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# **AUSTIN'S ECONOMIC FUTURE**

## **The Intersection of Innovation, Creativity, and Quality of Life**

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**prepared by**



The purpose of this white paper is to establish Austin's economic context, outline the community's relative strengths and their underlying causes, identify the role the City can play in leveraging these strengths for the purposes of economic development, and suggest a ninety-day action plan to begin exercising that leverage.

### AUSTIN'S ECONOMIC CONTEXT

#### *Extraordinary Growth Comes to a Halt*

Local economic growth in Austin has been extraordinary in recent years. A combination of corporate relocations and expansions, rapid population growth, extensive investment in technology and Internet-related start-ups, and the meteoric rise of Dell helped make Austin among the five fastest growing metropolitan areas in the United States over the last decade. Since 1990, per capita personal income has risen from \$18,092 to \$32,039 (during 2000), more than 280,000 jobs have been created, and the average price of a home sold has grown from \$87,600 to a current estimate of \$199,500, a gain of almost 130 percent. These achievements have not gone unnoticed elsewhere. From 1999-2001, for example, Austin placed either first or second in the *Forbes Magazine*-Milken Institute rankings of Best Places for Business and Career.<sup>1</sup>

While these rapid growth rates likely were unsustainable over time, the national recession and the dot.com implosion have caused Austin's economy to stagnate. Unemployment in Austin has almost tripled over the past two years, and announced high-tech layoffs have surpassed 17,000 jobs. Moreover, dramatic losses in the stock market have erased billions of net worth in the region's publicly traded companies, damaging individual investors and undermining consumer confidence. This has in turn has rippled through to the public sector, as City sales tax collections are down more than 6 percent year-to-date. While the regional economy remains relatively stable (unemployment, for example, is still below the statewide average), significant growth is not expected for the foreseeable future. Meanwhile, local tech sector woes have dropped Austin in the most recent Forbes rankings to 19<sup>th</sup>, further emphasizing the shift in the local economic climate.

#### *The Divisions in the Community Have Grown Wider*

The meteoric rise and subsequent flattening of overall local growth have masked the rising income gap within the community. The numbers tell the story – according to Census data, the median household income in the area bordered by I-35 on the west, Townlake on the south, Ed Bluestein on the east, and Highway 290 on the north had a median family income of \$26,782 during 1989, which was 80.0 percent of the overall median figure of \$33,481 for Austin. By 1999, the median figure for this area had grown to \$36,502, an increase roughly consistent with the rate of inflation. However, family income for Austin overall rose to a median of \$54,091 over the same period, which means that family income in Central-East Austin is now just over two-thirds of the citywide figure. Austin is part of an overall national trend toward rising inequality, and its sources and solutions extend far beyond local purview. Nevertheless, this growing disparity should heighten focus on the need to extend economic development to all segments of the community, and to work to narrow this widening gap over time.

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<sup>1</sup> <http://www.forbes.com/2002/05/09/bestplaces.html>

### **BASELINE ECONOMIC FORECAST**

#### *The National Economy*

Regardless of the whether or not the nation technically is still in recession, it is evident that the economy has been flat for some time. Indeed, the National Bureau of Economic Research (the official arbiter of changes in the U.S. business cycle) declaration that recession began in March 2001 remains in effect. In particular, their definition of a growth recession as “a recurring period of slow growth in total output, income, employment, and trade, usually lasting a year or more” seems to fit the situation. While GDP growth has averaged 3.1 percent through the first three quarters of 2002, business investment continues to be very sluggish, reflecting the fact that corporations collectively lost \$26.4 billion during the first half of the year. As a result, firms are hesitant to invest due to uncertainty about their market prospects over the near term. This hesitancy is also evident in the labor market, where layoffs continue.

Consumer spending has been supporting the national economy during recent months, as shoppers have been willing to take advantage of aggressive pricing, lower interest rates, and available consumer debt to maintain purchasing patterns. This trend may soon run its course, especially if the labor market remains soft, corporate scandals continue, and interest rates rise. The recent drop in consumer confidence is worrisome.

Concerns about inflation have largely evaporated with the slowdown in the economy, although the crisis in the Middle East has caused volatility in energy prices. There is little indication of inflation being a problem in the near future.

The economy has been of concern to the Federal Reserve Bank for some time, as interest rates have been cut twelve times over the past year. Currently, benchmark rates are at their lowest level in over forty years, although the bias at this stage is toward tightening. While this reduced cost of money will continue to help stimulate the economy, its effect will be blunted to some degree by tightening credit standards in the wake of the recession.

Job losses, slowing consumer spending, and lower corporate profit levels all indicate ongoing weakness in the U.S. economy. However, there is still some stimulus in the pipeline, as the impact of the Fed's aggressive easing and the injection from increased federal government spending has not been fully felt. In combination with a modest pickup in business activity, the fact that the results for the balance of the year will be measured against a reduced base should allow overall growth this year of 2.6 percent.

Over the next four years, GDP should continue to expand in the 2.3 to 2.8 percent range annually, as the economy's potential growth of 3.5 to 4 percent per year (based in part on enhanced productivity associated with information technology) is tempered by slower labor force growth and the lingering effects of recent over-investment.

## *The Austin Area Economy*

The national economy is the key to the short-term outlook for Austin. In addition to the obvious connection for the bulk of the local tech sector, local consumer confidence is influenced by the overall national situation and outlook. Moreover, venture capital investment has had a significant impact on Austin in recent years; the weakness in the national economy is a contributing factor to a substantial amount of locally controlled venture funds currently sitting on the sidelines. Assuming that the U.S. continues its modest recovery, Austin-area job growth should turn positive by next year, with 2003 up about 1.4 percent from 2002. However, the bulk of the net new jobs will be in the secondary sectors of services, trade, and government, as it may well be some time before local manufacturing returns to its 2000 peak.

