

LEVERAGING CLUSTER DEVELOPMENT FOR OHIO'S NEXT ECONOMY



National Academies of Science
“Building the Ohio Innovation Economy”

Cleveland, Ohio

April 25, 2011

-Lavea Brachman, Executive Director Greater
Ohio Policy Center & Non-resident Senior Fellow,
Brookings Institution

Operationalizing “Cluster Growth” Strategy: A Place-Based Approach



- Application in transitional economies is not well understood
- Requires broader economic restructuring strategy
- Multiple reforms and players need to be aligned and in sync
 - State policy to encourage, build on organic business growth & eliminate barriers
 - Regional/local infrastructure
 - Knowledge about sectors

Greater Ohio Policy Center



- Ohio's "smart growth" organization
- Promote – through research, public education and grassroots advocacy – public policy to grow Ohio's economy and improve the quality of life through intelligent land use
- Non-partisan, non-profit, foundation-funded

Greater Ohio Policy Center



- Conduct and commission research
- Use research to advocate for practical policy solutions at the state and federal level
- Advocate for a statewide agenda
- Play an advisory role to statewide officials, General Assembly and local officials
- Build a constituency for change

Background to *Restoring Prosperity*



- 3 year partnership with Brookings Institution Metropolitan Policy Program
- A statewide blueprint for Ohio's transition to the next economy
- Action plan to influence state policy: 39 pragmatic policy recommendations

Restoring Prosperity's Findings



- **Ohio Can Compete** in the “next economy”
- Metropolitan areas will drive the next economy encompassing urban, suburban and rural with core
- Governance –reduce core costs and fragmentation
- Enhance and invest in innovation

Setting the Stage: Challenges & Opportunities for Growth



- Defining clusters
- General challenges, Ohio Challenges
- Ohio Opportunities
- Operationalizing -- Nurturing clusters
 - Role of anchor institutions – pivotal in weak market economies
 - local/regional structures
 - State policies

Defining “cluster” development



- Cluster – “geographic concentrations of interconnected firms and supporting or coordinating organizations”
- Principles of Clusters:
 - Holds promise for jumpstarting Ohio’s damaged economy but not the panacea
 - Emerging clusters should be supported when they can be backed up with data
 - Clusters can be supported at federal, regional, state and local levels

General Challenges & Opportunities



degree of economic decline;

difficulty in connecting regional economic growth with neighborhood revitalization

because of disconnect between job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

difficulty in connecting regional economic growth with job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

difficulty in connecting regional economic growth with job creation and skill level of workforce, spatial

growth to research knowledge; higher government costs, increased tax burden

[what data can we add here?] degree of economic decline;

difficulty in connecting regional economic growth with neighborhood revitalization

because of disconnect between job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

difficulty in connecting regional economic growth with job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

difficulty in connecting regional economic growth with job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

difficulty in connecting regional economic growth with job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

difficulty in connecting regional economic growth with job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

difficulty in connecting regional economic growth with job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

difficulty in connecting regional economic growth with job creation and skill level of workforce, spatial

mismatch of location of jobs and population;

• **Transferring knowledge is complicated process**

• **Commercialization: Bringing product to market**

• **Finding “fit” between university research strengths and**

local economy structure

• **Paradox between globalization and place-based**

knowledge economy

• **Generating “win-win” strategies that benefit both**

institutions and transform local community

[what data can we add here?]

The Ohio Context: A Challenging Climate



degree of economic decline;

- **degree of economic decline** difficulty in connecting regional economic growth with neighborhood revitalization

because of disconnect between job creation and skill level of workforce, spatial mismatch of location of jobs and population;

difficult • **Shrinking populations** II recovery based on clusters; and growth patterns and sprawl leads to higher government costs, increased tax burden

[what data can we add here?] [degree of economic decline, difficulty in connecting regional economic growth with neighborhood revitalization because of disconnect between job creation and skill level of workforce, spatial mismatch of location of jobs and population; II recovery based on clusters; and growth patterns and sprawl leads to higher government costs, increased tax burden

• **difficulty in connecting regional economic growth with neighborhood revitalization** because of disconnect between job creation and skill level of workforce, spatial mismatch of location of jobs and population; II recovery based on clusters; and growth patterns and sprawl leads to higher government costs, increased tax burden

[what data can we add here?] [degree of economic decline, difficulty in connecting regional economic growth with neighborhood revitalization because of disconnect between job creation and skill level of workforce, spatial mismatch of location of jobs and population; II recovery based on clusters; and growth patterns and sprawl leads to higher government costs, increased tax burden

• **disconnect between job creation and skill level of workforce, spatial mismatch of location of jobs and population;** sprawl leads to higher government costs, increased tax burden

