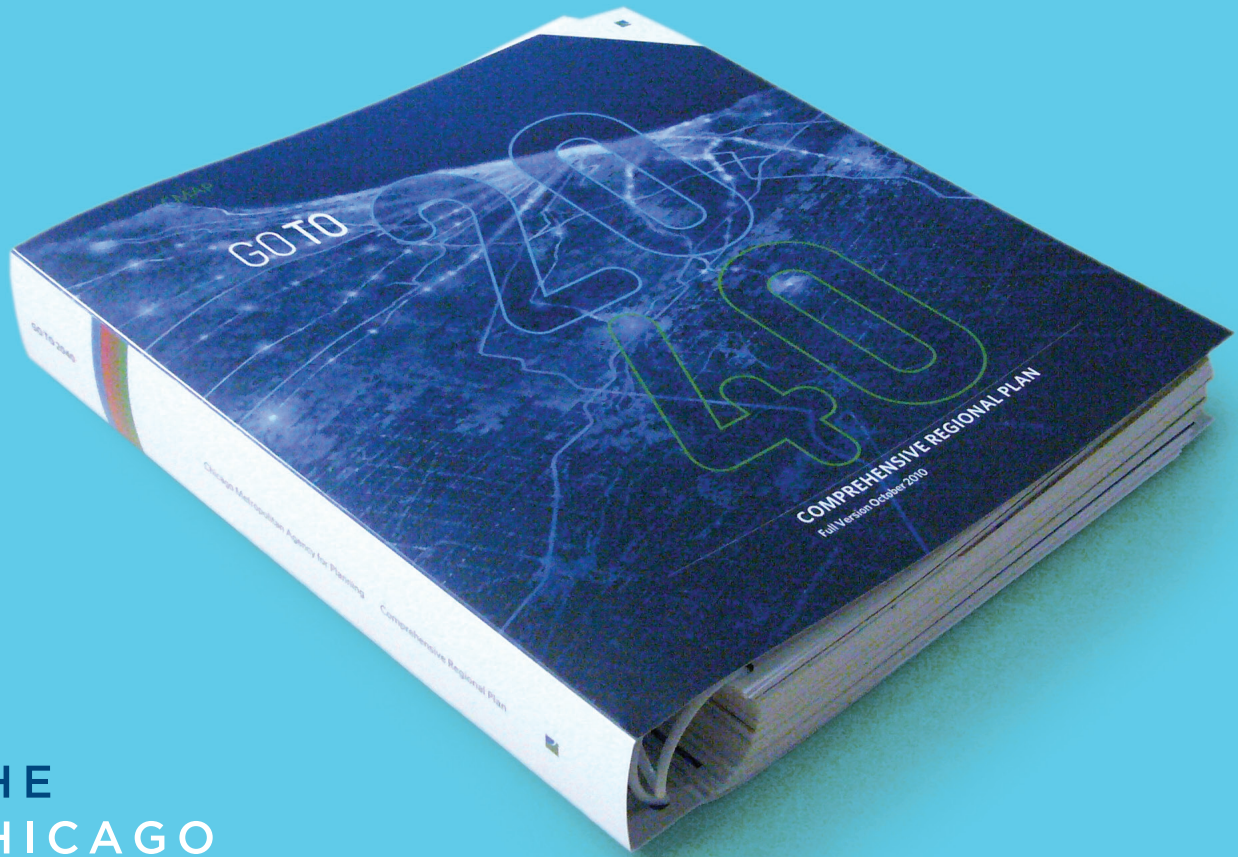


Economic Impacts of GO TO 2040

EXECUTIVE SUMMARY



**THE
CHICAGO
COMMUNITY
TRUST**

AND AFFILIATES

by Gretchen Kosarko and Robert Weissbourd
RW Ventures, LLC | December, 2010

January 11, 2011

Back when The Chicago Community Trust signed on as a partner with the Chicago Metropolitan Agency for Planning in January 2008 to support and actively engage in the development of the GO TO 2040 comprehensive regional plan for the Chicago area, no one anticipated the magnitude of the Great Recession that has resulted in the loss of over seven million jobs nationally and almost half a million in the Chicago region alone. The job losses have led to other crises, including foreclosures and reduction of public services affecting the economic security and safety net of thousands of individuals and families in our region. Consequently, creating a road map to strengthen the regional economy and position the Chicago region to be more economically successful has become even more urgent as the major goal for the development of the GO TO 2040 plan.

