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Brains Still Trump Guns and Oil

By Jeremy Dann
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Richard Florida, an author and professor, wrote the following piece in response to an article by BNET's Jessica Stillman, 'Do Guns and Oil Outearn Brains.

Two years into the recession, with the overall unemployment rate hovering close to 10%, a lot of economic truisms have been put to the test. Yesterday, BNET correspondent Jessica Stillman picked up economist 'Mike Mandels blog post in which he analyzed which US metro areas have been the biggest winners and losers in the economic downturn. Charting the change in per capita incomes from 2000 to 2008, Mandel ranked high-tech creative meccas like Silicon Valley (San Jose), Austin, and the Research Triangle (Raleigh-Cary), alongside college towns like Ann Arbor, and older industrial communities like Flint, Michigan as the country's losers. He found the biggest upside and the largest gains in per capita income in towns with big military or “gun” economies, such as Jacksonville, North Carolina, home to Camp Lejeune, Fayetteville, North Carolina, where Fort Bragg is located, and Killeen, Texas with Fort Hood . “Oil” metros like Houma, Louisiana and Odessa, Texas also scored high.

I admire Mandel and his work, and corresponded with him fairly regularly during his stint as Business Week's chief economist. I quote his analysis of America's innovation and productivity dilemmas in my new book, The Great Reset. His conclusions are bracingly counter-intuitive, and presumably greatly discomfiting to me. Only they're not.

Yes, creative workers and creative regions have suffered some real setbacks in the current downturn, as Mandel's work at Business Week showed. The economic crisis has left no region and no group of workers unscathed. But do you — or does he — really believe that Silicon Valley, Austin, or the Research Triangle are in the same economic situation as, say, Flint, Michigan where the rate of unemployment is 16.3 percent and factory workers face little chance of being re-employed?

It's fun to be contrarian — it keeps everyone on their toes — but it also distracts attention from the places and people who are suffering the most.

The economic crisis has fallen heaviest on older Rustbelt communities, whose manufacturing economies were already being devastated before the collapse. The unemployment rate for blue collar workers is nearly 14 percent (13.8%), more than three times the rate (4.1%) for professional and technical workers. Roughly one in four people are unemployed in the city of Detroit and mayor Dave Bing has said that the real figure "might be closer to 50 percent" because so many workers have given up looking for jobs. According to analysis by my colleagues and I at the Martin Prosperity Institute, the cities and metro regions that entered the crisis with high rates of unemployment have seen their unemployment rates go up the most.

The impact of the crisis on the Sunbelt has been more mixed. Metros with oil and gas economies and with large levels of government spending like the ones Mandel mentions have fared better in the short run, and diverse Sunbelt metros like Dallas and Atlanta have done OK. But the real estate-driven cities of sand like Phoenix and Las Vegas have gotten killed.

Being a numbers guy myself, my team and I have been charting the comparative performance of US metro regions during this Great Reset. We've been looking in detail at income levels, unemployment rates, and housing values across the country. And the regional winners and losers that we've come up with are very different than Mandel's.

	*Median Household Income**	*Median Home Value**
Mandel's Losers		
San Jose, CA	$88,098	$724,000
Greeley, CO	56,065	199,400
Ann Arbor, MI	57,848	223,500
Flint, MI	44,611	126,800
Atlanta, GA	60,682	199,300
Raleigh, NC	61,862	141,100
Austin, TX	59,221	188,500
Mandel's Winners		
Houma, LA	$51,108	$122,000
Jacksonville, NC	48,017	141,100
Manhattan, KS	45,084	154,600
Farmington, NM	47,096	158,500
Fayetteville, NC	49,769	122,400
Killeen, TX	44,091	116,400
Lawton, OK	39,142	103,300
Odessa, TX	50,241	77,900

Source/ Note: Metro names are abbreviated to just the major city. Data on median household income and median housing values are from the 2008 American Community Survey.

Sure, recent upticks in oil production and military spending have registered significant short-term gains in the incomes of Mandel's guns and oil metros. Since most of them started from fairly low levels, it's not surprising that they would register big percentage changes. But that does little to change the fact that they have lower household incomes than Mandel's high-tech losers. The median household income in "loser" Silicon Valley (San Jose) is nearly $90K — the highest in the country — almost twice as much as the incomes of his winners. Aside from hard-hit Flint, every one of the metros on Mandel's loser list has a higher income level than his winners. Or take housing values, an indicator of the amount people are willing and able to pay for their home. Six of eight losers have higher housing values than the most expensive metros on Mandel's list of winners. The average housing price in Silicon Valley is more than $700K — four times as much as the very best of his winners.

In fact, among the most interesting and resilient places navigating the current crisis are resource and gun-oriented regions in the US and Canada which used their existing assets to transform themselves into more idea-driven economies: like Houston, which already has one of the greatest concentrations of software developers in the US, and oil-rich Calgary, which has a share of creative and knowledge-based jobs that rivals Toronto's or New York's. And then there is Greater Washington, DC, which has leveraged military and related government spending into growing high-tech industry, and where technology-based employment has displaced government as the largest source of jobs. Silicon Valley itself is perhaps the best example of a place that used military spending, along with other assets, to develop a brain-powered economy. Guns and oil may provide a short-term boost, but it's brains that continue to power long-lasting economic development.

For an independent perspective, I took a look at the most recent edition of the Brookings Institution's Metro Monitor— a comprehensive set of measures for tracking the performance of the nation's 100 biggest metros over the course of the economic crisis. Some of Mandel's metros are too small to make Brookings' list. But of those that do, there are some striking discrepancies. Austin, one of Mandel's losers, ranks as one of the twenty strongest metros in the country. Raleigh, another of his losers, is among the second strongest twenty.

Comparing small groups of regional winners and losers can generate eye-popping contrasts, but it can also be misleading. It's too easy to confuse extreme values or short term shifts with long-run trends.

There is a broad consensus among economists that the one clear driver of long-run regional growth and development is human capital. The places that grow the most, and that enjoy the highest living standards in the medium to long run, are those that have the most educated workforces, the highest levels of knowledge, professional and technical occupations, and where levels of openness to outside ideas and new people are highest. Resources and military spending may help to mitigate the most onerous impacts of the crisis for a while and even create short-term spikes in some locales, but they are no match for human capital, technology and the creative class in the long haul.

Or, you could ask just two simple questions. Which of these two places—Houma, Louisiana or Austin Texas—would you bet on to have higher living standards, higher wages, and higher home price values in the next decade or two? And if you had to choose between Killeen, Texas or the Research Triangle area around Raleigh, North Carolina as a place for you and your family to live, which one would it be?

I know how I'd answer. And I think Mandel would likely answer the same way.

Richard Florida is the author of The Great Reset *and Director of the* Martin Prosperity Institute *at the University of Toronto's* Rotman School of Management*.*