BROOKINGS

Metropolitan Economy Index: Tracking Growth, Prosperity, and Inclusion in America's 100 Largest Metro areas

Overview

The Metropolitan Policy Program at Brookings has begun a new project to measure and rank U.S. metropolitan areas' progress toward inclusive economic growth. Provisionally titled the *Metropolitan Economy Index*, this project, to be completed in early 2016, will help leaders in local and regional economic development redefine their metrics of success to more explicitly feature prosperity and inclusion outcomes and adapt their strategies to achieve those goals. In addition to tracking these high-level outcomes, the Index will provide leaders with tools to explore in-depth the dynamics driving growth and inclusion in each metropolitan area.

Background

Six years into the nation's economic recovery, growth remains uneven among people and places. Metropolitan areas—the engines of the U.S. economy—continue to confront strong headwinds that diminish gains and depress the incomes of workers and families. Globalization, computerization, and unprecedented demographic change are shifting the economic and social landscape of metropolitan America—and these trends affect each place differently.

Given these headwinds, local and regional economic development leaders need new strategies to boost growth and ensure inclusion. Yet the field of economic development has been slow to adapt. Within metropolitan areas, economic development continues to be understood as a set of tactics and one-off transactions to attract jobs rather than a broad and dynamic process meant to build more prosperous and more inclusive communities.

An economy can grow by many means, including by attracting outside resources. However, an economy that grows by becoming more productive is better able to pass along gains through higher wages, ensuring that more people are able to benefit from the growing economy. Effective economic development fosters inclusive growth by investing in public goods like infrastructure and human capital that align the potential of people and industries, thereby generating good jobs, rising incomes, and better opportunities for workers and families.

To help local and regional leaders embrace the goal of building an *advanced economy for all*, the Metropolitan Policy Program at Brookings is undertaking a new project that reframes increased prosperity and inclusion, in addition to growth, as explicit outcomes of effective development efforts. The *Metropolitan Prosperity Index* will provide leaders with the information and analyses they need to track their metropolitan area's progress and inform the design of strategies to achieve these outcomes.

Framework

The Metropolitan Prosperity Index aims to provide information to guide decision making. Though we hope it will be a trusted source of information for many, including the media, its primary audience is local and regional leaders. The Index should not only help these leaders track the progress of their economies on specific indicators, but also help them understand the dynamics of local economic performance so they can identify problems, formulate goals, and design effective strategies. As a result, how the data are presented is almost as important as the information they convey.

To keep the Index accessible, it will rank a limited number of high-level indicators in three categories: growth, prosperity, and inclusion. These categories are meant to communicate the *goals* and *method* of economic development the Metropolitan Policy Program espouses: Economic development should put an economy on a <u>higher trajectory of long-run growth</u> (*growth*) by <u>improving the productivity of individuals and firms in order to raise local standards of living</u> (*prosperity*) <u>for all people</u> (*inclusion*).

The Index will measure and rank changes in the levels of each indicator. A metropolitan area's performance on each indicator in a category will be scored and summed into a composite index ranking for each category. This means only a metropolitan area's progress will be incorporated into composite ranks. (Levels of indicators will be reported but not ranked.) Analysis of the industry dynamics that underlie changes in growth and wealth indicators will also be available (but not ranked), allowing leaders to pinpoint the sources of strength and weakness in their local economies.

Growth

Growth indicators measure net change in the total size of a metropolitan economy. The total size of an economy matters for many reasons. Scale enables efficiency and growth helps attract investment. Research shows that job growth helps alleviate poverty, even when new jobs are not filled by lower-income individuals.

- **Change in aggregate output—**Aggregate output, known as gross domestic product at the national level, measures the total value added by an economy. It can be very roughly interpreted as the wages paid to workers plus the profits of firms.
- **Change in aggregate income—**Aggregate income measures the total value of wages, salaries, and benefits paid to workers. Though partially captured by output, income provides additional context by measuring the economic value that households capture through their labor.
- **Change in the number of jobs—**Job growth is the typical measure of success for economic development leaders because earned income tends to be important to individual and household prosperity.

For each of these measures, the Index will present a shift-share analysis—a common tool for decomposing change into its underlying factors—to help leaders understand how individual industries or sectors have contributed to growth performance.

Prosperity

The Index's prosperity indicators measure how an economy is achieving growth (by adding resources or by becoming more productive); and whether the economy is growing on a per capita basis (thereby raising standards of living). Prosperity indicators offer leaders important information about the <u>quality</u> of a metropolitan area's economic growth.

- **Change in output per job**—Output per job is a measure of the economy's productivity, or how much value is generated per job. Changes in this indicator show whether the economy is growing due to added resources or through productivity gains.
- **Change in average wage**—Average wage is a standard measure of income for workers. Change in average wage reveals the extent to which the average worker is benefiting from growth and productivity increases.
- **Change in output per person**—Though an economy can raise its total output simply by adding more people, standards of living will only increase if the economy produces more on a per capita basis. Change in output per person provides a summary measure of whether gains in productivity are translating to growing overall prosperity in the economy, which is an important precondition for raising standards of living for all.

The Index will present shift-share analysis for output per job and average wage measures. (Shift-share analysis is not straightforward for output per capita and thus will not be used for that indicator.) This analysis will help leaders understand how individual industries or sectors contribute to local changes in average productivity and wages.

Inclusion

Inclusion indicators measure the distribution of economic growth gains across different populations, including by income and race. These measures provide information on the nature of inequality and access to economic opportunity in a metro and show the extent to which different groups are participating in and benefiting from economic growth.

- **Change in median personal income—**Median personal income measures the earned income of the person in the center of a metro's income distribution. Change in this measure captures how most workers in benefit from the economy in a way a simple average does not.
  - The Index will also measure and rank changes in median personal income among different racial and ethnic groups.
- **Change in the relative income poverty rate**—This measure denotes the share of workers who earn less than half of the local median annual wage. Using this measure to calculate poverty indirectly captures both the slope of the income distribution for the bottom half of earners and local costs of living, making it a better measure than typical poverty rates.
  - The Index will also measure and rank changes in the share of people in relative income poverty among different racial and ethnic groups.
- **Change in employment rate—**The employment-to-population ratio provides information on whether people of working age are participating in the labor force, which in turn indicates the degree to which individuals have access to job opportunities in the local economy.
  - The index will also measure and rank changes in employment rates among different racial and ethnic groups.

For inclusion metrics, in cases where differences among people of different racial and ethnic groups are considered, the differences will be measured by the average absolute deviation of differences between each combination of groups within one year. Change in this average absolute deviation will be ranked.

Summarizing the Indicators

Metropolitan areas will receive three composite rankings as part of the index, one for growth, one for prosperity, and one for inclusion. Composite ranks will be determined by converting the change for each indicator in a category into a standard score, which captures how a given number varies from the average of a sample. A metropolitan area's standard scores on each indicator in a category will be summed and the rank of that sum will become the composite rank for that category. Change in indicators will be measured and ranked over three periods of time: one year, five years, and 10 years.

Deliverables

The Metropolitan Policy Program would create the following products as part of the public release of this project in January 2016:

- A short report including graphics that provide an overview of framing and findings
- Interactive web feature that puts data and analysis from the Index in the hands of leaders
- One-page data profiles for each metropolitan area.