

COLLEGE of CHARLESTON

OFFICE OF THE PRESIDENT

The Charleston Economy: Gateway to the Southern Cross

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I have been at the College of Charleston for a little over a year now and have spent a good bit of that time learning about the College and Charleston and the State of South Carolina. I don't believe I can effectively help to chart a course for the College's future without understanding its past and its environment in some depth. As a newcomer, I have the opportunity to see Charleston with "fresh eyes," which may give me a different perspective than many of you. As we planned this conference, it began to make sense that my role could be in trying to put our economy into context – both regionally and globally, in part by using my "fresh eyes." I'll try to do that.

From the late 1600s through today, Charleston's economy has been dependent on its waterways – its rivers and the ocean. The port and the agriculture of the Lowcountry made Charleston one of the largest and most prosperous cities in North America through the mid 1800s. Following the Civil War, however, the economy fell on very hard times. It was not until the founding of the Charleston Naval Shipyard in 1901 that the local economy had a catalyst to move it forward. Again, it was the waterways that were the city's competitive advantage. For essentially the entire 20th century, Charleston's economy was dependent on the U.S. Navy – or, put another way, the federal government.

At its height, in 1989, the Charleston Naval Base and Shipyard employed 45,379 people – two-thirds were active-duty military; the other third were civilians. Generations of Charlestonians and their families worked there.

Because of all the federal dollars flowing into the economy, Charleston didn't have to pay much attention to the world around it, particularly in terms of working to attract new jobs and investment. It didn't follow the lead of Greenville, Spartanburg, Charlotte, Atlanta and others that were taking advantage of the South's relatively low cost of doing business and actively and

strategically recruiting new businesses. Thus, as recently as the early 1990s, Charleston's economy had just two primary anchors – the federal government and tourism. Nearly one of every four jobs was in the government sector and about one in five was in tourism. Together government and tourism accounted for 44% of all jobs in the region.

The economy really didn't have many ups and downs – as long as the federal dollars flowed and the tourists continued to make reservations.

Charleston was lucky to dodge the bullet of base closure in 1988 and again in 1991, but on a Friday in February 1993, Senator Fritz Hollings held a press conference and told a stunned community that the Base Realignment and Closure Commission was recommending the closure of the Charleston Naval Base.

After recovering from the shock, the leadership of the three counties and the three chambers formed the Charleston Regional Development Alliance, a public-private partnership aimed at attracting business and new jobs to the area. The Alliance produced an economic development plan and began to market the primary assets of the community – available skilled labor and the port. This was a significant step for Charleston – to finally do what other communities in the Southeast had been doing for many years.

Charleston still had the benefit of senior leadership in Congress. Senator Hollings continued to quietly bring other federal investments to the region to replace the lost Navy jobs.

All these efforts worked quite well as evidenced by the fact that between 1995 and 2000 the region's employment grew at a rate more than double that of the state. And by 2007, the structure of the region's economy had changed markedly. The economic development strategy of 1995 was and is paying dividends.

Government's share of regional employment declined from 1 in 4 jobs to 1 in 5. Still a high number, but better. For comparison, today Columbia, headquarters of state government, is 1 in 4 (25% government jobs). Overall, 17% of all jobs in the state are government jobs. Government's share is considerably less in Atlanta, Savannah, and Charlotte, at about 13%.

Overall, the employment profile in Charleston has become more diverse than ever. Interestingly, the growth in one of those employment pie slices – manufacturing – is the envy of most other regions in the U.S., including the rest of South Carolina.

Between 1995 and 2006 the percentage change in manufacturing jobs looked like this:

- In the U.S.: an 18% decline or over 3 million jobs lost.
- In South Carolina: A 27% decline or nearly 100,000 jobs lost.
- In the Charleston region: an 8% increase. That's 2,000 new jobs.

What is going on in the Charleston region? First, it's easier for us to increase our manufacturing base because the base was so low. We had very few low-tech jobs to lose to

China, India, and elsewhere, such as in textile manufacturing. We did, however, lose some manufacturing jobs when the shipyard closed.