Recognizing the importance of the GO TO 2040 plan for the Chicago region's economic recovery, the Trust commissioned RW Ventures to conduct an assessment of the economic impacts of GO TO 2040. RW Ventures was selected because of its expertise in developing market-based strategies for regional and community economic development. For the last three years, RW Ventures has been working with the Brookings Institution to develop regional business plans and promote federal policies which can be more supportive of regions, the economic engines of our nation today. The co-authors of this report have deep experience and roots in the Chicago region. Robert Weissbourd founded RW Ventures, is a Nonresident Senior Fellow of the Brookings Institution Metropolitan Policy Program where he works on the Metropolitan Economy Project, and has been active for over 25 years in local and national economic development work. Gretchen Kosarko, senior associate, previously served as the Director of Research for World Business Chicago and a Project Manager for S. B. Friedman & Company, a Chicago-based real estate and urban planning consulting firm.

The Trust is pleased that this *Economic Impacts of GO TO 2040* report confirms the important economic values of the plan. Readers of this executive summary should visit <http://www.cct.org/research/research> for the full *Economic Impacts of GO TO 2040* report. For more details on GO TO 2040 recommendations on strengthening the development of the Chicago region as a major global economic center, the entire plan can be found via www.cmap.illinois.gov/2040.

For over 95 years, The Chicago Community Trust has worked with donors, non-profit organizations and public agencies to improve quality of life for our communities' residents. We invite readers of the report to join The Chicago Community Trust and the Chicago Metropolitan Agency for Planning in our effort to implement the GO TO 2040 Plan recommendations.

Ngoan Le
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Executive Summary

The economy of the Chicago metropolitan region has reached a critical juncture. On the one hand, Chicagoland is currently a highly successful global region with extraordinary assets and outputs. The region successfully made the transition in the 1980s and 1990s from a primarily industrial to a knowledge and service-based economy. It has high levels of human capital, with strong concentrations in information-sector industries and knowledge-based functional clusters — a headquarters region with thriving finance, business services, law, IT and emerging bioscience, advanced manufacturing and similar high-growth sectors. It combines multiple deep areas of specialization, providing the resilience that comes from economic diversity. It is home to the abundant quality-of-life amenities that flow from business and household prosperity.

On the other hand, beneath this static portrait of our strengths lie disturbing signs of a potential loss of momentum. Trends in the last decade reveal slowing rates, compared to other regions, of growth in productivity and gross metropolitan product. Trends in innovation, new firm creation and employment are comparably lagging. The region also faces emerging challenges with respect to both spatial efficiency and governance.

In this context, the Chicago Metropolitan Agency for Planning (CMAP) has just released GO TO 2040, its comprehensive, long-term plan for the Chicago metropolitan area. The plan contains recommendations aimed at shaping a wide range of regional characteristics over the next 30 years, during which time more than 2 million new residents are anticipated. Among the chief goals of GO TO 2040 are increasing the region's long-term economic prosperity, sustaining a high quality of life for the region's current and future residents and making the most effective use of public investments. To this end, the plan addresses a broad scope of interrelated issues which, in aggregate, will shape the long-term physical, economic, institutional and social character of the region.

This report by RW Ventures, LLC is an independent assessment of the plan from a purely economic perspective, addressing the impacts that GO TO 2040's recommendations can be expected to have on the future of the regional economy. The assessment begins by describing how implementation of GO TO 2040's recommendations would affect the economic landscape of the region; reviews economic research and practice about the factors that influence regional economic growth; and, given both of these, articulates and illustrates the likely economic impacts that will flow from implementation of the plan. In the course of reviewing the economic implications of the plan, the assessment also provides recommendations of further steps, as the plan is implemented, for increasing its positive impact on economic growth.



Summary of GO TO 2040

GO TO 2040 is the culmination of over three years of public outreach, research, analysis and consensus building. This process resulted in extensive recommendations, each containing a series of specific implementation actions directed to a variety of organizations, meant to respond to the major challenges and opportunities facing the region. The plan seeks to address immediate concerns, such as the economic slowdown and its fiscal impacts, as well as long-term issues, such as continued population growth, demographic shifts and increasing scarcity of natural resources.

