

CRAIN'S CLEVELAND BUSINESS

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Personal View: Leaders must step up to rebuild urban service sector

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'If the region is to rebound and recover its economic vitality, local political and community leaders should prioritize preserving existing service businesses and restoring business confidence so that new entrepreneurs are willing to make investments that will create jobs,' writes economist James M. Trutko.

Economic and social conditions in Metro Cleveland are a long way from February 2020.

In just five months from February to June 2020, nonfarm employment in Metro Cleveland decreased by 102,300 (-10%), wiping out nearly a decade of hard-fought post-recession employment gains. The pandemic erased Metro Cleveland's employment gain of 88,000 jobs from 2010 to 2019 and its historically low unemployment for many historically disadvantaged groups.

The employment loss disproportionately affected the local private service sector, which represents over 70% of the economy. This sector includes bars and restaurants, cinemas and theaters, hotels and airlines, gyms and salons and shopping centers. Metro Cleveland's private service industry employment dropped by 87,700 (-12%) compared to a loss of 800 (-1%) for the goods-producing industries. The local leisure and hospitality industry was clobbered. Almost 30% of the area's jobs in the industry — more than 30,000 — were lost.

In 2019, Metro Cleveland had 54,400 business establishments with employees, only 600 more than in 2010. About 46,500 (86%) were classified as service providers. While it is impossible to estimate how many businesses will be left at the end of 2020, it is already clear that many thinly capitalized or marginally profitable businesses will close. Each lost business represents about 15 jobs.

The question many are asking now is, "How long will it take for the economy to recover?" The economic development organization Team NEO is pessimistic, predicting that it will take until 2025 to recover to the 2019 employment level. The organization assumes the area will trail the national economy, which it typically does. However, Team NEO focuses heavily on the manufacturing sector, which depends on national markets, but represents only 9% of employment. As a result, the important steps and strategies required to restore the much larger service sector do not get enough attention.

Several recent publications have predicted that the double whammy of the coronavirus and widespread civil unrest will change the public's view of the safety and desirability of dense urban living in the nation's cities. The urban service economy requires specific conditions that have been severely compromised by the coronavirus and the civil disturbances. Political and community leaders in Metro Cleveland will need to set the proper tone and take steps to reassure business owners that a safe, profitable business environment exists for service industries.

Service industries often depend on close face-to-face interaction between the business and customer for their transactions. Those relationships require a level of civility, a feeling of normalcy and trust between the parties. Service industries are also clustered geographically within cities and derive a part of their appeal from the crowds they attract. Some of these factors have suffered great damage as result of the pandemic and protests.

Service industry owners are in a precarious position as they consider the future. The cost and risks of operating a service business have dramatically increased while customers and their disposable income have dropped. Lockdowns have reduced operating capital and margin for error. With staff and customers wearing masks, many business owners and customers feel stressed and uncomfortable, and a normal business environment does not exist. Some customers have returned , but many have stayed away, and owners do not know when or whether the customers will come back. To add even more uncertainty, many customers have found they do not need to go to stores to meet their everyday needs.

If the region is to rebound and recover its economic vitality, local political and community leaders should prioritize preserving existing service businesses and restoring business confidence so that new entrepreneurs are willing to make investments that will create jobs. A shortage of service industry employers is looming, and it will create a shortage of jobs, particularly for low-skill workers.

It is particularly important to develop a good strategy for Cuyahoga County, which represents 71% of employment and 66% of business establishments, if the region is to prosper. The

county, and especially downtown Cleveland, needs to re-establish its desirability for service businesses. The area has some positive assets, but it has several long-standing factors working against it, including higher costs and taxes. It has added safety concerns and other conditions favoring the coronavirus.

My fear is that political leaders simply do not understand the service sector's problems. Political leaders are generally career politicians or attorneys who are unable to see the world through the eyes of a small business owner. They typically deal with other politicians and bureaucrats, leaders of nonprofits and managers of large businesses — people with safe and predictable incomes — and they undervalue the financial risk associated with investments by service sector entrepreneurs.

Small service businesses are not an important political constituency for local leaders, despite their importance as local employers. While popular with politicians in the abstract, small service businesses are frequently the targets of heavy-handed regulations or taxes. These business owners find it hard to speak with one "voice" because they have little time and their priorities differ by industry and geography. Policy decisions on safety and public services, community infrastructure and public education have largely been driven by strong unions that have an oversized role in formulating budgets and protecting public workers. If political leaders decide that now is the time for radical social agendas, redistributionist taxes or new regulatory burdens, and fail to shore up small service business employers, it will likely have a catastrophic effect on the local service sector and lead to high unemployment.

Community leaders have a mixed record in speaking up for the local service industry. On the positive side, they have been strong and vocal boosters for downtown and local tourism. At the same time, most community economic development strategies have had an excessive focus on export sectors of manufacturing, biotech, health care, technology and financial services. These sectors are undoubtedly important for the economy, but they are not especially dependent on face-to-face interactions and they are not good job generators for lower-skilled workers.

Even if leaders were willing and able to focus on restoring a vibrant local service sector, they face a challenging situation. Jump-starting any solutions will require a substantial investment, but the pandemic and social protests have destroyed a significant amount of community wealth. The public will be asked to pay for an extra layer of safety that they will not be able to measure.

The bottom line is that Metro Cleveland faces a difficult challenge in restoring a safe and stable environment for job growth in the urban service sector. Without strong action, it is

possible that outmigration from the region will accelerate and Cuyahoga County will lose 10% to 20% more population and businesses in the next 10 years. If this occurs, it will be impossible for the least advantaged to make progress in their lives. A bleak future awaits unless local political and community leaders step up their game and implement effective strategies to rebuild the local service sector.

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Inline Play

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