

PLAN FOR ECONOMIC GROWTH AND JOBS

Executive Summary

A CALL TO ACTION

Chicago has a rich history of economic growth and transformation. Our city set a global standard in the 19th century as an industrial giant, unmatched in its freight network and manufacturing might. By the late 20th century, the city had expanded its focus to embrace a knowledge-based economy, while developing a highly skilled workforce. Today the Chicago region has emerged as a major hub for advanced business and professional services, and for the corporate headquarters that depend on them.

As deep-set as that tradition of transformation and renewal is, we cannot afford to take it for granted. Today, Chicago and the region face new challenges associated with sweeping changes in the global economy. These challenges have become all the more pronounced in the wake of the severe recession and slow recovery, requiring Chicago, like others to negotiate this transition at a time of severe fiscal constraints and sometimes polarizing governance at the state and national levels.

In that context, the health of our city and region demands that we lead a purposeful, concerted effort to assure our economic prosperity in the long term, just as previous generations of forward-thinking Chicagoans have done. Further, it is essential to an economy the size of ours that there be a coordinated, articulated economic development process by which the public and private sectors can align interests, investments and actions.

With these imperatives in mind and in the absence of such a process, Mayor Rahm Emanuel, as Chairman of World Business Chicago (WBC), tasked WBC to create a Plan for Economic Growth and Jobs. The guiding principles he set forth were clear. The Plan must have distinct goals. The findings and recommendations must be based on rigorous, fact-based analysis. The Plan must acknowledge and foster positive changes that are already underway. It must build on Chicago's and the region's existing economic strengths and benefit all sections of society. Recognizing that economic development today has to focus on regional issues, the Mayor directed that the Plan start with a focus on the city and look outward, facilitating partnership with the entire metropolitan region.

Importantly, Mayor Emanuel wanted a plan designed for action, not for theoretical discussion.

This first draft of the Plan for Economic Growth and Jobs is intended to embody a living process that marks the beginning of a coordinated effort to assess our economy and help it expand at a faster rate. It is designed to give direction to the vital discussion about how to make the most of the city's and the region's existing assets, and how to foster the new assets we need to flourish in the economy of the future. What we seek to provide with this Plan is a clear set of goals for economic

growth, an overarching framework for research and analysis, and an initial set of strategies against which actionable initiatives can be developed.

An important element of the Mayor's directive is that the Plan be inclusive, fostering growth not only in the central business district, but also throughout the region; not only for large corporations, but also for small- and medium-sized enterprises (SMEs), minority- and women-owned enterprises (MBE/WBEs) and Business Enterprises owned by People with Disabilities (BEPDs). The many strategies that aim to enhance exports, foster entrepreneurship and innovation, reduce the time and cost to market, and promote a transparent business environment benefit SMEs, MBE/WBEs and BEPDs throughout the city and the region.

Clearly, strong schools, safe streets and stable state and local finances are critical for successful economic development and sustained growth. The Plan acknowledges this, but the Plan does not diminish the need for comprehensive planning with regard to poverty, education, housing, public health, safety, transportation, the environment, community development, and overall quality of life. In that sense, it is a focused Plan for Economic Growth and Jobs.

We welcome all comment and input on the goals articulated, the facts and figures underlying the analysis, and the initial strategy set. We fully expect the Plan to improve as stakeholders across the city and region provide input, embrace particular strategies, and ultimately participate in the development of specific initiatives designed to drive the strategies. In the course of formulating this Plan, we have already seen new networks of collaboration arise and we expect them to grow stronger as the process continues.

We hope that by setting explicit goals with a clear analytic framework and specific strategies, as we do here, we can encourage regional stakeholders to join in a common effort to help secure Chicago's and the region's future prosperity.

The Plan begins by laying out a set of goals. Specifically, they are to accelerate growth in:

- Gross regional product (GRP)
- Employment
- Productivity
- Income
- Wages

We then present a rigorous analysis of five market levers that drive growth: our economic sectors or clusters, our human capital, our capacity for innovation and entrepreneurship, our physical and virtual infrastructure, and our public and civic institutions. We assess our relative strength through each of these levers, gauge how they match up to competing regions in terms of fostering productivity, income, and jobs and consider future prospects for those sectors. From this analysis, ten initial strategies logically emerge, which we believe best position the

specific advantages of Chicago and the region within the context of the global economy.

