Investing in People and Place:
An Economic Development Strategy for Today's High-Wage Knowledge Economy
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Often, what passes for economic development strategy in state and local governments boils down to a simple formula: how much money, for how many jobs? In this paradigm, governments offer land, tax incentives, and subsidies to firms in the hopes that those firms will locate within their borders and provide employment to their residents. Though this strategy often fails to stand up to the scrutiny of a cost-benefit analysis, it persists. Everyone else is doing it, the thinking goes, so to be competitive and "win" projects, we must do the same.

But this widely accepted model of economic development fails to account for how the economy has changed over the past few decades. The information and digital revolutions have dramatically increased the size and economic value of the knowledge economy, a catch-all term for the large and growing share of the economy dedicated to industries like research and development, information, education, professional and business services, health care, and financial activities. In this knowledge-driven economy, the most precious resource is not land, tax incentives, or government subsides, but talent. If prior economic development orthodoxy held that states needed to attract firms in order to attract talent, today that model is flipped on its head: states need to attract talent, and the firms will follow.

This model – what we might call "talent-driven" or "place-driven" economic development – may be most associated with Richard Florida and his 2002 book *The Rise of the Creative Class*. Through interview and survey data, Florida documented how young, highly-educated college graduates – the ultimate scarce resource in the 21st century knowledge economy – weren't moving to a particular place for a particular job but were moving to a particular place for the *characteristics of that place* that they find desirable.[1] Surely one of these characteristics is economic vibrancy. But it is also access to dense, walkable communities, a vibrant street life, arts and culture, a welcoming environment, parks and greenspace, and high-quality transit. In other words, the proper economic development strategy in our 21st century knowledge-driven economy is to create the kinds of places that will retain and attract highly educated talent. Or, in the words of economist Edward Glaeser, "the right economic development strategy at the local level is to attract and train smart people and then more or less get out of their way."[2]

In this paper we explore this 21st century model of economic development and its implications for state policy. We will start by outlining the data showing the link between a state's level of educational attainment and its economic prosperity. We will then go into data showing the places that are attracting the greatest number of highly-educated young people and identify the shared characteristics of these places that may contribute to their success in attracting young talent. We will then outline policy levers states can utilize to create the kinds of places that have the potential to retain and attract young talent. Finally, we will dispel common economic development myths that today serve as conventional wisdom; namely that luring firms to locate in a particular state through tax incentives or low state taxes is sound economic development policy.

The connection between educational attainment and economic development

In today's knowledge-driven economy, the per-capita income of a city, region, or state is remarkably correlated with the share of adults in that geography with a four-year degree or more. This phenomenon

has two causes. The first is simply mechanical. Today's high-wage jobs are disproportionately held by those with a bachelor's degree or more. In our analysis of labor market data, we set a "middle-class" income threshold at $57,700: this is the annual income a worker would need to support a family of three at the lower end of a middle-class lifestyle. 60% of jobs in the U.S. economy that pay enough to clear this threshold require a bachelor's degree or more. If we set the threshold at $86,500, our threshold for "upper middle-class," the share of jobs requiring a bachelor's degree or higher jumps to 73%. This high-wage knowledge economy consists largely of professionals and managers, doing work in offices, universities, hospitals, and research labs. The more of these workers you have in your state or region, the more prosperous you will be.[3]

But in addition, the places where you have large concentrations of highly educated workers are the same places where you see the birth of new firms and industries, yielding yet more knowledge economy work, in a virtuous cycle. It's in these areas where you see what economists refer to as "knowledge spillovers" between industries, and where the high wages paid to knowledge economy workers generate many more jobs in both the high and low wage service industries.[4]

The idea that the educational attainment of a given place is critical to the economic development of that place is not particularly controversial. Economic development relies on increased productivity – that is, how much can be produced per unit of work, be that per hour or per worker. Increased productivity is largely the result of technological improvements, which are dependent on human capital – that is, the knowledge and skills of people.[5]

Economists have often measured human capital by educational attainment and have indeed found that the educational attainment of a particular place is highly correlated with the per-capita income of that place – a shorthand for measuring economic productivity and overall well-being. A number of studies have found that increases in the share of adults with a bachelor's degree or more in a particular metropolitan area is associated with increased wages in that place.[6] Other research has found that the share of adults with a college degree in a particular city is the most important factor for predicting the level of innovation emerging from that city, as measured by patent activity.[7]

Though this paper centers on economic development at the state level, a state's major metropolitan areas are the central actors, given that the nation's major metros attract the lion's share of college-educated workers – something we'll return to later in the paper.[8] But this same relationship between educational attainment and economic development exists at the state level.

Table 1 below shows the top ten states in per-capita income in 2022. The final two columns of the table show the share of working-age adults (25-64) in that state with a bachelor's degree or higher, and that state's educational attainment rank.

