

# ECONOMIC DEVELOPMENT FOR THE NEW ECONOMY

A monumental shift has occurred in economic development and for regions to thrive in this new climate, they must focus their efforts on technology, time, talent and trade, said **Dr. Richard Florida**, professor of economics at Carnegie Mellon University's H.J. Heinz III School. Dr. Florida spoke during the ACCRA conference in Pittsburgh last June.

In the new economic model, wealth, value, productivity and profit are coming more from our heads as opposed to our arms, backs and legs, continued Dr. Florida. Pittsburgh was a model of the old economy. "Pittsburgh's access to rivers, raw materials and natural resources, combined with the hard work and energy of its immigrant population, outperformed every industrial area of world," said Dr. Florida. "Pittsburgh was the first Silicon Valley, with Andrew Mellon as the first venture capitalist, providing the capital and managing teams in electricity, steel, locomotive engines, in chemistry... to bring about productivity and success. But the way success is measured today has shifted dramatically."

Dr. Florida said that in the old days of Pittsburgh, economic strength and productivity were measured by the man hours it took to produce a ton of steel - a measure of physical labor efficiency - but productivity has a completely new measure in the new era.

Today, the less things you produce and the purer the knowledge in your goods, the less inventory you have, and the less physical artifacts you have, then the larger your stock valuation," according to Dr. Florida. "Today humans are the factor of production, not raw materials. In order to be successful, then, regions need to focus on technology, trade, time and talent."

## Technology

In today's economy, technological innovation is the cornerstone of every activity. "We are going through the largest and most epochal change in the nature of economic organization and social organizations in our lives," said Dr. Florida. "It is the shift from a physical-based product to a knowledge-based produc-

tion economy. Things are still made but people create things with ideas rather than by bending metal."

In today's modern plants, machines perform much of the labor functions, and the machines are operated by sophisticated software. In the new economy, we need fewer people to perform labor and more people whose ideas bring new innovations and efficiencies to the process. In the new economy, we are harnessing the group social mind of our workforce and mobilizing its collective intelligence, said Dr. Florida.

"Knowledge is not just coming from the geniuses anymore, such as the people who work in the labs," he explained. "Everyone is part of the new economy. Every single person is a knowledge worker and contributes to the collective intelligence."

Another trend of the new economy is the involvement of America's universities. The university itself has become a force and factor in economic development. "The university is where monks used to hang out, but now the university itself is creating intellectual property that leads to new products and industries and ultimately economic growth," stated Dr. Florida.

## Time

In the new economic development era, time is a crucial factor. "We're living in an era of time-based competition and time is our most precious resource," said Dr. Florida. "The application of knowledge requires time, but we are living in a world of decreasing product life cycles."

In the past this wasn't the case. Cars, for instance, were similar from one model year to the next. This was true in the case of many products. But today a computer is obsolete six months from the day it was purchased. This process will continue to accelerate. "In the era of the Internet the first company to bring new innovations and products to market reaps enormous advantages," said Dr. Florida. He cited Amazon.com and Dell Computers as two examples. "With Dell you go online and

order the computer you want, the components are shipped into Dell, and the computer is assembled and shipped to you in a week. This process is going to happen in auto manufacturing and in all other products that we buy."

For that reason, companies need to learn more from the Silicon Valley model. "They mobilize resources quickly around an idea and move it to market 100 times faster than anyone else," said Dr. Florida.

### Trade

Dr. Florida said we used to think of global trade as regional or national production systems that made things and traded them, but this model has changed as well.

"There are no more national production systems," he said. "Every economy in the world, with the potential exception of Japan, is inter-penetrated by the investments of companies from other countries. A multinational company is a non-national company. These companies will divide national corridors. The creation of far-flung, functionally integrated but geographically dispersed production systems are the cornerstone of the new era."

Dr. Florida believes that economic development professionals need to support global efforts in order to create jobs back home. He also said that regional production complexes are a relic of the past. "The Pittsburgh region used to produce virtually every input to the steel industry," said Dr. Florida. "Detroit produced virtually every input to the car industry. In this model, suppliers were located within the same region. But today's cars are made with parts from all over the world."

Modularization is a big trend in manufacturing. More companies are breaking the manufacturing process into module processes

and outsourcing them. One example is the Volkswagen plant in Brazil. VW outsourced different modules or components of an automotive product to supplier companies. The modules are shipped to the plant and assembled into the finished product in an efficient "plug and play" process.

IBM uses a similar strategy to assemble its Thinkpad computers. IBM has contracted or outsourced various production stages to supplier companies. "All IBM wants is to own the knowledge assets, which include the product design and ideas," explained Dr. Florida. "IBM does not want to own the assets, the inventory and the liabilities."

### Talent

One of the greatest challenges for economic development professionals is to attract and maintain the talent that companies need in the new era. Those regions that offer an abundance of talents and skills will be the regions where the new era of companies will locate, said Dr. Florida.

"In a knowledge economy the talent is the fuel," he said. "Software is being created in Israel and Mexico because there are engineering and computer science schools there. Human beings are the carriers of intellectual capital."