We recognize that many studies and recommendations have been produced in the past. While the Plan builds on those previous efforts, this Plan is different in several essential ways;

- It is grounded in sophisticated economics and rigorous market analysis, it is not merely aspirational;
- It is designed as an ongoing, living process – not a one-time project – that welcomes collaboration, and its strategy and initiatives will be continually updated as the economy evolves;
- It provides an integrated framework for analysis and identifies strategies based on our unique assets that can guide the decisions and collaborations of the city’s and the region’s leaders, and help reduce the risk of fragmented efforts;
- It has built-in accountability, and will be maintained, refreshed, and its progress tracked over time.

Our city and our region have a strong record of adopting bold collective action. We hope that diverse stakeholders see this Plan as a helpful starting point for the next stage in that great tradition. There are already many projects underway to prepare and strengthen the city and the region for the economic challenges that lay ahead. This Plan seeks to put those efforts, and others that will be the result of fruitful collaboration, in the context of clear goals, a common framework for analysis, a set of logical strategies, and ultimately initiatives that will advance the strategies. If this process guides our work together over the next decade, the Chicago region will be better able to realize its full potential as an economic powerhouse in the new global economy.

The Challenge

Metropolitan areas are the engines of the U.S. and global economy, and ours is an especially powerful one with singular advantages. First among them is its sheer size. Chicago is the only inland American city with a global footprint. It is the third-largest U.S. metro area, with a 2010 gross regional product (GRP) of approximately \$500 billion. If the Chicagoland area were a country, it would rank as the 20th largest economy in the world. Chicago is the only region in the United States projected to pass the threshold that defines a “megacity”— a metropolitan population of more than 10 million people ⁱ—by 2030.

Across five key market levers, the region boasts the following assets:

- *Economic sectors and clusters.* The Chicago region's economic base is exceptionally diverse, with no single sectorⁱⁱ comprising more than 13 percent of total employment. Approximately two-thirds of its total 2010 output came from its largest and strongest sectors: finance and business services, wholesale and retail, manufacturing, health care, and transportation and logistics.
- *Human capital.* The Chicago region's workforce is a highly educated and diverse pool of nearly 4 million workers. The proportion of our population with a bachelor's degree or higher outstrips the U.S. average,ⁱⁱⁱ and the metro area is home to several world-class undergraduate and graduate educational institutions.
- *Innovation and entrepreneurship.* The Chicago region has gained considerable momentum in innovation in the last few years. Thanks to a remarkable flurry of entrepreneurship, Illinois now ranks second in the nation for its number of high-tech start-ups.^{iv} In recent years, annual venture capital investments to Chicago's start-up firms have risen to over \$1 billion for the first time since 2000.^v
- *Physical and virtual infrastructure.* The Chicago region is a global hub for moving people, goods, and information. Our airports service nonstop flights to over 200 destinations throughout the world.^{vi} Roughly 25 percent of all domestic rail freight either originates in, terminates at or passes through Chicago.^{vii} The CTA and Metra system provided more than half a billion rides in 2010. The region also possesses significant digital infrastructure assets, with fiber optic lines laid along rail lines and a strong hub status for computing networks.^{viii}
- *Public and civic institutions.* The Chicago region has a tradition of highly engaged corporate, labor, civic and community leaders who have partnered with the public sector on transformative projects ranging from the comprehensive Burnham Plan of 1909 to the reversal of the Chicago River at the turn of the 20th century to the creation of Millennium Park in 2004. Effective public-private partnership continues in several large-scale initiatives currently under way, including the CREATE program to minimize rail freight congestion, the expansion of O'Hare airport, and ongoing efforts to reinvent cultural and public institutions.

Despite these strengths, the region has lost momentum over the last decade and faces unprecedented challenges in the face of new global economic realities. Greater Chicago's annual GRP, while impressive, has grown at just half the average U.S. GDP rate (0.8% vs. 1.6%) during the past decade. Our GRP per capita has also grown more slowly than that of other major U.S. cities, such as New York and Los Angeles.

