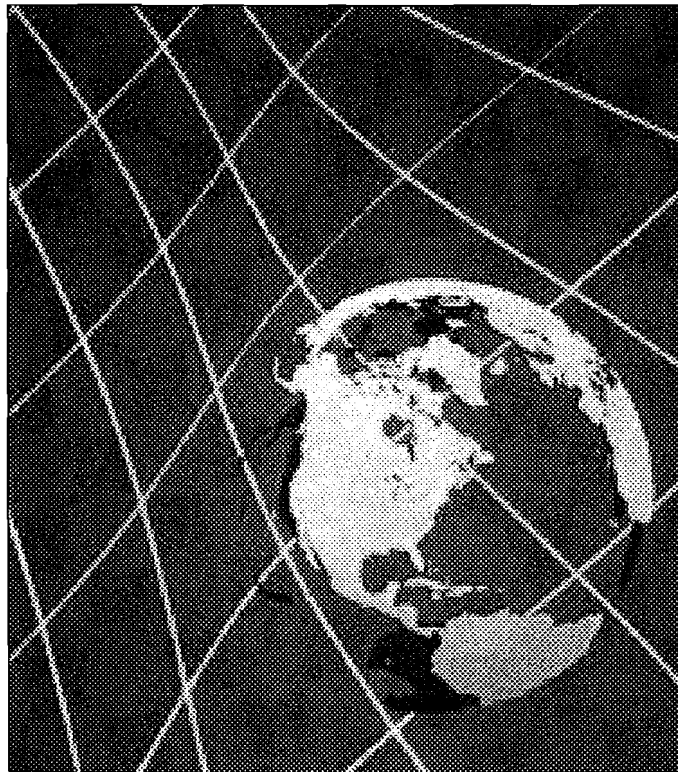


CITIZENS LEAGUE

Securing Minnesota's Economic Future

A New Agenda for a New Economy



May 2000

www.citizensleague.net

Minnesota's dynamic and successful economy has weathered many transformations in the state's 142 years. By most traditional measures, Minnesota today is thriving. Our state maintains the headquarters of several major international and Fortune 500 corporations. The gross state product is growing faster than the national average. Median family income remains higher than many other states and regions. Minnesota continues to score very well on almost every national ranking of "quality of life" indicators.

While there are some concerns, the economy overall gets a clean bill of health.



Is There Trouble Ahead for Minnesota's Economy?

Despite our current prosperity, there are some important signs that our state is not prepared for the future:

Minnesota is not a center of growth in high-technology industries. High technology industries are the engine of our booming economy. While Minnesota is strong in some high technology fields, we are not leading the pack. Last year, the Milken Institute ranked the nation's metropolitan areas based on their share of national high technology activity and the concentration high technology business. Rochester ranked 16th, the Twin Cities ranked 32nd, and Duluth-Superior ranked 129th. None of Minnesota's metro areas ranked in the top 50 with respect to high-technology growth over the past decade.

Minnesota is not a leader in new business start-ups. Initial public stock offerings represent one indicator of new business activity. In 1995, Minnesota had 3.5 percent of the nation's initial public offerings. In 1999, Minnesota had 1.6 percent. We are not keeping up with the pace of entrepreneurial activity needed to sustain growth into the future.

Minnesota is not keeping pace with national venture capital activity. The total amount of venture capital invested in Minnesota has gone up, but at nowhere near the rate it has elsewhere. Nationwide, venture capital investments grew by 129 percent from 1995-1998, but in Minnesota by only about 28 percent. In 1995, Minnesota drew 2.9 percent of the nation's venture capital. In 1999, our state drew about 1.3 percent.

Minnesota faces a long-term shortage of workers. Key state industries already report dramatic gaps in workforce needs. This will only

Our current prosperity does not mean that our state's economic development policies are correctly geared for the future.

These "warning signs" suggest that we should not become complacent. Now is the time to reorient our economic development policies to ensure that we are as successful in the future as we are today.

worsen in the future as the baby boom generation begins to retire. Even when the currently blazing economy cools, demographic projections indicate that job creation will outpace our supply of available workers in the years ahead. In the long run, this shortage of skilled workers can choke prosperity.

Our current situation presents an historic opportunity to address these warning signs and a tremendous challenge to our economic future. On one hand, change is most difficult when things are going well. On the other hand, long-term success depends on taking advantage of prosperity to address early warning signs and plan for the future, instead of waiting for really hard times to take action.