<b>AGGREGATE MEASURES OF THE AUSTIN AREA ECONOMY</b>							
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
MSA Employment (000s)	672.7	675.7	672.1	682.0	700.2	720.0	741.7
City Employment (000s)	382.5	383.0	380.9	382.6	388.9	395.9	403.8
County Population (000s)	818.8	833.8	846.9	860.6	875.0	890.1	905.4
County Personal Income (Bil.)	\$32.1	\$32.7	\$33.0	\$34.4	\$37.0	\$39.5	\$41.9

Over the next five years, growth in the Austin region should begin to accelerate, although expansion likely will not be as rapid as 1997-2001. After growing at a compound annual rate of 4.5 percent from 1997-2001, the Austin MSA job base should expand at a rate of 2.4 percent from 2002 through 2006. Similarly, Travis County personal income rose an astonishing 13.2 percent annually from 1997-2001, while its forecasted growth will fall to 6.3 percent annually from 2002 through 2006.

<b>AUSTIN MSA EMPLOYMENT BY SECTOR (000s)</b>							
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Mining	1.5	1.7	1.8	1.9	2.0	2.0	2.1
Construction	39.1	40.3	40.0	38.8	40.1	41.4	42.4
Non-durable Manufacturing	13.9	13.4	13.0	13.4	13.8	14.1	14.4
Durable Manufacturing	71.2	65.9	56.0	56.5	58.9	62.1	65.5
Wholesale Trade	38.7	38.5	37.5	38.0	38.8	39.7	40.7
Retail Trade	114.5	116.4	117.5	119.0	122.8	125.7	128.9
Finance/Real Estate	33.5	34.2	34.6	34.4	34.7	35.2	35.7
Transportation/Utilities	21.6	21.5	20.7	21.2	21.8	22.4	23.1
Services	201.9	203.3	204.0	208.4	214.0	221.3	230.0
Government	136.8	140.5	147.0	150.4	153.3	156.1	158.9
<b>TOTAL</b>	<b>672.7</b>	<b>675.7</b>	<b>672.1</b>	<b>683.0</b>	<b>700.2</b>	<b>720.0</b>	<b>741.7</b>

### AUSTIN'S FUNDAMENTAL ASSETS

#### *The Intersection of Creativity, Innovation, and Quality of Life.*

As outlined above, external events will drive the fortunes of the local economy over the next several years. However, the community can have a greater influence on local fortunes over the longer term.

Most agree that Austin's resurgence will be closely tied to the factors that drove growth in the recent past – a highly capable workforce, innovation and entrepreneurship, clusters in knowledge industries, the presence of a world-class research university and several other institutions of higher learning, strong community assets, and superior quality of life. Aside from the public sector presence that state government and higher education represent, this unique mix has enabled Austin to develop a concentration of economic activity in four major areas:

- *Technology-related manufacturing and research:* While Austin's emergence as a national leader in this area has only been recently noted by wider audiences, the groundwork for this development began almost five decades ago, with Tracor's founding during the 1950s. IBM and Texas Instruments brought light manufacturing facilities here in the 1960s, Motorola and AMD came to town in the 1970s, and the City attracted two major research consortia in the 1980s. Presently, four of Austin's six largest private employers are in the high-tech sector, providing jobs for almost 37,000 residents.
- *Entertainment, including film, digital entertainment, and live music:* Long billed as the "Live Music Capital of the World," Austin is home to a disproportionately large number of musicians, live music venues, and music support industries, and has been for many decades. At the same time, film and digital entertainment are establishing a growing presence in the local community. As a result, the performing arts comprised more than twice the level of the local economy as compared to either Dallas or Texas.
- *Information, especially publishing and software.* The combination of code and content forms an important part of the local economic base, with software companies, publishers, studios, and information services combining to account for more than 15,000 jobs and almost a billion dollars in Travis County payroll.
- *Professional services:* Encompassing health care, legal services, engineering and management consulting, and more traditional creative occupations such as graphic design and advertising, professional services form a disproportionate share of Austin's economic base. For example, management and professional services firms accounted for 24.5 percent of Travis County payroll during 2000, compared to 20.4 percent for Dallas County and 16.0 percent statewide.

In many ways, Austin's development of these core sectors is merely the outward manifestation of more fundamental underlying factors. Austin is blessed with an unusual interrelationship between creativity, innovation, and quality of life. Richard Florida argues "today's economy is fundamentally a creative economy," where knowledge and information are the "tools and materials of creativity. Innovation, whether in the form of a new technological artifact or a new business model or method, is its product."<sup>2</sup>

At the same time, quality of life, an umbrella term that loosely covers variables such as recreational and cultural amenities, overall cost of living, diversity of local residents, and a sense of place that is at least partially informed by land, water, and the physical environment, is an increasingly important asset. This is especially the case in Austin, where there is a strong sense that the above factors combine in a unique and special way.<sup>3</sup> Of necessity, companies have become more sensitive to the needs and wishes of their employees in worksite location decisions. This is particularly true in high technology sectors that are so dependent on the new breed of "knowledge workers." Earlier work by Florida examined these issues in depth.<sup>4</sup> Among the key findings of this research were:

- "Amenities and the environment – particularly natural, recreational, and lifestyle amenities – are absolutely vital in attracting knowledge workers and in supporting leading-edge high technology firms and industries."
- "Knowledge workers prefer places with a diverse range of outdoor recreational activities ... and associated lifestyle amenities... [These activities and amenities] should be easy to get to and readily available."
- "The availability of job and career opportunities is a necessary but insufficient condition to attract the young knowledge workers ... [who] favor cities and regions with a 'thick labor market' which offers the wide variety of employment opportunities required to sustain a career in high technology fields."