Table 1

States ranked by per-capita income, with educational attainment rank

	2022 income per capita	rank	25-64 BA+	rank
Massachusetts	$84,561	1	49.6%	1
Connecticut	$82,938	2	43.8%	7
New Jersey	$77,199	3	46.3%	3
California	$77,036	4	38.0%	16
Colorado	$75,722	5	47.1%	2
New York	$75,407	6	42.7%	8
Washington	$75,332	7	40.7%	12
New Hampshire	$73,910	8	42.6%	9
Wyoming	$73,248	9	30.7%	41
North Dakota	$70,360	10	34.0%	32

Source: U.S. Census Bureau and Bureau of Economic Analysis

Each state in the top ten in per-capita income is in the top twenty in educational attainment for working-age adults, with the exception of Wyoming and North Dakota, both energy-producing states.

If one ranks the top ten states by education attainment (Table 2, below), the relationship between the two variables is perhaps even more clear. All of the top ten states in education attainment are in the top half of states in per-capita income, and aside from Vermont and Rhode Island, are all in the top fifteen. High education attainment appears to serve as a sort of bulwark against being a low-prosperity state.

Table 2

States ranked by educational attainment, with per-capita income rank

	25-64 BA+	rank	2022 income per capita rank	rank
Massachusetts	49.6%	1	$84,561	1
Colorado	47.1%	2	$75,722	5
New Jersey	46.3%	3	$77,199	3
Maryland	45.7%	4	$70,228	11
Vermont	45.3%	5	$63,039	23
Virginia	44.2%	6	$68,985	12
Connecticut	43.8%	7	$82,938	2
New York	42.7%	8	$75,407	6
New Hampshire	42.6%	9	$73,910	8
Rhode Island	41.9%	10	$63,557	21

Source: U.S. Census Bureau and Bureau of Economic Analysis

If we look at the states with the lowest per-capita income, it becomes even *more* clear just how linked educational attainment and prosperity are. Here, we show the bottom 12 states ranked by per-capita income in order to include Michigan. Aside from Georgia, all of these states are in the bottom twenty in educational attainment, with BA attainment rates for working age adults below 35%.

Table 3

States ranked by per-capita income, with educational attainment rank

	2022 income per capita	rank	25-64 BA+	rank
Mississippi	$46,370	50	25.7%	50
West Virginia	$49,993	49	26.5%	48
Alabama	$50,916	48	29.8%	43
Kentucky	$51,921	47	29.7%	44
New Mexico	$52,194	46	30.0%	42
Arkansas	$52,618	45	26.4%	49
South Carolina	$53,618	44	33.7%	34
Louisiana	$54,501	43	28.3%	46
Oklahoma	$56,298	42	29.2%	45
Georgia	$56,589	41	36.3%	24
Idaho	$56,614	40	32.8%	37
Michigan	$57,038	39	34.0%	33

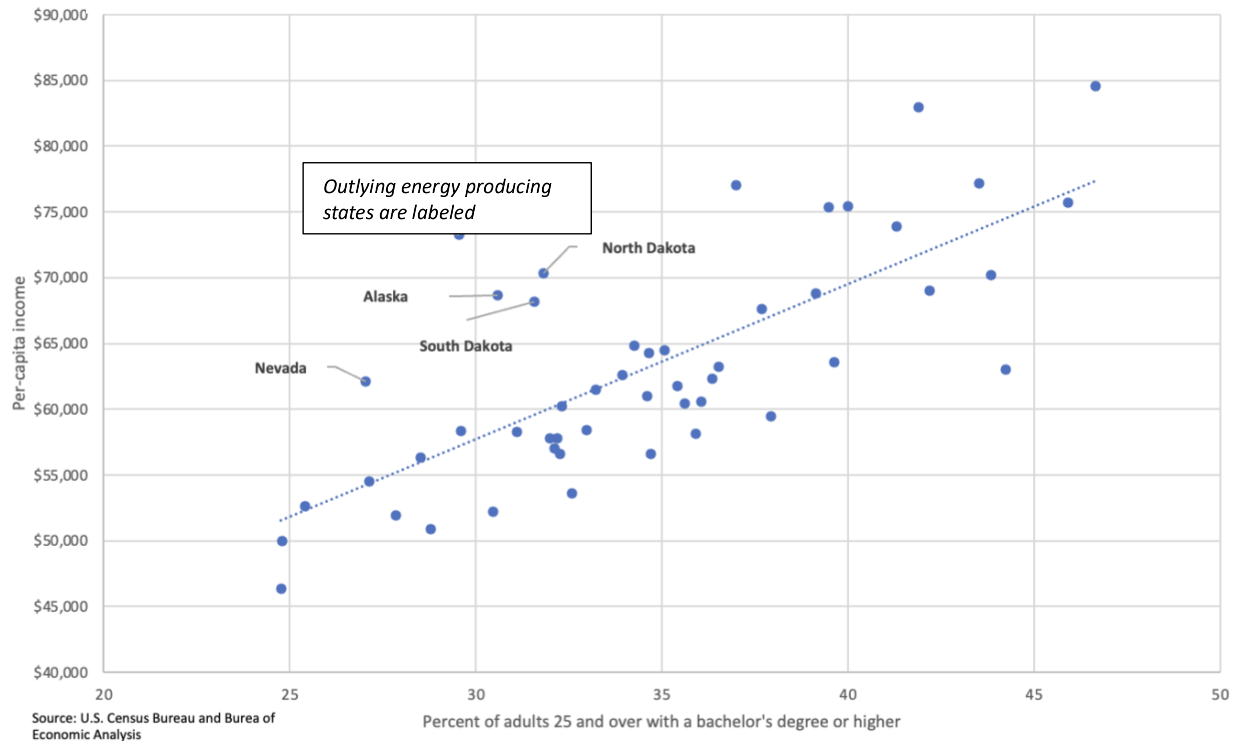
Source: U.S. Census Bureau and Bureau of Economic Analysis

