



Chicago Metropolitan
Agency for Planning

233 South Wacker Drive
Suite 800
Chicago, Illinois 60606

312 454 0400
www.cmap.illinois.gov

REGIONAL ECONOMIC DEVELOPMENT STRATEGY MEMO

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Introduction

The global economy is undergoing a fundamental transformation, driven by technological advances in information, transportation, and manufacturing technology. For the Chicago region, global trends are interacting with troubling trends in demographics and fiscal uncertainty to hamper robust economic growth. Metropolitan Chicago remains a global center in today's service-based economy, built in part on its diverse manufacturing sector and position as the critical transportation node in North America.¹ Yet, following the recession, the region's growth lags behind comparable peers. These shifts underscore the need to coordinate economic development efforts and, when appropriate, to align local objectives with regional growth goals. Given today's economic realities, metropolitan Chicago must develop strategies and dedicate resources to support the economy.

Acting on the CMAP Board's guidance, analysis for the ON TO 2050 plan aims to refine existing policies, explore limited new policy areas, and develop more specific implementation strategies. This strategy memo focuses on major shifts in economic development activities since GO TO 2040 was adopted in October 2010. As in the previous plan, ON TO 2050 will emphasize regional economic development built on coordination, collaboration, and support for traded industry clusters. Given today's limited public resources, public investments in economic development must leverage the Chicago region's unique assets and opportunities amid a changing global market. This memo is one of three that develop strategies to improve the region's economic resilience; two others discuss human capital and innovative capacity. Together, these memos will inform ON TO 2050 recommendations to retain high-quality talent and businesses, enhance local strengths, and foster strong economic and population growth.

Research and stakeholder engagement

To develop this strategy, CMAP staff reviewed literature, analyzed data, identified major policy developments since GO TO 2040, and consulted partners at organizations that directly impact regional economic development goals. Stakeholders included individuals working in sub-regional economic and community development, traditional and technical education, private utilities and real estate development, education and training funding, and economic development research. Stakeholders helped to identify the region's emerging needs for enhancing the region's competitiveness, potential opportunities available to residents and businesses, and how such needs can best be addressed in long-range planning.

CMAP staff also solicited feedback on the strategy from the agency's working committees, particularly the Economic Development and Human and Community Development working committees. Both the interviews and presentations to the working committees provided feedback on the relationship between more robust economic growth and efforts to further

¹ CMAP report, "The Freight-Manufacturing Nexus: Metropolitan Chicago's Built-in Advantage," 2013, <http://www.cmap.illinois.gov/economy/industry-clusters>.



improve the region's workforce development and innovative capacity. Such feedback helped shape and refine the recommendations in this report.

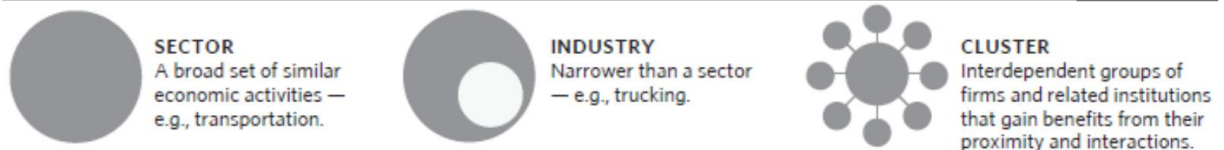
The need for metropolitan coordination

Metropolitan areas power the growth of today's evolving global economy as industries benefit from close geographic proximity and related economies of scale. Such benefits include deep labor pools, better access to suppliers, and knowledge spillovers. These effects catalyze economic activities and employment growth.² The share of metropolitan output has steadily grown in past decades. In 2015, more than 80 percent of the world's output -- and nearly 90 percent in the U.S. -- was generated in metropolitan economies.³ With growing frequency, people, goods, services, knowledge, and capital move across borders. Increasingly complex supply chains extend globally and some employers can more easily access a worldwide workforce. These dual forces are driving greater competition among specialized industry clusters embedded in metropolitan regions worldwide. Understanding their strengths, needs, and opportunities can inform long-range strategies to foster economic growth. As in GO TO 2040, metropolitan coordination focused on the region's specialized industry clusters will remain a core recommendation in the ON TO 2050 plan.

Regional economic specializations

"Clusters" include groups of interdependent firms and institutions related by common buyer-seller relationships, complementary products, common materials and technologies, or related services.⁴ Businesses within clusters benefit from better access to high-quality talent, suppliers, resources, and infrastructure.

Figure 1. What is a cluster?



Clusters spur increased competition and collaboration on a variety of levels as ideas flow more easily among workers and businesses in close proximity. As it grows and specializes, a cluster can help to lower business costs while increasing the formation, productivity, and growth of

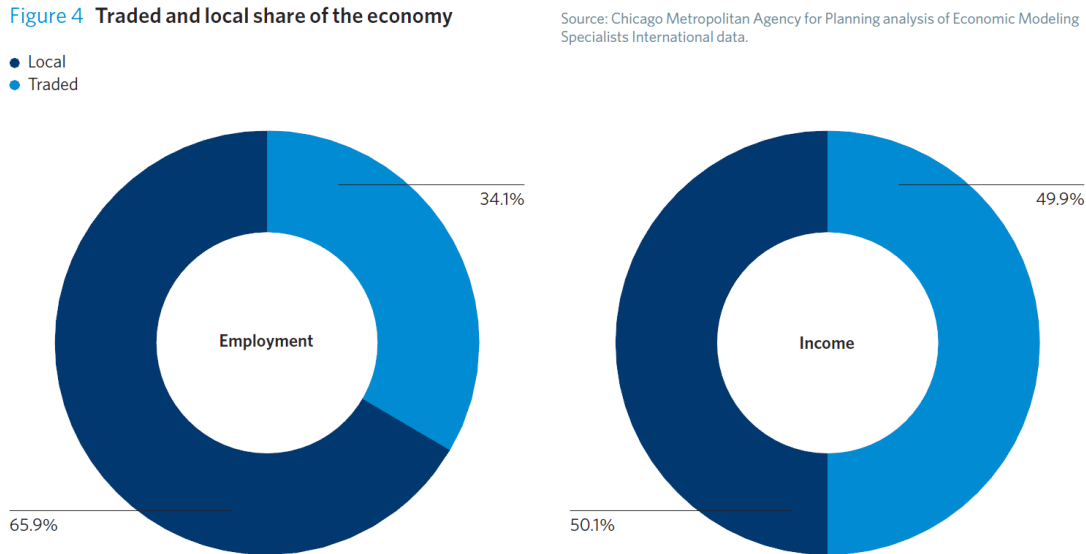
² Stuart S Rosenthal and William C. Strange, "Evidence on the nature and sources of agglomeration economies," *Handbook of regional and urban economics* 4 (2004): 2119-2171.

