

DEVELOPING AN

# Innovation Economy

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## STRATEGIC ACTION PLAN

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for Spokane & The Inland Northwest

Sponsored By



May 2003

# Overview

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*Extract of Section II from the Innovation Economy Study*

*“Developing An Innovation Economy — A Strategic Action Plan for Spokane & The Inland Northwest”*

*was sponsored by INTEC, SIRTl and the Spokane Area EDC*

*and prepared by The Morgan Leigh Group*

# Current Situation

## NATURAL ASSETS

We have much to be proud of in the Inland Northwest. From the majestic Columbia River basin to the rolling hills of the Palouse to the stunning beauty of North Idaho, we live in a veritable treasure trove of scenic splendor. Our region delivers outstanding weather, a full range of seasons, and a seemingly endless variety of recreational opportunities. But we have more than just exceptional surroundings.

We have a highly developed transportation infrastructure allowing easy ingress and egress by road, rail and air. An advanced network of high-capacity energy production facilities stretches throughout the region. In the Inland Northwest, we are endowed with an abundance of natural resources. Compared to other regions, we experience a relative lack of congestion and pollution. But we have more than just highways and minerals.

We have remarkable schools and distinguished universities. Our region fields nationally competitive sports teams and hosts major athletic events. Patients travel lengthy distances to receive the specialized, world-class care delivered by our healthcare organizations. We have a cadre of globally competitive businesses involved in cutting edge technologies. But we have more than just excellent academic institutions and leading businesses.

Most importantly, we have amazing people. The greatest asset of the Inland Northwest are the individuals who live and work here. There are dedicated volunteers who pitch in and make a difference. There are capable citizens who reach out and participate. There are successful business leaders and experienced entrepreneurs who give back to the community. We have recognized scientists, engineers and technical experts. We have brilliant musicians, artists and designers. We have accomplished lawyers, bankers and accountants. Our students are bright and full of potential. Our graduates are gifted and energetic. Our workers are industrious and productive. In brief, we possess a robust pool of talent.

But still, it is not enough. We need more.

“The Inland Northwest must be capable of competing on a global scale for talent and capital. To be competitive ... we must create a community that attracts and fosters innovation, investment and entrepreneurial leadership.”

*Innovation Economy  
Survey Response*

# III

“Our biggest obstacles are ourselves. We have to believe we can do it.”

*Innovation Economy  
Survey Response*

## THE QUEST FOR REGIONAL PROSPERITY

Pristine lakes, pine-covered mountains and breathtaking autumn colors are simply not sufficient economically. And it takes more than just efficient dams, international airports and a 15-minute commute to create a high quality of life. Moreover, renowned hospitals, established universities and back-to-back trips to the sweet sixteen do not in and of themselves assure the prevalence of living wages and employment growth. And even the presence of an adaptive and talented workforce is not by itself the sole prerequisite for regional prosperity.

To create high-wage jobs and dramatically improve the overall economic condition of the Inland Northwest, we require a vibrant, thriving and growing economy—exhibiting global competitiveness, technological leadership and remarkable innovation.

## UNDERSTANDING OUR WEAKNESSES

Suffice it to say that we have significant room for improvement. In spite of the tremendous assets and talents we possess, the Inland Northwest—and Spokane in particular—has fallen far short of its tremendous economic potential. While comparable regions, such as Boise, have managed to achieve success in developing a flourishing and diverse local economy, we seem to struggle in making any meaningful headway at all with ours.

In the eyes of many respected experts, our economy seems to perpetually flounder at the back of the pack. We acknowledge these somewhat pointed, albeit well-intended, criticisms. But although we recognize our significant deficiencies and shortcomings, we still must wonder why these highly-regarded authorities generally disparage our economy without at least granting a nod of recognition to our bright prospects. Truly they underappreciate our potential. For all is not doom and gloom in our region. Rather, there exists a growing spirit of energy, momentum and forward progress throughout the entire Inland Northwest region.<sup>(4)</sup>

Nonetheless, there are specific and fundamental reasons why recognized experts find little to commend about our economy. It is to our benefit to make the effort to understand the underlying basis of their criticisms. To this end, we choose to begin our study by carefully examining some of the same data points used by the national experts in comparing our economic performance to those of other regions around the country.