Second, what Charleston is doing is attracting manufacturers that aren't just looking for the cheapest location, but are looking for an area that has an available productive workforce, a solid business climate, that provides easy access to their markets, and is an attractive place to live. Charleston's growing reputation for quality of life is a major factor in the equation. Another significant factor is the Port of Charleston and the access to the global marketplace it provides.

Another job cluster that is developing in Charleston is the Advanced Security Cluster. It crosses a number of traditional employment sectors, including engineering and computer-related occupations. This is primarily the result of the growth in the security industry through organizations such as SPAWAR, Scientific Research Corporation, Eagan McAlister and the other private sector defense contractors.

Between 2000 and 2006, the Architecture and Engineering occupational category grew by more than 60%; Computer and Math related jobs grew by 40%. Other companies driving the growth of Computer and Math jobs include Blackbaud, Benefitfocus, Google, and Automated Trading Desk, which I am pleased to say, is led by a College of Charleston graduate. While these percentages are moving in the right direction, we still don't have a lot of these jobs. These occupations represent just over 11,000 jobs in the region. In contrast, North Carolina's Research Triangle region (the combined MSAs) has over 50,000 people employed in these occupations.

Charleston's economy is evolving nicely and quickly from its public-sector dominated employment structure to a more diverse economy. We've made great progress in a very short time, but there is much more to do. To understand why I say that, let's step back for a moment and look at the Southeastern United States as a region. And let's look at some of our sister cities and the results they have obtained from aggressive community leadership and long-term commitments to an economic vision.

It used to make sense to analyze states individually and describe them separately. But the global economy is quickly becoming a collection of mega regions, not states or even countries. Thus, for us to get a glimpse of the future and begin to build a vision for the Charleston region, we better know our place in our own mega region.

We live on the edge of the Piedmont Megalopolis. The term megalopolis means "great city." The term was first used in 1957 by Jean Gottman, a French geographer, to describe the great city that extends from Washington D.C., to Boston. The Piedmont Megalopolis has also been called the "Piedmont Atlantic Mega Region" and "The Southern Cross." The last name is easier to pronounce and is more descriptive.

The Southern Cross has two emerging spines or arms that cross in Atlanta. One spine runs from Nashville to Chattanooga to Atlanta to Macon. The other spine, the primary spine, runs from Birmingham to Atlanta to Greenville-Spartanburg to Charlotte to Raleigh-Durham. That spine follows Interstate 85. It is an economic region that spans cities, counties, and states. It

includes many cities not directly on the spines, but connected to the spines by transportation networks. This includes Charleston.

The population along the Southern Cross is exploding. Someday high speed rail will follow both arms, making it possible to, say, live in South Carolina and commute to work in Atlanta.

Even though we are not directly on a spine of the Southern Cross, we will be significantly impacted by this developing mega region. Consider this map of the Southeast (see attachment) and the locations of the two growing spines, and ask yourself: Where will all those people go to the beach? Where will they build or buy second homes? Where will their retirement homes be located?

Answer: For many of them, right here on the coast: The Jacksonville to Savannah to Charleston to Myrtle Beach to Cape Hatteras Corridor. And we, here in Charleston, are the bull's eye. This mega region will bolster our real estate and tourism markets for at least the next century. It will pull goods through our ports indefinitely.

We should be reaching out to every city and virtually every major company within the Southern Cross and looking for ways to serve them or partner with them: city to city; business to business; person to person. This would lead to new and expanded economic opportunities for Charleston. Simply ask: What do you need? How can we help? Certainly, we in Charleston want to do business with the world. But why ignore our own mega region? Why not help the mega region serve the world? We are a gateway to the Southern Cross.

Let's consider for a moment three of the major cities within the Southern Cross – Atlanta, Charlotte and Raleigh-Durham. Each has its own economic niche, but all are connected along the primary spine of the Southern Cross.