³ CMAP analysis of Bureau of Economic Analysis data on GDP per metropolitan area, 1-year estimates, 2015.

⁴ Michael Porter, "The economic performance of regions," *Regional studies* 37, no. 6-7 (2003): 549-578.

industries. A mounting body of research on the effect of industry specialization shows that these efficiencies spur higher employment growth, wages, patenting, and industry startup activity.⁵ In particular, traded clusters -- those selling products and services in markets outside of the region -- have an outsized potential to grow the region's economy. They account for around one-third of the region's employment but provide almost half the income (Figure 2).

Figure 2.



The Chicago region realizes significant economic returns through the diversity of its specialized traded clusters. The health of each can be assessed by changes in both their employment totals and regional employment concentrations relative to those experienced nationwide. The region has numerous areas of strength with an above-average concentration in the majority of traded clusters. Yet, each has been affected by the changing global economy and almost all saw declining employment totals between 2001-15.⁶ Only a small handful of traded clusters grew regional employment in line with or ahead of national averages, most notably Business Services and Medical Devices.

Other relatively large industries saw more mixed performance, experiencing a decline in employment totals while remaining specialized clusters in the national context. Such clusters include Financial Services, Food Processing and Manufacturing, Transportation and Logistics, and Metal Manufacturing. Economic realities are making it increasingly essential that businesses and related public or private institutions work together to support further cluster growth and concentration. Steepening competition from globalization, accelerated technological

⁵ Mercedes Delgado, Michael E. Porter, and Scott Stern, "Defining clusters of related industries," *Journal of Economic Geography* 16, no. 1 (2015): 1-38.

⁶ CMAP ON TO 2050 snapshot, "Regional Economy and Clusters: Building on Our Strengths," 2017, <http://www.cmap.illinois.gov/onto2050/snapshot-reports/economic-clusters>.



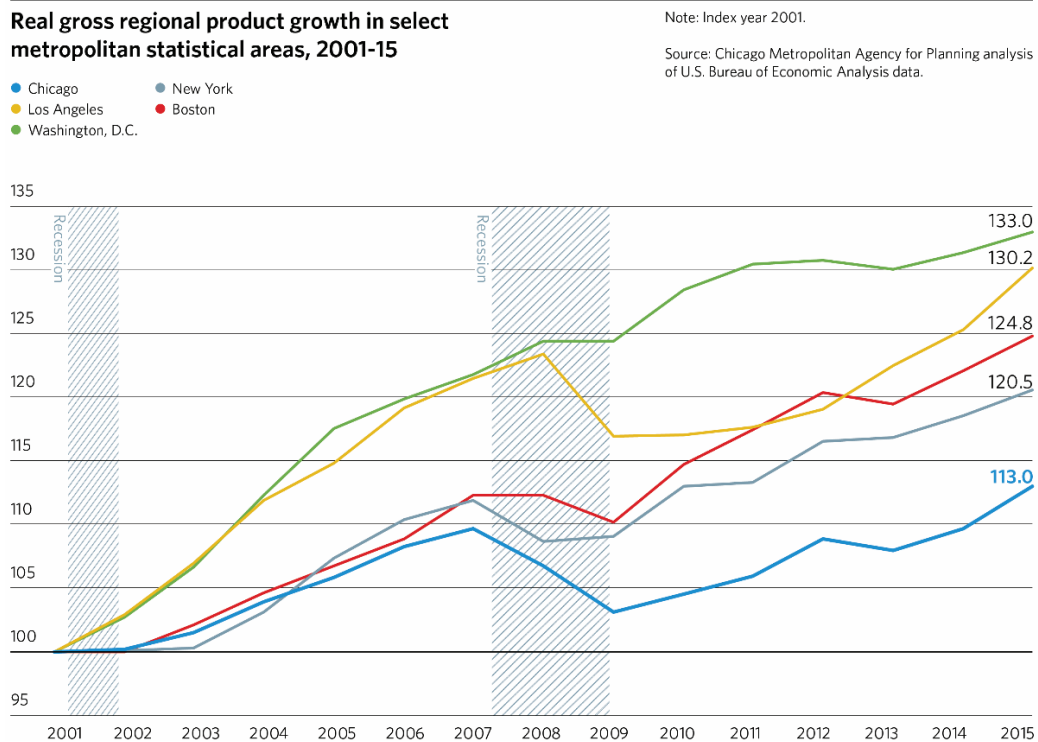
and market changes, the benefits of clustering -- these and other trends underscore the need for regional efforts to develop shared opportunities that complement competitive interests.

Regional economic performance

Metropolitan Chicago's economy -- the third largest in the U.S. -- is a global economic center. The region benefits from a diverse and well-educated labor force, unparalleled transportation infrastructure, and numerous highly-specialized clusters. However, indicators show that the Chicago region's recovery from the 2007-09 recession has been mixed and in some cases lackluster. Trends in overall output, non-residential vacancy, and exports provide a telling glimpse into the economy's health.

Output of goods and services has grown by 9.6 percent during 2009-15 and surpassed its pre-recession peak. In 2015, metropolitan Chicago produced \$570.1 billion worth of goods and services and employed more 5 million workers.⁷ Yet, the region lags behind peers and the national average in overall economic and productivity growth. The region's growth since 2009 ranks just 59th among the 100 largest U.S. metropolitan economies, widening the gap between the region and its peers. Since 2001, the Chicago region has consistently grown at a slower pace than the Washington, D.C., Boston, Los Angeles, and New York metropolitan areas (Figure 3).

Figure 3.



⁷ CMAP Regional Economic Indicators website, 2017, <http://www.cmap.illinois.gov/economy/regional-economic-indicators/trends>.

Non-residential real estate vacancy rates are another indicator of the region's economic competitiveness. In 2016, the Chicago region's retail, office, and industrial vacancy rates continued to exceed national averages and those in most peer metropolitan areas as they have consistently over the past decade.⁸ These patterns assess balances between a region's supply and demand for non-residential space of different business types.⁹ All development types are expected to have some level of vacancy as part of general market fluctuations. Yet, as competition among metropolitan economies steepens, vacancy rates can be driven by factors like corporate restructuring or relocations, changing consumer preferences, inaccurate demand projections, and industry shifts.¹⁰ Overbuilding and other development trends highlight the need for the region and its local governments to target economic development towards infill growth.¹¹

Analysis of the region's exporting trends also demonstrate the global competitiveness and diversity of the region's industries, particularly in manufacturing. The region and peer metropolitan economies have relied on exports to help power their economic recoveries. Although export growth declined sharply during the 2007-09 recession, it has since recovered in the Chicago, New York, and Washington, D.C. regions (Figure 4). In 2015, metropolitan Chicago exported \$44.82 billion of manufactured goods overseas to a growing global consumer base. Exports were down from \$47.55 billion in 2014 due in part to changes in the petroleum products industry.¹² Exporting manufactured goods supports broad economic prosperity by supporting business revenues and higher-income jobs in goods-producing clusters.¹³ Yet, despite this recovery, longer-term pressures on manufacturing employment mean that higher production levels do not necessarily translate into more manufacturing jobs.¹⁴

⁸ Ibid. CMAP analysis of non-residential vacancy rates in select regions with CoStar Data. Note: CoStar separates data for the Los Angeles area does not include the Inland Empire, where a substantial amount of that region's industrial space is located.

