INNOVATIONS IN ECONOMIC DEVELOPMENT

The Evolving Direction of Economic Development in the New Economy

SUMMIT II: A SEQUEL TO THE 1992 STATE AND LOCAL ECONOMIC DEVELOPMENT STRATEGY SUMMIT

HELD APRIL 11-12, 1997

State and Local Policy Program
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The Center for the New West

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The Humphrey Institute of the University of Minnesota is hospitable to a diversity of opinions and aspirations. The Institute does not itself take positions on issues of public policy.
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The *Innovations in Economic Development* Conference was held at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota in Minneapolis on April 11 and 12, 1997. The two-day session on the evolving direction of economic development in the new economy was a sequel to the State and Local Economic Development Strategy Summit held at the Humphrey Institute in December, 1992. This report contains the proceedings of the 1997 conference.

This report was produced with grants from the Economic Development Administration of the U.S. Department of Commerce, Northern States Power Company and Advantage Minnesota. The conference itself was funded in part through New Priorities for a Changing U.S. Economy, a grant from the U.S. Air Force Office of Scientific Research.

Lee Munnich, Senior Fellow and Director of the Humphrey Institute’s State and Local Policy Program, served as project director and provided overall leadership for the conference and report. Margaret Bau, Research Fellow, organized the conference and oversaw the preparation of this report.

Robert Kudrle, professor at the Humphrey Institute and principal investigator for the New Priorities for a Changing U.S. Economy project, provided guidance in the design of the conference and support for the elements of the conference that addressed the effective use of data in economic development programs and evaluation.

Dan Pilcher, on behalf of the Center for the New West, collaborated in organizing and conducting the *Innovations* conference. Pilcher provided guidance and ideas on the topics and speakers, and arranged for the formal sponsorship and promotion of the conference through the Center for the New West. Pilcher also organized a pre-conference session on innovative practices in the Amelio Romana region of Italy.

A number of people made significant contributions to the success of the conference. Chris Farrell of Minnesota Public Radio graciously agreed to serve as keynote speaker and set the stage for the entire conference through his address on “What the ‘New’ Economy Means for Economic Development.” Jeff King of the German Marshall Fund, Joe Cortright of IMPRESA, Maxine Moul of the Nebraska Department of Economic Development, Kathy Schill of the Ohio Legislative Budget Office, Ragui Assaad of the Humphrey Institute, Graham Toft of the Indiana Economic Development Council, Andy Reamer of Andrew Reamer & Associates, Kent Eklund of Cincinnatus, all served as moderators and helped to develop the conference sessions.

Patricia Love, Consultant, and Rhoda Robinson, Research Assistant, developed the State and Local Policy Program’s Economic Development Homepage, <http://www.hhh.umn.edu/Centers/SLP>, which was introduced during the *Innovations* conference. The website offers useful guidance and data for analyzing a state or regional economy and developing an economic development strategy.

Marit Enerson, Community Program Specialist with the State and Local Policy Program, provided conference planning and administrative support. Enerson also directed the transcription, speaker edits and preparation of this report.

Joshua Nasvik and Kristin Norberg helped with preliminary editing of the transcriptions.

Jeff Willius of Willius Marketing Communications, Minneapolis edited the final text and provided graphic design, layout and production coordination for this report. Photos are by Tim Rummelhoff. Printing is by the University of Minnesota Printing Services.

Finally, we would like to thank the 31 speakers from throughout the nation whose presentations are included in this report, and all the participants who contributed to the success of the *Innovations in Economic Development* Conference.
In the rapidly expanding, knowledge-based economy, some of the most innovative economic development thinking occurs at the regional and local level. In April 1997, over 170 state and local policy makers, economic development practitioners, and elected representatives from across the country convened to exchange avant-garde ideas that encourage economic development. The conference was sponsored by the University of Minnesota’s Hubert H. Humphrey Institute of Public Affairs in collaboration with the Center for the New West, with funding support from New Priorities for a Changing U.S. Economy, a grant from the U.S. Air Force Office of Scientific Research. The preparation of the conference report has been funded with grants from the Economic Development Administration of the U.S. Department of Commerce, Northern States Power Company and Advantage Minnesota.

THE NEW ECONOMY

Chris Farrell, Senior Economics and Business Editor for Minnesota Public Radio, gave the opening keynote address on what the “New” Economy means for economic development. State and local economic development programs in the past three decades fall into three broad categories: strategies for recruiting and retaining businesses with tax abatements and public subsidies; the entrepreneurial state with its emphasis on growing science and technology business, promoting exports, investing in worker training, and a focus on home-grown businesses; and the so-called “Third Wave,” which focuses more on offering incentives to broad groups with an eye toward leveraging private sector involvement and regional alliances. These strategies have mirrored major changes in the economy. Industrial recruitment strategies partly reflected business’s desire to lower its costs in the new national economy. The entrepreneurial state was in response to growing international competition. The Third-Wave principles seem to stem from a realization, or reflect the growing impact, of global competition. All of these strategies have been pursued in the 1990s as the economic war among the states has heated up.

The New Economy is often called the Information Economy or the Knowledge Economy. More than ever before, economic wealth is being created by research, by discovery and by on-the-job know-how. The real challenge of the new economy is the disturbing gap between the skills people need to get good jobs and the skills people are now acquiring in our education system. Economic development and educational reform are really two sides of the same coin in the knowledge economy.

Fierce competition drives companies to innovate and boost productivity. The higher the nation’s productivity, the higher its material living standard. Innovation, invention, discovery, and technical progress play critical roles in generating growth. Knowledge does not face diminishing returns as do capital and labor. Ideas are not scarce and knowledge is an ever-expanding universe.

Quality of life, a strong sense of a robust civil society, is critical to a vibrant local economy. The ability of a region to both attract business and respond to a rapidly changing economy seems to be linked to a cluster of social networks and a robust sense of civic mindedness. In the U.S. the tangible linchpin of that civic culture is the school system.

THE INDUSTRY CLUSTER APPROACH

Lee Munnich of the Humphrey Institute moderated a panel on “The Industry Cluster Approach to the New Economy.” Munnich directs the State and Local Policy Program, which has done industry cluster studies in the Twin Cities and Southeastern Minnesota, and has become an advocate for an industry cluster approach to economic development.

Michael Porter of the Harvard Business School has generated an increasing interest in industry clusters as an approach to economic development in the 1990s. Michael Przybylski of Indiana University used the Porter approach and Porter ideas to develop a system that looked at industrial structure in that way for the city of Indianapolis. The study used employment data to evaluate the competitive advantage of industries compared to other metropolitan areas and input/output multipliers to look at industry linkages.

Industry clusters as an analytical tool can be a better way to understand a regional economy and to deploy resources strategically, according to Mary Jo Waits of the Morrison Institute at Arizona State University. Industry clusters can also be a great organizing tool, as evidenced by Arizona’s experience. It’s a way to get industry leaders together to not only prepare a regional strategy but also to foster networking and collaboration among companies within a cluster and across clusters. The industry cluster approach can also be an effective service delivery tool in providing economic development services, such as international trade assistance.

The medical devices industry in Minnesota is an example of how the industry cluster concept works, according to Robert Buuck, a co-founder of two Minnesota medical companies. There are some 600 registered medical device companies in Minnesota, with
some 17,000 people employed in the industry. The University of Minnesota played a key role in the formation of Minnesota’s medical devices industry because of early stage research, and the Mayo Clinic influence is a significant contributing factor. The Twin Cities has a specialized labor pool in the medical device industry, including legal, patent and regulatory expertise, as well as a track record of entrepreneurial success, which contribute to the success of the medical devices industry in Minnesota.

Edward Kawahara of the California Economic Strategy Panel discussed outcomes of a California industry cluster analysis. Industry clusters were identified through quantitative analysis of employment data and qualitative analysis based on one-on-one interviews with companies. The state was divided into six regions, with two industries to be selected by local economic development, business and other partners in each region. The nine industry clusters selected were wood products, diversified manufacturing (food processing, medical instruments, electronics), multimedia, environmental technologies, entertainment, apparel and fashion design, information technologies, telecommunications, and health care technologies. California is using industry clusters as a way to more efficiently allocate services and resources and as a basis for public policy development.

Timing is critical in implementing a cluster-based approach to economic development, according to Jeff Blodgett of the Connecticut Economic Resources Center. Earlier attempts to implement an industry cluster approach in Connecticut failed because of changes in political leadership. Wherever you start, you have to take the political cycle into account and build a way of bridging governors’ administrations. It’s important to provide staff and dollars to the industry cluster effort, to tie it in with other economic development efforts, and to not expect results overnight. Connecticut has recently resurrected its industry cluster efforts, learning from past experience.

THE CHANGING FACE OF WORK

Jeff King of the German Marshall Fund posed four questions to a panel on the “Changing Face of Work: Labor Shortages, Equity and Opportunity.” Why are firms in the U.S. reluctant to organize and carry out comprehensive training? Why do we have the paradox in the U.S. of non-college kids going into college anyway by way of the school-to-work route? If work force training is so important, why is U.S. school-to-work only venture capital and start-up money? What’s the prognosis for the U.S. skills base if school-to-work stays just a state and local function?

The image of the U.S. corporation with lifetime employment security was a relatively recent innovation and, in fact, has not been the norm through history, according to Peter Cappelli of the Wharton School of Business. The nature of competition is changing for companies—they have to be quicker and more flexible, and fixed costs are the enemy. A big chunk of these fixed costs are labor, or long-term investments in employees. Information technology has now made it possible for firms to unbundle themselves and to outsource every task, thus eliminating fixed costs. Employees are changing their employers more quickly but staying in the same occupation longer. Employees turn over more quickly and employers can’t make their investments pay off. The employer has much less incentive to make an up-front investment in employee training. The challenge is to find an efficient way for firms to provide training in ways that combine work and learning, and to find a different economic rationale that can be used to finance investments in employee training.

Senior business, labor and education leaders reinforce the critical importance of linking economic development and workforce development in terms of policy strategies, according to Mary McCain of the American Society for Training and Development. Employers are concerned about finding new ways of upgrading employee skills in the face of the constant, relentless high speed of change. Employers are looking not so much for technical skills in recruiting new employees but for “behavioral competencies” to accomplish the job. These include basic skills such as the ability to learn, flexibility, agility, and access skills to use new technologies.

Hal Salzman of Jobs for the Future suggested a different picture for the future based on research on a few firms that have done a great deal of restructuring, outsourcing and downsizing. He summarized with four points. First, as people become more disposable, they become more important. As firms become more lean with fewer people and less redundancy, the value of each remaining person increases. Second, the market works in both directions. Today the market has shifted so that firms’ biggest concern is losing people. People are finding the market is working to their advantage—that it’s a
good time to shop their skills. Third, firms are belatedly and sometimes regretfully discovering that downsizing and related “operational efficiency” efforts to cut costs are not strategies for continued competition and growth. Fourth, the job structure has shifted toward more educated workers, leading to displacement of older and less skilled workers. Based on a few leading edge companies, Salzman sees a trend toward building longer workforce attachment and away from use of contingent workers when companies focus on innovation and growth.

LEARNING NETWORKS

Joe Cortright of IMPRESA moderated the panel on “Learning Networks: A Gardening Approach to Economic Development.” Cortright identified four dimensions of learning that provide a framework for economic development in a knowledge-based economy. The four dimensions are learning for workers—knowledge and skills for a specific industry or job, as well as problem-solving and teamwork skills; learning for firms—how you structure a firm to promote learning and knowledge creation; learning for industries—how groups of firms can interact, often in clusters, to create knowledge; and learning for communities—the role of communities in creating an environment where learning and innovation occur.

Chris Gibbons, Betsy Weitkamp and Stephanie Neuman discussed a unique program in Littleton, Colorado, which offers specialized services to small businesses using specialized databases and on-line CD ROM sources. Gibbons also runs ECON DEV, a list serve which hosts discussions on innovations and emerging ideas in economic development. Using technology, the three-person team provides timely market information, specialized mailing lists, customized research reports, education and other services to Littleton businesses, which otherwise could not afford these services. Within minutes, the team is able to assemble information on new and local markets, competitor reports—which can include financial information, background on principals, new product releases and company strategies—and transfers in the industry.

The Oklahoma Alliance for Manufacturing Excellence is a manufacturing technology center funded by the National Institute of Standards and Technologies Manufacturing Extension Program. Randy Goldsmith described the program as a major resource for economic development, and as a technical assistance provider for economic expansion and retention. The program focuses on the areas of technology, workforce development, business practices and inter-firm collaboration, or networking. During the last three years Oklahoma has seen the evolution of 23 local manufacturing councils or learning networks. There are two types of learning networks within Oklahoma—one is a diversified cluster of companies from a geographic area seeking to improve competitiveness through interactive communication; the other type of network is an industry sector network, a cluster of companies of similar SIC codes or companies that share a common client. The networks provide feedback on issues, needs and opportunities that exist in the marketplace.

The elements that are essential for communities to become more competitive and livable in the new economy are entrepreneurship, ideas, know-how and capital, according to Delore Zimmerman of the Center for the New West. The two primary roles of the local economic developer in the new economy are as analyst and catalyst. The new economy developer facilitates information exchange, assesses ideas and opportunities, matches and mobilizes interests, provides strategic decision support, gets the information to people at the right time, assembles resources, and provides tactical coordination.

THE FEDERAL ROLE IN A KNOWLEDGE-BASED ECONOMY

Maxine Moul of the Nebraska Department of Economic Development moderated the panel entitled “What Role for the Federal Government in a Knowledge-Based Economy?”

Michael Springer of the U.S. Treasury Department’s Office of Economic Development discussed a recent report of a National Academy of Public Administration (NAPA) panel on the federal government’s role in economic development. Major themes that came out of the study were that the economy is driven by private choices and federal policies, other than economic development, that are far more influential; that economic development involves directly a relatively small number of programs and tax subsidies amounting to about $7 billion; that there is a role for the federal government in economic development, but that role needs to be more disciplined and focussed than current federal programs; that there are enormously important federal roles in fostering understanding of how local economic development works, picking up the costs and risks of innovation, making sure that quality data is available at the appropriate scale and timeliness so that local communities and states can figure out what they are doing, and sharing information about best practices. The report noted that there is enormous fragmentation in federal economic development programs and argued for central policy direction.

Robert Sawyer of the Economic Development Administration (EDA) discussed the ten recommendations of the NAPA report, how EDA stands on each recommendation, and how the NAPA recommendations relate to the proposed reauthorization of EDA. The proposed reauthorization would preserve EDA’s existing programs: public works, planning and technical assistance, research and evaluation, and economic adjustment. But the major thrust of the bill would be to strengthen EDA as an economic development player in the knowledge-based economy of the 21st century. EDA’s pro-
grammatic priorities support NAPA's suggestion that economic development be for the long run: the commercialization and deployment of technology—particularly information technology and telecommunications—and efforts to support technology transfer; sustainable development, including responses to dislocations caused by national environmental policies and projects involving brownfields; entrepreneurial development, especially local capacity building and including small business incubators and community financial intermediaries; economic adjustment, especially in response to military base and federal laboratory closures and downsizing and post-disaster long-term economic recovery; and infrastructure and development facilities located in federally authorized and designated rural and urban enterprise communities—empowerment zones as well as state enterprise zones.

Art Rolnick of the Minneapolis Federal Reserve Bank based his remarks in part on a 1995 essay he co-authored with Melvin Burstein entitled "Congress Should End the Economic War Among the States." Rolnick said there is an important role for the federal government to play in economic development, but it is a much different role from the one envisioned in the NAPA report. According to Rolnick, the NAPA report fails to distinguish between markets for private and public goods in making a case for government intervention in the market. The report also fails to make the difference between private competition and public competition. Rolnick believes the NAPA report is soft on the issue of economic subsidy wars among the states. The report suggests that the federal government should help cities and states fight smarter so that they don’t overbid. Rolnick argues that what is optimal for state and local economies is not necessarily optimal for the national economy, and what is optimal for the national economy is to end the war.

**PERFORMANCE INDICATORS AND PROGRAMMATIC EVALUATION**

Kathy Schill of the Ohio Legislative Budget Office (LBO) served as moderator of a panel on “Performance Indicators and Programmatic Evaluation” in economic development. By request of the Legislature, Ohio’s LBO gathered information to examine economic development funding and to identify where this money flowed with respect to economically disadvantaged areas. The results of the LBO study revealed that in 1995 approximately five percent of the $875 million awarded to businesses to promote economic development went to economically disadvantaged areas. The LBO is embarking on a comprehensive study of Ohio’s economic development activities, including both business incentives and tax incentives.

Janet Jones, an independent business consultant based in Portland, previously managed Oregon’s key industries strategies and flexible networks programs and managed the development of the state development department’s system of performance measures. In the previous year the Economic Development Department began a transition from activity measures, ad-hoc evaluations and the traditional counting of jobs created to an overall performance measurement system that focuses on outcomes and return on investment. The performance measurement system is viewed as a good program management tool as well as a communications tool with the public and the legislature. The department is developing four types of measures: 1) regional and industry economic benchmarks linking the department’s measures to the overall statewide benchmarks; 2) customer satisfaction surveys to get client feedback about actual results and how instrumental department assistance was in achieving those results; 3) program outcomes which include performance measures for programs and the department as a whole; 4) return on investment to determine whether economic development pays for itself.

Doug Henton of Collaborative Economics discussed lessons learned in working with Joint Venture Silicon Valley. Working with a broad coalition of 1,000 people from major companies and 27 local governments in Silicon Valley, seven industry clusters were identified. Henton’s group developed the Index of Silicon Valley, a series of 37 indicators that measure the progress of the valley. The purposes of the indicators were to provide reliable information about the region, to provide a catalyst for issues that need to be addressed, and to communicate to the people what is really happening to the economy. Each year the report on Silicon Valley’s economy is published in the *San Jose Mercury News*, creating a discussion and debate about what is happening in the economy. The organizing framework is the new economy. If you can measure the new economy, it will exist.

Don Bezruki of the Wisconsin Legislative Audit Bureau suggested rethinking traditional evaluation approaches and designing new models for evaluating new economic programs in a new economy. The challenge is to find measurement indicators between the two polar opposites of immediate outcomes such as numbers of jobs, types of jobs, funds invested, funds leveraged and macro indicators of the state’s overall economy. We may need to re-test some of the long-held assumptions about what is desirable in terms of the types of jobs our programs help stimulate. Can we shift from measuring outcomes quantitatively to identifying best practices of successful programs? Bezruki wondered whether professional evaluators have too often assumed or usurped the role of determining what programs should accomplish, then measuring program results against those standards, and then being surprised when their findings are not used or ignored.

Awilda Marquez of the Economic Development Administration discussed EDA’s focus on performance measurement and program evaluation. As a result of funding cuts and downsizing, EDA undertook a number of agency-wide reforms, including regulatory reform, an
improved grants application process, streamlined applications, and team models in regional offices. After delegating authority to regional offices, EDA headquarters focuses on policy development, program evaluation, research and strategic planning. In this environment, program evaluation has become the greater focus for EDA at the national level. EDA has funded evaluations of incubator programs, the Midwest flood program of 1993, state technology programs, and cluster-based development. EDA’s future agenda is to continue the theme of evaluation and to follow up on a number of recommendations of the NAPA report. EDA also has developed performance measures for all of its programs to describe the return on the federal dollar investment on an agency-wide basis. The performance measures used by EDA are jobs created and retained, private dollars leveraged, tax base increase and economic diversification. EDA is still grappling with how to evaluate and measure the value of so-called “soft programs” planning, technical assistance and business assistance, and how to measure performance of economic development programs that take years to generate results.

MAKING ECONOMIC DATA MORE USEFUL

Ragui Assaad of the Humphrey Institute of Public Affairs moderated the panel on “Making Economic Data More Useful.”

The primary goal for data collection at the national level is to describe the state of the economy and try to influence the path of the U.S. “average” economy, according to Ned Hill of Cleveland State University. The really important recessions in the U.S. have been triggered by regional restructuring of the economy. This issue of the regional basis of national economic performance is important because the U.S. is the original common market, and we don’t know much about what is going on within over 200 constituent regional economies of this common market. One problem is the lack of statistically valid local unemployment rates to understand and forecast regional labor markets, according to Hill. Another important area for data improvement is in the quality and industry detail of regional trade data with the internationalization of the economy.

Marilyn Manser of the U.S. Department of Labor’s Bureau of Labor Statistics (BLS) discussed the availability of state and local area employment and unemployment estimates produced by the BLS, current BLS data initiatives, and future challenges that BLS faces. BLS produces four statistical series: ES202 Employment Data, Current Employment Statistics, Local Area Unemployment Statistics, and Occupational Employment Statistics. While budget cuts have reduced the availability of some state-level data, BLS is expanding its Occupational Employment Statistics survey. The agency is also revising its Current Employment Statistics survey design to improve the quality and consistency of state and national estimates. Finally, BLS is developing a longitudinal microdata file from ES202 that will provide information on gross job creation and gross job destruction. Manser identified the following challenges for BLS: implementation of the new North American Industry Classification System (NAICS), redesign of the Standard Occupational Classification System (SOC), the use of BLS data to show the impact of welfare reform, and the effect of the year 2000 problem on BLS and the state agencies which collect employment data.

Mark Vander Schaaf of the City of St. Paul’s Department of Planning and Economic Development identified four features of local economic development that will shape the demand for economic research: 1) a simultaneous concern with regional prosperity and small area niches, e.g. industry clusters; 2) the demand for information on the impacts of welfare reform at the microlevel; 3) greater integration of local economic development agencies with other local government functions; and 4) the emergence of geographic information systems (GIS) as a tool for mapping economic development information. These features will affect people’s world views and their expectations of what sort of research comes out of local economic development agencies.

THE REALPOLITIK OF ECONOMIC DEVELOPMENT

Graham Toft of the Indiana Economic Development Council moderated a discussion with a panel and the audience on “The Realpolitik of Economic Development.” The panelists were Maxine Moul of the Nebraska Economic Development Department, Rob Atkinson of the Rhode Island Economic Policy Council, Anita Duckor of Northern States Power Company, Michael West of the Texas Department of Commerce, and Bill Bishop of the Herald Leader newspaper in Lexington, Kentucky.

Toft suggested the following questions for discussion: Who are the players and the stakeholders in the old
 economy and the new economy? Who are the stakeholders in urban and rural development? Who are the winners and losers in the new economy? What are the politics of public/private partnerships? What are the politics of clusters? What is the role of third-party organizations as intermediaries? What do we call the new “stuff” of economic development?

Duckor commented that economic development has expanded from business retention and attraction to broader public issues such as education, housing and the overall business climate. We have new stakeholders but no effective way to communicate among stakeholders.

Atkinson distinguished between growth and development and raised the issue of equity, which is missing from the conversation. Atkinson said that the whole issue of equity—bringing more people in—is what the new economic development is about.

Hill said traditional economic development strategies would not change unless the rules of the game change, as Rolnick has suggested. As long as there are strong political incentives, and the political benefit/cost analysis outweighs the economic benefit/cost analysis, economic developers will simply broaden their portfolios of traditional business recruiting tools. West said that economic development professionals know they are sinners, but they also know who is paying the bill.

West suggested restructuring economic development district organizations to include greater business and community representation as a subtle way to start changing things. Moul said she does not consider herself a sinner, but was a firm believer in the need for active involvement by volunteers and local committees to develop state economic development policy and overall state policy.

Bishop suggested that a governor is unwilling to change because the press covers this issue so badly. Newspapers treat economic development like a sporting event—God help the governor who loses the steel plant to Virginia or the Cleveland Browns to Baltimore.

A discussion followed that included the role of utilities in the new economy, changing the way the new economy is reported by the media, the importance of collaboration and cooperation, and industry clusters as an organizing framework.

Toft asked whether the group could come up with a name for the new “stuff” being discussed. Hill suggested that we have really discovered old things. We have rediscovered the product cycle, and what we’ve found is competitive advantage that’s based on developing scale economies around different industries. When industries take off in the product cycle, there are spatial competitive advantages based upon scale economies, known as agglomeration economies. There was no agreement on a new name by the group.

Toft concluded the conference by suggesting that what we’ve created, without being explicit about it, is a community of practice. People who are devoting their lives to state and local economic development should keep in touch through e-mail and the Internet, and we should gather again for such a conference in three or four years.

PRECONFERENCE DISCUSSIONS

Three preconference events were held to discuss specific topics related to innovations in economic development. A preconference dinner was held to discuss economic development strategy organizations. The panel was moderated by Kent Eklund of Cincinnatus. The panel members were Graham Toft of the Indiana Economic Development Council, who described Indiana’s independent policy council; Joe Cortright of IMPRESA, who discussed Oregon’s strategic economic development policy efforts in the late 1980s and 1990s; and Lou Glazer of Michigan Future, Inc., who discussed Michigan Future’s efforts to develop a shared long-term vision for Michigan’s economy.

Andy Reamer of Andrew Reamer and Associates moderated a preconference roundtable discussion on “Using Data to Understand Your Region in the Knowledge-Based Economy.” Dan Pilcher of the Center for the New West served as moderator for a preconference gathering of those who had visited the Amelio Romana region of Northern Italy to discuss the region as a model for an industry-based approach to economic development.
In the rapidly expanding, knowledge-based economy, some of the most innovative economic development thinking occurs at the regional and local level. This conference strives to convene state and local policy makers, economic development practitioners, and elected representatives from across the country to exchange avant-garde ideas that encourage economic development.

FRIDAY, APRIL 11, 1997

1:00 - 1:15 Welcome and Introductory Remarks
Robert Kudrle, Professor, Humphrey Institute of Public Affairs
Dan Pilcher, Senior Fellow, Center for the New West

1:15 - 2:45 What Does the “New” Economy Mean for Economic Development?
Address by Chris Farrell, Senior Economics and Business Editor, Minnesota Public Radio
As Senior Economics and Business Editor at Minnesota Public Radio, contributor to the nationally syndicated show Sound Money, and former Economics Editor at Business Week magazine, Chris Farrell has closely monitored the rapidly changing economy and concisely conveyed that information to a national audience. Farrell will examine ways policy makers can prepare citizens for the realities of the “new” economy. Dan Pilcher will moderate the session.

2:45 Break

3:00 - 4:30 The Industry Cluster Approach in the New Economy
In previous decades economic development agencies either attempted to attract large scale employers to their locales through incentive packages or provided individualized assistance to an array of non-related firms. Such efforts are costly and debatably yield low returns. Harvard Business School Professor Michael Porter advocates focusing on innovative groups of related local industries—or clusters—that successfully compete in the global marketplace. But to do so, practitioners must first understand existing regional competitive advantages and the dynamics of how clusters develop.

Lee Munnich, Humphrey Institute of Public Affairs, (moderator)
Jeff Blodgett, Connecticut Economic Resource Center
Robert Buuck, Iotek Inc., a Twin Cities medical device manufacturer
Edward Kawahara, California Economic Strategy Panel
Michael Przybylski, Indiana University
Mary Jo Waits, Arizona State University

4:30 Reception

SATURDAY, APRIL 12, 1997

8:00 - 9:15 The Changing Face of Work: Labor Shortages, Equity, and Opportunity
A January 13 Newsweek article reports “a vast mismatch in the national economic dating game...a paradox repeats itself across the country: a shortage of jobs and a shortage of workers.” Aggregate unemployment rates are at record low levels in many regions of the country, yet pockets of high unemployment persist in inner cities and amongst minorities. The nightly news reports a bright economy, yet individuals feel anxious over income stability as the gap widens between rich and poor. Addressing these workforce paradoxes and their policy implications are:

Jeff King, German Marshall Fund of the U.S. (moderator)
Peter Cappelli, Wharton School of Business
Mary McCain, American Society for Training and Development
Hal Salzman, Jobs for the Future
9:15 - 10:30 Learning Networks: A Gardening Approach to Economic Development

Some practitioners view economic development as an organic or biological organism rather than a machine that can be tweaked or tuned. Central to the organic model are thick webs of learning networks by which innovative entrepreneurs and organizations learn from one another and transmit best practice ideas. Presenting these cutting edge organic theories are:

Joe Cortright, IMPRESA (moderator)
Chris Gibbons, Business/Industry Affairs for Littleton Colorado and econ dev list serv
Randy Goldsmith, Oklahoma Alliance for Manufacturing Excellence
Stephanie Neumann, Business/Industry Affairs for Littleton Colorado
Betsy Weitkamp, Business/Industry Affairs for Littleton Colorado
Delore Zimmerman, Center for the New West and Praxis

10:30 Break

10:45-12:00 What Role for the Federal Government in a Knowledge-Based Economy?

What can and should American presidents, federal agencies, and Congress do to help create economic opportunity? In the Fall of 1996 the National Academy of Public Administration released a report on this provocative topic. Report findings will be presented followed by an open microphone discussion initiated by members of the gathered panel and continued by the audience. Come prepared to express your opinion!

Maxine Moul, Nebraska Department of Economic Development (moderator)
Art Rolnick, Minneapolis Federal Reserve Bank
C. Robert Sawyer, Economic Development Administration
Michael Springer, Department of the Treasury, Office of Economic Policy

1:00 - 2:45 Performance Indicators and Programmatic Evaluation; Cowles Auditorium (concurrent)

Many state and local agencies create programs with the broad goal of encouraging economic growth, but few techniques exist to evaluate whether programs indeed foster such development. This session will showcase programs that have taken innovative steps to measure outcomes based on developmental needs specific to a region.

Kathy Schill, Ohio Legislative Budget Office (moderator)
Don Bezruki, Wisconsin Legislative Audit Bureau
Doug Henton, Collaborative Economics
Janet Jones, Economic Development Consultant based in Oregon
Awilda Marquez, Economic Development Administration

1:00 - 2:45 Making Economic Data More Useful; Room 180 HHH (concurrent)

Economic development professionals have a gamut of data available, but often data conflict or confuse. Additionally, certain types of data that federal and state agencies could provide are currently missing or incomplete (i.e. measures of productivity for sectors other than manufacturing, full versus part-time employment statistics, measures of underemployment, etc). The session will allow practitioners to give statistics and research analysts feedback on what measures work and what information they would find most helpful in economic planning.

Ragui Assaad, Humphrey Institute of Public Affairs (moderator)
Edward Hill, Cleveland State University and Economic Development Quarterly
Marilyn Manser, Bureau of Labor Statistics
Mark Vander Schaaf, City of St. Paul

2:45 Break
3:00 - 4:30 The Realpolitik of Economic Development

What we hope will be a frank and insightful discussion initiated by the panel and continued with the audience concerning one of the nagging issues in economic development — most of us agree where we need to go, but how come we can’t get there? What are the political dynamics of economic development and how can practitioners work with that reality?

Graham Toft, Indiana Economic Development Council (moderator)
Rob Atkinson, Rhode Island Economic Policy Council
Bill Bishop, Lexington Herald Leader newspaper
Anita Duckor, Northern States Power Company
Maxine Moul, Nebraska Department of Economic Development
Michael West, Texas Department of Commerce
PROCEEDINGS
Good afternoon everybody. I am Bob Kudrle, Professor of Public Affairs and Planning here at the Humphrey Institute. I have the pleasure of greeting you on behalf of my colleagues and particularly Dean G. Edward Schuh, who regrets not being able to be here. He opened this Summit’s predecessor in late December of 1992 and he has a very keen interest in the subjects under discussion here. Lee Munnich told me some time ago that about 40 percent of you are from out of state; our last count shows 23 states and the District of Columbia represented here. That’s pretty good.

I’d like to say just a word about the Humphrey Institute. Some of you local folks might learn a few things about us as well. We are the public affairs professional school of the University of Minnesota. The Institute’s predecessor, the School of Public Affairs, was begun in the late 1960’s. It was one of these brand new quantitatively-based schools of public policy, of which I regret to say the Kennedy school probably remains the best known. Here in Minnesota, the School of Public Affairs replaced the School of Public Administration and the Public Administration Center which in their turn were among the very first public administration schools in the United States. Although we were very quantitative and analytic from the very beginning, probably sometime in the 1970’s we realized that probably we had done away too much with public administration and management. Our curriculum balances out quantitative economic and other heavy social sciences tools along with some management and training in public administration.

The Humphrey Institute plays a very important role in each one of the three major activities of a land-grant institution such as the University of Minnesota. First, we do indeed have one of the best of the master’s programs in public affairs in the country. Our incoming class in the last two years has grown from about 60 just a few years ago to about 100 now. We offer three masters degrees: one in public affairs, one in planning and a new one in science and technology policy.

Secondly the Institute conducts research. Much of this research is undertaken by the faculty in a way that would be found unremarkable I think to most of you for a research university. But much grant and contract-related research also takes place under the aegis of the Institute’s many programs and centers that are such a very big part of this place, and which account for several million dollars worth of activity every year. The State and Local Policy Program that my colleague and friend, Lee Munnich, has so ably directed for many years, provides one of the very best examples of this activity. The program has conducted very significant research on a wide range of topics connected with state and local development—all the way from industry clusters in the Twin Cities area to the political feasibility of congestion-pricing in urban road transportation across the country.

Finally, the Institute is heavily involved in outreach. Now that term has various meanings, but what it means to us is very simply that we don’t hide our light under a bushel, or in our case, behind the covers of a scholarly journal. Particularly, we think that the most important results of our research should be translated as quickly and as straightforwardly into public discussion as possible.

The second reason I’m up here today is that I am the principal investigator of a federal grant to the Freeman Center for International Economic Policy at the Institute called New Priorities for a Changing U.S. Economy. Among many other activities this grant has been sponsoring important work of the State and Local Policy Program over the past couple of years. This part of our research has been working to develop a computerized means whereby local economic development practitioners can more readily access and use available economic data. Our judgement at the very beginning of this project was that although there are many measures we would like to have that we don’t have, there are many more measures available that are being accessed and effectively used around the country and in this area in particular. Many of you had a chance to learn more about this project at the pre-conference roundtable discussion on economic data this morning. The program is very proud of what has been
accomplished and we are very concerned about your reactions to what we have done so far. The State and Local Policy Program has many accomplishments and we think this computerized data base is an extremely important one. Speaking of accomplishments, I think this is an appropriate time to recognize those responsible for this conference today. I want to ask Lee Munnich, Margaret Bau, Patricia Love, Marit Enerson and their colleagues at the State and Local Policy Program who have organized all of this to stand up for just a second and allow us to recognize and thank them. I also want to take this opportunity to acknowledge the co-sponsorship of the Center for the New West and the financial assistance of Northern States Power and Advantage Minnesota.

Now the third reason I am here is not so much why I was invited as why I am glad to be here. At the original development summit in late 1992, I organized the panel on International Aspects of State Development Policy which related to some work I had done previously for the Minnesota Department of Trade and Economic Development on the evaluation of state international economic development efforts. As somebody working in a related field, in my case international economic relations, I maintain a continuing interest in issues of the structures of strategy and action among firms in government at various levels of jurisdiction.

Just today, I’ve been critiquing a part of a broad literature on globalization. This globalization literature—not all of it, but a lot of it—suggests that the national economy in today’s world is much like the economy of a U.S. state in the American union. I think this can be seriously misleading for a number of reasons, one of which has to do with the greater mobility among the states than internationally. Sometimes that capital mobility is exaggerated, but no doubt that’s going to increase. Perhaps the biggest difference is that the analogy downplays human mobility—people—particularly in their role as producers and consumers of government-provided goods, services and purchasing power. The nation-state has two powerful weapons that can be exercised on behalf of national economic welfare that the state or region lacks. These are obvious I think but they tend to be very much suppressed in some of this literature. First, the nation-state can tax its citizens and they have to sit there and take it. The only way that they can escape is by the major act of abandoning their citizenship. So far, at least, this hasn’t been much of an issue in the Western countries and if it ever does become such an issue there are powerful sanctions that can be visited upon those who try to slip away.

Secondly, the state can avoid immigration the nation-state can’t to any degree that it wants to. The failure of many nation-states to do that—and I’m not suggesting that it necessarily wants to—is a political problem, not a technical problem, and has a much greater success of doing it than many other countries have suggested. On the other hand (I know economists can talk for more than five minutes without saying on the other hand) there are some very good analogies between the American states and the nation-states in the global economy. For prosperity purposes, American states do well to maximize trade, to attract investment, to attempt to ensure that tax collection from outsiders at least matches the provision of government goods and services to them. Similarly, attempts to export the tax burden, or to grab capital may lead to retaliation that can be mutually destructive. Art Rolnick here and his colleague, Melvin Bergstein, of the Minneapolis Fed have generated a tremendously important discussion on this subject of interstate competition that many of you know about, and this competition has very, very clear and direct analogies at the international level.

What can and cannot be done at different levels of government provides lessons for understanding the feasibility of economic development policies, but it’s important for another reason as well. The strength of any national economy is for the most part nothing more than the combined strength of its regional economies. I’ve taken a look at an early version of Chris Farrell’s talk that he’ll be delivering in just a few minutes and I can tell you that it suggests serious lessons along these lines for U.S. economic development. Chris Farrell has thought a lot about economic development as a process that is influenced by multiple levels of government. So, too, has the man who is going to introduce him. Dan Pilcher played a key role in the development of the original Economic Development Summit back in 1992 and we are delighted that he decided to cooperate on this one as well. Dan’s career is well known to most of you. He’s spent 18 years with the Denver-based National Conference of State Legislatures where he specialized in state and local community and economic development. Over this time he managed projects, researched and analyzed development policies, staffed legislative committees, organized conferences, delivered testimony, and he still found time to write a lot of articles and books. As most of you know, Dan is now Senior Fellow for Economic Development and Director of the Institute for High Performance Communities at the Center for the New West. Please welcome somebody who probably knows as much about economic development and economic development policy as anybody in the country, Dan Pilcher.

Dan Pilcher
CENTER FOR THE NEW WEST

Thank you Bob. I guess I could say I know a whole lot of people who know a whole lot about state economic development and I’ll be real up front. One of my prime reasons for allowing Lee to talk me into this conference a second time was the chance to bring together a lot of people whom I have gotten to know over many years who have worked very tirelessly all over the country on state and economic development. I approach this partly as an intellectual synergy for all of us to come together and go back to our homes re-energized, re-charged and, thanks to the Internet, plugged in electronically with each other so that we can continue to share information, resources, contacts, experiences. For me it’s part high school reunion and part family reunion to bring together people I’ve known for
many, many years, so I jumped at the opportunity. In terms of Lee’s ability to pick a location (I mean the Humphrey Institute is obviously a wonderful location), in December of 1991, I held a conference which I entitled The Third Wave Economic Development Conference, but I picked Marco Island, Florida. So, Lee had a chance to go and he really enjoyed it and he got to meet a lot of the people who were on the agenda for his December, 1992 conference (as well as on the agenda for this conference), but he decided to hold it here at the Humphrey Institute. December, 1992, zero degrees outside. I had frost-bite at his conference and a sunburn at my own. Of course I want to extend my thanks and appreciation to Lee and Margaret and the whole staff here at the Humphrey Institute; they are very professional and truly a delight to work with.

Secondly, I want to thank all of the people who took part in some conference calls Lee had organized to talk about doing this conference — what should be the topics, who can we tap to bring on board. I was in the first few months of a new job, so it really wasn’t too high on my radar screen. The first call I made to a speaker to invite to attend was Mary Jo Waits. Mary Jo said yes. I then called Janet Jones and told her Mary Jo’s going and Janet signed on. At some point, it snowballed. This is truly a unique conference. It’s not the sort of conference that would be put on by what I would call the national trade associations like the National Conference of State Legislatures, or the National Governor’s Association. I think this reflects the views, the needs, the inputs of what is really the network of people across this nation and now, increasingly, global. People like Neils Christian Nielson in Denmark and a global network of people concerned about making state and local economic development better. I want to acknowledge the whole community that we are a part of, and I hope one of the great outcomes of this conference will be that you will go away knowing these people — exchanging e-mails, visiting their Web sites, whatever — and that our learning group will grow and that there will be a greater synergy from that.

Let me say a few words about the Center for the New West. It is a small nonprofit, nonpartisan think tank in Denver. There are a few people here who are closely connected to it, and one will be someone you may know, if you are on the Internet. That’s Chris Gibbons from the city of Littleton, Colorado. If you are not a part of his econ-dev list serve group, you should log on. I’m sure he’ll be happy to take your e-mail address. It’s a very high level discussion, global in nature, about the problems of community and economic development. He’s accompanied by Stephanie Neumann and Betsy Weitcamp who work in his office. Truly these are very unique people at the level of local economic development, and Chris will be participating in one of the sessions tomorrow on gardening, and has some very interesting views involving personality types and chaos theory and local economic development. It’s not exactly the normal stuff you’d hear. That will be something to look forward to. The other person I want to acknowledge is Delore Zimmerman, a Senior Fellow at the Center. Over the last year or so, Delore and I have been putting together (under the guidance of Phil Burges, who is the President of the Center for the New West) a high performance communities training service. The idea is to work with communities at the local level, bringing to bear new strategies for competition in the global community. There is some information about the HVC Institute and the training service on the table outside.

I want to say on behalf of Lee and the staff at the Humphrey Institute, thanks to all of you who chose to come here. Let me ask first, how many of you heard about this via e-mail? I’m just curious. The Humphrey Institute sent out about 8,000 brochures by mail; I’ve been busy finding every e-mail address I could and sending the agenda and then pleading with people to send it on to everyone they know. So, I think the next time we can just eliminate the brochure. With that I’ll stop and turn it over to Chris.
Thank you very much. The topic I have been asked to address is, “What Does the New Economy Mean for Economic Development?” It seems remarkable to me the amount of economic development activity that has been going on by state and local government over the past three decades. Although states are very creative in their economic development programs, they can be divided into three broad categories. There are the strategies for recruiting and retaining businesses with tax abatements and public subsidies. Then there is the entrepreneurial state with its emphasis on growing science and technology business, promoting exports, investing in worker training, and a focus on home-grown businesses. Finally, there are the so-called “Third-Wave” development techniques. Although somewhat ambiguous, Third-Wave principles seem to focus more on offering incentives to broad groups with an eye toward leveraging private sector involvement and regional alliances.

Now, in a sense, these state and local economic development strategies have mirrored broad major changes in the economy. The surge in industrial recruitment strategies partly reflected business’s desire to lower its cost in the new national economy. The entrepreneurial state was in response to growing technological advances, organizational innovations and new ways of thinking in the 1990’s are simultaneously pursuing industrial recruitment strategies, entrepreneurial programs and Third-Wave initiatives. All at the same time. Everyone seems to agree that the competition in the 1990’s is getting more bitter, almost as fierce as the debates over whether the economic war among the states is a zero-sum game that is destroying wealth and jobs or a positive-sum game that is leading to higher material living standards.

Now, whatever side of the debate you come down on, what I want to suggest is that dramatic changes in the economy, coupled with a growing understanding of the factors that drive economic growth, strongly suggest a shift in focus and a shift in energy. The economic fundamentals, such as a good infrastructure, do matter. They matter a lot. Most important, the problem in the new economy isn’t a shortage of jobs or even the need to create jobs—the traditional focus of government policy since the Great Depression of the 1930’s. No, the real challenge is the disturbing gap between the skills people need to get good jobs and the skills people are now acquiring in our education system. Economic development and educational reform are really two sides of the same coin in the knowledge economy.

There is a saying on Wall Street that there is a saying on Wall Street that the most dangerous phrase in the market is, “this time is different.” Federal Reserve Board Chairman Alan Greenspan recently warned in his Humphrey-Hawkins testimony that “regrettably, history is strewn with visions of such new eras that, in the end, have proven to be mirages.” Yet every so often new eras do emerge, stimulating massive change and deep dislocation. Within a span of decades, technological advances, organizational innovations and new ways of thinking transform economies. From the 1760’s to the 1830’s, steam engines, textile mills and the enlightenment produced the Industrial Revolution. The years 1880 to 1930 were shaped by the spread of electric power, mass democracy, and mass production. Today I think everybody—whether a corporate chief or an assembly line worker or the people in this room—sense that especially powerful forces are transforming the way we live and the way we work. The signs of change, significant changes, are all around us. The global economy. The spread of capitalism. The Internet. CNN.

The New Economy is often called the Information Economy or the Knowledge Economy. I’m going to use Knowledge Economy. More than ever before, economic wealth is being created by research, by discovery and by on-the-job know-how. Pharmaceuticals, telecommunications, aerospace, software and computers are just a few of the leading-edge knowledge industries. For instance, according to Business Week, consumers and businesses spent nearly $300 billion on information technology hardware alone in the U.S. last year. That’s about 20 percent more than they spent on motor vehicles and parts. Currently, more than $20 billion is being spent to construct new semiconductor plants in the U.S. Innovators have transformed industries such as airlines, steel, and retailing, and they’ve built whole new industries like biotechnology.

Now in the Knowledge Economy—and this is not exactly news to all of you—education is the ticket to material success. In 1993, a full-time male worker aged 25 years or over with at least a bachelor’s degree earned on average about 89 percent more than a high school graduate aged 25 years or over with no high school diploma.
school graduate. That's up from about 49 percent in 1979. Two-thirds of the net job growth between 1989 and 1996 has occurred in the higher paying occupations. These are managerial and professional specialty occupations. Recent research suggests that as much as 50 percent of the increase in demand for more skilled workers over the past quarter of a century can be explained by the spread of computer technology. The foundation of the Knowledge Economy obviously is the information infrastructure of the computers, software, and telecommunications equipment. High-tech gear has become so embedded in our manufacturing and service sectors of the economy that about 80 percent of domestic activity, of gross domestic product activity, now involves information technology in a significant way. Over the past three years alone, the high-tech sector has accounted for nearly a third of the growth in gross domestic product, and much of that reflects the emergence of the Internet.

The other defining feature of the New Economy is that it is both global and interdependent. International trade and capital flows are soaring with three billion citizens joining the world economy following the collapse of communism and the embrace of free markets by much of the developing world. The expansion in world trade has averaged more than two times the growth in world output in the 1990's. That compares to a ratio a little bit above one for the 1980's. The value of traded equities and bonds in the global economy has soared from less than $6 trillion in 1980. In 1994, it was up to $30 trillion, according to calculations by McKinsey & Co. Perhaps most striking, income per person in the developing world over the past decade has risen by some 40 percent, and that's one of the greatest periods of wealth creation in history.

The promise of the New Economy is much higher living standards measured by the traditional yardsticks of growth, income, and wealth. Today's accelerating pace of economic and technological change has unleashed an unprecedented level of competition. With the world's wealthiest consumer market attraction, foreign rivals, battles for markets are relentless. With a government eager to deregulate, market forces have been unleashed in everything from electricity to telecommunications to financial services. With a society that is incredibly open to entrepreneurs, mavericks such as Jim Clark of Netscape or Bernard Market of Home Depot have the freedom to transform whole industries.