# Economic Data Points

## THE WORST OF BEST PLACES

In 1999, Forbes magazine began an annual ranking of metropolitan areas throughout the U.S.<sup>(5)</sup> The grade given to each metropolitan area was based on its respective economic performance over the previous five years. The formula, developed for the magazine by the respected Milken Institute, incorporates a number of specific metrics in calculating a weighted score for each metropolitan area. These metrics include such measures as wage & salary growth, technology sector growth and economic diversity.<sup>(6)</sup>

**TABLE 1 BEST PLACES RANKING - Selected MSA's**  
Forbes Ranking of MSA Economic Performance, 1999 - 2002

	1999	2000	2001	2002	AVG
Boise	51	5	7	6	17
San Jose	8	29	1	61	25
Seattle	1	12	16	92	30
Portland	23	17	32	55	32
Tri-Cities	--	75	111	75	87
Spokane	161	159	108	98	132
TOTAL MSA's	162	200	200	200	191

Sources: Forbes / Milken Institute

Legend:  Top 25%  Bottom 25%

“In ranking the nation’s 162 biggest metropolitan areas, we didn’t concern ourselves with the best museums or mozzarella. We focused on jobs and business.”

*Best Places 1999, Forbes Magazine*

The initial publication of the “Best Places” list by Forbes in 1999 caused no small stir in the Inland Northwest. Out of the 162 metropolitan areas included in the study, Spokane was ranked 161<sup>st</sup>, or second to last.<sup>(6)</sup> (Fortunately, Spokane was statistically well above the Johnston City / Kingston metropolitan area and in no danger of moving into sole possession of last place.) This ranking ultimately proved a useful catalyst for action, as business and community leaders came together in a number of well-attended symposiums to understand how Spokane could possibly have fared so poorly and to explore what could be done to ameliorate the situation.<sup>(7)</sup>

Over the following three years, the overall standing of Spokane did improve significantly. We ranked 159<sup>th</sup> in 2000, 108<sup>th</sup> in 2001 and 98<sup>th</sup> in 2002. However, a quick review of our rapid ascent shows that our improved standing had more to do with a slowdown in geographic areas previously experiencing torrid economic growth than a major spurt of economic activity in Spokane.<sup>(6)</sup>

“(Regions) should replace the chief metric of success used today —job creation— with a new one: income growth.”

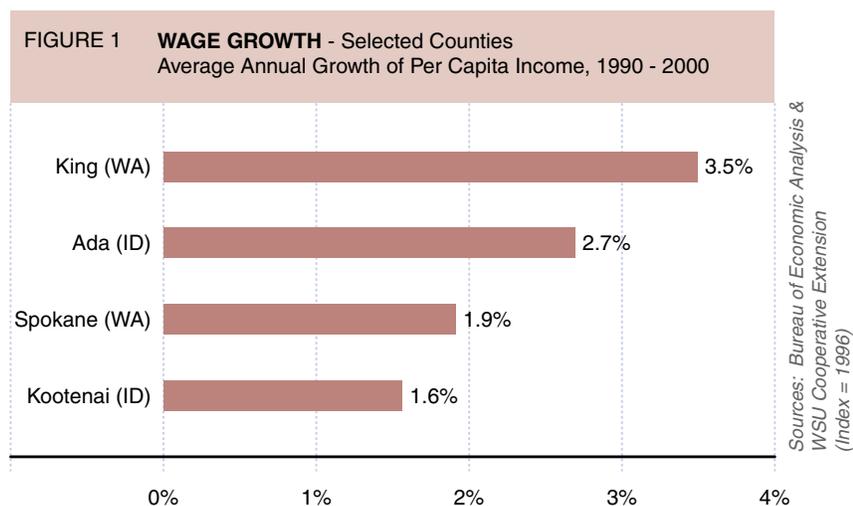
*Robert D. Atkinson,  
Progressive Policy  
Institute*

