

The New Economic Geography of America's Regions: How the New Economy Makes Place Important Today

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Why Place Matters in the New Economy

In recent years, several leading economists, including Paul Krugman and Michael Porter, have rediscovered the importance of "economic geography." According to Krugman, mainstream economic theory ignored place, largely because it failed to fit into their economic models. By returning to the roots of modern economics (first articulated by Alfred Marshall in the 1890s), Krugman, Porter, and others have discovered the importance of "clustering" and the role of "external economies" in regions.

This rediscovery of the importance of place is clearly no surprise to Jane Jacobs. Jacobs wrote about the "economy of city-regions" years ago. What Jacobs learned from her research on neighborhoods, cities, and regions is the importance of looking at economies as place-based natural ecosystems. She knew that wealth is created by the complex relationships among a diverse set of networks of producers, suppliers, and community infrastructure in regions. Much of her original thinking about cities and regions has now become accepted wisdom today as we focus on networks, clusters, and regions.

What is *new* is how the "new economy" fits into new thinking about regions. The new economy refers to the shift toward a global, information-based economy driven by networks of fast-growing, small and medium sized enterprises. Castells describes this new economy in his extensive three-volume series on *The Information Age: Economy, Society and Culture*, in the following way:

A technological revolution, centered around information technologies, is reshaping, at an accelerating pace, the material basis of society. Capitalism has undergone a process of fundamental restructuring, characterized by greater flexibility in management, and decentralization and networking of firms, both internally and in their relationship to other firms.

The new economy operates according to different economic rules. Paul Romer and others have developed the "new growth theory" to help explain how productivity is created in the information economy. The two key findings are:

- ideas are the source of the wealth; and
- the information economy generates positive returns to scale.

The implications of these findings are that innovation comes from the external econo-

mies generated by the rapid sharing and development of ideas within networks. In short, networks and clustering are the locus of wealth creation in the new economy, and networks and clustering take place in economic regions. Economic geography matters.

Recent talk about cyberspace misses the fundamental point that creative work still occurs primarily in face-to-face exchange largely within teams, where people live and work in close proximity. While electronic communication is important for information sharing, it is not a substitute for the trust, understanding, and intensity essential for the creative process. The creative “networks of place” found in the entertainment clusters of Hollywood and New York and the information clusters of Silicon Valley, Route 128, and Austin demonstrate the importance of proximity in the information age. As Tom Peters once quipped: “Sure I like the web, but I still love to schmooze.”

Creating the “Milieu of Innovation”

Castells points out that “the advent of high technology manufacturing has ushered in a new logic of industrial location.” He and other researchers have found that high value enterprises are attracted to a “milieu of innovation.” By this, he means places with the capacity to generate synergy resulting not simply from the accumulation of elements but from their interaction. Annalee Saxenian, author of *Regional Advantage*, makes a similar point when she says, “it’s not the ingredients but the recipe” that creates regional success.

In creating this essential milieu of innovation, how does a region relate the new economy to its physical space? In short, how does the new economic thinking fit with the new thinking about a metropolitan form?

One way to think about this relationship is to consider the economic and geographic evolution of regions.

Economy	Geography
Agricultural (1700-1880)	Towns, Villages, Farms
Industrial (1880-1950)	Central city
Service (1950-1980)	City-Suburbs
Information/innovation (1980-)	Metropolitan regions with multiple, connected urban centers

Each economic era has evolved its own regional form. The most dramatic breaks occurred in the late 1800s with the advent of vertically-integrated manufacturing, which promoted the development of cities. Another shift occurred after World War II, with the movement of manufacturing to lower-cost “green field” sites and isolated campus work environment, as well as the movement of population to the suburbs. As we are now in the midst of a shift to an information economy, we are also moving toward a new metropolitan form.

The key to the new economy is innovation fueled by the sharing of ideas. Innovation is a social phenomenon stimulated by clustering of people in close proximity. These are the critical elements of a new economic geography based on regions of innovation. A key ingredient is creating livable communities that attract the talent essential for creative clustering and networks for the regional collaboration necessary to put the community pieces together within a region.

Toward a New Regionalism

Thinking about communities has increasingly revolved around the “New Urbanism” articulated by Andres Duany, Peter Calthorpe, and others. New Urbanism is often described as a reaction against conventional suburban planning as it has been practiced in the United States since the 1940s. The core principles of the New Urbanism movement include:

- walkable neighborhoods;
- orientation toward public transit systems; and
- integration of different land uses (such as housing, shops, workplaces).