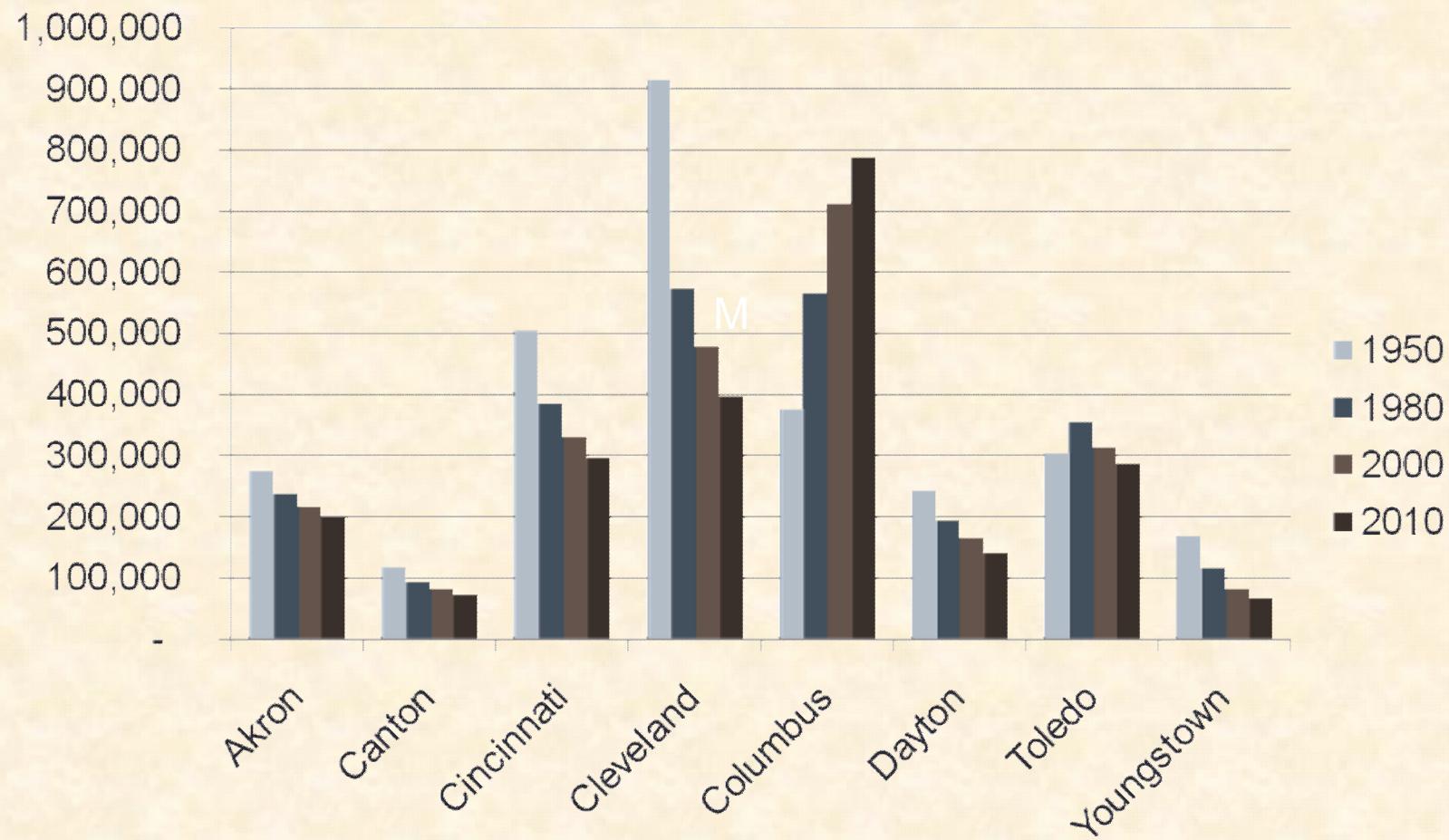
[what data can we add here?] [degree of economic decline, difficulty in connecting regional economic growth with neighborhood revitalization because of disconnect between job creation and skill level of workforce, spatial mismatch of location of jobs and population; II recovery based on clusters; and growth patterns and sprawl leads to higher government costs, increased tax burden

• **growth patterns and sprawl leads to higher government costs, increased tax burden**

