Convening on Inclusive Regional Economic Growth

Framing Paper

June 6, 2014

RW Ventures

Overview

On June 9, leading stakeholders in the emerging practice of inclusive regional economic growth ("IREG") are convening to explore the practical implications of the new challenges and opportunities presented by the "next economy," and how best to move our work forward together. This paper aims to make it a more productive meeting by:

- Briefly summarizing the *common ground* that leads to the meeting: these are underlying economic principles and observations with which we all broadly agree, and which create the context and underlying logic for the discussions; and
- Describing the proposed *scope, focus and flow* of the meeting, including offering preliminary ideas (largely gleaned from the pre-meeting interviews) to spark the conversation.

A. Common Ground[1] (*"We hold these truths to be self-evident …."*)

1. The global economy is undergoing a fundamental transformation that is changing the dynamics of productivity and economic growth. As knowledge assets embedded in technology and people increasingly redefine all aspects of production (inputs, infrastructure, processes, markets) and drive growth across all sectors (not just "knowledge industries"), the economy is more dynamic, places a premium on continuous innovation and disruptive redeployment of assets, and is more global.
2. These drivers of growth create the paradox that they exacerbate inequity while long-term economic growth requires more inclusiveness. Among other causes, increasing returns to capital compared to labor in this "next economy" are dramatically increasing wealth disparities. Yet evidence increasingly demonstrates that the places with the least inequity prosper most over the long run. Changing demographics heighten this inclusive growth challenge.
3. This next economy favors and is centered in metropolitan areas, where assets concentrate and are disproportionately productive because of the efficiencies, synergies and continuous innovation arising from their interactions. Metropolitan regions themselves are highly dynamic – specialized, adaptive and highly complex systems that give rise to unique economies at the intersection of their particular industries, human capital, institutions and other place-specific characteristics.

[1] This very high-level summary of the economics which inform this framework and its implications for regional growth draws heavily from much more extensive reviews of the relevant research and practice which were developed in connection with the Metropolitan Business Planning Initiative, one genesis of this meeting. See, e.g., Mark Muro and Robert Weissbourd, "Metropolitan Business Plans: A New Approach to Economic Growth" (Brookings Institution, 2011); Gretchen Kosarko, Robert Weissbourd, Harold Wolman, Andrea Sarzynski, Alice Levy and Diana Hincapie, "Implementing Regionalism: Connecting Emerging Theory and Practice to Inform Economic Development" (Surdna Foundation, November 2011); Gretchen Kosarko and Robert Weissbourd, "Economic Impacts of GO TO 2040" (Chicago Community Trust, 2011); "A Plan for Economic Growth and Jobs" (World Business Chicago, 2012); "Partnering for Prosperity: An Economic Growth Action Agenda for Cook County," (Cook County, 2013) and "Milwaukee 7 Framework for Economic Growth: A Metropolitan Business Plan to Advance Economic Opportunities in the Seven Counties of Southeast Wisconsin" (draft, Milwaukee 7, November 2013).

4. Succeeding in this next economy requires focusing on production and increasing productivity through value-added, building from a region's unique assets and dynamics. This entails building from "the inside-out" – growing to compete, rather than competing to grow. Development and deployment of human capital, sector and functional clustering, innovation systems, the built environment and governance are all key levers influencing the dynamics and synergies which determine asset productivity.

5. This new approach must be forward looking – "skate to where the puck is going to be" – reflecting not only the local economy's current status as it seeks to adapt to next-economy realities, but also its potential trajectories and the ways in which assets can be strategically leveraged to shape and catalyze movement along a transition path to competitiveness in the next economy.

6. Regional economies are diverging in performance (and may be specializing or becoming more path dependent), meaning that places need to be deliberate and strategic, developing rigorous, fact-based plans tailored to their unique assets and status in order to identify a prosperous path forward.