Implementation of the recommendations detailed in GO TO 2040 will change the characteristics of the region that affect economic growth — the “regional economic landscape” — in five principal areas:

- ***Transportation infrastructure***

The recommendations in the “Regional Mobility” chapter prioritize investments in the region’s roads, freight rail and transit system, streamlining the movement of goods and people within and through the region. The implementation actions reflect two key principles for prioritizing investments throughout the region: “fix it first,” which emphasizes investment in already-developed (versus undeveloped) areas; and “do no harm,” which focuses attention on mitigating incentives for an unsustainable pattern of development.

- ***Built environment***

The recommendations in the “Livable Communities” chapter address enhancing the “livability” of the region’s communities, with an emphasis on reinvestment, density, diversity of uses and income levels, walkability, access to transit, environmental integrity, smart design and development that fits each local context.

- ***Labor force and firms***

Recommendations in the “Human Capital” chapter support development of a skilled workforce better matched to emerging jobs and creation of an innovation-enabling environment. Recommendations also begin to identify and support growth of key existing and emerging business sectors.

- ***Governance***

Recommendations in the “Efficient Governance” chapter emphasize actions and policies to enable effective government execution and cooperation across the Chicago region, including cross-jurisdictional coordination, reform of the tax structure, and improving access to information.

- ***Quality of life***

Finally, a number of GO TO 2040 recommendations whose primary effects are non-economic in nature will change characteristics of the region in ways which may indirectly enhance economic performance. These effects address regional quality of life, and fall into two categories: lowering household costs and enhancing regional amenities. In combination, the quality of life recommendations will make the region more affordable, environmentally sustainable and rich in the types of amenities that attract and retain residents and businesses. These are spread throughout the four chapters of the plan.

Economic Impacts of GO TO 2040

From an economic perspective, the regional scope of GO TO 2040 provides one of its key strengths. Metropolitan areas are a critical unit of geography in today's economy: they concentrate the nation's assets and, through the beneficial synergies associated with that concentration, disproportionately produce the nation's economic outputs. These synergies flow from interactions that largely occur through market and other systems that primarily operate at a regional scale of geography. Whether the goal is development of the neighborhood, the city or the suburb; human capital or business growth; one has to understand how the assets and markets intersect and relate across — and combine to constitute — the regional economy. Increasingly, it is metropolitan areas, rather than nations or individual cities, that are competing with each other in the global economy.

The changes in the regional economic landscape envisioned by GO TO 2040 will impact five core drivers of regional economic performance, as described very briefly below and at length in the full report.

GO TO 2040 will increase levels of innovation and entrepreneurship

The development of new products, services and systems that increase the productivity of businesses or spur the emergence of new markets has always been the primary source of productivity gains and long-term economic growth. Particularly in the knowledge economy, finding ways to more directly and deliberately foster innovation has become higher-priority for regional economic growth policy and practice.

Implementing the plan's recommendations will increase levels of human capital, intensify knowledge networks and spillovers, and enhance the institutional, cultural and funding environment, boosting innovation and entrepreneurship. In combination, these effects will increase firm productivity, formation and growth, as well as market development, the essence of regional economic growth.

GO TO 2040 will enhance the performance of existing and emerging clusters

Economic "clusters" are interdependent groups of firms and related institutions that gain benefits from their proximity and interactions. Clusters contribute to their firms' efficiency and productivity, and attract new firms, by reducing transportation and transaction costs, enabling shared labor pools and other inputs, and facilitating knowledge exchange, among other benefits.

The plan's recommendations concerning transportation infrastructure, labor force and firms, and governance will increase performance of all firms in the region through expanding access to suppliers, partners and customers; enhancing human capital; better aligning worker's abilities with employers' needs; supporting innovation; and improving the impacts of regional governance. Many of these interventions will particularly increase the productivity of firms in key existing and emerging clusters, and the plan also begins to focus on tailoring these types of interventions for specific clusters, particularly energy efficiency goods and services. Improved cluster performance directly translates to increased regional economic growth.

GO TO 2040 will improve the region's spatial efficiency

The geographic distribution of the region's economic assets — businesses and their suppliers, workers and consumers — and the infrastructure connecting them influence the efficiency and productivity of economic activity. Geographic proximity, density and accessibility determine transportation and transaction costs, and also influence the degree to which agglomeration economies are realized, such as the benefits of shared labor pools and knowledge spillovers.

