

# Stanford SOCIAL INNOVATION<sup>Review</sup>

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**Building Economic Flywheels**  
By Amy Liu

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# Building Economic Flywheels

Concentrating investments along key corridors in the Motor City can generate market activity, but more effort must be made to create self-sustaining momentum that propels communities toward broader prosperity.

BY AMY LIU

**Y**ou'll most commonly find a flywheel in a toy car. One push and the car's wheels transfer energy to its flywheel, which, spinning continuously, powers the car for a greater distance than what one might expect. Setting the flywheel into motion converts a finite boost of energy into lasting momentum. It's fitting that revitalization efforts in Detroit—the Motor City—are testing the potential of this concept.

Some of Detroit's leaders have described the unprecedented series of reforms and investments in the city following the Great Recession as attempts to create "economic flywheels" there.<sup>1</sup> As the thinking goes, given the size and scope of the city's challenges, including its mammoth physical footprint of 139 square miles, concentrating investments along key corridors can generate needed market activity and spur momentum—a flywheel effect—to the point where the market takes over and continues to propel communities toward broader prosperity. As of this writing, there are promising signs that this approach is working. Thanks to numerous strategic investments by the philanthropic, private, and public sectors, the Detroit region is on the rebound.

It has often been said that Detroit's unique history and unprecedented level of investment in its post-recession recovery defy easy comparison. However, the city is not alone in grappling with industrial restructuring, abundant vacant land, and extreme poverty. Detroit's resurgence also results from a new and creative approach to problem solving that is emerging in many US cities—one that depends upon actors from multiple sectors coming together to move communities forward. If the Motor

Amy Liu, a national expert on cities and metropolitan areas adept at translating research and insights into action on the ground, is vice president at The Brookings Institution and director of Brookings' Metropolitan Policy Program.

City can evolve from economic fragility to health via flywheels, it can offer important lessons in urban revitalization for others experimenting with or considering the same sorts of collaborative actions.

This article begins with a brief summary of Detroit's economic crisis that spurred leaders to think anew about their economic strategy. It then describes the series of interventions that comprise the flywheel and their effect to date in Detroit. It closes with thoughts about what the city and its stakeholders need to do in the coming months and years to ensure that market momentum continues and results in wider gains for residents and neighborhoods throughout Detroit.

## DETROIT'S ECONOMIC TSUNAMI

Like many older industrial cities, greater Detroit had been working hard to strengthen its manufacturing-based economy amid greater global competition and technological change. The Great Recession—with the simultaneous collapse of the automotive, financial, and real estate industries—dealt a major setback to these efforts, devastating the region's economy.

Metropolitan Detroit lost an astounding 463,000 jobs between 2000 and 2009, more than 20 percent of the total jobs in the region.<sup>2</sup> The region's economy shrank by nearly 18 percent during that time period, even as the broader US economy expanded by 13 percent. Only five other metro areas among the nation's 100 largest also saw their economies contract—Grand Rapids, Mich., and Cleveland, Dayton, Toledo, and Youngstown, Ohio.<sup>3</sup>

The mix of job loss, declining wages, and foreclosures hit the city of Detroit especially hard. During the first decade of the 21st century, the number of Detroit residents living in poverty increased by more than 25 percent—an additional 60,000 residents.

Local leaders and many national philanthropies knew it was time to be bold. They knew that given the complexity of the challenge, they needed to work collectively and collaboratively, and that their efforts had to be transformative.

## THE TURNING POINT

To create a flywheel effect, investments need to exert a sizable force on the economy. With weak business and consumer spending in the wake of the Great Recession, Detroit needed its own stimulus package. And such spending could not be scattershot. To have maximum impact, it had to be targeted in purpose and geography.

The Herculean efforts of philanthropic, corporate, and other local leaders cannot be adequately captured in this short article. Recent philanthropic efforts began in 2007 when 10 local and national foundations came together to create the New Economy Initiative (NEI). NEI launched with an initial \$100 million investment to "return Detroit to its position as a global economic leader."<sup>4</sup> The initiative placed an emphasis on innovation, entrepreneurship, and creative industries.

Then, in 2010, the city launched a visioning process with strong support from the philanthropic community that resulted in Detroit Future City—a plan and an implementation office within the Detroit Economic Growth Corporation to advance community objectives for decades to come.

At each opportunity, leaders focused investments primarily on key corridors in the urban core, from Downtown and Midtown Detroit to the Riverfront. Rather than grow regional industry clusters through business attraction, their efforts supported start-ups and existing small businesses. Philanthropic investors hoped that such entrepreneurs could create jobs in the near

term, populate abandoned buildings, revitalize neighborhoods, and produce next-generation products and services.