The payoff: fierce competition drives companies to innovate and boost productivity. And the higher the nation's productivity, the higher is a country's material living standard. There is a body of recent research into the dynamics of an economy's long-term growth, largely pioneered by Paul Romer, an economist at Stanford University. This research emphasizes the critical role that innovation, invention, discovery, and technical progress play in generating growth. Knowledge and its application to real business problems today counts more than capital and labor, which are your traditional factors of production. Ideas are not scarce. Knowledge does not face diminishing returns. It is an expanding universe. And the knowledge sectors of the economy, such as semi-conductors, software, or computers, are what economists call "increasing return industries." It requires a big initial investment to create a new piece of software that you put into your computer. Microsoft spent hundreds of millions of dollars developing Windows 95. But once you've made that investment, it costs hardly anything to produce that software, no matter how many copies you're making. So this kind of average falling costs and rising profits leads to an increasing return dynamic.

Trouble is, if the heart of economic growth is economically useful knowledge, says economist Miles Mandel in his book The High-Risk Society, it is no coincidence that over the past 20 years corporate America has slashed and burned millions of people out of a job. Restructuring is now a routine part of management's tool kit. The upheaval and turmoil is not an incidental side-effect. It's integral to the process of knowledge and job creation.

In the Knowledge Economy, growth depends more than ever on creative destruction, that evocative metaphor by Joseph Schumpzter, for that unsettling tumultuous process by which new technologies and new organizations and new processes replace the old. Barriers to competition and job destruction are costly in the New Economy. They are costlier than they used to be because they inhibit both new wealth creation and new job creation. The industries and nations with the highest rates of net new job creation are generally the same industries and nations with the highest rate of job destruction. And this is how Paul Romer puts it, “Change and growth are linked together in the same way that risk and return are linked to the stock market.”

For instance, hampered by rigid product marketing barriers and pretty heavy-handed regulations, the European Union has created about 14 million new jobs for a labor force of 194 million since 1980, and it's only absorbed about half of the new labor force entrants. In sharp contrast, the U.S. has created about 28 million jobs for a labor force of about 134 million over the same period and the economy has absorbed about 95 percent of all new workers. Today the jobless rate in more than 60 percent of the nation's 300 or so major metropolitan areas is five percent or less. One third of the nation's metro areas now have an unemployment rate of below four percent, according to Regional Financial Associates. Unemployment is low enough that employers now have an incentive to hire more unskilled workers and to train them. Ironically, the corporate restructuring which produced widespread anxiety about economic security in middle-class Americans one year ago, seems to have created a labor market which is far more benign for America's unskilled and poor people than in any other industrial country, says David Halz, global economic strategist for Zurich Kemper Investments.

What does this mean for economic development strategies? Well, I want to start off with a little bit of a story about foresight. A man wakes up at 5:55 in the morning and it's his fifty-fifth birthday. Coincidence. He gets dressed and he goes down the street—he's in New York City—and he hails a cab. The fifth cab stops, he gets in the cab and when
he looks at the cab’s medallion number, he sees it’s number five. He gets to his office, which is on the fifth floor, and he’s got five e-mail messages, and five voice mails. This is no coincidence! This is a day to go to the race track. He goes to his bank and takes out $5,000—a big chunk of his savings. He gets in a cab, goes out to the race track, and sure enough in the fifth race is a horse called Number Five. He puts that $5,000 down on horse Number Five to win. He is going to be rich. There’s the race—and the horse comes in fifth. 

Policy makers really don’t know where entrepreneurial energies will be directed in the future. Most economic development specialists seem to agree that throwing billions in taxpayer dollars to attract a manufacturing plant or other businesses is pretty questionable. You feel compelled to play the game because it’s very competitive, we are in a global economy, but it doesn’t seem to pay off too well. One reaction to the bidding wars is this strong movement toward understanding and supporting regional industry clusters, these dense networks of home-grown businesses, suppliers, skilled labor, that are highly competitive in the global economy. Now clearly, industry clusters do play a vital role in regional economic development. But the economics of creative destruction still suggest caution in betting heavily on any specific industry or cluster. Comparative advantage is inherently unstable and unpredictable, and in the knowledge sectors of the economy, for instance, competition seems less to be among companies trying to grab market share from each other, which you are trying to do with traditional competition. The nature of competition in the knowledge sectors of the economy is really one technology trying to supplant another technology, one organization trying to supplant another organization. So a whole industry can be hammered in a way that was not true, or not as true, as in the past. One of the most striking aspects in the history of technology is just how poor all of us are in figuring out its future course. Marconi was a genius. The man figured out the wireless. But he never had any vision that the wireless would lead to broadcasting to a mass audience. The wireless was going to be ship-to-shore, that’s all it was going to be. It was this uneducated Russian immigrant, David Samoff, who figured out what you could do with the radio. Ken Olson, the founder of Digital Equipment, confidently predicted in 1977—which is not that long ago—and I quote, “There is no reason for individuals to have a computer in their home.”

Still, the helping hand of government has a vital, even primary, role in creating the conditions for economic growth in a Knowledge Economy. Most economists now agree that the experience of East Asia and the other fast growing parts of the world, coupled with a greater understanding of the structures that encourage growth, suggests government at all levels should pursue broad policies that support your basic public goods, such as infrastructure, public health and safety, and a simple tax system. For example, some recent studies show that the biggest obstacle for many single mothers in getting to work is not a lack of training. It’s not a lack of education, or a lack of job opportunities. It’s crime. The fear of not being at home with their children in a hazardous neighborhood.

Even more important in a New Economy, however, is a good education system that prepares our human capital for the new world of work and rapid change. In a world with a lot of job destruction, it gives them the tools to find a new job. It makes them attractive to employers. Today’s truck drivers live in a world of global positioning systems, points out David Birch, head of the consulting firm, Cognitics. Insurance agents walk around with portable computers and they are linked by e-mail networks. Machine tool operators are routinely using computer-controlled machines. And the demand for skilled labor is rising. The long-term issue for the U.S. economy—particularly when you look at the labor force growth projections—is not a shortage of jobs, it’s a shortage of labor, particularly a shortage of skilled labor.

Education reform is a contentious topic. It’s probably even more polemical than the field of economic development. Yet much as rapidly changing markets force companies to focus on the basics of their business and to break down bureaucratic walls—design and finance were over here and manufacturing workers over there, and they never talked to each other—well, in the new world of competition, with high technology and global markets, you have to break down those walls. They have to work together. Maybe economic development specialists, because of their ties to business and economy, are in the unique position to drive reform and to break down barriers. Maybe economic development specialists and education reform specialists are one and the same thing. Because there is no reason a high school education shouldn’t be a ticket to the middle class and the Knowledge Economy. There have been lots of surveys of employers, and look at the skills that are in demand. Basic reading and math competence. The ability to communicate clearly both in writing and orally. A willingness to work with people from varied backgrounds and an eagerness to tackle problems. It’s not rocket science. 

Contrary to conventional wisdom, the economic payoff from educational reform may be remarkably fast. A lot of times I’ll read this is something we should be doing, but the payoff is 50 years. It may be much quicker than that. Take the experience of Kentucky. Its education system was a bargain basement embarrassment. Typically, it was ranked somewhat alongside Mississippi and Louisiana. Yet under a six-year-old court order Kentucky has moved up into the middle of the education pack. Everyone gets the same financing, students are measured against strict performance standards, and the gains are
showing up. Louisville students now have access to some 13,000 computers that do play a role throughout the curriculum. The business community is responding and the job growth is up.

What’s more, there is an impressive body of research that suggests quality of life, a strong sense of a robust civil society, is critical to a vibrant local economy. The ability of a region to both attract business and respond to a rapidly changing market does seem to be linked in some sort of complicated fashion to a cluster of social networks and a robust sense of civic mindedness. Yet on close reading it appears that the tangible linchpin of that civic culture, in the U.S. at least, is the school system. A healthy school system both helps sustain those organizational networks and citizen involvement, yet buffers the turmoil that is a by-product of the growth, and it lies at the heart of the community’s competitive advantage. We are even thinking about the civic cultures and notions of civic entrepreneurs, who are often driven by a worry about the education system in that we are not producing the skilled workers. Economic development policies have long been sensitive to changes in the economy. The demands of the Knowledge Economy suggest economic development professionals need to focus on the basic public good, especially education. Everything else pales in comparison. It takes away resources from what really matters.

Thank you, and if there are any questions, slings, arrows that can go my way, however you want to do it. Thank you.

AUDIENCE QUESTIONS

Dan Pilcher: Thank you Chris. That was an excellent overview of the New Economy. I think that we need to look at this in a comprehensive, holistic, integrated fashion and you touched upon many, many interesting points which should serve them as the hooks by which we will go through the next day and a half of this conference. What we’d like to do now is open it up to a discussion, back and forth between all of you. We’ve got two portable mikes. Let’s just go ahead and open it up. If you’ve got a question, a comment, whatever, please raise your hand and either Margaret or Teresa will hand you the microphone. Please identify who you are and where you are from so we will have the chance to get to know each other a little bit better. If no one raises their hands then I’ll start calling on people.

Jack Clintends, Greater Cleveland Growth Association: It’s obvious that your concern is education reform. But in the interim I’d be interested in your position on the role of the private sector in the economy to pick up the shortfall of skills training for the issues you remarked on. You say it’s a lack of skills, not a lack of jobs but the question becomes, “Is the role of skill training on public sector or on the private sector or both?” I’d be interested in hearing your comments.

Chris Farrell: Well, a couple points on training. Most of the surveys show that probably somewhere around 80 to 90 percent of training comes from informal networks at work and that in thinking about training one of the most important things is getting a job. A job provides an enormous amount of training. The other thing we know is that the private sector is increasing its spending on training, and it typically tends to lean more towards the professional white collar worker than toward the blue collar worker. However, in fast growing companies, particularly fast growing high technology companies, that is not the case. Actually there is a shift of resources toward the less skilled workers in order to bring them up. One of the optimistic aspects of the fast growing economy is that it does provide an incentive for people to spend more money on training and not wait for the government. In terms of general responsibility, a lot of the training strikes me as simply a bandaid to make up for the fact that there have been failures in the education system, and so we call for training. In general I think corporations should do most of the training. The public sector comes in much better at providing general skills that can be shopped around to different employers.

Joe Cortright: I’m with IMPRESA in Portland, Oregon. Chris, I’d like to address a question to you. First of all I want to say that I subscribe to the new growth theory and your explanation of Romer and the sort of centurion processes we have, but it’s obvious that Chairman Greenspan doesn’t and I’m wondering, from your perspective as a former editor of Business Week, if you could describe what it’s going to take in terms of a message to get across to policy-makers, especially macro-economic policy-makers, because unless they are convinced that there is a possibility to grow faster, they won’t allow the economy to grow at rates that could capture all of the benefits of these new sources of growth.

Farrell: I think there are two things. I’m probably walking into dangerous territory here, but there is a very strong strand in the Fed that actually does believe that the economy can grow faster. One of them should be Jerry Jordan, who is a supply side economist in the true sense of the word—not that
unemployment in the state, caught
We are about in the bottom ten of
very rural county here in Minnesota.


I think there are two things going
on. One, you cannot get too far ahead
of Wall Street and, two, there is a very
muddled message because the message
that comes across is we need to slow
down the growth of the economy, not
that we need to keep the money supply
stable. When I read Alan Greenspan’s
testimonialy, yes, he does believe the econ-
omy can grow faster, but what he’s rea-
ply concerned about is maintaining a sta-
bile money supply. Then if this econ-
omy can grow at three and three-and-a
half percent a year without generating
inflation, which is what the stronger
growth theory would tell you, he’ll ac-
cept that. But I think he’s walking a
very fine line between not being able to
grow too far ahead of the capital markets,
and we saw that a couple of months ago
where he was getting more and more
criticism because he “accepted the new
growth theory and was not raising short-
term interest rates as he should have at
this point in the business cycle.”

My own feeling on monetary policy
is that it’s fun for us to beat up on it
and it’s presented as a way of slowing
down growth. I actually think that it is
irrelevant to how fast we grow except
with stable prices. Then there is no rea-
son to believe that creating more jobs
and producing more goods and services
leads to more inflation. But it’s going to
take a long time to persuade Wall Street
that that’s true.

Alex Wiego, Director of County
Development Corporation. I’m from a
very rural county here in Minnesota.
We are about in the bottom ten of
unemployment in the state, caught
between a rock and a hard place,
between a switch-over from an agricul-
tural economy to wherever we’re going
today. I’ve heard a couple of other
economists state that perhaps in the
next 15 to 20 or 30 years perhaps 50
percent of the jobs we know today will
be gone, replaced by new jobs we may
not even have fathomed yet. I guess the
quickest one that comes to mind is how
many Internet service providers we have
today compared with what we had five
years ago, and the type of jobs which
were foreign then are pretty common
now in that industry. You brought up
the subject of education. I’m not trying
to create a problem here, but in a rural
setting we are educating kids with the
same type of format we used back in
the 1930’s. We’re giving them comput-
ners, but we are still hung up with that
type of educational output that is not
gearing us to where we are going to be
moving in the future. So how do you
see that mix with rural education versus
perhaps the public sector and the pri-
ivate sector and how can we account for
the new types of jobs we are going to be
seeing versus what we are going to be
losing, as well as what type of reforms
we can make in the educational system
to better prepare the students to meet
those needs. My major premise as an
economic developer is you create
opportunities for the kids that come out
of our area to come back and live where
they grew up. Most of them would like
to. Today they just don’t have those
opportunities.

Farrell: Well, I think on the issue of
education reform, part of it largely
reflects that the American educational
system was too successful, much as
General Motors was too successful.
And one of the most dangerous things
about success is that you become insu-
lar. Look how long it took GM, and all
the private sector pressures that GM
faced from Toyota and Honda, to even
begin to do some of the things it knew
it had to do. The education system in
the U.S. was remarkably successful. It
became extremely insular. It is not well
connected to the world of work, and
doesn’t really have much of an idea
what the world of work needs.

We’ve also seen the same thing hap-
pening in the higher education system,
although this is changing. For a while
there the higher education system was
separating out from the world of work.
I mean, this was dirty stuff. This wasn’t
what you would do, work with industry.
You’d get government grants. Look at
the growth of the bio-tech industry;
now you go back and forth. From acad-
emia, you go work for a bio-tech firm.
You go back to academia. You go back
to the bio-tech firm. We now have well
over 2,000 bio-tech companies. Now it
turns out one of the big barriers in
Europe to creating a viable bio-tech
industry is that you can’t go back and
forth. If you leave academia and enter
the private sector you have made this
big step.

I think one of the things we need is
an increasing interchange of ideas and
that is happening. Now, when you
actually try and get down to practical
reasons there are various barriers built
into lawsuits and types of information
that can be exchanged. But I think that
the issue on the American education
system is not that it was bad but that it
became too good, too insular. What
lessons can be drawn from General
Motors? How do you turn around an
insular industry?

Johnny Illiman, for now with the
Humphrey Institute. There are a lot of
us who have done economic develop-
ment work. If you were to start out as
an economic development director
today or were in the business today, at
what level would you work: local, state
or national/international? Where do
you think the action is going to be in
the near term in any of those particular
segments, and how would you approach
that since a lot of us are in that kind
of work?

Farrell: Well I think realistically
you’ll end up approaching it regionally
to the extent that you possibly can. But
there are real jurisdictional barriers
between areas—sometimes it’s nice to
talk about regions, but you can’t do it
by regions. But when we look at metrop-
olitan economies there’s a regional
economy and a regional approach. It
does seem to fit, and conceptually it is a
good way of thinking about the global
economy and how a region fits into a
global economy, so I would work on a
regional level.
Secondly, I would focus on the fundamentals. I would work on classic public goods. When you look at some of the fastest growing industries, they do really care about something called quality of life, they do care about a good university system, they do care about a good airport and they really care about the skills. So what you partially want to do is create the buzz that you are an entrepreneurial place. You are not going to create the buzz that you’re an entrepreneurial place if you are not friendly to home-grown entrepreneurs. At the same time, you are going to have to create a buzz that if I’m growing I can find my labor force.

One of the things that is the most striking since I’ve been out here is how many people in Minnesota believe that their business is great but they can’t expand in Minnesota, and it’s not because of the weather. No, it does seem to me that the labor force issue will continue, because I do think as a long-term trend we’re not going to get a great deal of growth in our labor force, even with our rapid rates of immigration. In the 1980’s, if you were 55 years old and got laid off you were really in trouble. It was pretty bad. That’s becoming less and less true today; if you look at the employment of people 55 and over, it’s rising again and part of that has to do with labor shortages.

Michael West, Texas Department of Commerce: The Federal Government is currently funding implementation programs for School-to-Work in many of the states around the country—about a $100 million this next year, and about five times that much over the next five years. Does this address the education reform area that you are talking about, as it comes to economic development, or does this completely miss the mark? Is there something you recommend instead or as a supplement?

Farrell: No, I think the school-to-work program is a very good innovation. There’s been a twist to it, but it doesn’t bother me in the least. It appears to be set up with the image of the European model, particularly the German model, as an apprenticeship system. These were people who weren’t going to go on to university. They would become blue collar workers who work with machine tools. At least in the successful school-to-work programs—about 80 percent is the number I think, it’s a fairly high percentage—are going on to college. They are seeing the rewards to what they are doing, and then they go on to college. That upsets some people. It doesn’t bother me in the least. A lot of the problems that have been associated with school-to-work, at least from what I’ve read, have been really with these two institutions trying to learn about each other and their different dynamics, but the students seem to come out ahead.

Kathy Schill, Ohio Legislative Budget Office: My question pertains very much to what you just commented on, School-to-Work. I work with legislators who make decisions all the time, and when you start talking money, all sorts of different issues come to the table. I guess my question to you is: Sometimes the economic development issues and how they are presented do not always give the full picture. Part of what we are looking at right now in Ohio is how better home-grown economies get the education community to talk to the business community, and a lot of times the legislature is apt to step in and really get these two groups of people talking to each other, let alone working with each other. And my question to you, being a reporter and having that background, how can you pull together sound bites and platforms to get legislators attention that really this is the way to go? There’s a lot that community education facilities, higher education facilities, can actually do to be a conduit to some of this. Do you have some response? I can go back and tell my legislator about the magic solution that you have.

Farrell: Well, the thing that has impressed me since I moved here has been the number of collaborative networks, and it does appear that the university/community-college system is very critical toward that. I don’t know if it provides neutral territory or it provides the impetus, the incentive, to reach out. The university system broadly defined, includes community colleges, who may have the strongest incentive, because it seems that over the past twenty years they have developed into the bricks and mortar of the U.S. training system. They are more closely tied to the local employers, particularly a lot of the smaller employers. I would be working through the community college system and the university system to set up these dialogues and these networks.

Michael Darger — I work for Sherburne County. It’s always nice to see the face behind the voice. Getting back to School-to-Work, as a county economic development coordinator, I’m seeing that as kind of one of my major roles. The cities work on the land stuff and tax incentives and things, but on a regional basis School-to-Work seems like number one.

The question I have is about college graduates. In Minnesota I’ve heard over 50 percent of our high school graduates go on to four year institutions, but something like 30 or 40 percent ever actually graduate. The President likes to talk about sending all of our students on to college and yet you said in your speech that every high school graduate should have access to the middle-class lifestyle. So, without going to the European model, which I think we are finding won’t fit, how do we create a culture where it’s okay for your student to go to tech college or a community college? We have a local School-to-Work partnership and we are wrestling with that because everyone likes to think that their kid is going to go to college. The other kid is going to go and fill that job the local machine shop has.

Farrell: Well, part of it is being driven by that earning differential between a college graduate and a high school graduate. Back in 1979 about 49 percent of all high school graduates went on to colleges. Now about two-thirds of high school graduates in their first year go on to college. There’s a problem of how many of those actually graduate. But the supply of labor is very sensitive to the signal, and it’s being driven by earnings. Equality may improve as we all become more literate in computer technology both within companies and among individuals. You only need about a ten percent swing in technological literacy and skill to have a fairly dramatic impact on earnings and equality. Once
people perceive that there is actually a reasonable payoff to becoming computer literate out of high school, then that will actually have a bigger impact on those college graduates, who will probably see their earnings come down. We saw this happen in the 1920’s. The research is by Claudia Goldin and Lawrence Kalz of Harvard University.

Around the turn of the century, if you were a bookkeeper, you were a genius. That was the era when you had big business and the evolution of mass production. There were these new national offices, which all of a sudden had a demand for bookkeepers. We went from a system where in 1870 only 13 percent of Americans went to high school and graduated. By about 1930 it was up to around 50 percent or so. Then you had things like the dictaphone and various machinery in the office and what happened is the wage premium of the skilled worker, the wage premium of these bookkeepers, came way down. It just came down. Wages of the less skilled came up because of the diffusion of technology, the diffusion of knowledge, but nobody complained. In fact it was hardly even noticed.

There are a couple of articles by economist Paul Douglas, who was a U.S. Senator, who wrote about this, but has never really been picked up. Part of the reason was higher productivity. The gap was narrowing, but everybody’s standard of living was going up. Perhaps with companies moving up the learning curve, they may realize they may not have to pay somebody who has a college education; maybe they can take somebody out of high school and just do some fairly quick training. Once that gets embedded in the system, then I think it will turn out that fewer people will have to go to college.

My name is Douglas Petty. I’m an International Business Consultant. My question is that in the new economy geography seems to matter less, but turf seems to matter more. Consequently, political jurisdictions and most of the public officials most of us work for seem to care more about their own district than they do about the one next to them. At the same time, corporations are not nearly as tied to their community as they once might have been. Often they are more tied to global events than they are to their core city or events in a core city. So I’m wondering, in order to build this civic society you have said needs to be created to capture the benefits of the high tech economy, what arguments can be made to corporations and the media to encourage a more profound civic engagement and strategic leadership from these civic participants, and to position the geographic region for global competitiveness?

**Farrell:** Look at Silicon Valley, which would be a classic case of talking about global corporations. They are all global corporations, but they seem to be very tied to their local communities. At the same time they seem to care about what is happening in Silicon Valley. Economists are brilliant in coming up with ugly terms. The economics of a agglomeration means it is important to the fundamentals of their business to have a place where people meet, and gather, and talk, and share information.

One of the surprising aspects of the information age, which makes me somewhat optimistic is that if you go over the literature of the past twenty years of the information age, one of the clear messages out of there was that cities were dead. Cities were done. That was it. Everyone was going to go to rural Montana. And they were going to be connected by the Internet, and they were going to be connected by voice mail. Well, it turns out you have to be in a city. Part of it is that the information infrastructure is in cities. But part of it is that you have to be able to talk to people and you also have to have a fluid job market, because many of these businesses like multi-media are growing. One day it’s hot, the next day it’s cold, you can’t be in rural Montana. If you’re at a job in rural Montana, and you are a multi-media person you’re really out of luck. You’re going to end up being a farmer. You have to be in Silicon Valley or you have to be some place where there are lots of like-minded people.

These like-minded people are tied to their community. I know of very few people—Rupert Murdoch might be one—who live and think globally. Most people live in their neighborhood, their kids are going to school, they vote in some local elections, or maybe they don’t, but they are still involved. They may coach the basketball team. This disembodied notion about the global economy seems to apply to only a very small group of people. There’s this sort of dispersion where place is becoming more important at least in parts of the global economy. You’re setting up far-flung empires, investing elsewhere, and it seems that at the same time place can even matter more critically.

**Pilcher:** Chris, you brought up Silicon Valley. Let’s put Doug Henton on the spot. Doug was present at the creation of an organization in Silicon Valley called Joint Ventures Silicon Valley Network at a period when the valley had gone through some rough times. Perhaps you could say a little bit about the civic order in the Silicon Valley and how Joint Ventures came about and what it does.

**Doug Henton:** Well, I think it’s very much along the lines of what Chris was talking about. We got started in ’90. We lost about 50,000 jobs. People were saying Silicon Valley is finished—they were all going to go somewhere else. And what happened was a really remarkable thing. The economy began to transform. We don’t make PC’s anymore; I’m not sure where they make them. I think it’s Taiwan. It’s mostly information technology, software and networking in the Valley, and the whole economy began to re-organize.

More importantly, people in the Valley began to realize they do live there, and fundamentally people wanted to be there because of the excitement of the idea-generation process. But quality of life mattered. So, we tried to document this in a new book we’ve written called, *Grass Roots Leaders for a New Economy*. We call these people civic entrepreneurs. Ask them why they want to be here. They’ll say it’s because of the people, the skills and the quality of life, and if they lose that they can go somewhere else, so they have dedicated themselves to a major inter-capital program to re-do education. Twenty-three companies, $23 million basically to completely reform the educational sys-
the business of classic public goods. Whether it’s a cluster or a classic industry division, the business of economic development is providing a good infrastructure, it is providing public safety, and what you are bringing to the table is a knowledge of the business community. There may be political pressures to do certain things, but the rest of it is irrelevant. It has nothing to do with economic development. It may be paying some salaries, but it’s not economic development. That’s an easy thing for me to say standing up here. And I understand this, but it seems to me that you can approach your board and say, look, you know, the bankers want us to do this, the real estate people want us to do this, but what we know is that if we put these roads in or if we really work on this, we’re really going to get the gain and the benefit. I’d be curious if this is really true or not, but it does seem that in the current environment the political payoff to wrapping yourself in an “education infrastructure” mantle may be higher than it was ten years ago.

**Pilcher:** Graham, Lee’s going to flip on an overhead that I made up just for you. Okay. For those of us of the baby boom generation and older, I’ll read it then. This is from the *Rocky Mountain News* of January 22nd. Andy Reamer, who is an economic development consultant out of Boston, took part in a project in which he studied the information technology industry along the front range in Colorado. As one aspect of that industry, Sun Microsystems is going to build a $200 million campus in one of the suburbs northwest of Denver. They are getting a $7.8 million package. As I read through the article, I discovered that a spokesman for Sun said the economic aid was not a factor in its decision to locate its campus in Colorado. Nobody picked up on that in Colorado. There’s a new term—it’s called a *reward*. We don’t say incentives in Indiana as Graham said last night, they are working towards performance-based incentives. In Colorado we just say awards. Awards, rewards, whatever. Next question.

**Ned Hill,** Cleveland State University. I’m going to respond to Graham a bit and also suggest rather than reward, we’ll go from tips to tips. The comment Graham made was actually one we’ve dealt with in some training in the Greater Cleveland Growth Association. There are really two different things at work here. First, there is economic development which is a broader set of actions to reinforce and make an economy work. In that way I agree with Chris very much. There is a practice of economic development which is the professional sphere, the license that professional economic developers get to work in which is much more narrow. It’s really an area in which they have professional legitimacy, so, in some ways, they work on the broader economic development question as good citizens. And they work with their boards to move them in this broader form of citizenship. But the fact is, they’ve got a narrow scope of practice and legitimacy or they are going to get fired. That’s part of the world they all live in. Luckily I am tenured and they can’t fire me without a bulldozer. The second issue is the way in which I try to work with this, with my friends from the growth association. Say that in your own jobs you have to make a split between the long run and the short run. Your short run jobs, especially for those in the site location awards, are transactional. They go from transaction to transaction, and that part of their business plan really has to be focused on the transactions. Meanwhile jobs of the chamber, the Growth Association, are over the long run. And that’s where they work for economic development fundamentals. They get out of the plant wars and they really start dealing with how to go about growing a new economy. Their business plan and direction has to really reflect that schizophrenia. So professionally they have to respect their professional boundaries, where the legitimacy is, and then in their own action planning they have to make a difference between a long run and a short run. Which really means their job is every bit as complicated as they know it is.

**Scott Schulte,** Humphrey Graduate Student. Back to the subject of education—something I am trying to get a little bit more of here. A lot of the conversation focuses around the young high school graduate and what to do with that person. What do you think is the
role of continued education or the so-called non-traditional student in education?

Farrell: I'm fascinated by the topic of life-long learning. This whole concept of life-long learning is really quite interesting and it seems to be a direction we will be moving in. But community colleges have probably tried the hardest and worked the most toward working with companies and setting up structures where you are not sitting in a classroom hour after hour and then get a certificate. For an example, Pitney-Bowes at its manufacturing plant a while back had over 40 different languages being spoken on the plant floor. They wanted to go toward high-tech, flexible manufacturing and they realized they needed to have certain basics in terms of math and English. So they worked with the local community college, which came to their plant one hour a day. Something like that. Workers would go back and forth between what they were doing on the job and what they were learning in the classroom. That seems to pay very, very well as an investment, and that clearly works when you have a job. When you don't have a job, you are still working more with the community colleges. That is why I've always liked the notion of vouchers—give vouchers to people who need training and let them pick the best place for them.

Anita Duckor, Northern States Power. What role do you think the economic practitioner could play in moving people who are on welfare ranks right now to that of the work force? Do the states and the federal government have the responsibility to develop and implement those policies, and is that one answer to the labor shortage?

Farrell: Oh, it's clearly one answer to the labor shortage, if the economy continues to be growing at the rate it is. The welfare roles, I believe, dropped in most of the major metropolitan areas by around 15 percent last year. You'll continue to see that type of a movement and this is where I think the notion of jobs and job training really count. Job training is not what matters, it's jobs. A lot of job training goes on at work. Employers right now have an incentive to be hiring people. To some extent life is a random walk, and through no rhyme nor reason, Congress happened to pass the welfare reform law at the right time, when the economy was strong and business had an incentive to hire. Had they done it a couple of years beforehand it would have been an absolute disaster. Right now, there is a true opportunity. Part of the reason we are not seeing inflation, even within the seventh year of economic recovery, is the labor force is growing at a two percent annual rate. That is an extremely fast annual rate, and it shows we are absorbing people off welfare. The jump in the women's labor force participation rate has been one of the biggest leaps in recent history, and by the year 2000 women's labor force participation rates will probably surpass those of men. We're also seeing older men going back into the workforce. So right now, if the economy continues along this low inflation path, it will not solve the welfare problem, but it will absorb a lot of the workers.

Question: How can we tell state decision makers that it's better to invest in education and training instead of job creation, tax incentives, subsidy kinds of matters.

Farrell: Send them to France, but don't let them buy wine. Because there you have enormous barriers and a lot of job creation policies, yet the long-term unemployment rate is thirty percent. A lot of the problems in Europe are not really problems revolving around labor, they are barriers to competition between companies. And trying to talk to the legislators and explain it to them is a long-term education project. One of the things that matters is the importance of quality and some of the manufacturing changes that happened in the private sector in the 1980's with the Malcolm Baldrige Award. Some of the companies that got the Baldrige Award fell apart the next year. There were flaws, but it was part of the government's bully pulpit, and it was also a way of building an information system. What works. What doesn't work. So the information about quality got out. The fact that Clinton has put education at the top of the nation's economic policy development in a sense—even though only five percent of the nation's education budget comes from the federal government—is an equivalent of the Malcolm Baldrige Award. Everybody is talking about it and dealing with it. In the Pioneer Press or the Star Tribune every day there is a lead story about education. Twenty years ago nobody talked about social security as a return on investment. I don't know how much we talked about education, but we didn't talk about it as a return on investment. Now, all we do is talk about education as an economic phenomenon and the return on the investment in education.

Kathy Schill: You get that message even quicker because we, at least in Ohio and I think at least 23 other states, are facing term limits with our key decision makers, so we don't have that much time to really get them up to speed, to be knowledgeable on those factors of economic development and return on investment in the bigger picture of where it all needs to be. I think that's a good underlying reason for having this conference.

I'm Joel Spoonheim, Humphrey graduate student. I also work with the business association here in Minneapolis, specifically on the impact of welfare reform on four of the neighborhoods where this business association locates. As we talk about the new economy we often talk about the public sector becoming more private and that's what economic development folks in this room do. But I'm also being pushed very clearly by working with human service providers who are working with the welfare recipients, talking about how we can make the private sector a little bit more public. What I'm finding is that we talk about the businesses having a clear incentive in this labor shortage to hire people, and they believe that by trading a job that pays $8.00 an hour now, which is being considered in this community a livable wage, that they have done their duty. But these businesses are still having turnover rates of 70 percent within a three month period. They hire ten employees and seven are gone after three months. In talking with the clients you can find, and doing the follow-up you find out they are suffering
from issues of racism, classism and culture issues within the institution where they are working. When they get into these new jobs they are not finding anyone to support them in those initial phases. There isn’t even anybody in this institution really pushing other folks and saying, okay, we have some tough issues. So while they are creating the jobs or not creating jobs so these folks can come in where they don’t have the skills or the training, and if they are going to survive after their two years of welfare is cut off, they need to have jobs that they can hold onto for more than 90 days.

I am really challenged working with businesses to get them to engage in dialogue, to take on a civic mindedness, not just creating jobs but creating jobs where people feel welcome and where they can contribute and be creative and contribute to the company.

**Farrell:** I would never trust the business community civic mindedness when it comes to employees, and I think that’s a good thing. I mean, it doesn’t bother me in the least. The business is hiring an employee and paying a wage in order to make a product or to provide a service and that is what it’s all about. Turnover rates have gotten too high in many industries, and they are starting to work on things like training or English language in order to be able to bring that down, and business has an incentive to do it. In the end people can make lots of mistakes and there are still jobs. That’s why growth is so important.

One program I am pretty impressed with is Twin Cities Rise and some of the groups that are working with companies and training and trying to fill their needs as an outside provider. The employer is paying money for an outside provider to do some of what you are talking about; it’s probably the right way to go—having these training networks that are really working with companies and with the workers. Their job is not to be a tenured professor; their job is not to be a journalist; their job is to try and work with people who need the training.

With those types of activities we do seem to know more about what works with training, what doesn’t work with training. We know a little more and that information is getting out. But I feel for the people who lose their job; that type of turnover is terrible.

**Don Bezruki,** Wisconsin. I’ve got a question about some of the more traditional economic development programs that states typically fund—the business incentive programs, the relocation programs, and so on. Typically speaking, they only benefit small numbers of businesses. Can you comment on why you think the over-all business community supports those even though only small number of businesses directly benefit from those?

**Farrell:** I think there are a couple of reasons. If you can negotiate a deal, you go ahead and negotiate; there is a pot of money available, so why not. You take advantage of it. In a lot of state and local governments, it strikes me part of what is happening is filling in flaws in the tax system. You have two interested parties who recognize flaws in the tax system and this is the second best solution. Not a particularly good solution, but that’s why you have an incentive on both sides. There’s some incentive on both sides to strike a deal. Deals can be struck fairly easily. Was that your impression?

**Don Bezruki:** The question I had was somewhat different. Clearly there is an incentive for the businesses that participate in the deal, but the vast majority of businesses now take the opportunity. Nevertheless, there is support generally in the business community for the continuation of those programs, or legislators wouldn’t continue funding them. So the support is more broad-spread than just the direct beneficiaries. It’s even within a vast majority of businesses that will never take advantage of them.

**Farrell:** Well, I think part of it is you may some day be someone who can take advantage of it. It’s almost like a fundamental impulse of capitalism—you know, why don’t we confiscate more money? Well, you always hope that maybe you might be that person who has a lot of money, and I think that’s partially at work. The other thing is that whenever you bring up the issue of reform, in changing this and stopping that, you do bring up discussions about the tax system. Once you do that, all kinds of competing interests come to bear and they sort of cancel each other out. So small business—or a lot of small businesses—may not like this, but if you are going up to the Legislature and then all of a sudden you start opening up all kinds of tax questions, well, you’re not going to do this, and some bigger companies say well, you’re not going to do this, you know you have a crazy property tax system here. Let’s retreat from this, and so it just may be a lot of self-interest coming to bear.

**Dan Pilcher:** Chris, I should point out that Don is more than just from Wisconsin, he’s in charge of program evaluation for the Wisconsin Legislature, so he is often charged with going in and evaluating these programs.

**Jeff King,** German Marshall Fund of the U.S. Thanks for coming. It’s great stuff.

A comment and a question: A comment first on the School-to-Work and the relevance of European models. From discussion earlier and the points about labor supply signaling and the earnings differential high school versus college degrees, it might be useful to pay a lot of attention to what’s inside the boxes on these kinds of programs. The Europeans in the advanced systems—Denmark, Germany, Austria, Switzerland, Netherlands, Sweden—are getting two-thirds of each youth cohort out the door with the equivalent of two years community college in mathematics and science and critical thinking skills, and another one-fifth out the door every year with a master’s degree, so you are looking at 80 to 85 percent of each youth cohort with reasonably good work-force skills, whereas in the U.S. community college system and the tech-prep system, which is in effect a school-to-work system. It’s sort of the best incarnation, but in some ways has a problem with degrees that are of low quality and don’t travel well. That is, if Brian Bosworth and some of the other people who have been doing this analysis are right, these degrees have mostly local value. Regional and local equiva-
lencies don’t travel well from California to Maine. That’s a problem on that side, partly because it’s a lack of the harmonization of curriculum. You don’t have curriculum that is degree content harmonized coast-to-coast. That is possibly why Minnesota is actually importing Danish apprenticeship training from 415 19-year-olds to inform its technical college system.

Now let me get to my question. I’m interested in whether or not you have thought a little bit about possible contradictions of internal stress or tension between your enthusiasm for the sort of the entrepreneurial context in what you call the creative destruction of value, the creative destruction situation on the one hand and on the other hand your enthusiasm for what you call classic public goods. Like education. Here’s what I have in mind: You often speak about barriers to competition and I’m wondering if those barriers might not be in some ways the flip side of a high-skilled system.

If you look at some of the work, for example by Struck, on social institutions and economic performance, and the conditions for what he called “diversified quality production,” part of the need there for those kinds of systems would depend on diversified quality production and high value added products in each market and so forth. If the rapid innovation is right, it depends on what he calls reserve skills, or to use an unfortunate British term, redundant skills—not redundant in a sense of unnecessary or not useful, but redundant in a sense of excessive, or in effect reserve skills. And, if you look at what’s part of the creative destruction in an entrepreneurial context, for example the kinds of things that the American business community often speaks about, they want just-in-time training. They want what critical labor people would call plug-and-play workers. They want temps at every level, not just low level service temps but temps all the way up through engineering and management temps, and the temporary CEO. They want plug-and-play workers and yet that may be incompatible at a deeper level with the diversified quality production where you have to have deeper skills, that just-in-time training won’t give you for diversified quality. Production people might say just-in-time training is too late, the Europeans often say it’s too late, so how do you reconcile your views that enthusiasm for just-in-time training versus just-in-time training may be too late?

Farrell: Well, when you take a look at what you are doing in terms of temporary employees and being in the seventh year of an economic expansion, to a large extent what a lot of companies have done, is they have the core workforce and they don’t want to lose that. But order flows are going really well, and they’ve got a lot of business, so they add temporary employees and train them and work them. They get a wage, but when the downturn comes, and it will, you don’t break up your teams. You don’t break up your core employee force.

Now, in any downturn there may come a point when you have to just start jettisoning as much as you can. I don’t think it’s a coincidence that there has been a rise in temporary employment and also a rise toward more flexible pay, where at least theoretically you share in the productivity gains and the good times. You share in this knowledge, and when the bad times come, you’re not going to lose your job. You will continue in your job, but your pay is going to be less. You’ll meet some sort of a base line. So, there can be different strategies to essentially accomplish the same goal.

It’s kind of an interesting thing that these regions can become overall very strong areas to work in because, in order to have a viable temporary workforce, there has to be a fair amount of work. If you stop working for one employer you have to be able to pick a job with another employer. To some extent, it’s one of the reasons I’m always suspicious a little bit about people saying they’re going to be moving back to the rural areas. I don’t think they will be for the very reason that this temporary workforce is also becoming a more skilled workforce. It is engineers who do temporary work; it is managers or lower-level managers who will do temporary work. You are on the one hand creating the redundant skills that you mention.

Most companies are trying to do that and break down bureaucratic walls and all of that, but at the same time, times are good and you supplement with temporary workers—the just-in-time.

Am I worried about a part-time economy? No. Right now I would more say that what I think is happening in our labor market is largely positive, so I’m not particularly concerned about an apartheid economy. I’m not concerned about the end of work. I think that when you actually look at what is happening in various industries, the story is much more positive. For example, over a two-year period—1994 to 1996—the telephone companies laid off 80,000 people, something like that. It was a huge number. But employment in the industry went up by about 110,000 with the whole explosion in wireless and a number of other related telephone services.

So in a particular company, or a particular industry, I can worry about trends and I can see what you are talking about happening. But I become very skeptical once you start broadening it out to statements about the overall economy.

Pilcher: We are about five minutes behind schedule, so I think we are going to stop this opening plenary session now. Please join me in thanking Chris.
I'm particularly pleased to serve as moderator for this panel. I have been involved through the State and Local Policy Program in doing industry cluster studies in the Twin Cities Area and in Southeastern Minnesota, and have become something of an advocate for an industry cluster approach to economic development. But I'm not going to be talking about that today. My job is to introduce the panelists who are going to be giving perspectives on industry clusters, referred to in Chris Farrell's remarks. We had earlier pre-conference sessions where we talked about understanding industry clusters and how to use this as part of an economic development strategy. We have selected a group of people who are going to talk about what they have been doing, some of their methodologies and experiences.

I think we have an excellent group from around the country. I am going to introduce the entire panel in the order they will be speaking. Each one will give their presentation and then we'll open it up for questions and discussion.

The first speaker will be Michael Przybylski, a senior research scientist with Indiana University Center for Urban Policy and Environment. He's an economist and a planner specializing in public finance, economic development and econometric modeling. Since joining the Center in 1990, Michael has also provided economic and statistical and computing work for the Indiana Education Policy Center and the Heartland Center for Aging Disability and Long-Term Care. He holds a doctorate in economics from the University of Wisconsin at Madison, our neighbor, and a master of city planning from the University of California at Berkeley.

The second presenter is Mary Jo Waits, who was the first person Dan asked to participate in the conference. Once he signed her on, he knew we had a good start on the conference; he could then use her name to attract others. Mary Jo is an associate director of the Morrison Institute for Public Policy, where she oversees project development, publications, research and analysis in the areas of environment and economic development. She was one of three leaders of the consultant team for the multi-year Arizona Strategic Plan for Economic Development Projects. She has written extensively in economic development, including *Organizing Economic Development in the 1990's*, *The Price of Prosperity*, and *Comparative Analysis and Guidelines For an Arizona Incentive Policy*. She holds a masters degree in public administration from the University of Southern California and has done doctoral work in urban and regional planning at the University of Michigan.

Our third speaker will be Edward Kawahara, Special Assistant to the California Secretary of the Trade and Commerce Agency. He provides policy evaluation, recommendations and strategic planning for the agency. He's been instrumental in developing a variety of state-wide programs in areas such as technology development and commercialization, defense conversion, linking economic development with workforce preparation, small business formation and expansion, and he is currently developing strategies to engage employers in welfare-to-work efforts. He also serves as the principal consultant to the California Economic Strategy Panel. In 1996 the panel completed the first-ever state-wide visions and strategies to guide public policy for economic development entitled, "Collaborating To Compete In The New Economy." This can be found on the web at http://commerce.ca.gov. It's linked to the Humphrey Institute site in case you want to find it that way as well. He's been on the University of California faculty at Berkeley, Davis and Irvine as a visiting lecturer, teaching the local and community economic development graduate course at the School of Urban and Regional Planning. He holds a Ph.D. in the field of political economy.

Our next speaker is someone I had the opportunity to interview as part of our industry cluster project. He's the real business person on this panel—the rest are academics and policy types. Robert Buuck served as the President and CEO of Iotek and is Co-Chairman of the Board. He is a co-founder and former CEO of American Medical Systems, the world's leading manufacturer of urological implants. One of the things I learned about the industry cluster in medical devices is that it is organized around parts of the body, and so
urological is one of the competitive advantages in Minnesota. He positioned his organization to be acquired by Pfizer in 1995 for $105 million. From 1988 to 1992 he served as Chairman of AMS and assumed additional management responsibilities within Pfizer's hospital products group. In January of 1993, he joined Medical Innovation Partners, a Minnesota-based venture capital firm as a special limited partner to advise and assist in strategic planning for portfolio companies. With the founding of Iotek in 1994, he joined the company on a full-time basis. He brings extensive medical device industry experience to Iotek with special emphasis on product innovation and marketing techniques specific to the urology specialty.

Our final presenter will be Jeffrey Blodgett. He is a Director of Information Services at the Connecticut Economic Resource Center, which is a private non-profit economic development organization. He has held a variety of research positions in both academic and government settings over the past twenty years. He was a Research Associate with Yale University from 1977 to 1980. Since 1980 he has worked for the State of Connecticut in the Department of Education and the Department of Economic and Community Development. In the Department of Economic Development, as Director of Research, he was responsible for directing and coordinating a wide variety of research projects and publications including identification of Connecticut's industry clusters. Jeff Blodgett completed his undergraduate/graduate work at the University of Connecticut and Southern Connecticut State University.

We'll begin then with our first speaker, Michael Przybylski.
assume that. The key thing is to be evaluated against their direct competition in other metropolitan areas, not other industries in the same area. The main measure is relative employment share of each industry—but not relative to the nation like you would do in a location quotient or a shift/share analysis, rather relative to the direct competitors in other metropolitan areas in the country. Using simple modern computing technology, not even any fancy software (we use Microsoft Access Data Base), we load the entire national county business patterns data set, combine counties into metropolitan areas, and then, at the two digit industry level, calculate employment shares. We’ve usually used the largest 100 MSAs and calculated employment shares for every two digit industry (about 100 industries). Then for each industry, we calculate a national percentile for the Indianapolis area in terms of its employment share. For example, the Air Transportation Industry in Indianapolis has grown tremendously since the late ’70s. As of 1977 their employment share was only .27 percent, not even 3/10 percent of the local employment base, and that was about at the median among the top 100 metropolitan areas in the country. Our percentile rank, based on that .27 percent share in 1977, worked out to be 51.46 percent. Our employment in the air transport industry vastly increased due to several successful things including some of the Federal Express and U.S. Postal Service hubs that have been developed. We are a passenger airline airport, but Indianapolis primarily is an Air Freight Center. As that increased, our national percentile also increased, reaching 73.79 percent by 1990. The key is that we were increasing relative to our direct competition, the other metropolitan areas.

Next, we put together the national employment share percentile along with some other indicators to come up with an overall index. The only other indicator that I particularly want to talk about is the total earnings multiplier, because this gets at our second concept. The concept is that, in the Porter approach, industrial linkages are important. An earnings multiplier talks about how any investment you make in a local area percolates through the local economy. Other things equal, an industry with greater linkages will have a higher earnings multiplier. Now, of course, there are other factors involved. If an industry is labor intensive it’s going to have a high earnings multiplier. So the earnings multiplier is not by itself direct evidence of linkages because it contains more information than we really want. But we did talk in the paper about how we weighted it and tried to get some meaning out of it. Fortunately, we have recently gone beyond this kind of analysis.