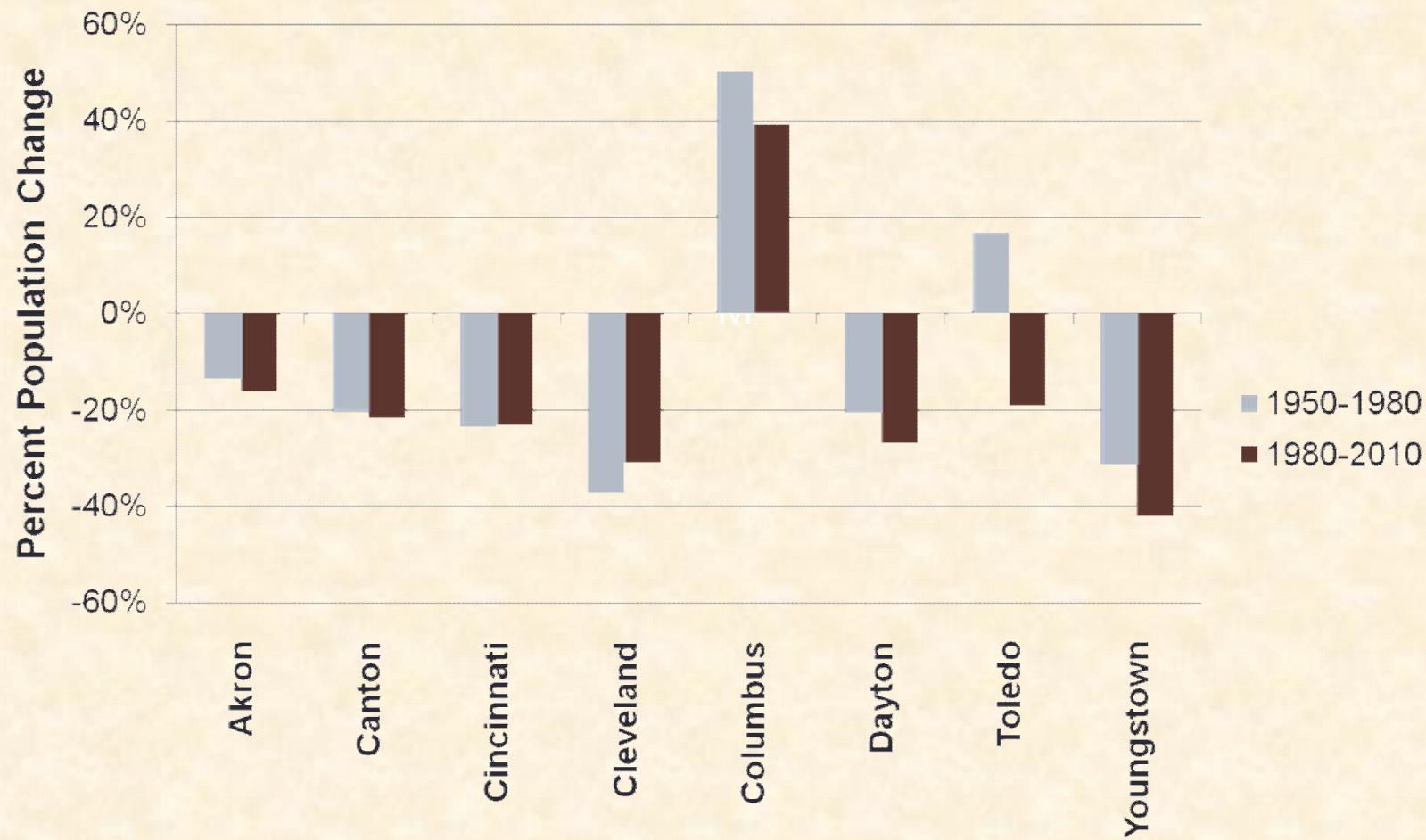
difficult challenges of mounting a fair recovery based on clusters, and growth patterns and sprawl leads to higher government costs, increased tax burden

• **fragmentation**

Population Trends



Population Change Over Time



Population Loss in Cuyahoga County Inner-Ring Suburbs



Municipality	1970 Population	2010 Population	% Change from 1970-2009
South Euclid	29,579	22,295	-25%
Lyndhurst	19,749	14,001	-29%
Garfield Heights	41,417	28,849	-30%
Euclid	71,552	48,920	-32%
Maple Heights	34,093	23,138	-32%
Brook Park	30,774	19,212	-38%
East Cleveland	39,600	17,843	-55%

U.S. Census Bureau Decennial Census

County Level Population Loss



County	Central City	Central City Peak year	County Peak Year	% County Population Decline from Peak Year to 2010	% City Population Decline from Peak Year to 2010
Cuyahoga	Cleveland	1950	1970	-25.6%	-56.6%
Hamilton	Cincinnati	1950	1970	-13.2%	-41.1%
Lucas	Toledo	1970	1970	-8.8%	-25.2%
Mahoning	Youngstown	1950	1970	-21.3%	-60.2%
Montgomery	Dayton	1960	1970	-11.7%	-46.1%