⁹ Rena Mourouzi-Sivitanidou, *Market Analysis for Real Estate*, ed. Petros Sivitanides, 2011.

¹⁰ CMAP snapshots, "Population change in the CMAP region," 2015, http://www.cmap.illinois.gov/about/updates/-/asset_publisher/UIMfSLnFfMB6/content/impacts-of-national-industrial-development-trends-on-the-chicago-region.

¹¹ CMAP ON TO 2050 strategy paper, "Reinvestment and Infill Strategy Paper," 2017, <http://www.cmap.illinois.gov/onto2050/strategy-papers/reinvestment-infill>.

¹² CMAP Regional Economic Indicators website, 2017, <http://www.cmap.illinois.gov/economy/regional-economic-indicators/clusters>.

¹³ CMAP report, "Metropolitan Chicago's Freight Manufacturing Cluster: A Drill-Down Report on Innovation, Workforce, and Infrastructure," 2013, <http://www.cmap.illinois.gov/economy/industry-clusters/manufacturing>.

¹⁴ CMAP Policy Update, "Manufacturing employment trends in Illinois' metropolitan and nonmetropolitan areas," 2017, http://www.cmap.illinois.gov/about/updates/-/asset_publisher/UIMfSLnFfMB6/content/manufacturing-employment-trends-in-illinois%E2%80%99-metropolitan-and-nonmetropolitan-areas.

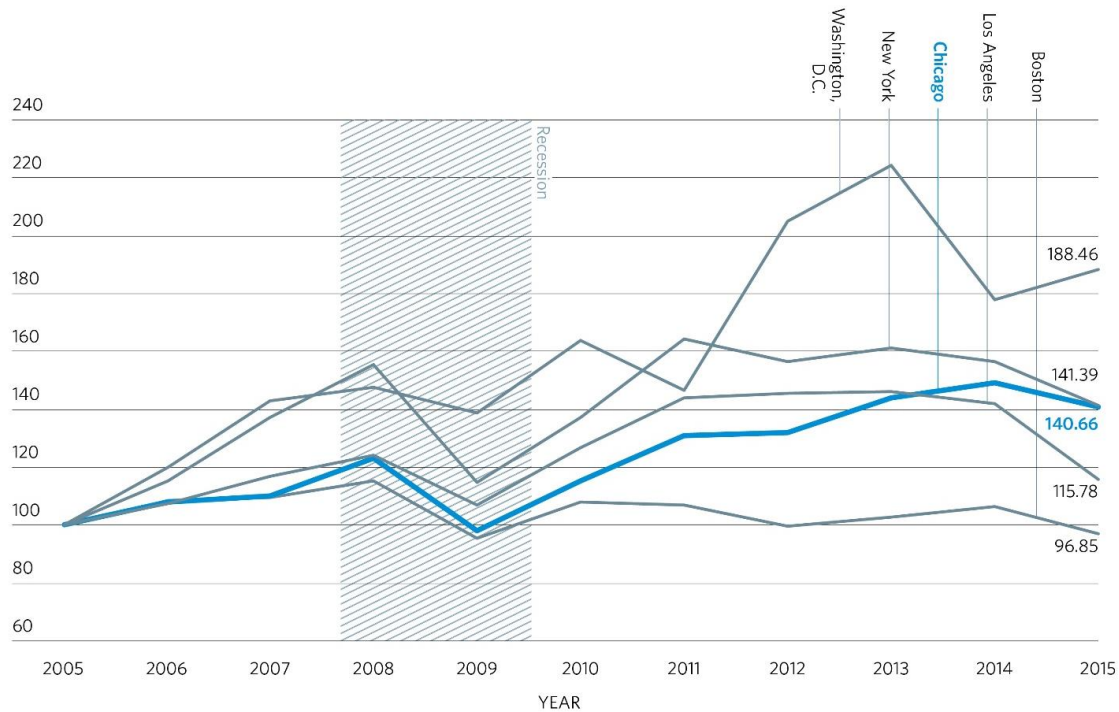


Figure 4.

Real manufacturing export growth in select metropolitan statistical areas (MSAs), 2005-15

Note: Index year 2005.

Source: Chicago Metropolitan Agency for Planning analysis of U.S. Census Bureau data.



Metropolitan Chicago's labor force -- those that are 16 years or older and either working or actively seeking work -- declined by approximately 65,000 workers between 2008 and 2015.¹⁵ This decline can be explained partially by a rapidly aging regional workforce. Today, residents who are 55 and older make up more than a quarter of the population, and growth in these age groups is increasing nationwide.¹⁶ Unemployment in the Chicago metropolitan area -- which declined to 5.8 percent in 2016 -- has largely mirrored national trends, but continues to lag behind peers in recovering from the 2007-09 recession.¹⁷

Changes in employment reflect the region's broader population and patterns of who participates in the workforce. In recent years, the Chicago region's population growth has

¹⁵ CMAP analysis of American Community Survey data, 1-year estimates in 2005-2015 for the Chicago-Naperville-Elgin metropolitan area.

¹⁶ CMAP analysis of U.S. Census Bureau data.

¹⁷ CMAP Regional Economic Indicators website, 2017, <http://www.cmap.illinois.gov/economy/regional-economic-indicators/trends>.



slowed, gaining just 1.1 percent since 2010.¹⁸ At the same time, the percent of working-age residents (20-64) participating in the labor force slipped to 76.8 percent in 2015 from 77.3 percent in 2006.¹⁹ While many of those outside the labor force are likely to be in school, retirees, or people who are unable to work, this rate includes thousands of discouraged workers left out of the economy. Nationwide analysis highlights how persistent economic disparities hinder economic growth by limiting the region's ability to capitalize on the full potential and productivity of all workers.