We should act now precisely because we are not in an immediate crisis. We have the resources and opportunity to secure our economic future with forward-looking, strategic investments in our state's economy.



What Are the Needs of the New Economy?

The globalization of commerce and the expansion of technology are redefining what it takes for a region to prosper. Many signs suggest that we have been heading for a "new economy" based on continuing advances in technology and productivity. In the most dramatic shift since the industrial revolution, information-based industries are displacing manufacturing as the principal engine of economic activity. Economic prosperity in the years ahead will be led by high technology and knowledge-based businesses, and our state's long term economic success rests on capturing our fair share of growth in these sectors.

The rules for individual prosperity are also changing. Old career ladders that guaranteed a good income and a stable retirement are fading. The premium paid for skills is higher than ever, and the earnings gap between those with skills and those without skills is growing. A family-living income is increasingly possible only with at least 2 years of training and education beyond high school. Heightened churning in labor markets makes workers more and more dependent on their skills and flexibility.

In the global economy, businesses, freed from any fixed location, can go to those regions that have a strong research base, a skilled workforce, a favorable climate for high-technology businesses, and thriving cultural amenities. Our region will only prosper to the extent that we can attract and develop those industries that offer strong, family living wage jobs for our workforce.

Citizens League New Economy reports:

Compete Globally, Thrive Locally
(1996)

A Competitive Place in the Quality Race: Putting the University of Minnesota in the Top Five Research Universities
(1998)

Help Wanted: More Opportunities than People
(1998)

From Jobs for Workers to Workers for Jobs: Better Workforce Training for Minnesota
(1999)

These reports are all available at www.citizensleague.net.

Over the past four years, the Citizens League has released a number of studies focused on keeping our state competitive in the new economy without leaving anybody behind. These studies include: *Compete Globally, Thrive Locally* (1996), *A Competitive Place in the Quality Race: Putting the University of Minnesota in the Nation's Top Five Public Research Universities* (1998), *Help Wanted: More Opportunities Than People* (1998), and *From Jobs for Workers to Workers for Jobs* (1999). All of these reports have called for a reorientation of public policies to a new economy. As an organization made up of publicly minded citizens rather than special interest advocates, our recommendations have ranged from large scale changes to targeted investments in innovative policies.



What Can Government Do?

The task of government, as generally understood, is to provide cost-efficient public services, an educated population, and quality infrastructure at a price that supports economic growth.

Beyond issues in these traditional spheres— which are by no means resolved— state and local governments also spend an enormous amount of money on a wide range of activities designed to spur and sustain economic activity. Local communities spend millions in direct and indirect subsidies to develop retail centers and industrial parks. Various agencies of state government spend millions more promoting and offering technical assistance to businesses in various fields.

Yet this way of doing business may not guarantee our place in the years ahead. A new economy demands new approaches to economic development.

Successfully preparing our state for the new economy will require action across the board in the government, nonprofit, and business sectors. The traditional tasks of government clearly need to be done better, and much of what goes on in the economy is out of government's control.

However, there are some key steps that government can take to prepare for the future:

Economic development spending does not always come in the form of direct expenditures.

In 1998, for instance, Minnesota communities set aside \$226 million of property taxes for development through tax increment financing (TIF).

This kind of indirect spending should be considered in the discussion of the state's overall economic strategy.



Define our state economic strategy

Current economic development activities occur without any overall strategy or coordination. We spend millions at various levels of government with no clear statewide plan or strategic vision. In fact, some economic development efforts even directly clash with the efforts of other agencies or communities.

In order to prepare for the future, the state of Minnesota needs a clear strategic plan to guide economic development activities and ensure that taxpayers are getting the best value for their investment.

Setting a clear state economic strategy is not the same as setting an "industrial policy" based on government decisions to support specific technologies or industries. The global economy has a habit of moving much faster than government can predict. Too often, nations, states, and regions that have attempted to develop certain industries or technologies have seen their opportunities worsen when economic or technological trends change. The state of Minnesota should not be in the business of picking economic winners and losers. But the state does need a strategic plan to guide how we spend taxpayer dollars in promoting economic development.

A strategic approach supports the broad-based research, workforce, and infrastructure investments that promote and sustain private innovation instead of just throwing uncoordinated subsidies and expenditures at individual projects. A clear state strategy can also ensure that public support is targeted at those areas that rise to the top of competitive markets.



Build a strong research and development presence

Those regions that are succeeding in capturing the lion's share of high technology activity have done so on the shoulders of a very strong public and private research universities. It is no coincidence that the leading centers of the high technology economy are in Silicon Valley and Boston, at the heart of strong higher education communities.