Attracting the new breed of skilled workers is challenging and economic development professionals have to embrace new strategies to succeed. "Attracting knowledge workers is different than attracting the employers of the past," said Dr. Florida. "We just did an enormous number of focus groups with these people, and you'll be surprised what it is they're looking for in a place to live. Many of the younger workers are children of parents who were laid off by the big companies; they don't expect to work for the same company until retirement. They expect to

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## Five Principles of Economic Development in the New Age

Dr. Florida outlined five principles for economic development in the new age:

**Build the business climate of the new economy not the old** - In the past we worked to reduce the costs of businesses coming into our regions and we focused on providing real estate. Today we need to think more logically about how to increase the asset base and talent pool.

**Connect to global economy** - The cluster strategies have led us down the wrong path, said Dr. Florida. Connecting to the global economy is far more important. It's more important that your companies and universities build bridges and gateways to new markets and companies around the world.

**Build horizontal economies** - The economy is moving

from a vertical strategy to a horizontal strategy. The horizontal strategy is based on knowledge, not on goods, inventory and laborers.

**Create Holistic Agendas** - The places that are winning the battle for high technology are also winning in the areas of quality-of-life amenities and environmental quality.

**Attract Talent, Talent, Talent** - Talent is your factor of production, and economic development professionals must focus on luring and retaining talented and skilled knowledge workers.

*Dr. Richard Florida is director of the Center for Economic Development at Carnegie Mellon University's H. John Heinz III School. He can be reached at 412/268-8784.*

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## Development Symposium

Following his presentation, Dr. Florida led a discussion on what economic development professionals can do to improve their communities in the face of the shifting economy. Following are some of the ideas that were brought forward:

### **Cultivate Knowledge Workers at a**

**Younger Age** - When recruiting young knowledge workers to your community, don't just target colleges. In today's fast-moving economy, it might pay to get the word out at the high school and middle-school level and to begin to develop the skills they will need to support high-tech businesses in your region in the future.

### **Market Conceptually through Graph-**

**ics** - Today's younger workers were raised on the Internet and television and have a different way of absorbing information. Instead of relying on numbers and statistics to make your argument, use graphics to present the information. Be more conceptual.

**Identify Perceptions** - Before marketing your community, work closely with the business community - including those businesses that chose NOT to relocate in your area - to identify the perceptions that businesses have of your community. Only by identifying these perceptions will your community be able to identify an action plan to improve on them.

**Improve Partnerships with Universi-**  
**ties and Training Institutions** - Too often there is a mismatch between what employers need and what job applicants have to offer. Economic development organizations need to work closely with industry to identify those needs and work with universities and training institutions to develop the programs to develop worker skills.

**Assess the Talent in Your Market** - As knowledge-based talent becomes ever more important, communities need to do a better job of assessing the skills and talents that exist within their regions. By identifying your community's unique area of specialization, you will be better able to market your assets to outside businesses.

**Loosen up the Workplace** - The formal atmosphere of traditional industry needs to change its ways. Businesses need to become more open to casual dress codes and a more comfortable work atmosphere if they want to attract and retain today's younger knowledge workers.

### **Improve the "Visionary" Approach** -

More economic development professionals, community leaders and university professionals need to embrace and promote a visionary approach to the future. Through targeted research, surveys and cooperation among business, government and university professionals, communities will be better able to "see" their future and cultivate the programs and skills needed to meet future needs.

### **Promote International Linkages and**

**Cultures** - In addition to providing Internet support, trade activity support and other programs that help your industries succeed globally, communities need to provide "cultural" support and social organizations. Foreign individuals who work for companies in your area are more likely to come and stay if they are able to enjoy cultural diversity and friendships.

### **Promote Quality of Living Assets** -

Identify and promote tangible assets that improve the quality of living in your region. Too often communities overlook the many assets - mountains, streams, trails, etc. - that younger knowledge workers see as assets. A formal effort should be made to identify these assets and market them via brochures and websites; the websites need to register each asset via the appropriate search-engine name.

**Educate Policymakers** - Too many politicians think that by throwing money at prospective companies through tax abatement and low-interest loans that they will win their business. But policymakers need to be educated in the shift that is occurring and how important quality of life issues and talent pools have become to high-tech firms.

work for a start-up entrepreneurial firm for a period of time, then move onto the next job. Therefore, they want to be in a region in which a lot of job opportunities exist. They are also looking for quality of life."

"They want to go rock climbing, sailing, ride a mountain bike and go roller blading," said Dr. Florida. "They want to be at a place where there is lots of diversity, so that they will fit in. They are looking for a surrogate family of friends, much like the television show 'Friends', to hang out with and have fun. The amenities of the old economy - the symphony, the arts district, the ballet and spectator sports - are not as important to knowledge workers."

Some cities have taken advantage of this shift. Austin, Texas is a model in its efforts to create a high quality-of-life atmosphere and market it effectively.

### **Radical Rethinking**

In the new economy, economic development professionals need to radically rethink their efforts - and radically rethink the concept of what a region is. "We had theories for regions which are theories of mass production, access to transportation and raw materials," said Dr. Florida. "We built regions that well reflected the conditions of the mass production era. Now we need to transition this mass production mindset to a knowledge economy region in which we focus our efforts on building a human talent infrastructure."

*Richard Florida is Director of the Center for Economic Development and Professor of Management and Public Policy at Carnegie Mellon University's H. John Heinz III School of Public Policy and Management. Professor Florida serves as consultant and advisor to national, regional and state-level government agencies and multinational corporations on issues related to public policy and business strategy. He is a member of the National Research Council's Task Force on Corporate Innovation in the U.S. and Japan.*