

# Transitioning Knoxville's Economy for the Imagination Age

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Knoxville Chamber Issue Brief | November 2022



Approximately 2,500 years ago, a Greek philosopher named Heraclitus is believed to have said that “change is the only constant in life.” It is fairly safe to say that two-and-a-half millennia later there is little evidence that contradicts his proclamation. Locally, nationally, and globally, there is an ever-present evolution of people, places, and things that impacts communities the world over. Whomever ignores or denies this reality does so at their own peril and that of their neighbors.

With that sentiment as a backdrop, the world is on the precipice of another transformative shift. This phenomenon is being driven by the economic transition from the third industrial revolution (i.e., the Digital Age) to the fourth, what Next Conference’s Martin Recke has identified as the Imagination Age<sup>1</sup>. A simplistic definition of this next era is that it will be a period of the futuristic creations of the imagination becoming reality. Fully autonomous vehicles, individualized medications, and wholly 3D-printed buildings could all become normal parts of our everyday experience within current lifetimes. The sky, quite practically, could be the limit. For communities to maximize this transition’s full value, they will be compelled to accelerate the development of the assets that are critical to a prosperous future: high-growth companies, high-wage talent, innovative entrepreneurs, and attractive civic furniture.

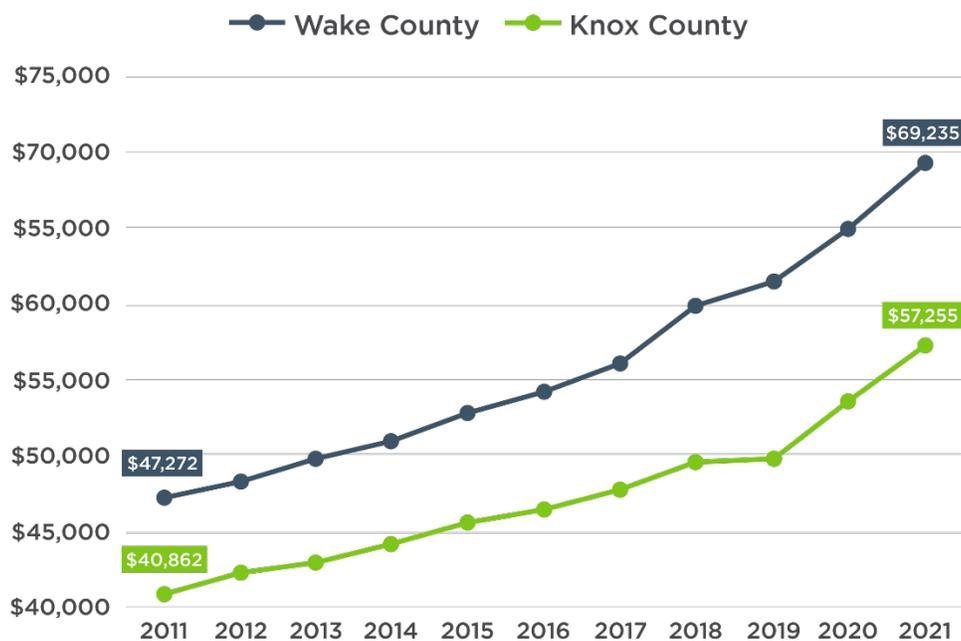
For Knoxville (for this work, “Knoxville” will be used to signify both the City of Knoxville and Knox County interchangeably), it currently finds itself at an inflection point at least from an economic standpoint. Should it stay on its current path, which, for all intents and purposes is good, or should it embrace the fact that the global economy is on the precipice of a significant disruption, and it needs to be prepared for it? In the Knoxville Chamber’s opinion, the appropriate direction is to not only accept the oncoming change, but to welcome it and leverage its affects to increase the community’s economic trajectory.