In fact, a review of the weighted formula shows that a major weakness for the Spokane economy has consistently been the anemic growth of both jobs and wages. In comparison, the Tri-Cities performed well in growing both jobs and average wages. While not ranked in 1999, the Tri-Cities rated 75<sup>th</sup> in 2000, 111<sup>th</sup> in 2001 and 75<sup>th</sup> again in 2002.<sup>(6)</sup>

In an even more stark comparison, Boise, after starting ranked at number 51 in 1999, made the top ten list for each of the last three years, coming in at 5<sup>th</sup>, 7<sup>th</sup> and 6<sup>th</sup> place in the nation respectively in 2000, 2001 and 2002. Forbes attributes Boise’s strong standing to hi-tech employers like Micron Technologies and Hewlett Packard, noting that Boise has a higher percentage of its workforce employed in high-tech jobs than Seattle or Portland.<sup>(8)</sup>

### A PROPENSITY FOR ANEMIC WAGE GROWTH

Other than perhaps Lexus and Land Rover sales at local dealerships, growth in average wages is one of the most telling indicators of local economic strength, because it underscores the direct benefits of growth for individual members of the workforce. In the midst of the greatest economic expansion in U.S. history, during the go-go decade of the 1990’s, per capita income increased in Spokane County by an average of only 1.9% per year after inflation. These increases left Spokane more than 12% below the U.S. average and almost 16% below the state average.<sup>(9)</sup>



In a quick four-county comparison, the only other county which fared worse than Spokane was Kootenai County, our official partner in our unofficial metropolitan statistical area, which achieved an average post-inflation increase of 1.6% per annum.

## SLOW GOING ON THE AUTOBAHN

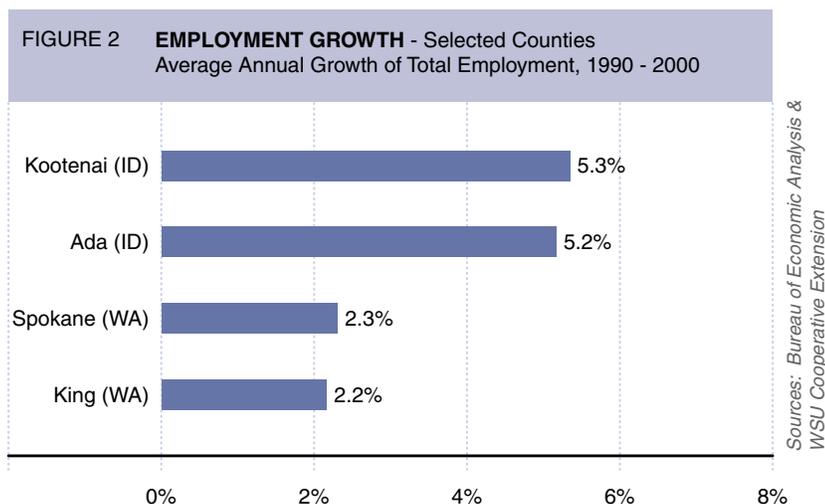
Since our population increased by less than 1.5% during the 1990's, we can surmise that our weakness in per capita income growth is clearly not a function of us rapidly increasing our population base. Consider also that during this same period of time, Ada County increased per capita income 2.7% per year while their population grew by 3.8% per year on average.<sup>(9)</sup> A reasonable observation is that the population growth of Boise was driven largely by high-wage employment opportunities created by their technology-oriented regional economy.

We should not forget to tell the west side story. At the beginning of the 1990's, per capita income in King County was a weighty \$25,700 per year, a full 53% higher than per capita income in Spokane County. At the end of the decade, during which its per capita income grew at an amazing clip of 3.5%, King County had a per capita income of \$45,500, a whopping 78% higher than Spokane County.<sup>(9)</sup>

With respect to growing wages and salaries for our local workforce, one might easily be led to the conclusion that Spokane is driving a Yugo on the autobahn.

