Edited by
Peter Karl Kresl

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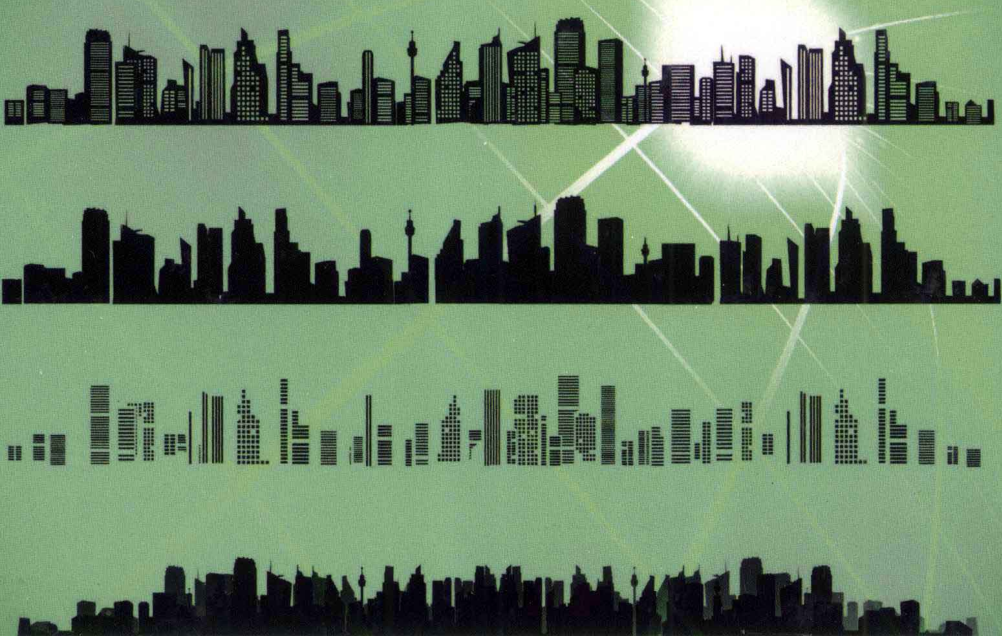
Economic Strategies for Mature Industrial Economies



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1. Introduction

Peter Karl Kresl

Many mature industrial economies (MEIs) have not been treated well by the changes that have transformed the global economy during the past 30 years. Changes in technology have rendered many traditional locations non-competitive, the rise of emerging markets has posed a direct challenge to the vitality of these MEIs, and both capital and labor have moved to more congenial places of employment.[1] Since many states or provinces are composed of urban centers, towns of a variety of sizes, and agricultural spaces, some of which have survived these changes without much negative impact, we will focus our attention on the cities and towns that have been the heart of the industrial sector over the past century or two.

While it is true that researchers have found that some MEIs retain an endowment of assets that gives them advantages in the adoption of new technology-intensive production,[2] the experience of many others, if not most, has been one of a loss of competitiveness of their major economic entities, a decline in 'good jobs' employment, the migration of young, skilled and ambitious workers to more dynamic cities or even countries, declining tax revenues to support infrastructure maintenance and expansion as well as social services, and marginalization. The result is that these cities are characterized by: aging populations, deteriorating physical structures – be it residential, industrial or urban amenity – a loss of collective spirit and hope, and secular decline. The contributors to this book are of the opinion that it is possible for the overwhelming majority of MEIs to chart courses for their future development that will bring them much of the objectives their residents would choose for their city. It is in this spirit that we offer the elements of an economic strategy for a mature industrial economy.

ECONOMIC CHARACTERISTICS OF THE MEI

The debate about the fate of MEIs has been a feature of the discourse about urban areas for the past two decades. Much of the concern about their future was captured in the hearings of the US Senate Committee on Banking, Housing and Urban Affairs (1993) when senators, cabinet secretaries and other experts gave voice to the litany of failures and weaknesses of American cities at that time. Randall Bartlett captured this negative view of the future of US MEIs with his listing of their problems: (1) high crime rates, (2) high rates of poverty, (3) persistent unemployment and mediocre jobs, (4) deteriorating public services, and (5) geographic and social isolation (Bartlett, 1998, ch. 1). This was just over two decades after many of the MEIs experienced urban riots and after some of them were driven to or close to bankruptcy. At about this time I was in Minneapolis and listened to a radio discussion about the situation in that city. The concept being discussed was the 'hole in the doughnut'. Specifically, it was argued that if the per capita income in the center of the city fell to below 60 per cent of that of the ring around it, the city was in danger of a free fall into social pathologies and economic deterioration; the speaker felt that Minneapolis was heading in this direction. Such was the concern about US cities at that time.

