

locality and business development

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outline

what is locality (the unit of analysis) ?

locality development (Blakely and Leigh, 2009, ch.9)

clusters (Porter, 2000)

necessary readings

- ◇ Porter (2000)
 - ◇ Michael Porter Ted Talk
 - [fighting groupthink; a business perspective]
 - businesses should develop locality and solve social problems
 - NOT: govt, academics or nonprofits
- <https://www.youtube.com/watch?v=0iIh5YYDR2o>

- BERRY, B. AND A. OKULICZ-KOZARYN (2012): "The city size distribution debate: Resolution for US urban regions and megalopolitan areas," Cities, 29, Supplement 1, S17–S23.
- BLAKELY, E. AND N. LEIGH (2009): Planning local economic development: Theory and practice, Sage Publications, Inc.
- JACOBS, J. ([1961] 1993): The death and life of great American cities, New York NY: Random House.
- JARGOWSKY, P. A. (1997): Poverty and place: Ghettos, barrios, and the American city, Russell Sage Foundation.
- PORTER, M. (2000): "Location, competition, and economic development: Local clusters in a global economy," Economic development quarterly, 14, 15–34.

be positive and constructive!

- ◇ don't get into negative groupthink of public policy/adm
- ◇ use appreciative inquiry:
 - identify strengths and focus on those and build on them further
- ◇ there are always some strengths!
- ◇ e.g. poverty and decline: cheap labor and property, etc etc

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level of analysis matters

- ◇ again, you may get opposite conclusions depending on what is the unit of analysis (the aggregation level)
- ◇ and there may be interactions between the two
 - that is a relationship between two variables depends on a variable at a higher level
- ◇ for instance, religiosity makes people happy in religious nations

level of analysis matters

- ◇ usually you want to get to the lowest level possible
(you lose information if you aggregate)
- ◇ but at the same time, don't forget about the macro-level

U/A in local economic development

- ◇ again jobs are they key...
- ◇ if you are looking for a job, place matters
- ◇ people commute, we need to figure out how far and where...
- ◇ commute can be seen as a spatial mismatch between jobs and housing
- ◇ suburbs are “bedroom communities” (or used to be, many businesses locate in suburbs now)
- ◇ we talk about cities, counties, states or metropolitan areas
- ◇ yet did anybody heard about BEA Economic Areas? (Berry and Okulicz-Kozaryn, 2012)

BEA Economic Areas

- ◇ the idea is that a unit of analysis should cover a labor market
 - take into account commuting patterns
- ◇ metropolitan area is closest but not exactly the same
- ◇ BEA Economic Areas divide the US into subregions with separate labor markets
- ◇ more information here: <http://www.bea.gov/regional/>

maps

- ◇ state, county, metro, BEA EA
- next to each other <http://www.bea.gov/regional/bearfacts/>
- overlapped <http://www.bea.gov/newsreleases/regional/rea/rea1104.htm>
- nice resolution (takes time to load)
http://www.bea.gov/regional/_images/ea/econareamap.jpg

Megalopolis

- ◇ and there is also an idea of Megalopolis:
- ◇ Bos-Wash, etc
- ◇ <http://upload.wikimedia.org/wikipedia/commons/9/95/Megalopolis.png>
- ◇ <http://upload.wikimedia.org/wikipedia/commons/5/51/MapofEmergingUSMegaregions.png>
- ◇ http://www.creativeclass.com/_v3/whos_your_city/maps/#Mega-Regions_of_North_America

US census regions

- ◇ and finally census regions...
- ◇ <http://www.eia.gov/emeu/recs/cendivco.gif>
- ◇ for instance, they are in GSS data

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traditional vs modern

- ◇ it used to be about the ownership, regulation and management of land and buildings...
- good transportation is important
- ◇ the new stuff: “smart growth” / “new urbanism”:
 - anti-sprawl, reuse of space, mixed uses (Jacobs, [1961] 1993), walkability
 - and LIVABILITY (we will talk about it later)
- ◇ it's more human than firm friendly

smart growth

- ◇ Mix land uses (yes!)
- ◇ Take advantage of compact building design (yes!)
- ◇ Create a range of housing opportunities and choices (no free market?)
- ◇ Create walkable neighborhoods (yes!)
- ◇ Foster distinctive, attractive communities with a strong sense of place (but how?)
- ◇ Preserve open space, farmland, natural beauty, and critical environmental areas (none of that belongs to city!)

smart growth

- ◇ Strengthen and direct development towards existing communities
- ◇ Provide a variety of transportation choices
- ◇ Make development decisions predictable, fair, and cost effective
- ◇ Encourage community and stakeholder collaboration in development decisions
- ◇ but community and city are polar opposites: Gemeinschaft v Gessellschaft
- see my book: ch. Gemeinschaft/Gessellschaft

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a business approach

- ◇ and now a little of a business approach...
- ◇ we need some business approach
- ◇ it is businesses not government that create jobs
 - discussion ? anybody disagree ?
 - anybody Keynesian ?

definition (p16 Porter, 2000)

- ◇ A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities.
- ◇ The geographic scope of clusters ranges from a region, a state, or even a single city to span nearby or neighboring countries (e.g., southern Germany and German-speaking Switzerland).
- ◇ The geographic scope of a cluster relates to the distance over which informational, transactional, incentive, and other efficiencies occur.