Initiatives to revitalize Downtown Detroit have varied greatly in approach. One early strategy was to designate Downtown and Midtown Detroit as an Innovation District.<sup>5</sup> The announcement by Detroit's mayor and the governor of Michigan reflected a commitment to establish and nurture startups in technology, health, and the arts. The innovation would play off key anchor institutions in the urban core, such as the busi-

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*A new light rail line, M-1 RAIL, is being built along Woodward Ave., one of Detroit's main arteries.*



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ties, including dozens of skyscrapers, and have invested an estimated \$2.2 billion in the city.<sup>12</sup> Other corporations have jumped at the opportunity to move into Detroit as well. In 2011, Shinola, a luxury watch and goods manufacturer whose financial backers hail from Texas, opened its manufacturing facility Downtown. Shinola uses a space provided by the College for Creative Studies in a building that was a former automotive research lab.

When the City of Detroit declared bankruptcy in July 2013, hobbled by steep pension obligations and a severely eroded tax base, nonprofit and corporate philanthropies and the state stepped in. Dubbed the “Grand Bargain,” this pledge of hundreds of millions of dollars helped stabilize the city’s finances.<sup>13</sup> But more important, this pledge

continuously shrunk in the years leading up to the financial crash.<sup>17</sup>

These macro signs indicate that the market is responding positively to the surge of concentrated investments in central Detroit. The rebirth of the auto industry, enabled by the early federal bailout, has also been essential to the region’s recovery.

#### CREATING WIDER MARKET DEMAND

Detroit’s progress is remarkable but still nascent. The renewed market activity in Downtown and Midtown Detroit has yet to spill over to other neighborhoods or workers. Indeed, local leaders understand the urgency of investing outside of Downtown, and many worthwhile efforts are under way to eliminate neighborhood blight, reform schools, and open up opportuni-

ties whose employment rate increased to 73 percent, saw their median wage grow by 7.4 percent during that period, widening income disparities in the region. Similarly, a disproportionately large share of workers of color are employed in low-wage jobs. In 2014, more than one in three workers of color in metropolitan Detroit earned extremely low wages, compared with one in four white workers.<sup>20</sup>

Furthermore, our research finds that in metropolitan Detroit, nearly 12 percent of black teens ages 16 to 19, and a quarter of all black adults ages 20 to 24, are neither working nor in school.<sup>21</sup> These figures are higher than the national averages of 8 percent and 17 percent for black youth, respectively.

Local philanthropies, such as the Skillman Foundation, are already deeply involved in addressing these issues through their collective investments in training, minority entrepreneurship, and early childhood education. But ultimately, the city needs an even more muscular effort, one that partners with employers to help residents acquire the skills they need to get good-paying jobs. Those jobs, in turn, will allow residents to spend more money locally to sustain neighborhood economies.

#### Connect to specialized industries |

Firms in global industries, such as automotive manufacturing and financial services, drive the bulk of income growth in a region. They seek new technology capabilities, high-quality materials, process solutions, and skilled labor in order to innovate and expand. The opportunity is meeting that demand with local businesses and workers.

Detroit Future City has prioritized the growth of digital and creative industries, entrepreneurship, and traditional manufacturing as part of its economic strategies. The good news is that the future of innovation requires the blending of these capabilities, and metropolitan Detroit is emerging as a leader.<sup>22</sup> Over one-quarter of metropolitan Detroit’s economic output is generated by its advanced industries—the tech- and research-oriented sectors that power the global economy—placing Detroit seventh among all US metro areas.<sup>23</sup> In addition to automotive parts and vehicle production, greater Detroit’s advanced industry specializations include engineering, computer systems design, R&D services, and data processing. What’s more, the Michigan manu-

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helped protect these early flywheel investments in Detroit’s core, shoring up market confidence in the city’s future.

#### DETROIT’S ECONOMIC RECOVERY

These philanthropic and private sector investments are taking hold. The Detroit economy has reversed direction and, like a flywheel, is picking up speed. The Detroit metro economy expanded by 18.1 percent between 2009 and 2014, ranking ninth best among US metro areas, a stark contrast to the decade prior.<sup>14</sup> During that time, the region’s employment rate rose 7.7 percent, the largest increase of any large US metro area. Detroit’s output per capita, a common measure of standard of living, rose 18.5 percent, which trailed only San Jose among all large metro areas. There are also signs that benefits are reaching lower-income residents, as the share of workers earning extremely low wages in the region dropped 2.4 percent.<sup>15</sup>

Wayne County, which encompasses Detroit, is also on the road to recovery. The county lost jobs every year between 2000 and 2010; between 2010 and 2014, the county gained jobs each year.<sup>16</sup> Similarly, the county’s economy grew by 12.7 percent in the five years since 2009, after having con-

tinued ties for residents to acquire marketable skills. But in order for economic progress to broaden and accelerate, there simply must be more market demand. To that end, Detroit’s leaders should consider setting the following three goals:

#### Increase resident income levels |

Entrepreneurs and small business owners need customers with disposable income to buy their products and services so they can thrive. And if new investments improve neighborhoods and property values increase, existing residents need sufficient earnings to be able to afford to stay.

