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REPORT TO THE PARTICIPANTS,
LEADERSHIP FOR A DYNAMIC MINNESOTA
ECONOMY CONFERENCE

May 1987

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MINNESOTA DEED REPORT

REPORT TO THE PARTICIPANTS,
LEADERSHIP FOR A DYNAMIC MINNESOTA
ECONOMY CONFERENCE

May 1987

Co-sponsored by the
Minnesota Department of Energy and Economic Development
and the
Minnesota Business Partnership

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Executive Summary

More than 100 leaders from business, government, labor, and education gathered on March 24, 1987, at the Hubert Humphrey Center to discuss the state's economic future. The meeting, convened by the Minnesota Business Partnership and the Minnesota Department of Energy and Economic Development, was intended to begin a dialogue about an economic strategy for the state.

Each organization has reached the conclusion that job growth in the future will be unlike the past, requiring major changes in the way public and private institutions respond.

The central focus for the discussion was "Leadership for Dynamic State Economies," a report by the Committee on Economic Development (CED). Robert C. Holland, the CED's president, and R. Scott Fosler, CED vice president and director of government studies, were introduced by H. B. Atwater, chief executive officer of General Mills, representing the Business Partnership.

Atwater said Minnesota faces unprecedented challenges in maintaining economic leadership. Job growth in Minnesota has not kept pace with national growth during the last five years.

Holland and Fosler presented the CED's analysis which developed a list of the fundamental elements that create the environment in which private economic growth occurs. They are: skilled, adaptable work force; physical infrastructure; natural resources; knowledge and technology; enterprise development; quality of life, and fiscal base.

They also presented a series of challenges to the state that can be summed up as follows: Will the civic and political institutions of Minnesota resolve key policy questions in a way that identifies the best approach for a dynamic state economy, or will the resolution represent a compromise that satisfies immediate concerns at the expense of the state's long-term economic health?

Following the CED speakers, a panel of Minnesotans responded. Winston Borden of the Minnesota Chamber of Commerce and Industry and David Cox of Cowles Media spoke of the importance of maintaining an environment helpful to entrepreneurship in Minnesota, with Borden stressing the challenges in Greater Minnesota. Bob Killeen of the United Auto Workers urged new actions to enhance labor-management relations, leading to greater productivity and higher quality goods in the state. Mayor Pat Spence of Little Falls said the state needed to take direct action to help small towns distant from the Twin Cities metropolitan area. And panel moderator Robert Carothers of the State University System urged that natural resource-based industries not be left out of a statewide economic strategy.

An important portion of the meeting was a series of small group sessions in which participants voiced their opinions about the state's competitive strengths and weaknesses. Those comments are summarized in this report.

Finally, the group heard from Commissioner of Energy and Economic Development David Speer who outlined his vision for the department and its role in state economic growth. Speer stressed the importance of business and government working as partners to compete effectively in a global economy. "A new initiative in the area of quality and productivity would be a major focus of the department in coming months," Speer said.

Although many people took issue with ideas expressed, the consensus was that the state needed a continuing process for discussion of a state economic strategy. A useful, relevant strategy would not be a static prescription as much as a series of continuing discussions, new research, and continual assessment of the state's economic competitiveness. The Business Partnership and the Department are working now to accomplish this end.

A CED PERSPECTIVE
ON THE MINNESOTA ECONOMY

The central focus of the Minnesota Business Partnership-Department of Economic Development meeting was the analysis developed by the Committee on Economic Development in its report, "Leadership for a Dynamic State Economy." CED president Robert C. Holland and vice president and director of government studies R. Scott Fosler presented some highlights of the report.

They started with an analysis of the changing national and international context.

The United States' economy is undergoing a structural shift. Traditional industries such as steel, autos and agriculture are in decline. Increasing manufacturing productivity is resulting in fewer jobs -- though not less output -- in these industries that historically provided good, stable jobs for the middle class. New technologies such as microelectronics, informational processing, biotechnology, robotics, and composite materials are transforming all industries. New patterns of business organization, including the consolidation of large firms and the creation of many small firms, are transforming the economic landscape.