In general, the public sector role is most critical in supporting basic research, while the private sector has been strongest in research geared toward the application and commercialization of new technologies. Basic research and development fills the first part of the pipeline of economic development. Strong research universities develop the ideas that power new businesses and sustain existing industries. They also develop a highly-skilled workforce for private-sector research and application.

Defining a clear strategy:

The South Carolina Technology Initiative 2000, developed at the direction of Governor Jim Hodges, creates a state Secretary of Technology, builds the state's high-technology infrastructure, invests in research and development, and creates a state technology venture capital fund.

*New Jersey Governor Christine Todd Whitman has proposed the **New Jersey Jobs for a New Economy** initiative, a \$165 million package which includes funding for workforce development, university-based research, the creation of new business incubators, venture capital for New Jersey firms, and expanded use of technology by state government.*

Investing in research:

*Building on the Golden State's already strong research infrastructure, California Governor Gray Davis has proposed \$75 million to establish three **California Institutes for Science and Innovation** to bring together students, faculty, and private sector partners to conduct cutting-edge scientific and engineering research.*

The Citizens League believes that the University of Minnesota is at the heart of Minnesota's economic development future. Building the University into a world-class research center will be crucial to defining the Twin Cities as a center of high technology activity and economic prosperity.



Invest in a skilled and flexible workforce

If Minnesota is to succeed in the new economy, we must develop our most important natural resource: our brainpower. Skilled, high-paying jobs can be located many places in the world. If we want them to be located in Minnesota, we need to create the workforce to fill them. Building a skilled workforce requires attention to the development and training of both new entrants to the workforce and existing workers.

New Workers Need a World Class K-14 system: Meeting the increasing skill demands of a globally-competitive, information economy must start at the most basic levels. Minnesota's primary and secondary education system consistently compares very favorably with other states, and we have led the nation in innovations like charter schools and public school choices. Nonetheless, as the League's 1997 report *Straight As for Minnesota's Schools* concluded, "pretty good is no longer good enough." The quality of our K-12 education and post-secondary education systems is a matter of economic competitiveness that we can not afford to ignore.

The global economy also places greater demand on the need for post secondary education and training. High-paying, skilled jobs increasingly demand some education and training beyond high school. We can no longer afford to think in "K-12" terms. We need to think at least "K-14" if we are to prepare a skilled and prosperous workforce. Higher education needs to be viewed as an economic development investment as critical to our state's long term prosperity as any traditional physical or capital investment.

Ongoing Investment for Incumbent Workers: We also need to improve our ongoing investment in our existing workers. By current estimates, 80 percent of the people who will be working in 2005 are already in the workforce. Increasing the skills of our incumbent workforce is critical to staying competitive in a rapidly changing economy. Increased training is also essential to retaining older workers.

Current efforts, however, fall short in addressing the skill needs of our incumbent workforce. Minnesota has a well-oiled machine for the creation of industrial parks and retail development, but less effort goes toward developing the skills of incumbent workers. State and federally-funded training programs still operate to assist those outside of the workforce. Most workers and employers are left to their own devices in

New thinking about workforce development:

Workforce training is a shared public, corporate, and individual responsibility. We need to rethink our workforce development system to reflect this reality.

Government needs to see workforce training as an economic development investment as essential as highways or industrial parks. The private sector needs to see training as a capital investment rather than an expenditure or a "benefit" given to employees. And private citizens need to view their own skill needs as an ongoing challenge that does not end with graduation from high school or college..

adapting to new technologies and new skill needs.

Invest in high-technology infrastructure

Providing a good public infrastructure has long been one of the principal responsibilities of local and state government.

A changing economy demands new infrastructure investments. As the League argued more than a decade ago in our report *Wiring Minnesota* (1989), "Telecommunications networks are the 'highways' of the next century." To secure Minnesota's place in the global information economy, we need to invest in a world-class information infrastructure to support high-technology industries.



