

# Delivering the Next American Economy: Unleashing the Potential of Greater Charleston

Competitiveness, Jobs and the Economy, U.S. Economic Growth, Cities, Growth through Innovation

Amy Liu, Co-Director and Senior Fellow, [Metropolitan Policy Program](#)

Charleston Regional Development Alliance

July 28, 2011 —

I want to thank David Ginn and his team and members at CRDA, and the Charleston Regional Business Journal, for giving me an opportunity to take part in this strong program. Congratulations to you too for the work on the Scorecard and your plans to act on the market assessment through Opportunity Next.

This morning, I want to reinforce why this is the right time to forge a more powerful and intentional partnership and strategy between the public and private sector to position and reposition the Charleston region for global success?

Why? Because our economy continues to underperform; our federal leaders are clearly adrift; and meanwhile, our global competitors are moving full steam ahead.

Let me start by stating the obvious: The recent jobs numbers have been disappointing and only reinforced that, while the Great Recession is officially over, we have a long and bumpy road ahead.

The challenge for all of us in the U.S. and in this region is that we need to create more jobs, better jobs, and more accessible jobs.

We need more jobs because the U.S. has lost 8.8 million jobs over the course of the recession, and we have regained only one-fifth of them to date.

We need better jobs because this has been a brutal decade for low, moderate and middle income workers. The 2000s was the first decade on record in the U.S. where median family income actually declined – by more than \$3,800 per household.

We need more accessible jobs for workers. Only 30 percent of residents in the 100 largest metro areas, and 27 percent in greater Charleston, can reach a job via transit.

With high gas prices pushing up transit ridership, public transportation must do a better job getting workers to jobs.

We must ... we must lower all barriers to work, as too many people remain disconnected from the job market. Nearly one in 10 working Americans do not have a job. The numbers are just as tough in this state and in its three largest metro areas.

Finally, the lack of economic growth has wreaked havoc on state and local budgets.

So, where do we go from here?

To revive our economy, it's clear we can't go back to the prior economy, one highly fueled by debt, overconsumption, and real estate speculation.

**We need a new growth model** that focuses on the productive end of our economy, the tradeable sectors that create quality jobs and support local serving jobs. We must tap the demand from growing markets in nations like Brazil, India, and China that can serve as a source of growth for our sluggish economy.

**To do that, we also need a new set of growth strategies** in our regions that go beyond the traditional economic development approaches of Starbucks, stadia, and stealing businesses. While these strategies will always be in the toolbox, today's economic realities demand a focus less on consumption, less on bricks and mortar, and less on wasteful economic development subsidies that may provide little return on investment, given how such relocations, on balance, generate just a tiny fraction of all jobs in a state (a point I will come back to).

Today, I want to make three arguments.

**First, as a country and within our metro areas, we must shape a different kind of U.S. economy, a "next economy"** that is driven by exports, powered by low carbon, fueled by innovation (in both manufacturing and services sectors) and rich with opportunity for all workers.

**Second, the next economy will be largely driven by metropolitan areas, like greater Charleston.** Metro areas are the hubs of trade, commerce, and migration and the centers for talent, capital and innovation. We must also remind our leaders that metro economies span cities, suburbs, exurbs, and rural areas. In fact, about half of the nation's rural residents live inside metro areas. This is not about promoting a rural-urban divide but about leveraging the true economic units of our global economy.

**Finally, regional leaders like you must lead this transition to the post-recession economy, with state, federal, and private sector partners.**

This is getting truer by the day as there are clearly no adults in Washington.

So let's begin with exports and our need to fully engage the world.

**We need to rebalance the U.S. economy, away from an over-reliance on domestic consumption to one that is taking advantage of global demand. Unfortunately, only 13 percent** of the U.S. economy comes from exports, compared to those of mature and developing economies like Canada, China, and India.

**Exporting is still the exception than the rule.** According to the Department of Commerce, less than 1 percent of American companies sell a product or service outside of the U.S.. And of those that do, less than half exported to more than one country.

While some of the barriers to exporting may come from trade and financing barriers, the reality is that we have untapped potential among American firms to reach new customers.

And there are a lot of customers. With rapid urbanization and the rise of the middle class around the globe, it is no surprise that 95 percent of the world's consumers live outside of the U.S.

**In short, boosting exports is an economic imperative.** The Great Recession has made this more urgent b/c it has further shifted the growth map away from the U.S. and Europe. The top 30 regional markets that added jobs or economic output the fastest one year after the recession, shown here in orange, were almost exclusively located in emerging markets in Asia and Latin America. The 30 worst metro performers? They are nearly all located in Europe and the United States.

U.S businesses will have a hard time expanding if they are solely reliant on our uneven domestic market.

**We are well-positioned to play in the export game because the U.S. remains the largest exporter of goods and services in the world,** manufacturing a range of advanced goods the rest of the world wants to buy including aircraft, spacecraft, medical instruments, and high quality pharmaceutical products. And delivering key services, from tourism to a high quality U.S. education, to architecture and planning.