Between 2000 and 2010, the rate of employment in the Chicago region declined by an average annual rate of 0.7%, as compared to a decline of 0.15% in the

national average. We have been gradually adding back jobs lost in the recession, but in 2010-2011 the Chicago region ranked 139th among the largest world metro areas in employment growth.^{ix} In addition, our region has experienced slow annual growth in population (0.4% vs. the nation's 0.9%) and productivity has dipped in recent years.^x

Chicago's economic performance can be much improved if we can address some of the troubling underlying market dynamics of the past decade:

- *Economic sectors and clusters.* Despite their size and strength, key sectors are underperforming. Manufacturing is highly specialized in Chicago, but productivity, especially among small- and mid-sized firms, lags behind the national average. The transportation and logistics sector is seriously threatened by congestion and aging infrastructure. Tourism in the region has registered reductions in visitors and spending, and promotion efforts are inefficiently divided among many organizations.^{xi} And while Chicago ranks third among U.S. metro areas in total export volume,^{xii} it still lags peer cities in the proportion of goods exported; we still serve too domestic a market.^{xiii} Fewer than 5 percent of our small- and medium- size businesses^{xiv} export goods, even though they are strong in producing many of the manufacturing products and business services that will be in great demand in emerging markets in the next decade.
- *Human capital.* The shift in Chicago's regional economy toward new industries is creating challenges for workers who have lost jobs and may not have the skills necessary for available new jobs. The demand for low-skilled workers continues to decrease, but labor shortages are particularly evident among jobs that require mid-skilled workers.^{xv} Trends suggest that in the years ahead, the demand for high-skilled employees will increase twice as fast as the demand for lower-skilled workers, and will be particularly strong in a specific subset of occupations, such as engineering and technology. Furthermore, we are not able to make the most of our human capital assets, partly because of shortcomings in our education system. Foreign-born residents have lower educational attainment levels than the regional average, and the black-white achievement gaps in mathematics and reading are above the U.S. average.^{xvi} The workforce training system is often fragmented and not well aligned with the needs of employers.
- *Innovation and entrepreneurship.* Opportunity still exists for broader innovation activities where the region has historically lagged. Our research and development (R&D) spending and ability to commercialize ideas fall short of national norms. Many of our more mature industries have lower rates of productivity than their competitors in other parts of the country, suggesting comparably low rates of innovation in the region's most historic industries, such as manufacturing. Many of our research and development assets, from university research to angel investors, are

not well connected, lacking critical mass to form a high functioning innovation ecosystem.

- *Physical and virtual infrastructure.* The region's traditional infrastructure assets in transportation, energy, technology, and water need upgrading and modernizing to better connect isolated neighborhoods and unemployed workers to jobs and meet the broader challenges of a global economy. Upgrading and transforming Chicago's infrastructure requires large amounts of funding from state and federal sources. A lack of sufficient funding and challenges in coordinating responsibilities among the multiple agencies responsible for these vital projects has left too many projects undone.
- *Public and civic institutions.* Metropolitan Chicago's many jurisdictions leave it with a large and highly fragmented system of government. Businesses must often navigate a complex bureaucracy to accomplish routine tasks, such as licensing their operations and obtaining building permits. Economic development activities are also highly fragmented: more than \$2 billion in spending and tax incentives are meted out each year, but more than 100 organizations are involved in the process.^{xvii} The Chicago region receives mixed reviews on its tax value proposition, or the type and quality of public goods that government provides in return for tax dollars. In surveys, businesses rate the region highly on some public goods provided through taxes – for example, location, talent, quality of life, and cost of living. But businesses rate the region less favorably on taxes, incentives, and permitting/regulations.^{xviii} Fiscal imbalances and the concern they create inhibit economic activity.

A clear sense of the problems is the first step towards a solution. We must reverse these shortcomings in order to flourish in the new global order.

The Way Ahead

This Plan aims to assure that Chicago's and the region's future is productive and prosperous. We must make the most of our assets – our central location, our global logistics infrastructure, our manufacturing promise, our immigrant network, and our leading universities – to tap and engage market opportunities around the country and the world so we can better serve families, businesses, and neighborhoods here at home. We will know we have succeeded when we see measurable improvements in the region's economic output, jobs, productivity, income and wages.