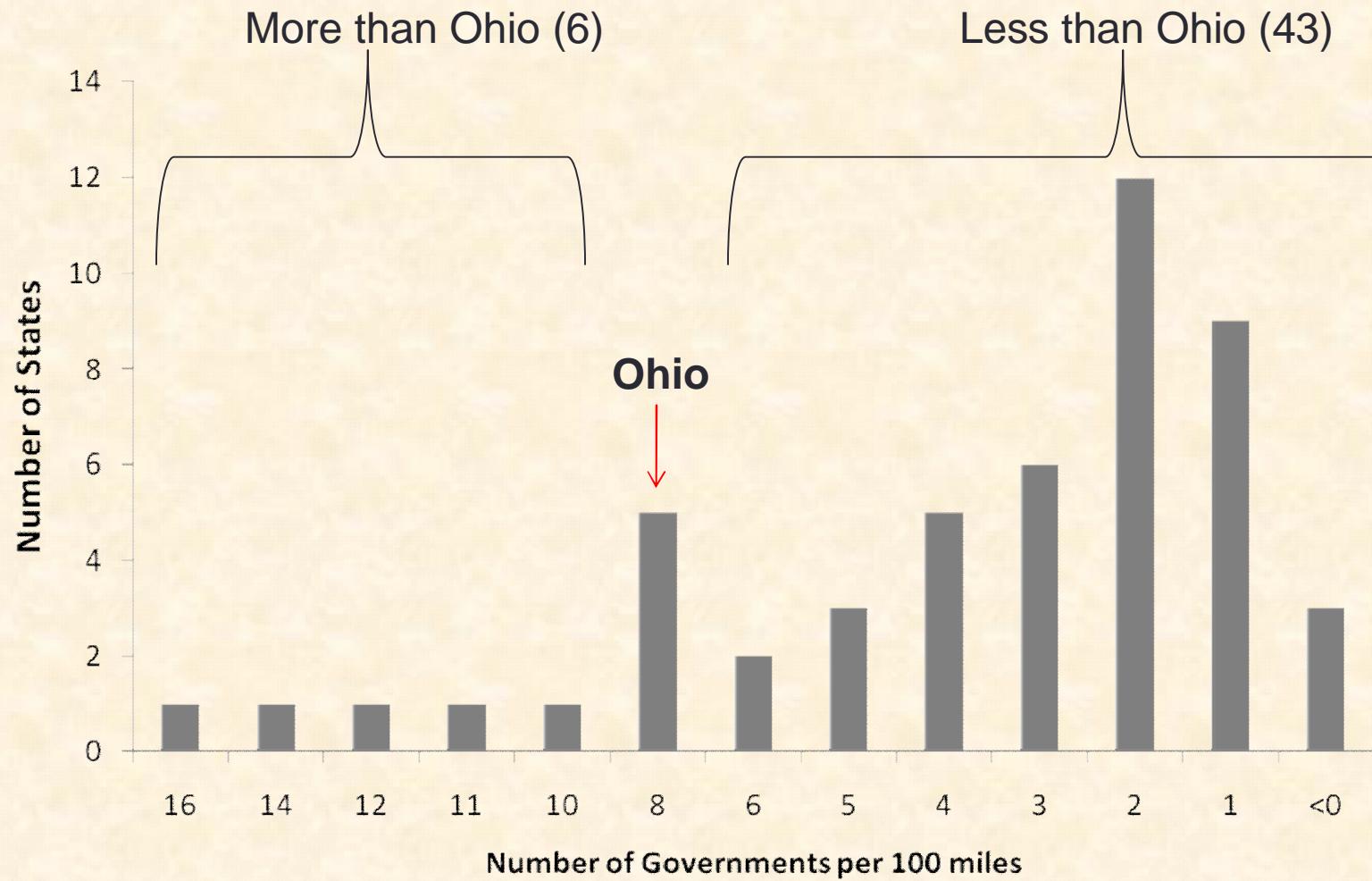
U.S. Census Bureau Decennial Census

The Ohio Context: Antiquated systems lead to fragmentation & high governance costs



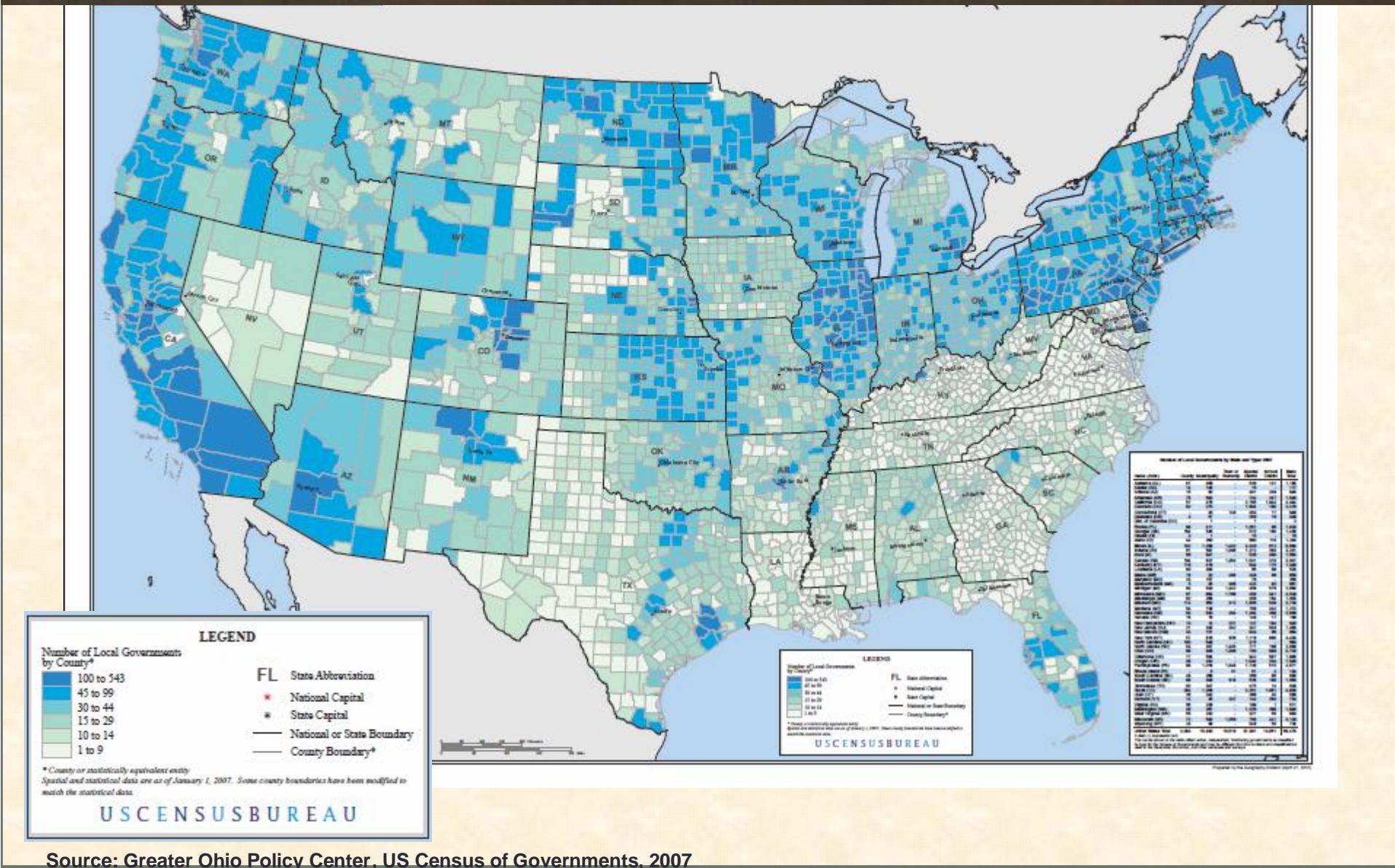
- Distracts from innovation focus
- Detracts from business development focus
- Tends to promote interlocal competition and “poaching” and undercuts regional competitive capacity