These tables, as stark as they are, actually underplay the association between education attainment and per-capita income, because by simply looking at rankings we don't consider the *magnitude* of the difference between high income/educational attainment states and low income/educational attainment states. The per-capita income in Massachusetts (~$85,000) is nearly double that of Mississippi (~$46,000), as is the rate of working-age adults with a bachelor's degree (49.6% in Massachusetts versus 25.7% in Mississippi).

To understand the relationship more fully, the graph below (chart 1) plots a point for each state, with the x axis representing the share of adults 25 and older in each state with a bachelor's degree or higher, and the y axis representing the 2022 per capita income in each state.[9] A trend line is inserted to visualize the relationship. As one can see, the majority of points fall quite close to the predicted trend line, suggesting a very close relationship between the two variables. The outliers, which are able to generate high per-capita incomes despite low educational attainment, are energy producing state (the dots for these states are labeled). For most states, however, the correlation is so tight that if you know the share of adults in a given state with a bachelor's degree or higher, you could venture a pretty accurate guess as to that state's per capita income.

Chart 1

Educational attainment and per-capita income



One might argue that this relationship is only associational – that high educational attainment doesn't *predict* productivity growth and income growth, but that it may in fact be the other way around: that high-income places or places with cutting-edge firms attract highly-educated people. However, careful research by economists Edward Glaeser and Albert Saiz finds that the relationship is in fact driven by skills: the more skilled places (i.e., those with the highest educational attainment) *become* the most productive places, with the highest incomes.[10]

In the next section, we turn towards strategies to become a place stocked with highly-skilled residents.

Attracting highly educated talent

As previously noted, given the centrality of knowledge work in today's economy, and the importance of highly-educated workers to knowledge economy growth, it follows that the core economic development strategy for states and regions in today's economy should be to attract and retain highly-educated people. And in particular, because they are the most mobile segment of society, we should seek to attract and retain *young* highly educated people.[11]

Fortunately, we have good data – both quantitative and qualitative – on the kinds of places that are attracting highly-educated young folks, at scale. By analyzing this data and identifying the characteristics of talent magnets, we can better inform state-level strategies to retain and attract highly educated young people.

It should be noted here that when we talk about attracting and retaining talent in a particular state, we are really talking about attracting and retaining talent in the major metropolitan areas of that state, given that the vast majority of highly-educated young people today are settling in metropolitan areas. Even among metro areas, a relative few are attracting the lion's share of young talent: if we look at all adults ages 18 – 34 in the U.S. with a bachelor's degree or higher, half live in just 23 metro areas. Being a talent magnet state means being home to one or more of these metro areas that are attracting young talent at scale.

It should also be noted that retaining and attracting college graduates is just one of the two ways a state can boost its educational attainment. The other strategy, of course, is to increase the number of young people in a given state that go on to complete a bachelor's degree – that is, to produce more "home grown" talent. In a second paper, we discuss strategies to boost higher education attainment in your state, an imperative not only for macro-level economic development, but also for increasing economic mobility and closing equity gaps at the individual level.

However, the more important strategy for boosting the human capital stock in your state is to be a place that attracts talent from all over. This is the more important strategy largely because of scale. Highly educated young people are the most mobile segment of society, with tens of thousands moving across state lines every year.[12] By capturing a large share of these movers – while retaining home-grown talent – a state can boost its human capital stock at a far greater rate than solely relying on home-grown talent.

In addition, the data suggest that the share of young adults across the country who *don't* move – who, as young adults, remain in the same region they grew up in – is relatively consistent from region to region.[13] Where regions differ tremendously is in the share of young adults from elsewhere who *move* to that region as young adults.

Where is young talent moving to?

