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Innovation and Education: Renewing the Northeast Ohio Economy

Introduction

Today, I would like to talk with you about renewing the Northeast Ohio economy. I will discuss the economic transition that our region is undergoing, the importance of innovation for our region's future, and the role that education will play in sustaining our prosperity in the 21st century.

The Role of the Federal Reserve System

As you can imagine, my colleagues and I spend a lot of time examining the forces that determine our economic prosperity. I would like to begin by giving you a little background on the Federal Reserve. The Federal Reserve System has a unique structure that is both public and private. The Board of Governors in Washington is the public aspect of the System, and the 12 Reserve Banks across the country are the private aspect.

I head the Federal Reserve Bank of Cleveland, and my district is the Fourth District, which includes all of Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia.

The Federal Reserve Bank of Cleveland conducts economic research, provides financial services, and supervises banks. We take a special interest in issues that involve community development, the health of our region's financial institutions, and the overall economic climate. We also gather information about national and regional business conditions that is used in the monetary policy process.

Our policy task is straightforward, but it is certainly not simple. The Federal Reserve System is charged by Congress with maintaining price stability - in other words, low and stable rates of inflation - and with achieving maximum sustainable economic growth. You might think that these two goals are at odds, but in fact they go hand in hand. The only way that the Federal Reserve can contribute to the national goal of maximum sustainable economic growth is by maintaining price stability.

We know that our monetary policy decisions can have a profound effect on the overall course of our economy. Some may believe that our decision-making process operates in some kind of ivory tower. But our policies are actually informed by the careful monitoring of business trends and by real-time input from businesspeople throughout our region. And although monetary policy is national in scope, we are well aware that different regions of the country face their own special circumstances and challenges.

Additional Information

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Economic Transition in Northeast Ohio

Let me now turn to the economic challenges facing our region. More than four million people live in the 15 counties that make up Northeast Ohio. Compared with the rest of the country, we are still predominantly a region that manufactures, coats, polishes, extrudes, and extracts. After a century of relying on the heaviest types of traditional industry - coal, steel, automobiles, rubber, and electrical equipment - we have been deeply affected by global trends, including rapidly changing technology and increased international trade. These trends have led to a decline in manufacturing jobs and a growing wage differential between high-school and college graduates.

Deep currents of change have swept over our industrial landscape. Economists call this process "creative destruction." It is a natural, and indeed a necessary, part of our economic development, as the familiar industries of the past are replaced by the innovative technologies that will shape our future.

As relentless as the ebb and flow of tides, economic change will direct resources to wherever they are most productive. Capital and creative energy - and eventually jobs - will flow toward the new goods, services, and processes that will deliver greater value than the old ones.

Of course, creative destruction can be an uncomfortable process. But it is the absence of this healthy ebb and flow that should concern us. The common perception is that Ohio has had a higher-than-normal share of plant closings. In fact, Ohio's rate of plant closings has been about 25 percent less than the nation's. Unfortunately, Ohio's rate of plant openings is also 20 percent less than the nation's. The net result is that our state's economy is less dynamic than it should be to sustain healthy growth.

Even during the so-called "boom" years of the 1990s, our region struggled to keep pace with the national level of growth. A few statistics illustrate the problem. During the 1990s, the growth in employment nationwide was 21.3 percent; but in our 15-county region, it was only 11.5 percent. Wages follow a similar pattern. The increase in the average annual wage nationwide was 51.5 percent; but in our region, it was just 37.8 percent.

Nonetheless, our region's transition does not necessarily mean we have to live in a world with downsized dreams, or less productive industry, or less prosperous communities. Far from it. Looking ahead, we can foresee economic change that opens the way toward a future every bit as prosperous as our past - if we prepare for it, if we plan for it, and if we summon the resolve to embrace new opportunities.

We have many strengths that provide a solid foundation for future growth. We have a wealth of established companies and a promising array of emerging technology firms. We have a large concentration of financial expertise and legal talent. We have fine public and private universities, and an outstanding health-care sector.

Here in the Mahoning Valley, you have made an impressive commitment to bringing those resources to bear on civic transformation. The rigors of economic change have tested your resilience, but they have also inspired your imagination. Initiatives like the Youngstown 2010 Citywide Plan, the Fund for Our Economic Future's "Voices and Choices" program, and the continued growth of Youngstown State University - all have fixed their focus on the region's future.

Your efforts underscore some of the reasons why I am confident

about the potential for renewal in Northeast Ohio. They show that every sector of society - public and private; for-profit and non-profit; philanthropic and academic - can contribute to renewal. They also reflect the economic reality that as an area with shared interests, our region will succeed or fail as one cohesive economic unit. Even more, your civic activism illustrates the importance of innovative thinking to drive economic change.