**Michael Przybylski**

Analysis I’ve talked about so far was presented in the November, 1996, EDQ article, “Competitive Advantage Economic Development and the Effect of Use of Local Public Dollars.” From the publicity that we got through that, we have been asked by some private sector business leaders in the Indianapolis area to revisit this issue. We stressed to them that this kind of analysis is not appropriate to use for picking winners among industries. But it is the kind of thing to begin a discussion among people who really do know the local industries in detail.

We are now working directly with the Indianapolis Economic Development Commission and we have basically redone this analysis. In redoing it we have begun to look directly at the industry relationships that are implicit in input/output multipliers. We have calculated the underlying transaction matrix at the BEA two-digit level for industrial supplier relationships in the Indiana MSA. This matrix defines how input from each industry is used in producing the output of all local industries. That is, of course, the type of relationship we’re talking about when we are trying to identify clusters. We also showed what those relationships are in Indiana and in the United States as a whole. What we did do—and this is also somewhat preliminary—was to then take those relationships, look at the entire matrix and rank the different industries (within Indianapolis) as to how good of a local supplier that particular industry is. The way that this is to be read is that the top industry there—Wholesale Trade—ranks about a 4.8 as it looks there. Basically that says that it ranks on average between fourth and fifth as a supplier to all other Indianapolis industries. Business Services would be next, and so on all the way down. It just gives a sense of the sum total of information that’s in these supplier relationships.

We can do that also at the national level and then make some comparisons to see how the Indianapolis industry ranks as a supplier versus the national industry, and that will give some additional idea about local supplier relationships and how strong they are relative to national. Of course, relative to national is not the key concept. The key concept in the advantage approach is to talk about your competitors, so the next thing that we are going to be trying to do is to evaluate these kinds of supplier relationships among sets of competing metropolitan areas for the industry sectors that we think have reason to be identified as good targets for competitive advantage cluster status.

There are a number of ways we can go with this. If we get better data we can start going at a lower level. We can regroup these industries. Obviously two-digit SIC codes or, even worse, these two-digit BEA categories—which are only 37 industries—are a very inadequate way to discuss the overall industrial structure in our area, but it’s a start. We have hopes of maybe being able to go beyond that. The final thing to do is to show you when we’ve redone the analysis. It was ‘94 when we did the original analysis; now we actually have ‘94 data and it’s ‘97, so we can do this and it shows fairly similar types of industries coming out at the top. I’m not going to go into greater detail. I don’t think anybody is too terribly con-
cerno about which particular industries are important in Indianapolis, but it’s mainly the approach and concept. It’s our attempt to try and be true to this idea of competitive advantage in a comprehensive way as opposed to picking the industry first and then looking at the relationships. Thank you.

Mary Jo Waits
ARIZONA STATE UNIVERSITY

As Dan mentioned in his opening remarks, some of us were at Marco Island in 1991. At that time Arizona had just completed a cluster-based economic development strategy. I was a participant at that conference, not a speaker, and I daresay there was not a panel like this one talking about industry clusters. We have come a long way. Not all of us are here in terms of all the states or communities that are doing this kind of effort, so it is indeed encouraging.

We’ve had in Arizona five to six years of implementation, and I’m going to talk about looking back on those five years. I do think, since Arizona has been at this for a while, we have a unique advantage point to talk from in terms of what the benefits are of using the cluster concept or the cluster model. I think from Arizona’s experience we have shown that clusters can be an important tool—an analytical tool—which we’ve just heard about and will hear more of today. It’s clearly a way to better understand the economy and deploy your resources strategically. We have learned that it’s a great organizing tool. It’s a way to get industry leaders together to not only prepare a regional strategy, which is what we did, but also to start fostering some networking and collaboration among those companies in the cluster and across clusters. Finally, we have learned most recently that it is a great service delivery tool. And particularly, we have used it as a way to provide international trade assistance.

Each one of these experiences could be a presentation in and of itself. In the past, I’ve usually talked about either the analytical tool side or the organizational tool side. Today, I’m going to go over those two very briefly and talk more about the service delivery side because I think as economic development professionals you may be interested in how to use clusters for providing economic development services.

Doug Henton, who is here today at the conference, was with SRI International—the consulting firm hired by Arizona to prepare the state’s strategy. The Morrison Institute was part of the consulting team. SRI analyzed our economy, and they identified eight industry clusters driving the Arizona economy. I’m not going to talk about them; basically I want to say that the good news is that this information helped us understand our economy. We went from our policy-makers thinking our economy was made up of seven C’s: cotton, citrus, copper, cattle, climate, construction and computers, to understanding that we had clusters. That was a major improvement in terms of how they understood how the economy worked.

Most important, during the process we identified three emerging clusters. I want to highlight that because I think that’s something you should be prepared for. Essentially, when Doug and all of us presented the eight clusters driving the economy, in the back of the room, three people raised their hands and said, well, what about us? We’re not one of those eight. And we said, who are you? And they said, well, we’re optics—my company is an optics firm. And another one said, my company is in environmental technology, and another said, we’re in software. Where are we? We want to be a cluster. And we said, software, you’re with information. But they didn’t want to be with the information cluster; they wanted to be their own cluster. So, we said, okay, great, you tell us who you are. How many of you are there? And they didn’t know who they were. So we said, okay, fine. You go back and find out who you are, how many of you there are in your cluster—or your “wannabe” cluster—and come back and tell us and we’ll see what can happen. Well, it’s an incredible story because those three emerging clusters have been the most active in terms of our economic development strategy, but I want to tell you that nobody knew there was an optics industry in Arizona. There are about 150 firms now and I won’t go into the details but let me show you the difference. We had a banker who did all of the economic analyses in the state, the largest bank actually, say—it was my favorite quote—“I didn’t know we had optics; what are optics?” So, you could imagine there weren’t many banks giving any money to optics companies. Well, in a very short order, the optics cluster got organized, and they soon after made the cover of *Business Week* as Tucson was dubbed “Optic Valley.” I can give details later about how powerful a tool it is for understanding your economy because a lot of the resources now have been focused on some of these emerging industries that we didn’t even know we had.

To the second point about clusters as an organizing tool. During the strategy, we organized all of the clusters, the eight major ones plus the three emerging clusters, into cluster working groups.

Mary Jo Waits

I’m sure you are familiar with that and many of the other states have used it. Most of our cluster groups have stayed organized after the strategy development process. They wanted to stay organized and many of them have become incorporated as non-profit organizations. Many of them have become associated with existing organizations like the Office of Tourism. This slide is to show you what the clusters have been doing in terms of projects, the types of projects they work on collaboratively. [VISUAL] You will see at the
top they are still at the “informing” stage—learning who they are—frankly doing very much of their own analysis, and trying to figure out who their producers are, who their suppliers are, who they work with in terms of universities and other kinds of support systems. That has been a very important piece of clusters understanding who they are, and us understanding who they are. One product from this “informing” stage is the cluster directories. They are an invaluable tool for marketing, and most of the cluster chairs take them all over the world, showing that Arizona has a critical mass of companies. I think you can pretty much figure out what the other projects are on the slide. I wish we were a little better off in terms of clusters working collaboratively to build the specialized infrastructure they need to be competitive. You know, the things we talked about earlier: training skills and workers, working with universities, working with research institutions. We have worked across clusters and telecommunications strategy and on school-to-work, but the model that we aspire to is definitely Silicon Valley. I hope you will get a chance to talk to Doug Henton about that. We wish we were a little stronger on building the economic foundation side.

Moving to the last concept, I want to very quickly talk about the concept of the clusters as a service delivery tool, specifically providing international trade development services. Frankly, this was an experiment on our part. I will give credit to Carol Conway, who is back with the Southern Growth Policy Board, I understand. When I was in Marco Island and I talked about clusters, most people looked at me like I didn’t know what I was talking about, and I’m not sure I knew that much then, but Carol Conway immediately came up to me and said, “This is an incredible service delivery mechanism. This is a way where you can provide services not on a one-on-one basis, but to a critical mass of companies.” She was particularly interested in how it would work for international trade. I thought, well that’s a good idea, and stuck it into the back of my mind. About two years ago we saw an opportunity to apply for a grant with the U.S. Department of Commerce. A colleague and I wrote the grant for the optics, software and environmental technology clusters, comprised mostly of small and medium-sized companies to help these companies prepare export strategies in the international marketplace. Carol Conway told me the shortcomings of current trade development programs. They are one-shot, one-type, one-on-one, and one-sided. In traditional economic development programs you interact only one or two times with the company.

The second problem is with the type of services; they are pretty much early stage and generic. You don’t really know the industry. The third problem is that services are delivered one-on-one. It is a problem of scale, because if you deal with one company at a time, you can’t reach a lot of companies. And finally, it’s really one-sided. Often our programs are developed because some other state had that program and we as economic development professionals thought it would be a good idea to have it in our state. But in fact we probably should be developing programs based on what businesses tell us. With that idea in mind—that we could develop a program to take care of these traditional shortcomings—we developed a new international trade assistance program based on clusters for Arizona. After three years of experience, we’ve found that using clusters really does provide advantages. First of all, it provides a way to formally incorporate the businesses and trade associations in the design of the program. Under one grant, we work with each of the three clusters to help them design a two-year program for what they needed to do to get their companies ready for the international market-place. The environmental technology work plan for the first year, for example, included a baseline survey of the environmental firms to determine export activity, a selection of companies to participate in international strategy planning exercises with the consultant, technical assistance on special issues affecting their industries, a joint conference with the other two clusters, market research studies of opportunities in Asia that Arizona State University did, participation in several trade shows that they—not the Department of Commerce—picked, and finally a grant applicable to USAEP to use their technology and their information to address environmental problems in Taiwan.

After each cluster prepared a work program, all the international trade service providers were there to help them implement it. That included the State Department of Commerce, the World Trade Center of Arizona, University of Arizona, Arizona State University and of course the U.S. Department of Commerce’s local office. The second advantage clusters offer is that they help you tailor your services to one industry cluster. For example, we targeted the services to what clusters needed based on their work plan. The third benefit of this project is that it really stretched the time horizons for business’ strategic planning. Firms had two years to get ready. It wasn’t just the Department of Commerce calling up and saying, “We’re going on this trade mission, do you want to go?”, and no firms show up, come home, and do no follow-up. The clusters also offer a critical mass of firms for government to work with—across the three clusters, we worked with over 850 firms at once. Also, by working with groups of companies, you can accelerate the learning curve for companies. I can give you a lot of examples where CEOs learned from CEOs through the interaction during the project.

Finally, our cluster-focused project offered a way to deliver services comprehensively to those clusters. As I mentioned, we had a team; and we were at all the meetings with the clusters. We responded to those clusters. We got feedback on how the services we provided worked because all the grants required a match, a cash match from the companies. When I first approached the three clusters for the money it was a tough sell, let me tell you, but we got a match, we got the grant, we’ve had two more grants since, and I can tell you it’s now easy to get commitments and cash from the clusters that have participated in this project. Usually the commitment is anywhere from $500 to a $1,000 per company, and the clusters have given anywhere from $25,000 to $50,000. It’s like they are buying the services, and if they continue to “buy” then we have direct feedback that it’s
working for them and they are benefitting from the services.

Bottom line, in Arizona we have used the cluster concept very successfully as an analytical tool, as an organizing tool and as a service delivery tool. I focused on the last one largely because I wanted you to think in terms of how you can use a cluster in a different way. I hope this information helps in terms of your future thoughts about the approach. Thank you.

Robert Buuck
IOTEK INC.

The other speakers have been talking about the analysis and support of clusters. I am a cluster in a way, or at least part of a cluster. I’m going to give you a little bit of a business perspective of what it’s like on the other side and specifically talk about one of the clusters here in Minnesota. When Lee and his associates did an analysis of the economic clusters in the state of Minnesota, one was the medical device industry, an area which is my background.

I just want to show you first of all what would be my definition of a cluster. There are some 600 registered medical device companies here in Minnesota. We’re not talking about hospitals; we are talking about device manufacturers. Some 17,000 people employed, which would rank about fifth in the nation. For comparison, Minnesota is about the 20th state in the nation on population. Minnesota would rank second as a ratio of its medical device employees to other occupational areas. Interestingly enough, Utah ranks first in this particular analysis. On an on-going basis, new device companies are being established here at a rate that’s probably double what might be the case for other industries within our state. An interesting sort of sub-specialty or sub-clustering within the medical device companies is that there are also specific sub-sets in the area of cardiovascular concentrations, heart pace-makers, heart valves, angioplasty catheters, and my background, the urology area. There are several urology companies here.

I’ll just talk briefly here about some of the historical reasons for this industry cluster. If you date this it might go back somewhere in the neighborhood of 25 or 30 years. Clearly the University of Minnesota, on whose campus you are sitting today, has had a major input on this because there has been a lot of early stage research here. Open heart surgery really started here, the generation and development of blood pumps for bypass surgery, cardiac pacemakers as I mentioned, mechanical heart valves, several other things have had their origins here at the University, which has helped foster the initial development of both the technology and the companies that produced these products.

The Mayo Clinic influence is also a significant contributing factor. Perhaps not so much today, but I recall 25 years ago when I was out raising money for my first company, I would be in New York or in California talking about this medical device company in Minnesota and seeing the eyes kind of glaze over on the other side of the table, and then I would have to bring references out like we’re just 90 miles from the Mayo Clinic, or ten miles from the University of Minnesota. That would help bring some credibility to the story, and it still has an influence on which I will comment in a moment. Medtronic is a very important example because it’s a success story, and as you all know, success breeds success. Companies emulate and want to follow on. Medtronic has had a huge influence on the development of a cluster here in this community for some 100-plus companies who can probably trace their origin either to spin-outs of Medtronic or their people and technology. In several cases there were spin-outs of spin-outs of spin-outs.

Next, let’s talk briefly about the reasons for an on-going continuation of the development of this industry cluster. Clearly the University of Minnesota and the Mayo Clinic have a continuing influence in this process. But now this influence is of a more specific nature with a bio-medical engineering institute established here, funded, I might add, in great part from industry contributions not unlike what Mary Jo had suggested in some of the Arizona experiences. There are technology transfer offices here at the University and at Mayo and at some of the other leading hospitals and research centers. This resource provides an active support for medical consultation for clinic trial assistance and also technical consultations in the area of engineering capabilities. Venture capital is a significant factor here contributing to this cluster and its on-going development. The second company that I co-founded, a relatively small drug delivery company, will take probably $30 million of capital before it’s cash-flow positive. You can’t do that without an active venture capital industry. Minnesota, particularly in the medical area, has a very strong one and it’s been a major contributing factor.

Specialized labor pools. If I was to run an ad in the paper here tomorrow looking for a director of regulatory affairs I could probably get twenty responses. If I ran that ad in Fort Wayne, Indiana or Des Moines, Iowa I’d be lucky if I got one or two. Nothing negative about those communities, but we do have a specialized labor pool here. Supporting industries. Vendors obviously would be the best example here and it’s an interesting thing that takes place as well, in that many times these vendors move forward to become device companies of their own. In 1995 they’re extruding silicone to sell to a catheter manufacturer. In 1997 they are a catheter manufacturer and they now become a medical device company. Legal, patent, regulatory, you might take for granted, but you shouldn’t. It’s very important. Last, but not least, as a
Minnesota native I’d like to take a little time to pat ourselves on the back for the culture here that I think has really been beneficial in fostering this type of industry. There is cooperation here, there are very strong trade associations certainly within the medical device area, and a history of entrepreneurial success. And new companies have come along, new entrepreneurs encouraged to move forward, who are able to get financing, able to take this idea from a concept to a reality.

In conclusion, the cluster concept is alive and well in Minnesota at least in this industry. It does provide us in this industry with a competitive advantage, and it is one which I think will continue to grow in the future and be a major part of the economic growth in this area. Thanks.

Edward Kawahara
CALIFORNIA ECONOMIC STRATEGY PANEL

I will discuss the industry cluster analysis California undertook which describes some outcomes from this effort. By the way, we used the ES202 data, and I should make a note that we were successful in addressing such issues as confidentiality to some degree because our state Department of Employment Development was the source of data. The analysis was actually provided by the Teale Data Center, which is our state government’s primary data processing center. So in that sense they basically crunched the numbers, provided some analytical support and gave us their findings.

We looked at our industrial base from 1991 through 1994 by zip codes and SIC codes; we tried to get to the three, four-digit level. That was to develop a baseline which we’ll now continue to study as our economy changes. Secondly, what it did was it gave us some profile in terms of patterns of what’s going on in California. But the second approach, which we are talking about today, was the industry cluster methodology. And I should emphasize that it involved a quantitative analysis, again using ES202 data, and it was also qualitative. Much of the quantitative—and especially the qualitative—work was done by Collaborative Economics. Once we identified industry clusters and we started examining certain trends, based on quantitative information, we followed that up with one-on-one interviews. We identified who the key companies were on the one hand, and identified key representatives who could talk about that particular industry cluster and conducted one-on-one interviews, as part of the qualitative analysis.

Once the examination was done on each of these nine industry clusters, we held a regional forum where we cherry-picked key representatives. There were certain criteria as to who could be part of this forum. One was that we didn’t want any whiners. Secondly we wanted individuals who could talk about not only the industry as a cluster but also could see a vision in terms of where these clusters could be five, ten years from now, and finally what public policy, what role government, or the supply side, can play in terms of facilitating the growth and competitiveness of that industry cluster.

Because of California’s size and diversity, we divided the state into six regions and in each of these regions we allowed at least two industry clusters to be selected by local partners. They came from economic development organizations, business associations and so forth, who came together and identified which industry cluster they wanted to look at in this first go-around. Now, also understand that as we developed this methodology, part of it was testing it. So we started in San Diego as a pilot project, to see whether this process would work or not. One interesting thing that came out of this effort was identifying certain clusters that we didn’t expect, like the optics industry in Arizona. The other thing this process did which was quite interesting was that it showed us which industries were not emerging, were not a significant market share of a particular region. Two examples: One was environmental technologies industry in the Bay Area. Most economic development professionals were saying that growing this industry was a win/win situation. This was an industry that was clean, it was growing, they wanted to promote it and so forth; yet, they were hardly a blip in terms of number of firms, number of employees and revenues. A similar example was advanced transportation—electric cars and so forth in Southern California, the Los Angeles region. Again, if you listen to the rhetoric, you would think that this was an industry that was growing significantly, but in reality, again in terms of market shares, they were just starting. The potential was there but the numbers are not at this point. So it was a reality check.

Edward Kawahara

The nine industry clusters we looked at include wood products, diversified manufacturing (food processing, medical instruments and electronics), multimedia, environmental technologies, entertainment, apparel and fashion design, information technologies, telecommunications, health care technologies.

[VISUAL] As you can see, none are located in the Central Valley. We are currently in the process of studying the Central Valley and the agricultural industry cluster. The nine industry clusters are not all inclusive. These industry clusters were essentially selected by local organizations, and we did not go through any systematic method in advance to try to identify those that were emerging, fast-growing, having a significant market share in a particular region. Finally, some of these industry clusters started to overlap as we looked at multimedia in the Bay Area, entertainment in Los Angeles, as well as information technologies, and then telecommunications in San Diego. There are a lot of linkages and overlap,
so one of the things we will be doing this next go-around is going back and looking at them as more of a communications industry cluster and seeing what these relationships are that clearly transcend regions statewide.

A couple of things in terms of what we learned through this process. Again, Mary Jo’s work in terms of why this process could be valuable is very right on. It’s definitely an analytical tool, and that tool must be continuous. We will be instituting this process on a biennial basis, recognizing that clusters change, industries change, some are emerging currently, they might stabilize, they might decline. But this becomes a valuable tool to be able to keep up with those kinds of changes. Secondly, it is an organizational tool. There are networks developing around industry clusters. For example, in San Diego there is an industry network around health care called Connect. There are organizations that have organized in Los Angeles as well as the Bay Area. But equally important is that it becomes an organizational tool for the supply side.

Joint Venture: Silicon Valley is a good example of this. We are also seeing networks of economic development organizations, in Southern California for example, who are coming together and trying to address industry clusters. We are also seeing something similar in our state university system, as well as in our community colleges. In fact, the community college system is actually going through a process right now, required by recent legislation, to reassess their organizational framework, their allocation of services and what they are teaching. They are taking a look at their curricula based on industry needs. They are being asked to transcend the traditional boundaries of their community college service area or their district service area, and are being required to find ways to collaborate, so they are addressing a broader regional economy.

I also agree with Mary Jo in terms of the service delivery tool. It clearly becomes a way to more efficiently and strategically allocate your services and resources. Clearly we in California are not as far along as Arizona, but we are definitely going in that direction. For example, we are now going through a process of completely re-evaluating what the California Trade and Commerce Agency is doing.

I want to add one other tool that I think comes out of this process and that is that this method becomes a basis for public policy development—public policy at the local level as well as at the state level. It also more clearly allows you to define what is a public sector issue versus a private sector issue. Just an example of that in terms of telecommunications in San Diego. We went through the entire process, the quantitative and qualitative analyses, had a regional forum, brought nine or ten representatives who could speak about telecom to the forum, and what transpired was that the number one issue for them was the size of the San Diego airport. For telecom industry companies like Qualcomm, their market is in Asia, their market is global, they do international commerce. The San Diego airport cannot accommodate that, so their point of destination or departure is the Los Angeles airport. This is their number one issue, yet not a state government solution.

The second issue was the location of their suppliers. Most of them are located in Orange County and Los Angeles County, so they impact the number of times they come into San Diego. The third one was the demand for labor, especially engineering graduates. The number of graduates with some engineering background becomes more of a state government public policy issue. This process helped us define what is a private sector issue, what is a local issue, what is a state government policy issue.

I want to just briefly and very quickly go through some of our key findings. It gives you a flavor of what came out of this effort. For California, we believe we now have what we are terming the new economy, 21st century economy, and that we have a large number of leaders in the fastest emerging industry clusters. The change that California has gone through is systemic; it’s definitely not cyclical. And that transformation has brought us from our post-World War II economic base which was highly dependent on defense-related activi-

ties—both manufacturing and services—to one that is quite different. We also realize that, particularly for state government—and that includes K-12, the community college system, our university system, and so forth—we need to now better understand that new economy and see whether the supply side is actually meeting those new demands.

Some examples of the new economy: For California export has been critical. We are operating in the global economy. High-Tech exports are up 30 percent. We are defining and looking at services differently than the traditional way, like hamburger flippers. We realize that there are fast-growing numbers of jobs associated with engineering, business consulting and activities related with the Internet being captured under services. Again, export is critical. This reflects the systemic transformation that California has undergone. Aerospace has declined, yet stabilized. We think it will stay at that level, if not expand in the next year or so. There is a crossover into software development, multimedia, even in terms of apparel and high fashion and linkages with entertainment. Where are the job growth areas? Again, this is very consistent with what I’ve been talking about. Services related with activities represent what we call the new economy.

Finally, I’ll have to leave you with what we call the California smile. And the grin is getting wider and we expect this grin to start looking weird pretty soon but then again, that’s California. Thank you.

Jeff Blodgett
CONNECTICUT ECONOMIC RESOURCE CENTER

Good afternoon. It is certainly a pleasure to be here today and listen to all of these wonderful success stories about clusters. After what we have been through in Connecticut I think it could be said there’s something for cluster envy—because our story hasn’t been all that positive—at least in the first go-around. In Connecticut, as in California, we went through a fairly
severe economic recession that sort of led to this whole cluster thing coming up in our state. We had been a very complacent state. We always assumed that growth and prosperity was our birthright. We got disabused of that notion in quite a rapid fashion in 1989. We lost eleven percent of our total non-farm employment, we lost 30 or 40 percent of our banks that actually went out of business, and we saw real estate values collapse by 20 to 40 percent across the state, and we woke up one day and said, maybe we should do something. We had been criticized frequently for lack of strategic planning. Perhaps in some cases that could be true, but we also had a fairly good collection of strategic plans on the shelf, none of which were really doing much. I think it was positive that we had broad-based participation. We worked with several state agencies. The utilities were key players, the banks were represented, the universities played a role as well, and we had other private sector folks who came up and helped contribute, but the funding was really 50 percent utilities and 50 percent state agencies. And again, the goals were very similar to those we’ve seen outlined elsewhere: identify Connecticut’s competitive strengths and weaknesses, develop a better understanding of the economy. What actually is going on under the hood here? How come we are starting to not fire on all cylinders? At one point in the ‘80s we had the highest levels of defense dependency of any state in the nation. And we didn’t reduce it intentionally; it went down 50 percent through government federal policies. So we had to counter these effects and stem the bleeding of jobs and businesses. Every day it seemed like brand name businesses were leaving the state heading for sunnier climes.

We engaged the services of D.R.I. McGraw-Hill, and one of the partners worked with us on this, but we were in a very compressed time frame. We had to do something quickly. It was a real artificial time frame I guess, which led to a lot of stuff just getting pushed through in a very quick fashion, but nonetheless we did identify six industry clusters based on a mix of qualitative and quantitative procedures, primarily economic-based to identify most of these similar political decisions, surprising as that may be. Of these six, the only cluster that is still viable today is tourism/entertainment, and I suspect it’s not a coincidence that that’s the only cluster that gets state resources. They get on the order of seven or eight million a year for the hotel occupancy taxes, so that can go a long way toward stimulating economic development.

Some of the problems we ran into during this time were the following: we had an independent governor who was neither fish nor fowl in terms of the major political party and there was some tension there. It was late in his term. We didn’t start this until the second half of his four-year term, and frankly there was little or no gubernatorial support or interest. Some of his agencies said we should do it, and he said fine, yeah, go ahead. It was a lame duck administration. He had announced that he was not going to run for re-election and so, at that point, all the key players the agency had said, it’s time to look for another job. They started bailing out, so we saw some key players departing three, four, five, six months before the process came to its logical conclusion, and we lost some momentum in that way. And then we went through a period of transition. We had a new governor who came in in ’95. I should have mentioned we had a kind of economic conference board—business government advisory groups set up to inform the governor and the legislature on matters of an economic nature. These terms all expired with the previous administration and there was no effort to re-appoint folks. That group which had acted as a stimulus and catalyst in many respects went off the table as well. We had a new governor; a new advisory board should have been appointed—it wasn’t until a year later that they were—a new commissioner of the economic development agency, and then a big, major economic development reorganization. Legislation passed in ’95 said that they were going to take the Department of Housing—the then Department of Economic Development—and form a new Department of Economic Community and Development and will slash about 50 percent of the jobs along the way. A lot of things going on, and clusters sort of fell into a period of dormancy during that time. I am happy to say they have been resurrected; we are in I guess you could call a cluster sequel. We have gone back, re-energized and set up new cluster advisory groups. They actually met; the cluster coaches met with the governor this week to talk about a process, a plan, and a direction, so I am reasonably optimistic that we’ll see some positive developments this time.

I think if I had to impart some lessons here very quickly to folks who may be considering implementing a cluster-based approach to economic development, you might learn from our experience a little bit. Realize that timing is critical, that wherever you start, you have to take the political cycle into account when you do this, and build a way of bridging administrations if you are serious about implementing and institutionalizing this. I think that was the key failing on our part. Develop transition plans to account for that to help you achieve that. You need to garner top level support. We heard a speaker last night who talked about the importance of having the CEO’s and the Governor behind this, and I think that is critical. Without that champion at the highest level, this isn’t really going to work that well. You are going to be struggling. Try to do it from the bottom up or from the bid up and down, the point up and down. Businesses may look at this especially from the government-driven thing. It’s just another government plan, another program. Don’t these bureaucrats have anything else to do? I think you need to get out and sell them, get them running the program with you. One of the positive developments in our cluster
When you build on what is already in place, you need to have some patience. Mary Jo referred to the folks from Arizona who came up and said, "What about us?" And we've had that same experience in Connecticut. We had a photonics group say, "Hey, we were here meeting, we already have an organization in place and you didn't even talk about us." That's our fault—we didn't talk about them because we didn't look. We were just looking at very quick and dirty levels of employment and they didn't meet the threshold. Similarly we had a plastics organization. Very active, very outspoken, they were a little irritated because they didn't appear on our list as well. So we've had to do some backtracking, try to work these folks in, and recognize that our stuff is pretty much armchair research. We didn't get out there and talk with businesses and talk with folks, and I think that was a failing both in round one and in round two (actually perhaps more so in round two). Lessons learned, Part 2: Do not develop an isolation. This is economic development and is very much a multi-disciplinary process. It requires almost every state and local agency that you can think of and strong labor and business participation.

And don't ignore the resource requirements. The stuff doesn't happen without staff or without dollars. I think that's why our tourism cluster was successful and the others were less so. I think that there are certain political forces at work here and you have to recognize it. Does it fit the textbook way? You'd like to see it go this way but no, somebody else says go this way so it sometimes does. And don't expect that this is to replace all your other economic development activities. This is part of a balanced approach, a very strategic approach to economic development. Then again, don't expect it to happen overnight. This takes a lot of work, a lot of time and effort, and it's not something you can do in a hundred days, or six months. You need to be out there working with these folks to encourage their participation. Businesses try this as much as possible. Some of you may have seen an article that appeared in Economic Development Quarterly in August of last year by James Heald, who is with the New York State Development Agency. He talked about the New York experience in developing clusters and identifying and implementing clusters. If you haven't read that, I would recommend it. One of the four little caveats or pitfalls, as he points out, are these four steps which are described, but I think there's some risk there. Perhaps on the other side of that continuum is identify but don't describe. Spend all your time and effort on qualitative analysis down to the four digit level over 20 years or whatever, but you don't come up with any policy recommendations or any direction. And you probably haven't added a lot of value there. Say cluster but think industry. I think it's very easy, especially for those of us who have been in the business a long time, to think about SIC-374 (and there's SIC-375) without looking at the interactions and how they work jointly together and separately over time. I think that was a key point, but I think the last pitfall just refers to the traditional paradigm of economic industry clusters. If it doesn't fit that, then we are not going to work with it. I think that is a very serious shortcoming because very few of these really fit the paradigm. Nonetheless, the concepts are useful and they obviously have a lot of success stories we've seen across the country. It's a rational approach.

One of the basic tenets of Porter's work is improving productivity. You have a paradox where you are producing more and more, with fewer and fewer people. What happens to the people who become displaced? That's an issue especially in the public's eye we have to wrestle with. Another point developing here is that local supply structure, stronger linkages, just-in-time supplies and all that sort of thing. Sometimes putting pressure on supply is going to mean keeping the wages of workers down. The states will find themselves in the untenable situation of supporting low-wage industries, which is everything most of us believe in. The issue of geographic spill-overs is perhaps more of an issue in the state of Connecticut, which is the third smallest state in the country geographically, much bigger in other ways. Once we started mapping the distribution of our industry, we found spill-over. We did our mapping, we took a 20-mile buffer around the state border to see what was spilling over or what was happening outside. We found that, in our financial services cluster for instance, there is a tremendous pocket of activity in Westchester County that we wouldn't have picked up in other ways. And so, I think that's something you have to look at. You have to look at what the economic realities are, not the geopolitical boundaries. Finally I think you have to work within those constraints and realities, and in most cases you can work with your elected officials either at state or local level to achieve the common good. Let me stop there.
I want to move right into this because we have great speakers in this session and also the next. I don’t want to crowd them out. I’m Jeff King of the German Marshall Fund. We have three excellent speakers this morning in this session on work skills, The Changing Face of Work, Labor Shortages, Equity and Opportunity. My job as moderator is to keep track of the time. I also have to set the framework to some extent and pose some questions that shape the debate.

Let me just start by saying that part of what I think was coming out yesterday in the discussion had to do with the role of public policies and collective goods on the one hand as opposed to markets. This was the continuous debate that was underway yesterday. I was thinking about whether or not we’re trying to feel our way forward slowly to a kind of ideal that we have in the back of our minds, for both workers and firms, in which we’re able to get strategies that can treat labor markets and skills as constitutive of national and regional competitiveness in high value-added product markets, rather than simply passively waiting for competitiveness in product markets to develop and then later trying to develop skills in response to that; in other words, whether you’re going to lead or trail the market.

Now I pose four questions for your amusement, and which our speakers may want to address. One is, why are firms in the United States reluctant to organize and carry out comprehensive training? By comprehensive training, I mean training that is not just low-level, remedial training that brings literacy and math skills up to maybe ninth grade level, but rather training that will yield something on the order of a two-year technical or community college level of academic arts and sciences skills, and some technical skills as well. Why are firms reluctant to offer this kind of training if it turns out, as Peter Cappelli and his colleagues at Wharton have discovered in their research for OERI, that in fact training pays firms.

In that context, it seems to me that one of the things we’re faced with here is this question of flexibility. As Tony Carnavale often likes to say, flexibility is often a euphemism for “you’re fired.” Partly what’s at stake here is the question of worker turnover as the end result of lots of flexibility, or whether flexibility means something else, something deeper. On occasion I’ve found the Europeans talk about flexibility as a sense of capacity for rapid innovation. What they’re after when they train deeply is what they call multi-skilling, which is the requirement we have of all professionals. If we think of the upper level jobs, professionals are the sorts of people we require to be multi-skilled. They were educated in ways that promoted multi-skilling and they are expected to perform along those lines, often in highly ambiguous contexts involving high level problem solving. We simply expect that of professionals. Here we’re faced with a set of paradoxes to some extent. That is if we’re talking about the way training is conducted, either in schools or in firms, we have to keep in mind some of the things Wolfgang Streock mentions, namely that firms that create only those skills that they think they need may well end up with less than they need.

That’s the paradox about firms that we’re faced with to some extent in the new economy. The one about schools is the one that Rexford Brown, in his wonderful book, Schools of Thought brings out, what he calls the accountability paradox. That is, what’s least valuable is tested a lot in schools, because it’s cheap and easy to test. What’s most valuable is either tested a lot less or not tested at all because it’s very complex, expensive and labor-intensive to test. Those are the things we talk of when we speak of professionals and the professionalization of skills.

Now I pose four questions for your amusement, and which our speakers may want to address. One is, why are firms in the United States reluctant to organize and carry out comprehensive training? By comprehensive training, I mean training that is not just low-level, remedial training that brings literacy and math skills up to maybe ninth grade level, but rather training that will yield something on the order of a two-year technical or community college level of academic arts and sciences skills, and some technical skills as well. Why are firms reluctant to offer this kind of training if it turns out, as Peter Cappelli and his colleagues at Wharton have discovered in their research for OERI, that in fact training pays firms.

Jeff King

Question two, why do we have this paradox in the United States of non-college kids going into college anyway by way of the school-to-work route? This happens over and over again. Kids get involved in good school-to-work and tech programs. They’re the non-college kids; everyone’s told them, and they believed internally, that they’re just not college material. They find that they like all this learning and it turns out they go to college anyway, not just two-year colleges, but four-year colleges.
Let me step back here and put some perspective on this. Here’s a story; tell me if you think this sounds familiar to you. There’s a group of people—venture capitalists—who have an idea for a product they’d like to make. These folks figure out that they in fact don’t actually know how to do it themselves; they’ve just got this idea. So what they do is hire a bunch of subcontractors. The venture capitalists get a building, they get a facility, and then they bring in these subcontractors to work for them in the same building, often side-by-side with each other. Each of the subcontractors in turn hires a bunch of people to work for them. Some of them are part time, some are casual, some of them are long-term employees. They cut a different deal maybe for each of the employees working for them. Contractor A has a different deal with their people on average than Contractor B does. They’re all working together under the same facility. The venture capitalists aren’t employing anyone, yet they’ve got this organization.

Does this sound like something coming out of Fortune or one of these cover stories of the virtual organization sort of thing? Sound too weird? I think some people say it’s too far out; some will say, yeah, we’ll get there. The punch line here is what I’m describing to you. It is in fact the way virtually every company in the U.S. operated a hundred years ago. Then we called them robber barons, not venture capitalists.

Before World War I about half of all the employees in the United States were contract workers. The typical system was one called inside contracting, where, even in big operations like steel mills and auto companies, the operation would be sub-contracted to a series of smaller people, and the big organization wouldn’t employ anyone at all. That transitioned into a system called the drive system, which basically just made the foremen all-powerful, and the relationship was with a foreman, not with the bigger organization.

The reason I think it’s useful to start with that as a perspective is that we have in the back of our minds this image of the post-1950s U.S. corporation with lifetime employment security as being the norm. That’s been a relatively recent innovation, beginning in the 1920s and 30s and accelerated.

There’s another good anecdote you may remember. In the 1970s there was beginning to be this concern about Japanese competitiveness and how terrific Japanese firms were. During the 1970s the difference between average tenure in the U.S. and average tenure in Japan was zero. Japan never really had lifetime employment and neither did we, but there wasn’t much difference between the two. That’s the image we’ve got in our mind as the norm, and in fact it’s not.

Peter Cappelli

I want to say a few things about what has undone this system. I told folks here I wouldn’t put up any charts, but I do have one here. These are financial pressures that basically have allowed shareholders to put their interests much further ahead of everybody else’s on the table at the corporations. [VISUAL] This chart shows you the percentage of public companies owned by institutional investors. The difference of course is institutional investors don’t easily do the Wall Street walk. The Wall Street walk is if you don’t like the way a company’s managed, you sell off your shares. Because they have such big positions in the companies, they can’t easily do that because they’re buying the market average. That gets hard to do. So instead they go into the corporations in their roles as shareholders and they push for greater profits and greater efficiencies. You may know the Calper’s hit list—Calper is the California state pension fund, I think the largest investor in the world right
now. It publishes every month something that they call the “hit list,” which is companies that are underperforming. Woe to you as a corporate director or executive if you are on that hit list. They pressure internal changes in the companies to increase profits. This is part of it, the efforts of mergers and acquisitions and other sorts of things, efforts to put profits and shorter term perspectives on the table.

Here is, I think, the most important thing, and that’s the change in the nature of competition, which you probably have been hearing a little about. Here is my best example of this. A couple of Jeopardy questions for you. In 1960, category autos, what was the best selling car in the United States? What would you guess? Chevy Impala; right for ten. Question form though, please. In 1960 Chevrolet Impala sold 900,000 cars. In 1997, the car market has tripled roughly. Right now the best selling car in the U.S. is the Honda Accord. How many of those do you think they sell? (Remember the car market is tripled.) It’s about 420,000. So the best selling car in the U.S. now sells half as many as it did in 1960, despite the fact that the market has tripled. It says something about the nature of the competition, that is that the competition is much more diverse now, many more products on the market.

Scale economy issues are in some ways less important. You’ve got to make smaller runs. Development time has been cut in half. In the auto industry it’s actually been cut by more than half. The general product cycle is down to two years now, from six. The average number of profits in new products is cut in half.

So the nature of the competition means you have to move quicker, you have to be more flexible. One of the things this has done in particular is it makes fixed costs your enemy. A big chunk of fixed costs are labor—long term investments in employees. Look at the pharmaceutical industry for example. The pharmaceutical industry has made this huge investment in physical chemists. The drug industry has moved now, because of technology, to biotech, and not physical chemists. That huge fixed cost investment in physical chemists is largely obsolete.

Organizations are changing to move away from fixed costs, including employment, and there are a series of other issues that I could take you through, particularly technology. It’s information technology which has made it possible for firms to unbundle themselves. You don’t need to acquire your supplier any more to be sure of what they’re doing. You can just tap into their information system and you find it out. You can outsource that operation.

A series of other things that have reduced the benefits of integrating your firm: the ability to outsource everything, the incredible growth of the ability to outsource every task. You can get temporary help in every area: CEOs, CFOs, every executive function can be outsourced now. You see, as a result of that, a series of very important changes in the relationship between employee and employer. The most important one—and there was an enormous amount of debate on this a little while ago, but now it seems quite clear—employee tenure, the average time an employee spends in a company. A whole new series of studies that have just come out indicate that, much as we all expect, it’s gone down. Average time a person spends with the same employer has gone down. Here is the surprising part. The average amount of time that an employee spends in an occupation has gone up. They’re changing employers more quickly; they’re staying in the same occupation longer.

The reason this matters is that individual employees now have a much greater interest in their skills. The individual employer has much less incentive to provide them, because the way employers recoup investments in employees is that they make an up-front investment in training and then they recoup that investment over time by basically paying them a little less than their marginal product. If you think employees are turning over on you more quickly, you can’t make that investment pay off.

Here’s my favorite anecdote on this. At the Wharton School we bring into our entering class people with wildly different backgrounds in the MBA class. In the same class of 60 that I taught, I had a professional ballerina from the New York City Ballet, a fashion photographer, professional skier, race car driver. When the companies come to hire, though, what do you think they want? If an electronics company is coming to the Wharton School to hire an MBA, what are they looking for? They don’t want the ballerina. They want someone who was a double E engineering undergrad who used to work for an electronics company. Ask them why and they’ll say that person can hit the ground running. They don’t have to provide any up-front training for them because they know the contents and everything. So how long would it take to get the ballerina to hit the ground running? She’d do it much more gracefully than the engineer, but how long would it take? They say it could take six months. That’s too long because they’re not expected to stay with them more than a couple of years. That’s at the top of the food chain in terms of what they’re paying people. The complication is that companies find it very difficult to provide employer-based training for skills that will walk out the door. The evidence suggests that lots of aspects of training are up but the one that is clearly down is training to teach someone their first job, that is the kind of training you need to be doing by hiring someone out of college or high school.

I asked a group of about 35 executives from the insurance industry the other day how long the training program was in their companies when they started ten or 20 years ago. They said it was a year or 18 months or so. I asked how long it is now and they just started looking around the room to see who had one. Nobody in the room had a management training program anymore, where they would take people in out of college and train them. I think as a result of this, getting back to the punch line of the conference, particularly for skills, the problem is pushed onto employees, and the employees in turn are taking it to the market.

One of the reasons you see this explosion of interest in education is, at least in part, people are going back to colleges to get the skills they used to get
Half of all the students in a lot of the large state universities have full time jobs. They’re working and going to school at the same time, combining work and learning. For all kinds of reasons, this might not be an efficient way to do things. It is a response of the individuals to having the problem pushed off onto them.

Think about this from the perspective of an employer. Suppose you would like to swim the other way. Suppose you’d like to say, “We’re going to go in the other direction.” I gave a talk like this to the Wall Street Recruiters Association, and someone from Lieman Brothers got up in the front after I gave my gloom-and-doom talk about employer investment, and they said they’d decided to go the other way. They’re going to make big investments in their employees, hang onto them a long time, and make it attractive for them to stay. He finished his talk and people in the audience were laughing. Afterwards I asked someone what they were laughing about, and he said, “Well guess where we’re going to be recruiting.” They’re going to wait for Lieman Brothers to make these investments in people and then yank them away.

I think the best example of this is in Tokyo. In the 1980s, U.S. investment bankers went to Tokyo and immediately needed some talent. So they went to the Japanese investment banks and started hiring people out at enormous wage premiums. After a few years of doing this, they have now completely collapsed the internal labor markets of the Japanese investment banks. The traditional system of internal development, lifetime security, staying for life, is gone out of the investment industry. I think this illustrates maybe the final punch line here. That is the difficulty of going the other way. It is very easy to tear down a system of internal development as it’s traditionally organized, with the employer making the up front investment and recouping the value of that over time. All you need are a few competitors big enough to poach you in a serious way to make that no longer feasible. Employee turnover is what makes it happen. Once that starts, it’s very difficult for you to go the other direction.

Then I think we’re faced with a series of challenges. One of them is, can the market somehow respond to this? Outside of the individual firms, is there a way to solve this deep skills problem? The second is, if firms are going to do it inside, is there a way for firms to provide training in ways that combine work and learning such that it’s efficient to do it? That you can create this investment in employees without having to pay for it up front in quite the same way. Is there a different economic rationale that can be used to finance this? I think that’s the challenge facing firms.

Jeff King: I’d like to introduce next Dr. Mary McCain from the American Society for Training and Development.

Mary McCain
AMERICAN SOCIETY FOR TRAINING AND DEVELOPMENT

I would just like to open with a comment that came to my mind yesterday listening to the questions and discussion following Chris Farrell’s remark that I think has some application to one of the questions Jeff raised. I’m always struck by the fact that, despite all of our reading every day in the newspaper and the business media about the incredible number of mistakes and misjudgements that are made by companies every day, somehow the employers with whom we work we have this touching faith that they really know what they’re doing. The truth is that what we often find is with the best will in the world and lots of resources and intelligence at their disposal, a lot of people with responsibility for what we are calling human performance in the workplace actually don’t always know what they need to do and should do. So in the way of most of us in organizations, they do nothing.

While the American Society for Training and Development is composed largely of individuals with responsibility for workforce development, in the private sector workplace, they are individuals. So our perspective is that of business in the workplace, but also that of the individuals who are concerned with those issues. I make that point because the remarks I’d like to make this morning derive in fact from a project that we just put the finishing touches on at the end of the day yesterday, which is my excuse for not having overheads, but which is not out of our research department, which we do have and is headed by one of the contributors to Peter’s new book. This comes from our public policy and government representation arena, which is my responsibility.

We have a public policy council, composed of about 25 or so pretty senior people in companies, labor unions and a couple of community colleges who both provide information to us and backstop us as we go out there and suggest policy and program remedies to federal government and to some degree to state government, and to the other organizations with whom we work. We felt from listening to them over the last couple of years that a lot of the backdrop that the policy community has been using to frame new initiatives on the policy and program level was really not the one that our members are operating with. So we went to them and asked what it is that worries them, what are their concerns in terms of their responsibility for workforce development at Corning, or at Hewlett Packard, or Motorola. What is it that bothers them and how are they trying to deal with it?

What they told us is not completely divorced from what we’re all wrestling with, but does have implications for the fact that traditional solutions are not going to work under these circumstances, we don’t think. They also reinforce for the benefit of this audience
the real critical importance of linking economic development and workforce development in terms of policy strategies, which, despite good efforts in many of the states, is really not going on to the degree we think it needs to.

What I’d like to do today is to give you a couple of larger points they made to us and what this means inside the company. These are anecdotal information not supported by data. I did start reading Peter’s book yesterday on the plane and was glad to see that actual genuine research seems to come out with some of the similar conclusions that this did.

One of the first things we heard over and over from them is that change is the dominant issue in the workplace. Now we all hear this. It’s really a truism. The interesting thing for us is that, unlike what we often read and hear, their concern about the constancy of change is not so much the focus on the new skills that are required, and the skills upgrading, and that the labor pool doesn’t have them, and how will we get them, and all of that. Their concern is really with the mechanisms of providing skill changes and upgrading, new ways of working in a way that can respond to the constant, relentless and high speed of change that they see. They are looking at how to train people quickly enough, how to provide the ongoing training for people as they come in and out of the workplace and in and out of their companies so that they don’t literally spend 18 months providing skill upgrading to engineer level professionals because of the introduction of new technology which will probably only serve them for another 18 months and then will have to do it again.

Another aspect of this concern about the speed of change is because the nature of the skills required for many jobs is changing rapidly. One of the issues for employers as they look to recruit new employees is not so much technical skills, although that’s appropriate for many jobs, but what they’re increasingly calling “behavioral competencies.” In essence they are looking internally, not so much at skill standards for the tasks required of specific jobs, but at what behaviors and abilities individuals have in order to accomplish the job they are given, the objectives of the performance and the ability to change and to learn.