More recently urban specialists have discussed the notion of the 'resurgent city', that is, a city that rises out of this deteriorated state into a new era of recovery, prosperity, and economic relevance. Allan Scott (2008, p. 549) sees globalization as 'helping to encourage the growth and spread of cities throughout the world'. Thus, much of his resurgence is taking place in Mumbai, Shanghai, Seoul and other cities in emerging economies, and when he examines this resurgence, presumably in MEIs as well, he finds an 'escalating contrast between its surface glitter and its underlying squalor'. So the resurgence tends to be captured by upper-tier workers rather than by society as a whole. Not a pretty picture.

A cautionary note with regard to the resurgent city is given by Storper and Manville (2006, p. 1269) who suggest that we should not 'see in every downturn a crisis and in every upturn a renaissance'. They urge us to differentiate between the metropolitan area or urban region and the central city itself. 'The revitalized central city needs not just a growing region but also some shift within that region that moves people towards city life.' City life is generally contrasted with rural or suburban life in its richness in 'urban amenities' such as museums, theaters, concert halls, high-scale shopping, restaurants, and major sports facilities – all in close proximity.

One of the major MEIs in the United States that has experienced the negative consequences of economic change is the Commonwealth of Pennsylvania. When Governor Ed Rendell took up his office seven years ago he immediately established the development of the economy of the Commonwealth of Pennsylvania as one of his highest priorities. One of the primary industrial states of the US until the OPEC oil price crisis of the 1970s, Pennsylvania became one of the most negatively affected economies in the Industrial Heartland – shortly thereafter the Rust Belt. Manufacturing jobs and young people with industrial skills continued to flow into other more expansionary regions of the US – the South and the West, of course, but also to other cities that were perceived to have more to offer. The same was true at the other end of the workforce. The Wharton School of Business of the University of Pennsylvania did a study several years ago and discovered that while over 65 per cent of MBA graduates of the Harvard Business School wanted to find employment in the Boston area, the percentage figures for Wharton and Philadelphia were in the mid-30s. Clearly there was something about the Pennsylvania economy that was not attractive either to young or to highly educated workers. Something had to be done.

In 2003 the Brookings Institution was commissioned to conduct a study of the Pennsylvania economy. They focused on 16 urban regions in Pennsylvania and noted, among other things, that the 16 urban regions accounted for 84 per cent of the Commonwealth's population and produced 92.3 per cent of its output. Unfortunately, they also argued, the Commonwealth had for decades overinvested in rural areas and deprived the urban areas of the funds they needed to become competitive in the modern economy. As a consequence of the structure of their study, the rural and agricultural areas of the Commonwealth were not studied. Two years later a second study was commissioned, this time from IBM Consulting Services (2005). This study accepted the notion that clusters are central to regional competitiveness and focused on 11 geographic regions and their strength in four industrial clusters: life sciences, high technology, advanced manufacturing and materials, and business services. While also a very useful study, IBM Consulting Services conceived of the Commonwealth as geographic in its make-up. In the Central region we find State College, Williamsport, Lock Haven, Lewisburg and Bloomsburg – cities for which there is no discernable commonality. What makes this a region other than geography?

It was in this context that the Global Urban Competitiveness Project (GUCP) proposed to the Department of Community and Economic Development that a third study be undertaken – not a better study but rather one that would have a different and distinctive basis to it. The Department accepted this proposal, and the presentations of that research seminar that are printed here are the realization of this initiative. The GUCP is an association of a dozen urban specialists from China, Korea, Mexico, the US, Canada, the UK and Italy.[3] It was proposed that this group should bring its collective understanding of the situation of cities and towns in various parts of the world economy to bear on a set of specific, major problems for the future development of Pennsylvania's cities and towns. While the initial focus was on the economy of Pennsylvania, the issues dealt with and the strategic responses that the GUCP brought to the discussion have relevance to the economic plight of MEIs in all parts of the industrialized world. Therefore, the focus of this book is far more extensive in its application than was the initial research seminar.

Data for 75 US Metropolitan Statistical Areas show that MEIs are 20 of the 26 urban areas with the slowest population growth, 15 of the 20 with the highest percentage of residents aged 65 and older, 14 of the 20 with the highest percentage of employment in manufacturing, half of the 20 with the lowest share of employment in professional, scientific and technical (PST) services, and 17 of the middle 30 with the highest percentage of residents with below poverty level incomes. To be sure many MEIs do not fit this pattern – New York and Baltimore have low employment in manufacturing and, along with Detroit, Bridgeport and Boston, high employment in the PST services; Boston, Balitmore and Minneapolis have low rates of poverty, and Washington, Minneapolis and Columbus have younger populations (Gaquin and DeBrandt, 2007). But for most, this pattern holds.