We have good data on the movement of young adults from a project called Migration Patterns, a collaboration between MIT's Policy Impacts, Harvard's Opportunity Insights, and the U.S. Census Bureau. The dataset uses Census and tax data to identify where young people were living at the age of 16 (presumably in the place where they grew up) and where they are living at 26, in young adulthood. The data is presented by commuting zones, collections of counties centered around a primary employment center. For each commuting zone, their tool allows you to see what share of young adults living there grew up there, and, for those that did not grow up there, where they came from. And for those that left a particular commuting zone, we can see where they ended up. The data covers the 1984 to 1992 birth cohorts, who reached age 26 between 2010 and 2018.

By looking closely at the behavior of movers – those who left the region they grew up in to move to another region as a young adult – we can get some sense of the regions, and the qualities of those regions, that are the most popular destinations. Again, our focus is on metropolitan regions because these are the sites of talent attraction. The goal of state economic development policies should be to build the next talent magnet metro.

An initial way to look at the data is to simply look at the regions that have, over the nine year period captured by the data, attracted the most young adults from somewhere other than their home region.

This data is capture in Table 4 below. The first column shows the number of young adult movers that moved into that region between 2010 and 2018; the second column shows the respective rank among all regions in the number of young adult movers that region attracted; and the final column shows that region's overall young adult population rank. This chart shows the top twenty regions in terms of young adults attracted to that region from elsewhere in the country, and also includes Detroit and Grand Rapids, our state's most important regions for attracting young talent.

Table 4
Regions that attracted the largest number of young adults between 2010 and 2018

Region	# of young adults who moved into that region	young adult attraction rank	young adult population rank
New York	314,024	1	2
Los Angeles	300,437	2	1
Washington DC	218,857	3	6
Atlanta	186,630	4	9
Seattle	178,290	5	11
Chicago	176,494	6	3
Denver	170,369	7	16
San Francisco	169,642	8	12
Dallas	163,013	9	13
Houston	160,110	10	5
Phoenix	159,973	11	14
Boston	147,793	12	8
San Diego	143,784	13	17
Austin	127,582	14	34
Philadelphia	111,027	15	4
Orlando	106,994	16	29
Minneapolis	106,268	17	15
Tampa	101,287	18	22
Raleigh	101,035	19	39
Portland	100,955	20	30
Detroit	*69,994*	*33*	*7*
Grand Rapids	*36,272*	*61*	*46*

Source: Migration Patterns

That final column is inserted to offer a sense for how a particular region is or is not exceeding expectations as a talent attraction hub. For example, New York and Los Angeles are at the top of the list in the number of young adults they attract, but this might be expected given their size and reputation as global centers of art, culture, and commerce. But as we scan down the list, we see some regions that attract young

movers from across the country on a scale that exceeds what we might expect given their overall population, such as Atlanta, Denver, Seattle, and Austin.

One takeaway from this table is that the metropolitan regions that are attracting the largest number of young people are those with vibrant central cities featuring dense, walkable, activity-rich neighborhoods, often tied together with strong intracity and regional transit. Indeed, as we'll discuss below, young people today aren't really moving to states or even regions, but cities, and, to go a step further, individual neighborhoods within those cities.

The trends observed in this data are simply a continuation of those first popularized in Florida's, *The Rise of the Creative Class*. As noted previously, a key observation Florida makes is that young people, and young highly-educated people in particular, aren't moving to a particular place for a particular job, but are moving to a particular place for the characteristics *of that particular place* that they find desirable.[14] And these characteristics appear to be density, walkability, and a vibrant street life; a rich arts and cultural scene; plentiful parks, greenspace, and outdoor recreation; and high-quality transit.

In short: place matters. If the central ingredient to economic dynamism in today's economy is highly-educated talent, and if today's young, mobile, highly-educated talent are seeking out not jobs, per se, but great places, a state's economic development agenda ought to come into sharper focus: create the kinds of places that highly-educated young people want to be.

How can a state create talent magnets? Focus on walkability in central city neighborhoods

How does a state go about creating the kinds of places that will attract young talent? At first blush, the idea of state policymakers and bureaucrats trying to create cool neighborhoods may seem like a losing proposition. But upon closer inspection, there are a number of ways in which the right public policies can create the kind of destination neighborhoods that attract young talent, largely having to do with how cities are incentivized, or not, to structure the built environment.

State policies ought to focus on creating the kinds of neighborhoods envisioned by Jane Jacobs, rather than those envisioned by Robert Moses. In the mid twentieth century, the writer and urbanist Jane Jacobs engaged in a years-long battle with infamous city planner Robert Moses, about Moses's repeated attempts to run major thoroughfares and expressways through lower Manhattan. The face of midcentury urban renewal policies, Moses was using federal dollars to clear away "slums" and re-envision Manhattan with a vast network of roads and bridges. Moses envisioned a city designed for cars, while Jacobs envisioned a city designed for people.