In his subsequent book, Florida goes on to characterize the determinants of success in the modern economy as the 3 Ts: technology, talent, and tolerance. Austin scores high on all three counts, and, as a result, ranks second (behind San Francisco) in his overall creativity index, which combines measure of the number of workers in the creative class, the role of technology in the local economy, innovation, and diversity.

The notion that the ability to maintain creativity and innovation in the workplace requires ready access to a vibrant, renewing cultural environment is moving beyond academia. Even traditional manufacturing firms have long recognized that most new value is created through a process that needs creativity as a crucial raw material. John D. Ong, Chairman Emeritus of the B.F. Goodrich Company, speaking to a group of business students in 1995 as part of the Business Committee for the Arts Lecture Series, observed that:

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<sup>2</sup> Richard Florida, *The Rise of the Creative Class*, p. 44. 2002.

<sup>3</sup> encapsulated in the popular bumper sticker "Keep Austin Weird."

<sup>4</sup> Richard Florida, "Competing in the Age of Talent: Environment, Amenities and the New Economy." Report prepared for the R. K. Mellon Foundation, Heinz Endowments, and sustainable Pittsburgh. January 2001.

“People who create in our companies – whether they be scientists, marketing experts or business strategists – benefit from exposure to the arts. People cannot create when they work and live in a culturally sterile environment... The economic benefits of the arts greatly transcend and outlive any of the normal cycles... That is why business invests in the arts – even when times are tough, and when there is increased pressure to manage money carefully.”<sup>5</sup>

In assessing “quality of place,” Florida summarizes the concerns of knowledge workers into four main areas: lifestyle, environmental quality, a vibrant music and arts scene, and natural and outdoor amenities. The approach promoted by the Austin Convention and Visitors Bureau is reflected in the acronym “CHARM” – standing for culture, heritage, arts, recreation and music. Whichever classification scheme is adopted, it is apparent that Austin scores highly on each of these dimensions.

### *Creativity and Its Role in Austin's Economy*

The actual data that supports the assessment of Austin as a center of the new creative economy tells a compelling story. Applying Florida's occupation-based definition of the creative segment of the economy, the most recent data from the Bureau of Labor Statistics indicates that 242,070 Austin MSA residents were working at a creative job during 2000, equaling 36.1 percent of the total MSA workforce.<sup>6</sup> The average annual salary paid at these positions was \$52,285, meaning that creative workers in the Austin area earned over \$12.6 billion, representing 54.4 percent of total local wages paid. ***In other words, the broadly defined creative sector accounts for more than half of the local economy.*** The following tables provide a comparison to several other metropolitan areas, the state, and the nation.<sup>7</sup>

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<sup>5</sup> Quote appears in “The Role of the Arts in Economic Development: Issue Brief.” NGA Center for Best Practices, June 2001, p. 6. Report available at <http://www.nga.org>.

<sup>6</sup> The Creative Class is divided into two components - the Super-Creative Core, which includes computer and mathematical occupations, architecture and engineering occupations, life, physical, and social science occupations, education, training, and library occupations, and arts, design, entertainment, sports, and media occupations; and Creative Professionals, which includes management occupations, business and financial operations occupations, legal occupations, healthcare practitioners and technical occupations, and high-end sales and sales management.

<sup>7</sup> see Appendix A for more detailed information on Austin, Texas, the United States, and several other metro areas.

<b>AVERAGE ANNUAL WAGES PAID - 2000</b>			
	<b>Total MSA</b>	<b>Total Creative</b>	<b>Other Sectors</b>
Atlanta	\$34,854	\$54,176	\$26,559
<b>Austin</b>	<b>\$34,672</b>	<b>\$52,285</b>	<b>\$24,725</b>
Boston	\$40,738	\$60,768	\$28,796
Pittsburgh	\$32,127	\$49,468	\$25,132
Portland	\$34,600	\$52,085	\$27,499
Raleigh	\$35,039	\$53,472	\$24,621
San Diego	\$34,581	\$54,513	\$25,851
San Francisco	\$44,210	\$66,757	\$31,539
Seattle	\$40,593	\$59,968	\$30,863
Texas	\$31,446	\$49,819	\$23,803
United States	\$32,916	\$52,059	\$25,450

<b>TOTAL CREATIVE SEGMENT AS PERCENTAGE OF TOTAL</b>		
<b>Metro Area</b>	<b>Employment Share</b>	<b>Share of Wages</b>
Boston	37.4%	55.7%
Raleigh-Durham	36.1%	55.1%
<b>Austin</b>	<b>36.1%</b>	<b>54.4%</b>
San Francisco	36.0%	54.3%
Seattle	33.4%	49.4%
San Diego	30.5%	48.0%
Atlanta	30.0%	46.7%
Texas	29.4%	46.5%
United States	28.1%	44.4%
Pittsburgh	28.7%	44.3%
Portland, OR	28.9%	43.5%

A look inside the numbers confirms that Austin is not only a center of creativity, but that the creative sector here provides a relative advantage compared to the rest of the nation. Assuming that wages are a proxy for productivity over time, it follows that higher relative wages indicate a strong level of economic value being generated. This is especially noteworthy in the occupations defined by Florida as the super-creative core, as this is the segment where broad-scale innovation is most likely to occur. As the following table shows, wages in this segment relative to the overall average local wage are unusually high, suggesting that this is an area of relative local economic strength.