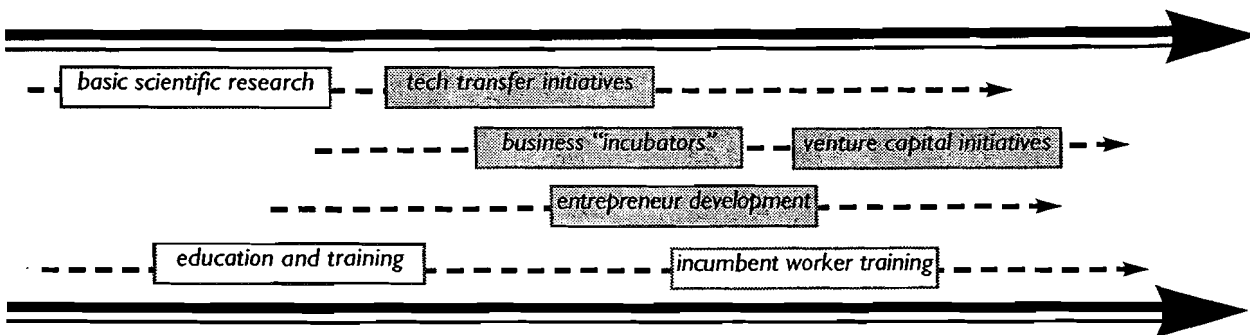
Priority Actions for the 2001 Budget

Like many areas of public policy, there are no silver bullets in economic development. No one proposal or idea will secure Minnesota's place in the new economy. A variety of steps will be needed across the public and private landscape to make our region a center of economic activity.

Instead of approaching this challenge in terms of finding a solution to a single problem, policy makers should think of economic development as a series of strategies that fit together as a larger pipeline in support of economic innovation and growth. Maintaining each step of this continuum is critical to supporting both existing businesses and the industries that will emerge in the years ahead.

The League's proposals address the early stages of the pipeline and the foundation investments that our state needs to make. Our recommendations supplement the proposals offered from other sectors in the debate, including business and academic leaders.

Figure 1: The Economic Development Pipeline





Articulate and act on a clear New Economy strategy

In our 1996 report, *Compete Globally, Thrive Locally* the Citizens League proposed the creation of an ad hoc Metropolitan Economic Strategy Commission to assess the regional economic situation and develop a clear agenda for the Governor for changing state, local, and regional policies to keep the greater Twin Cities region competitive.

At its heart, this proposal is not about the creation of a blue-ribbon commission. It is about the need for a clear economic strategy to guide our region and state into the new economy.

The 2001 budget represents an opportunity for the Ventura administration and the legislature to define and act on a clear economic strategy for Minnesota. In Minnesota, the Governor's mid-term budget is clearest opportunity to present a strong agenda and make a lasting impact on the state.

Next year will be Governor Ventura and the legislature's best chance to turn the "Big Plan" into a legacy of clear policy accomplishments. The next six months present a critical opportunity for the Governor to put together a New Economy strategy and build public support for bold action to position Minnesota to be a world competitor.

Research as an economic development strategy:

Michigan's Life Sciences Corridor initiative is committing \$1 billion in public funds over the next 20 years to fund biotechnology research at three state universities and a private institution. According to Governor John Engler, the initiative "will make Michigan a major focus in the biotechnology industry." The program is administered by the Michigan Economic Development Corporation.



Create the Northstar Research Coalition to conduct research in emerging fields

In our 1998 report on the University of Minnesota, the Citizens League recommended the creation of the Northstar Research Coalition, a private-public partnership to look into the emerging areas of research and application and build strategic investments in those areas. The coalition would manage an external pool of funds, *outside of and in addition to the University's normal budget*, for research in high technology areas that hold economic promise for the state. The coalition would be directed by a board of business leaders from key state industries. State funds, matched by private dollars, would be allocated to endow chairs, invest in research equipment and support projects in key areas.

The Northstar approach would support research that is responsive to emerging economic areas, but is not just being conducted under contract with a company to develop a specific product or process. This approach would fill that critical "pre-venture capital" gap in research and development, more advanced than the basic research funded by traditional sources like the federal government but still too early for private sector interest.

Using state dollars to leverage private and federal investment:

Since its creation in 1986, *Utah's Centers of Excellence Program* has led to 132 new companies and drawn \$332.7 million in private and federal matching funds to a state investment of \$30.7 million - a matching funds ratio of 10.8 to 1.



Focus on clear improvements in the K-12 system to build a solid foundation for a skilled workforce

In the context of preparing our state for the new economy, the Citizens League offers two priority areas for attention in the improvement of our K-12 system, based on our 1997 study:

Ensure that all students can attain third-grade reading and math levels by the end of the third grade. A skilled, expert workforce ultimately depends on a strong foundation of basic skills. Research suggests that students need to attain basic reading and arithmetic by the end of the third grade if they are to succeed in their later years. It is extremely difficult — and expensive — to catch up when students fall behind at such an early stage. The state should focus instruction and resources on building this crucial foundation.