Major demographic changes are under way. The population aged 65 and older will increase from five percent of the nation's population in 1930 to 20 percent in 2025. The baby boom generation is moving into its middle years, meaning the number of private age workers (25-54) will become smaller by the year 2000. Fewer young workers will enter the labor force, increasing the incentive for women and immigrants to enter the work force. Immigration, now accounting for about half of the nation's population increase, will continue.

International economic forces are changing. Technological changes are expanding and countries that previously didn't have a technology base now do. Global economic competition is increasing. American national economic policies are lagging.

The key elements for a state's response are:

Strategy. States need a strategic orientation that guides their actions in the context of prevailing economic forces. A strategy includes a diagnosis of prevailing economic forces, a vision of goals and options, and an agenda of priorities.

Institutions. States need to develop the institutional capacity to contend with a broader economic agenda and strategic approach to economic development. The central elements are the organization and management of state government, the relations between the state and the private sector, and intergovernmental relations.

Experience in other states. Increasingly, states are developing distinctive responses to economic challenges. Massachusetts has abandoned direct recruitment, focussing on capital and manpower needs, taxes, and targeting industries. Michigan is regenerating its durable goods base, expanding capital formation, and pursuing a strategy of human investment. California is continuing its tradition of public service investment, creating an entrepreneurial environment, and attempting to resolve the tension between the new and the conventional economic agendas. Tennessee is continuing industrial recruitment but also working to strengthen its roads, schools, and environment. Indiana's strategy is building on its manufacturing base and seeking selective targets of opportunity.

In the final portion of their presentation, Holland and Fosler presented a series of challenges to Minnesotans.

Is Minnesota committed to maintaining its position as a world-class competitor in advanced technology industries?

To what extent should the state focus on creating an environment conducive to an innovative, dynamic market-driven private sector or, alternatively, taking more direct action to stimulate development of desired industries?

What is the relative importance of key ingredients in a supportive environment, such as the work force, public services, and the costs of the public sector?

What are the trade-offs between quality public services and costs?

What are the options for mitigating those trade-offs through more effective design and operation of public service systems?

What accounts for Minnesota's relatively good performance with respect to the Midwest and lagging performance compared to other parts of the country?

What accounts for the movement of new and expanding firms from Minnesota? What can be done to keep them?

What is the best approach for areas dependent on agriculture or taconite: subsidization; modernize, redirect, or transform them; develop new industries; or assistance of workers so they can make transitions to other industries and places?

Will the civic and political institutions of the state resolve these questions in a manner that identifies the best approach for a dynamic Minnesota economy or one that represents a compromise that satisfies immediate concerns of key interests at the expense of the long-term economic health of the state?

To what extent are institutions inadequate to the task and what changes are required by them?

Panel discussion

The second portion of the meeting was a panel session, chaired by Robert Carothers, Chancellor of the State University System. Some of the points made by the panel members are listed below.

Winston Borden, President, Minnesota Chamber of Commerce and Industry. Borden commented on the disparity between economic performance in the Twin Cities metropolitan area and the need for the state to remain competitive with regards to the costs it imposes on businesses. He said it was imperative that the state have a strategy to face current and evolving economic challenges.

Robert Carothers, Chancellor, Minnesota State University System. Carothers stressed the importance of university linkages to the private sector, saying he has seen the value of those linkages as a college president. He applauded the efforts of the University of Minnesota to upgrade quality saying it represented a major opportunity to spur long-term economic growth in the state.

Robert Killeen, Sub-regional Director, United Auto Workers. Killeen said the state should undertake new efforts directed at the production of high quality goods and higher productivity in the work force. This is the only approach that can achieve job security and high wages for workers. It will require new ways of management and changes in the labor movement. The labor force will have to reorient itself to new challenges. Minnesota and the nation cannot afford to abandon manufacturing industries. Many of the techniques that have made foreign firms successful were invented in America. Minnesota has an opportunity to be a pioneer in this regard.

