment from one county to another in a state, nor do they lead to growth in economic activity in surrounding counties."

The study also looked at how incentives lead to an increase in employment. "Training incentives have a strong, positive effect on economic activity," he said. "They tend to increase the size of the labor force in a county by drawing workers back into the labor market and staying with them even if they leave for other jobs."

Enterprise Zones and Resident Employment

Joel Elvery, Assistant Professor, Cleveland State University

In the last two decades, enterprise zones have grown substantially as local, state, and federal policymakers look for ways to bring development to disadvantaged areas. Enterprise zones are government programs that provide tax credits for businesses that locate or expand in targeted, geographically defined areas and hire people, usually poor and uneducated, who live within their boundaries.

Joel Elvery analyzed the impact of California and Florida programs to learn how enterprise zones affect resident employment. He focused on California and Florida because "both designated enterprise zones in areas with high poverty and unemployment rates, and both offered businesses generous hiring tax credits."

California's tax credit allowed businesses to reduce their tax bill as much as 50 percent of the wages paid to workers enrolled in a specific job-training or welfare-to-work program. In the first three years, the state spent \$6.6 million in hiring tax credits.

In Florida's program, "Businesses hiring eligible workers could choose between a corporate income tax credit or a monthly sales tax credit for each full-time and part-time hire," noted Elvery. Between 1987 and 1990, Florida's program cost the state \$21.3 million in tax revenues.

Evidence from Elvery's research suggests that "enterprise zones in California and Florida had at best no effect on employment and at worst a small negative effect in Florida." He finds it likely that employment would have increased regardless of state-subsidized tax credits.

Welcoming Remarks | April 4, 2008

Sandra Pianalto, President and CEO, Federal Reserve Bank of Cleveland

Welcoming the conference attendees, Federal Reserve Bank of Cleveland President Sandra Pianalto explained that the Bank convenes an annual regional research conference to “promote a dialogue between researchers and practitioners.” Additionally, she emphasized the importance of each Federal Reserve Bank conducting research that will allow the public to better understand economic issues.

Pianalto noted that one of the goals of the conference was to provide a venue for economic researchers to share their ideas with a broader audience. A second objective, she said, was “to allow practitioners with years of experience to present their views about economic development and our region’s economy.”

Pianalto concluded, “As I look around the room, there are many experts here who have worked on these issues for many years—central bankers, public officials, community planners and people from academia. I know we all care very deeply about the region and we want to advance and make this region strong and better in the future.”

Public and Nonprofit Perspectives on Economic Development

David Abbott, Executive Director, The George Gund Foundation

The Fund for Our Economic Future unites more than 100 philanthropic organizations in Northeast Ohio to improve the region’s economic competitiveness through business growth and attraction, talent development, racial and economic inclusion, and government collaboration and efficiency. David Abbott, chairman of the Fund, said that the majority of the Fund’s grants support nonprofit, regional economic development organizations, and research that is used to guide the region’s economic development efforts.

Launched in February 2004, the Fund has provided more than \$50 million to promote:

Broader support for regionalism—“Our region’s mayors are exploring tax revenue sharing and our chamber heads are meeting regularly; in April they launched our first regional marketing campaign,” Abbott said.

A healthier entrepreneurial environment—According to Entrepreneur Magazine, there wasn’t a worse place in America in 2002 to be an entrepreneur than in Northeast Ohio. “Thanks to a lot of hard work, we’ve moved from dead last (61st) to 23rd place,” noted Abbott. Between 2004 and 2006, about 100 companies raised at least \$500 million in capital, mostly coming from out-of-town firms.

Emerging global growth industries—“We are leveraging the region’s historical strengths in such areas as healthcare, advanced materials, and energy and propulsion to grow new industries,” said Abbott. Healthcare companies raised more than \$200 million in venture dollars in the first half of 2007. Northeast Ohio has attracted three fuel cell companies to take advantage of the state’s cutting-edge research and commercialization efforts. At Kent State, several companies are collaborating on the next generation of flexible liquid crystal displays at a new industrial park on the university’s campus.

Public and Nonprofit Perspectives on Economic Development

Jay Williams, Mayor, City of Youngstown, Ohio

Youngstown Mayor Jay Williams discussed the economic and social relationships between old central cities and new outlying suburban areas, the parallel shifts in median household incomes of central cities and suburbs, and the growing consensus that a strong, regional response is needed to stabilize struggling central cities, reduce fiscal disparities, and promote cooperative use of resources.

He cited a Brookings Institution Metropolitan Policy Program study (2005–06) that found that economic decline in central cities is not confined within their borders, as city borders are political—not economic—constructs. And, because of the interdependency between cities and their surrounding metropolitan areas, cities and suburbs need to work together to bolster opportunities in their regions.

“It is within the context of these findings, that we find it necessary to seek an appropriate remedy to stabilize the regional economic base and position the greater Mahoning Valley for more equitable and sustainable growth,” he said.

Williams believes that regional cooperation is the key to the survival and future of the Mahoning Valley area and that Joint Economic Development Districts (JEDDs) are the best tool to help communities compete in a global market economy. He explained that JEDDs provide a regional approach to economic development, encourage more balanced growth in jobs and property values, better address pressing issues that threaten the region, and preserve political autonomy and community character, thus eliminating fears about annexation.