## SPROUTING EMPLOYMENT OPPORTUNITIES

For many, economic growth is all about the creation of new jobs. So, how have we fared? Well, for every 100 existing jobs, Spokane County added a net of about 2.3 more jobs per year during the period from 1990 - 2000. A growth rate of 2.3% in the employment base seems like nothing to sneeze at. After all, this was slightly better than powerhouse King County, which only averaged 2.2%, during the same period.<sup>(9)</sup>



“People don’t just want a job, they want a lot of jobs. They know they’re going to move around a lot—they want a *thick labor market.*”

*Richard Florida,  
Carnegie Mellon  
University*

# III

“A cognitive dissonance has set in that has led many people to believe that because the area is poor ... it will always be poor, so therefore we should accept our lot and not try to rise above ourselves.”

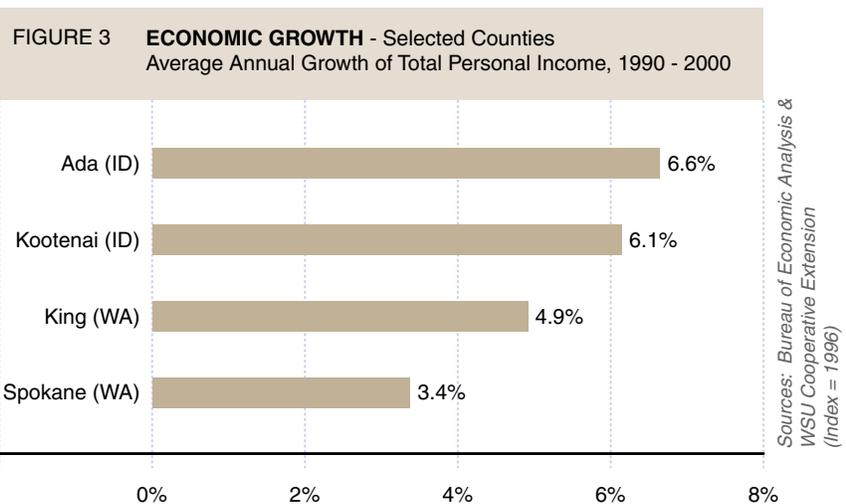
*Innovation Economy  
Survey Response*

Well, perhaps 2.3% is not as wonderful as it might first seem. First, during the same period, Ada County and Kootenai County both added jobs at over twice the rate of Spokane County.<sup>(9)</sup>

Second, the available statistics reference only the increase in total employment. It is difficult to discern if the growth in total employment is comprised more of minimum wage high turnover positions at donut franchises and retail megastores or more of high-wage minimum turnover positions at cutting-edge technology companies with stock options, free pop and pickup soccer games at lunchtime. In light of our anemic wage growth, a strong argument is unfortunately made in favor of the former.

### THE FLAT-LINE ECONOMY

Throughout the 1990's, total personal income (a close proxy for local GDP) in Spokane County grew at an inflation-adjusted pace of almost 3.4 percent per year.<sup>(9)</sup> On the surface, this seems like a healthy increase. Growth of over 3 percent certainly sounds much better than 1 or even 2 percent growth. However, as we compare our performance to those of close neighbors, 3.4 percent no longer seems quite so rosy.