The Importance of Innovation

Now I will take a moment to comment on the importance of innovation for our region's future. Innovation is the mainspring for economic renewal. Our greatest strength for the future will be our ability to imagine new technologies, to embrace change, and to remain flexible amid evolving economic conditions. Our economic growth has always been spurred by our eagerness to embrace new ideas.

Consider our region's history. Why was it that Northeast Ohio emerged, more than a century ago, as an industrial powerhouse? Geography was part of it, because we were in a favorable position along the westward transportation routes. Access to natural resources was part of it, also. But the main reason was that our innovators had the ingenuity - backed by the commitment of capital - to invest in the industrial processes that moved America, and the world, toward new economic heights. We still remember the names of those restless innovators - people like Rockefeller, Hulett, and Goodyear.

Our traditional industries have diminished over time. However, we are not the first, nor will we be the last, region to face this situation. Take a look at some of our country's currently successful areas, and you will see that they also went through difficult transitions.

For example, a famous billboard from 1971 asked, "Will the last person leaving Seattle turn out the lights?" At the time, the decline of aerospace and timber seemed to spell doom for that city. Now, of course, Seattle is known as a major center for software and the coffee trade - businesses that the city hardly even dreamt of in 1971. Also, think of North Carolina's Piedmont region. This area faced steady declines in its core industries - tobacco, textiles, and furniture - before becoming the "Research Triangle" and a major banking center today. Innovation made these successes possible.

Our region now requires new waves of innovation. The task for Northeast Ohio is to educate a new generation of innovators and entrepreneurs, to encourage their creativity, to invest in their potential, and to promote their access to worldwide markets.

Celebrating the entrepreneurial spirit - as this awards ceremony does - is part of that process. Funding academic research is another vital element. Supporting business startups is pivotal, to move innovations from the labs to the factory floor, thus creating new jobs. We must orchestrate all of these conditions, and more, to create a dynamic regional economy.

A sensible growth strategy must build on our existing strengths - using the industrial knowledge and workplace skills from older industries and applying them to new tasks. Our region's recent success stories - in polymers and plastics, for example - give us hope that we can promote similar growth in such areas as fuel cells, nanotechnology, and biotechnology. Such a strategy must engage all of us.

Why Education Matters

Finally, I would like to talk about the role that education will play in sustaining our economic prosperity. In a global economy that grows more competitive every day, the words "education" and "opportunity" are becoming increasingly synonymous. For the individual, a high-quality education is a decisive stepping-stone to increased earning power. For the region, creating a civic culture that supports education is the most promising pathway to creating a base for innovation.

Raising the level of educational attainment among our citizens fosters inventiveness, ensures workplace flexibility, and expands our knowledge base. Investments in education today can - if other conditions are right - generate dramatic new productivity growth tomorrow.

The fact is that Northeast Ohio lags behind many other regions of the country in levels of educational attainment, and nowhere is that more evident than in our largest cities. In an economy that increasingly runs on brainpower, making effective investments in our people must be among our foremost priorities.

Investments, after all, come in many forms. Long ago, when Ohio was along the pathway to the Western frontier, our region thrived because we invested in the physical capital of our infrastructure - roads, bridges, canals, and then the railroads. As our manufacturing ingenuity was making us a national leader, we prospered because we focused on investing in industrial capital: in workshops, mines, refineries, and then the large-scale manufacturing plants that became the heart of Northeast Ohio's signature industries. As we look ahead, our prospects depend on our commitment to invest in intellectual capital: the knowledge base of our students, the technological skills of our workers, and the imaginative power of our inventors.

We still have some research to do as we build that intellectual capital. The Federal Reserve Bank of Cleveland intends to play an active role in this effort. Next month, we will convene a conference that will bring together more than 100 experts on education policy and economic development to discuss the latest research on how we can meet the education challenge.

There is a practical way that you - the business leaders in this room - can contribute to meeting this challenge as well. By recognizing and rewarding those who elevate their job skills, you can encourage others to raise their skill level. As employers signal that they expect workers to pursue a continuous process of training and retraining, they will help inspire our entire workforce to reach higher than ever before.

Conclusion

In conclusion, I applaud your commitment to a civic culture that promotes economic creativity, encourages investment in new technologies, and champions education.

The late Lew Platt, the former head of Hewlett-Packard, once advised business leaders that "Formerly successful companies did not make gigantic mistakes ... the only real mistake they made was to keep doing whatever it was that had made them successful for a little too long."

So it is for our region. Instead of resisting change, we must prepare for new opportunities by rethinking our approaches, retraining our workforce, and investing in new initiatives.

In this effort, I know that we can remain confident in our region's resourcefulness, and we will remain committed to building an economic future that will be as enriching, and as ennobling, as our past.

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