7. Strategies and implementation activities need to be integrated and effectively "connect the dots" across the various economic assets and activities – housing, human capital, clusters, innovation, infrastructure, etc. all succeed or fail in context of each other and their interactions in place.

8. Similarly, strategies and implementation activities need to connect the dots across geographies. Neighborhoods do not have economies: they succeed or fail in the context of how well they develop and deploy their assets into larger marketplaces, particularly regional economies. The success of regional economies, in turn, depends upon how well they include and utilize all of their assets, in all of their places.

9. To thrive then, regions need to craft and implement comprehensive, integrated, cross-cutting strategies that are tailored to their unique assets and path, and that break down traditional planning and development silos.[2] Only then can synergies be realized across human capital, cluster, innovation, built environment, governance and other economic drivers, and across all levels of geography – engaging the entire spectrum of people and places within the region, and linking it to the broader global context.

10. Conventional approaches to economic development, at the neighborhood, city and regional levels, are largely not well suited to the next economy. A new approach to IREG is emerging.

    - Practitioners are shifting from *business* development to *economic* development -- seeking *systems* change rather than a series of isolated transactions. Firm attraction and one-off deals may be useful tactics in service of a cluster strategy, for example, but they are not sufficient in themselves to move places to competitiveness in the next economy.

[2] This is not meant to imply, however, that the only viable approach is to do this all at once. The point, rather, is that whatever the starting points, strategies and initiatives need to be designed and implemented in context of the other aspects of the economy and its enabling environment, and build toward integrated, mutually reinforcing economic activity.

- Practitioners are shifting from competing primarily on low cost to competing on value-added – making their places productive for targeted industries and economic activities. For example, "high road" investments in quality education and training, transportation infrastructure, cluster-specific institutions and R&D centers, and so on, give regions a stronger competitive edge; build, retain and attract next economy industries; and make places "sticky" so firms don't move to the next low-cost place.
- Poverty alleviation, rather than being an aside largely distinct from – or even seen as inherently conflicting with – economic growth, is increasingly shifting toward "moving people and places into the economic mainstream," seeking alignment of development and growth objectives. Practitioners seek to integrate inclusion and equity objectives into all aspects of regional economic growth activity. This means seeking to understand and influence where the local economy is going – e.g., emerging industry clusters, occupations and entrepreneurial opportunities – and ensure that disinvested places and populations are deliberately and deeply engaged in these next-economy opportunities.
- Neighborhood development is beginning to look beyond the internal characteristics of each neighborhood, to shift focus toward understanding the dynamics and drivers of each neighborhood in the context of larger markets, highlighting where the regional opportunities are and identifying ways in which specific neighborhood assets (e.g., workers, businesses, real estate) can be deployed to participate in and contribute to regional economic growth.
- Many existing development institutions are also out of date. Some have a vested interest in the status quo; others will adapt to align their work with the realities of regional economic growth in the next economy. New partnerships, institutions and capacities are needed, and beginning to emerge, to develop and support the new products, practice and approach.

11. Successful regions and innovative practitioners are reorienting toward these next-economy realities. This next-economy approach, however, is just emerging. Its practitioners are solving for new problems, confronting new challenges, seeing new opportunities – all requiring new analytics, products and capacities.
12. A huge amount remains to be learned, invented and organized by current practitioners, and significant and growing demand exists from other organizations and places. We are at an important moment of both necessity and opportunity to drive change.

B. Scope, Focus and Flow of the Meeting

1. This is a meeting about practice. Not because theory is less important, but because we think we are at a moment in economic history where, as the world is changing, it's particularly important and opportune to learn from getting into the marketplace – to learn by doing, getting deeply "into the weeds." The core genesis of the meeting is a set of practitioners – leaders of regional organizations and specialists working across multiple sites – wanting to explore how we can more systematically improve and scale this emerging practice.