86% of states have fewer governments per 100 square miles than we do



Source: Greater Ohio Policy Center, Census of Governments; Government Organization, 2007

In 2002, we had 41.3 local governments per county compared to the national average of 27.9.



Ohio By the Numbers...



Numbers and Types of Local Governments



Source: Greater Ohio Policy Center, Census of Governments; Government Organization, 2002

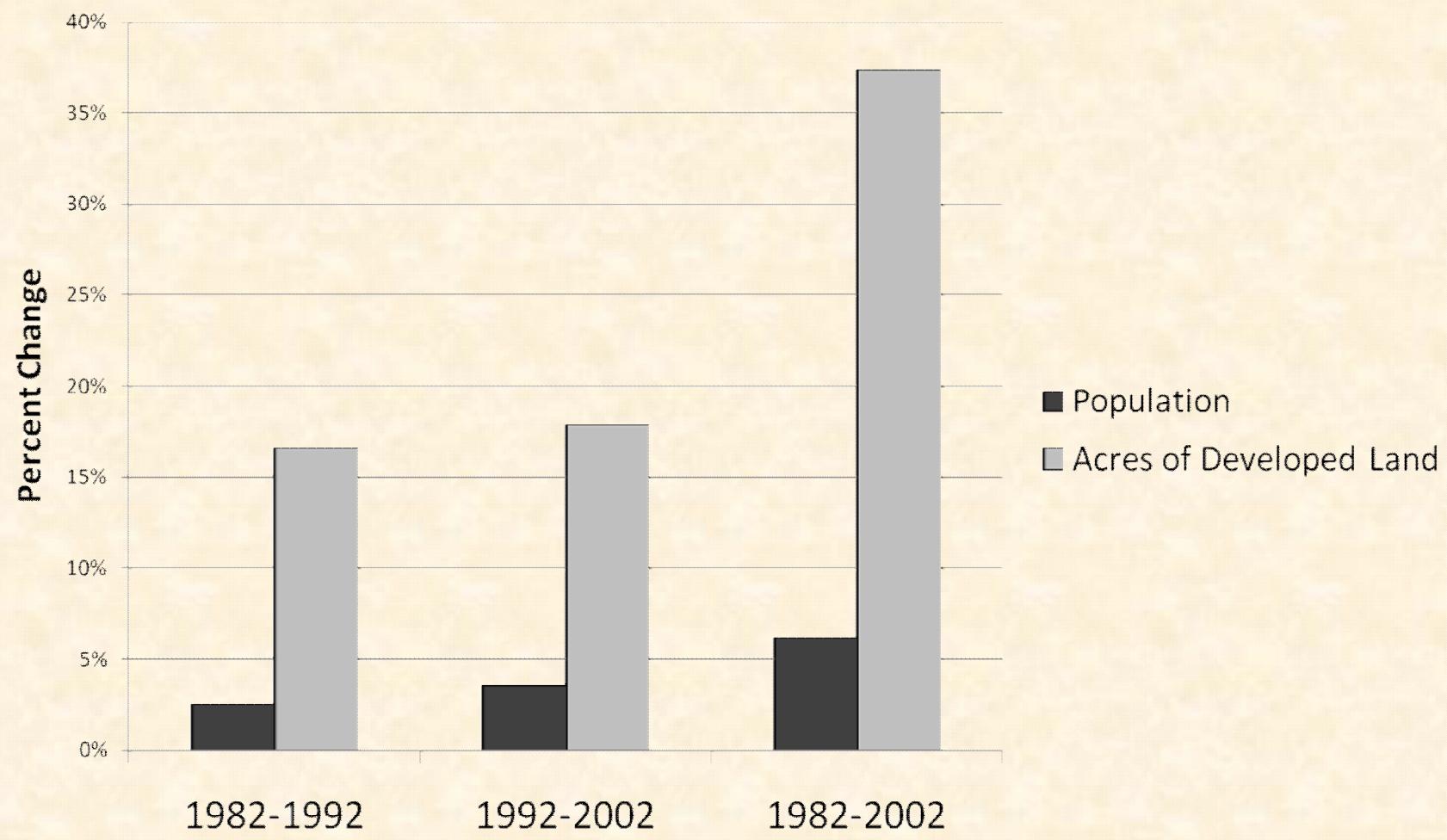
Combination of Historic Factors and Modern Sprawl



