February 2, 2012

No Rust in Rochester

By DUNCAN T. MOORE

Rochester

AFTER years of decline, Eastman Kodak, once the largest employer in Rochester, filed for bankruptcy protection last month. But rather than following Detroit, Cleveland and other once-bustling industrial cities into decay, Rochester continues to grow at a healthy clip. Why?

The question goes beyond the city limits of what was once called “Snapshot City.” Why does Pittsburgh prosper while Detroit sputters? How did San Diego make the transition from a Navy town to a diversified economic success while Fresno, Calif., has one of the country’s highest home foreclosure rates?

The answers are complex and unique to each. But the latest city to struggle with economic dislocation shows how good policy making, entrepreneurship and a little luck can ensure that a city doesn’t just survive, but thrive.

While no one here is glad to see Kodak go bankrupt, it’s hardly the catastrophe many imagine. Indeed, while over three decades Kodak’s Rochester-area employment dropped to fewer than 7,000 jobs from 61,000, the community itself gained a net 90,000 jobs. That’s because the Rochester economy is more diverse than most realize — in part, surprisingly, because of Kodak. The high-skilled workers it let go over the years created a valuable labor pool for start-up companies, particularly in optics and photonics.

It also helps that Rochester has a strong higher-education sector, which has likewise been supported by Kodak. The University of Rochester became a leading research center through gifts from Kodak’s founder, George Eastman, who also gave generously to the Rochester Institute of Technology.

These universities have an immense impact on the regional economy. The University of Rochester, along with its medical center, is now the area’s largest employer. Over the last five years it has received more than $1.9 billion in research money, most of it from the federal government, which has in turn fueled local growth beyond the campus gates.

Yet another asset is Rochester’s cultural institutions. Many highly skilled former Kodak workers chose to stay because of the amenities inspired by Eastman’s philanthropy, including the Eastman School of

Music, the Rochester Philharmonic and the International Museum of Photography.

True, many Rust Belt cities have fine universities and cultural institutions. What they lack, however, is a fertile entrepreneurial class to move in as the dominant employer fades and leaves. In fact, it's the very presence of a single big company that can keep smaller ones from taking root.

Recognizing this risk, two decades ago Rochester began a network of private and nonprofit partnerships to diversify its economy. Organizations like High Tech Rochester and Greater Rochester Enterprise work with local government and academia to train entrepreneurs and support new business ventures. Since 1996, 51 start-ups — 38 of which are still active — were created based on University of Rochester technologies alone.

The state and federal governments have been a big help, too. In 2006, the region around Rochester received a four-year federal Department of Labor grant to finance economic development initiatives — which in turn paved the way for almost $70 million in projects awarded in 2011 from Gov. Andrew M. Cuomo's Regional Economic Development Council initiative.

Creative destruction will continue to wreak havoc across the global economy. The experience of Rochester, San Diego, Pittsburgh and other cities in surviving offers several lessons.

The first is to make better use of local intellectual capital, starting with universities. One challenge Rochester faces is replacing the young people who once came to work in Kodak's laboratories. Here's where higher education comes in handy: public and private organizations should build connections with students through internships and other efforts that give graduates a reason to stick around.

Moreover, universities provide stability in a rough economy by drawing in state and federal dollars, which can compensate for the decline of a major employer.

Of course, private companies need to be part of the game as well. Those left behind when a dominant employer disappears must be willing to pivot to a longer view, as Kodak did for generations. Instead of managing quarter to quarter, they must help reinforce the local work force, as well as invest in the community so as to keep it attractive to new high-skilled workers.

Put differently, there is no single answer for cities facing the departure of a major employer, and there are many things unique to Rochester, Pittsburgh and San Diego that have allowed them to thrive where others have foundered. But long-term investments in education, culture and community have made all three postindustrial success stories, and there is no reason such a strategy can't help the next city hit by a big-business bankruptcy to follow their lead.

Duncan T. Moore is a professor of optical engineering and the vice provost for entrepreneurship at the University of Rochester.