
Regional Policies and Strategies for Replacing Lost Manufacturing Jobs

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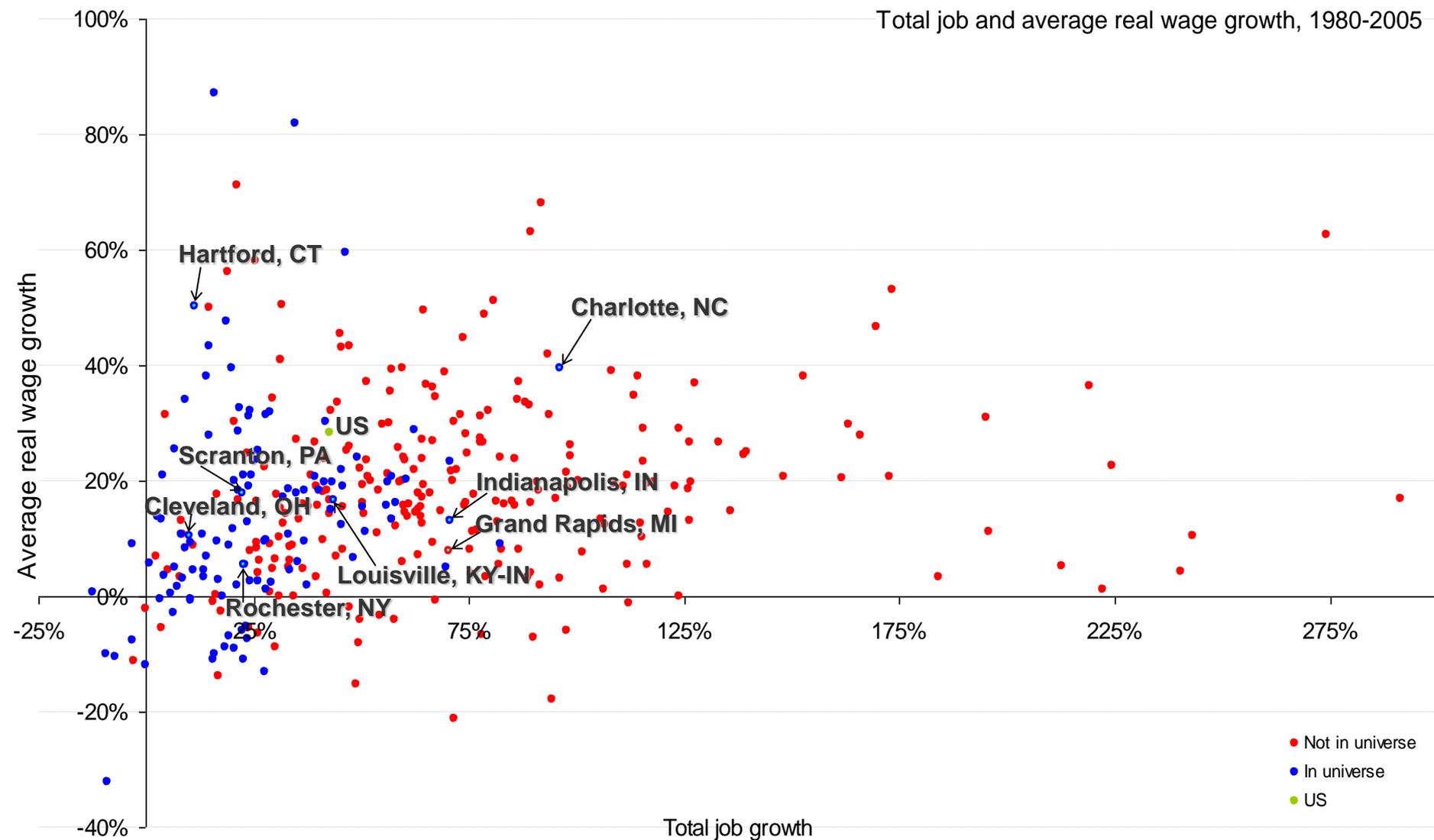
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The U.S. lost 24 percent of its manufacturing jobs from 1980-2005

61 percent of this loss occurred in 114 metropolitan areas that specialized in manufacturing in 1980 and lost manufacturing jobs from 1980-2005

- We ask:
- What policies/strategies (public, private, and/or nonprofit) were adopted to influence the replacement of lost manufacturing jobs and the subsequent development paths in these regions?
 - What impact, if any, did these policies/strategies have?
 - What else could explain the development paths of these metropolitan areas from 1980-2005?