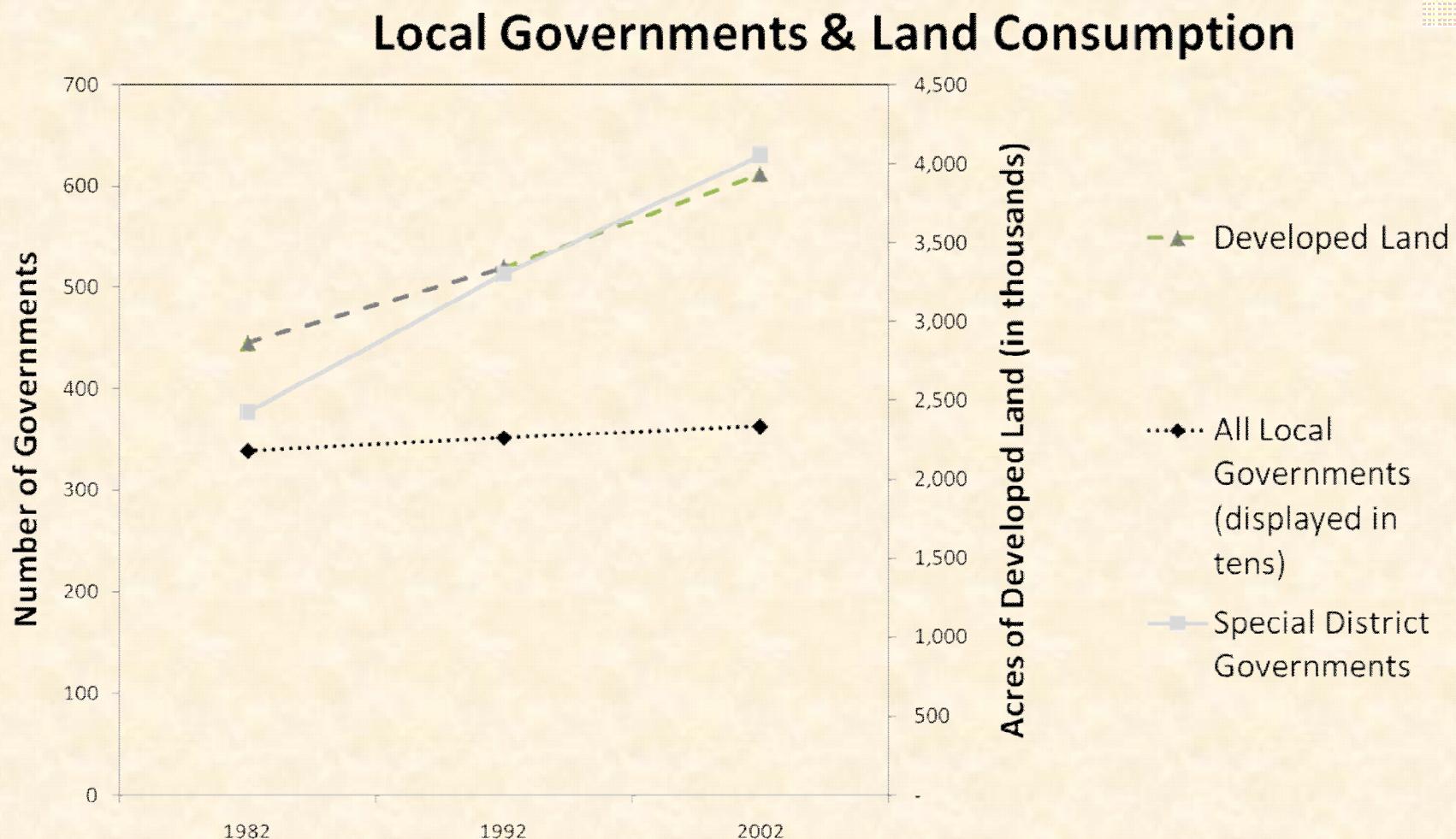
Agricultural economy

- county lines were drawn so one could travel to and from the county seat in a horse and buggy in one day
 - Agrarian economies were more localized; not regional, “commute-sheds” prevalent in today’s global economy based in metro regions
 - Modern sprawl arising from variety of factors