Pennsylvania, the initial focus of our research seminar, is a populous, slowly growing state with a population that is one of the oldest in the US. The fact that so many of its residents are seniors contributes to the low level of below poverty level individuals, since seniors receive Social Security and many also receive work-related retirement benefits. The Commonwealth is in the middle of US states in household income, the percentage of its population that is African-American and college educated. It has a high number of immigrants, but is below the average of US states when it comes to Hispanic residents and of residents with high school education.

The last decade has been hard on Pennsylvania's manufacturing employment, with 20 per cent fewer jobs in 2007 than in 1997 (Table 1.1). Gains in productivity have resulted in a continuing increase in manufacturing value added and output. In fact, during the recovery from the deindustrialization period following the OPEC petroleum price hikes, during 1986–2000 manufacturing output rose by almost 65 per cent while employment fell by over 10 per cent. Clearly important structural changes were taking place, both within manufacturing and within the workforce.

Pennsylvania has three large Metropolitan Statistical Areas, Philadelphia, Pittsburgh and Allentown-Bethlehem-Easton (A-B-E). Table 1.2 shows how different the three are. Philadelphia has a better educated population with fewer people aged 65 and older than the two other cities. Pittsburgh has less racial diversity, while A-B-E has a large population below the

Table 1.1 Pennsylvania manufacturing employment

1997	826521
2002	715453
2007	657800
2007–1997	−168721
2007/1997	0.796

Source: *Census of the United States*, Washington: Department of Commerce, various issues.

Table 1.2 Pennsylvania's three largest MSAs are ranked (out of 75 US MSAs)

	Philadelphia	Pittsburgh	Allentown-Bethlehem-Easton
Percentage 65 and older	18	3	6
Population change 2000–2005	60	74	29
Percentage White	37	1	6
Percentage college graduates	25	54	67
Median household income	21	25	65
Percentage of population below poverty level	40	43	73
Manufacturing employment/ total empl.	49	38	20
Empl. PST services/total empl.	13	29	70

Source: Gaquin and DeBrandt (2007).

poverty level, but it is growing more rapidly. Philadelphia is the least reliant on manufacturing and the most on professional–scientific–technical (PST) employment while the reverse is true for A-B-E.

As the above data indicates, Pennsylvania is not the most robust state economy of the United States. During the quarter century of the post-WWII period the Pennsylvania economy was doing deceptively well. However, lack of investment in new technologies in traditional industries such as steel making was slowly eroding the competitiveness of its manufacturing industry. A variety of programs such as mortgage deductibility and the expansion of the highway transportation system undermined the vitality of large cities such as Philadelphia and Pittsburgh, inducing first residents and then jobs to migrate to suburbs and outlying areas.

Coal declined as a provider of jobs and local revenues and many of these regions found that their major export item had shifted from coal to young people. The *coup de grâce* for much of Pennsylvania's traditional economic strength was the increase in oil prices in 1973 and 1979 that turned the 'industrial heartland' into the 'rust belt'. The collapse of the steel industry in Pittsburgh, Bethlehem and elsewhere occurred fairly rapidly. In Pittsburgh the Homestead Steel Works of US Steel, that had produced more steel during WWII than all of the steel works in Germany plus all of those in Japan, finally closed its doors in 1986. The slow evolution from mighty steel works to derelict mills to shopping malls or vacant contaminated fields began. In finance, bank mergers, the rise of Charlotte, North Carolina as a financial center and the concentration of much of the high-level activity in New York reduced the status of both Philadelphia and Pittsburgh. Furthermore, when Pittsburgh lost Mellon Bank through a merger with the Bank of New York, employment in Pittsburgh increased but the jobs lost were high level managerial jobs and those gained were lower level back-office jobs.

One of the striking consequences of this economic evolution has been the inability of Pennsylvania to retain the thousands of graduates every year from its more than 150 colleges and universities. In addition to the working class young leaving declining coal towns, Pennsylvania has been losing its educated young workers. The Wharton Business School of the University of Pennsylvania referred to above was both a description of an existing situation as well as a clear warning signal with regard to the future of the city.