cutting across industries

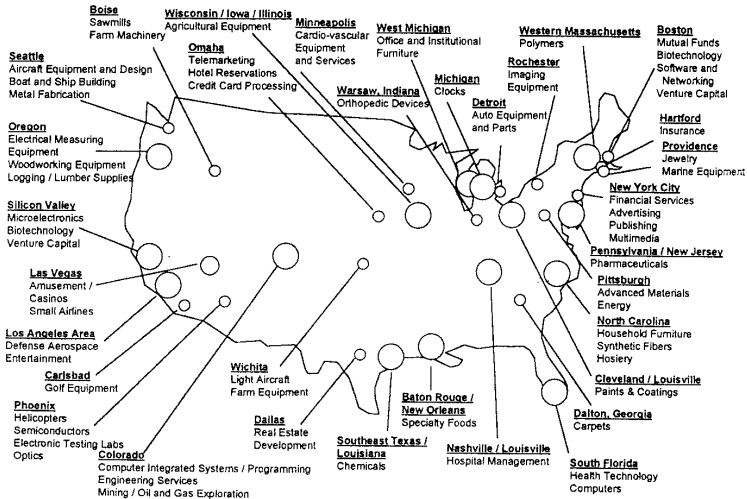
- ◇ so what really is a cluster?
- ◇ it is several industries
- ◇ not a single industry, but also not a large group like manufacturing/services
- ◇ e.g. Massachusetts medical devices cluster: electronic equipment, plastic products, etc
- ◇ e.g. Silicon Valley: programmers, venture capitalists, etc, etc

location matters

- ◇ clusters are key for economic development
- ◇ and there is a role for local government to support them (crony capitalism?)
- ◇ clusters improve productivity by improving access to information and inputs
 - facilitate complementaries
 - improving incentives and performance measures

M Porter "Location, Clusters and The New ..."

Figure 2
Selected Regional Clusters of Competitive U.S. Industries



a paradox

- ◇ the world is flat but spiky...
- ◇ clusters matter and are resilient
- ◇ “the most enduring competitive advantages in a global economy seem to be local” (p32 Porter, 2000)

an outcome line

- ◇ business people:
- ◇ standard of living/qol/happiness < — — competitiveness and productivity
- ◇ soc sci/ policy makers:
- ◇ standard of living/qol/happiness < — — public policy
- ◇ we should talk to each other and try to understand...
- ◇ it's like we are from Venus and they are from Mars

clusters and productivity

- ◇ clusters help with productivity: agglomeration economies
 - cost minimization due to proximity of inputs or proximity to markets
 - access to specialized inputs and employees

clustering and innovation

- ◇ more clearly and rapidly perceive buyer needs
- ◇ concentration of firms with buyer knowledge and relationships
- ◇ competitive pressure, peer pressure, constant comparison
- ◇ on the other hand, clusters can retard innovation:
 - groupthink:
 - reinforcing old behaviors
 - suppressing new ideas
 - creating rigidities that suppress the new

big and old don't innovate

- ◇ a related problem here is that big and old companies don't innovate, because
 - difficult to make disruptive changes; go to a board room and say that you have a brilliant idea to do things in a completely new way
 - you'll get fired
 - you better start a new company from ground up
 - path dependency, and groupthink
- ◇ examples: blockbuster and netflix; myspace and facebook

role of govt

- ◇ Porter argues that traditional distinction between laissez faire and intervention is useless
- ◇ whatever increases productivity is good
- ◇ so the govt should stay away from trade barriers, pricing
- ◇ but help with education, training, competition
antitrust(anti-monopoly), safety, environmental impact
- (from “Location, Clusters and The New Microeconomics of Competition” M Porter)
- ◇ (but income ineq!)

clusters and outsourcing

- ◇ yes, outsourcing is a powerful force and is responsible for many jobs lost to developing countries
- ◇ but so is the power of clusters and it is overlooked
- ◇ the cheapest labor and tax places often lack proper infrastructure
- hence businesses would go to more expensive China with good infrastructure than less expensive poorer countries with no infrastructure

inequality

- ◇ in global economy skilled people prosper because larger market and demand for their work
- ◇ less skilled people have to compete, on the other hand, with lower wage labor supply from poor countries
- ◇ but that's the role of public policy to make sure equal opportunity exists
- ◇ inequality and social ills are not a result of capitalism but of poor public policy (pub pol should correct capitalism problems)
- ◇ we should address root causes rather than try to prevent the competitive process
- ◇ similarly AEI: equality of opportunity instead of welfare

it's like with technology

- ◇ we can do more good and more bad
- ◇ we used to have horses and bayonets (pres Obama)
- ◇ now we have drones, nuclear weapons, etc

schooling/training

- ◇ schooling/training is much about clusters
- ◇ it is local by definition and not tradable
 - unless online...
- ◇ we should teach people skills that they will sell at local cluster
- ◇ e.g. teach medicine/nursing in Camden and get a job at Cooper...

clusters are different from industrial policy

- ◇ clusters are more spontaneous and industrial policy top-down
- ◇ industrial policy “targets” some industries for support
 - “returns to scale” is important: help “infant industries” achieve a threshold (a critical mass)
 - can subsidize, give tax breaks (but fairness?)
 - e.g. Camden Redevelopment Agency is trying that with housing giving you \$15K in incentives

location of clusters

- ◇ they are in the cities
- ◇ clusters are based on agglomeration economies, face-to-face exchange of ambiguous information, cooperation
- ◇ you need high density for that, many people in one place