Keynote Address: The University as Economic Engine

Craig Carnaroli, Executive Vice President, University of Pennsylvania

Craig Carnaroli discussed the West Philadelphia Initiatives—a comprehensive community and economic development plan implemented by the University of Pennsylvania. Penn is Philadelphia’s largest private employer and produces a substantial economic ripple, but “the University was not actively connected to the community, and we thought we could coexist without engaging each other,” Carnaroli stated. This attitude took a toll on Penn’s image and its ability to attract and retain talent. The West Philadelphia Initiatives became “an act of self-preservation.”

The West Philadelphia Initiatives include:

- Creating safe and secure neighborhoods: Penn expanded its police boundaries into the surrounding neighborhoods and focused on lighting and trash collection.
- Stimulating the housing market: Penn purchased, rehabbed, and sold properties, stabilizing the neighborhood.
- Investing in public education: Data showed schooling as the top reason for suburban flight. A new public K-8 school—a \$24 million development by Penn operated by the Philadelphia school district—has turned the University City neighborhood into a

destination.

- Economic inclusion: Penn purchased more than \$85.7 million in products and services from local businesses, with \$69.9 million from minority-owned businesses.
- Retail development: By replacing a parking lot in the middle of campus with a retail district, Penn sent a signal that it was investing its own resources to create commercial amenities. Penn's investment has generated \$370 million in private development.
- Urban planning: Three commercial districts were created, bridging the campus and the community.

Carnaroli concluded his discussion with lessons learned:

- Confidence: In shifting economic conditions, a university or medical system can anchor a city.
- Commitment: Establish leadership early at the highest level.
- Credit: Balance the impact of initiatives to your credit capacity; find partners to help shoulder financing.
- Communicate: Conduct meetings, reach out, and be transparent with the surrounding community.
- Collaborate: Partner with local government, civic associations, or chambers of commerce.

Private-Sector Perspectives on Economic Development

Stuart Lichter, President, Industrial Realty Group, LLC

Stuart Lichter's company, California-based Industrial Realty Group, transforms shutdown industrial complexes into viable multi-tenant spaces, and is a partner in more than 40 properties in Northeast Ohio. His perspectives on the region's strengths and weaknesses come from developing and managing industrial property in more than 25 states over the past 30 years. "To do what I do you have to be an optimist," he said. "You have to believe that things are going to be good—that there's going to be demand in the future."

Lichter believes that the United States has become addicted to negativity and that "it's a mood even more systemic in Northeast Ohio." His advice for Northeast Ohio is to "knock the chip off its shoulder" if it wants to boost prosperity. He noted that the region has little control over its biggest weaknesses:

- Obsolete manufacturing plants that continue to close and unions that embed costs into the local economy
- Reliance on the "terribly managed" auto industry
- Companies wanting to be closer to large shipping hubs for easier connection to global trade
- The weather—despite the higher cost of living, Lichter located his headquarters in California

Lichter's list of regional strengths:

- 2007 surveys showed Ohio to be number one in the country for plant expansions and new business openings and number seven for university spin-offs.
- The region's economy has grown 14 of the last 15 years.
- Reputation for a strong and loyal workforce.
- Competitive real estate prices, taxes, and cost of living make operating costs reasonable.
- Great location for companies wanting to save on transportation costs; it is a day's drive from many big Midwest and East Coast cities.
- Manufacturing jobs have declined but production has never been higher.
- The region's "open arms" attitude and a "willingness to cut through bureaucracy is very pro-business," Lichter said. "So you folks really should be more optimistic," he concluded.

Private-Sector Perspectives on Economic Development

John Spirk, Co-president, Nottingham-Spirk Design Associates

Nottingham-Spirk Design Associates, Inc. is one of the country's leading new product invention and development groups. The firm holds more than 500 commercialized patents and is responsible for creating hundreds of products including the Dirt Devil vacuum cleaner, the SwifferVac, and the Sherwin-Williams twist-and-pour paint can. "Demand for consumer products is inexhaustible," said John Spirk. He noted that buyers are always looking for what's new: "The key to new markets is in product design and innovation."

Nottingham-Spirk's entrepreneurial philosophy? Find a need, invent products, test them with consumers, and then take them to the public. Product designs at Nottingham-Spirk emerge from brainstorming sessions where designers make keen observations about ordinary things. "If we come up with something, then we'll show it to a company, and if it's interested, we can make a deal." The Crest SpinBrush, designed by Nottingham-Spirk and later sold to Proctor & Gamble, is the best-selling electric toothbrush.

According to the Spirk, innovation can be summed up in five words: Give me what I want. "We try to figure out what consumers will want two years down the road. We look for what's not there."

Nottingham-Spirk's headquarters include an engineering lab, where prototypes of new products are built and tested. The company created a vertically integrated invention system that takes a product from conceptual phase to global sourcing. "Prototyping, testing, engineering—all in one spot," he said, adding that company employees are viewed as consumers and offer input on every idea. At any given time the company is working on more than 50 different projects. "It's about relentless innovation—you gotta keep doing it," Spirk concluded.