**And we already have a growing trade surplus in services—rising to \$168 billion in 2010.**

Many economists and business leaders agree that the president was right to set the goal of doubling exports in five years as a source of short- and long-term job growth.

### **Why low carbon?**

**Because the U.S. must be at the vanguard of the clean, green revolution in renewable energy, in modern transportation and energy transmission, in sustainable consumer products, in energy efficient buildings and land use.**

In our latest study, we found that the U.S. already has a strong base of approximately 2.7 million clean jobs, in sectors ranging from renewable energy to pollution reduction that we can build upon.

In fact, the clean economy employs more workers than the highly touted biosciences industry and more than the fossil fuel industry, although less than the broad IT sector.

The clean economy also has the benefit of being manufacturing intensive.

Jobs in solar, wind energy, energy saving appliances, water efficient products, and electric vehicle technology are predominantly produced by manufacturing firms.

More than one quarter of clean tech jobs are in manufacturing, compared to the U.S. as a whole. These specific clean sector jobs are anywhere from 70 to 95 percent manufacturing based.

**Finally, clean economy products are in great demand globally, generating nearly \$54 billion in exports.** In fact, clean economy products generate two times more value per job than the typical U.S. export.

The reason? No matter your views about climate change, more than 75 countries and major states in the U.S. have adopted some level of national emission reduction and renewal energy standard targets in response to natural resources pressures created by rapid urbanization. These higher environmental standards worldwide are driving the rush of businesses to meet the sharp demand for low-carbon or environmentally friendly goods and services. In other words: The transition to a low carbon economy is fundamentally about markets.

Naturally, to boost exports and lead in the low-carbon economy, we must innovate. The U.S. must be the world's Innovation Nation, a hot house of ideas and invention and the platform for advanced production.

We are on the cusp of an historic era of technological progress.

The future is already here, with self driving vehicles, smart homes, and remote

monitoring of health.

These technologies are not just “cool toys” ... they will change lives, save lives, drive investment, create jobs and transform economies.

However, in order for the U.S. to be the world’s Innovation Nation, we need to fully embrace science and technology.

Unfortunately, we now place just 45<sup>th</sup> out of 93 countries in the share of science and engineering degrees we produce from our all of our bachelor’s degrees.

The U.S. lags on the conversion of innovation into home grown production. We buy more advanced technology products from other countries than we sell, a reversal from earlier in the decade.

Going forward, we must embrace manufacturing and make things again if are to innovate more.

Finally, the next economy has the potential to be **opportunity rich**.

Research shows that firms in export-intense industries pay workers more and are more likely to provide health and retirement benefits. In 2008, for example, the top five exporting industries ... advanced machinery, business services, transportation equipment, chemicals, computer and electronic products paid better than the national average wage, up to \$40,000 or more.

A low carbon economy can also be an engine for job creation, employing millions of new workers across a range of occupations and skill levels, from the scientist and engineer to the solar panel roofer.

**Most interestingly, the clean economy offers more opportunities for low and middle skill workers than the economy as a whole.** The clean economy is more likely than the overall economy to employ workers with a high school diploma or less, with 45 percent of such workers.

**As it does so, clean economy firms tend to offer more medium and long-term job training to its workers than the typical firm, improving their skills along the way.**

**As a result, workers in clean economy firms earn more than they would in a typical firm,** at nearly \$44,000 in pay, compared to \$38,000 in the economy as a whole.

**However, we know most workers need more than a high school diploma to succeed in today’s global economy.** Unfortunately, while our growth and diversity is one of America’s greatest assets, the rates of educational attainment, particularly in

bachelors degrees, are lowest among Hispanics and African Americans.

With African Americans and Hispanics poised to make up 40 percent of the future labor force, we must upgrade the education and skills of our diverse workers.

**So here is my second point (and yes, that was a long first point!): The next economy will be largely driven by metropolitan areas.**

As Harvard Business Professor Michael Porter once observed, there is no U.S. economy, but a network of hyper-linked, highly specialized metro economies, powered by the clusters of large firms, small and mid-sized businesses, research institutions, financial institutions and, yes, even government, that together harness the market activities that give regions their economic value.

And these metro areas pack a powerful punch.

The 100 largest metro areas make up just 12 percent of land area and 65 percent of its population but they are home to the bulk of the assets that drive the future economy ... on service exports ... on talent and human capital ... on cleantech jobs ... on research and innovation.

Because of these assets the 100 largest metro areas generate 75 percent of the nation's GDP.... 75 percent.

This is not some coastal phenomenon. In fact, metro areas generate the majority of economic output in 47 of the 50 states, including such traditionally "rural" states as Nebraska, Iowa, Kansas, and Arkansas.

Here in South Carolina, 10 metro areas drive the state's economy, producing more than 80 percent of the state's economic output.

The region has one of the nation's largest container ports, but the region could do a better job of being an original producer of goods or services exports, not just shipping it. The Charleston metro area ranks 79<sup>th</sup> among metros on its volume of export sales, 78<sup>th</sup> on its number of export-related jobs, and 17<sup>th</sup>, a bit better, on export growth over a five-year period.