Moses ran into Jacobs when he tried to run a four-lane road through Washington Square Park, and an expressway through SoHo and Little Italy. While Moses was generally successful in constructing just about anything he wanted to, he couldn't find a way past Jacobs. Jacobs organized a vast coalition of opposition, arguing that major road projects, and the cars that they bring, have no place in our cities. Cities, she argued, ought to be reserved for people, and the interactions between them. Good urban design, in her view, should facilitate these interactions, creating her now famous description of vibrant city life, the "sidewalk ballet."[15]

Jacobs scuttled Moses's plans for lower Manhattan and the rest is history. Washington Square Park, and the rest of lower Manhattan, is now the ideal of vibrant city life, teeming with art, culture, and commerce.

However, if we look at cities across America today, it was Moses's vision that largely won out, to the detriment of our cities. Our cities are largely built for cars, intersected by freeways and large roads, populated with office buildings and sports stadiums, enabling suburban commuters and visitors to easily come and go, with little time spent on the city's streets.

But if we look to our talent magnet neighborhoods in our talent magnet cities, they have retained or recreated a human-scale design, and are therefore the sites of the active, dense street life sought by young talent today. We know these neighborhoods by name: the Mission District in San Francisco, Williamsburg in Brooklyn, Little Five Points in Atlanta, Wicker Park in Chicago. These places are marked by a high density of storefronts, bars, and restaurants; access to parks, recreation, and transit; public art and cultural offerings; and a built environment designed for walkability.

To ground our theory about the importance of individual neighborhoods as sites of talent attraction, and the characteristics of those neighborhoods that make them sites of talent attraction, we identified the census tracts with the highest concentration of highly-educated young talent, defined here as 25-34 year olds with a bachelor's degree or higher.[16] We then looked at the Walk Scores for those neighborhoods, an index measuring the daily activities a resident can accomplish on foot in a particular place. What we found is that if you look at the census tracts with the largest concentrations of 25-34 year olds with a bachelor's degree or higher, you'll also find some of the most walkable neighborhoods in the country.

Of all the country's census tracts that are less than 0.5 square miles, Chicago's River North neighborhood has the largest number of college-educated 25-34 year olds, with roughly 4,500 of them in a space of just 0.3 square miles.[17] There are other neighborhoods across the country that look similar. Across the Hudson River from Manhattan and just east of downtown Jersey City, there are more than 4,000 young adults with a BA in a space of just 0.1 square miles; roughly 3,700 are jammed into 0.2 square miles in New York's Gramercy Park; in Williamsburg, Brooklyn, roughly 3,100 college-educated 25-34 year olds live in a single census tract the size of 0.1 square miles; in a 0.1 square mile neighborhood in Brookline, Boston, you'll find 2,400 highly educated young adults; in 0.3 square miles just south of downtown LA reside roughly 2,300 college-educated young adults; in 0.1 square miles just south of Seattle's uptown neighborhood reside 2,300 college-educated young adults; and in Denver's Highland neighborhood live 2,200 college-educated 25-34 year olds in 0.5 square miles.

As previously noted, all of these neighborhoods are extremely walkable, with residents having easy access to amenities like bars, restaurants, grocery stores, coffee shops, schools, libraries, and parks, without having to get into a car. All of these neighborhoods have a Walk Scores above 85, defined as neighborhoods where most errands can be accomplished on foot, and most have scores above 90, defined as a "walker's paradise," where daily errands do not require a car.

Clearly states can't do everything needed to create talent magnet neighborhoods. That ultimately requires the right mix of residents, businesses, and cultural offerings to create a "scene" that attracts more and more young people. But through strategic investments in the built environment, in arts and culture, and in the support of small businesses, states can lay the foundation for a scene – and create an environment

in which a talent magnet neighborhood can be created and thrive. In the next section, we dive into how we're trying to do that in Michigan.

The Neighborhood Talent Concentration Initiative

Here in Michigan, we have put out a proposal for what we're calling the Neighborhood Talent Concentration Initiative (NTCI), to try and create the conditions needed to build more talent magnet neighborhoods in our state. We see this proposal, or something like it, as a central strategy that states can utilize to jumpstart the development of talent magnet neighborhoods and attract talent at scale.

The initiative has two central goals. First, to address the economic development imperative of increasing Michigan's population of young professionals and young skilled workers by creating transit-rich, high-density, high-amenity, vibrant, walkable neighborhoods or districts; and second, to create business ownership opportunities for local residents. The initiative will fund transformational public space development projects in central city neighborhoods or geographically concentrated districts that promote and integrate walkability, arts and culture, parks and recreation, and street-level small-business development.