So those familiar parts of what we call basic skills like the ability to learn, flexibility, agility, and the need for access skills to use the new technologies that are available, is the thing that is of most importance to them, and of course is the very thing that just maddens people in the education community because it’s very difficult to develop curricula around those kinds of competencies and requirements.

A second issue, which we’ve heard about already today, that is of concern both from employer and employee perspectives is this notion of job tenure, or whether or not you have a committed workforce. One of the things we heard a lot from at least some of our particular automobile industry executives on the council is their concern over the forthcoming retirement of a large cohort of their skilled craftspeople. In addition to their need to think about how to replace those folks, which in some cases is a four year lead time of training, is the fact that the loss of that large a segment of employees with a great deal of experience significantly reduces what they call the “learning environment,” and presents them with the need to recreate that. As we all know, a lot of the learning and training at work is informal, as well as the fact that a lot of innovation that becomes companies’ products and services derives from the work that employees are actually doing, at least in those companies smart enough to tap into that.

When you lose these large numbers of workers all at once that presents a huge problem for recreating the learning environment and simply adding to the staff and financial resources for training can’t do that. This also ties into one of the concerns I just mentioned, which is what are the mechanisms that employers can use to do enough training so their employees can keep up to speed and new ones can replace this learning environment.

A second need is the requirement for flexibility, both because they are losing larger numbers of workers because of other opportunities and because of the fact that they need a just-in-time labor pool, as Peter has just outlined. They want to be able to find people in the labor pool who have credentials, certification and know-how to do certain kinds of things. On the other hand, they are of course saying they want the ability to learn new kinds of skills. From the employee perspective of course, they also want a certain amount of portability of skills and credentials.

Again, this has a lot of implications for the kind of training and the assessment of training that employers, as well as education institutions and other external providers of training offer. What we think about in terms of public policy that this suggests is a pretty grim picture. One thing that we all hear and often say is that jobs drive the need for training. In many cases that is true. The problem is that in this country we are faced with the fact that jobs don’t often drive the kind of training which is required. Much of the educational and job training supplier market and internal suppliers, even in companies, train and teach people to do things that don’t necessarily serve them well in the changing workplace of today. We hear so much about technology that it almost begins to go over our heads and not have the impact that in fact it increasingly has.

Using technology to do and learn the job, in some ways the job and the learning become almost the same event. We don’t see much of this happening in the public sector in terms of public policy. We hear a lot about computers being given to schools, but we don’t hear
much about whether or not individual adult students are being taught not only to learn to use the technology, but to have what one of our senior people from Hewlett Packard calls access skills—the skills that allow you to determine what of the information you have just downloaded is valuable, what of it you want to use and keep, where you keep it, how you will store it so you can retrieve it and to know when and how to do that retrieval and make it available to your colleagues as well. These are the kinds of things worrying senior people and some of America’s most competitive companies.

Secondly, the pipeline for education and training is of increasing importance. In other words, the system by which people move through this process. As Peter mentioned, increasingly individuals need to leave the workplace and go outside to the market to get the kind of training they need, but in most cases in this country that is an incredibly inefficient system.

This morning Mr. Farrell mentioned the notion of vouchers. While we support, as a policy position at ASTD, the use of vouchers for education and training, we know as well as most people who support it that vouchers are not really the issue. The issue is people’s ability to know what they need to go and learn and a mechanism to do so. This setup in the United States is pretty poor. So there’s a need for that pipeline and a need for it to be connected to the requirements of the workplace. In some ways in the policy community, that comes under your aegis as well, as you go about the concerns for economic development and the concerns for bringing new jobs and maintaining current jobs in your state and your region. One of the key incentives is obviously whether or not you have people who can do those jobs.

I am from South Carolina. I’ll put in a hometown plug. One of the reasons that is always attributed to South Carolina for its ability, for good or ill, to attract a lot of foreign companies in the last decade or so was because then-Governor Fritz Hollings decided for a whole lot of reasons that he needed to set up a technical and vocational education system in the state. While it certainly is not high in the sense of literacy levels and other kinds of education measures, it did have a system that a lot of these companies could work with and introduce the kinds of learning and training courses and curricula they needed for employees. We don’t have this kind of system most places, and I daresay that if I knew the details, it doesn’t work as well in South Carolina as we like to think.

I am here to make a plug for those of you with your responsibilities to push on these kinds of issues and to talk to your colleagues in workforce development. We usually do this to the workforce development community, and I don’t often get a chance to push on it in this environment. Unless we get some better systems and connections nationally, I don’t think we’re going to be able to do much about the real critical issues of the rapidly changing skill requirements. Thank you.

**Jeff King:** The issues are coming out beautifully. Good stuff. Let’s hear from Hal Saltzman.

**Hal Saltzman**

**JOBS FOR THE FUTURE**

I’m starting from a similar position as the previous speakers. Mary and Peter have painted a very compelling—though dismal— picture about trends in what firms have been doing and their past practices, namely tremendous outsourcing, shifting to low tenure employment, etc. Although compelling, I want to suggest from some research we’re doing, a different picture of the future.

We’ve been doing a series of case studies looking at a few firms that have engaged in a great deal of restructuring, outsourcing, downsizing, and everything else. We’re examining how they’ve been struggling with these changes and the emerging organizational structures and employment practices that have resulted.

First, the downsizing and restructuring: One insurance company, which has traditionally been a provider of low skill jobs and a way to work up the career ladder, now will only hire four-year college graduates. Work at any other level is being outsourced or the jobs have been changed. They redefined jobs. They’ve taken 7,000 job categories and reduced them to about 2,000; still a large number, but you can imagine the significant broadening and shift of jobs. In manufacturing, one firm has cut its workforce by 50 percent over the last ten years and doubled its revenues and its profitability. They outsourced 10,000 parts in 18 months. It’s a tremendous change and fits the pattern others have described.

What we were struck by in how firms restructure was the way in which these companies acted; they indiscriminately cut numbers of workers, expanded outsourcing as a goal unto itself without thinking about it as part of a strategy other than taking a good idea in one area and applying it everywhere.

The market became more dynamic in recent years and companies found their past efforts to achieve stability and buffer their employment relationship from the market was strained. They could no longer be competitive given the systems they developed in the postwar period. The “logics of growth” and drivers of growth in previous decades—to expand size and acquire unrelated companies—resulted in unresponsive bureaucracies that were not competitive. In a sense, what they are now doing is to open their doors to the market, creating market-mediated employment relationships.

Firms achieved a great reduction in numbers and a skill shift in the workforce. To make this skills shift they purchased skills rather than trained for them. Firms dismantled their employment systems, that is, their internal labor market structures. As Peter said, you can do that quite quickly. However what they developed in terms of their job structure were jobs that were less task defined, that required greater discretionary effort, and required greater organizational and process-specific and context-specific skills and knowledge.
As you turn to more implicit knowledge and skills you throw away the rule book, you get rid of a lot of task defined, small jobs and tell people you’re now a “customer associate” whose job is to satisfy the customer, not hand a form to the next person if it falls out of your department. Workers are given very broad mandates in a position without a lot of rules, guided only by an objective to meet customer needs. To do all those things firms are now confronting what they lost in their downsizing and restructuring. This has often been discussed as loss of organizational memory, corporate anorexia, etc., and some of what happens is that the

They don’t formalize much of the knowledge. That is, the most formal kind of product out in the market was based in some significant parts on a lot of implicit knowledge, the extent to which this becomes important is evident in the loss of organizational memory.

Another example is high technology manufacturing. The head of an engineering department said that an engineer doesn’t begin to contribute in these very specialized areas until he’d been in this job five years. In a very particular area of engineering it’s not the kind of knowledge you can buy out in the market. He said in this company they’ve done a lot downsizing and outsourcing. Their average tenure of engineers was about seven years. That meant that many of their engineers had not been there long enough—i.e., more than five years—to be “contributors.” They were still working up the learning curve, trying to come up to speed. They said the push has been so much on productivity and getting product out the door they’ve lost tremendously in innovative capacity. The shift in the market had changed the terms of competition, now from just becoming cost competitive to new product innovation. That is, as the terms of market success shifted from being the lost cost producer to being an innovative producer, the impact of a lot of these “efficiency” strategies to be competitive are not the key to the future where innovation is the key.

Outsourcing is another strategy that has had tremendous impact. In the first cut firms took off the low hanging fruit. Why do we do security? Why do we do cafeteria? Let’s split it off, give it to somebody else who can do it better. Then that logic kept extending and extending. We are finding that it has reached its limits. Outsourcing to supplier firms has a dynamic that the more it’s used, it becomes transformed into something else. So as firms go to “the market”—by outsourcing- they change the market. A firm outsources thousands of parts in under two years and finds itself with a new problem: They don’t have to manage a big production workforce, but they have to manage an unwieldy number of suppliers, all with varied skill levels, varied quality.

This is in the medical equipment industry, which requires a great deal of quality and certification throughout the production process. It was driving them crazy, perhaps worse than dealing with their workforce. So they’ve started to aggregate their suppliers, to reduce the numbers, by telling their suppliers to grow and basically become smaller versions of what they used to be - that is, integrated manufacturers. The suppliers integrate production processes, to bring more of it in-house, and reduce the number of suppliers and the extent to which they rely on “the market” to mediate different aspects of production and to reduce cost. As the suppliers grow, they tend to bring in a more skilled workforce and develop infrastructure to upgrade their workforce. This leads to growth of small firms and greater linkages and interdependence with larger firms. This, in turn, counteracts some of the market forces that outsourcing was used to solve.

Another change is that there is a tendency toward firms that are more singularly based, or less multi-function, less diversified firms. When suppliers take over a part of production for a large company, they’re then more interested in how to get efficiencies out of production, how to become innovative in the production enterprise. Because they are a production company as opposed to a production unit that also had the marketing and product development engineering as a diversified firm, these more narrowly focused firms have “production” as their sole source of competition. Thus, they the production area and workforce skill develop are potentially of greater interest to them.

I have four summary points. First, as people became more disposable, they became more important. There’s a certain paradox there. As firms become more lean, and there’s less redundancy, there are fewer people and less depth in the firm. But, because knowledge is more imbedded rather than codified and systematized, they are more dependent on people and thus the value of each person remaining increases. At the same time, however, the firm is giving a message to people that they are highly dispensable and disposable. That’s a paradox or inherent contradiction that is not easily resolved.

Hal Salzman

“stretch” to increase performance goals became “stress”. People could no longer function effectively. There is a loss of, or greatly diminished, innovative capacity, with people so stretched to push things out the door and keep going there are not the kinds of resources to support innovation.

A striking example is in one of the insurance companies we studied. Insurance policies are perhaps one of the more legalistic, well-defined kind of products in the market today. Yet, in our interviews, people said that because people who had gone during the downsizing and their inability to re-develop their products because so much of the product was in the heads of people they had lost. I was very struck by this. I said, “but isn’t everything in an insurance policy written down? Everything you do, all aspects of an insurance policy, aren’t they formalized?” They said, not really. The logic behind the policy, the way it was developed, were in the heads of people who had developed it.

This has been discussed as loss of organizational memory, corporate anorexia, etc., and some of what happens is that the
The second point is that the market works in both directions. One perspective of market-mediated employment relationships is that you can buy skills through the market. That philosophy often has been shaped in a period of skill abundance. Whenever insurance companies located in Hartford downsized had no problem keeping their skilled people and getting the skills they needed in the early 90s when everybody was shedding workers. Today the market’s shifted there and their biggest concern is losing people. All the best people are going in a time of low employment. People are finding that now the market is working to their advantage, that it’s a good place to shop their skills. Those who jump ship are often those who can swim best.

Third, the downsizing, and many of the related strategies that firms have used, were means to achieve what we call “operational efficiency”: Cut costs to reduce redundancy, get rid of bloated bureaucracies, etc. This is a corrective, in a sense, to the past inefficiencies of organizational structure and business practices, which is another and longer story. The conclusion, as Porter and other people have pointed out and as firms are belatedly and sometimes regretfully discovering, is that it’s not a strategy for continued competition and growth.

The fourth point I’ll put this out a little tentatively. Part of our project was working with an Urban Institute economist, Bob Lerman, looking at the changing wage structure. Despite the common wisdom, he found that wage inequality has not changed or increased since 1986. It is consistent with at least a line in the story that we’re telling, which is that wage inequality is, as with a lot of this change, reflected earlier stages of corporate reorganization. More recently some of it has stabilized, in that overall inequality has not increased in terms of what firms are paying per wage hour. Returns to education have increased and there is greater opportunity for women, offsetting some of the other changes in wage inequality. The basic message is that the companies are paying incentives for increased education and the workforce to some extent is responding. That is, there is a shift to use of a more educated workforce, there is a greater gap between education groups, and the supply of more educated workers has also increased. The job structure has shifted toward more educated workers.

So what are the implications of what we are finding? First, as concerns the disenfranchised. The displaced often do not see an income gain or employment stability. By and large older workers who have been displaced are left out and lost and there is not much opportunity with this skill shift. Those with low skill are also facing more problems. Entry levels are higher and the gaps are wider. As an example from our insurance case, they used to have different multi-product lines—life insurance, pensions, annuities—each with its own sales force and each with different qualifications. They’ve gone to much broader cross-functional product teams. What that means is that everybody in the sales force now needs a securities license. Everybody has to pass certain tests, which requires significant skill upgrading. A lot of the low skill people who could master a product of life insurance will probably be pushed out the door, unless they can gain some of the skills to cross-sell products. So the entry level now into an insurance company, for example, is higher. It requires more skill and often a four-year degree. However, the impact is that once you get there, it probably means greater commitment, greater training, greater employment stability and greater wage returns. So the bad news is that it will be tougher to get an entry level job; the good news is that it will increase the education levels overall and some ongoing training. But again there are going to be bigger gaps within the firm’s job ladder.

Second, the company investment in training, employing and security will change, at least for some companies. The number one concern is how to retain talent. How to counteract the market is what they’re talking about now that the market is working against them, at least in some areas. Development and retention plans are being discussed and developed. How do we keep the skills development ongoing? What kinds of things to put into place.

One firm found it had to respond to the employability argument—that we can’t provide employment security; all we can do is help you become employable in the market. So they started a very broad based skills development plan in which anyone could do anything they wanted, basically, as long as it looked like a coherent plan, and the company would support them. They sent a lot of the people out of their accounting department to a college counseling class. What they found was most of the people who had gone into accounting didn’t particularly like it. They found that half the department came back with career plans to get out of accounting. One of their staff actuaries decided that what he really wanted to do was sell boats, and came back with a development plan to go to three-quarters time and work in a boat yard. It was all supported under the employability argument.

How sustainable is such a program? Probably not very. There is more discussion about increased employment stability, that, for example, when you have a low tenure or contract workforce it creates a barrier that is very difficult to get around and provides disincentives to the kind of innovation and commitment and product development and production development the companies want. So we see a trend toward building longer workforce attachment and away from use of contingent workers when companies focus on innovation and growth (although the latest numbers wouldn’t support that). Again, these findings are from a few of what we think are leading edge companies.

Finally, how will firms do it? Well, taking into account what I think are things that Mary and Peter talked about in terms of the dilemmas in what happens when you go to market-based employment relationships, when you’ve dismantled your training enterprise, one dilemma is, how do you deal with the problem of poaching—if you train your workforce others will come and recruit them—at the same time that you need to increase the skill base of the workforce.

One of the developments that we are starting to look at is what we are
calling a knowledge or skill development infrastructure that is regionally based. Firms are looking at regional capacities to develop workforce skills as a way to get around some of the problems of poaching. Having multiple firms work together, using community colleges, of externalizing costs and have training institutions outside of the firm yet with tight links to the firm. It’s very difficult because of the historical problems of poaching and getting around those things, but that’s one development that we think has some promise. Several firms we are studying have strong apprenticeship programs and strong linkages with community colleges.

This approach completely externalizes the program as a way of trying to get other firms to engage in a common training enterprise. Thus, skill development will be an increasing concern to firms as they move to new stages of restructuring, to innovation and growth. How they will support such skill development in the face of increased outsourcing and diminished capacity to train is a dilemma that may be solved by the development of regionally based skill development infrastructures.

In conclusion, our findings suggest a very mixed picture about the outcomes of the current changes in the corporate landscape. Current trends in downsizing, outsourcing, and such, are transitional, we suggest. New competitive strategies will require firms to invest in rebuilding long term employment relationships with their employees and to support skill development. The trends of the past restructuring, however, will prove to make this difficult. And, importantly, there are likely to be significant segments of the population — older displace workers, those with low levels of skill—for whom the new corporate structure holds few opportunities.

### AUDIENCE QUESTIONS

**Bill Scharlen** from Center for the New West: I was originally a Minneapolis Lakers fan. I want to share a quick anecdote with you. When I knew I’d be here in Minneapolis I determined in Denver that I’d buy a ticket to the Timberwolves game against the Atlanta Hawks tonight. Not so easy. I phoned the Timberwolves, was referred by a recorded message that they had outsourced (not their word) their ticketing operation to Ticket Master. I called Ticket Master and spent five minutes on the phone with a person who did not know exactly who the Minnesota Timberwolves were. Looked up on her computer the data that it was possible, in buying a $17.00 ticket to the game tonight, also to receive a free T-shirt but never could consummate the sale. I offer that just as a parable of the times.

**Mark Vander Schaaf**, City of St. Paul: This question is to everybody: Part of the work I’ve been doing, even though I work with a city planning and development agency, I’ve been working on some projects jointly with our community and technical college system. This whole presentation was very interesting, in part because the anecdotes that are flying around among the community and technical colleges is that people want to train internally in companies nowadays. They see that people are abandoning the technical and community college ships and to some extent have the impression that training is being done internally, but they are also very concerned about, from their standpoint, private sector training organizations. Motorola University is often mentioned as what they’re really looking back over their shoulder to them. I guess I’d like people’s insights onto the role that entities like Motorola University can be playing. What is the real shape of the future training system likely to look like? Presumably it will involve reforms in the community and technical college system, but how will that mix with other providers? This is framed in terms of their recognition that the community and technical college system has difficulty keeping up with the rapidly changing requirements of the employer’s world nowadays.

**Peter Cappelli**: One of the things that is booming is the stock prices of the proprietary schools; the for-profit training schools are just exploding in terms of their profitability. It seems to me the growth in Motorola Universities is the growth in taking in people from other companies where they’re doing. The interesting innovation in Motorola U is that you can go from anywhere and take courses in Motorola University. I haven’t seen enormous efforts at the company level to increase their training programs in quite that way.

**Mary McCain**: There’s a trend in calling your training activity a university, but (if anyone quotes me on this, I’ll deny having said it) what we have found is that there are very few places actually like Motorola University, which has an unusual ability, for a lot of historical reasons, to plug into the strategic development and goal setting of Motorola itself, and has been, from its very beginnings, established as a university not built out of an ongoing training activity. In our experience, I don’t think there is an increase in this kind of thing on the level that community and technical colleges can genuinely say this is why we are losing students. The company perspective is of course that community colleges are too slow, despite the many good best practice examples of many community colleges who are working with companies. Most of them, by and large, still maintain three hour seat time driven curricula and
course work that is not of the value that the kind of just-in-time customized work with companies is. The final thing I will say is that we had somewhat of a split on this, but when we talk to a lot of the people in this project, one of the things they are increasingly saying is that they don’t want to do a lot of training internally. This is partly because they have lost training staff in downsizing, partly because they are increasingly wary of developing new kinds of training programs for fairly generic-level skills even on a high level, and they’d really rather outsource that to the degree they can find places to outsource it, which is difficult.

Hal Salzman: We did a benchmarking study of the life insurance industry, and we have probably 99 percent of all the assets in life insurance represented in the survey. One of the questions asked was what the top things are that they are outsourcing out of your human resource area. The number one thing outsourced was employee development. I felt for sure it would be benefit issues or something like that.

Mike Springer from the Treasury Department: We don’t need any training. A couple of years ago Paul Romer wrote a provocative piece in one of the Brookings papers commenting on the underinvestment in technology by firms, and arguing that, because of the free rider problems, firms underinvest, and that the conventional public sector solutions in terms of tax subsidies profoundly inefficient, and that relying on the public sector to provide research programs turn into very interesting academic research because in its universities are academic pork. The alternative he professes is self-governing industry associations which would then combine the ability of capturing the public good for those firms, at the same time disciplining it for the market. To what extent does that fundamental structural alternative make sense in the training area which is similarly under-invested?

Jeff King: There’s a bit of an anti-trust problem that you can probably get around, but that’s something that people have worried about a little bit. You folks have looked at some of these.

Cappelli: We actually haven’t, but RTS is, and have proposed I think a kind of self-governing industry association that could get around some of the anti-trust things, and has the ability to tax itself to provide and support training.

Salzman: AT&T has started this thing you may know called the Talent Alliance, which is sort of an effort to do this. It’s an effort to internalize the labor market among a group of related firms. There may be one other example. I’ve heard of something like that in the U.S., and I think the transaction difficulties of getting groups of firms together to do this kind of thing, if they can’t make the investments themselves to try to get them to coordinate it among a group of people with independent autonomy, strikes me as one of those ideas that makes perfect economic sense, but it doesn’t make a lot of organizational sense in terms of the politics of it.

McCain: It also tends to work best when it’s focused on a particular goal for a particular type of narrow skills that are for a particular project. NTMA is very unusual and they do great work in that sense, but they’re one of the few I can even think about that has a sustained ongoing activity of that nature.

Comment: I wanted to share just a little bit of information on one local program that I think is doing this, and I think it’s very difficult to find examples of this. In San Diego, there is a program at the University of California at San Diego called UCSD Connect, which is now ten years old. They have done a remarkable job in this kind of inter-organizational collaborative efforts in all sorts of things, particularly in the field of digital telecommunications, where there are about 8,000 employees now in the metro area in that field. They have received only one government grant in the course of their ten-year history, and that was to do some business development programs in Vladivostok. Nothing domestically. We in Denver have been working with an economic development council in South Metro Denver, where there is an obvious need shortfall coming for workers, and very slow in the process of organizing these companies—especially in the financial services sector—to do some of this recruiting and staffing and development work collaboratively. My word from the people at UCSD Connect was that the times when they were able to get employers together to do this was when some crisis hit. They’re doing a variety of things in recruitment and in employee development with employers in targeted industries. Two examples of these industries are digital telecommunications, where they have had, I think, 30 firms that have spun off from one firm, Link-A-Bit, came out of UCSD. Now there are 8,000 people in the San Diego metro area working in this industry. They have done all this collaboratively. In terms of recruiting and employee development, they now have a center for research and education in this field at UCSD, and they have essentially stopped raiding one another in the process of staffing up. They’ve done this at an entirely local level. The other example I’ll share is when they were able to organize the biotech firms this way. It was because the biotech firms simultaneously ran out of water resources that they needed, and they organized around that issue. I think that dynamic is very important to pay attention to, and how that can happen at the local level.

McCain: I think with these multi-entity private and public sector partnerships there are a lot of good examples about that, and they are mostly locally and regionally focused. A number of them come out of the only actual organized national system for much of anything that we have, which is the Manufacturing Extension Partnership System, run out of the Department of Commerce, and which increasingly at 70 centers act as a hub for those kinds of activities, as well as to connect with ones that are ongoing. If you don’t know much about that, Ruth Haynes is here from the MEP. If you haven’t met her, you should talk to her. (That’s a plug.)

John Foster-Bey: I’m from the Northwestern Area Foundation. I came a little bit late, so I may have missed this, but I’m wondering what the implications are in terms of policy and programmatic strategies that grow out of your understanding of this new workforce development for the various pock-
ets of disadvantaged people in communities in both metropolitan areas and many rural areas. If you look at this area for example, you have what seems to be labor shortages, but you also have some communities that are highly impacted by high rates of poverty and unemployment. We don’t seem to have very good thinking yet about how to make the connection. I think the same thing is true if you go into certain rural areas, either in this state or in other states in other parts of the country.

Cappelli: I think that there are two implications: the good news and the bad news implications, I guess. The bad news one is that markets are really bad about inequality. Markets generate inequality—lots of it. It’s well known, for example, that the people who get more training are the people who have already had more education, the people who have had more opportunities, who are able to get the information about what they need to know and how to get it. Those are the people who are making it bigger in a market-based employment relationship. Those who don’t have the advantages to start with are in bigger, deeper trouble. A lot of the inequality research is driven by that sort of finding. That’s the bad news. I think the good news is that for people interested in public policy, there’s going to be enormous public policy interest in this question very quickly. It’s going to come, as Hal was sort of indicating, because employers are going to start to scream very quickly about skill shortages. It’s coming already, and you can understand why. I don’t want to suggest in any way—especially sitting in a business school—that employers are being evil about this. If they can push things off onto the market, of course you can expect them to do it. But they’re going to be turning now to the public—as they have been for some time—and complaining about the quality of schools. As is well known among researchers, schools have not gotten worse; in fact they have probably gotten better. But the employer demands on schools are increasing enormously, partly because they are expecting schools, community colleges, development agencies to do the things that employers used to do inside. I think of the analogy to schools. One of the reasons we’ve gotten so much more attention and interest in public schools is partly because, frankly, employers have focused on this. I think the reasons we will get more attention paid to public policy associated with these infrastructure issues on training and development, and I hope particularly on the disadvantaged communities, is because employers are going to start screaming about it. I guess that’s sort of my parting thought too about the good news out of this market-mediated economy.

Salzman: One quick comment following up on that. An otherwise dismal picture of what can be done is two things. We’re looking at efforts that are being made to improve schools and also some of these employer alliances where there is high demand. In other words, if you can understand how you can get employers to engage in skill developments in a regionally or community-based area where they are looking for skills in high demand. If you’re looking at some of the other areas where employers are involved in improving schools, now that the education crisis is widespread, there may be lessons learned there that can be brought into areas where there is less effective demand, where employers are not hiring or looking for skills, and where there is not the same support for the skills, namely the inner city. So if we can look at where we can learn lessons from where things are working relatively well, we might be able to use some of those in more disadvantaged areas, such as urban schools.

McCain: Just to go back to your original point, Jeff, which is I think that a lot of what we have learned in school-to-work activities, has shown that it is very advantageous for all sorts of reasons for young people, particularly disadvantaged young people. In terms of any national impact, it continues to be a tiny handful of very tenuous programs.

King: Thank you all very much. Let’s thank our panel. Let’s move to learning networks.
Good morning. Welcome to the panel discussion on Learning Networks, a Gardening Approach to Economic Development. I’m Joe Cortright. I’m from Portland, Oregon. I’m an economist with a little firm called IMPRESA. Carrying on from yesterday’s discussion where we talked about the importance of telling stories as a way to enliven data, I think what we’re going to hear today are three interesting and very compelling stories about how you can integrate notions of learning and a gardening approach of economic development into community and state economic development activities.

Very much in that vein, I’d like to start with a very brief story about something called “cargo cults,” that talks about the old economy so that we can then move on to three stories about the new economy. This story really starts in the South Pacific in World War II when Navy Seabees were called into the jungles of New Guinea to fight the war in the Pacific. The war took them into very remote parts of the jungle where native people had limited or absolutely no contact with the outside world. What the Seabees did was cut their way through the jungle and build air bases in very remote parts of the jungle. They would carve out a big stretch of jungle and build warehouses and bring in all sorts of modern technology. Of course, this had a profound impact on the native people who lived nearby. They saw airplanes, metal, all kinds of technology, and they became camp followers in a lot of cases. Their culture and their beliefs were really shattered by all of this very abrupt change in technology. After a few months, the war moved closer to Japan and the bases in New Guinea became irrelevant and they were simply abandoned. So the Americans left behind all of the material they had brought—gasoline, metal, food, K-rations and even Coca Cola.

The natives assimilated them into their hunter-gatherer society. Their religious beliefs changed and they really couldn’t go back. Pretty soon all of those things were gone. They dissipated the food and the gasoline and the other resources that were there, and they were really at a crisis because they couldn’t go back to their old ways of doing things. What they did was they marched out into the jungle and cut huge rectangles of jungle down and looked to the skies and waited for the airplanes to come with new sources of supply. I would suggest that, in a very important way, that’s a metaphor for how we practiced economic development in state and local communities in the United States. We’ve waited for airplanes, and this time it’s not the navy that’s coming, it’s maybe a small corporate jet with somebody who’s going to make a decision that’s going to somehow save our community. I would argue that, like the natives in New Guinea, we need to be thinking about ways we can build our economy. To set a framework for this morning’s panel and their stories, I’d like to talk first about the role of knowledge and the knowledge-based economy as a way of driving economic progress and development, and then outline what I think are four dimensions of learning that undergird the knowledge-based economy. Yesterday Chris Farrell talked in very compelling terms about some of the research that Paul Romer has been doing about the role of knowledge in driving all points of economic progress. I think Romer’s essential point—and I’ll overstate it just a little bit—is that all economic progress, all economic growth at its root derives from our ability to create economically valuable ideas, to come up with new and different and better ways to make use of the finite stock of physical stuff that exists in the world. When you tease out all the implications of that the most important thing to think about is that in today’s economy it’s the ability of workers, of firms and of industries and places to be good at generating new ideas that determine whether you’re economically successful or not.

The other thing I would suggest is that, even though we talk about knowledge becoming ubiquitous because of the internet and technological revolutions and the globalization of the economy, knowledge is always created in particular places by particular people and particular firms. Understanding why certain knowledge is created by certain people in certain places is really what economic development increasingly is all about.

That brings me to what I would call the four dimensions of learning. That is the framework for thinking about how
you do economic development in a knowledge-based economy. We have to think specifically about learning for workers; learning for firms—how you structure a firm to promote learning and knowledge creation; learning for industries—that is, how groups of firms can interact, often in clusters, to create new knowledge; and learning for communities. Let me just briefly touch on each of those and then I’ll turn it over to my colleagues.

Learning for workers has been addressed in the previous panel. There are two components. One is learning the knowledge and skills that any particular industry or job requires, and to have high standards. Then there’s a set of skills that we all need to have of learning to learn—the problem solving skills, the teamwork skills, the communication skills that are needed to be effective in creating new ideas and then interacting with other people to create new ideas and to transfer knowledge. Increasingly we’re putting an emphasis on that. The second component deals with learning for firms. Whether you call it high performance work organization or total quality management or the lean organization, it’s clear that there’s a set of transformations that’s occurring in the private sector, where many firms are changing the way that they organize their internal operations so that, instead of having the thinking done at the top of a hierarchy and the doing done mechanically at the bottom, everybody in an organization takes responsibility for learning and knowledge creation. I think if you look at a lot of the innovations in management, a lot of the restructuring that goes on, a lot of the focus on core competencies and flattening organizations and pushing responsibility to front line workers, it all has to do with making a corporate organization or business or firm a better place for the creation of economically valuable new ideas.

The third point is one that we heard a lot about yesterday in the discussions about clusters. Ideas get created where there are a lot of firms and people working in a similar and related set of ideas. We heard about the medical device cluster yesterday. We know that there’s a cluster of RV makers in Elkhardt, Indiana. We know that there’s a cluster of electronics firms in Silicon Valley, the best known cluster. The reason businesses put up with the high costs and the competition in those places is that a cluster of firms and workers working on creating new ideas has unique advantages. If the lifetime of a product is two years and you can get access to a new set of ideas six months ahead of everyone else by being located in a cluster, then that gives you a huge advantage over being in any other place, even if the costs are cheaper elsewhere.

The fourth and final dimension of learning is one that’s a little bit more subtle, but is critically important. That’s the role of communities in creating an environment where learning and innovation occurs. At its root, it has to do with tolerance for innovation and deviation, because innovation means doing things differently than you’ve done in the past. Places that are hide bound and not tolerant of difference and change and diversity are not going to be places receptive to change and innovation and the creation of new ideas. So communities and the cultures that they create, the willingness to tolerate differences and promote and encourage innovation, reinforce economic development by creating a fertile environment for the creation of new ideas.

So, four dimensions of learning in the new economy: learning for workers, learning for firms, learning for groups of firms or whole industries, and then having communities that are conducive environments for the creation of new ideas. I think we have a unique group of practitioners here today who can talk about how, in their communities and states, they are working to harness those various dimensions of learning to create new models of economic development. What I’d like to do today is have them talk about how they’re forging a new economy. We have several nodes of the learning network, and from Littleton, Colorado with us today all the nodes. Chris Gibbons, Stephanie Neumann and Betsy Weitkamp from the Littleton New Economy Project. They’ll be our first set of presenters.
who come to us with all kinds of needs in different markets. We have a lot of sources of information and can provide as much information for those needs as we possibly can. Stephanie is going to be talking about what she does with database searching.

Stephanie Neumann
BUSINESS/INDUSTRY AFFAIRS
LITTLETON, COLORADO

We certainly are in a knowledge economy today, and at the BIA department in Littleton we do have access to a number of specialized databases to get information. We can access thousands of different publications; these can be searched by word, by subject, by date, by country of origin. Within minutes, it is possible to assemble information on new and local markets, competitor reports which can include financial information, background on the principals, new product releases and company strategies, transfers in the industry. We do a lot of market research, compiling specialized mailing lists for our companies, and customized research reports.

As Chris mentioned, we do have several sheets out there that talk about some of the things we do at BIA, and one of them does mention in some detail the 15 or so specialized databases and on-line CD ROM sources that we use. I just want to highlight a couple of those. A couple of them are CD ROM products called Business USA and Marketplace Business. These are CD ROMs that have lists of over ten million businesses.

My background is as a professional librarian. I started out in the reference department. I know how laborious it can be to just use print sources to research a project. What we find most of the time with our Littleton businesses is that they need extremely up-to-date information. They generally need it within the last week, the last month, and they always need full text. For this reason, we access a number of different on-line sources where we can get the information immediately. One of these is the Information Resource Service Company. These have public records and databases. We use these quite a bit when we’re trying to get information on individuals. A couple of months ago there was a California developer in our office who was proposing a project to Chris, and when he was talking there was just something that tweaked in my mind. I went on-line and we found out that he was involved in a number of fairly large bankruptcies in Southern California.

Maybe a lot of you are familiar with some of the older on-line services. We access Knight Ridder Dialog, which started way back in the ’70s. It was a spin-off from Lockheed Martin. We’ve used these because they have very broad scope, they’re international, and generally, when we’re doing a search for our Littleton businesses, we want to be as complete as possible. One of the lessons we learned early on is that it is not a good idea to rely on just one source for information. For example, I mentioned earlier the Marketplace Business, which is based on Dun and Bradstreet. Dun and Bradstreet is a very excellent source of information, but you need to have a caveat there when you’re using them; you need to double check to try and get as many sources as possible so you have a complete picture that you’re presenting to the businesses. We also access Data-Times, which has over 5,000 local and regional sources, which is very important for a lot of our companies. Finally, News-Net, which accesses newsletters from throughout the world.

I just want to mention quickly in bullet point form a couple of the searches we have. Every day, from eight to five, I answer questions from our businesses. Part of our program is that we underwrite the majority of any on-line search that costs any money. I want to briefly describe a couple of those searches for you so that you can get a flavor of the gamut of things we’re dealing with every day. One of the toughest requests that I’ve ever had for information was from a bottled water company. They wanted to know the potable water rate in Jacarta, Indonesia. We had an ADA attorney who wanted a list of Denver fleet area human resource executives to do a mailing to about the services her firm had. From an antifreeze recycling firm in Littleton, they wanted to know a list of the Denver fleet owners. For a beef jerky company in Littleton, we went on the Internet. They had their own specialized beef jerky firm, but after they launched the firm they were getting requests for ham, turkey, beef sticks, etc. I went out on the Internet and there were a lot of recipes in the rec. foods group, which I passed on to them.

An example of some of the kinds of things we do for our Littleton companies: Right down the street from Littleton City Hall is a gray iron factory called Electron. The president came over one day with a very thick list in his hand. He said he had just paid $10,000 for this marketing list and it wasn’t giving him what he needed. In addition to the name, address and phone number of each company, he needed to know who to target at each of these companies when his salespeople are out making calls. And he needed to know about the inter-company relations between the companies. So we sat down and looked by standard industrial classification codes, identified by their company, at
liked his business. One thing they mentioned to him, though, was that he apparently had a very good library. It turns out that it was way off in a corner, and when they went in for their appointments they couldn’t hear their name when it was called. So they really couldn’t use the library. Little things like that come out, and changing those little things can make a business better.

We have an accounting firm that we did a couple of focus groups for. One thing that came out with that group was that the people got upset when they were billed for every little thing—a social call, a phone conversation, any contact at all. The company went back and changed their billing process. We don’t charge for these groups. Another thing we did for this accounting firm was to work with temperament types. We’re very convinced of the value of knowing about temperament types. Everyone has strengths and weaknesses; if you can work with strengths you can accomplish great things, and if you work with their weaknesses you can make people look pretty bad. They had a gentleman in their office who was a good employee and they thought he did good work, but he was often late and was late for work sometimes and missed quite a bit. They didn’t know exactly why. As it turned out, he was a very outgoing person and he liked projects. Where his job was back in the corner office doing real traditional accounting and he just wasn’t very happy there.

Testing is not foolproof as far as finding out what personality types are. You need to have some sort of feeling, to know what kind of actions people have with certain personality types. We worked on designing questions for hiring so they could get an idea what types of personalities their applicants have. If someone is freedom-oriented, don’t put them in a detail job. If someone can see the whole picture—they’re an idea person—they probably aren’t so great at getting things actually accomplished.

It’s very important to have diversity in a company. When there’s diversity there isn’t always agreement. Sometimes there’s disagreement, sometimes dissension. That’s the nature of the beast, but you need all types to get things done. The three of us in our office are very diverse personalities; we all fill a different role.

Another thing we do is to provide education to our companies. We decided that some of our high tech firms needed some education possibilities, so we joined with our local community college and started a program called Colorado Center for Software Engineering. We offer classes through the college as well as through Colorado University and we have broadcast into our public library masters classes. We have changed the name just recently to Colorado Center for Information Technology. We decided that we needed to broaden the scope. We try to present things to people in a timely manner, sometimes even before they’re mainstream. An example of that is Internet. We have been on the internet for several years. I think 1991 or 92 we got on, and it was hard then to find articles in newspapers and magazines. We felt that was something our companies needed to know about, so we said we would underwrite the cost of training, of getting them set up on the internet, and we had to kind of push people into this program. We had a pilot project with some of our important companies and they just didn’t see the need for it. They came in and sort of went along with it, but they didn’t get involved until they saw the need. People don’t accept ideas until they have a need. We continue to do a lot of searching on the internet and we underwrite the cost of putting in a home page.

We have a list of companies that have gotten on and have a home page. Chris mentioned Econ Dev. We have a mail list which we maintain. We have about 300 people on it. We have contributions from all over the world. You’ll notice there are people from Australia. A gentleman from Australia has been to our office a couple of times to look at our program. We have constant communication with him. We had a comment from someone from Ireland the other day; we’ve had people in our office from New Orleans, from Los Angeles, and we’ve had probably 150 inquiries from people who want to know more about our program.
Another thing coming into popularity, and I think is going to be mainstream at some point, is video conferencing. We have just recently put a video conferencing system into our office on one of our computers. We’ve had several demonstrations. We will have one shortly for lawyers, because that’s a profession that we think can take advantage of this. At this point there are not a lot of people with the system to communicate for it. The phone book isn’t very thick right now, but every time we get a new update, it’s much thicker. All the Kinko’s stores have the system, so it’s possible to communicate through theirs. We know a gentleman who is president of the realtors association in Littleton who said that there are a lot of outlying offices they want to communicate with. They don’t know how that’s going to work, but they want to come and use our system as a trial to see if it’s viable and what kind of system they want to put in. We underwrite the cost of that and we encourage all of our companies to come and use it. One of our companies had a meeting with a company in Boulder—about an hour from Littleton—one day during a terrible blizzard. If they had had this system in place and people could have shared documents and objects by videoconferencing, people wouldn’t have had to make that trip.

We encourage people to get new technology and use it in their business. I guess the philosophy of our department is that anything we can do to increase the flow of knowledge is beneficial, and that’s why we have all these vehicles for getting information for our companies.

Joe Cortright: The next presenter is Randy Goldsmith from the Oklahoma Alliance for Manufacturing Excellence.

Randy Goldsmith
OKLAHOMA ALLIANCE FOR MANUFACTURING EXCELLENCE

The Oklahoma Alliance for Manufacturing Excellence is a manufacturing technology center funded by the National Institute of Standards and Technologies Manufacturing Extension Program. We view our program as being a major resource for economic development, as a technical assistance provider for economic expansion and retention. In the last six months our organization has worked with 229 companies, delivered approximately $3 million in direct financial assistance, at approximately a $7 million economic impact with 58 of those companies. Oklahoma communities view us as good strategic partners. We focus in the area of technology, market development, workforce development, business practices and inter-firm collaboration, or networking.

Inter-firm collaboration works in Oklahoma. We are smaller than the national average in terms of size of our firms. We have approximately 4,100 manufacturers, but 90 percent of our firms have less than 100 employees, which is in fact smaller than the national average. Yet our firms do account for 15 percent of the employment, 22 percent of the wages and 23 percent of the gross state product. So manufacturing in Oklahoma is still a wealth generator and a major economic engine.

We’ve seen structural, environmental change over the last few years. Most people are familiar with the collapse in gas in Oklahoma. Oklahoma was very much driven by that industry, and our manufacturers were structured to support that dominant industry. That fact, coupled with the recession in the early 90s, literally devastated our economy for a period of time, and we’ve been in a restructuring mode for a number of years. As a result, we are diversifying very quickly—faster than the U.S. average. Our manufacturers are growing faster in terms of wages, employment and exports, but all we’re doing is closing the gap. We’re looking more like the U.S. economy each year.

As we work with industry, we get their feedback on trends that are affecting their competitiveness. Given the fact that our role is to help them be more competitive, we pay a lot of attention to these trends. What we recognize is that there are market forces that underly some of these trends. They are now leading to structural changes in our industry, as well as structural and operational changes within the firms themselves. We see rapid acceleration in the deployment of process and product technology as a strong market driver. We see increasing globalization. The continuing shift in Oklahoma from being a production economy to a market-driven economy has significant impacts on our manufacturers. The post cold war consolidation is still affecting Oklahoma, and changes in workforce skill requirements has been mentioned time and time again at this conference. These multiple industry forces have led to confusion, with many manufacturers trying to understand what is happening. The Alliance is starting to get a handle on how to cope with these changes. We understand the trends and are starting to understand what the underlying forces are.

One of the outputs of this state of confusion, as we see these impacts and forces converging on our manufacturers, is their need to have access to good, valid, reliable, unbiased information. What they tell us is that their best source of that information is their peers—other manufacturers. They trust each other, they share the same experiences, they share the same impacts. All of this has led to something of a phenomenon. In the last three years we’ve
seen the evolution of 23 local manufacturing councils or learning networks. It’s a phenomenon for Oklahoma manufacturing, because historically Oklahoma manufacturers are non-joiners. They don’t join the Chamber of Commerce. They don’t join trade associations. They spend their time at the plant, focused on production and the bottom line. Of all the industries I’ve ever been associated with, they are the least socially interactive. I think that’s characteristic of the nature of the business that manufacturers are in. In addition to being non-joiners, some are also very secretive. Oftentimes their competitors are across the street as well as around the world. The last thing they want their competitors to know is their competitive weakness. In the past they have not had the inclination to share those internal needs with anyone.

Manufacturers are fiercely independent, strongly entrepreneurial, highly competitive and prudent. The resource they tell us that they value the most is time. Having time to invest in network development, cluster development or interaction in the past has been extremely limited, but that’s changing now with the evolution of learning networks. They are increasingly willing to share these closely held needs. They see the benefit in joining together and to share common issues and opportunities.

There are three types of learning networks. Within Oklahoma’s 23 networks, there are basically two types. One is a learning network for firms defined as a diversified cluster of companies from a geographic area who seek to improve their competitiveness through interactive communication. The key words are “a cluster of diversified companies.” For example, a diversified cluster could consist of a textile company, an electronics company, and several industrial machinery manufacturers from a community, who all share some similar needs. They come together to learn on a very informal basis from each other’s experiences. The other type of network—and there are not as many of these—are industry sector networks. These are clusters of companies of similar SIC codes, or companies that share a similar client.

Within these two types of networks, we see two approaches. One type we call “hard network,” the other, a “soft network.” The hard networks are goal-oriented, (i.e., procurement of a government contract, or receiving ISO certification, or joint product development). Soft networks tend to be general needs that fall into macro topics—technology, markets, workforce, business practices. We see two types of structures in Oklahoma. Some networks are 501 C3 corporations for the purpose of collectively securing governmental grants that are available to these type of networks. There has been great success with some of our networks in that regard. The other most common structure is an informal network. Basically it has a chairperson and maybe a steering committee or program manager. These networks range in size depending on the locale from ten to 60 members.

In talking with the field people who take an active role in stimulating, facilitating, organizing these networks, there are four factors that they believe are key to success. One is to have one or more champions within the network who really believe in the value of interactive communication. They’re the ones who drive the organization. Another is to have a coordinator. To a large extent, this is a role that the Alliance plays, to be sure that phone calls are made, the letters go out, to handle the mundane day-to-day activity. Another is consistency, to meet at the same place with the same group on a regular basis. Last and most important is the trust factor. The ground rules are set for each network on an individual basis. Some networks will not allow certain types of discussion to occur. Other networks will not allow service providers to promote their wares. Each network then has its own set of protocols.

So what is the application for economic development? The Alliance believes there are clear benefits. The networks themselves provide feedback on the issues, needs, and opportunities that exist in the marketplace. It’s socially driven, it’s community driven. A lot of the issues transcend micro-economics. They involve community-based issues such as workforce development, health care, workman’s comp, product liability, transportation, housing, a number of issues that cross institutional lines. One of the challenges in generating a common ground of understanding among multiple community stakeholders is to come up with a model for a community network. I’ve developed a model named the “community economic development model.” This model is a synthesis of various approaches to community. It views community as a biological entity that must compete in its environment. The model views community as existing for five reasons common to every community: to provide for an economy, a government, systems for education, community support and community participation. It’s a systemic approach to looking at community. The factors—population, organization, environment and technology—are the factors that create change. In addition to the five functions and change factors common to every community, there are 15 internal subsystems common to every community. It is in these subsystems where we find a wealth of leadership. Whether or not they are elected officials or recognized leaders, certainly they are there. This model provides us a starting place for understanding each of our roles and our fit within community. Maybe by this time next year I’ll be able to come back and report to you how effective this model has been for us, but I believe that so far it offers good possibilities.

Joe Cortright: Thanks Randy. That wasn’t five New York minutes. Our next speaker is Delore Zimmerman.