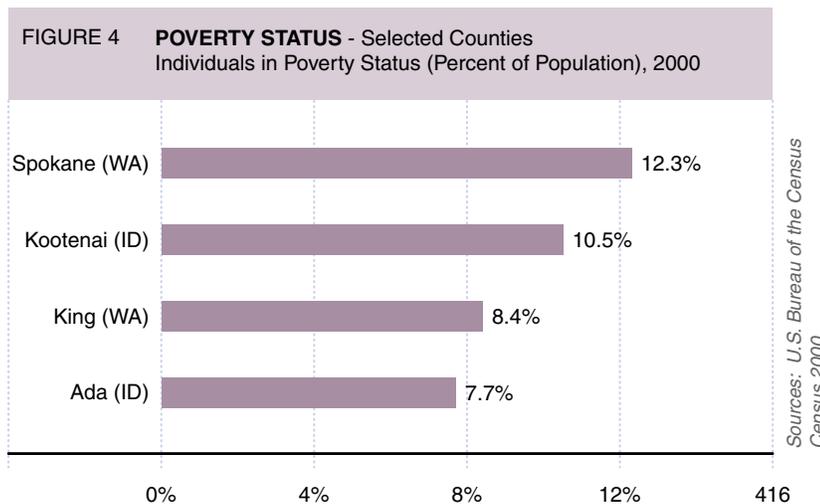
Our rainy day compatriots in King County experienced almost 50% more growth than Spokane, despite having both a much higher per capita income and a population base more than four times our size.<sup>(9)</sup> In other words, despite having a much higher bar to hurdle and over four times as much weight to carry as us, they still managed to best our results by almost 50% year-in and year-out, throughout the decade—a formidable performance by any standard.

Ada County, comparable in size to Spokane County, virtually doubled our results

over the same 10 year stretch, achieving a red-hot growth rate of 6.6% per annum on average. Not far behind were our friends and neighbors in Kootenai County, averaging 6.1% per year.<sup>(9)</sup> (This performance placed them among the top five counties in Idaho for average growth during the decade. Using the same measures, Spokane County ranked in the bottom half of Washington counties.<sup>(10)</sup>)

### STRUGGLING WITH IMPOVERISHMENT

While some improvement has been made over the decade of the 1990's, we should note that both Spokane and Kootenai counties continue to struggle with higher levels of poverty. In viewing the percentage of individuals living in poverty, these counties stood at levels of 12.3% and 10.5% respectively for the year 2000.<sup>(11)</sup> This is a significant and long-standing issue with many root causes, of which a major one is the chronic underemployment and lack of living wage jobs of a slow-growth economy.



### THE GROWING IMPORTANCE OF THE TECHNOLOGY SECTOR

The importance of technology-related industries in economic growth is virtually without dispute.<sup>(12)</sup> It has been the major driver of rising productivity, wage growth and job creation in most of the nation's regional economic dynamos.

From medical devices to wireless technologies to broadband equipment to energy services, there is no doubt that we have a substantial foundation of technology companies in the Spokane / Coeur d'Alene metropolitan area. The issue is not whether we have a base on which to build or not. We do. Rather, the issue is one of ensuring diversity and strong, consistent and sustained growth across our entire technology sector.

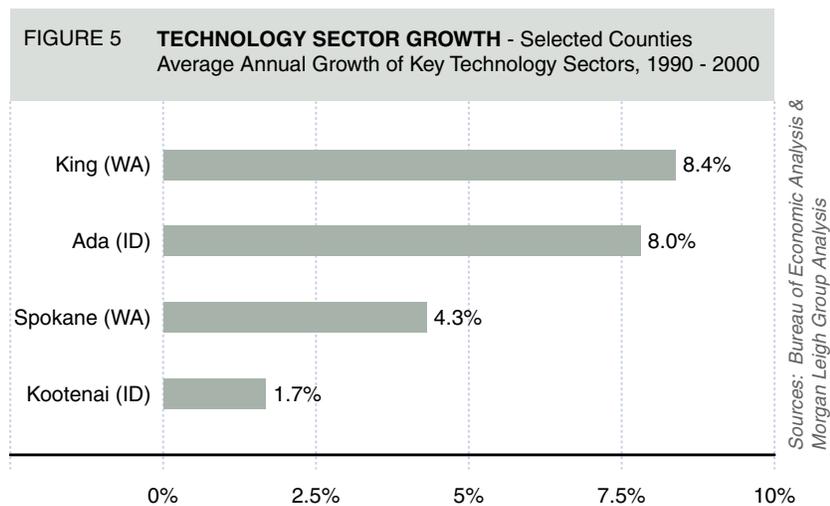
“We pledge to one another our unconditional, unwavering commitment to attack and defeat poverty by working together to build an equitable, sustainable economy where no one is left behind.”