Atlanta is a global powerhouse and the economic engine of the Southeast. It hosts the headquarters of 13 Fortune 500 companies including Coca Cola, Delta Airlines, UPS, and Home Depot. Only New York City and Houston have more Fortune 500 headquarters. Metro Atlanta also benefits from the research engines of Georgia Tech, the University of Georgia, Georgia State, Emory and the Centers for Disease Control. It's also home to the world's busiest airport: Hartsfield-Jackson.

In 1925, William Hartsfield – later to become a long serving mayor of Atlanta – convinced Atlanta's leadership to build its airport far outside the city. It was a controversial decision because the location was so remote. The decision was founded on the vision that if Atlanta was to become a national or world-class city, a major airport would play a pivotal part in making that happen. The city committed to the vision and repeatedly made major investments in the airport: 1961, the largest terminal in the country; 1980, opened the world's largest terminal complex; 2001, the 5th Runway, the largest public works project in Georgia history.

Near the middle of the 20th century, Atlanta and Birmingham were competitors of very similar size and economic strength. But Atlanta had the airport vision; Birmingham didn't. Today, Atlanta dominates Birmingham on nearly every economic measure.

While I'm at it, let me relay one more Georgia story.

When I was at the Terry College of Business at the University of Georgia, I traveled the state talking about the economy in 12 to 15 different cities each year. Somewhere in each speech I typically talked about Georgia's ports in Savannah and Brunswick. And I often compared Savannah's Container Port to Charleston's. At first, I showed how Savannah was lagging Charleston. Later, I described Savannah as lagging, but catching up. Eventually, I was predicting that Savannah would overtake Charleston. I was always puzzled as to why Charleston was slipping in the rankings. Georgia had always looked up to the Port of Charleston. Now that I'm here, I'm still puzzled.

Georgia's government and business leaders understand that the Port of Savannah is one of the state's greatest assets and that for it to remain competitive the state must invest in it. As a result, the Port of Savannah has grown substantially over the past decade – at the expense of South Carolina. Just in the past year, while the Port of Charleston saw tonnage decline by 10 percent, Savannah had a 20 percent increase – that's 30 percentage points difference.

How did that happen? Georgia was aggressive and innovative. They implemented a tax incentive to help lure large distribution facilities; Savannah developed a center where these facilities could locate; and the state invested regularly in the port's infrastructure.

I'm told that while all this was happening in Georgia, here in Charleston the Port had to battle just to find a site to expand, let alone build it out. The current expansion project is not projected to be completed until 2013!

There is apparently insufficient support for Port growth, even within the region's business community. That's a problem. The port is our gateway to the Southern Cross.

Charlotte is another city where business leaders had an aggressive vision that they pursued relentlessly. Hugh McColl, CEO of Nations Bank, had a vision to create the nation's largest bank. Ed Cruchfield, CEO of First Union, had a vision to grow First Union beyond traditional banking. In the mid 1990's, the restrictions on bank holding companies were removed allowing the merging of banking, securities, insurance, and other financial functions. This enabled these men to execute their visions. The result: Bank of America and Wachovia are headquartered in Charlotte making it the financial capital of the South, much to the chagrin of Atlanta. By the way, Georgia's myopic regulations against branch banking also facilitated Charlotte's rise.

More recently, Charlotte's leadership determined that the city needed to have quality restaurants to have a successful downtown. We all know what happened next. They convinced Johnson & Wales to relocate from here to there!

One of the greatest vision-realization stories is, of course, the Research Triangle in Raleigh-Durham. In the late 1950's, Luther Hodges, Governor of North Carolina, wanted to find a way to stop the "brain drain" that was occurring as students graduating from Duke, North

Carolina and N.C. State were forced to leave the state to find jobs. His vision resulted in the creation of the Research Triangle Park.

The state and the region bought into that vision and fifty years later the Research Triangle Park is eight miles long, two miles wide and is home to more than 150 research and development facilities that employ nearly 40,000 people.