Delore Zimmerman
CENTER FOR THE NEW WEST AND PRAXIS

I’m Delore Zimmerman. I work with Dan Pilcher from the Center for the New West on the High Performance Communities Initiative. That’s a model we’ve developed to help communities become more competitive and livable in the new economy. There are seven key elements to the initiative, but I’m just going to focus on one today. The seven elements are entrepreneurship in both the public and private sectors, deploy-
ment of telecomputing technology, net-
working, global outlook, target industry
clusters and a focus on trying to estab-
lish a basis for higher wage technology
and information industry employment.

To start, I’m going to focus on how
communities become more entrepre-
neurial. This work started before my
relationship with the Center through the
Small Business Innovation Research
Program, trying to figure out how com-
munities can become more effective at
recruiting entrepreneurs. What we
found is that most communities are very
good at shooting entrepreneurs. So our
focus switched to finding ways of work-
ing better with locally available entre-
preneurial talent. We found that if you
become better at that, you’re also more
effective at recruiting entrepreneurs.

I also want to talk about the role of
the local economic developer, which
will touch on the work the Center start-
ed with Littleton in developing the
high-performance model. Why is the
role of the local developer changing?
First of all, it’s because the economic
resources are changing. [VISUAL] Let’s
start with the bottom of the graphic.
The “transforming resources” have
changed dramatically over time, moving
from natural energy to processed energy.
Now, intelligence is really what gives
companies and communities the com-
petitive advantage. The “strategic
resources,” land once being the most
valuable, capital and now data. Time is
really important as an economic
resource, and we found, working with
rural communities in particular, that this
is a real problem. When you live in a
community where the whole institu-
tional structure and the leadership is
looking to the past all the time, it’s a
challenge when you want to create
knowledge-based companies, because
the real key is being able to anticipate
the future. So for rural communities in
particular, time as a resource is a signifi-
cant problem.

Given that the economic resources
are changing, what do we think the role
of the local developer is? The context
has really become quite complicated.
When you look at both entrepreneurs
and corporations, there’s more than just
incentives and cost of production that
go into it now. It’s become a multi-
faceted consideration. On the corporate
and entrepreneurial side, you’ve got
business interests, geographical prefer-
ences and quality of life preferences
which everyone talks about, as becom-
ing much more important now.
Entrepreneurs also bring some entrepre-
neurial resources, and that varies of
course, to the equation. The communi-
ties themselves have business opportu-
nities, a certain quality of life and com-
unity resources they can bring to bear
on the situation.

Delore Zimmerman

So it’s not as simple as it once was.
The challenge, for communities and
economic developers in particular, is
how to go about assembling the
resources to either create individual
businesses, or as we talked about yester-
day, industry clusters. We’ve tried to
demystify this (assembling resources) a
little bit with communities, and point to
the elements that are essential: entre-
preneurship, ideas, know-how and capi-
tal. These can reside within the compa-
nies in a number of companies, in gov-
ernment, in civic leadership. The point
is the developers need to assemble
resources to continue to move forward
and create an entrepreneurial environ-
ment. So you’ve got entrepreneurship,
which is the motivational part of it, the
inspirational part. Know-how, on the
bottom, represents the technical or
operational aspect of it. Some people
talk about various levels of knowledge,
including know-what, know-how, know-
why; and then the pinnacle being care-
why. Most communities don’t think
about the idea economy; they like to
look at the technologies, the processes.
Capital, of course, is the catalyst in all
enterprises. Capital was most recently
defined by John Nasbitt as “information
and confidence in motion.” I think for
many areas that are depressed, both
central cities and rural areas, that’s really
the problem—the crisis of investment.
What we try and do in the High-
Performance Community Program is get
them to look towards the opportunities,
because the role of the developer is
really finding those windows of oppor-
tunity that are going to work for the
community and for the businesses there.

The two primary roles I see for the
new economy developer are as an ana-
ist and a catalyst. [VISUAL] Let me
just talk a little bit about the six blocks
in the graphic. On the top and the bot-
tom you have the enterprise and public
and civic sectors. A local developer
really has to transcend both of those,
bring them together and move them
forward at the same time. That’s really
a challenge. Facilitating information
exchange, in block one, is something
that the people in Littleton are very
good at. Idea and opportunity assess-
ment is important because success is, in
many cases, being able to back out of a
situation that’s not going to work and
then reorienting so you can go in the
right direction. The remainder of the
functional roles include matching and
mobilizing interests, strategic decision
support, to get the information to these
people at the right time, and assembling
resources and tactical coordination.

You notice I haven’t said anything
about job creation. I’m not one who
believes that local development organi-
zations create jobs. What we have
designed here, however, is a process for
developers to participate in that process.
Most local developers do not have the
luxury of working with target industry
clusters. The demands on them on a
day-to-day basis are individual firms
who come in and talk to them.
Sometimes they can organize groups to
work together, but that’s not always the
case. Sometimes your best manufactur-
ers, your best companies, belong in clus-
ters that don’t have any critical mass
locally, so you have to figure how to
help them to network externally. We
like to have communities focus on those
things that really build on local competi-
tive advantages, to create community
enterprise opportunities. We think that’s the key for strengthening your local economy and also attracting people from the outside.

Oftentimes the real trick to some of this is knowing what the right questions are. Our training with communities and local developers includes key questions in analyzing any enterprise opportunity. “Is this a good business for anyone?” is the first key question. If yes, then you go on to the next question. “Is it consistent with our resources locally and with our identified target?” We’re assuming that there’s been some advance planning there, and that they know what they want to focus on. Third and finally, “can we assemble the know-how and the resources to make that a viable opportunity here?” The answers to those aren’t always yes, but I think that, by going through this and other processes that do the same thing, communities do learn to become more entrepreneurial. That’s what we’re trying to do with the high performance communities model.

AUDIENCE QUESTIONS

Candace Campbell: Given this variety of examples and the newness, who should pay for what you do and what should be your measures of success?

Chris Gibbons: In Littleton we use tax revenues which come from the businesses that are there, and we use the standard indicators for success: job creation, etc.

Randy Goldsmith: From our standpoint, we view our activity as a public investment to begin with, in that our organization is supported by federal, state and local dollars. So we allocate the time for people to participate in interfirm collaborations being consistent with our mission.

Delore Zimmerman: I think in our case we like to see companies with a stake in more knowledge and information type industries participate.

Sometimes that’s regional telecommunications groups or whatever it might be.

Graham Toft: Can I follow up? I’m thinking particularly of the Littleton case study, that you’re providing services that are available in the private economy. What is the public will of your community in support of you providing those services free, rather than being charged and available through the private sector?

Stephanie Neumann: What we have found is that, for the majority of the Littleton businesses that take advantage of our service, if they had to pay for it, they wouldn’t. That’s why we feel that our service is so important. I’m a librarian and I go to librarian conventions every year, and I know a lot of my colleagues in the state of Colorado who are information brokers and offer exactly the same services that we offer, and they just view us as a plus, that we are letting people know that the service is there. Again, in point of fact, the majority of businesses, the majority of services of the searches that I just described, if those businesses had to pay for them on their own they would just have to do without. So that’s one of the reasons we feel our service is so valuable. As Betsy mentioned, most of the businesses within the city limits of Littleton are not just under ten employees, they are under five employees. Someone else on the panel had mentioned how important time is to all of these businesses. Again, we find that too, and we just try to be able to provide them with some information so that they can become more competitive. I just can’t emphasize enough, it’s been for me professionally a wonderful opportunity because I get to explore all different kinds of search strategies, search activities, search databases. When I talk to my colleagues in the field they are just thrilled that there is someone out there in the economic development community being proactive and letting people know how valuable information is.

Toft: I appreciate that, but still the public must support us, and the trend in the United States is to refine and narrow the mission of government to the public purpose. What is it about your community that supports an initiative like this?

Gibbons: It’s just very politically popular. You get something from City Hall, which is pretty rare. Most of the time, when we show up at a business’s door, it’s to regulate them, to tell them to take down a banner, or their sign is too large or something along that line. We have our office just covered with thank you letters from people telling us that they appreciate spending their tax money on something they can use, and when budget comes around every year, we’re the three person department. I’ve got a $300,000 budget. We’re the people who come in and just pack the audience and say don’t cut BIA, they’re doing what we want. I think there’s just sort of a natural process going on there. People like it and they want it to continue.

Comment: I think one explanation is that Colorado has a substantial local sales tax as opposed to property tax.

Gibbons: Yes

On behalf of the panel, I’d like to thank you all.
Good morning everyone. I think we’ll go ahead and get started even though there are still some people to come back into the auditorium. My name is Maxine Moul. I’m Director of Economic Development for the state of Nebraska and I also was privileged to serve on the National Academy of Public Administration panel on the Federal Role In Economic Development. It is therefore my pleasure to moderate this session.

As your agenda indicates, we are going to focus on what American Presidents, Congress and Federal Agencies do to help create economic opportunity in the United States. Although we’ll probably focus on Congress and the Federal Agencies, there are a couple of recent items that come to my mind that demonstrate the role a president can play in economic development. Just this last week, President Clinton announced that there would be a substantial amount of hiring by the federal government of welfare recipients coming off welfare roles, including a fairly significant number in the White House. That’s a little bit of the bully pulpit role that I guess the President can play. Also, the First Lady has taken on an economic development role most recently with her involvement in micro-enterprise development. She, the President, and the Secretary of the Treasury announced the first Presidential awards for micro-enterprise development at the White House in January.

Last year’s report from the NAPA panel was A Path to Smarter Economic Development, Reassessing the Federal Role. That focussed, of course, on both Congress and the Federal Agencies—more than just the Economic Development Administration, but all federal agencies. In our panel’s presentation today we will focus on this NAPA report but also look at what EDA is doing in its changing role, and look at some of the Federal Reserve Bank’s involvement, specifically Art Rolnick’s report on incentives and the economic war between the states.

Next I’ll introduce our panel members. First of all is Michael Springer. He is Policy Advisor for the Office of Economic Policy with U.S. Department of the Treasury; his responsibilities focus on state and local economic and fiscal issues. He served as the first Chair of the National Rural Development Partnership, Federal Representative on EPA Small Town Task Force and participant in numerous White House and interagency policy advisory groups. On leave from the Treasury, he served as Associate Project Director of the National Academy of Public Administration’s Assessment of the Federal Role in Subnational Economic Development.

Robert Sawyer serves as the Regional Director of the Economic Development Administration’s Chicago Regional Office, which covers Minnesota, Michigan, Wisconsin, Ohio, Indiana and Illinois. He’s held various positions during his eleven years with EDA, including the business loans division, Chief Economic Adjustment Division Chief and Economic Development Representative from the State of Indiana. Before joining EDA he was in the private sector as a management consultant, and holds AB from Brown University and MS and MBA from Stanford University.

Art Rolnick is Senior Vice President and Director of Research at the Federal Reserve Bank of Minneapolis. He’s past president of the Minnesota Economic Association, a member of Minnesota’s Council of Economic Advisors and the Minneapolis Star Tribune’s Board of Economists. He holds a Bachelor’s Degree in mathematics, a Master’s in economics from Wayne State University in Detroit, and a Ph.D. in economics from the University of Minnesota. His most recent economic research has been directed towards public policy initiative. He has gained national attention for co-authoring the 1994 annual report essay of the Federal Reserve Bank suggesting that Congress end the economic war among the states. He also co-authored previous annual report essays on reforming the nation’s deposit insurance system and arguing for fixed exchange rates.

We’ll go first to Michael Springer. We really want to encourage a lot of dialogue between the audience and the panel as we look at this NAPA report and some other significant issues on the federal government’s role. Michael.
Let me sort of review a quick outline of sort of major themes that came out of this process. There was beginning with the recognition that the economy is driven by private choices and federal policies other than economic development policies are far more influential. Economic development involves directly a relatively small number of programs and tax subsidies amounting to about $7 billion. There was enormous skepticism about a lot of these programs. Much of the spending of federal economic development programs over the years has been old-fashioned pork which is very difficult to make nutritious meals on pure pork. Nonetheless, the panel concluded there's enough good stuff going on—enough productive investments that there is a role for federal government in economic development but that role should be more disciplined and focussed then the current federal programs. The panel concluded that there are are enormously important federal roles in fostering understandings of how local economic development actually works, picking up the costs and the risks of innovation, making sure that it's quality data available at the appropriate scale and timeliness so local communities and states can figure out what they are doing, sharing information about best practices. There was a debate within the panel about how far the report should go dealing with this sort of war between the states. The report noted there is enormous fragmentation in federal programs. It argued that there should be some consolidation in programs and that there should be some central policy direction for all these programs.
regional and local economic statistics, and by reducing the fragmentation of the nation’s statistical system. Well, as significant and effective as EDA is, we can’t take on the whole statistical system of the United States. The Economic Development Partnership Act of 1997 will address part of the problem by creating an economic development information clearinghouse. This will serve as a central information clearinghouse on matters relating to economic development, economic adjustment, disaster recovery, and defense conversion programs and activities of the federal and state governments, including political subdivisions of the states. The economic development information clearinghouse will be similar to EDA’s current defense adjustment assistance clearinghouse for base closures. The proposed clearinghouse will help applicants for economic development, economic adjustment, disaster recovery and defense conversion systems.

The fourth NAPA recommendation is give states and communities incentives to design and implement effective regional or inter-jurisdictional development strategies. Let me quote from the NAPA report—this is a little bit self-serving—"The EDA and ARC (that’s the Appalachian Regional Commission) are the only federal agencies that consistently encourage state and local development efforts on a regional basis. EDA and ARC consistently made small grants to cover basic administrative and management operations in addition to project grants and generally supported specific efforts by those organizations."

The NAPA report, however, suggests that the boundaries of the 360 economic development districts EDA funds should be re-examined in light of changes in demographics and communications technology. We agree with that, but it’s the governors who draw the boundaries of those districts. NAPA also suggests that EDA should do a better job of evaluating economic development districts. An economic development district is funded annually unless it grossly misbehaves. We at EDA agree that evaluations must be improved, and are working on performance measures which again Deputy Assistant Secretary Marquez will talk about this afternoon.

The re-authorization bill that I mentioned provides that EDA coordinate efforts to strengthen the cooperation among various levels of government, economic development organizations, and the private sector to enhance economic development work across the country. To accomplish this, the bill provides for appropriate state and local government consultation on proposed projects, allows for cooperative agreements with two or more states to achieve regional objectives, directs EDA to seek the cooperation of other federal agencies and departments to further economic development and—and I think this is particularly innovative—authorizes a national advisory committee on regional economical development to make recommendations relative to carrying out EDA’s efforts to enhance economic development. There will be a 25-member committee consisting of representatives of labor, management, agriculture, state and local government, federal agencies and the public at large.

The Economic Development Partnership Act of 1997 will update and enhance EDA’s programs by forming partnerships with states, with the preparation of state comprehensive economic development strategies that are consistent with local and economic development district plans.

The fifth recommendation: encourage investment and development strategies that offer opportunities to generate jobs and income over the longer term rather than high visibility projects. This is the ribbon-cutting every four years. We at EDA feel that EDA’s projects generate jobs and income over the long term. Economic development districts, university centers, revolving loan funds are particularly effective in supporting strategic perspectives. NAPA urges more investment-enhancing human and technological capital and less in infrastructure and business loans. Both, of course, are needed. We are examining ways to achieve the optimal balance. Work on the performance measures and program evaluations that Deputy Assistant Secretary Marquez will speak about this afternoon will help determine that balance.

EDA’s fiscal year 1997 programmatic priorities I believe support NAPA’s suggestion that economic development be for the long term. There are five priorities: The first is the commercialization and deployment of technology—particularly information technology and telecommunications—and efforts to support technology transfer. The second EDA objective is sustainable development which will provide long-term benefits including responses to economic dislocation caused by national environmental policies, as well as projects involving brownfields we use. Third is entrepreneurial development, especially local capacity building and including small business incubators and community financial intermediaries. Now the fourth is economic adjustment, especially in response to military base and federal laboratory closures and downsizing and post-disaster long-term economic recovery. Here in Minnesota that’s becoming a very important topic with the flooding in the west. The fifth is infrastructure and development facilities located in federally authorized and designated rural and urban enterprise communities—empowerment zones as well as state enterprise zones. The EDA re-authorization bill will permit grants for training, research, technical assistance including grants for program evaluation, and economic impact analysis which will be useful in alleviating or preventing unemployment or underemployment.

Robert Sawyer

NAPA’s sixth recommendation is give special assistance to states and communities to seek to create economic opportunities in distressed communities. The NAPA report specifically suggests that federal agencies should provide investments to help distressed communities build economic development to
capacity, and invest aggressively in evaluations of demonstrations in state and community projects, ensure a flow of funds to distressed communities for development projects, and finally clearly define distress and apply rigorous procedures distributing assistance. EDA continues to target its resources to those communities that are most economically distressed. In fact, the House Appropriations Committee, in their FY96 report, directed EDA to “take all necessary actions to ensure that funds be targeted to the most severely distressed areas which, absent the assistance provided by EDA, have little or no access to resources for critical infrastructure development and capacity building.” As many of you know, most of the country is designated for EDA assistance but, as the NAPA report points out, we use administrative judgement to focus on areas of high distress. I think we’ve done a pretty good job of that. EDA, though, is struggling to find valid measures of distress. Now the principle measure is the two-year unemployment rate—that works pretty well in cities, but not so well in rural areas that have low unemployment, low incomes and out-migration. Clearly unemployment statistics improve if the unemployed leave, but their departure does nothing about the fundamental economic problems that cause them to leave in the first place.

NAPA’s seventh recommendation is substantially reduce the fragmentation of the federal economic development effort. We at EDA agree. It would be a little self-serving, but EDA, with its institutional knowledge going back 32 years, would be a great place to concentrate federal programs.

Recommendation number eight: establish a permanent mechanism to provide overall positive level guidance to other federal activities, which is workforce training, environmental protection, technology and research, and other endeavors that contribute to economic development outcomes. This is too big for EDA even. We’ll take the economic development programs but we can’t handle the whole macro economy of the country.

Recommendation number nine: reorient federal programs, especially business finance programs, toward strategies that address underlying obstacles to obtaining credit. EDA’s revolving loan funds, which are operated by local economic development organizations, offer credit to borrowers who have been turned away by other lenders. Because revolving loan funds are operated by local organizations, they are in tune to the needs of local communities and cultures. It’s these unique characteristics that sometimes exclude borrowers from financial markets.

The last recommendation, recommendation ten, is encourage states and localities to stimulate links among businesses to enhance overall economic development performance. Again, this is beyond EDA because what it really gets down to is tinkering with the anti-trust laws, and that’s beyond our mandate. That’s my quick run through of the NAPA report.

Maxine Moul: Thank you very much Robert. I’ll now turn to Art Rolnick who was not a member of the NAPA panel but was present at the conference, and certainly some of his work is reflected in at least one of the NAPA recommendations. Art.

Art Rolnick
MINNEAPOLIS
FEDERAL RESERVE BANK

I was asked to comment on the National Academy of Public Administrators (NAPA) report addressing the role of the federal government in economic development. My remarks this afternoon are partly based on a 1995 essay I co-authored with Melvin Burstein, Executive Vice President and General Counsel of the Federal Reserve Bank of Minneapolis entitled, “Congress Should End the Economic War Among the States.” And as you will see I have some strong views on this subject. I applaud the Economic Development Agency (EDA) for funding a report that asks the question, should there be a role for the federal government in economic development? The answer goes right to the very existence of the EDA, and I applaud the EDA for having the courage to raise the question. Indeed, the report cites Alice Rivlin’s book, Reviving the American Dream, the Economy, the States, and the Federal Government, (Brookings, 1992). Rivlin suggests that the federal government should completely withdraw from economic development activities. I think that goes too far. There is an important role for the federal government to play in economic development, but it is a much different role than the one envisioned in the NAPA report. The NAPA report’s analysis goes astray because it fails to be guided by some key economic principles. I will first discuss these principles and then show how they lead to a more focussed and useful discussion of the issues.

In making a case for any government intervention in the market, distinguishing between markets for private and public goods is critical, yet the NAPA report fails to make that distinction. Adam Smith taught us over 200 years ago and economic history has demonstrated over and over again, that markets do a fairly good job of promoting economic efficiency and growth when it comes to private goods. But markets fail to deliver the right amount of public goods. When markets are left alone to produce public goods, they tend to produce too little. A public good has two special features: one person’s consumption does not diminish another person’s consumption, and once the public good is produced, preventing a person from consuming the good is difficult. National defense is a classic example of a public good. Once in place, one person’s use of this good does not diminish another person’s consumption, and once the public good is produced, preventing a person from consuming the good is difficult. National defense would have a hard time making a profit. Education and research have some aspects of public goods because once produced all agents in a society benefit and it’s difficult to exclude people from these benefits. Similarly, health care has aspects of a public good. The distinction between markets for private and public goods is important, therefore, when you ask the question, what should the role of government be in a market economy?
There is another critical distinction that the NAPA report fails to make—the difference between private competition and public competition. Private competition, that is, the competition among private individuals and private firms, is what Adam Smith had in mind when he lauded the outcome of a market economy. What about competition among governments? What do economists have to say about that type of competition? In 1956 Charles Tiebout (Journal of Political Economy) wrote what is considered a classic article today on the role of state and local government competition. He argued that it was beneficial because it provided signals to subgovernments on the demand for public goods. What Tiebout had in mind is that when governments compete among each other by offering various public goods under different tax systems, citizens can signal their demand by voting with their feet. That is, a person will choose to live in a community that has the mix of public goods and taxes they prefer. In equilibrium, some communities may have high taxes and lots of public goods, while others may have low taxes and few public goods. By voting with their feet, firms and individuals are sending signals to subgovernments as to how many public goods to produce. State and local governments are thus led by an “invisible” foot to produce the most efficient amount of public goods. Tiebout argued that this type of competition helps subgovernments determine how much they should produce.

I first got interested in the issue of competition among state and local governments when I observed a different type of competition than Tiebout considered. This other competition among state and local governments is the preferential type, that is, competition for specific firms either to lure them from another location or keep them from leaving their current location. The particular case that drew my interest took place in Minnesota in 1991. Northwest Airlines came to the state for a $830 million, low-interest rate loan partly to fund a new maintenance facility and create 2,000 new jobs. Roughly half of the money would be an operating loan to the airline, the remainder was for the maintenance facility itself.

I found that the loan request raised some difficult questions. If you are going to provide a subsidized loan to Northwest to create jobs, why are you not going to provide the same financial assistance to, say, General Mills or 3M? And, if you’re going to subsidize large companies why not small companies? More fundamentally, in what sense are new jobs being created by these subsidies? From a national perspective there are no jobs being created by these subsidy wars, jobs are just being retained or relocated. And the invisible foot does not work here because there is nowhere to go; all communities are waging these subsidy wars. Moreover, from a legal perspective, subsidies that are used to lure or retain businesses appear to be an interference with interstate commerce and violate the commerce clause of the constitution.

This is when I got Mel involved. I asked, why are these subsidy wars constitutional? Doesn’t the commerce clause prohibit states from interfering with interstate commerce? But Mel only responded with another question: what’s wrong with competition, isn’t competition good? Well, the two of us got into a debate that lasted about a year. Imagine a lawyer and an economist trying to converge on an issue it was not easy.

Out of the debate came the Federal Reserve Bank of Minneapolis’ annual report essay calling for Congress to end subsidy wars. We argued that Congress has the authority to prohibit this type of economic warfare and it should. From a national perspective, these wars are counterproductive. In equilibrium, subgovernments provide fewer public goods and private markets are less efficient than they would be otherwise. Let me illustrate these conclusions with the Northwest Airline case. Northwest Airlines made it clear that the maintenance facility that they were going to build in northern Minnesota was going to cost 30 percent more to operate than if they located the facility in an area of the country with a milder climate. The subsidy to the airline may have been less than the taxes the new facility was going to generate (so it was rational for the state to make the loan), but from a national perspective, there was now less revenue available for financing public goods or providing tax relief (subsidies) for all businesses. From a national perspective, no new jobs were created and there were fewer public goods and fewer private goods than there would have been if states were prohibited from engaging in subsidy wars.

The NAPA report is very soft on this issue. Its position is that the federal government should help our cities and states fight smarter so that they do not over bid. Given the current rules, there is some logic to this position, but it misses the big picture. The rules are flawed and should be changed. If I were governor, I would want the best ammunition to fight this war. I would hire a Graham Toft and have him run my economic development program, because I have to compete with 49 states all looking to create new jobs and increase their tax base. I’m going to want the best economic developer I can get and the best advice to fight this war. But what is optimal for state and local economies is not necessarily optimal for the national economy. Indeed, what is optimal for the national economy is to end this war. Even though Graham’s a friend, I’d like to put him out of a job or at least radically change his job. There is a better role for economic developers, which is to help cities and states produce and manage their public goods.

Our position has been criticized by some who have said that while they agree with us in principle, having the federal government monitor this war is going in the wrong direction. Imagine if
the emphasis on recruiting—but the
more you talk about it, the more people
focus on it and I don’t think we’re going
to walk away from it, and I think the
criticism I would have of NAPA is that
it didn’t talk enough about how you
develop alternatives. And I think devel-
oping alternatives from the kinds of
things we’ve talked about at this confer-
ence is the way that we’re going to dis-
place industrial recruiting as the pre-
fected, or at least the default, strategy
that cities and states use, and I just won-
der if panelists would comment on that
issue.

Moul: Michael.

Michael Springer: I think you are
too optimistic. How do you sort of deal
with the question of access roads and
infrastructure—where does the public
begin and the private end? Similar
issues pertain to training and marketing
assistance...but having said that, it’s
interesting, I think it’s a terrific exercise
for Congress to go through and it has
gone through it in a way with industrial
revenue bonds. They have defined what
is public and what is private—and let
me make a little footnote here—sports
stadiums are not considered public and
Senator Moynahan is trying to close that
loophole right now because as you
know they still use industrial revenue
bonds, tax exempt ones to finance most
of the sports stadiums. So Congress has
gone through this exercise and the exer-
cise there’s a good principle in defining
what is public and what is private and I
think Congress should have to say
where the line is. For example, on train-
ing—which I think is a term that I’ve
heard at this conference used quite
loosely—there’s some training that is
clearly private, that these companies
would do anyways. If I’m training
somebody to run a particular type of
machine or do a particular type of a
process for a company I view that as
private and the private sector is proba-
bly going to do that very well.

I view what I call education—public
education—as a critical role for the gov-
ernment and I think we can draw that
line. We can support Vo-Tech schools
and colleges very well without having to
worry about specific training for specific
companies so I think those lines can be
drawn, they may not be perfect, there
may be a continuum but I think
Congress has to do that when it makes
any decision as to the type of services it
provides and I think it’s a good exercise
and one that democracy should go
through.

So I can see some problems in the
details but I think you’re going to have
to face those at some point because if
you don’t what you have is what we
currently have which is an awful lot of
money that’s been used not for prob-
lems in our society and let me add one
thing on the problems in our society I
don’t want you to think even though I
think our economy has done very well
and growth has been strong and so on,
that we’ve solved all our problems.

There is a growing income disparity
in this country and it’s between the
skilled and the unskilled workers and
the unskilled workers are falling further
and further behind and if there is a con-
cern in our economy in an economic
development sense it should be a con-
cern about these unskilled workers and
what’s going to happen with kids who
are going K through 12 and coming out
and don’t know how to read or write;
that to me is a serious problem in our
economy and one that we’re going to
have to face and if our current econom-
ics development programs are simply
going to help skilled workers get better
jobs we’re making a mistake.

AUDIENCE QUESTIONS

I’m Lee Hill from the Department of
Economics, Iowa State University. I
want to ask about if you are all familiar
with the book by Timothy Bartek, who
benefits from state and local economic
development. I’m in substantial agree-
ment with what you are saying, but one
of the most recent books that has come
out on this topic comes out with the
argument that, in fact, Timothy Bartek
believes the economy as a whole does
benefit. The hole I see in that is that,
behind all the studies he points to, all of
their significant coefficients he makes
the unspoken assumption that, when
this game goes on, the most distressed communities will do the most to attract jobs, so that we will reallocate jobs from flush communities to distressed communities, and that I find a serious flaw. It’s an assumption that has no numerical evidence for it. I did work here in Minnesota at one point, and suburbs have perhaps $14 to $12,000.00 of tax capacity per pupil unit; St. Paul and Minneapolis had about $6 to $9,000.00 per pupil unit; most rural school districts have around $2,000.00 or less per pupil unit. I did the same study in New York State and found the same disparities: suburbs, New York City, non-metro counties. So I want to ask you if you are familiar with Bartek’s book and what your response is to his argument that this in fact is not a zero-sum game.

Comment: Yes, I am familiar with the book, and Tim and I have debated this issue a number of times. At the conference that we held in Washington, one of the participants, a fellow from Iowa—and I can’t remember his name right now—he and a colleague did a study looking at the Bartek hypothesis, and that’s what Bartek had in theory. One could imagine that, after the war settles and you look around, the distressed areas somehow outbid the areas that are doing well, and so we end up helping the unemployed in these distressed areas. And these fellows did a study to look and see what the outcome actually was, and could find no evidence. If anything, the evidence went the other way, which is what you are sort of suggesting.

If we think about who has got the resources to play this game, it’s not going to be the distressed areas. I also have made this argument when rural community developers have asked, if we don’t have tips or ways of subsidizing or enticing firms, aren’t we going to lose out. And I said I suspect you’re losing out now in the game, even though once in a while you can show that you’ve attracted a firm. If you think you’ve attracted a firm, there’s a question of whether they would have come or not, that overall this game isn’t going to be won by the rural areas; it’s going to be won by the cities and the communities that have the resources to play this game. But getting back to Bartek:

Bartek had an hypothesis. I don’t think it’s been borne out. I was skeptical of it just on priority grounds, knowing who has the resources, but those who have done careful analysis cannot find it. I’d also say—and it gets back to my point earlier—I don’t think the role of economic development is the role of federal government, or cities, or states. I don’t think they should be in general worrying about communities per se. I’d rather have them worried about people—and again it gets back to entry-level, low-skilled workers that I think are suffering in this economy—and focus our efforts in that area. Otherwise, many of these programs, I would argue, don’t get to the right area. You end up subsidizing. I’m sorry, I have to come back to Northwest Airlines, but we now have two CEO’s of that company who would not be owning that company today had the market worked. They would have gone bankrupt and they would have lost that company. And today Mr. Checki is worth something over $50 million, and he’s running for governor of California. You have to take a hard look at where these subsidies are going and who really is benefiting.

Moul: Comment over here?

My name is Michelle Piferone and I’m with the Small Business Development Center in Region 10. The discussion today has been largely around large businesses and the fact that the statistics show that the job creation is in small and micro-enterprise. What’s your view on subsidies, to access to capital, for those small firms that are just getting off the ground? And what other programs—federal, state and local—are available to small businesses?

Rolnick: About a year ago I would have said that it should be an even playing field. There’s no reason to subsidize small versus big; we should let the market determine that. But I have been convinced by some recent research—it was a dissertation that was just finished here at the University of Minnesota, and I’m afraid I’m not going to be able to cite that exactly either; I’m sorry—but it shows that there is some reason to think that the market doesn’t work, that there may be some market failure for small firms, that there is an east and west information problem—especially with small firms—and that there is a role for an SBA at a national level, and I think that work is pretty persuasive.

There’s still more that needs to be done in terms of how much and things like that, but I think that’s an important area and it’s an area that the Federal Reserve is very interested in because Congress has charged us with the Community Reinvestment Act. So I wouldn’t rule that out, not so much because small firms create more jobs than large firms—I think that’s a statement that’s made a lot—but I think you have to recognize that many of those small firms are in business because they cater to large firms. That is, they provide certain goods and services to large firms, so there is a connection there that I think is difficult to disentangle. I don’t think that’s the correct way to look at it. I think the correct way—you alluded to it earlier—do they get access to the credit market on an equal footing in some sense? Again, this research suggests they may not, and, in that sense, I would agree that there might be a role—an SBA-type role—for federal government.

Sawyer: Let me take a little different look at that. I don’t have the wealth of resources that Art does; but from a number of years of involvement in economic development and EDA’s involvement in really launching incubators and revolving loan funds, it appears that small businesses help minorities and women more than the larger companies do. There may or may not be data to prove that, but in our incubators and revolving loan funds there is a high proportion of minority and women business people, and my observation is that they help those groups.

Moul: Comment up here.

Graham Toft, Indiana Economic Development Council. Now that Art’s put me on notice, I am looking for a new job. I don’t only need help from the panel, but probably from everybody in the audience.

I have a couple of observations and then a question. I couldn’t agree more
with Art about the EDA report. Any
time we look at economic development,
we have to ask the question. By and
large, economic development takes dol-
ars with policing power out of the pri-

date economy and purports that those
dollars will be used better, more effi-
ciently, for higher return than if they
were left in the private economy. So
any report, any analysis, any investiga-
tion we do in looking at new economy
strategies should be based, it seems to
me, on this approach. And this report
does fall short in beginning from the
basics.

However, we are talking here about
some new initiatives, so my question to
the panel is that we seem to think of
public goods, we’ve just talked about
small business development services
that are provided on very much a gov-

ernment program type basis, or we
looked at the Littleton case where small
businesses are receiving the public good
of information, we are talking about
clusters and my question is—maybe to
you Art, or to the rest—to what extent
are clusters and cluster strategies a pub-
lic good beyond private good and then
to what extent should public resources
be applied through grants and incen-
tives and so forth to support cluster
development?

Springer: As an economist, I think
we find it very easy to just make very
clean distinctions between what a pub-
lic good is and a private good is. And
the problem is, in my mind, that in
many policy areas—in fact most policy
areas—we are in a world of mixed
goods that have private characteristics
and public characteristics. We don’t
really have sensible tools that work well
to sort them out. I’m not talking about
the NAPA panel, because they didn’t
got to that point where the intellectual
tools ran out. But I think they do run
out. Graham raised the issue of how to
address industrial clusters. How do we
treat it, and what is this entity, and is it
a purely private thing? What sort of
public good characteristics then do they
have? I think there is a whole host of
areas in which we just don’t have that
sort of intellectual tool to address criti-
cal issues.

Rohrnick: I agree with Mike in a lot
of ways. I like the question—that’s the
way I would like the question posed.
There is some research that has been
done on clusters that suggests there are
some external effects and that certain
firms get together and feed off each
other. And so the market may not quite
work there, and there’s a reason for
wanting to get clusters together.

I think the question I would ask is
why the market tends to do that on its
own. However, these firms seem to find
themselves, so again there may be a bit
of publicness there that shouldn’t make
us put up a red flag and say maybe
there is an area here we should look at.
But the burden, I think, has to be again
on those that don’t want to take money
out of the private sector and put it in
the public sector to show that we’re
really doing something that the market
wouldn’t do on its own. We’re adding
value, and are we adding enough value
from what we’re taking out? Because
presumably when you start taking this
money out of the economy, it could be
going to R&D or it could be going into
low income families that we’re taxing.

So I think we’ve got to look hard at
it, but that’s the way I’d like the ques-
tion put. I agree with Mike it needs
more analysis. There’s a continuum
there, and it’s going to take some tough
analysis, but, having said all that, it isn’t
like if you were to ask me what are the
major problems in our economy, I
would argue it’s not economic growth
per se. It’s not the number of jobs
we’re creating, because this economy is
creating a whole lot of jobs, and just let
me repeat myself, it’s not a shortage of
jobs, it’s a shortage of skilled workers.

Sawyer: Let me say a couple of things on that
topic. First of all, most of the competi-
tion that goes on in the United States—and
I’m guessing, but 90 percent or
more is not with foreign countries,
okay? That’s one response. The second
response is under the commerce clause.
It’s very clear how we should deal with
that. It shouldn’t be state-by-state or
city-by-city; it’s the federal government
who makes treaties with foreign coun-
tries. So, if it is a problem—and I agree
that it is with some countries—it should
be part of our trade agreement. In fact,
there is something on NAPA on this.
but maybe not strong enough. But
there are international organizations
that are starting to worry about this
problem. The European community is

Springer: Let me respond abstractly
and then make a dodge. I think there’s
been a lot of SBA-sponsored research
that has fostered myths about small
businesses that don’t comport with real-
ity. You can read Bennett Harrison in
response to that. And I also have not
seen that kind of evaluations of the SBA
programs, but I am skeptical.

Good Morning. I’m Anita Dukor
with Northern States Power Company,
and my question is, well, first of all, I’ll
make the statement that I absolutely
agree that the best thing we could do
on a national level is somehow elimi-
nate these war games between the
states. My question, though, is that we
are in a global economy; our companies
are competing and they are being
recruited by other countries which do
have incentives. So then how do you
counteract that if the United States
takes the position we’re not going to do
any incentives? Then you’re really
pushing a lot of those decisions off
shore, which I think has some ramifi-
cations. I know that, in a couple of pro-
jects that we’ve been involved with, the
competition was not another state; it
was another country. What’s the
response to that?

Comment: I didn’t know you were
going to ask a tough question, Anita.
Let me say a couple of things on that
topic. First of all, most of the competi-
tion that goes on in the United States—
and I’m guessing, but 90 percent or
more is not with foreign countries,
okay? That’s one response. The second
response is under the commerce clause.
It’s very clear how we should deal with
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that it is with some countries—it should
be part of our trade agreement. In fact,
there is something on NAPA on this.
but maybe not strong enough. But
there are international organizations
that are starting to worry about this
problem. The European community is
So I wonder, given that, what is lacking edge and expertise all over the world. has really been to sprinkle knowledge all United States higher educational system economy, one of the functions of the we talk about the knowledge-based think it’s curious that no one has... when actually hiring and developing opera- in training more software developers, are Virginia that, rather than invest, lets say, here in Minnesota and in Alexandria, business. I know of companies both years ago, but there is standing the ques- tions about this are that, given that we know we have trade barriers all around the world and it doesn’t mean we should allow states to have trade barriers amongst themselves. So I think your question is a very good one. It is one that Mel and I have thought a lot about, but it raises it all to a different level, and it’s something that should be done at the federal level.

I just want to point out that trade incentives—locational incentives—are barred both under NAPA and GAT. The only places that can offer it are those who can demonstrate distress within their own national context, and in fact most of our interstate incentives may be illegal under NAPA. The issue is standing. We’ve been fantasizing about the notion of Ohio losing a trade war incentive, going to Canada and Mexico and getting them to sue Kentucky for us. So...but I know that, in EDQ, we published an article that covered this about a year and a half or two years ago, but there is standing the question of who’s going to file the first suit.

**Question:** I had a sort of a similar question about looking at workforce internationally and the globalization of business. I know of companies both here in Minnesota and in Alexandria, Virginia that, rather than invest, let’s say, in training more software developers, are actually hiring and developing opera- tions in Bangalore for instance. And I think it’s curious that no one has... when we talk about the knowledge-based economy, one of the functions of the United States higher educational system has really been to sprinkle knowledge all over the world, and centers of knowl- edge and expertise all over the world. So I wonder, given that, what is lacking in NAPA’s report or our response to this international set of knowledge that is going to grow this new economy?

**Comment:** I think the NAPA report focussed on economic development fairly narrowly defined in terms of what economic professionals define as their turf. I think the question you’re asking deals with the issues of the fundamental public goods that are being supported in the United States in terms of what level of investment and what kinds of train- ing, technology dissemination, what’s making the kind of public infrastructure that is being provided. Those are sort of fundamental public goods that are going to make us competitive or not competitive, and the question of when you do this report you talk about, how do you manage the nation’s economy, or do you sort of narrow down to $7 billion worth of programs which are really trivial in terms of our overall economy. But not necessarily trivial over the long run in the lives of communities, even if they’re small. I’m just trying to put the report into context.

In saying that other countries are free-riding on our educational system so that the playing field, as Anita said, is not amongst the states but really between the United States and many other countries. One of our biggest comparative advantages has been our higher educational system that has built technologies and scientists and engineers that are now all over the world. Some would say this is great, because we will have an opportunity to develop further trading relationships. But what I’m ask- ing is, are we losing the opportunity to give more access to that knowledge base to people who are right here in our inner city, or low-income communities, or other places when we are going to Bangalore to hire a software developer for $20,000.00 or $30,000.00 a year that would cost us $60,000.00 here? If that’s the new economy and the knowledge-based economy, should we not be thinking about that in our economic development policy making and pro- grams design?

**Moul:** I hate to cut off comments, but we are at noon and we did have one person who has the microphone over there, so...

**Comment:** I can’t let the cluster thing go. I think your response shows sort of a lack of understanding of what supporting clusters would be all about.

For example, of the ten things that you listed, most of these things would support a cluster-based economic development approach from the report. If you just take the way I think of a cluster, for example, it is an analytical tool, number one. I would say there is clearly a role in providing, as you did in your ten rec- ommendations, clearly a role in provid- ing information and data so that commu- nities can do that kind of analysis. That’s one thing.

I think the second thing is, you talk about providing public goods, and the kinds of infrastructure that you need for industries to be competitive. There is clearly a role there for figuring out how you support specialized resources for those key industries in your area. So I was kind of amazed at how flippantly you sort of said we don’t know what we are going to do with clusters. I think that may be a misunderstanding. Now is there a question of do you support cluster organizations? I don’t know. Maybe that’s an issue. But you’ve also indicated that you would want the sup- port looking at your economy and eco- nomic development on a regional basis. That’s what clusters are all about. So I was kind of amazed by the response to that question.

**Sawyer:** I didn’t mean to be flippant. What I meant to convey is that it’s a new area and we’re not sure what our role should be in it. In my limited analysis of clusters, I haven’t found a consistent definition of what a cluster is. There is a lot of research going on. I think I agree with your implication that the government has a role in providing information; beyond that I don’t know. I think that one of the things we’re experiencing in Chicago is that there are a number of industries that may be potential clusters, and they don’t know about each other. They haven’t formed clusters yet. We might be able to accelerate the process with some information. We are examining the field right now. One of the things that I do is make grant decisions. We’ve had some talk with people about grants to look at clusters in one city or another.

**Moul:** I want to thank all of you for participating in this conversation and please join me in thanking the panel.
Today we have five speakers. My name is Kathy Schill. I’m a Senior Budget Analyst at the Ohio Legislative Budget Office. I am one of your speakers, as well as the following, whom I will introduce in order: Janet Jones from Janet Jones Works will be talking about lessons learned from the overall Oregon experience. Doug Henton is going to comment on regional benchmarking in the Silicon Valley; Don Bezruki works with the Wisconsin Legislative Audit Bureau. And Awilda Marquez from our federal component Economic Development Administration will take a look at research priorities and “back to basics” evaluations.

Let me go a little bit further into some of the introductions. Janet Jones is an independent business economic development consultant based in Portland, Oregon. She specializes in developing economic strategies and public-private partnerships. She worked for over seven years with the Oregon Economic Development Department as a key industries development manager and policy and research manager. Ms. Jones launched Oregon’s key industries strategies and flexible network programs, and managed the development of the department’s new system of performance measures. She also staffed the Oregon Economic Development Commission, which oversees the department and sets state-wide economic development policy. She earned a degree in Economics from Lewis and Clark College in Portland and a master’s in Business Administration from Portland State University.

Doug Henton is President of Collaborative Economics in Palo Alto, California, which was founded in July 1993. He has more than 20 years of experience in economic development at the national, regional, state and local levels. He is nationally recognized for his work in bringing industry, government, education, research and community leaders together for collaborative projects to improve regional competitiveness. Mr. Henton was project manager for the start-up of the Joint Venture Silicon Valley Network. He advised the California Economic Strategy Panel; he has worked in Hawaii for the Hawaii Business Roundtable and in Massachusetts for the Massachusetts Technology Collaborative. He has written a book entitled, Grass-Roots Leaders for the New Economy—How Civic Entrepreneurs Are Building Prosperous Communities. We are really pleased to have him here.

Don Bezruki is Program Evaluation Director at the Wisconsin Legislative Audit Bureau where his duties include working with legislators and identifying evaluation topics, overseeing staff, performing program evaluations, and presenting evaluation results at legislative hearings and other public forums. He has participated in evaluations of programs in all areas of government including agriculture, education, the environment, economic development and transportation. Mr. Bezruki is active in the American Evaluation Association, currently serving on the editorial advisory board of its New Directions for Program Evaluations. He is also active in the National Legislative Program Evaluation Society.

Awilda Marquez was appointed Deputy Assistant Secretary for Program Research and Evaluation at the Economic Development Association by the Clinton Administration in January of this year. In that position she manages EDA’s research and technical assistance division, its operation review and analysis division, and its budget division. Among her responsibilities are the revamping of EDA’s technical assistance and research division, and the development and operation of program evaluation systems for all of the agency’s economic development assistance programs. Ms. Marquez previously served as Chief Counsel of EDA, where she supervised 15 attorneys in EDA’s Washington office and six regional offices. She has also done a host of other things including an agency-wide regulatory streamlining process that reduced EDA regulations by about 62 percent. Prior to her appointment there, she served as a White House Liaison in the Department of State. She has been active in community, political and economic development areas of Baltimore. She is the founder and President of the Women Entrepreneurs of Baltimore, a non-profit program that provides community-based entrepreneurial training and support for low-income women.
Finally there is me. I have worked in the Legislative Budget Office (LBO) for about eleven years. Basically I tell legislators what their ideas are going to cost. Sometimes they listen; sometimes they don’t. If you have any other questions about my background you can ask me later or refer to the program. I would like to share with you Ohio’s experience with state economic development.

What’s going on in Ohio? What’s the Ohio experience? What I’d like to discuss with you today, I’m going to do in three parts. First of all, I’m going to talk about the background of the Ohio experience. What do legislators see with respect to economic development? Second, I’m going to talk about the paper I wrote to help highlight some of the important things that are happening in Ohio. Then, I will talk about the RFP (request for proposals) that was contained in House Bill 442. This bill was passed last June and contains a one-half million dollar study that will actually evaluate Ohio’s state economic development programs.

Part of the Ohio experience includes a very active economic development department. You may have heard of some of the activities promoted by the Ohio Department of Development. For the third year, Ohio has been named by Site Selection magazine as the number one place to locate business or expand business in the nation. That is something the department likes to advertise quite a bit. Ohio frequently advertises in the Wall Street Journal and other prominent business weeklies. There is also the Ohio commercial (not government) website. If you haven’t been to the OhioBiz website, it’s really neat to see. These are all very good tools that the Department of Development uses to promote the business environment, and they also help bring about the linkage between the business community and state government.

By the way, I visited this site right before I left Ohio and, after a year’s existence, they’ve added a new component, translations of most documents into seven different languages. If you haven’t been to OhioBiz.com, I’d suggest a look there.

Ohio’s business community generates numerous economic benefits statewide. The problem is that when LBO takes a hard look at budgets and indicators to determine what is going on in Ohio, we’re in competition with a lot of this promotional communication. Budget analyses like this [Overhead slide: Ohio Department of Development, Line Item Analysis] try to better paint the picture of reality. Sometimes these analyses are used and sometimes they’re not.

