



Regional Innovation: When the Sum Is Greater than the Parts



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Kausar Hamdani: *Welcome to the Federal Reserve Bank of Atlanta's Economic Development podcast series. I'm Kausar Hamdani with the Federal Reserve Bank of New York.*

Regional concentrations of firms and industries, sometimes also referred to as "regional clusters," can produce synergies that support and spur economic development. While these regional interactions may occur naturally and spontaneously, a heightened focus on strategic collaboration can be beneficial, especially in times of increased competition for resources as today. Economic development practitioners have an important role to play in fostering partnerships among these entities to support job growth and investment in their communities.

Today I'm speaking with John Fernandez, the assistant secretary of commerce for economic development since his appointment in September 2009. As the administrator of the U.S. Economic Development Administration, he has implemented strategies to align EDA's resources and programs to drive 21st-century development and increase job creation. Previously, Assistant Secretary Fernandez served as the mayor of Bloomington, Indiana, from 1996 to 2003.

Assistant Secretary Fernandez, thank you for speaking with us today.

John Fernandez: It's my pleasure, thank you.

Hamdani: *Let me start by asking, what is meant by "regional innovation," and how does this approach help communities create jobs?*



Fernandez: Well, I think it's a great place to start. And to put it in context, we often talk about the national economy in the United States as if it's a single, homogenous economy. But there is a body of research that would suggest that, instead, there's actually a network, or patchwork even, of heterogeneous regional economies all with their own unique DNA, their own comparative strengths and opportunities. What we try to do through the regional innovation strategies is build on the comparative strengths that a particular region has, make it a market-driven initiative where we can get the alignment of public strategy in terms of policy development, infrastructure, workforce, get an alignment of those public investments with the market-driven sectors that have comparative strength and growth opportunities so that you've got a regional strategy moving in the same direction, fueled by innovation, and just having that faster, better return on investment for the private-sector and public-sector investments.

Hamdani: *We know that the private sector is a critical engine for job creation. What is the role of the private sector in regional innovation?*

Fernandez: It's the private-sector jobs, private-sector innovations—new companies, new products, new processes—that are the fuel for growth in our economy and expansion of wealth, and importantly, opportunities for careers and employment for our people. And so, we need a macroeconomy that supports private-sector growth, but we also need more microstrategies or regional strategies that can help accelerate that private-sector growth. In the context of our regional work, particularly as it relates to regional cluster development, the private-sector leadership is essential. We look for investments where there is a public-private partnership, but that partnership really has to have very committed, visionary, and focused private-sector leadership. And that way you're bringing much more of a market-driven strategy to the regional economic development strategy, and you do get better lift and better alignment of your public investments, particularly in education, in the talent pool development, in shared infrastructure—more of that kind of "innovation infrastructure" that builds an ecosystem where companies can accelerate their growth, accelerate development, have new ideas and new products.

Hamdani: *Can you point to a region where this "regional innovation" approach is already happening?*

Fernandez: The life sciences work in Indiana is a good example. BioCrossroads is a very well-established and successful public-private partnership that was developed to support the growth and expansion of our life sciences economy. BioCrossroads, the creation was driven by private-sector leadership (particularly from Eli Lilly) in alignment with strong university leaders and government leaders, all three coming together to develop a strategy to support the growth of that industry as an important way to build on a comparative advantage we already had, but also to help diversify Indiana's economy so it would have more sustainable economic opportunity.

There are many examples of these kinds of regional strategies and regional clusters that have developed throughout America over the last couple of decades. In many instances, these strategies are developed in response to concerns about changes in a region's economy where they may see decline in certain industries that historically played a very large role in wealth creation and job creation. And the civic leadership said, "How do we build on the strengths we have to pivot our assets into growth opportunities?"

So if you look at Pittsburgh, as an example, big steel town, big impacts from decline in that industry, they came together as a region, as a community, and said, "What's next for us?" And now you see a very deliberate strategy to support the advancement of robotics as a sector, great success there (they've had other industry sectors that are important to them).