*John Powers,  
Mayor of Spokane  
(One Spokane)*

“IT workers earned \$56,000 in 1998, more than 70 percent above the private-sector average.”

*Milken Institute*

In 2000, the percentage of private industry (non-government, non-farm) earnings derived in Spokane County from the technology sector was approximately 11.7%, up from 7.6% in 1990. Comparable numbers for Kootenai County were 10.7% in 2000 and 9.1% in 1990. The average technology sector growth rates for Spokane County and Kootenai County over this ten-year period were 4.3% and 1.7% respectively.<sup>(13)</sup>



However, both the relative importance and growth of the technology sector were much greater in Boise and Seattle. Powered by a dramatic increase in electronic equipment, Ada County experienced a per year average technology sector growth rate of 8.0% during the 1990's, with total technology sector earnings comprising almost 25% of private industry earnings by 2000.

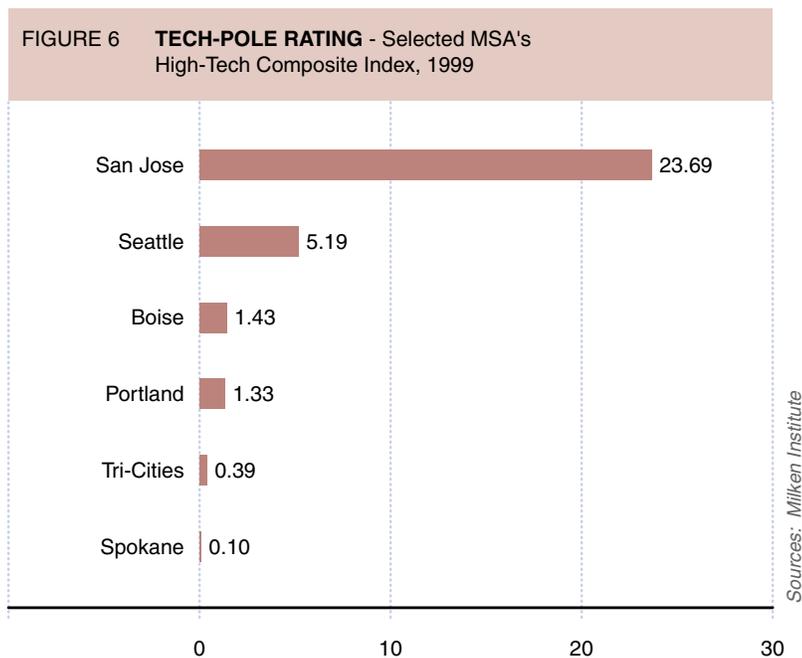
Fueled by its strength in computer programming—and perhaps even by a small outfit based in Redmond—King County saw an average per-year technology sector growth rate of 8.4% throughout the 1990's. By 2000, the technology sector accounted for 29.4% of all private industry earnings, more than 2½ times greater than the technology sector in either Spokane or Kootenai Counties.<sup>(13)</sup>

### THE MAGNETIC ATTRACTION OF TECHNOLOGY SUCCESS

In one of the more interesting uses of statistics to date, the Milken Institute has developed a composite measure alternatively known as the techpole ranking or high-tech index. This metric incorporates data on the relative importance of a region's high-tech output with its concentration of high-tech industries. In brief, the overall importance of the measure is to provide a quick indication of the strength of its high-tech sector.

A more popular view is that this measure rates the hi-tech gravity of a region, or the magnetic pull of its high-tech sector on talent, capital and startups.

With a rating of 23.7, Silicon Valley is therefore the obvious equivalent of a black hole, exerting an almost irresistible pull on unsuspecting entrepreneurs and technical experts.<sup>(14)</sup> Moving progressively down the line are the metaphorical sun, moons and star of Seattle, Boise and Portland, and the Tri-Cities.



Inhabiting the other end of the spectrum is the possessor of the underwhelming rating of 0.10, Spokane County. Our gravitational draw on high-profile innovators of and investors is supposedly the comparative equivalent of Halley's comet, a muddled combination of rock, gas and ice out there somewhere in the dark recesses of the universe, putting in a brief and unremarkable appearance once every few decades but otherwise barely moving the needles.