Land Consumption has Outpaced Population Growth



Sprawl Without Population Growth Also Results in More Local Government

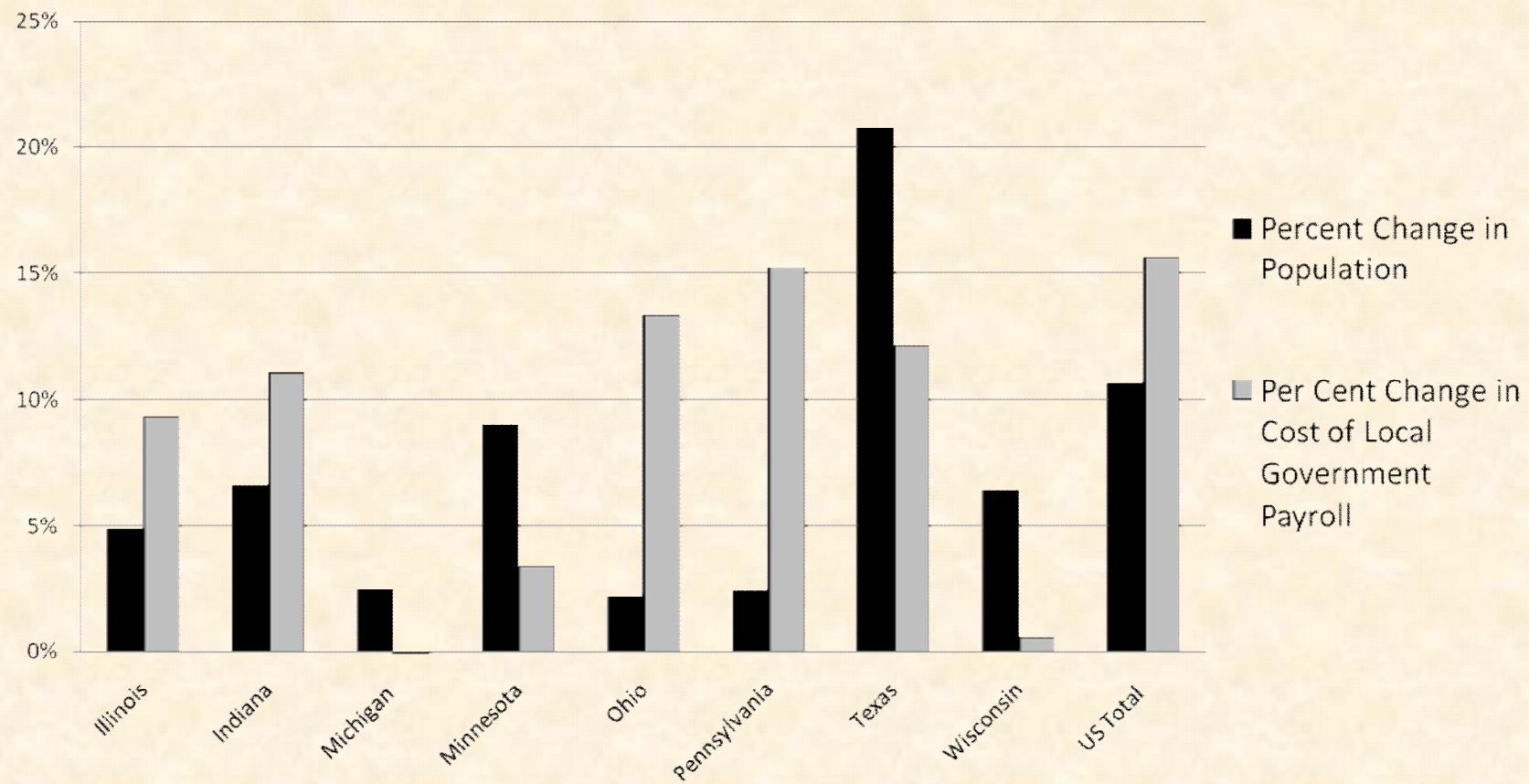


Source: Greater Ohio Policy Center, Census of Governments 2002, National Resource Inventory 2007

Some Places Experienced the Reverse



Mismatch between Percent Change in Population and Percent Change in Local Government Payroll, 1997-2007



*numbers adjusted to 2010 dollars

Source: Greater Ohio Policy Center, Census of Governments, Census Bureau Annual Population Estimates

The Ohio Context: Opportunities



- Ohio's economic history is defined by pockets of concentrated industrial sectors rooted in major cities
- Multiple metros, qua regional economies
- Ohio is uniquely positioned with multiple anchor institutions, rooted by place.
 - Anchors have potential for growing positive impact on local economies.
 - Example: University of Cincinnati created The Uptown Consortium non-profit CDC.