<b>SUPER-CREATIVE CORE AS PERCENTAGE OF TOTAL</b>			
	<b>Total MSA Average Wage</b>	<b>Super Creative Core Average Wage</b>	<b>Creative Core as Percentage of Total</b>
<b>Austin</b>	<b>\$34,672</b>	<b>\$49,732</b>	<b>143.4%</b>
Raleigh	\$35,039	\$50,014	142.7%
Pittsburgh	\$32,127	\$45,128	140.5%
Texas	\$31,446	\$43,930	139.7%
San Diego	\$34,581	\$47,738	138.0%
United States	\$32,916	\$45,232	137.4%
Seattle	\$40,593	\$55,099	135.7%
San Francisco	\$44,210	\$58,759	132.9%
Atlanta	\$34,854	\$45,282	129.9%
Boston	\$40,738	\$52,678	129.3%
Portland	\$34,600	\$43,538	125.8%

Academic research has noted the connection for some time between innovation and overall regional prosperity, with Michael Porter's work among the most commonly cited. Examining data from 1990 forward, Porter used patents as a proxy for innovation, discovering a strong correlation between patent growth (or lack thereof) and relative prosperity or stagnation. The *Austin American-Statesman* has taken the process one step further. Constructing a database back to 1975, the paper found that the number of Austin-based patents went from 74 that year to 2,014 during 2001, a 27-fold increase during a period when national figures did not quite double.

As the Statesman correctly points out, patents are not a perfect measure of innovation, citing the example of Dell and its direct business model as a remarkably valuable innovation that does not show up in the data. Nevertheless, the patent yardstick reinforces the case made by the data on the super-creative core - Austin is one of the most innovative regions in the country.

If innovation is the peak of the creativity triangle, then venture capital and entrepreneurship provide the remaining two legs. Over the past five years, Austin has become a center of venture-backed entrepreneurial activity, as 481 companies received \$5.3 billion from 1997 through the third quarter of this year.<sup>8</sup> The table below provides more detail.

<sup>8</sup> <http://www.ventureeconomics.com/vec/stats/2002q3/0MAINMENU.html>

VENTURE CAPITAL INVESTED IN AUSTIN			
	Companies	Deals	Investment (\$Millions)
1995	16	18	42.4
1996	34	41	124.7
1997	47	58	253.3
1998	48	57	255.8
1999	100	131	1,064.2
2000	151	185	2,262.0
2001	96	124	1,152.7
9/02	39	43	271.2

While these firms will enjoy varying levels of success, those that are able to establish an ongoing market presence will continue to have positive effects on the local economy. For example, an analysis by DRI-WEFA of all venture capital-financed companies from 1970-2000 indicates that venture-backed firms had approximately twice the sales, paid almost three times the federal taxes, generated almost twice the exports, and invested almost three times as much in R&D as the average non-venture capital-backed public company, per each \$1,000 of assets.

Local entrepreneurship is not limited to venture-backed firms. Retailers and small manufacturers also fit this profile, as companies such as RunTex, Waterloo Records, Amy's Ice Cream, BookPeople, El Galindo, and scores of others find a way to effectively compete with big-box retail, national chains, and mass production. At the same time, organizations that are focused on community development, such as the Austin CDC, are also having a measurable impact. Since its inception, the CDC has leveraged total investment of \$9.1 million in 79 firms (largely on the East Side), in the process helping to create over 1,000 jobs.

As impressive as the overall data is, it does not tell the full story of the role of creativity and innovation in Austin's economy. In particular, there are two additional aspects of not fully captured above.

*Creativity is found in "non-creative" segments of the Austin economy.* The Dell example mentioned above is not an isolated case, as there are a number of Austin industries and firms that, even if they don't fit the definition, are bastions of real-world creativity. The grocery business is a good example. Founded in 1980 as one small store in Austin, Whole Foods Market is now the world's largest retailer of natural and organic foods, with 137 stores across the country. Meanwhile, HEB successfully tested and implemented the Central Market concept in Austin, so much so that it has become one of the major tourist attractions of the community. Schlotzsky's is another case, as the original store on South Congress

has grown to more than 450 sandwich shops worldwide. Meanwhile, locally produced Tito's Texas Vodka continues to win awards in international competition.

*The reach of music extends beyond its direct economic impact.* If Los Angeles is film, New York is theater and finance, Washington is politics, Las Vegas is gambling, then Austin is live music (with some tech thrown in for good measure). As the self-proclaimed "Live Music Capital of the World," there is no question that music is a defining element of Austin's culture. Music is everywhere in Austin - from the local artists heard at the airport, to a cable access channel devoted entirely to local music, to the more than 100 clubs that provide a stage for the thousand or so musicians who make their home in Austin. Meanwhile, South by Southwest and the Austin City Limits Music Festival draw thousands of visitors and pump millions of tourist dollars into the local economy. At the same time, music is an integral part of the face the city presents to the rest of the world, with touring acts and *Austin City Limits* bringing the Austin sound to viewers all over the globe.

### **DIRECTIONS FOR ECONOMIC DEVELOPMENT**

The Progressive Policy Institute nicely summarizes the interaction of innovation, creativity and quality of life in the economic growth of a community. Their view is that "in the New Economy, the ticket to faster and broader income growth is innovation. The New Economy puts a premium on what the Nobel laureate in economics Douglas North calls "adaptive efficiency," which refers to the ability of institutions to innovate, continuously learn, and productively change. As markets fragment, technology accelerates, and competition comes from unexpected places, learning, creativity, and adaptation have become the principal sources of competitive advantage in many industries. Enabling constant innovation needs to become the goal of all organizations committed to prospering. Similarly, the goal for metropolitan areas must be to foster innovation and adaptation - in infrastructure, in institutions both public and private, and on the part of individuals.

These efforts need to be proactive and designed for the long term. Government, civic, and business leaders need to challenge all economic sectors and institutions, including their own institutions of government, to become cultures of innovation. The consequences for any metro area that does not respond to this challenge are low productivity, stagnant living standards, and reduced opportunity for its citizens.