But why? Why should Knoxville, with its stable economy, take the risk of committing to something else? Why should it jeopardize the safety and comfortability of its future for the unknown? The answer, surprisingly, is fairly straightforward. While Knoxville continues to grow at a measured pace, other peer communities are accelerating past it. For instance, Raleigh, North Carolina. Since 2011, Raleigh (i.e., Wake County) has increased its average annual pay (AAP), a strong indicator of the health of a community, from \$47,272 to a 2021 estimate of \$69,235, a rise of \$21,963 or 46.5 percent. During that same period, Knoxville’s AAP rose from \$40,862 to \$57,255 for a

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<sup>1</sup> Source: <https://nextconf.eu/2019/06/why-imagination-and-creativity-are-primary-value-creators/>

difference of \$16,393 or 40.1 percent<sup>2</sup>. This means that in that eleven-year period, Knoxville went from trailing Raleigh’s AAP by \$6,410 to \$11,980. If Knoxville would have experienced an equal AAP growth rate (i.e., 46.5 percent) to Raleigh during that time period, the community AAP would have instead been over \$2,600 more per employed Knoxville citizen or approximately an additional \$662 million in total annual compensation. Research confirms that an increase in expendable income is invested into the community by its members. **The chamber estimates that for every \$1,000 increase in AAP, \$1.8 million in local economic impact is generated.** So maybe safe and comfortable are not necessarily the best route forward.



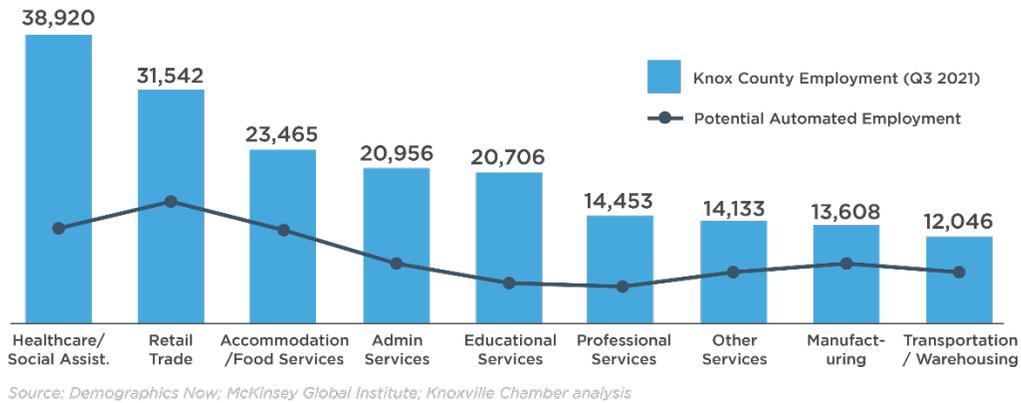
Source: U.S. BLS; Quarterly Census of Employment & Wages; Average Annual Pay 2011-2021

Equally concerning with the onset of the Imagination Age is the wave of automation that will impact the employment landscape, not dissimilar to what has occurred in previous industrial revolutions. In 2021, the McKinsey Global Institute released their prediction for the percentage of jobs per industry that have the ability to be automated in the near future<sup>3</sup>. Their forecast ranged from an automation potential high of 60 percent (manufacturing) to a low of 26 percent (educational services). Extrapolating McKinsey’s numbers across the Knoxville occupational landscape indicates a potential job loss of approximately 83,000 jobs ranging from approximately 16,000 in retail trade

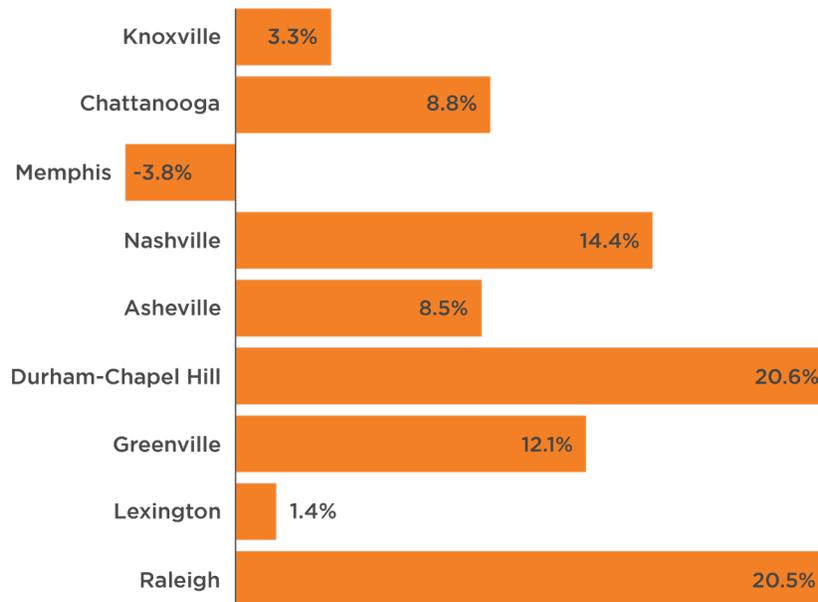
<sup>2</sup> Source: U.S. Bureau of Labor Statistics; Quarterly Census of Employment & Wages; Average Annual Pay 2011-2021

<sup>3</sup> Source: <https://www.mckinsey.com/industries/retail/our-insights/crafting-a-fit-for-future-retail-operating-model>

to approximately 8,000 in manufacturing to approximately 7,000 in transportation/warehousing.



