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Economic Development in San Diego and Detroit

1 Introduction

The following paper provides a brief discussion of the economic development in San Diego and Detroit. The paper includes a short discussion of the collapse of the local economies in both these cities and provides key points as to how the local governments regenerated or are in the process of regenerating their economies.

2 San Diego

San Diego (SD) is a relatively isolated City in California. A former site of a large Navy Base, much of the city's economy was based around the military. However, in the 1980s as a result of the end of the cold war, military funding was drastically cut, with the base at San Diego subsequently closed with devastating effect on a region where 60% of the economy was reliant on the defence industry¹.

¹ Council on Competitiveness, Porter, M 2001 Clusters of Innovation Initiative: San Diego

In brief:

- SD has historically had a large military presence (mainly Navy) since the early 20th Century, with the US Navy third fleet based there for a number of decades²;
- The military presence attracted a number of related industries and a large research community;
- From the 1960's San Diego had a number of research institutions which had been beneficial to the regional economy through job creation via research and teaching activities – However little of the research produced had been able to create spinoff commercial companies;
- Following the end of the cold war in the 1980's the US military downsized considerably, with SD having a resultant down turn in its economy;
- However, the influx the region had seen over the years of researchers, scientists and engineers resulted in the creation of a large number of companies, in areas such as telecommunications;
- In this same period regional business leaders and entrepreneurial science leaders came together to develop and accelerate commercialisation in the region in order to grow science and technology clusters;
- One of the main offshoots of this was the development of UCSD CONNECT³;
- Founded in 1986, CONNECT is a regional program that catalyses the creation of innovative technology and life sciences products in San Diego County by linking inventors and entrepreneurs with the resources they need for success⁴;
- Since its creation, CONNECT has assisted in the formation and development of more than 3,000 companies;
- The presence of the 'military spawned⁵' clusters helped SD to rebound strongly after the late 1980's defence cuts and this, alongside projects such as CONNECT, allowed for strong growth for the next decade.

In a presentation to the Committee for Employment and Learning, NISPCConnect⁶ stated that there are six main reasons behind San Diego's success:

- **Land:** The role of regional land use decisions and of state infrastructure investments in the 1950's and 1960's;
- **Research:** The focus on building globally competitive basic research institutions;
- **Private sector led:** A major commitment of time and resources to grow this capacity;
- **Culture:** A culture of collaboration which goes "beyond networking" and involves shared agenda setting, shared investment, shared risk and shared rewards;

² Council on Competitiveness, Porter, M 2001 Clusters of Innovation Initiative: San Diego

³ Walshok, M The Early Roots of San Diego's Innovation Economy University of California, San Diego

⁴ Walshok, M The Early Roots of San Diego's Innovation Economy University of California, San Diego

⁵ Council on Competitiveness, Porter, M 2001 Clusters of Innovation Initiative: San Diego

⁶ Briefing to the Committee for Employment and Learning 18 January 2012

- **Skills:** An innovation industry led focus on skills needed for emerging industries in region; and
- A powerful “**sense of place,**” which binds people.

In a 2001 study by the Council on Competitiveness by Michel Porter, lessons for other regions which could be learned from SD’s success were said to include⁷:

- **Innovation:** The San Diego economy has produced considerable innovation output over the last decade and this has led to rapid growth. San Diego’s most innovative clusters are amongst the region’s top performers;
- **Traded industries⁸:** Traded industries are key drivers of economic performance. The lower than average wages in San Diego are due to the lower than average employment in traded industries: as regional employment in traded industries rise, so too will average wages;
- **Clusters:** Clusters are another key driver of the performance of a regional economy. When the aerospace and defence cluster in SD struggled, so too did the regional economy. As clusters such as education and knowledge creation grew, the regional economy emerged from recession;
- **Leadership:** The work of a handful of individuals contributed greatly to the economic development of SD. Their efforts created regional strengths that enabled many more to succeed; and
- **Sustained Commitment:** It took 20 years to build a large military presence and another 20 years to realise significant development of the clusters that grew from the Navy’s research agenda. Similarly, local leaders committed significant resources to assemble a critical mass of bioscience research facilities and institutions and then waited many years to witness the take-off of the biotech/pharma and medical device clusters.

As stated by Porter⁹:

San Diego’s leaders have accomplished a great deal over the last century. Local government attracted a military presence that spawned numerous business clusters and preserved the region’s quality of life. Government and industry attracted bio-science research centres that, again, preserved the quality of life and grew several clusters. University leaders reached out to industry and produced institutions for collaboration that facilitated the flow of research and ideas from the University, and rough scare local business resources to university based entrepreneurs.

⁷ Council on Competitiveness, Porter, M 2001 Clusters of Innovation Initiative: San Diego

⁸ All the industries in the economy are separated into ‘traded’ and ‘local’ based on the degree of industry location dispersion across geographic areas. Local industries are those present in most if not all geographic areas and primarily sell locally. Traded industries are those that are concentrated in a specific sub-regional area of a geographic location and sell to other regions and nations.