Recently, however, there have been signs of a reversal of Pennsylvania's fortunes. Philadelphia has emphasized in its economic strategy 'eds' and 'meds', that is, institutions of higher learning and research, and medical technology and health care. In Pittsburgh its two universities have focused their activities on two distinct sectors: Carnegie Mellon University has concentrated on robotics and computer science, and the University of Pittsburgh is gaining recognition as a center for medical technology and health care. There is some evidence that each of these two major cities has been successful in making itself more attractive to highly educated and skilled workers. The same is true of many smaller cities.

The story of Pennsylvania, both its decline during the last quarter of the 20th century and the recovery of some of its major cities, is duplicated in many other MEIs. Each has its own story but each has also been negatively buffeted by the same systemic forces of change.

POLICY OPTIONS FOR MEIs

From this we can see that some of the problems that confront the cities and towns of MEIs include:

- Retention of young workers and college/university graduates.
- Bringing economic vitality to many smaller towns in slow growing or declining regions.
- Introducing effective governance structures so as to mobilize more effectively local resources and talent.
- Refocusing the economic strategic thinking in major cities, as well as other cities and towns toward strategies that will be forward looking and will provide the residents of these cities with the lives they aspire to live.
- All US cities face the challenges of social exclusion, aging and economic deprivation and the challenges for some Pennsylvania cities and towns are more formidable than is the case elsewhere.
- In the current globalized economy all cities must attend to their competitiveness in relation to other cities in which they are in competition for jobs, plant and activity location.
- Technology is in a constant state of advancement and MEIs must continue to show that they have been participating in this exciting world of technology and finding practical employment in the latest technological advances.

Much of this confronts cities and towns everywhere, but Pennsylvania's economic history, its demographic and economic structures, and recent developments that are specific to it make it clear that the Commonwealth and other MEIs must chart their own individual course, one that is based on existing assets, additional assets that it is realistic to think can be put into place, and the aspirations of the residents of these MEI cities. This point is supported by Markusen and Schrock who wrote of the futility of

> try(ing) to match the competition elsewhere in terms of business climate (for example, tax, regulatory structure), subsidies to attract or retain business, or the provision of comparable land or infrastructure. This often-mindless groping for 'best practice' can be attributed in part to . . . the proliferation of economic development consultancies. (2006, p. 1319)

For them the best approach is that of playing to the city's strengths and developing new ones. One important aspect of this is to recognize a dynamic in which skilled workers go to the places with the multiple amenities they find congenial and then firms feel compelled to move there because that is where the workers are. 'Becoming more distinctive may be a survival strategy for an older industrial city. It may not increase overall employment, but it might countervail losses in uncompetitive functions.' Turok (2009, p. 27) endorses this approach and argues that: 'Cities need to develop capabilities for dynamic change that enable steady improvements over time through original analysis, creative thinking, enterprise, initiative, learning, and innovation. They also have to start from their existing position and inherited resources rather than some abstract high-end ideal.'

A rather similar conclusion is reached by Glaeser and Gottlieb (2006) whose research indicated that: 'The success and failure of big cities depends in large part on the urban edge in consumption, not production. Urban decline in the post-war period was caused in large part by changes in technology that made big cities less effective at catering to consumers' preferences' (p. 1297). The key elements in the subsequent resurgence has been declining crime rates and 'rising incomes and education levels which increase demand for urban amenities like museums, restaurants and concerts'. All of these are assets that are uniquely specific to an individual urban area.

Much of recent research on the resurgent city or MEI stresses this need to avoid the 'flavor of the day' and to develop assets that are indigenous to the MEI. There is no single approach or strategy that will work for all MEIs and there is a powerful need for a ground up development of a strategic response to economic distress or decline that is grounded in research done on the local economy, governance and society. The research seminar on Pennsylvania's cities and towns gave the urban specialists of the Global Urban Competitiveness Project the opportunity to bring their knowledge and experience from many countries and cities to bear on these issues of public policy. Specifically, we focused on the following eleven possible economic strategies that we believe should be considered by municipal leaders in MEIs in Pennsylvania and throughout the industrialized world.

1. Higher Education/Community Partnerships

One of the principal assets of mature industrial economies (MEIs) is their rich endowment of universities and colleges. These higher educational institutions (HEIs) are ubiquitous in their location. Typically the largest universities are located in the MEIs, but smaller often excellent universities and colleges are situated in rural towns of little more than 10000 inhabitants. In Chapter 2, David Maurrasse informs us that these 'anchored' institutions can form the basis of a local economy that is globally competitive. The key aspect of the relationship between an HEI and the community in