We believe the following ten strategies, which logically flow from the rigorous analysis of the five market levers laid out above, have a direct effect on our economic prosperity and lead to initiatives that greatly improve our overall quality of life. Importantly, we believe these strategies revitalize neighborhoods and bring benefits to all communities, generating accelerated growth not just in

large firms, but also in small and medium-size businesses and minority and women owned businesses. These strategies promise more entry-level jobs and higher-wage opportunities for mid-skilled workers in manufacturing and other high-demand occupations. Enhancing Chicago's position as a globally-connected metropolitan region means more than achieving a vaunted spot on performance charts; it means a better life for all residents.

The strategies build upon existing growth initiatives; best leverage the metro area's many advantages; and are meant to inform private and public investment decisions, beginning immediately. They should be used to guide the development of specific initiatives that contribute to the city's and the region's future strength.

- *Strategy 1: Become a leading hub of advanced manufacturing.* We should make a clear commitment to support and accelerate the growth of advanced manufacturing industries, building on our strong manufacturing base. We should help such firms train or access skilled workers, and aid them in applying R&D funds in ways that add new value to existing assets.
- *Strategy 2: Increase the region's attractiveness as a center for business services and headquarters.* We should retain our current headquarters, attract U.S. companies considering relocation, and position Chicago and the region as the location of choice for global companies seeking to establish North American headquarters and the business services firms they rely upon.
- *Strategy 3: Enhance our competitive position as a leading transportation and logistics hub.* We should reduce congestion, improve aging infrastructure, develop logistics parks, and support the firms and industries poised to capture future innovations in the sector.
- *Strategy 4: Make Chicago a premier destination for tourism and entertainment.* We should develop new tourism-related products and programs, upgrade existing attractions and quality of place, and improve the convention and business travel experience. We should increase our investment in strategic marketing and promotions and leverage our relationships to attract visitors from all over the world.
- *Strategy 5: Make Chicago a nationally leading exporter.* We should boost the city's and the region's exports by connecting companies, from various sectors and of varying sizes, with suitable global market opportunities. We should help companies improve their export readiness by providing general expertise, links to resources, and one-on-one support and mentoring. We should also leverage resources at the federal, state, and local levels and support reciprocal trade activities.
- *Strategy 6: Develop our workforce in a demand-driven and targeted manner.* We should set up a better framework for employers to articulate their employment needs; guide trainers and educators in creating demand-driven curricula, programming, and counseling that lead workers

into sustainable careers; and funnel funding to appropriate programs. We should produce, retain and attract more graduates in engineering and technical fields by increasing the quantity and quality of applied-science institutions, building interest in the fields they support, and providing connections to jobs and entrepreneurial activity.

- *Strategy 7: Support entrepreneurship and foster innovation in mature and emerging sectors.* We should build on recent entrepreneurial momentum by expanding the networks that connect entrepreneurs with customers, venture capital, and mentorship opportunities. We should implement new, targeted initiatives focused on promising clusters. And we should facilitate stronger connections between academic research and private industry to promote higher rates of innovation in our firms and to increase industry-driven research, development and commercialization at universities.
- *Strategy 8: Invest to create next-generation infrastructure.* We should identify and prioritize the investments most likely to advance the city's and region's goals, and we should create innovative, merit-based infrastructure-financing systems that support large-scale transformative investments as well as maintenance and operations.
- *Strategy 9: Develop and deploy neighborhood assets to align with regional economic growth.* We should nurture neighborhoods that foster continuous development of talent, businesses, and real-estate assets. We should design policies and programs that enable neighborhoods to leverage their unique economic assets that specifically support the strength and growth of small- and medium-size enterprises (SMEs), minority- and women-owned enterprises (MBE/WBEs) and Business Enterprises owned by People with Disabilities (BEPDs), and the emergence of mixed use communities that attract and serve residents with convenient transportation, robust communication networks and vital markets.
- *Strategy 10: Create an environment in which businesses can flourish.* We should encourage government institutions to facilitate a more open and accessible business climate by streamlining processes and engaging residents and SMEs, MBE/WBEs and BEPDs directly. We should also create clearer accountability and transparency through tracking and publishing performance metrics and streamlining basic support processes. We should reconcile fiscal imbalances and strive for an improved clear tax value proposition.