From 1980 to 2005, the 114 metropolitan areas had total job growth of -12 to 96 percent and average real wage growth of -32 to 87 percent

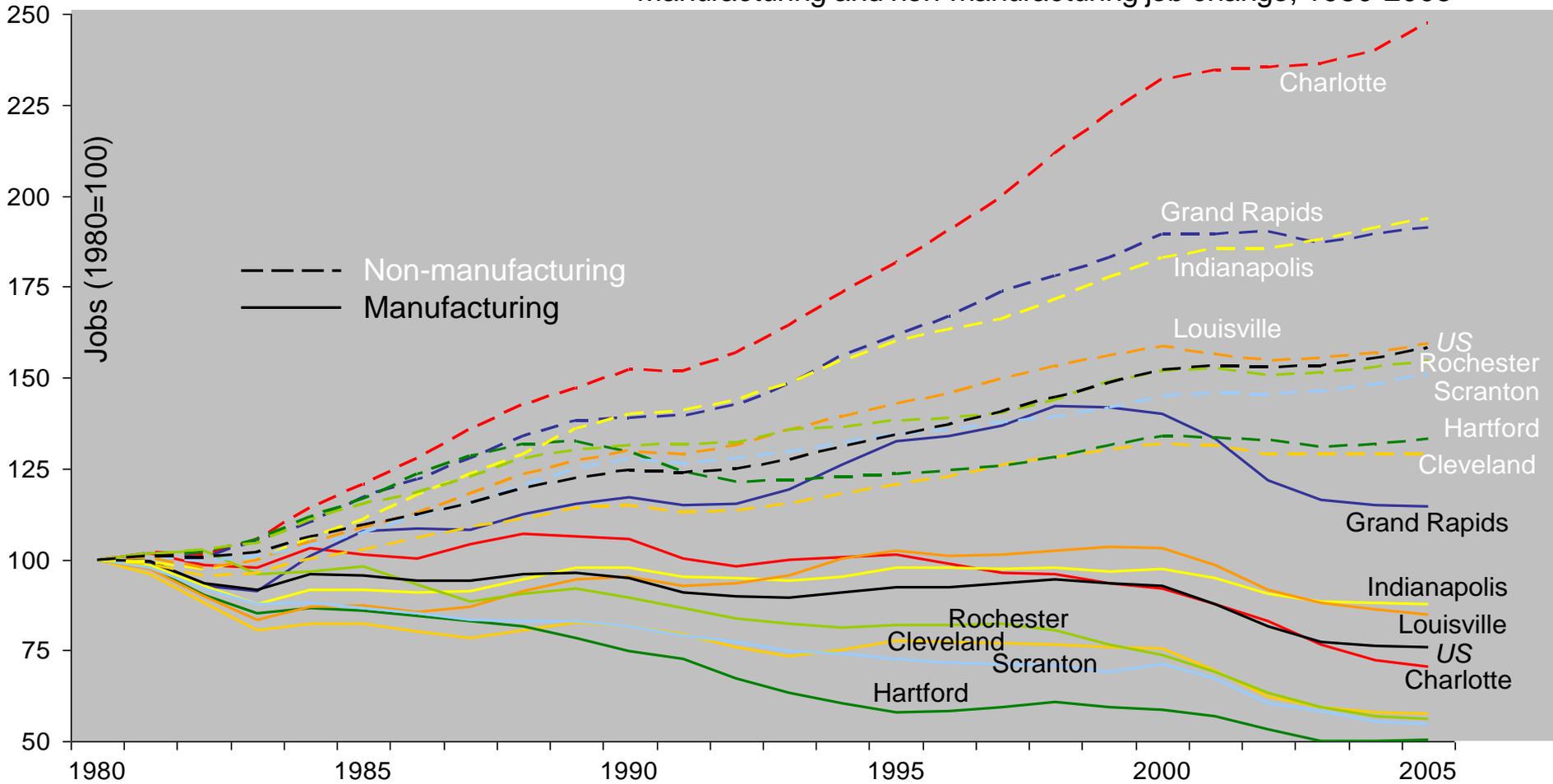


We visited each case study region to conduct interviews

- Economic development organizations
- Chambers of Commerce, other local business groups
- Public officials
- Business sectoral organizations
- Community colleges
- Workforce development officials
- Venture capitalists
- Manufacturing Extension Partnership centers
- Business journalists
- Firms, including those in major export-industries that reduced employment and selected firms that have gained employment