Innovation and change mean uncertainty and disruption. But it is becoming increasingly clear that dynamism is critical to growth. (You can't have upward mobility if no one is on the move.) The more churning in a metro in terms of new business start-ups and existing business failures, the faster the metro's rate of economic growth. In fact, of all of the indicators in this report, churn is the most strongly correlated with employment and income growth. This means that metropolitan areas need to promote change and innovation, not retard it.

## Beliefs About Economic Development in the Old and New Economies

In the old economy, people believed that:	In the new economy, people believe that:
Being a cheap place to do business was the key.	Being a place rich in ideas and talent is the key.
Attracting companies was the key.	Attracting educated people is a key.
A high-quality physical environment was a luxury that stood in the way of attracting cost-conscious businesses.	Physical and cultural amenities are key in attracting knowledge workers.
Regions won because they held a fixed competitive advantage in some resource or skill.	Regions prosper if organizations and individuals have the ability to learn and adapt.
Economic development was government-led.	Only bold partnerships among business, government, and the nonprofit sector can bring about change.

In the New Economy, the path to raising wages and quality of life is in ensuring a technologically advanced infrastructure, boosting the skills of the region's workforce, creating fast and responsive government, ensuring a high quality of life - including a high-quality physical environment that is attractive to knowledge workers - and developing a responsive, efficient government. This is not to say that fiscal discipline should not be a cornerstone of government in the New Economy. But a low-cost environment with a poor quality of life is not the ticket to success.”<sup>9</sup>

## THE ROLE OF THE CITY IN ECONOMIC DEVELOPMENT

Consensus appears to be forming that Austin’s relative strengths are innovation, creativity, and entrepreneurship, which are embedded in its people, existing firms, community institutions, and the natural environment in which the city is located. What has not been determined is how best to leverage these assets. Part of the problem is that there is not (nor can there be) one single organization that assumes responsibility for all the factors that contribute to the overall long-run development of the local economy, as different institutions are concerned with different aspects of economic development. Chambers of commerce, for example, tend to focus on business recruitment and retention, Capital Metro provides basic transportation, AISD, UT, ACC and other educational institutions contribute to both labor force development and the community’s quality of life, the private sector can foster the creation of clusters through relocation and expansion of suppliers and customers, and a number of stakeholder groups work to achieve improvement in areas such as access to capital, business processes, and overall enterprise growth. The City plays a somewhat indirect role in this equation, as its provision of services such as public safety, utilities, roads, affordable housing, and recreational/cultural amenities are part of the overall economic infrastructure of the community. This is especially true in a place like Austin, where quality of life is such an important element of local competitive advantage - to the extent that the

<sup>9</sup> for more information, see [www.neweconomyindex.org](http://www.neweconomyindex.org)

City can augment the perceived quality of life, then local economic development is enhanced.

### *Traditional Recruitment and Retention*

The City is in a position to more directly influence the future of the local economy in three overall ways. The first is its policy on the provision of assistance and/or incentives to private firms. In order to influence the direction and extent of their economic development, many state and local governments have adopted the practice of providing incentives for increased economic activity to existing firms and/or firms considering locating in the local area. A wide array of policy instruments are used to create these incentives, ranging from taxes on very specific items (e.g., hotel occupancy taxes) to favorable tax treatment to the public provision of specialized services (e.g., machine-operator training at community colleges).

Provision of incentives to specific firms, once routine, has become increasingly controversial. Critics charge that they are little more than “corporate welfare” - unnecessary subsidies to well-heeled corporations that come at the expense of the rest of the community’s taxpayers. Proponents, on the other hand, argue that they remain an essential tool for effective industrial recruitment and retention, and that failure to offer viable incentive packages severely undermines Austin’s competitive position.

The first step in moving past the rhetoric to developing a coherent business incentive policy is to carefully assess the overall nature and scope of the net social benefits of some of these instruments to the taxing jurisdictions and taxpayers. As part of this process, a number of questions arise. For example:

- Will the project truly add to the existing base of economic activity in the jurisdiction? Would this project happen absent the provision of incentives?
- What is the opportunity cost of the incentive (in other words, what alternative uses of these resources are foregone by supporting this project)?
- Who will receive the project’s benefits? How will distribution of the benefits occur within the receiving organization?
- How much economic activity will accrue to the area providing the incentives (as well as other communities in the region) as a result of the project? What is the total present value of the incentive package?
- How much will it cost the jurisdiction to adequately service (e.g., utilities, public safety, etc.) the project during its construction and operational phases? What will be the environmental impact?
- What return can government expect in terms of tax revenues from the project?
- Will the benefits accrue to past the immediate recipient? Over what time period?
- Is the project consistent with strategic goals for overall development? With community values?
- Does the project address an area of targeted concern?

The answers to these and other questions will form the beginning of a revised policy on business incentives. In order to move this process forward, the City proposes to convene a panel of stakeholders, supported by consultants and City staff, to develop and forward recommendations to Council.

### *Small Business and Entrepreneurship*

While the major technology manufacturers are among the most visible actors in the local economy, Austin is very much a small business town. Companies of all sizes are found in every industry segment, but Austin is blessed with an unusually diverse concentration of small, locally owned enterprises. For example, of the 23,548 businesses reported by the Census Bureau in Travis County during 2000, almost 94 percent (22,021) employed 50 or fewer workers, compared to 86.8 percent nationwide.<sup>10</sup> The City has a direct impact on this vital segment of Austin's economy in two direct areas.