**That leads me to my final point: To build the future economy, this region must lead with strong state and federal partners.**

Given global competition, global opportunities, and waning revenues, this is not the time to be complacent or back track. We must be intentional in forging comprehensive partnerships to build the post recession economy. As I mentioned earlier, our

competitors are not resting. Leaders in Barcelona, Munich, Turin, Shanghai, and Seoul in partnership with their regional and national governments are making transformative investments in world class research and innovation, in clean energy, in ports, in physical redevelopment. We must do the same.

**First, metros must lead.** And you clearly are, with Opportunity Next and your Scorecard. You've brought together, business, civic, nonprofit, philanthropic, and political leaders in this region to act with vision and intention to lay the foundation for short- and long-term prosperity. I want to reinforce that to lead, you must operationalize those strategies, with accountability and performance metrics, so that such strategies are not reports on a shelf. And you need to determine the civic infrastructure to sustain your plans. Too many regions fall on this score.

And with Washington in complete disarray, and most states going on a severe fiscal diet, it is clear the only way to grow our post-recession economy is from the bottom up.

**Nevertheless, you can't go it alone. States matter as they** govern large flows of infrastructure, economic development, higher education and skills training dollars.

But states shouldn't starve the very assets needed to position or reposition the economy for growth and global competition. States must make strategic cuts that then make room for key investments. I will come back to this.

**The federal government meanwhile needs to unleash markets.** Currently, Washington is sending damaging signals to the market place so resolving this debt crisis is essential. But they must also set the rules for global engagement, with trade agreements, student and H1B visa reform, intellectual property protection, and currency regulation. They are also critical in setting the investment framework for infrastructure that cut across state borders, so passage of a National Infrastructure Bank or adopting a national freight strategy to bolster the port and trade corridors of our country.

**Finally, with public funds drying up, private and philanthropic leaders must step up even more as co-investors and co-partners in leveraging a region's assets.**

This can be in the form of providing capital to large scale transformative investments, financing catalytic initiatives, and supporting the capacity of organizations or new intermediaries that will drive systems change.

**Let me close with a few thoughts on the role of states, as their actions strike close to home.** We have been putting forth a blueprint for states to help them grow jobs and revenues in this fiscal and environmental environment. States must:

- prioritize existing spending (or protect priority programs) while investing in new ways that unleash markets

- cut programs to make room for the investments that matter
- align with and empower metro areas so they can be the economic engines that they are

**This is not about ideology but about the realities of how different sectors shape market assets and dynamics. Jeff Immelt, CEO of General Electric, and chair of the president's competitiveness council, calls for the need for businesses, labor and government to come together to grow the economy, especially in manufacturing and exports, as key to future growth.**

**So what does it mean to prioritize investments and invest smartly? To accelerate manufacturing innovation and skills, the state could invest a very modest amount of money (\$9 million each) to create advanced manufacturing centers, perhaps within universities and in collaboration with manufacturers, to help small and medium sized enterprises develop the breakthrough technologies or cost-efficient processes that will make South Carolina products more competitive.**

**State infrastructure banks are critical**, market oriented institutions, often self-financed, that can unleash private capital and make investment decisions for ports, air hubs and energy/water infrastructure. This state has an infrastructure bank, but efforts in the future should be made to ensure that investment decisions are based on merit and evidence rather than politics so our precious dollars invest in the most economy-shaping projects in the state. And, as with other states with infrastructure banks, the next step is to create an office of public private partnerships alongside or within the bank, to create a more consistent framework for private sector investment, including foreign investment.

**To cut and make room for such investments, the state could reform or reevaluate wasteful economic development subsidies.**

A state recently spent \$76 million to lure a manufacturing firm from another state. Consider that cost several times over. However, research shows that just 3 percent of a state's annual job gains come from recruitment strategies when the vast, vast majority of job growth comes from start ups or the expansion of existing businesses. With this severe fiscal climate, this may be the best time to reevaluate those subsidies, put better standards on how to deploy them, and then use those taxpayer savings to grow jobs from within, helping existing firms or entrepreneurs innovate and hire again.

**Finally, to better align itself to the unique attributes of its regions, the state could better coordinate, integrate and tailor existing programs and policies toward regional industry clusters or metro economic strategies**, boosting growth in such clusters you've prioritized such as advanced security and IT, aerospace, wind energy, bio medical, and tourism.

And promoting the growth of regional cluster strategies has the added benefit of rewarding industry concentrations in both rural and metro areas.

The state must reward regions that work collaboratively and intentionally on a unified economic strategy, providing program flexibilities interagency funds. Already, in Tennessee, California, New York and Nevada, two Republican and two Democratic newly elected governors, with state legislators, have adopted statewide economic strategies that meaningfully fund or empower regional strategies because they know that each of their diverse regions know their economies best.

Bottom line: Today's fiscal and economic realities demand a new vision for the next economy that must be delivered by the common sense, pragmatic leaders within our metro areas. This region is well-positioned to lead in this post-recession economy. It is an exciting time for greater Charleston. We at Brookings hope we can continue to be a partner or resource as you realize your ambitions.

Thank you.