2. This is a meeting of inventors who believe in this emerging practice. Many other important actors, stakeholders and potential partners (who may be more conventional or skeptical) will be critical partners in field building as we move forward, but we wanted to start with the people who are already largely on the same page. We will not be debating the theory, or the basic foundational propositions above, at this meeting (while allowing room for noting the need to improve them). Rather, this meeting is geared toward co-invention of a path forward by a group that is already committed to the basic principles of IREG.

3. The gathering has two primary goals:
   - Given the nature of the changes in the global economic environment, identify the implications for practice and the needed new tools and products; and
   - Explore how to build the field – to create new capacities and institutions (or engage and reinvent existing institutions) that would enable filling out the theory, developing the products, continuous learning, scaling the work, and supporting each other and new people, organizations and places who want to undertake IREG.

4. We will try to stay focused on the *practice* of inclusive *regional* economic growth. Implications for policy, and for other geographies than regions and their subparts, will undoubtedly surface in the course of discussion and be noted, but are not at the core of this first conversation. Rather, these are critically important subjects that we hope will be the focus of follow-up activities.

5. The event is also specifically and narrowly about *economic* growth. Many at least equally important issues foundational to economic growth – e.g., environmental quality, K-12 education, public safety, etc. – will similarly arise and be noted, but are not the focus of this discussion.

As reflected in the agenda, the logic and flow of the meeting are fairly straightforward:

(a) What are the implications of the next economy for the practice of inclusive regional economic growth – what are the new challenges and opportunities? What are the new problems for which we're solving?

(b) Given those implications, what new tools, products, capacities and institutions do we need to address the new problems and take advantage of the new opportunities?

(c) Given the state of practice and need for new tools, how do we get better at our work, efficiently scale, enable others – how do we build the field?

The rest of this memo sets out some preliminary thoughts on each of these subjects (reflecting the phone interviews) for the purpose of provoking ideas and informing the discussion.

I. Challenges and Opportunities for Inclusive Regional Growth

What's changing in the next economy with respect to IREG? What new problems are we solving for? Some of the new questions, challenges and opportunities are very briefly identified below. This is not meant to be a detailed compilation, but rather gathers a few observations and lines of inquiry from the pre-meeting interviews and prior work, in order to seed the conversation at the meeting.[3]

Note also that inclusion itself is treated here as a cross-cutting issue, deliberately incorporated into each of the areas below, rather than addressed as a separate line of work. As suggested above, new challenges and opportunities are surfacing across all aspects of the economy, and inclusion of traditionally underrepresented people and places needs to be intentionally integrated wherever the economy, work and opportunities are focused. To foster inclusive and sustainable growth, regions need to "skate to where the puck is going to be" – identify areas (industries, occupations, locations) with high growth potential and ensure strategies to enhance their growth deliberately engage all populations and sub-geographies.

General Challenges and Opportunities

- Understanding stages, paths and timing of transition to next economy. Regions differ in their legacies, starting points, trajectories and opportunities to change paths – as well as in what key drivers are most important to their moment and place of transition. Detroit and Phoenix have different next steps. Overall, we need better analytics, better knowledge about how economies make the transition, and better capacity to identify transformative interventions tailored to drive the right next change.

Industry Clusters and Concentrations

- Shifting concentrations, interactions and synergies define and drive success in the production base of the next economy. As a result, we need to get better at identifying what (firms, institutions, etc.) is in fact clustering (e.g. functional clusters), and what are the highest impact clusters. Some of the most exciting cluster opportunities (e.g. building energy efficiency in Seattle region; D2D in CenterState NY) did not surface through conventional cluster analysis.
- The relationships between traded and local clusters, and between the consumption and production sides of economy, are shifting and not clearly understood or translated to practice. For example, some "local" clusters support traded clusters and present critical IREG opportunities (e.g., B2B – business services, as part of headquarters and business services functional cluster). Also, local/consumption clusters (whose success is often a function of the success of traded clusters) are critical to, for example, job strategies (e.g. local retail health care).
- Cluster organizing. While the next economy favors more flexible, collaborative networks of firms, many regions and (particularly mature) industries are characterized by fragmentation and lack of collaboration (e.g., challenges organizing Chicago FOOD cluster).
- Redeployment or upgrading for mature or legacy industries. As the goal is often to move toward more "advanced" industries and more continuous technology-based innovation (enabling customization, product quality and other high-value-added production), the