Case study metropolitan areas with the lowest manufacturing job loss rates tended to have the greatest non-manufacturing job growth rates

Manufacturing and non-manufacturing job change, 1980-2005



● Preserving/growing manufacturing jobs may be a way to boost non-manufacturing job growth

Public policymakers and business leaders rarely anticipated or planned for manufacturing job loss

- Exception: Indianapolis
- In some metropolitan areas there was little or no intentional intervention to retain or replace manufacturing jobs (Rochester, Charlotte, Hartford)
- In others, policy/strategy followed a period of substantial manufacturing job loss (Cleveland, Scranton, Louisville)
- In all metropolitan areas there was some public, nonprofit, or above-the-firm-level business intervention to try to influence the regional economic trajectory, often not specifically designed to retain or replace manufacturing jobs

Policies/strategies were typical of those adopted at state and local levels nationwide from 1980-2005

- Subsidies to attract individual firms (including infrastructure, tax abatements)
- Assistance to small and medium-sized manufacturing suppliers (lean production, sometimes more)
- Technology-based economic development (esp. biotechnology)
- Entrepreneurship promotion
- Business incubators
- Industry cluster assistance (in manufacturing and some services)
- Generic infrastructure expansion (esp. highways and airports)
- Downtown redevelopment, including residential
- “Unlocking” unused technologies from large firms
- Community college programs (for manufacturing and growing occupations, some customized for individual firms)

What did we learn about the typical policies and strategies?

- Specific type of policy/strategy had little to do with impact
- Almost none of these policies/strategies had any discernable impact on regional economic trajectory (major exception: assistance to UPS in Louisville)

In our eight case-study regions, three ideal-types emerged based on combinations of economic structure and competencies, social structure of business leadership, and policy/strategy

1. Rochester and Charlotte: Highly concentrated economic and social structures that coincide, little policy/strategy
 2. Hartford: Fairly concentrated economic structure, industry-specific social networks, much policy/strategy with little impact
 3. Indianapolis and Grand Rapids: Economic and social structures don't coincide, elites develop policy/strategy with some potential impact
- Other metropolitan areas combine characteristics of these ideal types

Rochester and Charlotte: Highly concentrated economic and social structures that coincide, little policy/strategy

- A few very large firms in a single industry or related industries with headquarters and/or major operations in the region
 - Rochester: Kodak, Xerox
 - Charlotte: Bank of America, Wachovia

Characteristics of these large firms:

- Account(ed) for a large share of regional employment
- Highly vertically integrated within region, or designed products for suppliers and provided stable markets for suppliers
- Locally owned or controlled; CEOs had commitment to region
- Funded major local economic development projects (e.g. downtown redevelopment), cultural amenities, philanthropies
- Able to influence the decisions of local government
- Major determinants of regional economic trajectory

Rochester and Charlotte: Highly concentrated economic and social structures that coincide, little policy/strategy

- Few economic development organizations; those that existed did not develop policies/strategies or these efforts had no impact
- Alternative social networks of business leaders were slow to develop
- Rochester: When the major firms' business strategies failed, they adapted by vertically disintegrating, seeking suppliers worldwide (without assisting local suppliers), and cutting back on local economic development and civic expenditures
 - The region was deprived of supplier capacity and the capacity to respond to economic change
- Charlotte: The decline of dominant firms has occurred within the last year—outcome uncertain

Hartford: Fairly concentrated economic structure, industry-specific social networks, much policy/strategy with little impact

- Export firms somewhat more diverse (demand shocks to insurance and aerospace in the region not highly correlated)
- Major firm CEOs either no longer in region (insurance) or were never involved in local economic development, cultural, or philanthropic funding and had less influence over local governments (aerospace OEMs)
- Social networks of export-firm leaders were specific to industry (insurance) or segment of industry (aerospace OEMs, suppliers)
- Major firm strategies expanded production outside the region, but R&D remained in-house and in the region

Hartford: Fairly concentrated economic structure, industry-specific social networks, much policy/strategy with little impact

- Many small, single purpose economic development organizations, mostly nonprofit, with many policies/strategies; several organizations with overlapping or competing missions
- Some policies/strategies may have had impact on industry segments (aerospace cluster) but there is little evidence of broader regional economic impact
- Economic outcomes depended on major firm strategies and cost characteristics of the region