The final factor to consider is the community’s miniscule growth over the last decade is the critical 25-to-54-year-old demographic. This key age group are the people who fill jobs, start companies, have families, buy homes, etc. They are the talent pool that businesses desperately need to succeed. While Knoxville did experience an increase in this group of 3.3 percent between 2010 and 2020, it was far outpaced by many of its peer communities. Places like Chattanooga (up 8.8 percent), Nashville (up 14.4 percent), Asheville (up 8.5 percent), Durham-Chapel Hill (up 20.6 percent), Greenville (up 12.1 percent), Raleigh (up 20.5 percent) reveal that Knoxville is falling behind<sup>4</sup>.

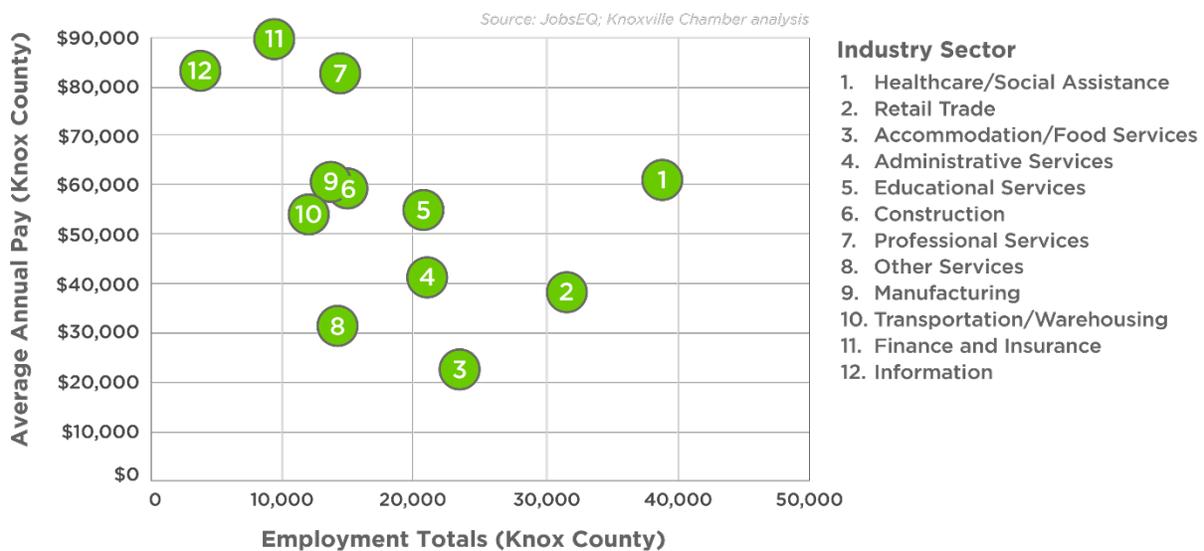


Source: Demographics Now, Knoxville Chamber analysis

<sup>4</sup> Source: Demographics Now; Knoxville Chamber analysis

Considering the evidence, it is clear that Knoxville must commit to an economic transition that positions itself to take advantage of the coming global upheaval, which will ensure that the community not only doesn't fall behind, but instead garners a greater level of prosperity. The aforementioned key Imagination Age factors of high-growth companies, high-wage talent, innovative entrepreneurs, and attractive civic furniture provide a straightforward map for Knoxville to follow. Increasing the number of high-growth companies will provide jobs and economic benefit that thriving communities require. Producing high-wage talent will result in a brain-powered economy that could flourish for generations. Cultivating innovative entrepreneurs will supply Knoxville with a constant influx of new ideas and companies. Developing the necessary civic furniture will catalyze Knoxville to become an even greater place to live and work.