The plan's excellent and particularly detailed recommendations on transportation and the built environment will enable a more efficient and productive flow of goods, people and ideas, reducing transportation costs for businesses and households; increasing labor market efficiency; facilitating knowledge exchange; and promoting the types of inclusive communities — mixed-use, mixed-income and transit-accessible — that enable deployment of all of the region's economic assets. The improved spatial efficiency of the region will grow the regional economy through both increasing inputs and reducing transaction costs, improving overall productivity and efficiency.

GO TO 2040 will develop and deploy human capital

Human capital — the knowledge, skills and expertise embedded in the labor force — is now the single most important input to economic growth. However, its impact on the economy depends upon its deployment, which entails having rich job pools through which it is attracted, retained and put to work, and efficient labor markets. Firms and workers attract each other in an iterative process, as thriving job markets attract skilled workers, and concentrations of skilled workers in turn attract additional firms.

The plan's recommendations will produce higher levels of human capital, better deployed in the economy, by providing higher-quality basic (P-12) education; increasing the levels and matching of human capital with job pools through community college and other training that is better aligned with employer needs; retaining and attracting human capital by supporting firm (and job) growth; and improving efficiency of labor markets by better aligning training, the workforce and jobs and by decreasing employers' costs of evaluating potential workers. Higher-skilled workers efficiently deployed in appropriately matched jobs will increase the productivity of existing firms and attract new firms, and so increase regional economic growth.

GO TO 2040 will improve governance to support private-sector economic activity

Government enables and influences private-sector performance by shaping fundamental aspects of the economic environment through the provision of infrastructure and other public goods; the nature of local tax and regulatory policy; and access to quality information for firm and household decision-making. One of the most complex challenges in driving regional economic growth is determining how government can support private-sector activity without displacing or distorting it.

Implementing the plan's recommendations concerning governance will leverage economies of scale in service provision, reduce inefficient inter-jurisdictional competition and provide more business value-added for taxes and more stable long-term funding for the public goods most valued by businesses and households — supporting a “high-road” economy. They will also improve the responsiveness of government programs and policies and reduce businesses' costs to identify and evaluate new market opportunities. In combination, these impacts will contribute to economic growth by enhancing productivity and aiding in attraction and retention of businesses and households.

GO TO 2040's impacts on these five drivers of economic growth are mutually reinforcing. In aggregate, they will lead to higher levels of human capital deployed in dynamic clusters; an enhanced innovation and entrepreneurial environment that drives more robust firm growth; more streamlined movement of goods and people; and coordinated governance that supports and enhances the performance of the economy.

Next Steps in Plan Implementation

The GO TO 2040 plan itself is perhaps best understood as a crucial landmark in an enormously ambitious and important ongoing undertaking to understand and influence performance of the myriad complex factors and interactions that drive the regional economy (as well as many other aspects of the region). The plan provides a vital roadmap and takes the critical first steps, but could not possibly describe all of the territory, let alone traverse it. There are many opportunities to expand upon the plan's recommendations and move forward. These opportunities are identified throughout the report, and could be addressed during plan implementation. They broadly fall into three categories.

- Plan implementation should more extensively and directly focus on and engage the private-sector business community to complement the current focus on government and households. This focus would lead to identification of more tailored strategies to strengthen particular business, occupational and functional clusters which drive economic growth; to improve workforce development and labor markets to match employers' anticipated human capital needs; and to design specific government activities enabling efficient and productive markets.
- Plan implementation should also include deeper analysis (better enabled by further engaging the private sector) of several aspects of the regional economy, in order to formulate more concrete, practical strategies for growth. A more nuanced understanding of the members of and dynamics within the region's industry, occupational and functional concentrations would provide a stronger foundation for developing cluster-specific growth strategies. Similarly, deeper analysis of the types and stages of innovation that present the most opportunities in the context of the current regional economy, including particularly of early-stage innovation and commercialization of technology, should inform more tailored next steps. Generally, GO TO 2040 provides solid analysis to begin identifying the right priority issues, but more rigorous analytic work and strategy development are needed to make these initial findings actionable.
- Finally, the scope of collaborative efforts recommended in GO TO 2040 should be expanded as plan implementation occurs, both in terms of the substantive issues addressed and the range of actors involved. Inter-governmental collaboration should include activities beyond planning and investment — particularly policy coordination on issues such as housing, taxes and land use and zoning — to help mitigate existing incentives for inter-jurisdictional competition. More tailored cluster-specific, human capital and innovation strategies and implementation require broader, cross-sector collaboration between firms, universities, investors, government and non-profit entities such as workforce development organizations, social service agencies and so on. This issue goes well beyond collaboration: it is the cornerstone for building a new institutional infrastructure better suited for economic growth in the current economy.