In this particular slide [VISUAL: Ohio’s Economy—Economic and Community Development Subsidies have More Than Doubled in Two Years] I’ve taken a document that the department is legally required to share with the legislature—it’s called the Annual Loan and Grant Report. The Ohio Department of Development is required to report: one, how much money is spent on its economic development programs; two, where it is spent; three, what business receives it; and, four, in which year. These are very basic things. Not included here is projected job creation. I simply tracked funding by volume and location, and you can tell how much of an increase in subsidies has actually occurred over the two-year time period. It’s gone from $367 million to $875 million in just two years. Note which communities were the beneficiaries and which communities got “some” money. This kind of information is available to legislators and we talk about it sometimes, but in the midst of these other things.

LBO is now preparing a document that will have a number of Ohio issues pertinent to budget decision-making discussed in ten-to-fifteen-page papers like this. [VISUAL: Ohio’s Economically Disadvantaged Areas: Are We Matching Resources With Need?] By request of the Legislature, I’ve gathered information to examine economic development funding and to identify where this money flowed with respect to specific and community conditions. What is an “economically disadvantaged area” (EDA)? As defined by House Bill 442, an “EDA” is a federal labor surplus area or an impoverished area, or a combination of two. In Ohio 45 of 88 counties are disadvantaged areas. When this information is placed on a map and examined, the results are absolutely astonishing. This definition, poised with the amounts of money flowing to each county, reveals a major mismatch in assistance. That’s part of how we’re trying to provide reporting that will be useful to a legislator. The results of this exercise revealed that approximately five percent of the $875 million (in 1995) awarded to businesses to promote economic development went to economically disadvantaged areas.

Also happening in Ohio with respect to House Bill 442 is the inclusion of an economic development study that we have not heard to be rivaled by any other state. This one-half-million-dollar study will take a closer look at economic development programs in Ohio. What does that mean? I’ve documented 55 different economic development incentive programs in the Ohio Department of Development that are separated from any of the tax incentives offered by the Ohio Department of Taxation. The study, defined by this RFP, [VISUAL: Request for Proposals for Comprehensive Study of Ohio’s Economic Development Activities] will include a review of both business incentives and tax incentives, grouped into four categories: tax avoidance, tax credits, grants and low-interest loan programs. Each of these categories is within the scope of the RFP.

Ohio recently conducted a tax study that took 18 months to complete. The problem is, no one has been looking at it; it’s been sitting on a shelf. To avoid a redundancy of analysis, the RFP now requires each proposal to start from that point where the tax study ends, move forward, and give us better information. The second goal is to conduct a program analysis of each of the business assistance programs in the state, including loans, grants, tax incentives, training, technology assistance, and all other state and local business programs. That’s pretty comprehensive. That’s where the meat of the study is going to be. There is a section at the end of the RFP that clearly identifies the programs and the priorities that we are expecting for a review.
The third goal is to develop a list of procedures to be used by the Department of Development, or the most appropriate agency, for the evaluation of the existing and future economic development programs. This is important. Oregon lacks any automatic, built-in, program evaluation requirement for any of our economic development programs. Ideally, this should be done when the program is created; the review is already included in the process, so it is expected. Data can be gathered more accurately and more fully in that manner.

For Ohio, absent evaluation tools and data, we have to go back to the very starting point: we must identify good performance measures, build data sets up from the bottom and, with luck, we will have something good to analyze. If you’re thinking of creating any new economic development programs, or perhaps seeing them come down the pike, you might suggest including a built-in component for evaluation. Finally, the fourth goal is to compare the economic health of the state and its business assistance and programs with the economic health of the states that directly and routinely compete with Ohio.

And with that, I’d like to move on to Janet Jones.

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Janet Jones
ECONOMIC DEVELOPMENT CONSULTANT BASED IN OREGON

Thank you very much. It’s a pleasure to be asked to speak about Oregon’s experience with performance measures for economic development, and I have to say I have enjoyed the continuing conversation about clusters and flexible networks begun at the last conference. We are all familiar with the tradition of counting new jobs created and jobs retained. I am going to talk about performance measures in the context of how to measure economic success when counting and creating more jobs is not enough.

It’s not just economic developers and legislators who care about results from economic development efforts. In Oregon, citizens and local governments also have an interest in these results, and they are making important decisions that affect what kind of economic development tools they offer in their communities.

As an example, Eugene, Oregon is a city about 100 miles south of Portland. Ten years ago Eugene was overly dependent on two key industries—a university and the timber industry. The timber crisis contributed to high unemployment throughout the region. They easily met requirements for being a distressed area and for designating an enterprise zone. There was no doubt that the region needed jobs. The creation of an enterprise zone that offered tax benefits to companies in exchange for job creation was an easy political decision.

Now, in 1997, the regional economy has rebounded. Jobs are plentiful and unemployment is low. Sony, Semantec and Hyundai are some of the names of the companies who found a home in Eugene, strengthening their cluster of high-tech and software industries. If you could read their local newspaper, you would learn that creating jobs is no longer the problem. Headlines are filled, instead, with worries about how to maintain their quality of life, how to manage growth, how to accommodate increasing traffic congestion and crowded schools.

Now that the enterprise zone is up for renewal, the Eugene City Council appointed a citizens’ committee to recommend whether or not to continue the zone. The committee looked to other states to research how enterprise zones were evaluated elsewhere. They found that a simple, direct relationship between increased business economic activity and an enterprise zone incentive was seldom identified. In fact, they found in their published report that there were insufficient reliable data to evaluate enterprise zone effectiveness, and that isolating the effects of enterprise zone incentives from other economic factors is very difficult. In short, without performance measures of effectiveness, there is no way to either prove or disprove arguments for or against enterprise zones.

Since the establishment of Eugene’s enterprise zone, 43 companies have already invested $35 million, and they’ve created 1,000 new jobs. In addition, there is another $1.4 billion pending in investment that will create an additional 1,500 jobs—not bad for activity measures—but the citizens group found no results proving that enterprise zones cause businesses to make investments and create high-quality jobs. As a result, a strong anti-growth mood of this community prevailed and a minority of the committee was able to persuade the city council to discontinue the zone. This is a good example of 20/20 hindsight and a lesson on why it is valuable to measure the results which are attributed to those programs, beyond simply tracking activities. If the outcomes attributed to the programs are shown to be difficult or impossible to prove, the program and its advocates lose credibility. This credibility loss shows up in the debate and before budget committees.

Oregon is a state with a long-standing commitment to strategic planning for economic prosperity. Oregon has implemented statewide benchmarks to measure its progress, so it might seem natural that Oregon would have a performance measurement system for economic development to complement the state-wide strategic planning and benchmarking. In the past year, the economic development department began a transition from activity measures, ad-hoc program evaluations and the traditional counting of the number of jobs created to an overall performance measurement system that focuses on outcomes and return on investment.
A look at Oregon’s economy may help explain the reasons for the change. Like the example of Eugene that I described, the economy has come into full bloom in recent years. Growth in personal income is outpacing income growth in most other states. Manufacturing jobs have increased. The economy has diversified in a major way, thanks in large part to the high-tech industry.

Oregonians are no longer satisfied with an economy or an economic development department that simply creates more jobs. And it’s no longer enough to just count the number of jobs created. What matters is measuring the outcome of economic development investments in terms of the quality of jobs and the effect of economic development on quality of life.

[VISUAL: Oregon’s Economic Development Performance Measures]

The Economic Development Department wanted to expand its performance measurement system for several reasons. First, it’s a good program management tool within the organization. Secondly, it’s a communications tool with the public and the legislature. The legislature, by the way, passed a law requiring performance measurements. The Economic Development Commission that oversees the department has been very supportive and persistent in encouraging the department to measure performance and develop ways to measure return on investment. The process began by hiring a consultant to design the process and to interview stakeholders for their advice. The stakeholders included to identify customers, partners, legislators and legislative staff. Most were supportive and interested. Some reserved judgement and decided they would wait and see how the department would use performance measures. Others said they didn’t have any comments on any particular measures, but they thought it was very good to do, so please just go ahead and do it.

The department’s six-year goal is to achieve a wide understanding and acceptance of measures of economic performance and how the performance of the economy is related to the performance of the department. The department began the project on four fronts in a two-year action plan:

Regional and industry economic benchmarks link the department’s measures to the overall state-wide benchmarks.

Customer satisfaction surveys to develop a system of getting feedback from clients about actual results and their evaluation of how instrumental that assistance was in achieving those results.

Program outcomes include performance measures for programs and departments as a whole. For example, the department is interested in tracking how well access to capital has increased in this state overall, not simply the number of loans that are written by the department alone.

Return on investments. It is surprising that this is not done more. In Oregon it means quantifying state taxes paid by the jobs created and retained in order to determine whether economic development pays for itself. Partners in the process are: the Oregon Progress Board, which oversees the state-wide benchmarks; the Economic Development Commission, which oversees the department; other state agencies; and customers.

[VISUAL: Outcome Measures]

Choosing outcome measures was surprisingly difficult. Program managers and the director had different ideas about what was measurable, how much time should be devoted to devising the measures, and more fundamentally, whether it was desirable to change from the current set of activity measures.

Five overall areas that were identified for measuring the department’s performance—programs have developed their own measures, as well; this is just a summary of the overall measures that are used in communications about department results:

Better jobs is the first measure—not just the number of jobs, but the quality of jobs, such as benefits offered, the wage rate, and what proportion of those jobs help minorities in distressed areas.

The second measure is healthy communities. This measures quality of life and takes in the percentage of communities, families, and residences that are benefitted, versus those in need of housing, community facilities, safe drinking water and waste water treatment. Since the health division and the state environmental standards were undergoing a review of their own, a moving target was created, and those measures couldn’t be determined without knowing the standards. Interim measures were created, instead, to track the number of Oregonians and communities benefitted, rather than the percentage.

The third area is international. We look at the number and percentage of Oregon companies that export, as well as the annual rate of change in exports, as compared to national rates. Companies need to be surveyed to identify these rates, and to determine what assistance they’ve used—whether it’s their banker, the department, a small business development center, a website or even another company. The goal is to get companies to export and to identify what works, not focus simply on claiming credit.

Return on investment is an estimate of state tax revenue generated in both personal and corporate returns. There are also studies done to identify the return on investment for industries including tourism, arts, and film and video.

Leverage. This is a reporting requirement of the Oregon Legislature; it measures dollars generated, including private funds, federal, local and other state funds leveraged from the catalyst of department funds allocated.

To wrap up, here are some guiding thoughts on performance measures—this is taken from advice given to us as we were developing the process, and a few of the outstanding things that we’ve learned in trying to pull this thing together:

One, focus on determining the right questions to ask, not just a quest for answers.
Doug Henton
COLLABORATIVE ECONOMICS

I’d like to talk about some lessons we’ve learned in the work we’ve been doing in Silicon Valley. The first type of benchmarking is simply learning from others. Joint Venture Silicon Valley is focusing on the second type of benchmarking—tracking the progress being made, particularly in terms of outcomes. This type is what I am going to focus on in my remarks. The third type measures the progress toward organizational objectives. All three types are very important. I am going to focus on something that Joint Venture has been doing for the last three years called the Index of Silicon Valley. This type of outcome indicator report has made a big difference in the way that we look at ourselves. I think it’s also helped in California. The basic question is: Can there be a new economy if you can’t measure it? And I don’t mean that facetiously. We are having a terrible time coming up with statistics in this country that reflect what’s really going on in the new economy—ideas about what’s happening inside the manufacturing sector versus the service sector, how important is technology, how important is the information infrastructure?

We have tried to come up with a way to measure a new economy in Silicon Valley on an annual basis. The context of this project is the following: the early 1990’s seem a while ago, but many of you may remember that’s when California lost an enormous amount of jobs as a result of the defense down-sizing. We won the Cold War and California got hit in the head. In 1988 through 1992, we lost about 40 percent of the defense contracts that were part of California. Now you would think that’s all in southern California with the aerospace industry, but Silicon Valley lost over 40,000 jobs, and it wasn’t in aerospace. It was primarily in Star Wars type of research that had gone into Lockheed and other companies that were promoting new communication technologies, whether it be satellite technologies or commercial technologies. Lockheed had been the largest employer in Santa Clara County at about 36,000. It went down to about 12,000 in three years, so there was a major impact going on at the time. This impact caused a lot of concern about the future of the technology-based industries. This was on top of having lost about 20,000 jobs in the semiconductor industry as a result of Japanese competition in the late 1980’s.

If you remember, there was a period of time in 1988 when the Japanese took over market share in the semiconductor industry, and there was discussion about the future of the semiconductor industry. Had we lost that, just like we lost auto and steel? Well, the semiconductor industry has recovered because of restructuring and working together through Semitech to collaborate in new ways to maintain the manufacturing base. Intel is doing well and all the other semiconductor companies have restructured and are doing well by moving to higher value-added methods. We’ve regained leadership in world market share. The defense industries have been replaced by a whole new set of industries. It’s an interesting crossover effect that occurred three years ago—the motion picture entertainment industry now employs more people than the aerospace industry in California. This fact is because the entertainment industry is employing new technologies while capturing global markets.

In Silicon Valley, the business community began asking questions like, what are we going to do to prepare for the future? Working with a broad coalition—it ended up being about 1,000 people—most of the major companies and all 27 local governments formed Joint Venture Silicon Valley. By using the cluster approach, we began to break the economy down into its true industries; it turned out we had seven industry clusters, and they weren’t what we thought they were. Software is our fastest growing industry by far. Computer hardware has been losing jobs for the last five years, and continues to lose jobs. The growing sectors were in crossover industries such as computer networking. The fastest growing companies in Silicon Valley are Cisco, 3Com, and Bay Net. They don’t fit any classification, but are instead crossovers

Two, the best way to judge performance is by simply going out and talking with people. Listen to what people care about, what they really need. This means talking to customers and partners; they need to be asked.

Three, if you already have your mind made up, you don’t need performance measures.

Four, don’t collect data you won’t use, and don’t use anything you can’t prove. You know how true this is if you’ve ever presented to a legislative committee.

Five, when you do it right you may learn things you didn’t want to know. Facts come out that might not be performance measures.

Six—finally—make sure the public understands your mission. Out of all these measures, what does it all mean?

In Oregon, the switch from simply counting the number of jobs to evaluating the quality of jobs created could help convey to the public that the mission is more targeted, and changed from creating more and better jobs to creating better jobs. The return on investment figures show the extent that economic development activities are generating tax revenue back to the state. The overall message is that economic development more than pays for itself.

Thank you.

Kathy Schill: Thank you Janet. Our next speaker will be Doug Henton from Collaborative Economics.
Doug Henton

more relevant to the new economy and improving the economic infrastructure of the region. When the Joint Venture Silicon Valley Network was established, some of its board members—particularly the high-tech leaders, Ed McCracken of Silicon Graphics and Lew Platt, the Chairman of Hewlitt-Packard—kept saying if we can’t measure this, we don’t know that it exists. We had to come up with some way of measuring the new economy.

Three years ago we launched the first Index of Silicon Valley, which is a series of 37 indicators that measure our progress in the valley. There were certain purposes this was designed to serve. The first was to provide a reliable source of information about the region. There wasn’t one. We literally did not have a set of information that could tell us about what was going on in the region; it was very important that it be viewed as reliable and neutral. It wasn’t an advocacy document, it was simply trying to describe what was going on.

But it did serve a second purpose. Joint Venture is a group made up of business, government, the community and education. It has a board of all those people, and they want it to be a catalyst to identify issues and ideas that may need to be addressed as we move forward. We had the purpose of being both a reliable source and a catalyst. Secondly, we had a multiple audience: business, government and the community. The real purpose of the document is to communicate, to try to explain to people what was going on in the community. It turned out that our greatest ally in this effort was the media. The newspapers and radio really loved this document because, for the first time, they were getting a picture of what was really happening to the economy, and they could tell it through stories and discussion to the broad public. We needed an organizing principle.

When we developed the Joint Venture Blueprint for the 21st Century, which was the outcome of this 1,000 people working together to design a future for the valley, we came up with a very simple model of the economy and the community in a “vital cycle.” The idea was that you cannot have a new economy of high-skill, high-wage jobs without education and training and an infrastructure to support it. And if you don’t have that, the companies will go elsewhere. People will go elsewhere. So there is a tight link between the economy and the community; it’s not separate from each other. Many of our leaders tell us the quality of life has become the most important factor in retaining their workforce, because their workforce—knowledge workers—are fairly mobile and they can go anywhere. The two have become intertwined. We began to develop the document and ended up with half of the indicators on the economy and half the indicators on the quality of life.

We began to work with the people in the business community and the broader community to come up with a list and finalize the list of indicators around our organizing principle. The first thing we noticed—and this is very much based on the discussion we had at the pre-conference meeting about data—was that there was no data to describe our clusters. The two- and three-digit SIC codes simply do not describe the reality of the economy as we know it today in Silicon Valley, so we work with industry clusters. We worked with the industry leaders to construct a picture of what these clusters were. We had to go down to the four-digit SIC code and work our way back up into a configuration that made sense; then we configured it by the zip codes that were in Silicon Valley and transcended political boundaries—it’s four counties and parts of counties.

We began to work with the state. We told the state that we wanted to use the ES202 data, and they approved it—this was four years ago. We began to work with the state and give them our specifications of what we thought the clusters were. They began to program their data so they could give it back to us on a quarterly basis. We now have the ability to track our seven industry clusters. Software, which you won’t find in any SIC code, is a configuration of several individual SIC codes. You have to look at, for instance, computer programming services, pre-packaged software, computer processing, and information retrieval services. You can work with industry to find out which parts of these are really what’s going on in your region. The state has now done this for all regions, and has begun to move in this direction for the entire state of California.

The second thing is that we began to tell stories. What’s the story here? What’s really going on? The first time we put out the data, the story was almost all of our growth was in software, not hardware. What are software companies all about? Their average size is 20 employees. The software companies have very different educational requirements than the hardware companies. We looked at the software industry and assumed they were all Ph.D.’s from Stanford. In fact, the majority of people within our cluster called software are not Ph.D.’s or even engineers. They are support people. They are people in marketing and business support, services that do not require a Ph.D., a master’s, or even a bachelor’s. A lot of these people come out of community colleges. Then we began to see our-
selves differently. Software is not something to be afraid of as some elite thing. We learned it's actually an industry that creates jobs for a broad range of people if they have the skills.

We have the highest wages in the nation—we've surpassed New York—and also have the highest productivity. We were able to measure that. We have 50 percent higher productivity than any other region in the United States, and the wages are about 30 percent higher. The average wage in Silicon Valley—of all jobs—is about $50,000. It is about $70,000 for all high-tech jobs. So high productivity and high wages go together. Maybe we can deal with the low cost of competition by saying we really want productivity. It turns out that Indonesia has wages that are 15 percent of Silicon Valley. So why doesn’t everybody run to Indonesia? Well, the fact of the matter is their productivity is 15 percent of Silicon Valley, so it’s not the cost of labor, it’s the total labor unit cost. You get more produced for the unit of worker, which might explain why, in the last five years, Silicon Valley has added 125,000 jobs. The clusters are working again and it’s a very exciting place to be. Looking at these measures also tells you a different story about the economy.

Finally, on the community side, we have major challenges, just like everyone else has talked about, that have come out of the indicator report. Now we have a better idea of which industries have skill deficiencies by cluster, and we can start dealing with them. There are also cluster-based training strategies that are being developed around the different growth industries. We have major capacity constraints. We have housing and transportation constraints, and we’ve been tracking that every year. We know exactly how much we are dealing with in terms of affordable housing, transportation costs and others.

Now what’s been most exciting about this is that this little report is being published almost verbatim in the San Jose Mercury News. Every year the information goes out, and it’s created a fantastic discussion and debate about what is happening to our economy. What do we have to do to deal with our challenges, and where do we have to move forward? I think that’s the key to this. These things are not meant to be on the shelf; they should be designed and developed in such a way to engage the media so the media can tell the story to the public. There is negative news in here as well as positive news, but its getting the facts out. The bottom line is that indicators are important for measuring how you are doing, but they have to be tailored in such a way that reflects the new economy, and not necessarily just taking data as it is given to you. You need to be a demanding consumer and produce the data and then engage the community. Then they will come back to you. Silicon Valley is now focusing in on all these capacity issues—not just on the economic issues—because that’s where the concerns are, and the problems of creating a total quality community based on a vital cycle. I think the lesson here is that you need an organizing framework, and the organizing framework, I suggest, is the new economy. If we can measure the new economy, it will exist.

Thanks.

Kathy Schill: Thank you, Doug. I think you made a good point that I have heard from the last couple of speakers: it is truly very important to know what kind of data you are getting, what the basis of that data is, to bring it forward to have an accurate picture on what we are really doing. And that’s really the focus of this particular session. Do we really know what we are doing, and are we actually aware of the effect that comes from the indicators that we are using? I think that’s really rather pertinent.

Our next speaker, Don Bezruki from Wisconsin, is going to help us also better understand how that picture can be interpreted.

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Don Bezruki
WISCONSIN LEGISLATIVE AUDIT BUREAU

Well, that was Kathy’s promise, not mine. Let me try to bring you back from the booming West Coast and the new economy there to the Midwest. I suspect the reason that many of us are here today is because somewhere along the line we got to know Dan Pilcher. And as you know, Dan likes to mix things up a bit. He likes to create a froth wherever he goes. And I suspect the reason I was invited here today was to add to that mixture. As Kathy pointed out, I am not an economic development professional; those are not my credentials at all, so I think I’m here to bring a somewhat different perspective and viewpoint to some of your discussions over these days. I am a professional evaluator who just happens to have evaluated a few economic development programs over the past couple of years, and I think about evaluation perhaps differently than some of you who are in the field of economics.

Secondly, the audience of the evaluations we do is somewhat different than yours in the sense that the audience for our evaluations is very narrow; it’s a state legislature, and that creates a different set of expectations than many of your audiences, which may be in the executive branch, or city councils, or mayors, or governors. So we deal just with the state legislature, the people who create and fund these programs. With that specific audience, we learn to tailor our communications in a way which may be different than yours. As part of this information age, our only product is information, so we work on that a lot.

Now the topic of this panel is, of course, to showcase programs that have taken innovative steps on doing evaluations. Janet, Doug and Kathy have done this very ably, so I’m not going to spend a lot of time talking specifically about what’s been happening in Wisconsin. Let me just mention that our state does have the full array of traditional economic development programs—we have cash grant programs, loan programs,
worker training programs, and various business assistance programs. We also spend a lot of time on educating workers. Traditionally, Wisconsin has had a relatively strong education system, so we have been ahead of a number of other states in the country that are trying to catch up. Our community college system has not been the traditional two-year liberal arts college system; instead it has been a real vocational system. In fact, its name was always Vocational and Technical Adult Education System. We’ve just recently shrunk their letterhead to rename them the Technical College System to make it a little bit easier, but they’ve been into worker training for a very long time.

Our state Economic Development Agency has used relatively traditional methods for determining its success and to measure the results of its programs. They front-end their process a great deal, by establishing eligibility criteria before they hand out assistance and grants. They have also measured their results in a relatively traditional way—they look at the overall state economy and job growth, and I’ll give you an example of that. Before I came here I stopped at our Economic Development Department and got their handout for what they do, how they do it, and how they measure themselves. As an indicator, on the very first page, is the question: “Which state created the most manufacturing jobs between 1985 and 1994? Was it Georgia? No. Was it Tennessee? No. It was Wisconsin, which created over 68,000 manufacturing jobs.” This statistic is a quote from the Pittsburgh Post Gazette. This is the fundamental approach we’ve had for evaluating economic development programs in Wisconsin.

Now that approach has been sufficient so far. Our economy has been strong; we hit the recession very heavily in the early- to mid-1980’s, and we’ve been growing since then. We didn’t have as deep a recession as much of the country had in the early 1990’s, and we’ve continued to grow. Our economy has been relatively good, so there hasn’t been that motivator of a crisis to spur major innovation in our state or a total overhaul in how we approach economic development, or even how we assess the success of those programs. Well that, of course, could change very quickly, as we all know.

Let me shift gears here and try to speak a little bit about evaluation. Doug and Janet have talked about very well-defined models that they’ve developed. Rather than try to give you a model, let me just talk about the kinds of things that one would think about as you are approaching evaluating programs.

I was thinking, when Chris Farrell was talking yesterday, about the waves of economic development—the first wave, the second wave, the third wave—and there have clearly been many additional ripples as economic development specialists in your states and communities have experimented with different ways to encourage development and to spread budgets as far as possible. However, rather than thinking of economic development as these evenly spaced waves with one approach taking the place of another approach, I suggest that instead we have a jumble of economic development programs and approaches all happening at the same time. The problem occurs when researchers, evaluators and policy analysts take one look at this big jumble of programs with their varied approaches, numerous and occasionally conflicting goals, and we shout, wait a minute! These all can’t work. So we evaluate them. We attempt to pick the best program, the best approach or the best strategy and use just that one. Our goal is to be more effective and save money to boot. That’s the way we have approached evaluation traditionally.

However, I think one of the problems could be that we, as professional researchers, are trying to carry this message to policymakers and legislators, but I suggest they are genetically programmed differently than we are. Legislators, by their ability to capture a majority of votes, are proven masters at meeting the needs and interests of numerous, and often conflicting, constituencies. In that construct, it may not be inappropriate to have numerous programs with different goals operating simultaneously. The inherent need or desire to find the single, best program doesn’t necessarily dominate policy discussions and policy formulation. As researchers, I think we are constantly faced with that fundamental, professional challenge of how to provide research results that are not merely methodologically sound and accurate and in all other ways perfect, but which are also used in the decision-making process and improve that process as well.

Well, do we know how to evaluate economic development programs? I think the answer is yes. There are many ways to do this; some are expensive and others are relatively inexpensive. Much of the discussion, especially in the past, has been centered on what we measure and what our desired goals are. Is it jobs? Is it investment? Is it increasing sales and so forth? Or is it at the other end? Should we be spending our time evaluating the overall economic welfare and how that can be improved? What do we do with the overall economic status of our state, region or community? Few would argue with that latter goal—I think we’ve discussed that much over the past couple days—but I think these issues may rarely be decided during the total tenure, much less the two- or four-year election cycle, of most legislators. Therefore, we often disconnect what the evaluators are doing and what the policymakers are doing. Obviously the challenge in designing a method of evaluating programs is how to communicate those results to policy-makers and legislators in a way that it will be used.

We have many good evaluations, but a considerably smaller number that are actually used. I suggest that to do this we might want to do some rethinking of
our traditional evaluation approaches. Let me toss out a few thoughts, some of which are probably heretical to professional evaluators, but perhaps, in a new economy with new economic programs, we need to design some new models. First of all, I wonder if there are measurement indicators that are somewhere between the two polar opposites that we have at the two ends of the spectrum. On the one hand, the immediate outcomes—such as numbers of jobs, types of jobs, funds invested, or funds leveraged. At the other end of the spectrum are macro indicators of the state’s overall economy. The challenge is to find something in the middle that speaks to a legislator’s time frame or horizon of interest. We should identify things they can do, and be able to see the results of that within their time frame, while they are in office.

Secondly, I wonder if we need to retest some of our long-held assumptions about what is desirable in terms of the types of jobs that our programs help stimulate. As has been raised earlier in this conference, the economies are changing so the questions remain: What is still realistic in this economy of low unemployment? Should we shift our emphasis to low-skilled jobs that employ former welfare recipients? Should we have some short-term strategies to quickly employ former welfare recipients to complement our long-term educational strategies and goals to increase skills overall? Do we develop a balance, a mix of these types of approaches?

Thirdly—and here’s a really heretical one—should we always attempt to measure outcomes quantitatively? Doing so is expensive and often dull. I wonder whether we’ve developed a sufficient number of reliable indicators for successful programs over the years. In other words, can we identify some best practices of successful programs, or activities or attributes that will at least increase the chances of success? Can we shift from putting all of our eggs in one quantitative basket to thinking about some best practices? There are many best practices that have been identified in the literature. Can we look at our programs to see if they provide a competitive advantage: do they stress equity; do they stress improved quality in companies; do they provide services wholesale rather than retail; are they programs with a customer orientation that are designed in response to actual customer demand? Do they meet the needs of businesses, or are businesses willing to pay for these programs? These are not new ideas, but they are the best practices. Can we use these best practices as standards against which we can compare programs, stimulate discussion, gauge interest in making changes and then actually propose some changes.

Finally, I wonder if professional evaluators have too often assumed or usurped the role of determining what programs should accomplish, then measuring the program results against those standards to see if they are successful, and then wondering why we’re surprised when our findings are not used or ignored. Perhaps we need to develop better ways of asking what policy-makers want programs to accomplish, and asking what businesses want the programs to accomplish. Only then can we help them make informed decisions about how programs should be structured. Only after that process is complete can we evaluate the programs against those goals.

Kathy Schill: Thank you, Don. He usually ends up at the end of the legislative process, whereas my job is at the beginning of the process. It’s always good to have a good round-robin of relationships with which to make decisions. Our last speaker is Awilda Marquez from the Economic Development Agency. She will tell us about research policies and what’s going on at EDA.

Awilda Marquez
ECONOMIC DEVELOPMENT ADMINISTRATION

Thank you. The Economic Development Administration’s customers are distressed communities. Communities that qualify have high unemployment, low per capita income, high poverty, or other such indicators of distress. The communities with which we deal generally are not measuring the performance or outcomes of their economic development activities, so I’ll talk about going back to the basics. In the last year, EDA has developed and implemented its own set of performance measures for all of our programs. Times for us and local communities have changed. That is, there are fewer dollars being allocated to economic development programs—certainly at the federal level. Perhaps most commonly, the funders—whether it’s the city council, county commissioners, or even the state legislatures and Congress—want to know for every dollar what the return is on the investment. In the past, we have only been able to discuss this topic anecdotally, but we haven’t really systematically measured the performance of our programs. The Government Performance and Results Act (GPRA), has mandated performance measurement for all federal programs. But EDA developed its program last year—before Congress became interested in the value of GPRA, especially its value in possibly cutting programs and being used as a tool to weed out programs that are not appreciated on the Hill.

As a result of cuts in funding, EDA has been downsizing in Washington and in the field. As a result, we’ve had to conduct a number of reforms agency-wide that would allow us to deal more effectively and efficiently with fewer dollars and fewer staff—actually 30 percent fewer staff than the last year. We undertook regulatory reform, improved our grants application process, streamlined our application, and implemented team models in our regional offices. Headquarters also had to define a new role for itself after delegation of authority. In the past we were second-guessing our regional offices and previewing
what they were doing. After delegation of authority, we focus on policy development, program evaluation, research and strategic planning. We’ve all had to work smarter with fewer dollars and with fewer people.

In this environment, program evaluation has become the greater focus for EDA at the national level. That is the part of the agency I run, and we have revamped our programs in important ways over the last year and a half. We’ve taken control over our agenda for program evaluation, research and TA. While in the past we responded to unsolicited proposals, now we’re going to develop our own agenda with a focus on a limited number of areas with an emphasis on program development, and with the input of customers and others like yourselves. I invite folks to tell us what EDA should be researching. We’ll be issuing RFPs to solicit proposals in the limited areas on which we’ll be concentrating. Our research agenda will now produce more applied research than basic research. Instead of research that just sits on the shelf, we will be more responsive and more customer-service-oriented. Our research products should be used by the economic development organizations in the distressed community on a more immediate basis. Review teams will help us select the research projects.

There are two handouts on the table in the back. One of them is a list of the technical assistance and research projects EDA is monitoring this year as a result of the first RFP that we issued last year focusing on program evaluation. The University of Michigan is evaluating incubator programs across the country for us. We are reviewing the STET results that came in from the Rutgers project earlier this week, and I am very happy to say they surprised even us; it was quite dramatic. While we know communities across the country do a good

bator building, or a high-tech park. And it takes years after that to generate the projected outcomes that were anticipated at the time of initial approval. As a result, we have to explain to everybody, including folks on the Hill, that we have a performance measurement system, but we don’t have much data to show, because, when a project is one year old, very few outcomes are generated. We have to wait four, five, six years to see the kind of outcomes that we think the communities are generating as a result of the projects that we funded for them. As a result of the time it takes to accumulate performance data, we awarded a grant to help us collect performance measure data on a retrospective basis. The grant was awarded to Rutgers University to collect data on the performance of projects completed in 1990. Those projects have had about six years to generate outcomes. Rutgers went out and counted the jobs and other outcomes that we wanted to measure.

Now, I know there are the cutting-edge folks that are talking about program evaluation in the new economy and in the future, but the performance measures that we generated were really standard, boring measures that everyone can think of when they sit down and think about how to measure economic development projects: jobs created and retained, private dollars leverage, tax base increase, and economic diversification.

We are reviewing the STET results that came in from the Rutgers project earlier this week, and I am very happy to say they surprised even us; it was quite dramatic. While we know communities across the country do a good
job in the economic development projects they bring to us, we were surprised to find that, for every million dollars of EDA investment, those projects are generating 327 direct permanent jobs and leveraging $10 million of private dollars. That’s one to ten. This ratio is more than two times higher than we thought our grantees were doing out in the community. In tax base leveraging, we are seeing over $10 million of tax base increase for every one dollar of EDA investment. These results will be useful for EDA to use, of course, but all of our grantees at the local level can refer to them when they’re asked by county commissioners or state legislators about the return on their investment.

We had a discussion during the Rutgers study about how to attribute the results of projects to EDA. We recognized, with the input from our grantees, that EDA funding is distinct from funding provided by other economic development funders, in that we’re like a venture capitalist. The dollars we provide, in almost all cases, are early, risky dollars. We fill the gap for capital funding in economic development that exists in the distressed communities. Almost all of our grantees for those projects in 1990 will say that, but for the EDA investment, the projects would not have happened. The industrial park would not have been built, or those businesses would not have been attracted to those distressed counties if EDA had not come in, taken the risk, and put in the dollars. Only because of EDA investments were they able to package other sources of funds, which led to private investment. The attribution to EDA was for the total of the jobs that were created out of that project—direct and indirect. But in any other project where EDA was merely one of several funders and was not the critical player, it is in proportion to the dollars that EDA had funded. That’s the methodology we are using for attribution.

We’re now looking to see whether these performance measures that we implemented last October need to be revised and improved. We’re learning as we go along, and we assume that they will be changed almost each year as we become more experienced with them. We are going to be revising them in the next iteration of the measures. Some issues have come up as we talk with grantees and our staff across the country about how performance measurement is going: what do they think about it, what do they think about the measures, and how do they like having this mandate from the federal agency about providing performance measurement data? The grantees fear that the performance measures will be used in a punitive way—to punish those that may not produce in the way that is anticipated as project approval—rather than in a positive way—to help provide good direction and management information. We’re certainly not intending to use them that way. Our measures are going to help us evaluate our programs. They will not be used to evaluate individual projects. We just don’t know how the information gets used once it leaves our control, so it’s up to us to design the measures and report on the results in a way that provides the context. We have to do this in an adequate enough way so that the data doesn’t get distorted and misused by funders. This is an issue and we have to continue to work at it with our grantees.

The other tough issue is how to evaluate and measure the value of so-called “soft programs:” planning, TA and business assistance. How do we measure, in a quantifiable way, the value of bringing people together to talk about the future of their local economy—something we know is terribly important for all communities. But how do we measure that? We’re not yet sure; we’ve started with a self-evaluation for our grantees, but we are not satisfied that it will be able to generate the kind of data that will be able to stand up to comparison with the hard programs—that generate large job numbers—and the kinds of programs that show Congress the numbers from which they get good feelings. I hope they won’t look at those hard numbers, and then look at the planning and say they’re not getting anything out of the planning and cut those. It is a big challenge for us to try to develop credible measures that capture the value of planning. That’s our next challenge, and we are going to be asking for help, probably in RFP, to do that with us. All of our planning grantees have been thinking about it. So if any of you have a solution, please tell me how to quantifiably measure the value of planning.

The other problem is the time it takes to generate data that will satisfy funders. We have to be able to explain to everybody that this takes time; economic development is a process that takes years to generate results. Even if you implement performance measurement systems right away, it will take years to generate the data. We’re going to make sure that the reports we write provide enough contextual information to explain the phenomena of economic development—the time it takes and how different projects generate different kinds of information. We’re still in the beginning of the process measuring the performance of federal programs. We know Congress is very interested in GPRA; we know Fred Thompson and others have already said they can’t wait to get these reports so they can begin to start slashing and cutting the programs that don’t “produce.” So, it’s going to be up to us to be able to educate and provide information that will generate intelligent decision-making at the funder level.

Thank you.

Kathy Schill: Thank you very much, Awilda, for sharing that. I think we’ve given you a good smattering of ways to look at program indicators, performance indicators and program measurements. To quickly sum up, I think we’ve provided some background on what has traditionally been looked at. We’ve strived to emphasize what’s important and what we should be looking at for return on investments. This point is key, especially with the new economy alive and well. Do we have any questions to pose to any of the panelists?
AUDIENCE QUESTIONS

Lee Munnich, Humphrey Institute:
I wanted to say something that builds on this last comment. I just had a conversation with our legislative auditor, Jim Nobles, who is very frustrated about Minnesota’s performance monitoring system. Essentially, about two years ago the legislature required all agencies to provide these reports to them, which all agencies did. A friend of mine at the Department of Trade and Economic Development did the report for them, and put a lot of work into it, but the Legislature didn’t read it. One legislator—said—not about DTED’s report, but about another one—there is nothing in here that’s useful to me. So the Legislature was not happy about the process, and the agencies felt they had put a lot of time into these reports without getting anything out of them.

I think the fundamental problem is that, while the Legislature is looking for opportunities to cut and take things out of the budget, the agencies are trying to show why their programs are working, both of which are very legitimate goals. I think that approach is doomed to fail, and the same thing will happen with Congress as this continues, because your incentives are to put your best foot forward.

A few agencies—the Department of Economic Security, Department of Revenue, Department of Transportation, Department of Trade and Economic Development—have done some of this work in terms of customer surveys. They are looking at using the Malcolm Baldrige Award process as a way of thoroughly evaluating their entire agency. This focuses, then, on results, on the customer, and asks a lot of the same questions, but it’s really oriented more towards how to make improvements in programs, how to evaluate. What it does is ask what are you doing wrong, rather than what are you doing right. Then you can correct it. This is a very hard question for people in government to ask because, as soon as you get the answer, if you find something that’s wrong, let’s shoot them. Whereas, what you should be doing is using this feedback immediately to correct programs. I remember trying to convince my program managers. When I asked them to do customer surveys, they said why should we do that? What if we find information that’s negative? I said, wouldn’t it be better for you to find that out, take that information and correct your program? That would be a wonderful story to tell the state legislature, rather than having them find out through a legislative auditor’s report or some other mechanism. So I think, in order to make this whole thing work, it’s got to make sense; it’s got to be something that’s used as a tool within agencies. And there’s all kinds of good information which you can then use to do evaluations and that sort of thing. But I think we’re sort of running uphill if we expect that these performance monitoring requirements that are coming down from the top are going to make any difference, and everybody’s going to end up being frustrated. If you do put anything in those reports that’s somewhat embarrassing, that will be used by Fred Thompson and others just to say, see, we told you so. So you’ll just kind of go back into hiding again and try to cover up what’s really going on.

Schill: Ohio’s RFP actually is focusing on three different levels. We’re looking at project efficiency; then we’re bumping it up to effectiveness, and then trying to get a handle on what the total value is. So we’re really taking three different levels, recognizing the fact that we have to build from the very bottom up. In part of our definition on the creation of new jobs—and we haven’t even talked about my laundry list—a new job could be actually one that currently exists in a contiguous county, flowing into the county that you’re looking at. We know that the data is tainted from day one, so what we have to do is go back and have a project evaluation, then the program evaluation to see if we’re being effective overall (first efficient, then effective), and then taking a general look at the rate of return. That really goes beyond state agencies. That’s one of the reasons we have the Departmental Budget and Management as the fiscal agent for the overall study, not the Legislature. So there is a combination between the executive and the legislative looking at this, and then we get the broad-view perspective of transportation impacts, environmental protection impacts, and right on down the line. So we have at least an overall awareness right now on the expectation as a rate of return, just like a business would demand.

Don Bezruki: I want to challenge a couple of assumptions that have gotten into the conversation, and I want to go back to something Lee said about quality. I would like to say the real question you start with is, who’s the customer? If the customer is the business, or maybe the cluster, then really the evaluation of these projects should be done from their perspective. The language we’re using here is that the legislature is the customer.

Now I think what happens in that framework is a fundamental discussion item, which is that economic development is not a program. Economic development is a process for creating wealth, and, in fact, jobs may not be the right measure. Economic development may not be a jobs program. If you look at it from a cluster perspective, if that cluster is competitive and viable in the world market, they will create wealth and value and jobs will come. This whole discussion, when you talk about program evaluation, is driven from the supply side. So we need to think about what is really driving economic development.

I would suggest that the most important benchmark for measuring the success of economic development programs is to talk to the businesses. If they think it’s successful, and are willing to put up some of their own private money, it’s a pretty good indication that you’ve got something going on. There’s a certain way of thinking about this, and I just think we ought to look at it on the demand side. That’s the basic point: economic development professionals need to understand what’s going on in the economy. If you don’t know what’s going on in the economy and what the true clusters are, you can’t design economic development programs for them; you’re just simply replicating what every other state has. I think the quali-
ty movement is the answer. What quality is all about is listening to the customer, and I agree with you, that’s where it starts. You have to evaluate from that standpoint.

**Schill:** I’ve got two panelists who want to respond. I see a microphone in the hand of one person and we’re almost out of time, so I’m going to let this flow, but quickly, please.

**Bezruki:** Just a quick comment to what Lee said, particularly about the fear that performance measure reports will be used as a stick—it’s not a carrot, but it’s a stick. The comment I have is that if there are problems out there, if the customers are not getting what they feel would be a good result, those problems are there regardless of whether it’s included in a report or not. And isn’t it better to find out from your customer rather than hear it the other way around? I think it’s a good way to take a proactive approach and understand what the real impact is, and whether these kinds of approaches are working for the customer or not.

**Question:** I was just curious...Don, actually in your evaluation methods, if you do look at jobs, are you evaluating based on the announced effect or after the effect? I think, in the methodology, especially as Kathy’s talking about in terms of effectiveness, you have programs out there to announce, but the tracking has to be put in place at the time of the announcement to go back and say what happened after the fact. I’m just curious, is that part of the methodology that you’ve been using in terms of measuring the effectiveness of some programs?

**Bezruki:** Yes, absolutely. I think that’s a really good point, and I think Awilda referenced that. You’ve got to keep measuring this on and on and on. You can’t just take that first snapshot. We’ve always seen a huge discrepancy between the announced numbers and the actual ones somewhere down the road, and they’re almost invariably lower. Sometimes they come out higher, but not usually. So you have to keep tracking this and look at it a number of different ways.

**Schill:** Joe

**Joe Cortright:** I want to thank Don for his refreshing heresy that we ought to think about qualitative results for evaluations. I worked for a state legislature for 12 years and I never once had a legislator come up to me and say, “Rank these programs, one through however many there are, according to their rates of return, and we’ll fund them down to the level that clears whatever our hurdle rate is.” Legislators don’t work that way. At the data session yesterday morning, we talked a lot about how you weave data into stories to increase people’s understanding of what’s going on in economy. I wonder if the panelists could comment on how we can use the understanding that we get from evaluation to get stories about how things work, because I don’t think anybody believes or makes decisions based on even the best numbers—like we get four dollars for every dollar that we invest. It’s a nice argument, but I’m not sure it’s a piece of information that people use in making decisions. How do you use the information that you get from evaluations to improve the accuracy of the stories?

**Schill:** The very first slide that I had took the GIS system, didn’t do jobs because of the instance that Jack talked about. There are a number of jobs that are always announced, and you have this three-year time delay before you actually get the actual number of jobs. So what I did is something that I know very well from a budgeting standpoint. I put dollar figures on it. I answered the basic questions that a reporter would ask: who, what, where, when, why, and then I always attached how much. So those six things are something that can be capsulized in a one-minute presentation, and sometimes that’s all you have. That was my trigger for being able to at least catch somebody’s attention. Now, maybe some other panelists here have some other ideas on how to do that.

**Janet Jones:** As Joe remembers, in Oregon, economic developers are so attuned to promoting and being advocates that having success stories and positive examples has never been a problem. I think the challenge is that it all sounds pretty good, and there are always those success stories out there. I think what performance evaluation can do is add the substance and the proof that those stories leave off. I think it just adds more credibility and it proves what economic developers say is true.

**Doug Henton:** I think the main story that you can develop at a regional or state level is the following. I think there are times when people begin to believe that economic development is just about business and is just helping business. Therefore, what you’re doing is providing a public subsidy to the business, and you have to justify it or not, depending upon either your rate of return or your ideology, when, in fact, what we’re talking about is the standard of living, the welfare of our entire economy and our ability to survive as a nation. I think you have to raise the discussion to the level of why they are doing these things in order to build capacity, in order to have people have the income they need to survive. I think the future issue is about our standard of living and our quality of life. That’s important, because, otherwise, economic development is sort of viewed as a constituency issue (oh, that’s just for business), and what are we going to do for labor, what are we going to do for agriculture, whatever. It’s really important to have a much broader discussion about what does the new economy mean for all of us—our lives, our quality of life, our standard of living—and how do we get there? It’s all about productivity; therefore education is important. It’s that broader picture that can win a broader constituency. Otherwise you’re always competing—economic development programs versus dams or something. It’s just sort of like an accounting method that didn’t work.

**Schill:** One more question, and it will be our last.

**Question:** I’ve done a lot of stuff, both on the quantitative and qualitative sides. One real interesting conversation I’ve had about economic development was with a guy in Ohio who was a very high-ranking engineer. They were going to build a plant and they approached Kansas City, they approached a city in Tennessee and they approached the city where they already have a plant in
Ohio, and they asked all these cities what they could do for them. Privately, they knew that if they hooked their new expansion into their existing plant it would save them $40 million. There is no way Tennessee and Missouri can come up with enough money to make up that difference. They knew they were going to locate it in the city in Ohio. But they got very nice incentives.

Now the thing is, I worked in Minnesota Planning in ’90 and ’91, looking at environmental social economic indicators. I worked for a year on a project called Minnesota Milestones, combining measures of Oregon benchmarks with the participatory programs that Iowa and Nebraska did with their futures visioning. We went to 15 communities, got over 2,000 people in focus groups to talk about this and created measures. I came back from New York State a year after I left Minnesota. Minnesota Milestones was gone. I hear they’ve gone through a second round of this five years later.