When it rolled out its Path to Prosperity strategic vision in 2020, the Knoxville Chamber committed to supporting businesses regardless of their status as a chamber investor. That commitment is even stronger today than it was two years ago. At the same time, the global economic evolution that is currently occurring requires that the chamber gives an increased level of focus on those companies that have significant growth potential. Whether it be in its business expansion or its business attraction efforts, the chamber needs to identify and target enterprises that will exponentially thrive in the future. When comparing current average annual pay and employment totals within Knoxville, there are multiple key sectors where an increase in jobs could have a significant economic impact.



With these high-growth companies come new and exciting employment opportunities, and based on where the world is going, these will be high-wage

positions. In order to ensure that the community is prepared to take advantage of this sea change, Knoxville needs to concentrate on increasing the amount of innovative talent. Beginning with the earliest levels of education, the 865 Academies within Knox County Schools (KCS) now present the opportunity to prepare today's kids for the labor market of tomorrow, while building Knoxville's next-generation talent pipeline. To do so, the chamber will work with KCS administrators to develop academy programs that are in occupations that may not be at the same point of maturity as others. This forward-looking strategy will produce graduates with in-demand skills.

The same refinement needs to occur with the area's post-secondary institutions as well. An elevated emphasis on growing the number of engineering (especially in areas such as electrical, chemical, and biomedical) and computer science graduates as well as a long-term commitment to fields that will play critical roles in the Imagination Age such as artificial intelligence, quantum science, and biotechnology. The chamber will act as a constant purveyor of information to the institutions of the business community's needs in terms of programs and skills.

For the last few years, it seems as if Knoxville has begun to make inroads in building a vibrant entrepreneurial ecosystem. It has, by no means, reached a point that the ecosystem could be called robust, but the necessary components of support, capital, and infrastructure have increased. Now is the time to "double down" on the momentum and adopt a higher "sense of urgency" to accomplish this imperative goal.

From the chamber's perspective, an intense focus should be retaining and attracting innovative entrepreneurs that will create the aforementioned high-growth companies that will then appeal to the high-wage talent. Knoxville should, and will, continue to be supportive of what is generally referred to as "lifestyle" businesses (e.g., salons; repair shops) because they are the backbone of any great community. To be, however, a winner in the Imagination Age will require more entrepreneurial success in those areas that have the potential to grow exponentially thus creating significant job growth. Ultimately, this means that Knoxville needs further enhancement of its support, capital, and infrastructure elements, and the chamber is fully committed to assisting in whatever ways that it can.

While he was mayor of Nashville, former Governor Phil Bredesen, wanted to "make Nashville more attractive"<sup>5</sup> because a more attractive community brings and keeps exciting businesses and, most importantly, talent that allow

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<sup>5</sup> <https://cityink.com/nashville/chapter-2-streets-full-of-people-developing-downtown/>



it to grow and prosper. In order to communicate this message to residents, he said Nashville needed to increase its *civic furniture* - or those physical features that make a community desirable -especially for key demographic groups. Another way to think about it is that it is not enough to have a great house (i.e., the community), you must also have the great furniture (i.e., features) inside the house that make it a great home.

As it was for Nashville thirty-odd years ago, it is for Knoxville now. There is no doubt that Knoxville is an unbelievably great place, but does it have enough civic furniture to make 25-to-54-year-olds want to live here? The chamber believes that the answer is currently no. It may sound cliché, but the community needs to get cooler and increasing its attractive civic furniture could help it do that. For instance, the announced multi-use (baseball) stadium is a tremendous civic furniture component. More projects of this nature, whether they be large or small, would go a long way to ensuring that Knoxville is an even more desirable place. The chamber often hears from the community about a fear of becoming Nashville-like. Economically, Knoxville is as far away from being like Nashville as it is mileage-wise. There is plenty of space in between.

**“Don’t be afraid to give up the good to go for the great.”  
- John D. Rockefeller**

The current economic condition of the community is positive. Low unemployment. Growing population. High business formation. In sum, economically, Knoxville is good. With its plethora of assets, however, its economy should be great. The community needs to commit to undergoing an economic transition that will position itself perfectly to benefit from the major shifts in the global economy that will occur with the upcoming Imagination Age. The Knoxville Chamber, therefore, is pledging to guide this transition, in coordination with its partners and the entire business community, to its successful completion. There is no doubt that Knoxville has all of the aspects necessary to do so. There simply needs to be a willingness to forego good in the pursuit of great.