[3] The list is organized using the five market-lever framework that underpins the Metropolitan Business Planning approach. The MBP levers are not offered as definitive, but as one useful organizing framework.

mechanisms, infrastructure and financing for shared or individual firm R&D, and for transitions to new processes, products and markets, are often inadequate.
- Global characteristics of the next economy, particularly anticipated growth overwhelmingly in foreign markets, require increased focus on exports and foreign direct investment.

Development and Deployment of Human Capital

- Dynamism of the next economy causes continually shifting demand (including for higher skill levels); misalignment of skills, training programs and jobs; and resulting higher labor market transaction costs and market inefficiencies (higher costs of finding and assessment for firms and workers), particularly aggravating problems of the disconnected.
- Need for more segmented, targeted approaches to staged, continuous training and placement of varied populations (particularly given projected demographic changes) – more varied workforce "on-ramps," career ladders and opportunities for continuous skill development and career change.
- Intensified global competition for top talent makes occupational and functional clusters (which concentrate labor pools), and perhaps amenities, more important.
- Education and training institutions often out of date, not aligned with or driven by market/demand.
- Jobs-housing mismatches were generally aggravated in last decades, but shifting location dynamics of people and firms may be creating new opportunities (see "spatial efficiency," below).

Innovation and Entrepreneurship

- Next economy changes dynamics of and enables more frequent, continuous (and disruptive) innovation.
- Heightened importance of cross-sector/multi-disciplinary, fluid, collaborative networks.
- Important business cultural shift – from top-down, "old boy network" toward open, fluid, flexible, accessible networks amenable to risk-taking.
- Value in deeply grounding innovation and entrepreneurship activities in the region's economic and industrial base – stronger links to cluster and technology strategies; greater focus on high-growth-potential industries.
- High-growth-potential and next-economy entrepreneurship and innovation opportunities often are particularly exclusive.
- Need for more tailored, market-driven combinations of technical services and finance designed for particular segments, faster-moving companies and next generation of entrepreneurs with different challenges.
- Shifting attention beyond start-ups to growing $2-$20MM companies.

Spatial Efficiency and the Built Environment

- Urban growth form shifting toward more dense, mixed uses and premium on physical and virtual connectedness.
- Return to density by both firms and residents.
- Industrial production systems and structures more compatible with residential and other land uses.
- Emerging synergies among more complex/dynamic mixes of land uses.
- Exacerbated impacts of jobs-housing mismatch and segregation/isolation of particular places and populations.
- Opportunities to reconnect/reignite activity in urban neighborhoods and industrial corridors.
- Revolution going on in transportation – people walking, biking, moving to density, transit expanding – big opportunities for increasing equity and livability in transportation.
- Importance of transformative investments in next-generation infrastructure to drive productivity and efficiency of firms (e.g., transportation, data, energy, etc.).
- Need to (re)align our planning and land use strategies and tools (e.g. zoning) with our market development approaches.

*Govern*ance – *Public and Civic Culture and Institutions*

- Skepticism about government bureaucracy, capacity, roles.
- Premium on transparent, enabling, engaging, nimble cross-sector govern*ance.*
- Importance of collaboration among networks of public, private and civic institutions and actors – and of broad-based stakeholder engagement.
- Focus on value-added public goods tailored to place (e.g., cluster-specific infrastructure vs. low taxes across the board or one-off incentives).
- Current institutions of economic opportunity are often out of date. It's not just about how the economy works, but how the institutions connect to it. Education systems, unions, etc. often don't connect/create pathways anymore. Need next generation of institutions (or to reform existing ones) for this next economy.