Conclusion

In the knowledge economy, regions are diverging with respect to economic performance as success builds upon itself. At this crossroads, it is more important than ever to act strategically and deliberately to foster regional economic growth. Successful regions have an institutional infrastructure that creates the ongoing capacity to take an integrated approach to economic growth, and to be flexible and adaptive in the face of changing market and economic circumstances. This entails open formal and informal networks and fluid coordination between the private, public and civic sectors.

The Chicago regional economy has enormous strengths, but we need this capacity to pay attention and to act in order to guarantee continued global leadership. The process of creating and beginning implementation of GO TO 2040 itself helps build this focus and key institutional capacity, and may be one of the plan's most important contributions. While much more work needs to be done, GO TO 2040 places the region firmly on the right path, and shows great promise, with respect to both the substance and process of generating continued regional prosperity.



Acknowledgements

This report applies an economic lens to the Chicago Metropolitan Agency for Planning's GO TO 2040 Plan, exploring how its recommendations can be anticipated to influence performance of the regional economy.

Over the last several years, CMAP has performed an enormous amount of work in crafting the plan, supplementing in-house resources with third-party expertise on key policy areas. The plan is informed by extensive research, including over 50 background reports, as well as by a far-reaching, inclusive visioning process that engaged thousands of citizens and leaders. This report is built upon, and would not have been possible without, this foundational work which gave rise to the plan. We are grateful for all of that work, much of which is cited throughout this report, and to those who did it.

Special thanks to CMAP and its Board for all of their extraordinary work, and for supporting this project. Key leadership of CMAP participated in the development of this report. Randy Blankenhorn and Bob Dean provided critical guidance on the Plan's vision and intent, as well as valuable feedback throughout. Brett Baden offered invaluable advice for the research and analysis conducted by our team. The whole CMAP team generously provided key data and information needed for our independent review of the GO TO 2040 Plan. We appreciate the active engagement of CMAP leadership to insure that this report is well informed by the work of the GO TO 2040 Plan.

The Chicago Community Trust, our region's community foundation, and particularly Terry Mazany, President and CEO, and Ngoan Le, Vice President, have been key supporters of CMAP, of development of GO TO 2040 and of this project. This includes the critical and generous financial support without which none of this work can get done. More importantly, it includes the vision, guidance, organizing and advocacy which inform and elevate the work and ultimately drive its success. The Chicago Community Trust has long been — and continues to be — an ardent supporter of development initiatives at the neighborhood and regional level, for which we and the larger economic development community are extremely grateful.

A host of researchers assisted with literature reviews and otherwise provided drafting, input and comments for sections of the report. We are grateful to Peter Plastrik, Joseph Grant, Rebecca Solomon, Emily Metz, Michael Ford, Sophie Cohen and Sohair Omar for their insights and enormous contributions.

Very substantial parts of the framework and analysis about regional economies included in this report — including particularly the identification and analysis of key leverage points for regional economic growth — were and continue to be developed jointly with our colleagues at the Brookings Institution's Metropolitan Policy Program, particularly working on a national project on "regional business planning." Beyond these project-specific contributions to this report, Brookings has long provided extraordinary leadership in the realm of metropolitan development, dramatically advancing the field in both the academic and policy arenas. We are particularly grateful to Bruce Katz, Amy Liu, Mark Muro and Sarah Rahman — all extraordinarily committed and talented contributors to the field of regional economic development.

We have the good fortune of working closely with colleagues at the George Washington University Institute of Public Policy on a distinct project on regional economies, aspects of which have informed this project. The spatial efficiency chapter in particular draws heavily on the work of that project, and we have benefited greatly from their insights on the topics of clusters, governance and the dynamics of regional economic growth. Our special thanks go to Hal Wolman, Andrea Sarzynski, Alice Levy and Diana Hincapie. We are also very grateful to the Surdna Foundation for its intellectual leadership and financial support for that project.

Finally, we are grateful to CMAP for use of CMAP/Trust resources for assisting in the preparation and layout of the report.

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