In northeast Ohio where some of the traditional manufacturing was in decline, the leadership came together from multiple places—philanthropy with the Knight Foundation, the universities, places like University of Akron with tremendous leadership there—and company leaders came together and recommitted themselves to an advanced manufacturing agenda, which is probably one of the most complex in terms of the level of collaboration among regional economic development organizations and the private- and public-sector leaders in northeast Ohio.

In Atlanta, and in Georgia, certainly the medical device industry, you have a very robust cluster initiative there that's having tremendous success in new business creation, innovative new design work that's creating products and jobs.

This is not a unique strategy in the sense of domestic activity here in the United States, this is a pretty well-developed and proven strategy to accelerate sustainable economic growth that many of our competitors are putting serious resources behind, and that's why it's important for this administration that we do a much better job of aligning federal support to drive these kinds of regional strategies. It's the strength of these regional innovation economies that are going to aggregate up into the national lift we need in terms of sustainable, competitive job creation and growth.

Hamdani: *So let me build on that thought a little bit. It sounds as if collaboration is a key element of success in these specific examples you just talked about. So, how can government agencies and supporting entities work together to support America's regions for that competitive advantage that you've been describing? What more can be done for ideas to grow out?*

Fernandez: There are really two elements of what the public sector, in particular, the federal government, can do to drive this strategy into our regions at a higher level. One is to use the incredible convening power that government officials have, and it doesn't cost a lot of money to do that either. But there are still parts of the country where this kind of collaboration isn't happening, and we have the capacity through some convening power, either in terms of deliberate initiatives where we are pulling people together for a singular event, or more importantly, as we use many of our competitive grant initiatives as a way to drive collaboration, to build new consortia, new partnerships to compete for federal support for these various cluster initiatives. So that convening power can be an important role for government agencies at the state and local level as well.

The other thing that the federal government can do to be more helpful, frankly, is to consolidate and get better alignment of the different programs that are available through the federal government to support a region's particular strategy. So, if you look at how the federal government traditionally is organized, you have a separate department for education, a separate department that handles workforce development, you've got a different department that's focusing on infrastructure. We can do best to support these regional collaborative efforts by collaborating at the federal level as well. And I think that combination of convening and aligning our own agencies to support these clusters in a more deliberate way are critically important options and methods that the federal government can accelerate regional innovation cluster throughout the United States. And, in fact, that's exactly what we've been doing over the last two years.

Hamdani: *So, maybe we can highlight the role of one of your offices. I know the EDA has an Office of Innovation and Entrepreneurship. How does this office, perhaps in conjunction with your other regional offices, work with state and local economic development entities to support the regional innovation that you've been talking about?*

Fernandez: The Office of Innovation and Entrepreneurship is a new development within the Economic Development Administration. That office is really like our own R&D shop where we're looking for promising practices from around the globe that represent some of the best strategies for innovation-fueled 21st-century economic development. It's about collaboration, it's about linkage, and it's about getting these different components of what we might describe as a regional innovation ecosystem developed and working together to support private-sector growth.

An example would be, a national priority is developing better strategies to commercialize the federally funded research that occurs in our universities as well as our labs. The Office of Innovation and Entrepreneurship develops different methodologies and ideas, one of which was the use of "proof-of-concept" centers as a way to accelerate commercialization of research, to create new products and new companies. So we ran what was called the i6 Challenge—an interagency collaborative project to go out and fund the best proposals to accelerate commercialization and research. And we did a round of i6 competitions in fiscal year 2010, and fiscal year 2011 we did a second round, and in each instance we got way more proposals than we could fund. But they were *catalytic* competitions in the sense of bringing the collaboration together around growth industries in a particular region, then our dollars help move their model forward faster so that we can get the product development, business development, and job creation moving at a higher rate.

Hamdani: *Well, this has been a most interesting conversation. You've certainly broadened my understanding of this exciting space that I was not that aware of. Thank you so much for joining us today.*

Fernandez: Well, it's been my pleasure, and I really appreciate the opportunity to share some thoughts with you and your listeners.

Hamdani: *This concludes our podcast. We've been speaking with John Fernandez, assistant secretary of commerce for economic development. For more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please e-mail us at podcast@frbatlanta.org. Thank you for listening.*

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