My warning to you is that I do not know, after doing economics and planning, of a statistical study that would reveal whether that plant in Ohio would have created those jobs or not. I don’t care if you take the most sophisticated research techniques that Heckman and other econometrics people have done. There is no way on God’s earth that you’re going to design a statistical study that tells you whether those jobs would have all been created anyway. My concern is this: I’ve also done interviews with industry-specific consortia, and the thing is that conventional methods have a fixed number. Seventy jobs might have been created without the program, but they have a fixed number and they can have a ribbon cutting ceremony.

There’s a certain element of fad here about performance measures. Minnesota Milestones did it, and then it was dropped. I see it all over, and oftentimes the measures don’t really measure true outcomes, and can’t measure true outcomes. If we jump on this bandwagon, how do you measure the benefits of a program where these firms talk with each other once a month? Because of this, two years down the road one of those operators is in his shower and gets an idea. He wouldn’t have had it, it wouldn’t have been stimulated, if it weren’t for a conversation he had two years ago. He can’t honestly tell you if he would have had that idea otherwise, and this is something that Awilda brought up—the soft programs versus the hard programs. If you jump on this bandwagon of performance measures, you may be giving an advantage to the conventional programs over the soft programs, which may be the opposite of why a lot of us are here today. I just want to give that warning that some of the things that I think are most important—and I’m encouraged the things that Silicon Valley is doing to try to measure according to what we’re really interested in—but I want to warn you that sometimes, if it’s the little things that count, the qualitative things, you may be shooting your program in the foot, because there’s a war between the programs just as much as there’s a war between the states.

Marquez: All I can say is that we have no choice. We were required to do this, so we’re going to do it.

Schill: You’re never going to be able to determine whether the investment would have occurred or not. You’ll never be able to determine truly what the new jobs factor will be. But if you first of all have a strategy in place—something of what Doug talked about and Janet referred to—that’s a first indicator of where you want to be, so if you want a highly skilled workforce and these other factors, that’s important. But secondly—and this is one thing that I’m looking for once proposals start finally flowing through—is that we’re going to take a look at the firms that got the money, and then we’re also going to take a look at firms that didn’t get the money. So you can have this balance of who’s doing it, whether they got it or they didn’t. It will at least be some sort of check.

Thank you. I think we have a break now, right?
Mark Vander Schaaf is with the Department of Planning and Economic Development in the city of St. Paul. He has been instrumental in bringing the Michael Porter approach in industry clusters to the Twin Cities, and I’m sure he has also been instrumental in seeing it implemented. He has been involved in researching how a metropolitan perspective affects neighborhood revitalization efforts in the city of St. Paul. He is becoming interested in GIS (Geographical Information Systems). It will be interesting to see what kind of data are needed to work with GIS at the local level.

We’ll start with Professor Hill.

Let’s look at the goals. The primary goal for data collection at the national level is to describe the state of the economy and to try to influence the path of U.S. average economy. The priority for funding and data collection is to make certain we understand what’s taking place within that average economy, and to help manage fluctuations in the aggregate measures of national economic performance. Why am I saying average economy? I’m saying average economy because the federal economy really is nothing but the summation across a collection of metropolitan and resource-based economies. What we have in the United States is a common market of regional economies. When we are dealing with national events we are really talking about the average. We have learned that there have been two types of recessions in the United States in the postwar period—a small number of them have been traditional recessions (Keynesian recessions) that we read about in the textbooks. These are triggered by fluctuations in monetary policy, triggered by crises in business confidence, or external shocks to the economy, such as full price fluctuations, major crop failures or international political crises. The real important recessions that we’ve had in the United States have been triggered by regional restructuring of the economy, which caused problems in consumer confidence, business investment or business relationships, and only became nationwide in scope after one or several regional economies came under extreme stress.

A good example is the last recession—the one that cost George Bush the Presidency. It was really a collection of interesting regional recessions. The regional recessions began with the defense cutbacks, which were concentrated in California, Texas, Connecticut and Massachusetts (these states lived and died by the sword). These same places had very over-built commercial property and condominium markets, and tied to these projects was an overexposed savings and loan industry. In fact, the overbuilding in these regions was a classic speculative bubble, with supply being far greater than demand. The shock of the reduction in defense spending imploded the real estate bubble, which in turn accelerated the collapse of the thrift industry. The reces-
sion was like a bowling ball rolling around the nation. First Texas entered recession, followed by California. The combined forces of the economies of these two states dipping eventually brought down the entire Southwest. Next, Connecticut and Massachusetts depressed New England. Finally, the combined weight of these regional recessions and the now national collapse of the thrift industry brought the national economy into recession.

This issue of the regional basis of national economic performance is important because the United States is the original common market, and we don’t know an awful lot about what is going on within the constituent components of this common market. The United States has in excess of 200 constituent regional economies. What are the goals for local economic development? How does that impact national development goals? One national goal is to improve the operating efficiency of the economy. How do we push out the production possibility frontier? What are the data elements associated with this goal? The traditional data element would be the metropolitan equivalent of gross national product: gross metropolitan product (GMP). In 1996 the Urban Center at the Levin College of Urban Affairs has calculated GMP for all metropolitan areas in the United States. (Actually, we collected Gross State Product (GSP), and then allocated GSP for metropolitan areas.) But these “cutting edge” numbers were from 1992. In the summer of 1997 we are calculating this series for 1993 and 1994. This is as current as the state data are. Timeliness is an issue. We have an underfunded federal statistical establishment that is desperately trying to maintain quality with dedicated professionals, but the fact is, the numbers are not timely. The quality and timeliness issues are real big issues, especially when you are trying to understand the performance of regional economies.

Now let’s look at another important regional economic resource—labour availability. Understanding the amount of slack in regional labor markets is critical to forecasting, investing and policy, yet the local unemployment rates are not statistically valid.

Historically the sample size in the Current Population Survey (CPS) has only allowed for the production of valid labor market data for eleven large states and two metropolitan areas, New York and Los Angeles, and over the past few years the sample has gotten smaller due to budget cuts. Again, do I criticize the decisions Bureau of Labor Statistics (BLS) made to protect CPS in its primary mission of generating statistically valid labor market data for the national average economy? No, they saved the series, and this is very important. But, meanwhile, what do we have to work with in the real economies that make up our common market? We have the handbook method of calculating sub-state unemployment rates. Does anybody here really know how the 22-step process works or trust the resulting number? I think the employment number is excellent in the handbook series. It comes from unemployment tax payments. But I have no idea what the number of unemployed people means in that series, because they are heavily influenced in the formula by new and recent unemployment tax filings. If you have a region that’s going through prolonged restructuring, has very long recessions, or has large fractions of labor force or population not in the labor force, it’s really difficult to understand what the resulting number means. And, if the estimate of the number of unemployed persons is incorrect or biased, so is the estimated unemployment rate.

I’ll go back to some work Terry Bus did a long time ago at the local level in Youngstown, which had all those conditions operating at the same time, and found that the handbook rate was off by about 15 percent compared to the calculated unemployment rate by CPS. What do I think we should do about it? One solution is to give more money to BLS, but more importantly, at least twice a year, we should have a grossly expanded sample of CPS, where we can make statements and references about what unemployment really is for metropolitan areas. This will become more important as regions restructure and recession returns.

Third, we should work on improving the quality of export data; we’re all talking exports, we’re talking about internationalization of the economy. I have looked at regional trade data and they are terrible. The reason the data are terrible has nothing to do with the collection; it turns out that those data are based on gross final sales—not value-added. What do those data really mean if you have long supplier chains?

Second, you have two choices in using the data: analyze trade statistics either by point of origin or point of shipment. I don’t know what “point of origin” means because I don’t know how the Bureau of the Census takes care of, and deals with, freight. Additionally, the data are collected by shipping regions that do not correspond with any other form of geography known in the statistical universe, which is also interesting. Shipping regions are larger than metropolitan statistical areas and consolidated metropolitan statistical areas, so it is difficult to correlate these data with the real economies that comprise our common market.

The third issue is that all these data are at the two-digit level of the Standard Industrial Classification (SIC). Operating at the two-digit level is really too gross to be meaningful. However, once you go to the three-digit level in the trade data, disclosure problems abound.

I want to leave you with an observation from some consulting I did in 1991. I was doing some very low-rent economic development work in two places that year. But they had very similar characteristics. I want you to answer the questions as to which place is more important from the perspective.
of their economies. One of these places was a European nation with an economy that was making the transition from Communism to the free market. The other place was a fully-developed market economy. Geographically, the land masses were within two percent of each other. They both had populations that were within 200,000 people of each other—they both had roughly ten million people. Both places had armies—one was integrated with a larger defense alliance; the other wants to be integrated with a larger defense alliance. One was part of a multi-economy currency union; the other wanted to be part of such a union. They had different resource bases, but both had very large agricultural product sectors and both had very large heavy industrial sectors. Which economy is more important? Which economy does the U.S. government need more information about?

Well, let me tell you who these two economies are—some of you are trying to guess. One of them is Hungary; the other, the state of Ohio. The state of Ohio is the same size as Hungary; we have our own army called the National Guard. They both have large agricultural bases, both have significant amounts of heavy industry, both have ten million people. However, we have more timely information and more information on the operation and structure of the Hungarian economy, particularly its market economic performance, than we do on the economy of the state of Ohio. The other interesting thing is that we can make the argument (and we have in Hungary quite well) the Hungarian economy is three separate related economies because of geography; Ohio’s has nine regional economies at work. Ohio has a much more complicated economy than Hungary. At this point, we have to ask where our priorities are when it comes to understanding the operations of critical economies within the world’s global system of trade. Ohio’s economy is larger and more productive than Hungary’s, but we know less about its performance.

Marilyn Manser
BUREAU OF LABOR STATISTICS

I’m going to be talking today about the state and local area employment and unemployment estimates that are produced by the Bureau of Labor Statistics. In particular, I am going to be speaking about data availability, current data initiatives, and some challenges that are facing us.

To start with availability, we have four series currently available. These are employment data from the ES202 program, the Current Employment Statistics (CES) program (sometimes called the 790), the Local Area Unemployment Statistics program, and the Occupational Employment Statistics (OES) survey. All of these programs produce the data for the state and local level jointly by cooperation between the federal government and the state agencies. I’ll try to be brief in describing what is available in these four series because I know that many of you are familiar with them already.

The ES202 program summarizes administrative data from the U.S. Unemployment Compensation Insurance program. Because these are administrative data, they are a universe of all workers covered by unemployment insurance laws in the U.S., and cover about 98 percent of employment in the U.S. This is extremely large and consequently, we can get detail out of these data that is really not possible at any sort of reasonable cost to get out of survey data. These data, which provide information on monthly total employment and on quarterly wages, are available about nine months after the close of the quarter. We’re trying to speed that up, but, given the nature of the program, I think the best we could do is to speed it up by as much as a month in the future. Microdata from the ES202 program are used as a sampling frame for almost all of the BLS establishment surveys. They are used to benchmark the CES employment estimates. This is done annually. In addition, they are used by the Bureau of Economic Analysis for constructing a large part of the wage and salary accounts component of the national accounts.

The Current Employment Statistics survey is an establishment survey conducted monthly, and provides very timely data. The data are available at the national level, usually on the first Friday of the month, for the pay period of the 12th of the preceding month (so that data referring to the pay period of the 12th of March are released the first Friday in April). These data provide information on total employment of all workers, women workers, and production and non-supervisory workers. They also provide information on wages and hours for production and non-supervisory workers. Because the size of the sample is so large, these data provide extensive industry detail. They are the first U.S. data that are available with a great deal of industry detail and, as a consequence, they are widely watched. The Local Area Unemployment Statistics program is different than the other data we have in that this series is not produced directly from survey data. The official unemployment data for the U.S. are constructed based on a household survey, the CPS. Household surveys are needed because the UI system only provides information on workers who are covered by the unemployment insurance system. You can’t get information on new entrants or re-entrants into the labor market from establishments; consequently, you have to go to households.

Household survey data collection is extremely costly. For the states, as well as for New York City and Los Angeles, the local area unemployment statistics are produced based on regression models—there was a great deal of effort at BLS in the late 1980’s to improve those methods. A lot more data are available at that level than are available when you get to very small sub-state areas. At the smaller area level, alternative indirect methods are used. We are required by law to produce monthly local area unemployment rate estimates. We are not really funded to do it and, as the household survey is very small, we have to do the best we can so that indirect methods are used to make use of information from the unemployment insurance compensation system and other
information that is available on a much more lagging basis. I think a real advantage of these data is that they are timely, and they are consistent so that they are comparable across areas. I can’t speak today to the distinct methodology used—I just want to say that the program is interested in trying to improve the methods. I think within the next couple of years they plan to start an effort to improve the sub-state estimates; any specific comments or suggestions that you have would be most welcome.

I should mention that we did take a big cut due to budget problems in FY96 in the CPS sample. As a result of this budget cut, we no longer produce monthly estimates for eleven very large states directly from the CPS. We used to do that, so now none of the states gets direct estimates from the CPS.

The fourth program I want to talk about is the Occupational Employment Statistics Survey. This survey was begun in 1971 in conjunction with the U.S. Department of Labor’s Employment and Training Administration and with the state employment security agencies to obtain national, state and area estimates of occupational employment by industry. In the past it didn’t provide any wage information; it was only conducted every three years, and the three-year data collection cycle varied by industry. There is currently underway—and this is the first initiative I’ll talk about—a major expansion of this survey. This began with the 1996 to 1997 data collection for the OES.

It sounds a little odd to be talking about this major expansion in one of our data programs at the same time that I’m saying we took a big cut in the size of our household survey. This all happened in the same year. The reason is the funding for this expansion of the OES survey is provided by the U.S. Department of Labor’s Alien Labor Certification Act. So, at the same time statistical agencies were being cut, another policy agency of the department was able to step in and help out in this one particular effort. As a result of this OES survey expansion, we’ll be able to produce data annually with a great deal of industry detail and a great deal of occupational detail. The sample for this is really quite huge. About 1.2 million establishments will be surveyed over a three year period, and for the first time all states will be collecting information on wage distributions separately for each occupation, and this is a major new thing. We’ll also be producing from those wage distributions estimates of median wages and mean wages. This is the first time that we’ll have available, even at the national level, information on wages by detailed occupations from an establishment survey. The information will be available not only nationally, but at the state and local level.

Another effort we have underway is a revision of the Current Employment Statistics Survey. This is being done in order to improve the quality of the data. The survey had come under some criticism in the early 1990’s because it was the only establishment survey we had that was not based on a national probability sample. The major purpose of this redesign is to convert it to a national probability basis. The sample will remain about the same size as it has been (about 400,000 establishments per year). The redesign effort is just coming out of the research stage. We’ll begin a production test in July for wholesale trade and have a period of about a year where BLS and the state agencies will assess the quality of the resulting data. Then we’ll develop a precise plan for implementing the new sample. Probably the major product is the improved quality that will come out of this effort. Further, the state estimates will sum to the national estimates, and the area estimates will sum to the state estimates. That had not previously been the case.

The third and final initiative I want to talk about is the development of gross employment flows data from the ES202 data. In recent years there has been considerable interest in measuring and analyzing job gains and losses within industries. For instance, this morning we heard a comment from the floor that the majority of the job creation is a result of activities by small firms. Well, in fact, we don’t have any reliable U.S. data that show that. We’ve never had reliable U.S. government data on job creation and destruction in the U.S. until very recently. A few years ago the Census Bureau did develop information on gross job creation and gross job destruction, but it was only for the manufacturing sector at the annual level. But it gave us some tremendous insights into what’s going on. These data showed, for example, that within industries, many establishments are gaining employment at the same time that other establishments are losing employment. That is, there is tremendous churning within industries and a lot is lost if you look only at the net change in employment.

Work is presently underway to develop a longitudinal microdata file from the ES202 that will enable us to put out figures on gross job creation and gross job destruction. We’ve done a great deal of work to develop good matches of establishments from the UI data over time to reduce spurious losses of matches that could cause you to misinterpret things as a birth and death when in fact they were really just a change in an identification number. This new file is going to be available internally in September this year, and we’ll produce the tables as soon as possible after the analysts have a chance to review them. These data will show the gross number of new jobs created for continuing establishments and for establishments that open during the period. Then it will show the gross numbers of jobs lost or destroyed separately for continuing establishments and for establishments that close during the period. These data will show quarter-to-quarter changes, annual changes, and cover the
entire U.S. economy—service industries as well as manufacturing. For the first time we will have information that will be reliable and enable us to look at what is happening to job creation and destruction between manufacturing and other sectors of the economy for small and large firms.

The final points I want to make concern challenges that are facing us. Of course, just carrying out these new initiatives is challenge enough, but there are other challenges as well. The first is implementation of the new North American Industry Classification System (NAICS). This new system was developed as a cooperative effort among U.S. government agencies and with the statistical agencies of Canada and Mexico. This new system will provide for international comparability between these three countries; it will provide greater service sector detail than was available in the industry classification system in the past; and it has a conceptual economic basis in that we are now grouping establishments into industries based on similarities in production. And, of course, it represents a more up-to-date description of the economy than was available in the past SIC system, which had not been revised since 1987 (even that revision had not been an extremely major revision).

The ES202 program will shift to NAICS in the year 2000, and other BLS surveys will follow shortly behind. The fact that different programs are going to be implementing this new industry system at different times is certainly going to pose some challenges for users. As a matter of fact, the Census Bureau is collecting data for the 1997 economic surveys using this new classification system. Our sister agency, the Bureau of Economic Analysis, and in fact the productivity office within my own agency, are going to have a real challenge of trying to analyze productivity and gross national product based on input data that are defined in different ways. Unfortunately, given the cycles in which these surveys are conducted and able to implement, there was no way to avoid this problem; we certainly recognize it will be a problem for users. In fact, some surveys and programs are not going to be able to revise the historic data to reflect the new system either, so users and people within the agencies themselves who analyze the data will have to make some efforts to compare things before and after the change.

Another new initiative that's underway is a redesign of the Standard Occupational Classification System (SOC). We expect the new SOC to be finalized by the end of this year. This represents a cooperative effort among U.S. agencies, but it's not been developed to be consistent with what Mexico and Canada do. A major advantage of this new program, besides of course being more current and representative of today's occupations, is that it will tie together household and establishment surveys. Previously, household information like the Census and the CPS were collected based on one system of occupational classification, and establishment surveys were collected on other bases. In the future this will all be consistent.

Given the focus of welfare reform on moving people from welfare to work, we're finding there is a great deal of interest in what our data are going to show to be the impact of welfare reform. But welfare reform itself poses some challenges for data collection. Welfare programs will be uniquely tailored for each state and perhaps to localities, thereby complicating comparisons and of course, as I have already said in the context of the local area unemployment statistics program, household surveys are not large enough for direct estimates for local areas. In fact, the problem is even worse for welfare than it is for unemployment, because we do get, at least for states, direct estimates of state unemployment annually from the CPS. You can aggregate up the survey estimates over the year and get some fairly reliable numbers, but the welfare information is collected only in March. So there is going to be a real problem in making comparisons among states based on these national household data bases. And there is also concern as to whether we need changes in definitions in national surveys. We will have to be very cautious in terms of making any changes because of concern about the continuity of time series.

Finally, presumably other challenges loom in the future, but we don’t know what all of them are. Recently, we’ve had severe problems because of tight budgets in FY96, and we don’t know how this is going to shape up in the future. The often-discussed year 2000 problem faces us at BLS and faces the state agencies that we work with in producing the state and local data. In spite of all these challenges facing us, we need to continue to try to find ways to make cost-effective improvements in our programs.

Thank you.

Mark Vander Schaaf
CITY OF ST. PAUL

I’d like to characterize my talk today as one of these good news, bad news talks. I have worked with a city planning and development agency for a little over ten years now. First the good news, for the people who like economic research: I think we are entering what could be described as the golden age of economic research in terms of the demand for economic insight that I am starting to sense at a local government level. In my ten years, the interest in economic research has kind of ebbed and flowed—I’ve had to be a generalist when generalism was called for, and do economic research when there was interest for it. But as I see what is coming up in the next two or three years, I think I will be more in demand for my insights as an economic researcher than I’ve seen any time in the last ten years; that’s the good news.

The bad news would echo some of the things that Ned has said—that we may not be able to deliver on everything that people may want because the quality of data may just not answer the questions people are asking. I think the real challenge I’m sensing is going to be how to navigate those waters and deliver reasonable insights with data that may be partially what we need, and much of it what we don’t need. I think there are four features of the way eco-
The first feature I’d like to talk about is that we’re going to see that local economic development in the next few years becomes simultaneously concerned with regional prosperity and small area niches. This really gets into the emphasis on industry clusters. I do believe that industry cluster analysis is here to stay; certainly in the Twin Cities area the idea has caught on in the last three or four years. I was present when the initial discussions got started amongst some academics about whether or not we should try to bring these ideas into the realm of public discourse, and I would say that they have caught on better than I expected. People are much more knowledgeable now in the Twin Cities community about how regional economies work, and they are often seeing this through the industry cluster lens.

This issue translates down into local governments with one of the next obvious questions: if we have five or six key industry clusters in the Twin Cities region, how does a place such as downtown St. Paul fit into this picture? What is the special niche that downtown St. Paul occupies within these industry clusters? And my answer in the past has been that I don’t know. I really don’t have good data on that. We used to do a downtown survey every five years through 1989. As I recall, it cost us about $10,000 to do it each time. We had three full-time interns working on it. Our 80 percent response rate didn’t produce spectacular results, and even though we were gathering the data, we had to guarantee confidentiality. We had a lot of problems, so it was decided a few years ago that it’s just not worth spending another $10,000 on this survey. But now, people are asking these questions, and we don’t yet have data any more current than 1989.

To continue a little bit of the good news theme—although I’ll know better how good this news is within a few months—I am pleased to say that the Minnesota Department of Economic Security has been very creative in listening to many of us practitioners clamoring for years about the holy grail of economic data—ES202 data—and we now have a pretty creative solution that is going to enable me to look at the firm level data and work with it to gain some understanding of our employment centers in St. Paul and how they fit into the regional structure. I won’t belabor this except to say that we now have a system of workforce centers throughout the State of Minnesota that are actually joint partnerships between the state and local service delivery areas, one of which happens to be my department. In a certain sense these workforce centers have a dual personality. They are state agencies, and they’re local agencies. I can, in a sense, be deputized to do research for the workforce center and look at the data because I’m, in a sense, a state person. So that’s one feature that I think is going to provide plenty of demand for my services as an economic researcher, and I believe we will gain some good insight through the employment data we are going to be looking at this summer.

The second feature has been mentioned as a national issue by Marilyn. And I just want to say a little bit about it at the local level: welfare reform. I’m starting to get phone calls from the county saying that they need to know what types of business are growing: where are these new jobs going to come from in St. Paul? Well, we know that most of the people on welfare right now in Ramsey County live in St. Paul. Many of them have trouble traveling great distances; they need to be on bus routes and things like that. Where are the jobs coming from? This is an area where the economic research is going to be especially valuable, and once again it’s going to be really important to have some micro-level insights there. If you need to know where the jobs on the bus routes are, you’ve got to get much smaller and more focused than metropolitan data.

A third feature that I’m observing is that in the local economic development agencies are going to be much more highly integrated with other local government functions. Within my own department—and I don’t know how typical this is nationwide—we are a combined planning and development agency. In the past we had a planning division, a housing division, an economic development division and a workforce development division. As of two weeks ago those functional divisions no longer exist within my department. We are now organized according to four geographic teams and continue to have our professional expertise, but we report to our geographic team now. Day after day there are housing, economic development and planner people meeting together, working on a strategy, in my case, to revitalize the northeast part of St. Paul. This is within a mere two weeks time. It’s starting to change people’s perspectives. It’s going to lead—for better or for worse—to planners getting some development finance expertise, and finance people learning how to do city planning. We don’t know how this is going to shake out, but it is happening in St. Paul and I think it’s happening other places.

We are finding ways to tap into data sources from other departments and other agencies within the county that we may not have used much in the past. A very good case in point, in the City of St. Paul, is that we issue about 25,000 construction permits each year. In the old days, information about those permits was written down on little index cards; in the real old days, back in the 1970’s when we had lots of money and could hire interns to study these index cards, we actually did some studies of construction trends in various parts of the city. For the last two years, those have been put into an electronic format. Soon there will be no reason
why we cannot simply download and analyze construction data and learn a lot about where there is business change occurring throughout our city using those databases. There are also possibilities when we deal with workforce issues and welfare reform issues; there are data bases from the county and from the school district that we can potentially learn from. So the third feature is to become highly integrated with other local government functions. That’s going to be a very rocky road, but I think it will certainly have economic research implications and payoffs.

The final feature I want to mention is a little different than the other three features, but I think it will serve as a kind of glue to hold the others all together. That is, as Ragui mentioned in my introduction, geographic information systems (GIS). My agency has not been the lead agency in developing the GIS for the City of St. Paul—that has been largely a function of our public works department—but it’s now starting to get ready to roll out. A lot of things that have been in the works for a couple of years actually have maps that go along with them, and a really big breakthrough has occurred during the past year. It used to be that you could do computer mapping, but it wasn’t one of the those things that could show up on the Worldwide Web or the Internet; that is changing now. A Saint Paul web site is in the works where you could go and find out, for example, where all the trees are that the city owns and what kind they are. I just know that somebody is going to say, well, if you can tell me what all the trees are, why don’t we know what the businesses are that are out there? And we’ll find some way of dealing with that. In short, I don’t think you can underestimate the way in which that is going to affect people’s world views and their expectations of what sort of research comes out of local economic development agencies.

AUDIENCE QUESTIONS

Ragui Assaad: Well, we have some time for questions and discussion. Are there any reactions from the floor?

Comment: I’m an economic developer for Todd County, a rural county. I’m beginning to feel like a distressed economic developer from a distressed county. A lot of the emphasis is being put on the MSAs in urban areas, and, if what I heard in the last hour is correct, it’s almost as if the federal bank just wants to disassociate itself with rural development at all costs. That’s the appearance I got, and a couple of others that I talked to felt the same. I guess I have a couple of questions. One is a semantic from Ms. Manser: when I’m looking at county data—which is what I have to look at—for example, if the annual one you are going to do with the OES appears to have basically the same data as the unemployment and wages that you do on a monthly basis by county. You didn’t define that far enough, because they both say employment and wages, so if it doesn’t, you are not going to go down to the county level with that.

Marilyn Manser: Sorry. The real difference is the occupational information. There is no information on employment by occupations in any of the first three programs that were listed on the chart, and collecting information on occupations is a lot more difficult; you can’t get it just directly from employer records. It’s harder and more costly to do, so the monthly information just doesn’t have that at all.

Question: Okay. Well, that answers that then. My other question is for Mr. Vander Schaaf: since we’re both from the State of Minnesota, I am particularly interested in your welfare comments, because that’s a big issue out where we are as well. Is there any move underway for the metropolitan and urban areas to work their rural out-areas? What I’m going to see happen here is what I saw happen in California: if they don’t work hand in hand, the buses are going to start filling up and they are going to come and find some relief. This means that if they can’t find it out in the rural area, and we don’t keep up to speed with what is going on, the two major problems we will find are transportation and child care. I don’t care how many jobs we create or where we put them. So I just wonder if there are any efforts on the city’s part to include our rural partners as we work on welfare reform, because I have a feeling that if it doesn’t work that way, then you are going to end up getting the brunt of it back here, because they are going to come to where they can get relief.

Mark Vander Schaaf: We’re in a very preliminary stage of working with the welfare reform issue, and it is largely the county that’s taking the lead on this. I’ve had two conversations with county people thus far but, I will say, transportation and child care are absolutely two of the top issues that we will face as well. I fully expect welfare reform is going to raise these issues in a way they haven’t been before. There are some research findings that are already showing this within the Twin Cities area—certainly reverse commuting is something that comes up. If you can’t create jobs in the inner city, then you find ways to transport people to jobs at the edge of the city, but this is something that has not been working well for the women who are likely to be those who are going off of welfare. The child care just is not there.

So you need all the pieces to be in place, and that kind of relates back to my sense of being integrated with other local government functions. I do think we will be framing the issue, and I hope we can go beyond this, but our first concern is going to be finding jobs for the people who live in Ramsey County, and you know we will look to outlying areas as locations for that. We’re not going to be thinking first and foremost about people who might be coming into Ramsey County from elsewhere in Minnesota, but I think that’s a good point.

Could I follow up with one more point in response to your question about rural data; it’s something I should
have expanded a little bit more on in
my remarks. I think the data would
best be used at the county data level
rather than at some other level. All of
these programs are fed-state programs,
and in some states, the state agencies
produce more detail than we actually
produce at BLS. We do it in a way that
produces a consistent amount of infor-
mation for all states. Some states may
be able to do more than what I’ve said
in terms of geographic detail. It has to
do with sample sizing and other things.

Edward Hill: I think it might make
sense to talk about the Holy Grail—
ES202—a little bit for those of you who
don’t have it. A couple of things which
are really important to understand are
it took us five years of lobbying in the
state legislature to get access to ES202
and to work out the deputation rules
which are serious. The second thing is
that we apply the exact same disclosure
rules at the local level that the feds
apply at the national level; if we don’t,
we are committing felonies. In fact,
there is one research center in
Wisconsin that lost access to ES202
data for a period of time, not because
the traditional vendors of the data were
using it inappropriately—in fact they
used it quite appropriately—but the
president of their institution ordered
them to give it to someone else in the
university who used it inappropriately.
So, indeed, we have to make choices
between industry detail and spatial
detail around the confidentiality issue.

The second thing is BLS has upped
the amount of money going to the
states to help clean up the data. There
has been a long effort now—about two
years—to get the street addresses
straightened out on ES202 at the state
level. And ES202 is also very good.
The problem is, even with these extra
cleaning funds that are involved, the
street addresses are often incorrect.
You’ll find that the address is the person
that prepares the tax statements; it’s M
Michigan and it’s GM, it’s all one site—
they are now breaking that apart, but
historically it’s a problem. We now
have to make policy choices between
the amount of cleaning, because we are
running up a bill of about $150,000 a
year to clean the data set, which is very
difficult. We target downtown because

we have clients that are interested in all
that stuff you see about downtown; we
have been absolutely rigorous and reli-
gious about cleaning it.

The second thing is that we don’t do
any ES202 office because we suspect it
may be illegal, but there are other
places in the urban center and else-
where in the city that maintain detailed
clipping files from 
Cranes Cleveland
Business. We find that the detailed
information that we can’t do from the
ES202, other folks can put together in
different ways. We provide the frame,
but we have a wall between the people
who work with the data and those who
work with the clipping services.

I did bring two examples of the
ES202 products; they weighed a fair
amount so I only brought out five of
each. One of them dealt with swings in
employment in manufacturing by type.
The downtown employment study
that’s going to be released, probably
within two months, is out. The client is
dealing with it now; it’s powerful but
it’s not everything. It doesn’t give you
any occupational detail. It’s kind of like
county business patterns. ES202 has a
major advantage over county business
patterns, as we’ve done some correla-
tions between the two data sets. This is
what the correlations tell me—I suspect
this is right, but I don’t know for cer-
tain. My suspicion is ES202 updates
the SIC code assignment of the firm
much more often than it does county
business patterns. So, if you have a
multi-product firm, multi-product
plant, it seems the SIC code switches
there much more often than it does in
county business patterns. Since we
received the data, we can track individ-
ual firms—I can’t tell you which ones
they are because I’d be committing a
felony—and follow them because we
really know what’s going on inside those
companies and see what’s going on.
The ES202 data is much more accurate.
It doesn’t get around disclosure prob-
lems for our rural partners. Because we
do a lot with our rural partners in Ohio,
we cannot go beyond the county level.
Disclosure is going to get you what kind
of business pattern? It’s going to get
you here. We distribute the progress to
folks in Toledo; we routinely cut tapes
and ship them out to folks and scare
them with the same felony word that
we scare us with. We have a felony
training program; it’s very important.
So, ES202 is good—it depends upon
your state and whether or not you are
going to get it. It’s not a be all or end
all, and it’s an expensive program to
run, even with the extra money that
BLS is giving to the states.

Assaad: Can I just ask one quick
question about disclosure? Could you
give us just a very simplified criteria of
the disclosures of criteria, so we know
at what point disclosure becomes a
problem?

Hill: This is my understanding,
because it’s actually an algorithm, but
we’ve got a quick rule of thumb and, if
it gets close to that rule of thumb, then
we go to the algorithm. Three firms or
less in the SIC code, forget it. I think
we use 80 percent of employment in
the SIC code by one firm: forget it. But
that’s our quick and dirty disclosure
rule. If it gets any closer than that, we
go to the algorithm which the owner
understands, and we’re convinced
there’s some step that goes through a
Oudjah board in there, but we aren’t
certain.

Manser: Ours is similar to that. I’m
not sure if this 80 percent is the exact
cut-off for one firm, but it’s very similar
to that.

Vander Schaaf: This is serious stuff.
For those of you who are Minnesotans
or Twin Citians here, I really am an
advocate for doing this kind of research
and data processing more at a regional
level, because I think one very quickly
gets into issues. Let’s suppose that St.
Paul and Minneapolis are doing it and
not committing felonies, but they still
have to make choices and will start get-
ting different methodologies. We will
be working directly with the state
Department of Economic Security labor
market analysts. I think that’s going to
help quite a bit, but this is something
where there are economies of scale and
demand is sufficient so that not every-
one is going to want more detailed data
but pretty much everyone else is.

Mike Przybyski, Center for Urban
Policy in Indianapolis: Because ES202 is
a joint federal-state program, is there any leverage at the federal level over states about disclosure or about using the data?

**Manser:** No. As a matter of fact, I think BLS's official position is that some of the states are more lenient than BLS would probably think would be advisable. On the other hand, others may be more rigid. But we just don’t get involved at all.

**Przybylski:** So, it’s entirely up to the local states. In Minnesota, what I understand from talking to people, the state level folks are much more forthcoming than in some other states. Is the only way that you can get your hands on this to be declared a state level analyst?

**Hill:** You have to be deputized.

**Przybylski:** Okay.

**Hill:** In Ohio, the reason the public universities have it is because we are only state employees, which makes it possible. They are asking the Ohio Bureau of Employment Services Labor Market Information to do the analysis—they don’t have the staff. They said we need another strategy when faced with that demand. So we have been deputized. My university is the lead of a multi-university consortium. We are the body that is held legally responsible for the violations.

**Przybylski:** Okay. And you are responsible for the $150,000 per year.

**Hill:** Well, I can’t speak for other states, but I do think it’s interesting to trace the history of this in Minnesota. It is really quite recent that the type of arrangement I’ve made was at all possible. I think that many of the forces that I’m talking about here are leading to a re-evaluation of the policy and the arrangements. Now, in our case, one of the reasons the state was motivated to come to an agreement with us is that they currently do not have a geographic information system. They said they would love it if we would share with them the XY coordinates for all these businesses, and they would be willing to help us some more if we’d do that for them; that’s part of our partnership. I think there are a lot of opportunities starting to come out.

**Manser:** One other point we’ve been giving a lot of thought to is confidentiality for our federal data on the BLS. Our commissioner, Kathryn Abraham, an academic by training, is very interested in trying to get data out. It’s very difficult to do that while maintaining confidentiality, but one thing that we think we are going to do is have an agreement, I think initially, with about three federal reserve banks. We will grant them access to the longitudinal ES202 files that we are producing and they will be able, and we will be able, to allow researchers to come into those locations and use the data for research purposes, but these are only for research.

**Przybylski:** The third data set that you mentioned, Marilyn (the Local Area Unemployment), can you say just a little bit more about that in regard to availability and coverage?

**Manser:** Well, availability does your monthly data and we produce annual averages. We revise the data annually based on what the annual averages show, but there are two separate methodologies used for all the states, and for Los Angeles and New York; we use a regression-based methodology. We have more data available as inputs at the state level than we have at lower levels, so we use the CPS heavily in producing those estimates. We also make use of the CES data and some other sources that are more out-of-date to produce those regression estimates. At the local area, the methodologies are a little bit more obscure. There is much less data available and less defined methods for disaggregating the state numbers into local areas. For the employment estimates it uses the CES data and some ballpark estimates; for unemployment it uses the UI claims data, again with some ballpark estimates, to account for the new entrants and re-entrants into the labor market for which there are no current data at that level of geography.

One of my challenges to people who use that particular number is to read the 22-steps handbook. It’s the best thing. They’ll never use the number again after they’ve used this. The employment number is terrific. When you go through the unemployment estimates—it’s driven by the unemployment insurance claim data—you have to make the assumption that the claims are representative of people who are currently willing to work and actively seeking work. I have a problem as to whether you can get that any other way besides using a household sample survey. Is some information better than none at all?

**Assaad:** Let’s move on to another question.

**Jeff Blodgett**, Connecticut Economic Resource Center: Thank you. Why can’t BLS, as the primary funder of a lot of these programs at the state level, take some steps to encourage uniform policies across states and to encourage these kinds of innovations?

**Manser:** I’m not sure exactly what you mean. In terms of the UI data, I don’t think there’s anything we can do, because the states are the owners of the data and it’s up to them.

**Blodgett:** But don’t you provide funding to run these programs?

**Manser:** We provide funding for certain aspects of it—to clean them and to put it out and get the data from the state level into the federal system—but we don’t fund all of the costs.

**Blodgett:** But it would seem like you are in a leadership position to even make some policy recommendations, without making a mandate necessarily, to encourage this kind of innovation and thoughtful progress that we see in some selected states.

**Hill:** Are you referring, Jeff, to ES202 specifically?

**Blodgett:** Yes.

**Hill:** I actually think BLS has done a terrific job with that. I think they’ve done issues with the proper sets of cautions to the states. We’re probably one of the states they are worried about, because we have been fairly aggressive about using it. They have used their
funds to promote cleaning the data in a responsible way. BLS is sitting there and we don’t want to go toe-to-toe with the Indiana Legislature, which results in Congress looking at it. I think the BLS folks have been terrific in training us in terms of how to interpret the data and the confidentiality rules—I have no problems there at all. When it comes to the issues around the local unemployment rate issue, I don’t think it’s less a fed issue and much more of a state issue. The states really care to know what’s going on inside their local labor market.

Blodgett: Yes, I’m less concerned about the unemployment rate than I am about the establishment detail—what’s going on with the births and deaths—and it seems like every time we’ve gone to our state agency, they’ve pointed to the Boston Regional Office and said they won’t let us.

Hill: Don’t let them get away with it, that’s all. It’s your local guys that don’t want to get involved with dealing with the issue, and so they are pointing up the road—we’ve been down that road. Bring everybody into the room together and say, Boston folks, State of Connecticut folks, Governor’s office, this is an issue; let’s deal with it. We did that in Ohio and it’s quite clear that the issue dealt with our local labor market service being scared to death of the legislature—as well they should have been—which meant we had to do a lot more work with the legislature.

Blodgett: Okay. It’s just getting all the players together.

Hill: Yeah, it’s a political issue.

Assaad: I’d like to get to another issue which was raised by Ned in his earlier remarks about value-added production. I know it’s not your area of expertise, but what is the federal government doing about providing this kind of data at a more desegregated level?

Manser: Unfortunately there is nobody from the Bureau of Economic Analysis here, who I think is best able to address that issue. We produce the productivity estimates, but basically rely on the Bureau of Economic Analysis for the value-added or gross national product input, so it’s really what they are funded to do (and they have had some severe funding constraints). It’s also a question of input data, too. You need to do productivity; you need to define new output. To do that you need to have good measures of prices. The price data are not actually produced on the kind of geographic basis that you would need to provide detailed productivity measures.

Hill: Right. I’ll tell you how we did it. We got the one-digit contribution to gross state product, so there is a line to manufacturing’s contribution, for instance, to gross state product for the State of Ohio, or actually all states—we did this for all metropolitan areas. Then we took ES202 data for each metropolitan area’s share of manufacturing wages in the state, multiplied that data by manufacturing’s contribution to gross state products, so that we had an estimate for manufacturing’s contribution to metropolitan state products, and then we divided that by the total number of manufacturing workers in the metropolitan area. It’s really whether you can use each metropolitan area’s share of manufacturing wages as the allocation device. We found out RFA and other folks do similar things to generate their estimates of gross product.

Question: I’m from the Research Office, Department of Economic Security. Yesterday at the pre-conference about making economic data useful, one of the items put up on the board was Analysis and Interpretation. Comments were given that these were sort of running in the same place, and Mark was talking about not having an analyst to do the work. What is your response, all three of you, as to how we address that problem, and how can we alleviate some of the data shortcomings?

Hill: I actually think there are two sides to the coin. One of them is that there really are lots of good data around, and we can tell good stories from the data. It’s really the skill of academics and public servants interacting with public constituencies which to me is an analytical tool that’s as important as regression analysis. It’s also making certain you do simple things like answering reporters’ phone calls on a timely basis, so I don’t see this as a major problem.

Assaad: Any others on the panel who want to respond to this?

Vander Schaaf: Well, to a large extent I’ll just second what Ned said. I thought yesterday’s pre-conference discussion on data was really fascinating, in that the central theme became storytelling. In my bio, you may notice, it’s mentioned that I had an earlier career as a humanities professor. I like stories, and in my career as an economic researcher, I have always prided myself on gaining the greatest insight from data that are always going to be incomplete and really frustrating. From my perspective of where I work in St. Paul, I don’t feel an enormous lack of data. There are a couple of little things that have been really aggravating to me, and I believe that we are going to go a long way toward addressing those in the next few months.

Question: Two questions for Marilyn: First, to what extent does BLS have dialogue for users in a systematic way—how are you in touch with the users of the data?

Manser: I guess there are only two systematic ways. We do have two advisory committees which consist of groups of people who are primarily interested in national data. One is the Business Research Advisory Committee, which is made up of people who are business economists. The other is the Labor Research Advisory Committee, which is made up of people from organized labor. We meet with them twice a year to talk about new things we are doing and to hear their concerns. Other kinds of interactions are just on an informal basis. There are a lot of people at BLS who are set up to answer any questions if people call in. Certainly all sorts of conferences are important to us, because they do enable us to hear people’s interests and concerns. I think for a lot of the users of state and local data, a lot of that interaction has come with the state agencies rather than with us.

Question: Would it be of value, do you think, to have a third advisory committee that was made up of state and local users?
Manser: It could be. It's something I have not heard recommended nor discussed.

Question: The second question has to do with BLS’s relationship with Congress. There is a perception that there is only one person in Congress, Senator Moynahan, who understands the workings and the value of economic statistics. But what’s your perception of the people on those committees regarding the value of what you all do. To what extent do you have an appreciative audience somewhere in Congress rather than one senator?

Manser: There is certainly a smattering of interest in use of data among Congressional staffs. It sort of varies from time to time. Certainly one issue for us is that we’re not allowed to lobby Congress for funding, so it makes it a little awkward. Where is the line between sort of explaining the value of what you do, and doing something that appears to be lobbying? To a large extent, we have to rely on our users to make it clear that there is interest in this information.

Betsy Wareline with Metropolitan State University: Ned, you talked about what we need to do to change or make things better. I’d like to ask Marilyn if she agrees with those points. I don’t think you’d argue with more money to BLS, but he mentioned CPS samples at least twice a year?

Hill: I was focusing on three data series which I think are important and underutilized. The first is some estimate of Metropolitan Gross Product by one-digit sector, which doesn’t fall in Marilyn’s bailiwick, and believe me, it’s not on any radar screen anywhere near Washington. Second is the improvement of the employment statistics in a local area. I think the only way you can do that is through a bi-annual, much expanded CPS that focuses on these issues, so that we have some benchmarks as to what is taking place in local economies. The third is an attempt to save, if not strengthen, the international trade statistics at the metropolitan level, because that is a driving force for large parts of our economies, and it’s important for us to know what is going on—which again is a commerce function. I’ll tell you a small story about this. This program was moving along quite well. It was high on the agenda of Secretary Brown, but since his death, there’s been so much change in leadership. It has really gone below the radar screen; right now it’s three people volunteering to keep it going, and they are doing it on top of their other jobs. Those are my three issues.

Question: Marilyn, you can’t lobby Congress, but if somebody were to lobby Congress, what would you want them to say?

Manser: I don’t know. I think unemployment data is a difficult issue for state and local areas. I don’t know what can be done in this period of tight budgets. We undertook a massive eight-year redesign of the CPS to change the way questions are asked. Data are collected in this process jointly with the Census Bureau, which actually collects the data, and BLS. One of the things for which we actually had a budget proposal to Congress during that period was a doubling of the CPS sample size from what was then 60,000 households, so we could provide state estimates directly from the CPS each month. That was never funded. As a matter of fact, it was killed pretty early in the budget process. I think the problem is that it’s extremely expensive to collect household data for a sample as large as you need to get reliable estimates at the local level, and that’s why the employment data are so much better. The ES202 come fairly inexpensively because they have to be collected for administrative reasons. The CEF is fairly easy and inexpensive to do; it’s just a shuttle form based on information that employers have in their payroll records. It only gets a few items of information, so it’s fairly easy to get reporters to respond, but when you are talking about getting data from households, it’s extremely costly.

Hill: In my world I would love to keep CPS’s current range about at 50,000, because I have faith in a lot of the regression techniques that are being used. If there could be any increment to the budget, it would be for a twice yearly expanded sample above the 120,000 to answer the notion of every month going out with 120,000 or more. I really want to know what the incremental benefit of that is, on top of much more accurate state statistics which have some benefit. But I’ll go back to it: states aren’t economies; they are collections of economies. I’d much rather have the data less frequently, and I think quarterly is too expensive. A semi-annual collection would keep us on track with what’s going on with the economy. Unfortunately I don’t know the cost of that, or what the sample size should be to get good data for, say, the top 200 metropolitan areas in the United States, plus the balance of state data, which would be the opposite.

Manser: There is something that’s being proposed by the Census Bureau that might help that need. Now the only real detailed unemployment information comes from the Census long form, which is done every ten years. The Census Bureau has proposed and begun work on something called the American Community Survey; it would be similar to the Census long form in that it would just be mailed out to people, but it would be mailed every year (instead of every ten years), and it would be a very large sample. The data wouldn’t quite match what we get from the CPS in the same way that the Census long form data doesn’t quite match it, and they wouldn’t be available as fast as the CPS, because it would take people time to mail it back. Then it would take the Census Bureau time to process it, but, if that effort was done, it could certainly help the annual local data.

Hill: It would help. Essentially you would be able to benchmark the handbook with the annual. It would give you plenty of departure to see where the errors are.

Manser: Right. Instead of just having that ten-year data, you’d have it every year.

Hill: Exactly. I think it is a very interesting contrast. I work on developing country labor markets and, in that field, collecting household data is a lot more reliable and less costly than collecting establishment data because a lot
of the establishments are informal. In fact, there is a substantial portion of private sectors in these so-called informal establishments.

Manser: Of course, I should say, our establishment surveys and the UI system also don’t get very informal things. If some individual is going out and mowing lawns to earn an income, these programs aren’t going to collect information on that work. It’s just not very important in the U.S.