We are convinced that these strategies, taken together, will accelerate and enhance the growth of our economy for all citizens.

The Next Steps

This draft of the Plan for Economic Growth and Jobs marks a crucial start in preparing the Chicago region for growth from now to 2020 and beyond. The Plan has the potential to give rise to a new way of thinking about, planning for, and working together to ensure Chicago and the region’s future economic growth and competitiveness.

WBC envisions a collaborative process to oversee the Plan; refine its strategies; design and implement initiatives and link them to broader developments; monitor and publicly report on overall progress; and update analysis. While the City commissioned the Plan, it was founded on the principle that the economy is indeed regional. For each of us to be successful, we must all be successful. We, therefore, invite the careful consideration of government, civic, labor, corporate and metropolitan area leaders and residents to review this first draft, provide feedback, and offer suggestions. Ultimately, the value of this effort will be seen in the alignment of priorities across the city and region, as well as in the success of the specific initiatives that advance each strategy.

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Chicago has a great tradition of leaders who join together and take action to overcome challenges and achieve progress, from rebuilding after the Great Fire to implementing Daniel Burnham’s Plan of Chicago to reversing the flow of the Chicago River. The economic challenges that face our city and region today must be addressed with similar energy, innovation, and determination. If we act strategically now, we can secure a prosperous future.

ⁱ A “megacity” is defined as a metropolitan area with a population of over 10 million; besides Chicago, all other future “megacities” are expected to emerge in the developing world (see “Urban world: Mapping the economic power of cities,” McKinsey Global Institute, March 2011). New York and Los Angeles are the two existing U.S. megacities.

ⁱⁱ Defined here as two-digit NAICS groupings (e.g., manufacturing, retail trade, education, health care, accommodation and food services, etc.).

ⁱⁱⁱ U.S. Census Bureau, American Community Survey, 2005-2009 Estimates.

^{iv} Cyberstat report, 2011

^v Illinois Innovation Index publication of Illinois Venture Capital Association data, Chicago Tribune; National Venture Capital Association analysis of PWC Moneytree report; 2011.

^{vi} Chicago Department of Aviation, Budget Hearing 2012, p. 2.

^{vii} Chicago Region Environmental and Transportation Efficiency Program (CREATE), Final Feasibility Plan, p. 9.

^{viii} City of Chicago, Department of General Services, Request for Information, Chicago CivicNet, 2001, pp. 20-22, Data Center Knowledge.

^x Brookings Institution, “Global MetroMonitor: The Path to Economic Recovery, 2011”

^{xi} According to a Civic Consulting Alliance analysis, other cities spend fewer marketing dollars per visitor but achieve higher levels of spending per visitor (i.e., Boston and Atlanta). New York City, Los Angeles, and Orlando all spend moderately more per visitor but achieve much higher returns in terms of spending per visitor.

^{xii} Brookings Institution Metropolitan Policy Program, “Export Nation” data for U.S. exports, calculated by Metropolitan Statistical Area. Total export volume for 2010 was calculated by summing 2003 export volume (calculated by summing the product of national exports for a given industry by percent of national GDP for that industry produced in the MSA), \$38.5 billion, and additional export volume created from 2003-2010, \$17 billion. Chicago is third behind New York (\$83 billion) and Los Angeles (\$81 billion).

^{xiii} The World Bank, “Exports of Goods and Services as % of GDP,” available at:

<http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS> (last visited December 21, 2011).

^{xiv} According to Small Business Administration definition of firms employing fewer than 500 employees.

^{xv} Brookings analysis of IPUMS and BLS data.

^{xvi} National Center for Education Statistics, 2009

^{xvii} Metropolis Strategies analysis of economic development spending by major government entities (e.g., the State of Illinois and City of Chicago) and nonprofit organizations.

^{xviii} Illinois Chamber of Commerce Opportunities and Challenges of Doing Business in Illinois: A Survey of Illinois Commercial and Industrial Real Estate Agents and Brokers: 2008.