Prioritizing inclusive growth

A growing body of research indicates that regions experience more robust and longer periods of growth when all of their residents have equitable access to economic opportunities. Numerous indicators of economic well-being and outcomes by race and ethnicity indicate that the Chicago region falls short in terms of equity, and thus falls short of performing to its full potential. In step with national averages, real median household incomes have declined 4.5 percent in metropolitan Chicago between 1989 and 2015, as costs to participate in the economy like postsecondary education and training have risen.²⁰ Recent studies show how these and other trends contribute to declining economic mobility for many Americans. Children's prospects of earning more than their parents have fallen in America from above 90 percent for those born in 1940 to near 50 percent for those born in the early 1980s.²¹ In other words, fewer than half of millennials are likely to earn more than their parents.

These effects are concentrated geographically in areas with limited economic connections, and are experienced differently by minorities and people in poverty. According to recent analysis by the Metropolitan Planning Council and the Urban Institute, the Chicago region has the fifth worst racial and economic segregation among the top 100 regions nationwide.²² Residents in the region's economically disconnected areas²³ frequently lack key resources to compete in the economy, including adequate education and training, access to jobs, or investment capital. Barriers to such resources can stifle entrepreneurship and business development. African

¹⁸ CMAP Policy Update, "Population change in the CMAP region," 2016, http://www.cmap.illinois.gov/about/updates/policy/-/asset_publisher/U9jFxa68cnNA/content/population-change-in-the-cmap-region.

¹⁹ CMAP Regional Economic Indicators website, 2017, <http://www.cmap.illinois.gov/economy/regional-economic-indicators/workforce>.

²⁰ CMAP analysis of U.S. Census Bureau data.

²¹ Raj Chetty, David Grusky, Maximilian Hell, Nathaniel Hendren, Robert Manduca, and Jimmy Narang. "The fading American dream: Trends in absolute income mobility since 1940." *Science* 356, no. 6336 (2017): 398-406.

²² Metropolitan Planning Council and the Urban Institute, *The Cost of Segregation*, 2017.

²³ Economically disconnected areas refer to neighborhood tracts that have real median household incomes less than 60 percent of the Chicago regional median by household size, and either high-minority populations or low levels of English proficiency relative to regional averages.



American and Hispanic residents in particular experience persistent disparities in terms of employment, educational attainment, and income.²⁴ Over time, these challenges limit both the region's economic potential and the effect of any efforts to lower poverty or spread opportunity.

Research indicates that higher levels of income inequality have a negative effect on the growth and resilience of urban U.S. counties in the face of economic shocks. Between 2006 and 2010, income inequality was one of the most effective ways of predicting a county's risk of entering into recession.²⁵ Although downward trends in economic mobility are mirrored in communities across the country, declines in economic mobility appear more concentrated in the middle class, the industrial Midwest, and regions with higher existing levels of economic inequality, like Michigan and Illinois.²⁶ These areas face a self-reinforcing cycle between a lack of economic mobility and slower regional growth.

Promoting a more inclusive model of economic growth can improve outcomes for low-income and minority communities, and increase the size of the overall economy. An analysis of growth factors for 118 U.S. regions showed that low rates of income stratification and racial segregation strongly contribute to regional growth in employment and output.²⁷ Likewise, the National Equity Atlas estimates that metropolitan Chicago would have produced \$140 billion more in goods and services in 2014 (20 percent higher) if it eliminated racial gaps in income and supplied sufficient jobs to employ all workers in the regional economy.²⁸ Reorienting economic development strategies to address these challenges could facilitate improvements in both growth and equity.²⁹

Advancing regional cooperation and best practices

Traditional economic development efforts -- activities often conducted in siloes at the municipal, county, and state levels -- are undergoing higher scrutiny due to constrained budgets in the Chicago region and global competition. Public officials are increasingly weighing traditional methods focused on tax incentives and major employers relative to broader

²⁴ CMAP ON TO 2050 strategy paper, "Inclusive Growth," 2017, <http://www.cmap.illinois.gov/onto2050/strategy-papers/inclusive-growth>.

²⁵ Paul Lewin, Philip Watson, and Anna Brown, "Surviving the Great Recession: the influence of income inequality in US urban counties," *Regional Studies* (2017): 1-13.

²⁶ CMAP analysis of data in Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez, "Where is the land of opportunity? The geography of intergenerational mobility in the United States," *The Quarterly Journal of Economics* 129, no. 4 (2014): 1553-1623.

²⁷ Randall Eberts, George Erickcek, and Jack Kleinhenz, "Dashboard Indicators for the Northeast Ohio Economy: Prepared for the Fund for Our Economic Future," *Federal Reserve Bank of Cleveland Working Paper* 20 (2006).

²⁸ National Equity Atlas, "Chicago-Naperville-Joliet IL-IN-WI Metro Area Data Summary," 2016, http://nationalequityatlas.org/data-summaries/Chicago-Naperville-Joliet_IL-IN-WI_Metro_Area.

²⁹ Jonathan Ostry, Andrew Berg, and Charalambos G. Tsangarides, "Redistribution, Inequality, and Growth," *International Monetary Fund Staff Discussion Note* 7, 2014.



strategies built on regional coordination, human capital, and industry leadership.³⁰ The Chicago region can no longer rely on past economic engines like heavy manufacturing to supply the jobs and broad prosperity they once did. Instead, the State of Illinois and metropolitan Chicago have begun to reorient economic development practices to focus on further enhancing those attributes and assets that offer the region a competitive advantage. Doing so requires leveraging the region's diverse industry mix, institutions of higher education and research, well-educated labor force, and position as North America's preeminent freight hub.

Regional leaders have taken some steps to ensure more coordination and collaboration around strategies to grow the region's economy. The Chicago Regional Growth Corporation (CRGC) is an important first step toward collaboration among the various economic development organizations of Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will counties and the City of Chicago.³¹ Leaders from all of these partners recently agreed to establish this independent nonprofit entity. The organization's current scope includes a small staff, board of directors with representation from around the region, and financial commitments for the first three years. CRGC will need to identify initial opportunities for impactful work and secure sustainable, long-term funding as a basis for continued multijurisdictional collaboration. The ON TO 2050 plan will highlight the role CMAP can play in supporting CRGC and similar entities by convening regional stakeholders and providing appropriate data and analysis.