As we've designed it, NTCI would create two pots of funds: a larger pot of funds ($150 million in our latest proposal) available to central cities, and a smaller pot ($25 million) for small/midsize cities. The grants would be competitive, with proposals assessed on the likelihood a proposed plan would increase density, walkability, and active street life in the proposed neighborhood/district. Applicants would be a consortium of organizations, potentially consisting of economic and community development organizations, non-profit organizations, city and county governments, and philanthropy, with a non-governmental organization as the lead applicant. The consortium is also required to provide a 50% match through private or local public dollars to be eligible for a grant.

Qualified proposals will be required to include plans for developing or expanding the prominent features one finds in talent magnet neighborhoods across the country. This includes the transition of roadways from car-centric to people-centric, encouraging greater walkability, bikeability, and transit; the introduction or expansion of arts, cultural, and outdoor recreation amenities; the activation of commercial corridors, including opportunities for locally-owned businesses to fill vacant retail spaces; mixed-use, mixed-income development that contributes to density and walkability; and transit.

Crucially, grant funds must be spent in a concentrated geographic area. Many community development or placemaking efforts tend to spread money around: rehabbing an amphitheater in this community, giving out small business loans in another community, building a new riverfront path in a third community. The goal of our effort is to concentrate resources in those neighborhoods that have the best chance of attracting highly-educated young talent. This means we are both directing funds to the cities that have the potential to attract talent at scale, and concentrating funds in individual high potential neighborhoods or districts within those cities.

Indeed, the selected neighborhoods or districts should be those that are most likely to attract talent at scale. This means we should be investing in areas of relative strength, where there are some elements of a talent magnet neighborhood already in place, and some existing concentration of young talent. Further

investments through NTCI – in boosting walkability, adding more housing, creating a pocket park, or filling vacant store fronts – will build on those areas of strength.

The rationale for concentrating funds in this way is that in today's economy, a state's economic health is largely dependent on the economic health of its central cities – if those cities don't work, the state won't either. And those central cities are dependent on the vibrancy of its neighborhoods. This is why NTCI is designed primarily to invest only in the central cities that are capable of attracting young talent at scale, and, within those cities, to invest only in those neighborhoods/districts that have the potential to attract young talent at scale.

A second critical point is that while neighborhood plans must include plans for housing and transit, grant dollars cannot be used for these purposes, largely because of their expense; using grant dollars on these priorities would crowd out the range of other investments needed to create vibrancy in a neighborhood. Rather, our proposal requires state departments – like our state housing and development authority and department of transportation – to fund the elements of winning proposals related to their department.

The grant funds, meanwhile, are to be used for the public spaces in the neighborhood, not buildings. Investments in cities are often equated with investments in buildings: sports stadiums, hotels, and office towers. These can often be important assets in cities, and can boost activity and vibrancy in downtown cores, but they also have flaws. They are built for visitors, rather than permanent residents; are often designed to pull people *off* the streets rather than onto the streets; and they have long periods of dormancy (after work hours, or in the off-season). The goal of our initiative is to make investments in the things that will bring people to the streets – every day, and at all hours. This includes efforts to narrow streets and make them more walkable, encourage more foot traffic, and discourage automobile traffic; create parks and other greenspaces for recreation; create public art installations; encourage the development of street-level retail, bars, and restaurants; activate commercial corridors; and construct bike-friendly infrastructure.

These two central characteristics of NTCI – concentrating resources and focusing investments on public spaces – differentiate the initiative from similar-seeming initiatives we have seen in other states. We have seen state-level programs that provide grants to localities for "smart growth" infrastructure or regional placemaking – efforts that may, on their face, appear akin to NTCI.[18] But these other programs are not designed explicitly to retain and attract young talent; do not concentrate investments in high-potential neighborhoods within high-potential cities; and do not focus solely on the built environment instead of the buildings. It is these characteristics that that make NTCI unique and, we think, a potentially transformational policy for Michigan and other states.

It should also be noted that while most of the resources would go to central city neighborhoods, small and midsize cities would be eligible to apply for an award from a much smaller pot of funds, and the economic development strategy in these smaller cities is much the same as in larger cities. While smaller communities may not be able to attract talent at the same scale as big cities, by creating dense, walkable, amenity-rich downtowns, and prioritizing arts and culture and outdoor recreation, those smaller communities can indeed attract talent that can drive local economies.