II. New Products and Tools for Economic Development Practice in the New Economy

Practitioner tools and products – or at least concepts and directions for product development – are emerging to address the new challenges and opportunities presented by the next economy. A sampling of these tools and products are outlined below, again purely to seed the conversation.

- Metropolitan Business Planning – as methodology and practice for developing comprehensive, integrated, tailored plans and implementing enterprises for IREG, and for building new civics for implementation.
- New approaches to zoning, comprehensive economic and land use planning, transit oriented development, infrastructure and public-sector capital budgeting that combine

land use and market tools to anticipate and enable more and different mixed-use development.

- "Economic place-making" – taking advantage of the return of firms and people to density and more varied mixed uses, and of vacant urban land (especially industrial land):
  - Innovation Districts, including "blue-collar" innovation districts
  - Place-based cluster initiatives
- Approaches for aligning neighborhood and regional development strategies:
  - "Neighborhood business planning," including better capacity to understand and tailor interventions to neighborhood types, stages and drivers in context of region
  - Connecting neighborhood assets to regional growth clusters – integrating neighborhood employment, land development, small business supplier strategies with regional cluster strategy.
- Demand-driven labor market intermediaries and job/training matching platforms – creation of new enterprises that better aggregate, segment and express employer demand to inform and drive more tailored (often shorter-term) training and placement systems, and generally reduce finding and matching costs in labor market.
- Innovation and redeployment support for legacy industries (e.g., PRISM in Northeast Ohio) and cluster-driven shared "R&D" centers designed to drive the shift to advanced industries, etc. (e.g., MII in Phoenix region).
- We need strategies for "inclusive clusters" – identifying clusters whose growth lends itself to inclusion, and organizing and supporting them in ways which insure both inclusion in the cluster from the outset, and focus on inclusion with respect to growth occupations and career ladders, management, ownership and wealth-building opportunities.
- Entrepreneurship initiatives more connected to and grounded in specific, unique local opportunities, including cluster initiatives, with more explicit strategies for inclusiveness.
- Export and FDI initiatives (e.g., Brookings Metropolitan Export Initiative).
- Specialized development finance tools and institutions to support practice:
  - Merchant banks tailored to particular industries/clusters
  - Infrastructure trusts
  - Securities crowd-funding
  - New capacities and products, including less conventional collateral or collateral substitutes, for small business finance suited to more dynamic marketplace, to mid-level businesses, and to engaging next generation of entrepreneurs (often lacking traditional approach to asset accumulation and collateral) in economy.
- New roles for anchor institutions (e.g., "eds and meds," corporate headquarters, government bodies) to drive growth, including through shared capacity building for B2B suppliers.
- More integration of products – initiatives which link human capital, cluster, technology, entrepreneurship, place-based and other strategies.

- Data, analytics and real-time market engagement tools – bringing "big data" to neighborhood and regional development; open data from public sector, shared data from private sector; platforms combined with off-line activity to support self-creating and informing networks and collaboration of next economy.
- New institutions and "civics:"[4]
  - New institutions for particular types of product delivery – from targeted workforce training to delivery of small business finance to managing economic place making to cluster organizations
  - New local cross-sector and cross-organization networks, partnerships and leadership for developing, delivering and continually updating local IREG activities.

These and many other products and tools for practitioners are emerging to address the challenges and opportunities of the next economy, largely through a decentralized, somewhat fragmented and slightly haphazard process of subject experts and local practitioners working together on particular place-specific problems. Enough of this organic, early stage activity is occurring to suggest that we may be ready for more shared R&D in the field, more systematic evaluation and scaling, and more attention to what institutions and resources might drive smarter, more effective practice.