Unfortunately, between 2009 and 2014, the region’s median wage shrank by 1.4 percent.<sup>18</sup> This figure actually compares favorably with the figure for the nation as a whole, which saw the median wage drop by 5 percent during that period, but in Detroit there’s another, more pressing issue: wages have moved in different directions for people of color and whites. The share of working-age people of color in metropolitan Detroit who have jobs rose from 52 percent to 60 percent between 2009 and 2014, but as more people of color entered the labor market and found jobs, their median wage dropped by 3.7 percent to \$25,211.<sup>19</sup> In contrast, white workers,

facturing industry has sought to hire more computer programmers than mechanical engineers since 2010, demonstrating a sizable shift toward digital skills.<sup>24</sup> It is estimated that the advanced industry ecosystem in greater Detroit directly employs more than 300,000 full-time workers, and an additional 240,000 people indirectly due to their multiplier effect.<sup>25</sup>

But more work can be done to connect that demand to the supply of workers and entrepreneurs in the core city. Detroit could be the center of “autotech” and “fintech,” connecting its emergent start-up scene and small business networks—as well as its digital skills training programs—to legacy manufacturers and the financial services industry. Bizdom, a Detroit-based start-up incubator and tech accelerator developed by Quicken Loans’ Gilbert, is an emerging example. And model programs in other cities offer inspiration. FirstBuild, for example, is a collaboration between GE Appliances and Lighting and the University of Louisville that allows community members to work alongside company and university engineers to design and develop ideas for the home appliances industry.<sup>26</sup> One light on the horizon: Ford Motor Company’s collaboration with TechShop, a makers space and incubator, could expand its presence in Dearborn to Detroit, broadening its engagement with the city’s entrepreneurs and tinkerers.<sup>27</sup>

### **Invest more fully in neighborhoods** |

At an event at The Brookings Institution earlier this year, Stephen Henderson, an editorial page editor for the *Detroit Free Press*, highlighted the need to help Detroit residents who live in high-poverty, isolated neighborhoods.<sup>28</sup> Research has shown that high-poverty neighborhoods exacerbate inequities and lower the prospects of all residents, not just those who live in poverty.<sup>29</sup> And our research shows that over the past 15 years, poverty has not only increased in Detroit but become more concentrated. In 2000, there were 35 neighborhoods in the city in which 40 percent or more of residents lived below the poverty line; a decade later, the number of extremely poor neighborhoods increased more than fourfold, to 159.<sup>30</sup>

Revitalizing such neighborhoods requires a delicate balance of top-down and bottom-up engagement, where city and pri-

vate sector actors work together alongside neighborhood organizations and residents to promote new avenues for growth. Getting to market scale is not easy, but a few emerging approaches, such as the Greater Chatham Initiative in Chicago, are showing great potential as models for other neighborhoods. The Greater Chatham Initiative is a comprehensive neighborhood development plan that seeks to link four historically middle-class, black neighborhoods on the South Side of Chicago to the regional economy. The initiative brings together disparate economic, workforce, and community development efforts—including small business and industry cluster strategies, youth summer jobs programs, workforce training, housing and commercial redevelopment funds, and public transportation linkages—and applies them to these neighborhoods to improve residents’ opportunities and well-being.<sup>31</sup>

Detroit is still one of the poorest cities in the United States. About one in four properties in the city—95,000 lots—remain abandoned.<sup>32</sup> Approximately 23 square miles of the city’s 139-square-mile footprint is vacant, more than the size of the island of Manhattan.<sup>33</sup> There is a long way to go.

And yet the seismic, targeted investments by the private and public sectors are creating market traction where there was once none. If leaders in philanthropy, government, and business continue their work apace, the flywheel momentum will reach more residents and neighborhoods until Detroit achieves self-sustaining, inclusive growth. ●

*NOTE: The Kresge Foundation, the GE Foundation, Goldman Sachs & Co., and JPMorgan Chase are donors to The Brookings Institution. This article reflects the sole views of its author.*

#### **Notes**

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