NTCI and gentrification

A common critique of NTCI is that it will accelerate gentrification in the desirable neighborhoods of our central cities. In the strictest sense of the term, gentrification is the process by which new, wealthier residents move into a neighborhood. In many ways, this may seem desirable, and almost synonymous with economic development which, by definition, is a process that requires an influx of new capital. Attracting more people to a neighborhood may lead to less vacancy, more economic activity, and safer streets. However, it can also lead to rising housing costs, and, left unchecked, the displacement of current residents. Even absent physical displacement, an influx of new, wealthier, and often white residents into lower-income often minority neighborhoods, can lead to a sort of cultural displacement, in which the fabric of a place is altered with little say from those who may have been there for years.[19]

Indeed, these are no small concerns. However, it's not inevitable that the kinds of investments we are recommending will lead to either of these kinds of displacement, particularly if we are intentional about design and policy. Investments in creating dense, walkable areas, with the goal of attracting and retaining young, highly educated residents, can be paired with a host of housing interventions to better ensure the residential stability of current residents. Aggressive policies around affordable housing set-asides can create new, quality, affordable housing opportunities, and policies that promote homeownership can ensure current residents accrue wealth as property values rise. Requiring a planning process that demands deep community engagement can help ensure those in the footprint of proposed projects feel ownership over the efforts. Policies around equitable access to commercial opportunities, that prioritize local business and opportunities for long-term residents, can help ensure the economic development truly does lead to economic opportunity for all, while also ensuring the "soul of a place" is maintained amidst neighborhood change.[20] Policies that seek to protect legacy small businesses from rent increases could also be instituted as a condition of receiving grant dollars. Indeed, supporting legacy businesses, and promoting opportunities for entrepreneurship for long-term residents, will be a primary aim of NTCI.

It is also worth noting here a larger point related to gentrification, having to do with the nature of change at the neighborhood level. As urban scholar Alan Mallach noted in his book *The Divided City,* the vast majority of neighborhoods in the U.S. are not static, but constantly changing, as people move out and, hopefully, move in. And for most neighborhoods, the alternative to growth is not stasis, but decline. Indeed, if we look at Michigan's largest city, Detroit, the biggest threat facing most of its neighborhoods over the past two decades has not been uncontrolled growth, leading to residential displacement, but uncontrolled decline, leading to displacement caused by tax foreclosure, residential evictions, property abandonment, and widespread vacancy. This is not meant to be excuse inaction in the face of rising rents in developing neighborhoods, but instead to acknowledge that neighborhoods are always changing, and that we need to deploy a range of policy tools to ensure residents living in growing neighborhoods are able to stay in place and benefit from the positive changes that come with economic development.

And there is good data to show that there really are positive changes for existing residents that come with economic development. One study in New York found that low-income residents in rapidly gentrifying neighborhoods were no more likely than low-income residents in other neighborhoods to move, and that those households who remained experienced a decline in neighborhood poverty.[21] A second study, by the Federal Reserve Bank of Philadelphia and the U.S. Census Bureau, which looked at changing neighborhoods across the 100 largest metros in the U.S., came to largely similar conclusions.[22] And with

robust public policies around housing affordability, we can ensure more households are able to remain in place, and benefit from neighborhood change.

Indeed, the economic development of a particular place is important, no matter your income. Research has shown that low-income residents of high-education, high-income metropolitan areas live longer than low-income residents of low-education, low-income metros.[23] For example, the life expectancy for the lowest income residents of the New York metropolitan area is a full five years higher than the life expectancy for the lowest income residents of the Detroit metropolitan area. It's not completely clear why this is the case, but a likely explanation is that high-income places have more government revenue to spend on social and public health services, bolstering the health and well-being of all residents.

The broad takeaway is that while we should aggressively pursue policies that enable current residents of gentrifying neighborhoods to remain in place, provide current residents homeownership opportunities, and protect legacy businesses from rising rents, we shouldn't allow the potential negative side effects of gentrification to prevent any attempt to invest in place.

Alternatives to NTCI

Finally, it should be noted that while a tool like NTCI is one way to encourage cities to take on the work of creating talent-magnet neighborhoods, it is not the only way. A number of states have sought to encourage density by eliminating parking requirements on businesses, or zoning codes that limit multifamily developments, accessory dwelling units, or the mixing of commercial and residential uses within districts.[24] And here in Michigan, advocates from the city of Detroit are pushing the state to enable localities to implement a land-value tax, the design of which is meant to penalize speculators and encourage development by charging a higher tax on the land than on the improvements to the land (i.e., the building).[25] We believe these other tools can and should be pursued. However, given the pressing need to retain and attract young talent, and the dramatic shifts needed in our central cities to design for density and walkability rather than sprawl and automobiles, we think something like NTCI is needed.

A new model of economic development

The model of economic development we are proposing here could be referred to as economic development focused on people and place. It is built on the idea that in today's knowledge-driven economy, talent attracts capital, and quality of place attracts talent. So, to attract capital, we must first attract talent, and to attract talent, we need to invest in making the places that they want to live.