Critics of the New Urbanism movement believe that it has not yet dealt with a range of issues associated with suburban and metropolitan growth, including:

- *Scale*: How to relate to the realities of the modern workplace;
- *Transportation*: How to get people to use alternative transportation;
- *Planning*: How to integrate into local plans and building codes; and
- *Regionalism*: How to look beyond the neighborhood to the region.

In a Lincoln Institute of Land report on the New Urbanism, William Fulton outlines the elements of a “new regionalism” based on an emerging consensus “that neotraditional neighborhood design goals must be reinforced by regional planning and economic policies to reshape urban and suburban fabric.” Furthermore, Fulton suggests that: “New Urbanism will have a positive effect only if it is linked to a consistent set of policies and programs in all areas of metropolitan development.”

A leader in the New Urbanism movement agrees with the importance of regions. Peter Calthorpe says: “The goal is to apply the best of urban design to both the region and the neighborhood—applying them to a new

context and new scale. The New Urbanism is not about just the city or the suburbs. It is about the way we conceive of community and how we form the region—it’s about diversity, scale, and public space in every context.”

What might a new regionalism based on realities of the new economy look like? A metropolitan region with many vital urban centers with open space between them and transportation routes connecting them. The classic Garden City model of mid 1880s, developed to buffer the negative effects of industrialization on cities, could be updated and revisited to envision a series of cluster-based communities networked together to achieve the effect of “living and working in small towns within a metropolitan region.” The goal would be to achieve compact development within urban centers to promote clustering on a regional scale while promoting networking across the compact centers.

New Regional Thinking in Practice

Two regions are now thinking about new ways to connect the new economy and new regionalism: Portland, Oregon and Silicon Valley, California. They are approaching the challenge in different ways, starting in very different positions and will probably achieve unique results. They are however, asking the same basic question: How to create a livable community for the information age?

Portland’s Search for a Livable Community in a Growing Technology Economy

Portland had a 25-year head start. In the 1970s, Governor Tom McCall succeeded in establishing the first statewide growth management program designed to protect agricultural lands. Oregon residents long dem-

onstrated a strong commitment to preserving the environment and protecting the natural beauty of their region. Building on this tradition, the Portland metropolitan area has been a leader in establishing an urban growth boundary and establishing a comprehensive land-use planning process through its elected regional government, the Metro Council. Through an extensive public process, Metro has established a 2040 Plan to guide its future development. The 2040 Plan promotes compact development within the urban boundary and encourages the use of public transit with the region. Portland is promoting a type of new regionalism that connects its land use, housing, and transportation planning on a metropolitan level to achieve a vision of a more livable community.

After a deep recession in the 1980s, as a result of decline in the forest products industry, Oregon developed a strategy for growing high-value industries with an innovative set of policies focused on workforce and quality of life. This strategy has paid off in the 1990s with the rapid growth of high technology industries. Most technology firms report that they were attracted to the Portland region because of its high quality of life. Today, the region faces the challenge of balancing potential growth with its desire to maintain a livable community. There are debates over expanding the urban growth boundary and how to create a rising standard of living. Portland continues to be a leader in exploring how a new regionalism can match the requirements of the new economy.

Silicon Valley's Search for Balance between the New Economy and Quality of Life

Silicon Valley has become a world leader in technology innovation. The source of the

Valley's success can be found in the dense networks and clusters that fuel the region's productivity. The Valley is the leading example of the new economy. Unlike Portland, however, the Valley has not planned for its physical development. Now, as the Valley economy booms, capacity constraints grow, including labor shortages, rising housing costs, and traffic congestion. Since World War II, the Valley grew from semirural orchards and small communities to a dispersed collection of 27 cities comprising a metropolitan region of 2.2 million. Now, as it enters its latest economic surge, adding almost 200,000 new jobs between 1992-1997, the time has come to develop a vision for Silicon Valley's future that includes a vision of place.

Joint Venture: Silicon Valley was created by business, government, education, and community leaders in 1992 to address the economic downturn sparked by the end of the Cold War. Joint Venture has successfully addressed economic development, regulatory, education, and health issues. Now Joint Venture is involving the community in a new effort to create a vision of a sustainable Silicon Valley in 2010. The vision will articulate measurable goals for the economy, environment, society, and governance. In the process Silicon Valley will seek to define a new relationship between the new economy and a new regionalism.

By starting at different places—Portland focused initially on the environment and now is addressing the impact of technology, whereas Silicon Valley focused initially on technology and now is addressing the impact on the environment—these two innovative regions will help in their own way to address the critical questions all regions will face about the role of place in the new economy. ■

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