In light of limited public resources, communities are looking for strategies that can make a significant impact. Investing in businesses and entrepreneurs already within the region is a critical strategy. Despite frequent media attention and the public and private funding committed to business attraction, census data show that business moves to the Chicago region have relatively little impact on employment patterns or regional economic activity. Moves into and out of the seven-county CMAP region represent just 18.5 percent of the over 2,500 business moves that occurred within the Chicago region in 2012 (Figure 5).³² The remaining 81.5 percent of moves were intraregional with establishments relocating within northeastern Illinois. Instead, business creations and closures make up a far larger share of regional economic activity. Moreover, new businesses tend to create a substantial share of new jobs.³³ In 2012 alone, metropolitan Chicago saw an estimated 13,510 establishment births and 11,381 deaths.³⁴

³⁰ CMAP report, "Examination of Local Economic Development Incentives in Northeastern Illinois," 2013, <http://www.cmap.illinois.gov/economy/tax-policy/economic-development-incentives>. CMAP ON TO 2050 strategy paper, "Tax Policies and Land Use Trends," 2017, <http://www.cmap.illinois.gov/onto2050/strategy-papers/tax-policy-land-use>.

³¹ Cook County, "Chicago Regional Growth Initiatives," 2013, <https://www.cookcountyil.gov/content/regional-initiatives>.

³² CMAP Policy Update, "Business churn in the Chicago region," 2017, http://www.cmap.illinois.gov/about/updates/-/asset_publisher/UIMfSLnFfMB6/content/business-churn-in-the-chicago-region.

³³ John Haltiwanger, Ron Jarmin, and Javier Miranda, "Who Creates Jobs? Small versus large versus young," The Review of Economics and Statistics, May 2013.

³⁴ Ibid.



Figure 5.

Chicago region establishment moves by move type, 2001-12

● Intraregional ● Moves out ● Moves in

Note: Establishments with five or more employees. Recessions March 2001 to November 2001 and December 2007 to June 2009.

Source: Chicago Metropolitan Agency for Planning analysis of National Establishment Time-Series (NETS) data.



Tax incentives play a minor or sometimes insignificant role in business move decisions, and should be implemented with care.³⁵ Research has found that businesses focus on larger, long-term economic determinants in firm location decisions, such as human capital, supply chain, infrastructure, and other factors that have outsized impacts on companies' profitability. Yet, business attraction through tax incentives and direct investment remains the prevailing strategy for many communities, discounting the complexity of a community's economic growth and resilience. Rather than questioning business attraction as a general practice, this research gives insight into targeting how, where, and when incentives can be applied more effectively. More importantly for the Chicago region, efforts to address weak spots in the larger tax and business climate would minimize the State's need for economic development incentives to stay competitive.³⁶

Persistent state and local fiscal uncertainty undermines the Chicago region's business climate. Because business development efforts can take several years, businesses desire stable, predictable tax rates and government services that enable a company to forecast operational

³⁵ Joseph M. Phillips and Ernest P. Goss. "The effect of state and local taxes on economic development: A meta-analysis." *Southern Economic Journal* (1995): 320-333. Lynch, Robert G. "Rethinking growth strategies: How state and local taxes and services affect economic development," Economic Policy Institute (2004).

³⁶ CMAP report, "Reorienting State and Regional Economic Development: Challenges and Opportunities for Metropolitan Chicago," 2014, <http://www.cmap.illinois.gov/economy/innovation/economic-development>.



costs. But the State's fiscal condition and poor business climate can outweigh the built-in workforce or cost advantages of locating to the Chicago region. Recent gridlock that delayed passage of a state budget for two years demonstrates that Illinois has not yet found political consensus on how to stabilize budgets or modernize the tax code to maintain current services. As a result, fiscal policies have not sufficiently adjusted to changing needs and technology. Local governments may not be able to rely on federal and state revenues for future economic development, community revitalization, and other activities. Instead, communities must make the best use of the limited resources available in the region, drawing on coordination and performance-based approaches to promote efficient governance.

Strategies for ON TO 2050 and beyond

ON TO 2050 will provide policy and technical guidance on future CMAP work, with a focus on the core agency responsibilities of transportation and land use planning. The following section outlines strategies that CMAP and its partners can undertake to drive economic performance in the Chicago region, with a focus on regional economic development activities. Transformative economic development looks beyond traditional tactics to leverage the region's distinctive assets and opportunities amid a changing global market. Actions focus on aligning, expanding, and improving initiatives already underway to increase the efficiency and productivity of the regional economy. Achieving broad-based growth and prosperity goals will require institutional and information reforms to integrate a range of activities across public and private entities. While this strategy memo includes a number of new and existing CMAP activities, advancing many of the strategies will require collaboration and leadership from stakeholders throughout the region.

Multiple ON TO 2050 projects articulate recommendations that support a more resilient regional economy, promote inclusive economic prosperity, and assist prudent use of limited resources. Complementary strategy papers address topics such as human capital, inclusive growth, housing choice, infill development, municipal capacity, and transportation.³⁷

Pursue regional strategies and coordination for economic development

Economic development efforts achieve the most when municipalities, counties, and other partners work together across jurisdictional borders. Our competitive advantages in human capital and transportation infrastructure extend across the region. Traditional economic development services -- like business retention and attraction -- could be greatly enhanced by coordination at the regional level. Improved analytical techniques and planning tools can supplement local knowledge in ways that help economic development organizations better leverage dispersed economic assets. Amid higher competition for traded cluster industries,

³⁷ See CMAP ON TO 2050 Strategy Papers: <http://www.cmap.illinois.gov/onto2050/strategy-papers>.



these trends warrant the coordination and when appropriate, implementation of economic development strategies at the multi-county level.

CMAP and partners should support the formation of a regional entity with the mandate and resources to implement a regional growth strategy and augment local economic development activity. The primary focus of this body should be to help county and municipal officials pursue shared goals across jurisdictional boundaries that complement their competitive interests. Initial success under the Chicago Regional Growth Corporation (CRGC) would help to demonstrate the potential of collaboration among the region's economic development organizations. Whether through CRGC or another entity, regional coordination should especially emphasize cluster-oriented economic development strategies. The entity can also target issues that cut across the Chicago region's diverse industries -- e.g., improved transportation and workforce development. Organizational models should be explored and refined that provide opportunities to coordinate business development initiatives. Such initiatives should focus on accessing global markets, integrating data and information systems for rigorous market analysis, marshalling support for prioritized multijurisdictional infrastructure investments, and convening partners -- such as community colleges and other workforce developers.

Overcoming the region's lackluster growth and inequitable distribution of opportunity will require greater coordination built on a shared vision for the regional economy, continued institutional support, and appropriate information feedbacks. The next iteration of the CRGC could be a key player in bringing together regional stakeholders, prioritizing activities, and marshalling resources to support high-impact economic development activities. CMAP can play a key role in CRGC's initial endeavors by convening regional stakeholders and serving as a backstop for responsive data and analysis into the regional economy's performance.