These are just three examples of what can be accomplished when a community develops a vision and commits to the vision for the long haul. Charleston needs this type of effort. We've done it before! Look at the remarkable vision for Charleston Place and King Street, and the execution toward that vision over decades by Mayor Joe Riley and our business and community leaders. That vision was the catalyst for the transformation of our tourism and real estate markets to become among the strongest in the country.

I want to return to the mega region concept of earlier for additional guidance on planning for the future and for confirmation of the direction we're already moving in.

Richard Florida, author of The Rise of the Creative Class, has recently picked up on this idea of mega regions and has written a new book that was released earlier this month. It's entitled "Who's Your City?" Its subtitle is, "How the Creative Economy is Making Where to Live the Most Important Decision of Your Life." In it he describes the global marketplace as being organized around 40 different mega regions, with the U.S. having about 12 of them. He has yet another name for the Southern Cross. He calls it "Char-lanta."

He argues that the global marketplace is not "flat," as Tom Friedman and others have proclaimed. He says there are two sides or forces to globalization. The first is the "flattening" Friedman speaks of which results from the spreading out or dispersion of routine business functions such as low tech manufacturing and call centers. The second force is the clustering ~ in a relatively small number of locations ~ of higher level business activities such as innovation, design, finance, and communications. Thus, in the global market place business activity is both spreading out and clustering at the same time. Cost tends to drive the dispersion of business; idea generation and innovation motivate the clustering.

The clustering is driven by the economic advantages derived when a diverse collection of talented people are in close proximity. The more opportunities talented people have to interact with each other – both professionally and socially – the more new ideas are spawned and the greater is the level of innovation and economic growth. These talented people and their culture of innovation attract other talented people and a cluster develops. The synergy or multiplier effect that develops in such a cluster makes each individual more productive, the region more productive, and the region more and more attractive to talented people and knowledge-based organizations. Thus, the importance of "place" in our flattening world.

Here in Charleston we are beginning to diversify our economy, as noted earlier, and develop a cluster of talented professionals. We are attracting and building knowledge-based organizations that engage in higher level business activities – software development, systems design, financial engineering, biosciences research, and so forth. Our cluster of talent is not large enough yet to

realize all the possible synergies and multiplier effects. But it will be, if our economy continues to move in the current direction.

I'd like to quickly note – without any analysis ~ three potential gaps or disconnects that could challenge us in building a vibrant, diverse economy. The first is our struggling public K through 12 education system, particularly on the Peninsula. That is, of course, a well-known problem. It deserves our full attention.

The second is our lack of a comprehensive research university that produces ideas and innovations, and spins off start-up companies. Yes, we are a college town. We have top-notch master's level institutions in the College of Charleston and the Citadel. And Trident Tech is an important supplier of talent. MUSC provides medical education, research, and healthcare. Together those institutions have 37,000 students, faculty, and staff. We are indeed a college town! But only the more narrowly focused MUSC has a full scale research operation. The College partially fills the need for comprehensive research, but only partially. It is primarily a teaching institution.

Third, Charleston's sense of "place" as viewed by others in our mega region is "Historic Charleston." And that sense of place brings us tourists, real estate sales, and retirees. Our mega region recognizes us for our history, our quality of life, and our port, but little else. Quality of life is necessary, but it's not sufficient to attract the young, talented, creative class to Charleston.