Operationalizing Clusters: Being Intentional



- Encourage natural clusters
- Remove obstacles – governance reform
- Create a fertile environment for clusters
 - Forge Public Private Partnerships are necessary
 - The Private sector needs to lead the way, but Government needs to create the right conditions.
 - Public intervention is also needed to improve odds.
- Community Partnerships: three models

Cluster Growth in Transitioning Economies



Requires “full court press” strategy and multi-layered approach:

1. Public Policy Restructuring at local, state and federal levels
2. Partnerships across organizations and across govt, business and nonprofit sectors
3. Cultivating an innovative culture

Creating a culture of Innovation



Key components

- Private sector led
- Promote distinct blend of competition and cooperation
- Remove obstacles and inefficiencies
- Public investments in education and training
- “Cluster upgrading,” not picking winners and losers

Creating a culture of Innovation



Implementing to address economic restructuring:

- Innovation is the key, but intervention needs to bolster other stages of production
- Universities are key but themselves need evolving – traditionally decentralized
- Need to cultivate new institutions, reorganize authority

Role of Anchors: The Knowledge Paradigm



- Roles:
 - Advancing innovation
 - Knowledge transfer: help employers grow and prosper
 - Community revitalization
 - Educated population
- Consistent with putting knowledge first, instead of incentive and financial packages
- Correlation between high-tech output growth and economic growth increased from 35 to 65%
- Multiplier effect of app. 2.0
- Fulcrum for comprehensive community transformation
 - Employers (1/3 faculty, 2/3 admin and support staff)
 - Purchasers
 - developer

Role of Anchors in Weak market Economies: Community transformation pivotal to economic transformation



- Fulcrum for comprehensive community transformation
 - Employers (1/3 faculty, 2/3 admin and support staff)
 - Purchasers
 - Developer
 - Educator
 - Community engager
- Home ownership incentive program (OSU)
- Forgiveable loans for vicinity (UA, Case)

Ohio Experience: Linking anchors with clusters & business growth



- Ohio is uniquely positioned with multiple anchor institutions, rooted by place.
 - Anchors have potential for growing positive impact on local economies.
 - Examples: University of Toledo, Akron, Cincinnati; OSU; Case Western; Wright State; YSU; Ohio University
 - Potential for growing positive impact on local economies.
 - Example: University of Cincinnati & The Uptown Consortium , non-profit CDC.

State Policies



- State policies are needed to support local initiatives
 - Reducing govt costs
 - Regional collaboration to increase competitiveness
 - Strategic, targeted investments
 - Leveraging federal benefits
- Find creative funding for innovation-based economic development (short term)
- Significantly expand the state advanced manufacturing network (medium term)
- Create micro-investment funds (long term)
- Develop an Anchor Institution Innovation Zone program (short term)
- Support the creation of regional business plans and align state programs around these plans

Governance Reform & Restructuring



- In weak market cities, governance reform is crucial, because bad governance impedes cluster growth.
- We need to transition government to stop undercutting our economic competitiveness and prosperity .
- Government's role should be to facilitate, not hinder cluster development

Catalyzing Local Governance Reform Recommendations



- Create a Governance Reform Commission
- Create a framework for pooling resources regionally
- Make permissive mergers, consolidation, shared services, and alternative governance structures and eliminate any legal and constitutional barriers.
- Develop a protocol for collecting data on local governments' costs and level of services, and local business sector growth

Challenges to Economic Restructuring in Ohio: Creating the “Scaffolding”



- Changes demanded of local city-regions as competitive units are beyond the authority and capacity of any one player or sector
- Joint problem-solving than policy making
- Leveraging place-based assets which may themselves need capacity-building

Growing Recognition



- Deloitte report (2005)
 - Motor vehicles and motor vehicle parts manufacturing
 - Chemicals and polymers
 - Clinical medicine and related industries
 - logistics, distribution, and warehousing
 - Corporate and division headquarters, back-office, and administrative functions
 - Food processing and manufacturing and agriculture value-added products
 - Environmental technology
- Third Frontier
- Hubs of Innovation

Local and Regional Cluster Growth: What's going on in Ohio?



- University efforts
 - Central Ohio
 - NE Ohio
- Youngstown Business Incubator
- NEO Regional Business Plan

Hubs of Innovation



- Ohio Hubs leverage the leading strengths in our urban centers to create regionally targeted intersections of Ohio's physical and human capital assets.
- The program proves \$250,000/metro to build a physical and virtual hub of knowledge that:
 - Propels innovation and attracts investment opportunities
 - Accelerates talent attraction and fosters job creation/retention
 - Catalyzes new company formation and ensures existing industries retain their competitive advantage
- Currently there are seven Hubs:
 - Dayton (aerospace) -- Cincinnati (consumer marketing)
 - Akron (biomaterials) -- Cleveland (health and technology)
 - Toledo (solar energy) -- Columbus (advanced energy)
 - Youngstown (advanced materials)
- We hope the Kasich Administration will continue to support Hubs of Innovation

Economic Restructuring & Cluster Development: Organizing for Success



Necessary but not sufficient factors:

- civic cooperation
- Govt reorganization
- Crucial infrastructure and public services
- Public finance systems
- Regulatory reform
- Cultivating outward global perspective rather than parochial turf wars & entrepreneurial culture
- Improved information about growth sectors

• But how to achieve this? is this top-down or bottom-up change?

- Leverage our democratic institutions to develop civic capacity