### **Ordinances/Codes/Policies/Procedures**

The first is through ordinances, codes, policies, and procedures related to physical development. Criticism of the process waxes and wanes, but the general sense is that Austin is relatively more restrictive and complex than most other Texas cities when it comes to City oversight of physical development. This is not necessarily inappropriate, as there are legitimate policy goals (such as environmental protection) that are enhanced by restrictive public policy on development. However, there may be unintended consequences, not the least of which is a relatively greater burden on small business, which lack the resources to navigate the process as effectively as larger firms. Therefore, the entire process should be reviewed through an economic development lens, with the hope that efficiency can be enhanced without sacrificing oversight.

### **Community Development**

As discussed above, the income gap has widened over the past ten years in Austin. While many of the causes of this increasing disparity lie outside local purview, a number of organizations are working to redress some of the imbalance by assisting with access to capital, business planning and process improvements, workforce development, and provision of technical and other resources. The City supports these efforts in a variety of ways, including grant funding, access to City resources, and, in some cases, staff support. This panel will concentrate on developing recommendations to increase the leverage of current efforts, as well as identifying opportunities for new or expanded programs.

### *Cultural Vitality (Keep Austin Weird)*

The final area where the City has a direct impact on the course of local economic development is through focused assistance to non-profits and community organizations, both through grants and technical support provided by City staff. The City currently funds a number of non-profits that are directly concerned with issues related to economic development, such as the Austin CDC. At the same time, the hotel/motel tax supports both the Convention & Visitors Bureau (CVB), which is charged with tourism promotion, and local arts funding, which clearly contributes to the quality of life of the community. Meanwhile,

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<sup>10</sup> <http://censtats.census.gov/cgi-bin/cbpnaic/cbpsect.pl>

City staff provides isolated technical assistance to certain non-profits and commissions (such as the Austin Music Commission) whose function at least touches economic development, along with administering some programs that provide direct assistance (such as the musician's loan program). Much of this assistance is essentially ad hoc; while individual programs are carefully scrutinized, there is no coordinated effort to maximize the City's leverage when it does provide assistance. In the interest of increasing this leverage, the City proposes to convene an additional panel of stakeholders, again supported by consultants and City staff, to examine these issues.

### **The Creative Environment**

While the Austin region's creative environment is the outcome of many factors, the City of Austin plays an important role in supporting both a desirable quality of life and the development of creative jobs. City of Austin policies related to parks and recreation and its financial support of arts-related activities and groups directly impact the availability and quality of local cultural and recreational amenities. The City also plays a role in supporting job growth in the creative sectors such as music, digital entertainment, and film both through targeted programs and by fostering a business environment that supports innovation. More broadly, the City participates in promoting Austin as a creative and vibrant community, helping to attract and retain creative talent.

To determine how the City of Austin can best support local cultural vitality and foster the continued growth of creative jobs this panel will concentrate on two main tasks: 1) developing an inventory of the social and cultural assets in the community (including a benchmarking method to measure these assets on an ongoing basis); and 2) evaluating existing (and potential new) programs with an eye toward increasing overall leverage. Equity considerations will also be in the mix, as the benefits of enhanced cultural vitality should be as widespread as possible.

### **CONCLUSIONS**

The downturn in the wake of the boom has heightened attention and focus on economic development in Austin. This attention is sharpened by the awareness that, in order to succeed in an increasingly competitive environment, the community must focus on leveraging its core assets of creativity and innovation, its existing economic base, community institutions, and quality of life. The City has a role in this effort, both indirectly through provision of City services and directly in terms of public policy on physical development, incentives, and assistance to non-profits and community organizations. Efforts to refine policy in each of these areas may create a fourth sphere of influence, as the interaction with other local institutions concerned with economic development, such as AISD, ACC, Capital Metro, local universities, chambers of commerce, the private sector, and stakeholder groups, may well have a catalytic effect. As a result, the timing of this overall effort could not be better.

## AUSTIN'S ECONOMIC FUTURE

### APPENDIX A: DETAILED EMPLOYMENT INFORMATION

<b>Number of Employees and Average Annual Wages in the Austin MSA - 2000</b>			
	<b>Number of Workers</b>	<b>Average Annual Wage</b>	<b>Total Wages Paid</b>
Computer/Mathematical occupations	34,540	\$62,160	\$2,147,006,400
Architecture/Engineering occupations	23,160	\$57,300	\$1,327,068,000
Life, physical, social science occupations	7,470	\$55,980	\$418,170,600
Education/training occupations	34,500	\$33,960	\$1,171,620,000
Arts, design, entertainment, sports, media	7,850	\$36,090	\$283,306,500
Super Creative Core ( <i>16.0% of total</i> )	107,520	\$49,732	\$5,347,171,500
Management	55,450	\$65,050	\$3,607,022,500
Business/financial operations	32,600	\$46,190	\$1,505,794,000
Legal	5,030	\$54,490	\$274,084,700
Healthcare practitioners	34,100	\$42,730	\$1,457,093,000
High end Sales	7,370	\$63,143	\$465,362,500
Creative Professionals ( <i>20.1% of total</i> )	134,550	\$54,324	\$7,309,356,700
Total Creative ( <i>36.1% of total</i> )	242,070	\$52,285	12,656,528,200
Other Sectors	428,640	\$24,725	10,598,303,300
Total Austin MSA	670,710	\$34,672	\$23,254,831,500