## ENOUGH SAID

Admittedly, when it comes to sustained economic performance, we do not have a stellar track record. The experts who look at these types of figures for a living do have valid reasons for not bestowing many accolades on our economy. However, numbers, statistics and high-level analyses do not tell the whole story. News of our demise has been greatly exaggerated. Other than recognizing the major need for improvement, we do not need to enter into excessive self-flagellation.

“Overcoming our own negativity about Spokane is our greatest obstacle. We need to stop bad-mouthing our city and be proud of what we have.”

*Innovation Economy  
Survey Response*

“We need to determine and agree on the regional focus and move forward.”

*Innovation Economy  
Survey Response*

### AN UPBEAT PERSPECTIVE

We are optimists. We have faith in our future. We believe that the ability to build a thriving and diverse economy that delivers the benefits of prosperity to all of its stakeholders is firmly within our reach. With talented people creatively focused and engaged on the most important issues, there is little that we are incapable of accomplishing. If we have not progressed as fast as other regions in the past, then this simply means that we have more opportunity for growth in the future.

We think that the time has come for us to shed our unwarranted inferiority complex and demonstrate our belief in our future through concerted action. Already, there is a growing spirit of energy, excitement and movement. Consider some of the events and activities that have recently taken place:

- Convention Center -- showing support for economic growth, voters in Spokane County approved two measures allocating \$96 million for the expansion of the convention center and other important civic projects
- One Spokane Summit -- over 400 energized delegates (including the governor of Washington and both senators) attended the excellent One Spokane summit on poverty issues convened by the Mayor of Spokane
- Downtown Revitalization -- there are major efforts underway to rejuvenate the downtown districts of Coeur d'Alene and Spokane by the Lake City Development Corporation and the Downtown Spokane Partnership
- Entrepreneur Training -- volunteers and groups such as INTEC, SNEDA, Technet, EFGN and SIRTII are working to provide training and information for entrepreneurs and increase the ratio of startup success

And there is so much more we could talk about. This short list does not do justice to the many activities and efforts of involved groups and organizations.

Our potential is great. However, potential does not pay the bills. We are at the point of needing to stop talking about potential and start achieving potential. We simply cannot afford to be spectators in a world of continuous change.

Let us share some additional perspectives on our challenge.

# Our Challenge

## NO ONE IS COMING TO RESCUE US

An important point for us to grasp is that there is no knight in shining armor who will step in and rescue us from our plight of economic weakness. The frailty of our regional economy is of little import to those untouched by its enfeebled hand. Leaders at the federal and state level have no shortage of other concerns and issues which tie up their time and occupy their minds. Unprompted, no organization will plunk down hundreds of millions of dollars in aid to resolve our situation.

If we are going to make headway, we will need to do so on our own. No one else has the same incentive as those of us who live and work in the Inland Northwest and believe in its future. No other group cares as much as we do about creating jobs, growing wages and ensuring economic opportunity.

Sitting back and assuming that someone, somewhere, will come forward to liberate us from economic imprisonment is unlikely to yield satisfactory results. We, ourselves, will need to step up and work diligently to make it happen. Like most startup companies that ultimately blossom into remarkable successes, we will need to begin with a bootstrap mentality.

## BEYOND THE CULTURE OF BLAME

We live in a society where the path of least resistance has unfortunately become the blame game. However, the blame game leads to little more more than short-term gain with long-term pain.

When it comes to our economy, it is sufficient to acknowledge that we have major weaknesses that must be addressed. Worrying about whether this party or that person is somehow behind our economic malaise is counterproductive. We simply do not need to enter into destructive and pointless rounds of acrimonious finger pointing regarding who may be at fault.

We need to move beyond the culture of blame.