III. Inclusive Regional Economic Growth: Building and Scaling the Field

Challenges to Field-Building

Considering the new challenges and opportunities for IREG presented by the next economy, and the demand for and emergence of new tools for practitioners, begs the question of how to undertake, integrate and scale this work more systematically – to move from emerging practice to building a field of practice. Several distinct challenges arise:

- Staging. Given the state of the work, is the practice ready for scaling and field building? What are the appropriate next steps for expanding the work?
- Building capacity and institutions for current practitioners:
  - Improving, conveying, building new consensus around the framework, approach and methods
  - Sharing what is and is not working in current practice
  - Developing R&D, data, analytics, new products to inform practice
  - Building specialist network to fill local gaps in capacity
  - Engaging capital and philanthropy markets in designing and linking financial products tailored to regional opportunities

[4] Note that the "civics" conversation falls into both the tools discussion and the field building discussion. While not a clean line, the distinction between the two is that the civics tools discussion here is about new institutions for delivering particular products or addressing particular challenges – so, for example, new types of training or financial institutions; while the civics field building discussion is about new forms of institutions for the field itself, such as new peer exchange, R&D or training institutions for practitioners.

- But note that "capacity to receive capacity building" may be limited, as many actors are stretched too thin – capacity building needs to be designed and delivered to fit how practitioners operate.

- Building capacity and institutions to spread the practice – to support economic development actors who want to shift to and undertake IREG approaches.
- Building *will* for change among practitioners and organizations with other approaches -- what are the paradigms, narratives, movement-building activities needed to engage and shift established approaches? How do we overcome misaligned incentives, electoral political "short-termism," stove-piping within and across sectors; the rising tide myth; etc.?
- Expanding opportunity to act creatively, given the will – addressing embedded business, philanthropic and governmental habits that create barriers to change.

Tools to Enable Field-Building

A broad range of new capacities and tools might begin to address these challenges and foster scaling, potentially including:

- Training for local practitioners/leaders, possibly including:
  - Intensive "boot camps" for immersion in the approach
  - Manuals/guides.
- Peer learning network(s) to exchange insights and practices, undertake peer review, potentially share costs of technical support, etc.
- Centralized "big data" and analytic tools/research center to provide capacity and efficiencies for more sophisticated analyses of regional economies, stages of transition and leverage points, etc.
  - Separately or as part of this center, support for more evidence-based practice – clearer theories of change, goals and associated performance and value creation metrics.
- Shared R&D center to develop and pilot new tools and products.
- "SWAT teams" of experts to provide technical assistance to local teams and fill gaps in local capacity.
- Problem-solving network – using open-source innovation systems.

Building Institutional Capacity[5]

If the field needs new tools, capacities and resources, what are the institutional structures and capacities needed for delivering them? Building and scaling the field of IREG will require a new constellation of institutional relationships and roles – including possibly new institutional actors to fill gaps in the existing landscape.

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[5] See "Lay of the Land" memo and spreadsheet for explanation and examples from some preliminary work used to help identify these roles and types of potential partners.

Institutional roles might include:

- Conveners and information disseminators
- Data and product researchers and developers
- Policy analysts and developers
- Technical assistance providers (including analysts, strategists and product specialists)
- Training developers and deliverers
- Facilitators of peer network(s)
- Local implementers/practitioners (including as peer network members)
- Funders/investors in local planning and implementation
- Funders/investors in field-building/scaling activities.

Existing potential institutional partners could play many of these roles, but vary enormously -- with respect to geographic scope, economic development approach, subject area focus, products and services, stakeholders and resources. They range from chambers of commerce to national think tanks to private-sector consultants to cross-sector regional development organizations. The need for a practitioner-centric approach surfaces several questions, including:

- Most feasible potential partners and roles among existing organizations/institutions?
- Is there a need for a new organization, or new center of gravity connecting, integrating and distributing work to and from varied existing organizations?
- How do we keep the work grounded in practice, driven by the people learning on the ground, experimenting in the new marketplaces?

Conclusion and Next Steps

Based on the enthusiastic attendance and the wealth of ideas generated in just 20-minute phone calls, it seems the right moment to convene and explore how to grow the field of IREG. This memo is just a starting point. We look forward to gathering – and to arriving at some conclusions and next steps – on June 9.