Patricia Spence, Mayor, Little Falls. Rural Minnesota has many advantages for employers. It is generally a low cost location and offers a highly productive, skilled work force. At the same time, special incentives and direct intervention by state government may be necessary to unlock the potential in Greater Minnesota. Market forces, left alone, may mean that almost all of the economic growth will end up in the Twin Cities metropolitan area. That does not seem like a long-term solution to the state's economic problems.

David Cox, Chief Executive Officer, Cowles Media. As head of a business that is tied to the economic health of the state, Cowles Media has a perspective different from that of some other companies. It can't move. The central challenge is to create an environment that is conducive to job creation by local businesses. Minnesota is blessed with a homegrown economy. Research for the Commission on the Economic Future showed that almost nine of ten new jobs came from local companies. The state should stop trying to lure out-of-state companies to put plants here -- whether the Saturn plant or the Megamall -- and concentrate on building on existing business success.

Results of small group discussion sessions

As part of the joint Minnesota Business Partnership-Department of Energy and Economic Development meeting on March 24, eleven groups of meeting participants engaged in discussions about the state's comparative strengths and weaknesses in economic competitiveness.

This report summarizes the comments and discussion of those groups. It is organized into the categories established by the Committee on Economic Development's study, "Leadership for Dynamic State Economies" for consideration of a state's competitiveness.

That study, which established the focus for the March 24 meeting, identified the following categories for consideration: Skilled, adaptable work force; physical infrastructure; natural resources; knowledge and technology; enterprise development; quality of life; and fiscal base. An additional category, general economic conditions, was added to include those factors that have nothing to do with state government or public policy but are important to the economy.

Skilled, Adaptable Work force

Virtually all of the groups identified this area as one of Minnesota's strengths. Comments about the work ethic, high levels of education, productivity, and skills levels came up again and again. Almost every group cited the work ethic specifically, and almost all cited educational levels or educational system as a plus. The state's homogeneous population was cited as an advantage twice and its welfare system once.

At the same time, many groups identified a slippage in educational achievement and a need to make changes in the state's educational system and a need to change in order to keep up. Many said the educational system is not responsive to change. At least two groups cited a need for greater accountability. One group said the early development of children was a critical area that needed attention so that Minnesota continues to be competitive. An additional concern in the work force was a lack of leadership in rural areas.

Physical Infrastructure

At least five groups specifically identified infrastructure as a competitive advantage. Mostly, this was expressed in general terms but the road system and airports were often singled out. At various times, the parks, medical care facilities, and mental health systems were cited. The relative lack of transportation infrastructure in rural areas was identified by one group as a barrier. Another group said the state was unable to set priorities for infrastructure development. Finally, four groups identified telecommunications infrastructure as an area of concern, either generally or for rural areas.

Natural Resources

Four groups cited natural resources as an advantage. Two groups identified the topic generally, and another listed water, land, forests, and mineral resources. One group cited the high quality of local waters and its abundance as an advantage. Two groups said a lack of energy resources was a problem for the state. Another said the state's tourism potential was being overlooked.

Knowledge and Technology

Several groups identified technology as an advantage. One cited the large number of technology-oriented companies, another specifying medical technology firms, electronics firms, and medical research as strengths. Others cited good research generally, the strength of the University of Minnesota, and a good base for knowledge-based industries generally.

On the negative side of the ledger, some felt the state is not competitive internationally in technology development. Others said the state is falling behind in research and noted the difficulty in getting technology from the University of Minnesota into commercial application.

Enterprise Development

Almost every group cited entrepreneurship as a key strategic advantage. The term entrepreneurship or entrepreneurial spirit was mentioned by at least six groups. Others mentioned inventive minds and the ability of the business community to be innovative. The presence of a strong magnet in the Twin Cities metropolitan area was mentioned twice. Several groups cited the presence of many large corporate headquarters as an advantage. One group noted the presence of a substantial large-business base in rural Minnesota as a plus.