<b>Number of Employees and Average Annual Wages in the Texas - 2000</b>			
	<b>Number of Workers</b>	<b>Average Annual Wage</b>	<b>Total Wages Paid</b>
Computer/Mathematical occupations	230,190	\$58,550	\$13,477,624,500
Architecture/Engineering occupations	223,800	\$57,390	\$12,843,882,000
Life, physical, social science occupations	75,790	\$47,390	\$3,591,688,100
Education/training occupations	574,600	\$33,970	\$19,519,162,000
Arts, design, entertainment, sports, media	87,330	\$33,430	\$2,919,441,900
Super Creative Core ( <i>12.9% of total</i> )	1,191,710	\$43,930	\$52,351,798,500
Management	659,250	\$63,530	\$41,882,152,500
Business/financial operations	321,700	\$47,060	\$15,139,202,000
Legal	58,630	\$66,900	\$3,922,347,000
Healthcare practitioners	398,200	\$44,010	\$17,524,782,000
High end Sales	94,070	\$51,714	\$4,864,693,800
Creative Professionals ( <i>16.5% of total</i> )	1,531,850	\$54,400	\$83,333,177,300
Total Creative ( <i>29.4% of total</i> )	2,723,560	\$49,819	\$135,684,975,800
Other Sectors	6,547,750	\$23,803	\$155,858,952,200
Total Texas	9,271,310	31,446	\$291,543,928,000

## AUSTIN'S ECONOMIC FUTURE

<b>Number of Employees and Average Annual Wages in the United States - 2000</b>			
	<b>Number of Workers (mil.)</b>	<b>Average Annual Wage</b>	<b>Total Wages Paid (millions)</b>
Computer/Mathematical occupations	2.93	\$58,050	\$170,087
Architecture/Engineering occupations	2.76	\$54,060	\$149,206
Life, physical, social science occupations	1.04	\$47,790	\$49,702
Education/training occupations	7.45	\$37,900	\$282,355
Arts, design, entertainment, sports, media	1.51	\$38,640	\$58,346
Super Creative Core (12.1% of total)	15.69	\$45,232	\$709,695
Management	7.78	\$68,190	\$530,518
Business/financial operations	4.62	\$48,470	\$223,931
Legal	0.89	\$68,930	\$61,348
Healthcare practitioners	6.04	\$47,990	\$289,860
High end Sales	1.44	\$57,440	\$82,714
Creative Professionals (16.0% of total)	20.77	\$57,216	\$1,188,371
Total Creative (28.1% of total)	36.46	\$52,059	\$1,898,066
Other Sectors	93.48	\$25,450	\$2,379,088
Total United States	129.94	\$32,916	\$4,277,154

<b>Number of Employees and Average Annual Wages in the Atlanta MSA - 2000</b>			
	<b>Number of Workers</b>	<b>Average Annual Wage</b>	<b>Total Wages Paid</b>
Computer/Mathematical occupations	76,980	\$58,130	\$4,474,847,400
Architecture/Engineering occupations	38,960	\$51,950	\$2,023,972,000
Life, physical, social science occupations	12,350	\$46,010	\$568,223,500
Education/training occupations	112,340	\$36,170	\$4,063,337,800
Arts, design, entertainment, sports, media	24,060	\$35,550	\$855,333,000
Super Creative Core (12.3% of total)	264,690	\$45,282	\$11,985,713,700
Management	161,020	\$74,730	\$12,033,024,600
Business/financial operations	98,670	\$49,670	\$4,900,938,900
Legal	13,350	\$63,610	\$849,193,500
Healthcare practitioners	78,970	\$46,440	\$3,667,366,800
High end Sales	30,270	\$53,330	\$1,614,298,900
Creative Professionals (17.7% of total)	382,280	\$60,335	\$23,064,822,700
Total Creative (30.0% of total)	646,970	\$54,176	35,050,536,400
Other Sectors	1,507,150	\$26,559	\$40,029,087,000
Total Atlanta MSA	2,154,120	\$34,854	\$75,079,623,400

## AUSTIN'S ECONOMIC FUTURE

### Number of Employees and Average Annual Wages in the Boston MSA - 2000

	Number of Workers	Average Annual Wage	Total Wages Paid
Computer/Mathematical occupations	94,100	\$66,310	\$6,239,771,000
Architecture/Engineering occupations	52,710	\$59,870	\$3,155,747,700
Life, physical, social science occupations	30,830	\$51,660	\$1,592,677,800
Education/training occupations	117,020	\$41,040	\$4,802,500,800
Arts, design, entertainment, sports, media	29,430	\$43,550	\$1,281,676,500
Super Creative Core (16.0% of total)	324,090	\$52,678	\$17,072,373,800
Management	171,230	\$81,430	\$13,943,258,900
Business/financial operations	91,980	\$55,230	\$5,080,055,400
Legal	18,560	\$91,920	\$1,706,035,200
Healthcare practitioners	116,520	\$51,160	\$5,961,163,200
High end Sales	35,300	\$64,576	\$2,279,540,100
Creative Professionals (21.4% of total)	433,590	\$66,814	\$28,970,052,800
Total Creative (37.4% of total)	757,680	\$60,768	46,042,426,600
Other Sectors	1,270,840	\$28,796	\$36,595,668,100
Total Boston MSA	2,028,520	\$40,738	\$82,638,094,700

### Number of Employees and Average Annual Wages in the Pittsburgh MSA - 2000

	Number of Workers	Average Annual Wage	Total Wages Paid
Computer/Mathematical occupations	21,320	\$52,130	\$1,111,411,600
Architecture/Engineering occupations	24,730	\$52,240	\$1,291,895,200
Life, physical, social science occupations	6,840	\$45,850	\$313,614,000
Education/training occupations	61,620	\$41,630	\$2,565,240,600
Arts, design, entertainment, sports, media	9,520	\$33,100	\$315,112,000
Super Creative Core (11.3% of total)	124,030	\$45,128	\$5,597,273,400
Management	71,910	\$63,490	\$4,565,565,900
Business/financial operations	36,780	\$44,080	\$1,621,262,400
Legal	9,110	\$53,300	\$485,563,000
Healthcare practitioners	63,420	\$44,540	\$2,824,726,800
High end Sales	10,430	\$50,010	\$521,605,900
Creative Professionals (17.5% of total)	191,650	\$52,276	\$10,018,724,000
Total Creative (28.7% of total)	315,680	\$49,468	15,615,997,400
Other Sectors	782,580	\$25,132	\$19,667,852,100
Total Pittsburgh MSA	1,098,260	\$32,127	\$35,283,849,500