Develop strategies to reach global markets

With 95 percent of the world's population living outside the U.S., the majority of economic growth is occurring abroad and opening market opportunities that can support broad economic prosperity at home. Yet, many of the region's small- and medium-sized businesses do not export specialized or high quality products and services. Moreover, the region should better attract foreign direct investment (FDI) to increase the capital available to businesses and improve connections to global markets. Efforts already underway have yielded positive results. FDI makes up an increasing share of private-sector employment in the Chicago region.³⁸ Coordinated efforts to retain, expand, and attract such investments -- as well as the export activity of small and medium-sized enterprises -- are critical to regional economic growth. These pressures heighten the need for the Chicago region to enhance its credibility and saliency as a destination for international business development.

³⁸ The Chicago Council on Global Affairs, "Foreign Direct Investment: Globalizing Chicago's Economic Development Plans," (2012): 34.



CMAP and partners should support the development of a comprehensive trade and investment strategy for the region that articulates and brands the Chicago region's economic assets. CRGC or a similar entity should play a substantial role in coordinating the related analysis and strategy development, as well as facilitating consensus among the region's many stakeholders ranging from industry, research and educational institutions, to the public sector. A strong regional identity could incorporate our transportation network, supply chain access, talent pool, high quality of life, and existing business development resources. While the flow of goods, capital, and people across countries is largely dictated by federal law or international agreements, local stakeholders can reinforce a commitment to economic openness and pursue strategies to better leverage the region's assets. Actions may include technical assistance for small- and medium-sized businesses to reach global markets, strategic positioning for international mergers and acquisitions, identifying existing export relationships, or an improved profile as a destination for foreign students and immigrants. Research has found that racial and ethnic diversity and openness to immigrants strongly contribute to regional growth in employment and output by broadening the global talent pool and market-driven inventions available to businesses.³⁹ Northeastern Illinois can leverage not only its diverse industry mix, but also its diverse residents who have formal and informal connections with other metropolitan areas and countries around the world.

Support initiatives to further grow and concentrate the region's traded clusters

Since the adoption of GO TO 2040, researchers have made significant strides in understanding how to study and support industry clusters. Clusters occur naturally in the economy, with or without recognition, as related businesses and institutions draw productive advantage from their mutual proximity and connections (see Figure 6). To build their productivity and resilience, many regions have begun forming cluster initiatives that more deliberately bring together resources to tackle common concerns. Formal initiatives, directed by the needs and interests of the area's firms, can provide more comprehensive support to accelerate growth of a specific cluster. This support can take many forms, such as enhancing educational and training offerings or addressing infrastructure needs. For traded clusters in particular, initiatives can create opportunities for businesses to expand into markets nationally and internationally, and thus disproportionately support broad prosperity in the region.

³⁹ Eberts et al. "Dashboard Indicators for the Northeast Ohio Economy."

Figure 6.



Input-Output

Industries tend to purchase and consume one another's products in the process of transforming goods and services from raw materials to final products.

Labor Pooling

Many of the industries require workers with related skills, which can result in a strong labor pool for employers and good job prospects for workers.

Knowledge Spillover

Because of labor pooling, supportive entities, and related industries, ideas and innovation can flourish through formal and informal associations, worker movement, and creation of related businesses.

CMAP should continue to support the coordination of cluster initiatives, such as the Chicago Metro Metals Consortium or the recently established Chicagoland Food and Beverage Network. Cluster initiatives can take a number of actions. These may include coordinating efforts to address workforce needs, attract or support related businesses, or foster specialized networks. Cluster organizations can also play a primary role in communicating needs to local partners such that cluster-oriented, sub-regional planning can better prioritize investments and organize disparate public policies.

CMAP should also conduct additional analysis to understand the transportation, land use, and employment trends of specialized clusters. In particular, CMAP and its local partners can provide cluster-specific analysis that develops a more complete picture of regional economic assets and identifies unique challenges and opportunities. Building on momentum from the private sector, this research can serve as a basis for convening industry leadership and identifying initial opportunities for high-impact, inter-firm collaboration. Analysis should also identify best practices for pursuing local economic development and provide guidance to local partners on zoning, development, transportation funding, and other strategies that support traded cluster growth. Additional sub-regional analysis may also be necessary to understand local partners' unique, often-multijurisdictional context.

In particular, CMAP should analyze the potential of cluster-supportive planning to catalyze growth in traded clusters that by its nature improves economic inclusion and equity. Building on this analysis, CMAP and partners could provide guidelines on fostering industries and occupations that offer pathways for upward mobility.



Collaborate with the state of Illinois on a strategy for regional economic growth

The State of Illinois and metropolitan Chicago can do more to align economic development efforts with rigorous market analysis and program evaluation. The State's economic development investments are made through a variety of programs, primarily as either direct services or tax and non-tax financial incentives. A law passed in 2013 requires the Department of Commerce and Economic Opportunity to develop a statewide five-year strategic plan for economic development with recommendations to leverage and enhance existing programs and incentives.⁴⁰ Yet, the plan is developed with minimal engagement from regional stakeholders and frequently does not reflect priorities in the region or its unique and complex attributes. The planning process, and ultimately the plan itself, could be improved through meaningful engagement of local leaders. Ongoing strategic planning with regional stakeholders could identify where public investments should be focused for improved efficiency and results.

The State should consider strategies to better coordinate with regional economic development organizations to better allocate resources based on the region's needs and goals. For example, the State can focus the delivery of its own direct services, programs, and financial assistance to regional organizations. New or expanded economic development efforts at the state or local level may be warranted. However, the State should work to alleviate and reduce challenges that can be addressed by administrative actions. Areas of potential focus may include regulatory barriers, tax policies, permitting processes, innovative capacity, workforce development, and physical infrastructure.

Encourage communities to align economic development investments with local and regional goals

Local developments must align with community goals, ideally goals developed through an inclusive, data-driven, and comprehensive planning process that adequately considers a community's opportunities and challenges. Local and state-based economic development incentives should be predicated on their contributions to achieving planning and economic goals. When incentives are provided, communities should evaluate the extent to which a project aligns with local goals and whether that development will provide regional economic benefits. Such benefits may include increasing higher-wage employment, reinvesting in infill sites, leveraging existing infrastructure assets, or encouraging mixed-use development. Additionally, communities should evaluate developments throughout the life of an incentive to ensure stated goals are met. While many local incentives serve these purposes, others are used to attract businesses that already intend to locate within a particular market area as neighboring communities compete against each other. ON TO 2050 should encourage the region's various economic development organizations and local communities to explore ways to improve intraregional cooperation.

⁴⁰ Illinois General Assembly, Public Act 98-0397.