The ability of the public and private sectors to work well together came up at least twice as well as the ability of businesses in the rural areas to work with local governments.

Several negatives were identified. The business climate, an anti-business sentiment, and over-regulation were cited. The split between the urban and rural areas was seen as a problem by several groups, as was the lack of information in rural areas about business opportunities.

Quality of Life

As might be expected in a discussion of this nature, Minnesota's quality of life came up again. Four groups used the term itself. Others identified clean air, low crime, a sense of community, culture, recreational opportunities, and amenities generally as advantages.

On the other side, bad media coverage and a bad image were cited several times. Three groups identified the harsh climate as a problem.

Remarks by Commissioner David Speer

Commissioner Speer concluded the morning with a short presentation about his plans for the department. Speer said he plans to make the quality and productivity initiative proposed by the Commission on the Economic Future a main focus of the department. Partnerships will also be the hallmark of departmental activities. Speer said these partnerships will include joint efforts with the business community on many fronts as well as new efforts at interagency activities. The department will also continue to build on its partnerships with local communities.

Next Steps

Both the Minnesota Department of Energy and Economic Development and the Minnesota Business Partnership plan to continue to pursue the issues raised at the meeting.

The Department is currently working on plans for a series of continuing discussions on a Minnesota economic strategy. Although plans for the effort are not completed, they will likely involve individuals from the private sector, state government, local government, and the academic community. The strategy effort will include analytic and research-based activities as well as public forums and discussion.

The Business Partnership plans to make its economic development activities a more significant part of its agenda.

Following the meeting, Holland and Fosler submitted some written comments to be included in the report's summary of proceedings. They are reproduced below.

"To us this has been a very stimulating conference, with some very worthwhile ideas expressed by members of the panel, the audience, and the workshop participants. Each of the panel members provided a very instructive perspective in their comments.

"I was struck with Bob Killeen's summation that in today's competitive world, productivity and quality mean job security and not job destruction. By the term 'job security' we believe he means employment security, rather than career employment in the same job with an unchanging set of work rules and skill requirements. In the kind of competitive world that is evolving, it seems to us workers will need to be more adaptable in the duties they perform and the skills they develop in order to be most productive, and therefore best rewarded. Interpreted in that sense, we think Killeen's statement was an important, and perhaps even a prophetic, expression of labor and management's best hope for the future.

"Mayor Pat Spence of Little Falls seemed to us to represent an extraordinary example of effective leadership for a smaller city. If the leaders of other smaller cities in Minnesota could share her clear view of goals, needs and priorities for their communities, I believe outstate Minnesota would be very well served indeed.

"Dr. Carothers, of the University of Minnesota, presented a strong case for a premier university in the state in order to serve the common good. Our own work in CED has underlined the high priority that needs to be given to creating attitudes and channels of communication through which new ideas can flow from the creative minds within the university into productive commercial applications.

"Finally, we were impressed with how clearly both Dave Cox and Win Borden saw the need for an overall strategy to guide the state's economic development. Each of them also laid special emphasis on what we think are among the most important attributes of an effective and worthwhile state strategy. I took Mr. Cox's comments to underline the need for proper prioritizing among strategic goals and the use of resources to try to achieve them, in order to achieve the most effective gains from the state's strengths. And Mr. Borden emphasized the value of imparting some long-term stability to the strategy that is adopted, in order to allow good public and private decisions based on such strategy to have time to yield their full fruits in state economic progress.

"Because of its outstanding civic institutions and traditions, Minnesota is as well positioned as any state to make the adjustments required by new economic forces and the increased responsibility falling to states. Its success will not only benefit Minnesotans, but could once again serve as a model for the nation.

"We feel privileged to have been allowed to share the podium with these individuals. We wish you the best of success in enhancing the economic future of Minnesota."

Robert C. Holland, R. Scott Fosler, Committee for Economic Development

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Frank Altman
Clark Arneson
Robert Astrup
Dr. A. Richard Baldwin
David Beal
Judson Bemis
Senator John Bernhagen
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