## AUSTIN'S ECONOMIC FUTURE

### Number of Employees and Average Annual Wages in the Portland MSA - 2000

	Number of Workers	Average Annual Wage	Total Wages Paid
Computer/Mathematical occupations	27,420	\$49,890	\$1,367,983,800
Architecture/Engineering occupations	23,360	\$50,770	\$1,185,987,200
Life, physical, social science occupations	7,410	\$47,790	\$354,123,900
Education/training occupations	59,630	\$38,580	\$2,300,525,400
Arts, design, entertainment, sports, media	11,800	\$36,850	\$434,830,000
Super Creative Core (13.3% of total)	129,620	\$43,538	\$5,643,450,300
Management	54,490	\$71,720	\$3,908,022,800
Business/financial operations	35,100	\$47,870	\$1,680,237,000
Legal	6,440	\$69,820	\$449,640,800
Healthcare practitioners	34,370	\$54,000	\$1,855,980,000
High end Sales	21,270	\$52,360	\$1,113,699,500
Creative Professionals (15.6% of total)	151,670	\$59,389	\$9,007,580,100
Total Creative (28.9% of total)	281,290	\$52,085	14,651,030,400
Other Sectors	692,560	\$27,499	\$19,044,387,100
Total Portland MSA	973,850	\$34,600	\$33,695,417,500

### Number of Employees and Average Annual Wages in the Raleigh MSA - 2000

	Number of Workers	Average Annual Wage	Total Wages Paid
Computer/Mathematical occupations	37,260	\$64,680	\$2,409,976,800
Architecture/Engineering occupations	18,680	\$53,360	\$996,764,800
Life, physical, social science occupations	16,180	\$46,050	\$745,089,000
Education/training occupations	41,660	\$37,940	\$1,580,580,400
Arts, design, entertainment, sports, media	6,660	\$43,740	\$291,308,400
Super Creative Core (17.8% of total)	120,440	\$50,014	\$6,023,719,400
Management	50,250	\$68,430	\$3,438,607,500
Business/financial operations	25,760	\$48,030	\$1,237,252,800
Legal	4,820	\$75,480	\$363,813,600
Healthcare practitioners	34,080	\$44,440	\$1,514,515,200
High end Sales	8,390	\$54,274	\$455,355,300
Creative Professionals (18.3% of total)	123,300	\$56,850	\$7,009,544,400
Total Creative (36.1% of total)	243,740	\$53,472	13,033,263,800
Other Sectors	431,250	\$24,621	\$10,617,798,300
Total Raleigh MSA	674,990	\$35,039	\$23,651,062,100

## AUSTIN'S ECONOMIC FUTURE

<b>Number of Employees and Average Annual Wages in the San Diego MSA - 2000</b>			
	<b>Number of Workers</b>	<b>Average Annual Wage</b>	<b>Total Wages Paid</b>
Computer/Mathematical occupations	36,420	\$56,920	\$2,073,026,400
Architecture/Engineering occupations	29,970	\$56,620	\$1,696,901,400
Life, physical, social science occupations	13,430	\$51,020	\$685,198,600
Education/training occupations	74,010	\$41,600	\$3,078,816,000
Arts, design, entertainment, sports, media	18,390	\$37,380	\$687,418,200
Super Creative Core ( <i>14.1% of total</i> )	172,220	\$47,738	\$8,221,360,600
Management	71,320	\$75,030	\$5,351,139,600
Business/financial operations	48,580	\$47,440	\$2,304,635,200
Legal	10,000	\$86,690	\$866,900,000
Healthcare practitioners	54,880	\$50,880	\$2,792,294,400
High end Sales	14,770	\$49,421	\$729,941,700
Creative Professionals ( <i>16.3% of total</i> )	199,550	\$60,360	\$12,044,910,900
Total Creative ( <i>30.5% of total</i> )	371,770	\$54,513	20,266,271,500
Other Sectors	848,820	\$25,851	\$21,943,167,900
Total San Diego MSA	1,220,590	\$34,581	\$42,209,439,400

<b>Number of Employees and Average Annual Wages in the San Francisco MSA - 2000</b>			
	<b>Number of Workers</b>	<b>Average Annual Wage</b>	<b>Total Wages Paid</b>
Computer/Mathematical occupations	72,750	\$69,940	\$5,088,135,000
Architecture/Engineering occupations	22,510	\$62,870	\$1,415,203,700
Life, physical, social science occupations	14,590	\$60,820	\$887,363,800
Education/training occupations	49,000	\$42,870	\$2,100,630,000
Arts, design, entertainment, sports, media	24,090	\$52,220	\$1,257,979,800
Super Creative Core ( <i>16.4% of total</i> )	182,940	\$58,759	\$10,749,312,300
Management	81,400	\$85,920	\$6,993,888,000
Business/financial operations	66,560	\$60,300	\$4,013,568,000
Legal	16,780	\$87,340	\$1,465,565,200
Healthcare practitioners	33,160	\$61,110	\$2,026,407,600
High end Sales	19,590	\$75,696	\$1,482,894,200
Creative Professionals ( <i>19.5% of total</i> )	217,490	\$73,485	\$15,982,323,000
Total Creative ( <i>36.0% of total</i> )	400,430	\$66,757	\$26,731,635,300
Other Sectors	712,540	\$31,539	\$22,473,047,800
Total San Francisco MSA	1,112,970	\$44,210	\$49,204,683,100