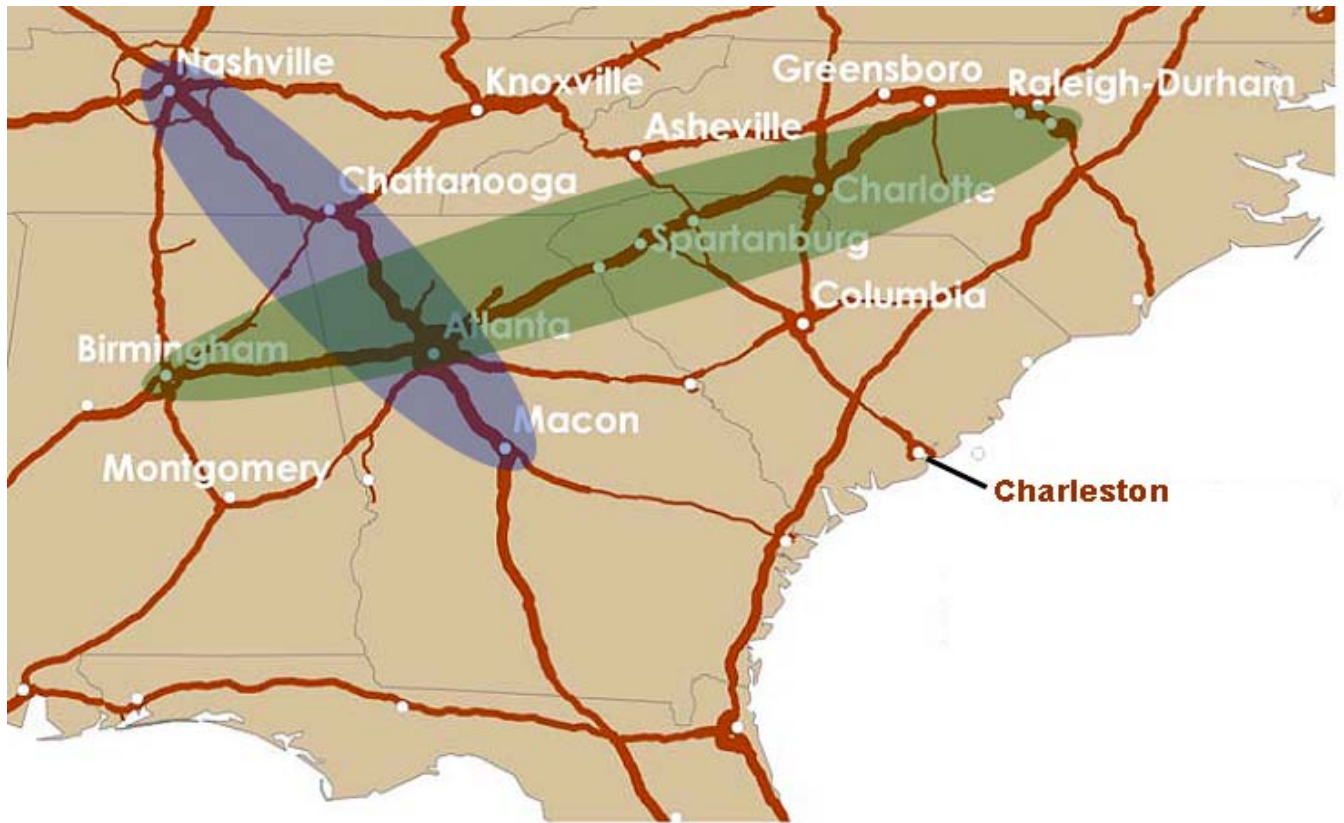
In conclusion, Charleston is a resilient community. We know how to deal with crises. The community continues to be a role model for coming together in times of disasters. Crises have focused this community and moved it forward.

My advice is not to wait for another crisis to seriously chart out our future. We do not have an up-to-date strategic plan for the economy. I do know that efforts have recently begun by the Council of Governments to develop such a plan. We all need to be part of the process that builds our next vision. We all need to commit to the vision and support it over the long run, whether that is 10 years or 25 years.

In building that vision, we should remember four things:

1. Strong leadership from within the business community must be present. Our politicians and economic development professionals can't do it alone.
2. Don't plan in isolation. Work within the context of the Southern Cross, our mega region.
3. Higher Education is the key to innovation and wealth creation.
4. And finally, never forget what got us here...our waterways...our port.

Southern Cross



*P. George Benson, Mary Graham/Charleston Metro Chamber of Commerce, adapted from The Piedmont Atlantic Megalopolis, Georgia Tech College of Architecture Working Paper Series 2005, http://www.cqgrd.gatech.edu/PDFs/GaTech_COA_WP05_03.pdf. March 20, 2008.