⁹ Ibid

3 Detroit, Michigan

Detroit was once one of the largest industrial centres in the United States of America, with three of the largest car manufacturers based in the city.

However, since the 1950's the car industry in the city has been in decline and despite a resurgence in the 1990's, the former "Big Three"—Chrysler LLC, Ford Motor Company, and General Motors Corporation (GM), have suffered in the recession as a result of increase gasoline prices and foreign competition¹⁰. Indeed, GM once the backbone of American industry filed for bankruptcy in 2009¹¹.

As a result of this and, of course, the recession itself, Detroit has undergone a massive rate of decline.

Indeed since the 1950's half its population has left the city, with a population of 910,848 (down from 951,270 in 2000 and over 1.85 million in 1950).

Economic figures are bleak at best with unemployment at 30%, 55% of residents living below the poverty line and nearly half functionally illiterate¹². In addition, around a third of the city is now derelict, an area approximately the size of San Francisco.

In August, 1991, there were 351,400 manufacturing jobs in metro Detroit according to the U.S. Bureau of Labor Statistics. Ten years later there were 353,300. But by August 2011, that number had plunged to 198,300¹³.

Growth areas do, however, exist - in August of 1991, there were 193,300 medical and education jobs in metro Detroit. In 2001 there were 241,400. In August 2011 the number was 286,700 — many more than the number of manufacturing jobs.¹⁴

Detroit has suffered a large amount of decline - however, plans have, and are, being developed in order to meet the needs of the population and business.

One example of this is the Detroit Works Project¹⁵.

The Detroit Works Project was introduced in 2010 as a process to create a shared, achievable vision for the cities future that would serve as a guide for improving the physical, social and economic landscape of the area.

The Project has been developed in two tiers – Short Term Actions and Long Term Actions. The short term plan is being developed to realign some city services and leverage available resources to make improvements in neighbourhoods based on their market conditions which include: the number of occupied houses; resource needs; and

¹⁰ Federal Reserve Bank of Chicago, Economic Perspectives 2009, From tail fins to hybrids: How Detroit lost its dominance of the U.S. auto market Klier, T

https://chicagofed.org/digital_assets/publications/economic_perspectives/2009/ep_2qtr2009_part1_klier.pdf

¹¹ Upjohn Institute Employment Research October 2009 Where Have All the Michigan Auto Jobs Gone?

¹² Planning, November 2010, Repurposing Detroit

¹³ Detroit 2020 <http://detroit2020.com/2011/10/19/the-detroit-economy-how-we-got-here/>

¹⁴ Ibid

¹⁵ Detroit Works, <http://detroitworksproject.com/>

number of residents. Results from the Short Term Actions will help inform some of the recommendations that will be made as the Long Term Planning evolves, ultimately informing the creation of a strategic framework plan.

The Long Term Actions, which are currently in the process of being developed will introduce a strategic framework plan.¹⁶

The plan is intended to be a comprehensive and action-oriented blueprint for near and long-range decision making. It will outline the opportunities and challenges Detroit faces, and offer ways to address the following:

- Improving job and economic growth;
- Improving efficiency of city system networks;
- Improving neighbourhood stability;
- Defining “quality of life” ingredients for healthy and sustainable neighbourhoods;
- Creating strategies for vacant land;
- Retaining and attracting population; and
- Leveraging public and private investments for greater impact

A large part of these plans may involve the ‘rightsizing’ of the city. Detroit has a large number of communities that are dominated by empty lots and vacant homes. The Mayor of Detroit, Dave Bing, has spoken of providing incentives for the people still living in such areas to relocate, thereby reducing costs to the city in terms of service delivery (this forms part of the short term plan).¹⁷

In addition, the Detroit Economic Growth Corporation has been developed¹⁸. This is a non-profit organization that works closely with the City of Detroit and other partners to support existing businesses and to bring new companies and investments to the city, in a similar manner to Invest NI.

The professionals who work for DEGC act as staff for a number of public authorities whose board members are appointed by the Mayor and approved by Detroit City Council. Each of those entities have distinct responsibilities and powers, but they are very closely related. By using a common staff – DEGC – the work of these public authorities is well coordinated and avoids duplication. DEGC also works directly for the City of Detroit under contract and manages economic development efforts funded by private and foundation contributions, grants and contracts.

The DEGC offers a broad range of financial, technical and development assistance to commercial, industrial and service firms, as well as developers and investors wanting to do business in Detroit

¹⁶ Ibid

¹⁷ Shrinking Detroit Back to Greatness March 16, 2010 (originally published in the New York Times)
<http://www.hks.harvard.edu/centers/rappaport/events-and-news/op-eds/shrinking-detroit-back-to-greatness>

¹⁸ Detroit Economic Growth Corporation, <http://www.degc.org/>

As to how effective the plans for Detroit will be is yet to be seen, with the City still apparently in a state of decline and with an ongoing process of rationalisation within the city. What can be said is that it is a novel approach to the problems which Detroit.