Priority should be placed on improving achievement among students whose native language is not English. The number of students whose native language is not English continues to rise in Minnesota. We cannot afford to leave any of these students behind. Social fairness and our state's economic interests demand that we make a substantial commitment to English language instruction. An aggressive up-front investment in English language instruction will be cost-effective in the long run by saving future remediation costs and maximizing every Minnesotan's ability to participate in the new economy.



Invest in world-class, responsive post-secondary education and training opportunities

Guarantee free post-secondary education and training for high school students who meet certain educational requirements. It is in Minnesota's economic interests for young people to pursue post-secondary skills training and education, particularly in critical occupations. The state should guarantee financial support for post-secondary training to high school students who demonstrate their commitment to learning through their academic performance. The state should target resources at expanding access to low-income students and encouraging students to enter critical fields.

Offer tuition incentives to encourage students to enter critical fields. Minnesota should also aim to attract and retain students in specific skilled, high-demand fields by offering scholarships and repayment arrangements for students who enter targeted fields and agree to stay in Minnesota after graduation. Tuition rates should be adjusted to reflect the value of relative courses of training and education. Out-of-state tuition requirements should be reconsidered for those fields in which we

Targeting post-secondary incentives: Under the **Arkansas Technical Careers Student Loan Forgiveness Program**, the state will forgive up to \$2,500 annually for four years for graduates that enter key technical careers with Arkansas companies.

Maryland offers Science and Technology Scholarships to high school students who enter certain science and technology programs at Maryland institutions and stay in the state after graduation.

would like to attract and retain more students.

Offer performance funding to reward the state's community and technical colleges for preparing students for careers. The Minnesota State Colleges and Universities (MnSCU) system is the state's largest provider of post-secondary training and education. Despite some exemplary programs, however, the system is not currently performing at the level needed by our state's economy.

One part of the problem is that the incentives currently provided to MnSCU do not encourage any particular outcomes for students or the economy. With funding based on enrollment, the system has no stake in seeing that students are adequately prepared to enter critical fields.

The Citizens League recommends the expanded use of performance-based funding to encourage the MnSCU system to respond to economic needs and create programs that better prepare students for emerging careers. Funding criteria should be based on filling shortage occupations and meeting other critical state needs.

Fund skills training for incumbent workers in key industry clusters

The Citizens League recommends allocating state resources to fund skills training for incumbent workers. This funding should be reallocated from other economic development and training programs that are duplicative or unsuccessful.

Priority in the allocation of public resources should be placed on key industry clusters that have significant growth potential and create skilled, high-wage employment opportunities. Supporting industry clusters is not about picking winners and losers or directing the state's economy into certain areas. Rather, a successful cluster-based development strategy aims public support at those clusters that emerge from market forces.

Performance incentives for post-secondary institutions:

Florida uses performance-based funding incentives to reward community and technical colleges for meeting certain economic outcomes, including graduation rates, job placement rates in key fields, and licensure rates. The state is working to make as much as 15 percent of the community college system budget based on performance.

Investing in workers as economic development:

As a reflection of the new thinking about economic development, the City of Oakdale offers grants to employers to invest in the skills of their incumbent workforce.



The Road Ahead

The aim of this statement is not to suggest that the “sky is falling” on Minnesota’s economy. It offers a few suggestions to guide the Governor’s development of the 2001 budget, based on the work the Citizens League has done over the past few years. We suggest the time has come to consider a new direction for economic development policy. Policy-makers need to focus on long term investments to better prepare Minnesota for the opportunities unfolding in the new economy. This will require a revamping of current economic development approaches and the reallocation of public spending to meet new strategic goals.

While many traditional challenges still face us — from cost-effective public services, to education, to affordable housing — new economic challenges need new responses.

This statement was developed in consultation with the chairs of the Citizens League’s “New Economy” studies:

John Yngve (Complete Globally, Thrive Locally), Carl “Buzz” Cummins III and Jane Vanderpoel (A Competitive Place in the Quality Race), Gary Cunningham and Steve Keefe (Help Wanted: More Opportunities than People), and Roger Hale (From Jobs for Workers to Workers for Jobs).

This statement was drafted by Lyle Wray and David Chadwick.

For additional information or to comment on this statement, contact:

C I T I Z E N S L E A G U E

708 South Third Street, Suite 500

Minneapolis, MN 55415

(612) 338-0791

www.citizensleague.net

info@citizensleague.net