As we noted at the outset, this model stands in stark contrast to classic economic development models at the state and local level that largely center on the use of tax incentives to lure firms and bring "new" jobs to a particular state or region. Given the prominence of this model, it's worth dwelling briefly on the evidence in support of it. To put it charitably, most economists do not look kindly on this model of economic development. Studies have found that in most cases, tax incentives have no impact on a firm's siting decision, meaning funds that could have gone towards education, affordable housing, parks, employment training, and other public services were instead spent to attract a firm that may have located in that locality anyway.[26]

Though economic development scholars note that states and localities are unlikely to abandon the practice of using tax incentives to lure companies altogether, they also argue that they should make up a far smaller piece of what a state or locality has to offer. A good case example is Amazon's siting decision for their second North American headquarters. The winning site, Arlington, VA, did offer tax incentives, but the $20 million Amazon received was on the low-end of what was on offer from other cities. Arlington's total package was worth more than $500 million, but the rest of the incentives were structured to have positive spillover effects on the broader community – job training, a new campus for Virginia Tech, improved public transit – instead of only benefiting Amazon's bottom line.[27] Most importantly, Arlington also benefited from a high concentration of highly skilled workers, and quality existing transit – two factors that Amazon noted would be essential for wherever they decided to locate. In short, in luring knowledge economy jobs, tax incentives are, at best, "icing on the cake" – quality of place is the far more important ingredient.

Aside from the use of tax incentives to lure individual firms, there is also a loud chorus of voices making the case that the overall tax structure of a particular state is a determining factor of a state's economic success.[28] Here in Michigan, many celebrated our state's recent rise in the Tax Foundation's State Business Tax Climate Index, which claims to measure the "elements of a state tax system (that) enhance or harm the competitiveness of a state's business environment."[29] As one might assume, lower tax states do well in these rankings, while higher tax states, thought to offer an inhospitable business environment, do worse.

The problem is that it turns out a state's tax structure has no relation to our preferred measure of economic health, per-capita income. Table 5 below shows the top ten states in per-capita income, along with those states' ranking on the Tax Foundation's business tax climate index. As one can see, a state's ranking on the index is almost inversely related to economic prosperity. The only low-tax states that are also high per-capita income states are Wyoming, which achieves high incomes through energy production, and New Hampshire, which benefits from being part of Boston's high per-capita income metropolitan region. The point here, again, is that taxes are far from the most important factor in determining a state's economic development trajectory. And, in fact, if a state fails to make needed investments in their central cities and education system to prepare, retain, and attract talent, low taxes could be *counterproductive* to economic development goals.

Table 5

	Per-Capita Income Rank	Tax Foundation Business Climate Rank
Connecticut	1	47
Massachusetts	2	46
New Jersey	3	50
New York	4	49
California	5	48
Washington	6	35
New Hampshire	7	6
Colorado	8	27
Wyoming	9	1
Maryland	10	45

Source: Bureau of Economic Analysis and Tax Foundation

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Conclusion

In today's knowledge-driven economy, the most important ingredient to a state's economic success is highly-educated talent. And because highly-educated young people are flocking to dense, walkable, amenity-rich neighborhoods in central cities, we argue that for a state to attract talent, it needs to invest in its central cities, and, more specifically, ensure it has dozens of talent-magnet neighborhoods within its central cities. This means that when states spend on economic development, they should be spending a lot less on tax incentives to lure this or that firm and should be spending a lot more on walkable urban infrastructure, parks and greenspace, rail transit, and arts and culture in our central cities.

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[6] Ibid

[7] Ibid

[8] 63.5% of all adults 25 years and older with a bachelor's degree live in just 50 metro areas in the U.S. The top ten metros house more than 30% of all adults with a bachelor's degree or more.

[9] Figures will be slightly different in this chart as it shows the educational attainment rate for all adults over 25, rather than simply working age adults.

[10] Edward L. Glaeser and Albert Saiz, "The Rise of the Skilled City," National Bureau of Economic Research, Working Paper 10191, December 2003, https://www.nber.org/papers/w10191

[11] Based on Census migration data by age from the American Community Survey, those age 18-34 are nearly three times as those over 35.

[12] According to data from the American Community Survey, in 2022 4.97% of adults between the ages of 18 and 35 moved across state lines. Just 1.68% of adults over 35 moved across state lines. Just over 3% of adults with a bachelor's degree moved across state lines, versus roughly 1.5% of adults with no education beyond high school.

[13] According to Migration Patterns data, the share of young people from top quintile households who remained in the Detroit region as young adults is 66%. This share is similar to those from talent magnet metros such as Austin (61%), San Francisco (68%), Seattle (72%), or Atlanta (63%).

[14] Florida, "The Rise of the Creative Class"

[15] Anthony Paletta, "Story of cities #32: Jane Jacobs v Robert Moses, battle of New York's urban titans," *The Guardian,* April 28, 2016, https://www.theguardian.com/cities/2016/apr/28/story-cities-32-new-york-jane-jacobs-robert-moses

[16] Census tracts vary in size – while some map closely on with conceived neighborhood boundaries, other neighborhoods in dense cities may consist of several Census tracts. In large cities, most Census tracts are under 0.5 square miles.

[17] These estimates carry large error values, though even if we were to use the low-end estimate these neighborhoods still distinguish themselves as places with high concentrations of young talent.
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