CMAP and partners should work together to provide policy and planning tools to help municipalities effectively implement economic development incentives based on data-driven strategies and locally-informed goals. Financial and regulatory incentives can reduce the cost of development and help to improve the financial feasibility of projects. However, such incentives should also take into consideration overall community and sub-regional goals and regional gains when assessing their appropriateness. Financial incentives should also take into account long-term market feasibility, the full public costs of related public services, initial infrastructure improvements, and future infrastructure maintenance to ensure that municipalities can properly fund these costs. In addition to encouraging rigorous analysis and the availability of all necessary data, CMAP should conduct research into existing patterns in the region and best practices for sub-regional coordination. These approaches may reduce investment costs, increase capacity, and better reflect local markets.

Enhance information and data systems regarding tax credits and incentives

In today's environment of constrained resources, public investments in economic development must be prioritized toward policies and programs that demonstrate results relative to goals. Yet, the State lacks a transparent process and adequate data systems for monitoring and evaluating their effectiveness. In particular, investments in the form of tax credits and incentives fall outside of the appropriations process of the State and many local governments, and frequently lack rigorous evaluation of outcomes. Public agencies already collect and make available a significant amount of information regarding incentives. However, these systems do not adequately integrate data across multiple state and local funding streams or use consistent, workable data formats to support evaluation of overall return on investment.

The State should pursue a regular audit process for all tax credits and incentives based on newly promulgated state standards for transparency and accountability. Further governance reforms may be necessary to adapt such audits into proper evaluations that determine program outcomes, performance relative to goals, and trade-offs of using resources for an incentive program instead of other government activities. Understanding the impact of incentives on a particular market and the return on investment of tax incentives would improve our ability to track whether state and local efforts are spurring economic growth in high potential or emerging industries. Comprehensive subsidy data should be made readily available in a downloadable and analyzable format that supports its translation into information that guides decision-making. Designating sunsets on tax credits could also support rigorous scrutiny of the incentives and provide a mechanism for regular decisions on the extension, discontinuation, or reform of the State's various programs.

Ensure efficient, responsive governance within the region

While technology promises new business opportunities and performance benefits, the Chicago region's competitiveness depends on state, regional, and local conditions and policies. Challenging fiscal conditions make the job of growing the regional economy more difficult. With public resources growing more constrained, coordinated action is required to help communities become more resilient to economic shifts while providing adequate revenues to



maintain and enhance current services. For example, shifting land use and development patterns due to changing industry demand have already begun to effect local services in communities dependent on sales tax as their major source of revenue. State and local governments must find sustainable political agreements on how to ensure a balanced mix of revenue, stabilize budgets, and modernize the tax code.

CMAP and partners should encourage planning that prioritizes revenue and information sharing, coordinated business attraction and retention initiatives, and multijurisdictional infrastructure investments. Where appropriate, consolidation of local governments could improve governance and increase the efficiency and quality of service delivery. The state's tax code can be modernized by better aligning revenues with today's consumption patterns and regional and local economic development goal. Actions could include expanding the sales-tax base to include additional services or phasing out the assessment classification in Cook County. Doing so would help to ensure that all communities in the region are better equipped to be competitive and make investments based on their livability and growth goals.

Maintain and modernize the region's transportation network

Economic growth depends on a reliable, modern transportation network for people and goods. High quality transit improves overall mobility, reduces some congestion, and provides residents with affordable modes of transportation that connects them to jobs, homes, and amenities. Congestion also undermines the reliability and predictability of freight delivery to households and businesses, disrupting the business value of customized and just-in-time supply chains.⁴¹ These drags on productivity are worsened by inadequate investments in the transportation network. However, current revenue streams are insufficient to provide the necessary transportation investments for roads, transit, or the freight network, and investments are not necessarily coordinated with regional economic development goals.

The Chicago region must advance performance-based programming practices to account for passenger, freight, and industry needs. In doing so, remaining shortfalls may warrant new funding concepts -- such as vehicle miles traveled fees, new freight user fees, or public-private partnerships. CMAP and transit agencies should evaluate the existing level and quality of transit service in economically disconnected areas and how well it supports access to the region's employment centers. This analysis can provide guidance on appropriate changes or additions to available transportation resources that would improve mobility options in these areas. Additionally, CMAP should evaluate the job opportunities that are accessible using the existing transit options available. Through future policy and planning work, CMAP should encourage local partners to pursue best practices for zoning, development, and transportation funding that support economic productivity.

⁴¹ George Stalk Jr. and Petros Paraniakas, "Is your supply chain ready for the congestion crisis?" *Harvard Business Review*, June 22, 2015. <https://hbr.org/2015/06/is-your-supply-chain-ready-for-the-congestion-crisis>.



CMAP's transportation programming should invest in a modern, multimodal freight network that helps to ensure the region's economic position. These investments must untangle the region's -- some of the nation's -- worst road and rail chokepoints, while also providing the necessary operations, technology, and capacity improvements to accommodate future freight volumes. Adapting these investments will grow increasingly important as innovative freight technologies and related land use needs continue to evolve. Improvements should also fully capitalize on the region's extensive freight infrastructure, provide better connections between freight modes, and reduce adverse community impacts of goods movement. Truck routes and permitting requirements should be reviewed and harmonized across local jurisdictions. The region should focus freight and warehousing uses in already-developed communities through infill development and reinvestment.

Geography of analysis

This memo looks at the economic realities of the region as a whole, often without discussing how these impediments differ with geography. Likewise, the strategies identified are meant to address these impediments by focusing primarily on economic development processes and structures at the metropolitan level. ON TO 2050 will emphasize more specific guidance for local partners through a series of "layers" that support spatially specific recommendations.⁴² CMAP staff have therefore mapped traded industry job centers across the region to identify concentrated areas of employment in traded goods-producing and traded service clusters (Figure 7).

The goal of this mapping exercise is to identify current job centers in the Chicago region as a basis for prioritizing infrastructure and economic development investments that build on existing strengths. In particular, local economic development activities should draw on unique, often-multijurisdictional assets, particularly in leveraging the benefits that accrue to industry clusters in close proximity. Improved data and information on the region's economic geography may help economic developers and local officials to more effectively pursue shared opportunities when appropriate. This mapping exercise could serve as a basis for engaging cluster initiatives and other stakeholders in sub-regional policy and planning, such as rationalizing and coordinating local tax credits and incentives. Along with CMAP's related analyses and Local Technical Assistance program, this research helps to frame the inexorable link between regional collaboration and community goals.

Likewise, achieving inclusive growth requires an integrated regional vision for several areas of public policy, such as housing choice, labor market conditions, infill development, municipal capacity, and transit modernization. So the Chicago region can improve economic outcomes by

⁴² CMAP staff memo, "Place-Based Layer Approach," 2016, http://www.cmap.illinois.gov/documents/10180/542692/universe+of+layers+memo+LU_051816a.pdf/3e9b9d8d-491c-466c-b566-ba76f2a0bf28.