Indianapolis and Grand Rapids: Economic and social structures don't coincide, elites develop policy/strategy with some potential impact

- Many major export-firm executives live in region and are committed to it, even if firms are not headquartered there
- Social norm that large firms with presence in region will help fund local economic development or civic initiatives

Indianapolis and Grand Rapids: Economic and social structures don't coincide, elites develop policy/strategy with some potential impact

- Strongly connected leadership groups of major firm leaders from diverse industries and, in Indianapolis, foundation and government leaders/staff
 - Indianapolis in 1980s: informal “city committee” included staff of mayor and state legislature, lawyers, bankers, junior executives of Eli Lilly and the Lilly Endowment
 - Indianapolis in late 1990s-2000s: Central Indiana Corporate Partnership founded by executives of Eli Lilly, Lilly Endowment, Rolls Royce, utilities, banks, universities, chemical companies, FedEx, banks, health insurance firm, logistics firms, etc.
 - Grand Rapids: Leaders of Amway, Meijer, furniture manufacturers, wood finishing firm, larger auto suppliers, and bankers founded formal and informal economic development organizations (Grand Action, The Right Place, Improvement Association)

Indianapolis and Grand Rapids: Economic and social structures don't coincide, elites develop policy/strategy with some potential impact

- Social networks of export-firm leaders cross industry lines. Leaders often grew up together, lived in same neighborhoods, belonged to same social clubs and religious communities
- Major funding sources for large economic development projects, cultural amenities, philanthropies: Lilly Endowment in Indianapolis, wealthiest export firm owners or children of founders in Grand Rapids
- Individual members of elite formulate policy/strategy ideas and solicit support from others within elite; elites don't generally agree on policy/strategy in advance
- These elites had strong influence over local government decisions

Indianapolis and Grand Rapids: Economic and social structures don't coincide, elites develop policy/strategy with some potential impact

- Policies/strategies may have had some regional economic impact
 - Indianapolis in 1980s: Amateur sports and associated tourism as regional export industry and way to revitalize downtown to attract managers to Eli Lilly (involved eminent domain, enterprise zone designation, publicly funded stadiums, Pan American Games)
 - Grand Rapids beginning in 1985: The Right Place—unified publicly and privately funded economic development organization, convenes industry cluster groups, provides or coordinates assistance to small and medium-sized manufacturers on lean production, market development, export promotion, design
 - (Louisville in early 1980s, similar to Indianapolis: Airport expansion to induce UPS to create hub there (involved eminent domain))

What else could account for the economic development trajectories of our case study metropolitan areas?

- Transportation and communication costs
 - In general (Louisville, Indianapolis for logistics and freight transportation, Scranton's proximity to New York for those industries and insurance company back offices)
 - Air access to national and international locations (disadvantage for Scranton, Rochester, Grand Rapids, Cleveland)
- Wages (relative to productivity)
 - Relatively low wages attracted mobile activities from elsewhere (Charlotte-durable manufacturing, Scranton-insurance), or
 - Relatively high wages and changing firm strategies, aided by improved communication technology, induced firms to relocate lower-wage parts of production process elsewhere (Hartford-insurance, Cleveland-diverse manufacturing)

What else could account for the economic development trajectories of our case study metropolitan areas?

- Workforce skills (Louisville-little precision manufacturing, information technology, or biotechnology)
- Pre-existing capabilities of export firms in metropolitan area, sometimes spurred by public policy
 - Innovative capacity (Indianapolis and Grand Rapids suppliers)
 - Other business strategy to increase revenue (Charlotte banking)

Conclusions

- Few metropolitan areas that specialized in manufacturing in 1980 (and none of the case study areas) were able to make a transition to a different economic base unless they also had a major, growing non-manufacturing export industry to begin with
- Explicit public policies or public-private-nonprofit strategies had less impact on metropolitan economic development trajectories than did individual firm strategies and capacities and costs and availability of inputs in a region
- A high degree of local vertical integration by dominant export firms in a highly concentrated local economy impedes policy/strategy and economic transformation

Conclusions

- Lack of strong business leadership group in a metropolitan area may be associated with a great deal of small-scale strategy, but impacts if any, are very limited
- A strong business leadership group from diverse industries, possibly including public sector, may produce policies with some metropolitan-level economic impact, but disadvantages of this approach may include indifference to wage and productivity growth, lack of transparency and democratic accountability, lack of influence over economic development by labor and disadvantaged groups