## THE BALKANIZATION OF SPOKANE

On a related issue, one of the most unfortunate aspects of the image portrayed by Spokane to those outside of our region is one of non-stop bickering, a continual inability to agree on just about anything. Although that may not be the way it is in fact, it is certainly the way it is presented in opinion. While we are not the only community afflicted with this acute ailment, it is a perception whose ongoing perpetuation has

### SOUND FAMILIAR?

“The seminal finding was that a culture of blame had afflicted Silicon Valley. Business blamed government for the region’s ills. Government blamed business for not getting involved in solutions.”

*Joint Venture, 1992*

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“In healthy communities, there is always room for questions, thoughts and concerns about bold new ideas, but only when they come from the context of wanting to help improve things.”

*Chris Majer,  
One Spokane*

proved damaging on many fronts over time to ours. There is no reason why we can't turn the current image on its head and have Spokane and the Inland Northwest recognized far and wide as an exemplary model of collaboration.

## PESSIMISM IS PASSE

Without confidence in ourselves and faith in our future, it will be difficult to make any forward progress at all. Optimism is a key ingredient of success and encourages action. Optimism allows us to explore “how”, rather than to explain “why not”. Pessimism, on the other hand, discourages action. Pessimism presupposes failure long before the race has begun and casts seeds of doubt about the harvest well prior to planting season.

Let's be clear—there is nothing wrong with a critical examination of the facts and assumptions of a proposed course of action. On the contrary, this approach is welcome. What is neither needed nor wanted is criticism without alternative suggestions or proposals.

Enough said. So, what is the answer?

# Moving Ahead

## THE ANSWER IS COLLABORATION

We are not the first region to struggle with our economy. We are not the first region to recognize that we have significant weaknesses. To some extent, all regions have to deal with the same issues. It is therefore interesting to glean important learnings from those regions that are admired worldwide as models of success. What are the key elements of their success? How did they get where they are? What is their secret formula? While there are obviously many aspects, a common theme seems to thread its way in each one of these discussions—collaboration, partnering, working together. Here are some quick examples:

AUSTIN — “The key to Austin’s win was a new partnership between government, business and the University of Texas at Austin”<sup>(15)</sup>

SILICON VALLEY — “Local leaders had to learn to work together ... building this foundation for collaboration was worth the effort; it produced strong commitment and wide involvement from all sectors”<sup>(16)</sup>

SAN DIEGO — “San Diego possesses a unique spirit of cooperation, with three world-class academic centers of excellence ... working together with the business and technical community like part of the same family”<sup>(17)</sup>

## THE POT AT THE END OF THE RAINBOW

The benefits are significant. The incentives are great. The rewards are huge. With vision, collaboration and a focus on the big picture, we have a potential that is bigger than all of us—the potential of transforming the economy of Spokane and the Inland Northwest into an innovation juggernaut, with substantial long-term benefits for our children, our neighbors and our future.

With a robust regional innovation economy creating quality jobs, increasing average wages and generating widespread prosperity, our dedicated leaders might very well experience growing resources and shrinking needs rather than the current unappetizing mixture of shrinking resources and growing needs.

## EXTRAORDINARY COLLABORATION

The key is to rise above ourselves. Our natural inclination is to focus on maintaining “our” share of the existing pie, rather than collaborating to grow the size of the pie for everyone. Pointless wrangling over trivial issues for selfish reasons will only serve to derail our journey toward regional prosperity.

“There is no alternative to regional collaboration. There is not a critical mass in any single area to make it viable alone.”

*Innovation Economy  
Survey Response*

# III

“The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year.”

*John Foster Dulles*

Achieving a new economy will require extraordinary collaboration, an exceptional level of cooperation and partnership that cuts across borders, boundaries, hierarchies and communication silos. Extraordinary collaboration must bridge geographic, organizational and psychological islands. Extraordinary collaboration must happen between groups that are largely plugged into different networks - business, academic, government and community.

Reaching a level of extraordinary collaboration will itself require innovation, creativity, inclusion and a major investment of mental, social and physical energy. It will entail the development of a fully engaged team with high levels of personal commitment, a big-picture perspective, and a focus on results. This team, composed of decision-makers, leaders and managers, must work closely together to develop creative and viable solutions to decidedly complicated issues.

It won't be easy, but it will be worth the effort.