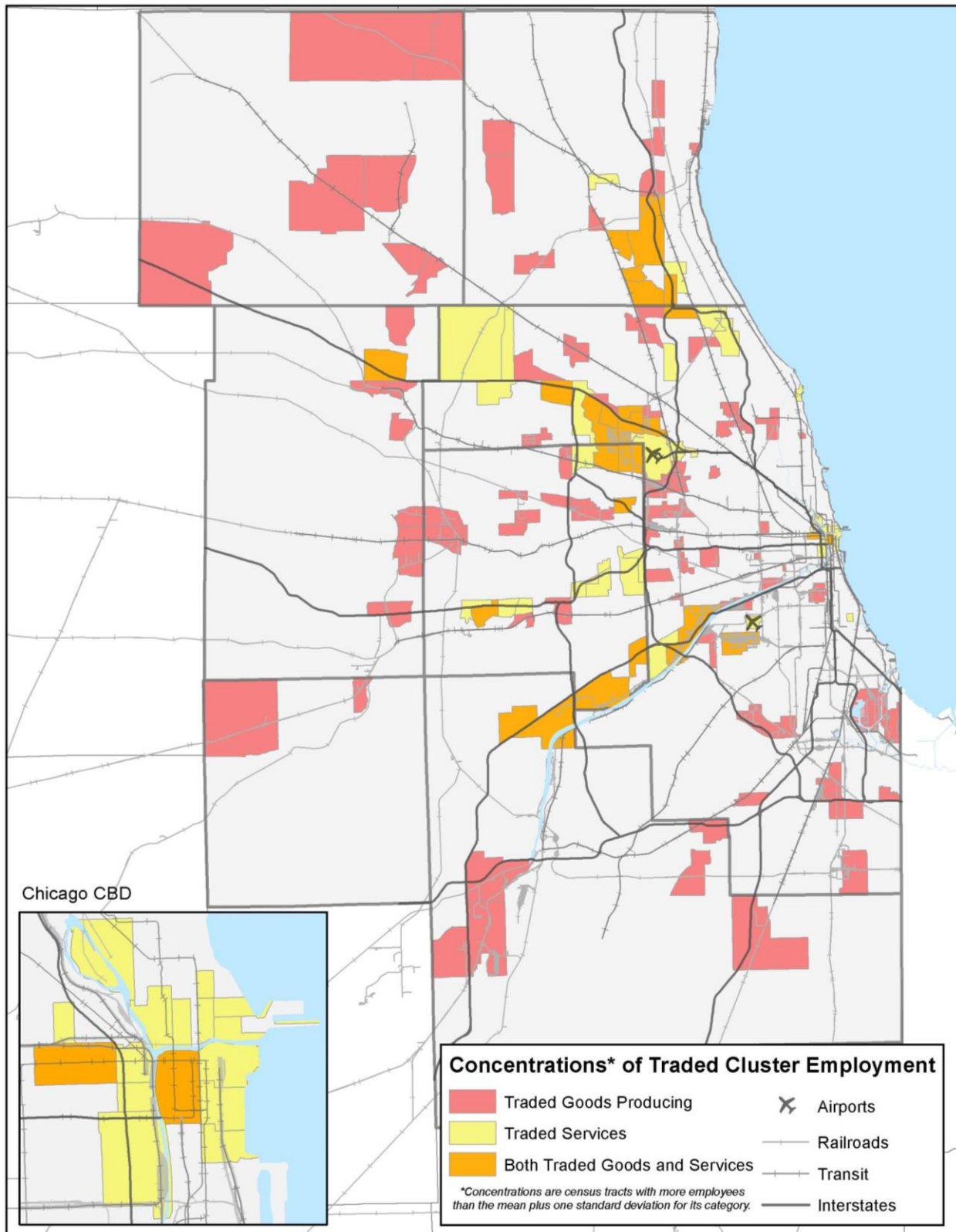
developing a cross-sector understanding of where job growth has occurred and where future growth should be prioritized. In particular, economic developers should pursue a regional approach focused on further growth and concentration of the traded clusters present in their communities. Research shows that traded clusters have an outsized potential to grow the region's economy, pay higher wages than their local-serving counterparts, and generate positive spillover effects.⁴³ As an example, local land banks -- organizations that purchase and aggregate vacant and underutilized properties -- can assemble parcels for targeted business development near complementary clusters.

This analysis indicates that Census tracts with significant concentration of employment in traded clusters occur throughout the region. In total, these industries make up approximately one-third of total employment in the region, with 81.1 percent of those in traded services -- underlining the Chicago region's position as a hub for business and professional services. The tracts with the highest concentrations in traded services occur primarily near knowledge hubs in Chicago's central business district, universities, and office parks in Schaumburg and Oak Brook. However, DuPage County also has a disproportionately high level of employment in service industries, given its share of total employment. In contrast, the top tracts for traded goods-producing clusters are more widely dispersed across the region, grounded primarily in industrial parks with jobs spread across multiple employers. Lake, Kane, and McHenry counties each have a disproportionately high number of workers engaged in goods production. Numerous tracts -- centered around key transportation and transit infrastructure -- benefit from both traded goods-producing and traded service clusters.

⁴³ CMAP ON TO 2050 snapshot, "Regional Economy and Clusters: Building on Our Strengths," 2017, <http://www.cmap.illinois.gov/onto2050/snapshot-reports/economic-clusters>.



Figure 7.



Source: CMAP analysis of Illinois Department of Employment Security data, 2015



Next steps

The policy framework and strategies presented in this report set the direction for regional economic development in ON TO 2050 and CMAP's future work. These strategies will help to integrate considerations of the regional economy into many aspects of CMAP's policy and planning work, such as infill development, municipal capacity, transportation, inclusive growth, workforce development, and innovation. This work most closely aligns with CMAP's Inclusive Growth strategy paper, relating to its recommendations to support both broader economic growth and promote opportunities for upward economic mobility for low income and minority residents. These strategies were developed in conjunction with two closely related strategy memos, Human Capital and Innovative Capacity. Together, CMAP expects their recommendations to inform the plan as well as future technical assistance projects, transportation programming, policy updates, research products, and data sharing. ON TO 2050 is expected to likewise synthesize these strategies into a comprehensive vision for the region.

Regional partners are critical to successful implementation of many strategies. Further discussions on the most effective ways to advance regional collaboration will be essential as the agency develops and then implements ON TO 2050. The largest unanswered questions from this paper -- how to address those topics for which CMAP will not lead -- will require continued work by staff in partnership with other organizations to hone both the regional approach and CMAP's role in that approach.