Assaad: I’d like to thank our panel members for a very stimulating discussion. Thank you all.
MODERATOR: Graham Toft
INDIANA ECONOMIC DEVELOPMENT COUNCIL

I’ll ask the panel to introduce themselves; you’ve probably met them through the conference.

I’m Maxine Moul, Director of Economic Development from the State of Nebraska. My background is very rural; the first 35 years of my life were spent in communities of less than 1,600 people.

I’m Rob Atkinson, Director of the Rhode Island Policy Council.

I’m Anita Duckor, Director of Electric Delivery Marketing and Director of Community Economic Development from Northern States Power Company, a Minneapolis-based gas and electric company.

My name is Michael West, the Director of Planning at the Texas Department of Commerce. My main job is to work with the agency on agency performance, agency planning, and legislation that affects the agency.

My name is Bill Bishop, and I’m a columnist for the Lexington, Kentucky newspaper called the Herald Leader.

My name is Graham Toft, Indiana Economic Development Council, and I’m still looking for a job.

Welcome. This is how we like to operate: We have a script that’s been prepared for these panel members of a series of questions I am going to ask in several segments, so we’ll have them respond. They’ve been given very tight time limits to respond to the items, and then I’ll open for discussion around that topic before we move to the next.

Some of the issues we will cover are as follows: who are the players and stakeholders in the old economy and the new economy? Who are the players and stakeholders in urban and rural development in the old and new economy? We want to talk about the whole pie; most importantly, who are the winners and losers in the new pie that might be created if we go a new economy route. And then the politics of public/private partnerships. We’re going to ask questions about each of these, and then we’ll open for your questions in between each of those categories. We also have a fifth point. We’re going to close with some open dialogue on three issues: the politics of clusters, the politics of third-party organizations (there can be intermediaries), and then I’d like you to start thinking about what we’d call this stuff. I guess I’m not happy with “third wave,” I’m not happy with “new economy” and I’m certainly not happy with “gardening.” So, before the end of the day, we’d like you to come up with some interesting words and terms that we all might go away with having learned about this stuff.

Let’s begin with a simple definition of political behavior by a political scientist, Robert Dowel: politics is about who gets what, how, when and why. That’s the bottom line. We’re really talking about the pie—how it’s going to be sliced and who eats it in the new economy. We talk about the new economy and, doing it differently, there are going to be different beneficiaries and different losers. So let’s begin with Anita. We are going to ask her to give us her perspectives of the economic development system today. Who are the stakeholders? Who are the parties? How is it working?

Anita Duckor
NORTHERN STATES POWER COMPANY

I don’t really think the question is who are the winners and losers. I think economic development has significantly changed. If we had this conference five years ago, and even ten years ago, we would have been talking about business recruitment, retention, and starting off with some development within our own region. Now we’re talking about an extremely broad set of facts. The issue is education; it is housing—and that deals with both affordable housing as well as executive housing; it is dealing with public policy; how people are treated from a business climate standpoint; it’s all these things that now have to come together. I think we do have new stakeholders. What we don’t have is a system to effectively communicate between the stakeholders. It isn’t just the legislature and it isn’t just the state agencies. It’s within the private sector; it’s within the educational system and it...
Anita Duckor

seems to me the challenge that we have is: what sort of new program do we need to develop? We aren’t so good at stepping back and looking at how to re-engineer the whole mechanism, the whole delivery of economic development, and taking out the inefficiencies, the duplications and the fragmentations with all of these new stakeholders. I think if we don’t do that, we’re going to continue to implement new programs and new ideas, and think we’re solving the problems when we really are not on top of some of those issues.

Toft: Thanks, Anita.

Rob, Anita is talking about the fact that we’ve got so many different players out there—new stakeholders and so forth. Who are the new stakeholders as you look at economic development systems for your state? Who are the new stakeholders, and who are going to be the beneficiaries there versus who you’ve been dealing with to this present time?

Rob Atkinson
RHODE ISLAND ECONOMIC POLICY COUNCIL

Well, I guess I want to back up one step and say, I don’t know if anybody agrees on what the new economy is or what “gardening” is. I was on this stage about five years ago with Graham, and we had a nice dialogue about the new economy and the third wave. Five years later, we’ve made almost zero progress as a nation on being further along on the share of economic development being devoted to these types of things, versus the share of economic development being devoted to the old types of things. I have my own list of new economy economic development principles, and they are partly related to business development. I’m sure people will add their own or disagree with mine, but I tried to think this through for what it means for Rhode Island.

I started with growth from within as the first principle. The second principle is when to focus on the industries that are most important—trade sectors, cluster sectors, and higher performance or higher wage firms—then what to do with those you help become more competitive. How do you help them become more competitive and learn? You don’t do it through government programs, you do it through other types of vehicles such as non-profit organizations or industry-led organizations. How you think about the economies or you think about it through this notion of sections—and you can’t say that I got this idea from Joe—you think about an economy of sectors, not agencies or programs, inter-regional cooperation. Last—which I think is the point we’ve been missing here—is what economic development is all about. I go back to this book I read when I was a graduate student—an article whose title was Growth Versus Development—and it stuck with me for a long time, because I think what we call development and what we call growth are really two different things.

I’m always amazed that a place that is growing rapidly, with new jobs and with new people moving in, is actually where they are doing economic development. Amarillo, Texas, about a month ago, sent a $7 million check to one of our insurance companies in Rhode Island. Rhode Island has lost ten percent of its jobs in the last eight years. Amarillo, Texas is growing—why is Amarillo, Texas, trying to take industry from Rhode Island? Similarly, I think the whole issue of equity—which I think has been missing from this conversation—and is, to me, what new economic development is about. In places that are growing, you don’t grow anymore; you focus on equity, you focus on bringing people in, so who loses if you want to move to these new types of economic policies? I’d say the biggest losers are big businesses who currently benefit from a system of subsidies, who, if you were to say you were really going to practice what you preach today, we’re going to end those subsidies. I think the biggest losers are going to be those companies that are sophisticated enough to take advantage and get cash, either directly or tax incentives. Second would be that, if we are going to target activities to what we think are the most important sectors, then the sectors who aren’t going to be in those categories are going to be left out. Those are usually non-economic base sectors. Maybe put the third one in coming from Rhode Island, but I know that, in New England, economic development tends to be defined as big mega projects, stadiums, convention centers, malls and the like. If you say you’re not going to do that anymore, then all the backers of those are going to lose. And then in terms of the public sector, I think that the biggest losers in this are the people invested in economic development who are apparently invested in this old way of doing economic development.

Rob Atkinson

When you really look at where economic development has got to expand, it’s not necessarily going to be in economic development agencies. I would argue it’s going to be in other types of organizations, whether those are trade associations or non-profit organizations like CDC’s or others who are closer to the customer and can deliver services a little better. Another is fragmented organizations. I know that, at least in Rhode Island, and I’m sure in other places, economic development tends to be fairly fragmented with lots of differ-
ent programs, lots of different activities, and I think a more rationalized system would tend to fix that.

Last would be who is going to lose? That’s political leaders who can’t cut ribbons any more, who have to figure out some other way to get political credit because you’re not doing this anymore. Who would gain with these economic policies? I would say the principle gainer would be residents who would see their quality of life and their economic opportunity in state firms. I put down unions because I know—in Rhode Island, which has a very strong union presence, the unions are actually one of the biggest supporters of moving in this direction—they don’t want to do subsidies; they want to see a high-performance, high-wage path. Clearly targeted sectors, the last of which is not, I think, distressed places. If we go back to the old model of what economic development is, a lot more of it is going on in distressed places. I think those are the places that are going to benefit.

Lastly, people like myself who get paid to study this are clearly going to be the beneficiaries.

Toft: I’m glad I’m not the only one who’s going to lose his job. But I think from this I’m not only going to lose my job, Rob is. But also, my organization is on the line because these economic development organizations, by and large, have created an industry in and of themselves. I notice you are pointing out that some of the losers here are the program managers, the economic development organizations, and so forth.

Well, a few questions from the audience about the general change in balance between stakeholders and whatever observations and questions we might have about what this means to your situation. Is it real? Could it happen? Could this shift of power happen? We have economic developers here who basically are in this business for the long haul and doing it in a traditional light. Any questions?

Ned Hill, from Cleveland State

There are a couple of reasons it won’t happen right now. We have to make the assumption that the current economic development gain is an irrational gain in order to say it’s going to stop. I’m an economist, and as an economist I believe in revealed preference; people reveal their preferences by their actions. It’s clear there is a calculus out there that makes this irrational series of gains for a number of players. The only way you are going to go to this new version of economic development is if the rules of the game change, and then we’re back to where Art Rolnick was. As long as there are strong political incentives, and the political benefit/cost analysis outweighs the economic benefit/cost analysis, we aren’t going to be doing this.

In fact, what we’ve seen happen in economic development practice over the past six years is not a narrowing of focus, but a broadening of the portfolio of tools. I firmly believe we’re going to be doing more with smaller bases as long as the politics of development stay the way they are, and they aren’t going to really change until the federal rules change.

Michael West: I think that, if you talk to a lot of economic development professionals around the country, which is what I did, they know they are sinners. But they also know who is paying the bill. And I think there are some subtle things that can be done to change things. For example—it’s very simple—economic development districts that are supported by EDA and ARC have to have a 50-percent-plus-one voting membership of local officials. If early on, that was 50 percent plus one of local business and community leaders, the bias over a ten- or twenty-year period would have changed significantly. So I think you have to restructure your institutions in very simple ways that make the people who are representing the boards also represent the kind of longer term interests.

Toft: Maxine, I’d like you to respond about how the various strategic alliances can be put together for sustainable rural development, as opposed to the rural development which we see so much: shoot anything that flies, catch anything that fails.
bring some balance to economic development by putting a focus on rural development.

I agree with what Ned has just said; we have not necessarily retrenched from what we had been doing in terms of smokestack chasing and working with the big business and recruitment. Instead we’ve expanded the program in state economic development to include small businesses, and to focus on rural areas. I think that over a six-year time period, we’ve been lucky enough to be able to go beyond one four-year term of office in politics. We have put together a fairly large constituency of rural people and small business people who are willing to go to the legislature, who are willing to make the case that there needs to be a balanced economic development policy.

Maxine Moul

To illustrate what is going on right now in the state, we have a package before the legislature that would triple the amount of job training dollars that we have in the state, because they would be focused on small business. It would double the amount of monies available under a Partnerships for Economic Development Act that was just instituted two years ago with a very strong rural constituency. It would give us a 50 percent increase in international trade dollars, so that we can focus on trade assistance to small businesses, and, for the first time, would give us some state general fund dollars that would work at micro-enterprise development. The vote is still out in the Legislature, but at least the preliminary reaction in the appropriations committee has been very positive. We literally have hundreds of people who will make the calls to the Legislature, who will talk to the legislators in person, write the letters and let the people know that this is a broad-based constituency. Whether this will survive the change in administrations that will take place in two years we don’t know yet, but we have put together something that will help us survive. That is, we have established a Nebraska community foundation which, in three years, has 100 designated funds for small communities and world-based projects, and has raised about $10 million. I think that will give us the basis to be able to continue some of these programs that we’ve started.

Toft: I want to switch to Bill Bishop who is a reporter, who observes the behavior, if you like. Bill, you’ve heard about a coalition there, an advocacy group, but tell us about the interests that are opposing that from your observations. What kinds of firms, industries and coalitions are in opposition to a change?

Bill Bishop
LEXINGTON HERALD LEADER NEWSPAPER

I don’t think there would be too much of an opposition. The opposition really comes from the governor’s office in our state, and I think he is responding to the signals that he gets from the press, because we cover this issue badly. We cover it like a sporting event, so there are winners and losers. God help the governor who loses the steel plant or something to Virginia, or the Cleveland Browns to Baltimore, or whatever these people really believe in. What they are doing there is sort of a religious aspect to what the governor does.

Lloyd Bender, a USDA economist, looked at Arkansas in the 1970’s when they were giving away a lot of free land and canceling taxes. They were getting a lot of growth, a lot of people coming into town for low-wage jobs, a lot of poor people coming into these communities, and it was a bad scene. He eventually described what happened as a creation of a rural ghetto, but he said the people that did like it were the merchants on main street. Their cash registers were ringing because, no matter how poor you are, you’re buying some clothes. Kentucky is more than half rural; main street is the Chamber of Commerce, and main street is the political force that’s beginning to change as larger business has different needs. Ten years ago the Kentucky Chamber of Commerce would go to the Legislature with a primary objective to screw up the environment. Now they are the primary proponent of a change in how higher education will work in the state; their secondary goal is to screw up the environment. I think that, as the demands that we’ve talked about are placed on businesses to be more competitive, and to have better employees, that they begin to put different pressures on. When I was looking for hope, that was the one area of hope that I saw.

Toft: So there is some hope that business groups can see the value.
Bishop: And it comes from UPS, Humana, Ashland Oil, and the people that are driving the state chamber now.

Toft: Okay. Tell us about elected officials. I am interested in the behaviors of various stake holders. Take a governor, or a mayor, or some example that you can give where a person hasn’t been a ribbon cutter, but rather has used a third wave or a new economy approach with public support. Any examples?

Bishop: When I read that question, the two people that came to mind were North Carolinians: Terry Sanford and Bob Scott, two governors who just ache over this. They came out of an old education tradition that put a lot of money into the University of North Carolina. Bob Scott changed the community college system in North Carolina, but frankly, I don’t know of any statewide politician that has made that a focus of his or her administration.

Toft: I’m going to put the same question to utilities. Anita, we see utilities taking two different tracks here: some utilities follow the traditional route, in support of main street economic development, and some utilities have taken a real interest in small business development and training programs. What is it, as you see, in the utilities industry that makes for one to be motivated one direction and one to be motivated another?

Anita Duckor: Well, I’m really glad you asked the question, because I think a lot of people are unaware of why utilities come up with the different plans, and why you don’t see consistency among utilities. Before I speak to those issues, I think it is important for people to understand that there are four critical services that utilities provide. Any way we talk about it—if it’s in growth or in economic development—electricity is a critical factor, from a reliability standpoint, for most of our businesses. We are also seeing those standards change at the residential level, because people who have computers and businesses within their homes are becoming increasingly dependent upon electricity. We also provide capital; a lot of utilities have venture capital funds and loan programs, and utilities have invested in affordable housing. And last, but not least, we offer a range of programs and services to our business customers.

Now the question that you want to ask is, how does a utility determine which arena in which to play? First, you have to make an assessment of what we call our product. Our product is not the electricity or the gas that we sell, nor is it the telecommunications that we provide; it is the service territory in which we operate. So you a look at your existing industrial base and ask: is it diversified, or is it dominated by one or two industries? If you are an urban utility, you are going to be very concerned about redevelopment issues, brownfields, etc. We were just talking about how operating in rural areas requires a different strategy. You also need to look at the environment in which you operate from a business climate standpoint. In other words, if you have a reputation at the state level that you are tough to do business with, certain industries aren’t even going to look at you. In addition, you look at who the other players are. You find out what services and products they are offering so you don’t duplicate them. Then you ask what role can you play, and in what role can you be most effective? If you really go through this full analysis, you will come out with the set of products, programs and services that complement what the rest of that region is providing.

I don’t see utilities acting in a vacuum, and certainly that is not our perspective. One of the things that has challenged me at this whole conference is that everybody keeps talking about big business recruitment, and in Minnesota that just doesn’t exist because we don’t have the big incentives. If you don’t have the state incentives, you have a different strategy. Within our company, for example, we ran a business attraction program that’s extremely targeted. The medical products manufacturing has all the assets to not only encourage businesses to develop here, but also to expand here. I get very concerned when I see people who think they can pull a program out of California and plunk it into a Midwest or an East Coast program without making that assessment. Does this really fit within our environment?

Toft: What I’m hearing you say is there is a bottom line motive, depending on strategic conditions, for a firm to support some of these initiatives.

Duckor: Well, in some vague way, we are the last of the real stakeholders. The distribution companies—and that’s the electric as well as the gas side—have fixed service territories. When we talk about customer choice that we believe is going to take place within three to five years, that’s really just the energy purchasing side; the delivery continues to be regulated. Banks have gone through a major re-regulation—from deregulation to re-regulation. They are operating with a different set of factors and may not have that same close tie-in that takes place with the communities. Utilities still do, and we certainly want to be able to utilize, and have an impact on, what’s going on in the region. It serves us extremely well, which in turn serves the community well, because I don’t think you are going to find a community with any growth potential if it cannot offer those essential services at a competitive price.

Toft: Can anyone in the audience give examples of where people in public office have been able to position themselves successfully by taking one of these alternative approaches, or whether businesses or business groups, in their self-interest, have been able to pursue new economy approaches?

John Stoltzenberg from Wisconsin: The classic example is back in the utility industry. The Universal Service Fund Program of Telecommunications Utilities have much broader objectives than providing phone service at the lowest cost. It’s a much broader social policy. Even while people are preaching the mantra of deregulation and competition in the telecommunications industry, you have states creating universal service funds. Now the federal government is going to be voting on the Federal Universal Service Fund. It would pump $2.25 billion into education and subsidize telecommunications services for education. We’re talking about public benefits. I think it’s going to come up again, and it will be a price that will be paid as part of the deregulatory process.
Toft: So we can capitalize on some of these companies, especially those that are being deregulated.

Stoltzenberg: Yes.

Toft: So that they can take advantage of the new markets as they are emerging. Some of those new markets are in a type of new economy.

Stoltzenberg: And then there will be trade-offs made in that process.

Toft: Such as markets to clusters. The telecommunication companies will deliberately position themselves to be high-profile before emerging clusters so they can capture market share. I think this is where we are exploring those examples where players out there do take advantage of this. Secondly, how do we motivate those entities? Joe?

Joe Cortright: What can we do to work with people in the media to change the way in which the economy is reported? It seems to me as long as it’s perceived to be a horse race, the politicians are going to react accordingly. There’s limited opportunity, and I’m forced, reluctantly, to agree with Ned. Its going to be hard to move to these changes. What can we, as people who care about this, do to influence folks in the media or help them to understand what we think we know?

When you work on a story with an economic developer, and they work with a community and someone who is going to create jobs within a cluster, or some topic semi-related to what we’ve been talking about, and you or one of your colleagues writes that story, do you then get the reaction where they call you and say, I wrote this story, it sound-ed good, so many jobs, disadvantaged population, but no one cared? Is that the case or is that not the case?

Bishop: We’re good at writing those stories that talk about instances where something happened and jobs were created, and that drives the process in the way that it seems like there is a consensus in the wrong direction. Because when you start talking about things that create wealth and efficiencies, you begin to lose the all-important score on the scoreboard, and you no longer have a story that you can sell to your editors. Besides, it’s basically marginal economic development people, not the main person, that’s doing it, and you don’t sell the story and nobody wants to hear about it.

Duckor: I think we are dealing with less resources and have to be able to allocate them more efficiently. The only way we can do that is through collaboration. It isn’t going to be the public or the private figuring out the solutions to the challenges that our society is facing; it’s going to be everybody at the table being able to discuss it and come together with a common solution. I think it’s the only way we are going to succeed as a state or as a nation.

Rob Atkinson: I think the key is what Anita said: it’s bringing the parties together in a forum where they can discuss and educate each other, but I think the real key is finding that core of enlightened business leaders who are willing to look beyond self interest. There are usually a small subset of your business community who are willing to put stuff on the table that is actually in contradiction to their own firm’s interests, because they want to do good. I think there are enough of those business leaders out there, and if you get them the right level of people who have the right prestige in the community, they can move this along.

Michael West: The one common thing I see in all the poor places that I’ve been is the failure to have a spirit of collaboration and cooperation within the community.

As long as the free economy is kept free, and even set more free, you are going to have more win-win transactions. People only deal with each other voluntarily when they feel they will come out better than when they don’t deal. Even though we do it in a very delicate and obfuscating way, we are going to have more win-lose or, worse yet, more lose-lose transactions the more we use the coercive arm, because we substitute the judgement of either the group or some cluster for what ought to be the decision of everybody on the win-win way. The result is that, because of their ignorance, their indif-

Toft: Mike has some examples of public/private partnerships in Texas that would give us some illustrations, because I think this panel is saying there are collaborative strategies that could be brought to bear. Could we hear from Mike, and then see if you’ve got any further comments on his presentation?

Let’s hear from Mike on public/private partnerships.

Michael West
TEXAS DEPARTMENT OF COMMERCE

I’ll make one quick comment. I think it’s absolutely essential that we move toward collaboration, and, as humans, we will address the problems we’ve created in the past. One way we do that is through the political economy.

Now on to my topic, the realpolitik of public/private partnerships in Texas. Thanks, Graham, for inviting me and allowing me to speak today.

The Texas Department of Commerce was established in 1987. Legislation sought to consolidate a number of economic development programs. The programs related to housing and community affairs, JTPA program, tourism, industrial development—all of those were put together at that time to form a new agency. In addition, rural affairs was added to the Department of Commerce, as well as an office of small business. At that time there was a strategic economic policy commission that was put forward which consisted of a blue ribbon panel led by the state’s leadership, especially the House Speaker, Gib Lewis. They released their plan in 1989 and identified many of the issues that were tracked through legislation over the succeeding five to seven years. These included things like globalization of the economy, tort reform, need for infrastructure, and transportation—many of the issues that you all faced in your states.
Since that time, the governorship has changed twice. Governor Clements yielded to Ann Richards; Ann Richards in turn left office, and Governor Bush took over. Each time this change took place, the department’s executive director changed, and each time that happened we had a change in focus for our agency. Also at that time the state’s leadership and the Legislative Budget Board began the implementation of the Texas version of Performance Based Budgeting. This version mandated that each state agency develop a strategic plan for execution of the duties that we were charged with carrying out.

Michael West

In the document entitled Vision Texas, which provides us with the following philosophy for state government: “state government will be ethical, accountable, and dedicated to the public being served,” state government will be based on four core principles: limited and efficient government, local control, personal responsibility, and support for strong families. The first one points out that the government can’t do everything, nor should it be expected to do so. As the agency went forward last fall with its appropriations request, we introduced a timetable to privatize several of the activities we currently have under our umbrella.

Meanwhile, back at the private sector ranch in 1994, the Texas Research League was approached to do a thorough study of the Texas business climate. Specifically, the League was to identify those elements of a positive business climate; the results of this initiative was entitled, Texas Business Climate Analysis: Trends, Warning Signs, Growing Pains. It was carried out through a series of focus groups and interviews with the state’s business and economic development executives. One of the primary recommendations of that study is for the state to carry out a thorough strategic planning process to guide the state and economic development efforts in the future. The Texas Research League Study states that many of the state’s business and community leaders have remarked that the absence of a statewide economic vision and the absence of leadership on strategic planning is placing the state at risk in a globally competitive world. Also coming from this document are a number of themes. Many of the issues on this list have been treated from a number of different perspectives, and I think economic development in your area will be better for that.

One of the charges of the Comptroller of Public Accounts, who is the state’s lead tax official, is to conduct an annual performance review of state activities. The performance review is roughly equivalent to the re-engineering government initiatives that you see around the country. The latest version is called Disturbing the Peace, and proposes to save the state another $5 billion in addition to the $8 billion that have already been saved. One of the recommendations of Disturbing the Peace is to abolish the Texas Department of Commerce and replace it with a public/private partnership. As I’ve mentioned on a couple of occasions this week, the state’s legislature is in session as I sit here before you, and there are currently three bills in front of the legislature to abolish the Department of Commerce and reconstitute the economic development function. One of these three bills tracks the proposals of the Comptroller. This proposal basically puts the Governor as the Chair, then the Lieutenant Governor, the Comptroller, the head of the General Land Office, the head of the Department of Agriculture, the heads of Housing and Community Affairs, the Workforce Commission, Higher Education Coordinating Board, Department of Transportation, Parks and Wildlife, Education Agency, and, below that, 12 private-sector members. So you have a majority private-sector board, but you have the Governor sitting as the Chair.

Toft: Can I break in here and say that what we’re learning from this, it would seem to me, is that the players who brought this about are economic leaders? Right? It is a nonprofit independent think tank good government group driving this, and you have a controller general, in this case, who prepares a very thorough evaluation. So here we have another set of political forces, as it were, that can be brought to bear to bring about significant restructuring which will change the whole politics.

West: That’s true. It gives a new institutional role for those that are currently in power or their successors in the economic development area.

Toft: Change the whole power structure of this state, and it’s coming more from well-established institutions, it would seem to me, rather than from grass roots like Maxine is pointing out in the case of rural development. A fascinating thing to me is that the forces can come from very many different directions.

West: That’s true. It gives a new institutional role for those that are currently in power or their successors in the economic development area.

Toft: Can I close out—we’ve got about ten minutes and I want to pose a few questions for us and the audience.

First, it would seem that, if we create clusters, we would create a different political regime. Is it not that these industry groups become the power base, rather than the economic development organizations, rather than even utilities, Anita? Is it even conceivable that clusters, if they were to happen, would turn the power base upside down?

Edward Hill: I don’t think it’s a matter of whether our cluster is going to happen; clusters are here. It’s a matter of using all the right issues and seminars we’ve seen in the last two days, whether it’s data or performance evaluation. How do you recognize and understand them better using existing data because they already exist? I think it goes back to the whole collaboration issue and how we make government better, how we get good government, how we organize services better. It seems to me to get back to a question that came up in a previous session: who are we here to serve? Is economic
development about the government and how to do it better, or is the client really the industry clusters—the engines of the regional economy—that are driving growth and who need to have their competitiveness needs addressed if they are going to be creating wealth and creating jobs in the community?

I think the whole cluster is, as Mary Jo said yesterday, an organizing framework. They exist; it’s a matter of how we further develop the state of the art to recognize and identify them, work with them collaboratively so that their competitiveness needs drive what’s going on and how the service is going to be organized. We need to be driven by the market, the market needs to drive us, and that’s what is missing here. It works both in urban areas and in rural areas. Kansas City Federal Reserve did a study last year about how, even in rural areas, the most important economic development concept is industry clusters and clustering a concentration of businesses. I notice that—and I know that other people in this room have been nodding and noticing—what’s missing here is a focus on clusters and the need for them to drive what’s going on.

Toft: But if they are the engines of growth, are they now sources of political power? Yes or no? Yes, Mary Jo?

Mary Jo Waits: I can give you three examples. One I mentioned yesterday is that we have a senior living cluster.

Toft: That’s a political problem right there.

Waits: That was brought to us by the President of the Senate in the Arizona Legislature. First of all, you should know Arizona doesn’t give money to economic development. We’re usually not talking about big bucks when we’re talking about clusters. It is a way of analyzing your economy and organizing and delivering services. It should be a way of allocating your resources, but in Arizona it’s usually a volunteer effort. Anyway, the Senate President brought the idea of a senior living cluster (it’s clearly her constituency: Sun City, Del Webb in that area and a whole retirement community). We basically said that she could organize it, but it has to be led by the private sector without a public official in charge. We advised how to find two co-chairs from the private sector, she found Del Webb and they found the Sage of Sidon in the blue chip forecast. She made this a big deal and now it’s the only cluster that has ever gotten money out of the state legislature.

Toft: Directly. Right?

Waits: Directly. They have a person in the Department of Commerce who coordinates their cluster activities. As I mentioned, it really ticks off the rest of the clusters. However, she won big. She pushed it; she got it. So that’s a political win. We have eleven clusters which have, on average, 300 active firms. When we have a piece of legislation that cuts across all clusters. An Action Fax goes out. We ask them to write a letter, and I can assure you that those letters come back from 3,000 firms—it’s not that many, but we have the potential to tap 3,000 firms in one day. It works. We don’t get much activity in terms of economic development initiatives, but I can name five of them where clusters cutting across have made a difference in public policy.

The last thing is the troubles and changes of administration. If you build from grassroots and get all of your companies involved, not just the Chamber of Commerce, you have a constituency base that’s, in our case, over 5,000. That constituency base can withstand a change in administration. It did it in Arizona, and it also kept a governor who has somewhat embraced the idea; he understands it, but it’s not what he goes out and talks about in terms of economic development. He was running for re-election. There was a general public feeling that he had forgotten about clusters in A-speed, as we call it, and he actually was worried. He came to us and said he was getting feedback that he hadn’t done enough to support clusters. He needed to know what to do before re-election to show that he supported clusters. He did what we told him he should do; he won (for other reasons too). It works, it’s a huge constituency base and it’s real powerful. One final point: if you think we’re not going to have to change, you’re crazy. It’s a different economy out there; we are in a global competition and if you don’t start changing soon, in terms of your economic development initiatives, you’re going to be left in the dust.

Toft: Maybe this is a good way back to your question, sir, about coercive versus voluntary. The way clusters seem to be occurring is that they are such a powerful base in building a voluntary base, and if there is excessive coerciveness that has evolved, it probably will moderate if these kinds of alliances continue to form. It’s very interesting. Let’s take one more comment and then I want you to give me a name for this thing before we close.

Janet Jones from Oregon: I do agree with what you said and Mary Jo’s comments. Just a couple quick comments about the power and the clout that is behind these new cluster organizations; I have two quick examples for you. One is that in Oregon the associations have received matching funds to help them organize and to launch their industry-driven initiatives. This has led to, in the short term, lobbying for direct funding to associations and put them in competition with one another. On a broader scale, and what I think is really exciting, is how trade associations that are newly organized under these clusters are looking at the broader implications of what Oregon needs to do to be more competitive. The example here lies in how the high technology industry is rallying behind the notion of education reform and making sure that, in the face of workforce shortages, which is in turn generating higher wages, they’re working at the legislature and urging major reform, and working with education institutions to change the way that students are taught from kindergarten all the way through higher education to make sure that Oregon remains a place that will enable them to be competitive in the future.

Toft: Okay. Let’s call it something. We’ve had a few names thrown out. Ed Hill was trying to find an alternative to Tibbs called Tips. Ed what are you going to call this?
Hill: Folks, I think we’ve really discovered old things; we’ve rediscovered the product cycle, and what we’ve found is competitive advantage that’s based on developing scale economies around different industries. You have to fill out what books are important, and I realize that the two most important books that inform this new wave learning for me is Ben Chinitas’s article in 1961 on differences between Pittsburgh and New York, and Joseph Schumpeter.

Toft: Right.

Hill: So, that’s not new stuff. In many ways a lot of this new language is really hurting us, because what we have is a product cycle at work. We’re trying to find infant industries who are at that take-off stage of the product cycle, and we’re really focussing on the fact that, when industries take off, we have spatial competitive advantages based upon scale economies. This is stuff Krugman talked about, Romer talked about; this is old stuff—it’s an agglomeration of economies. I stop at that.

Toft: It’s an agglomeration economy. They are just finding new words. I’m going to ask the panel if you see a list of names up here. Rob, you’re up there as saying it’s the next wave. Do you have a name, Anita?

Duckor: No, because I think we’re asking the wrong questions.

Toft: Good. Mike do you have a name?

West: Nope.

Toft: Bill, do you have a name?

Bishop: Uh-uh.

Toft: There you go, no conclusion. The unique model. Any other comments or remarks?

I’d like to particularly thank, on your behalf, Lee Munnich, Margaret Bau, Marit Enerson, Bob Kudrle of the Hubert Humphrey Institute, and the Center for the New West. Let’s give them a clap...and we particularly thank the sponsors: Northern States Power, Advantage Minnesota, U.S. Air Force Office of Scientific Research. Thank you very much.

Toft: Would either of you guys like to comment in closing?

Lee Munnich: Yes. I want to thank everyone for your participation. This has been a very exciting conference for me and a great learning experience, and we remind you one more time, please turn in your evaluations. One thing we do have, on one of the last questions, is any suggestions for follow-up? If you’ve got any immediate ones put them down, but you know, we really are interested. This is a topic that our students at the Humphrey Institute want to work on, or are continuing to work on, so if you have any ideas for follow-up that we could do—or this whole group of people who are thinking about this could do—please write those down, or give us a call, or send us an e-mail, put it on Econ-Dev, listserve, whatever, because I think we want to continue this dialogue. Thank you.

Toft: Oh, I’m not sure. It’s more words of appreciation—to all of you. I think, as we look back over the years, there have been a lot of people involved. Everybody from Belden Daniels and Roger Vaughn—who is now in Kiev, the Ukraine according to the last reported sighting by Ned Hill—I think amongst all of us, those who’ve been here, who have already gone home, those who, for whatever reason, were unable to attend, that, amongst all of us, we’ve created, perhaps without being explicit about it, a community of practice. People who are devoting their lives to state and local economic development, and I hope through e-mail and the Internet that we are able to stay in touch with each other much better perhaps than we did before the Internet but that somewhere down the road, in a sunny clime with a white sand beach, we’ll all get together again in three or four years (as long as we don’t allow Lee Munnich to choose the location), so with that I’ll close.

I hope we’ve all learned a great deal that old friendships have been renewed, that there are new friendships and that we’ll all stay in touch, and that we’ll all continue to learn to make it better.

Thank you.
I’m Kent Eklund, and I’d like to welcome you to Minnesota. We thought it would be good for you to see how poorly defined we have the concept of spring. My business, among other things, does executive search work. Early Wednesday morning I called someone in Long Beach, California and asked if she’d like to be a candidate and move to Minnesota. Her response was, “Isn’t this the state where you flood and then freeze the floods in place?” I then asked her what the temperature there was, and she said 77, and I quickly got out of that conversation. It was clear it was going to be one of those hard sells.

I served as Commissioner of Economic Development for the state of Minnesota in the last major recession of ‘80 to ‘82 and discovered there that, in addition to the natural climate, there are reasons that made it an interesting state to sell.

Nevertheless, we’re glad you are here. I wanted to remind you that this is sort of a pre-event. Over the next two days there is a project called the Innovations in Economic Development Conference, and if some of you aren’t registered there is still room available. If you have the time to come, there are some excellent, excellent speakers and excellent sharing of ideas.

I’m involved with this activity partially by virtue of my history, but also by having been involved with a local effort that has been going on for probably nine to twelve months around the issue in Minnesota of a wide variety of economic development tools searching for a strategy. Through some excellent work by several individuals in this room and many, many others, we’ve been working on developing the infrastructure to even create a strategy for economic growth and development in Minnesota. I’ve been part of that team. We have legislation in front of the House and the Senate as we speak, trying to set in place some strategic infrastructure for Minnesota. Tonight I am particularly interested in hearing what our speakers have to say about projects in other states that have put infrastructure in place to do just that.

I’m going to introduce all three of our speakers so that I don’t have to be the head popping up and down in between presentations.

Joe Cortright is a Consulting Economist in Portland, Oregon, specializing in industrial competitiveness, workforce and small business issues. For more than twelve years Joe served as Executive Officer of the Joint Legislative Committee on Trade and Economic Development, which was the Oregon Legislature’s policy-making arm on economic issues. Joe is a graduate of Lewis and Clark College and holds a masters degree in public policy from the University of California at Berkeley.

The second presenter is Lou Glazer. Lou is Executive Director and Co-Founder of a new nonpartisan organization that is building a shared vision of a successful Michigan economy and a strategy for Michigan businesses, schools, families and communities. In previous incarnations he has been the Deputy Director for the Michigan Department of Commerce, Deputy Director of the Governor’s Cabinet Council on Jobs and Economic Development, for Governor James Blanchard, and Director of the Michigan Tax Information Council. Glazer holds a BA in History and a masters in urban planning from the University of Michigan.

Our third speaker is Graham Toft. He is President of the Indiana Economic Development Council, Indiana’s public/private partnership on economic development strategy and policy. This organization is ten years old. This must make them among the grandpersons of this genre. IEDC is an independent think tank and consultant contributing Indiana’s initiatives and capital access, and use of incentives to inter-firm collaborations, business education partnerships, infrastructure finance, small business development, labor market information and regulation policies. Graham holds a Ph.D. from Purdue University, an undergraduate and a master’s degree from the University of New South Wales, and the University of New England in Australia.
Thanks, Kent. I bring you greetings from the Indiana Economic Development Council. I guess one might think of Indiana as somewhat of a competitor to this part of the region, although we see our competitors largely as nearby states—surrounding states of Indiana and then directly south. We are a manufacturing state, more so than you are, and our toughest competitors are Michigan, Ohio, Illinois and now Kentucky, Tennessee, Alabama and North Carolina. We’re basically the big ten manufacturing states. We have some differences but some real similarities in terms of where we find ourselves in positioning our states respectively for economic prosperity.

Indiana’s initiative started back in 1980, about the same time that Kent was around I guess. All the states in the Midwest and the U.S. were under alert that the economy wouldn’t look the same again, except for in California and Massachusetts, remember? We all wanted to be like them. So we all did studies; we all tried to discover what it is that we could do to be like Silicon Valley and Route 128. Our state initiated the first statewide strategic economic development plan, pulled in step with the future.

That plan—that clumsy, thick corporate-type-style plan—had 49 initiatives to it. The first initiative was to create an ongoing planning entity, which was a stroke of luck because most of these plans, as you know, last about the tenure of one administration. Then, of course, another administration comes along and they do a new economic plan and they don’t want anything to do with the last one. Fortunately, this plan called for an ongoing planning entity, and that’s the Indiana Economic Development Council. We are the first state in the country to create such an animal, independent of, and yet affiliated with, the administration. The only other state that had something older was Maine (the Maine Development Foundation), but Maine at that time was focused largely on education and social service issues. Since then, Maine has added a growth council and has a full scope of similar activities to us.

What I’ve been doing the last year or so is trying to keep contact with now approximately 20 states who have something like this. We include Advantage Minnesota in this kind of group, or if you like, quasi’s that are associated with strategy. Advantage Minnesota, as I understand it, is largely your marketing strategy arm rather than policy and planning arm, but it’s really interesting to see the outgrowth of these various forms. You are going to hear from a couple of other different forms here, but if you have questions about some of the states that are not represented, I’ve been in touch with most of them in some way or other the last 12 to 18 months. We are trying to do some interesting things together.

Lou and I and a few others are starting to work up, as a joint venture among some of these entities, what we believe are very important for each of our states respectively. We are a nonprofit corporation chartered by the general assembly, so we’re of the government but not from the government. Whatever that is. The governor is the titular head—actually, in our case, the sole voting member of this corporation, so it could be politicized. There are some structural things we’d like to change now. But that’s how we were set up to begin with. The Vice-Chair is a leader of the private sector.

So the Chair is the Governor, the Vice-Chair is the leader of the private sector who has been the Chairperson of the Indiana Chamber of Commerce by tradition, not by statute or by-laws, but by tradition. The Indiana Chamber of Commerce participated for the first seven years in matching funding and getting the Council established. We had a two-for-one matched state funds to $1.00 of private funds for the first seven years. We have up to a 75-member board—too large but that’s what we have. It’s very hard to get them together. We meet once a year as a whole board. The board is made up of business, government, labor and education. It’s well representative of the sectors across the state, intended to be geographically balanced—which by and large it is, and by and large the board members are interested but they don’t participate significantly. Which is one of our disadvantages. The first couple of years we had tax committees of the board, and that was the time of the crisis of the mid-’80’s. We could get a lot of energy out of the board members, but it’s very difficult these days. Probably a better structure would be a little smaller board now.

We have an executive committee that basically runs the corporation of 15 people. The CEO of the corporation—again the tie with the administration—is the Lieutenant Governor. Now this is somewhat because Indiana is the only state where the Lieutenant Governor does something useful, as I understand. If anybody here is a Lieutenant Governor I’m sorry to offend you, but by constitution the Lieutenant Governor in our state is the CEO, in effect, of economic development and agriculture. So the Lieutenant Governor is the head of the department of Commerce and by virtue of his position he or she is the CEO of this corporation. I’m the President and COO of a small corporation in terms of staff. We vary from somewhere between five and seven, depending on the grants and contracts we have going, in addition to the state funding.

We try to do things through partnerships. We say we are a partnership organization; we should do things for partnerships. In actual fact, much of the work we do is in terms of policy development. We can get agreement on policy, but we can’t get agreement on who is going to run with the policy and bring about the change. Because I am not a lobbyist, we’re a 501C3 corporation and we protect that jealously. We have been working on tax credits for training and other kinds of incentives that might support workers and employers in investing in human capital of late. We have been able to bring business and labor together to discuss all sorts of concerns, especially labor. Look at the research and so forth, and at the level of comfort that’s developed between these parties. But neither of them, for a while, wanted to push it...
before the general assembly. Then business decided to take the lead and has been initiating a piece of legislation in this regard for the last couple of years. However, since business and labor are disagreeing on other things, labor has backed off their support.

So here we have a case where, in terms of policy, they generally are okay with it, but in terms of the politics—of the way the general assembly is functioning right now—they can’t come together to support a piece of legislation like this. So what happens for us is we have good work—we think excellent work sometimes—that sits on the shelf for a long period of time. And you’ve got to have it ready there when the timing is right. We had the best piece of legislation drafted on privatization of infrastructure back in 1986, and it’s not gotten anywhere; in fact nobody knows we are still sitting on it because nobody’s interested in it right now. We did it because, strategically, we determined very early on that two issues Indiana must address are workforce development and infrastructure. Obviously both ideally located in the Midwest.

Transportation is a critical asset and in fact the distribution industry could become even more significant if we could build a better coalition around that. But we don’t take care of our wastewater systems like you do, or Wisconsin does, nearly as well. So we have a serious backlog, and we rate very poorly in the nation in terms of our investment in small community water supply sewage systems, so we need that infrastructure financing. We felt that a privatization had to be added to the array of tools available to local government, but nothing has happened. So that’s the kind of dilemmas and excitements and disappointments we have from time to time, but that’s the name of our game.

We see as our core competencies: facilitating, participative planning and policy dialogue—after ten years as a neutral third party meeting ground that doesn’t have an axe to grind and trying to bring issues to the table. We are very open and willing to look at new ideas. We get accused of bringing forth stupid new ideas but that’s fine. That’s our job, developing cutting-edge public policy programs and options—I mentioned a couple like tax credits for training and so forth. Familiarity with national, state and sub-state economic trends. We do a lot of trend analysis. That’s why we are at conferences like this, and arguing with people like Dan Pilcher about whether we should use incentives or not. But basically, our job is to really keep on the cutting edge.

Our pledge is to provide superior strategic intelligence, nationally recognized public strategic planning, agreed-upon long-term strategies and so forth. Familiarity with national, state and sub-state economic trends. We do a lot of trend analysis. That’s why we are at conferences like this, and arguing with people like Dan Pilcher about whether we should use incentives or not. But basically, our job is to really keep on the cutting edge.

Quality of life: we recognize the linkage between quality of life and economic development. Now we are not just an old guard, traditional “eco-devo” organization as we call them in Indiana; we really do look at the relationship between social policy and economic policy. And now even environmental policy. We believe our next strategic plan in the year 2001 will make some very tight linkages between economic growth and the environment.

And then creative planning. I’ve talked a little bit about that. You’ll see the two CEOs who signed this, John Matser, a republican who was the founding father of the corporation, and Frank O’Bannon, now the governor of the state who has been the CEO the last eight years. So we have gotten to know him very well. Fortunately, over our life we’ve had two CEO’s. Both of them are regarded as thought leaders in the state, of different political persuasions, so we’ve really been very fortunate there. Charlie Warren in Kansas has had the misfortune, I think, to go through four administrations. Kansas’s legislation is a little different since they are a public agency, not a non-profit, but he’s had some tough times.
On the ten years of partnerships just in the second page there, I want to highlight the second column: foresight, consistency, continuity, credibility. This is what I see to be the essence of what distinguishes us from other economic development agencies or organizations in the state. We have foresight, and we try to bring analysis together that’s done by others. We are a synthesis organization and we try to pull some very basic stuff that might seem very simple. For example, I handed this out. This looks very simple. It’s just the ranking Indiana had this last year. But when you hear people say we ranked second in business climate, and then somebody else from the social services is saying, but we ranked so-and-so, nobody puts this stuff together in one place. There is a predisposition for various interest groups to highlight their particular studies or rankings or benchmarks and so forth. So one of the things we find we can do and people respect is to pull it all together in one place and see how it stacks up consistently, and it is very revealing. Indiana has done very well in recent years on catching back up to the per capita income average and in creating jobs faster than the U.S. average. Our business climate and so forth are doing well, but we’re still not looking very good in some of the social policy areas. So those are the kinds of things we can lay in juxtaposition, because we have the role of analyzing and understanding what’s in front of us.

The second area is consistency and continuity. The problem with economic development today is that the economy is changing so fast on us that economic development agencies of state, federal and sometimes local are all over the place. I was just talking at the table here about what’s happening to you in Minnesota. It’s exactly the same in Indiana. One year the Department of Commerce has field agents; the next year they don’t have field agents. One year they are focusing on a certain kind of industry or they are doing an industry study, and we have never succeeded in a targeted industry study. But they decided to do another one and forget the one before, and everybody is confused about what the priority is this year, and so it goes on.

The advantage that we have had by having the Indiana Economic Development Council is to say that, in our case—and it will be different for everybody, every state—we said Indiana is a manufacturing state in 1982, 1983, and we said we don’t see much change in that happening for another 20 years or so. We have to capitalize on becoming an advanced manufacturing state, an advanced value-added agriculture state (which I see as part of manufacturing in the broader sense) and we were the only state of the nearby states that didn’t get caught up with “the services fair.” You know, Illinois, Ohio, Michigan said oh, my gosh, look at the growth of the services sector; we better go after that. We held out to that and now, as we look back over ten years from where we were and where we are now, we can see that worked out. We saw services actually becoming augmented around manufacturing, so the technology services that will be added to manufacturing are that part of the manufacturing sector as we saw it, but we didn’t go after advanced business services for the sake thereof.

It would be different, obviously, for you here. But this definitely paid off by keeping that steady tone, influencing the Department of Commerce a couple of times when they changed administration. I actually became like a transition team member when they changed from Republican to Democrat and they didn’t know how to talk to one another. I was there to kind of hold hands and say let’s keep this program, keep going along these directions. Our incentive programs, whether you like them or not, have basically stayed intact and they’ve been tweaked and improved upon, but they haven’t been seriously destroyed or turned around. So we have been able to maintain a kind of consistency and continuity which I do feel proud of as being probably the most important role that we have played in the state’s strategy in the long run.

We have gained credibility, the recognition that we have no political axe to grind; we’re neutral and we hire people who are reasonably well qualified, who look beyond particular issues or philosophies. This has come about especially by doing our facilitation work, by bringing parties together. It’s helped them realize that we are there to make things move ahead. The rest of this talks about some of the accomplishments, some of the kinds of things we are able to do to bring about change, some things we’ve been very successful at in the development finance area.

Basically we don’t have the financing problem that the state had in the early ‘80’s. We’ve been marginally successful in trying to rationalize and improve the incentive programs so they have performance space. We’ve been reasonably successful in changes in workforce development policy, and not successful in infrastructure policy. We can’t shake people up on that because it costs too much for them. And we have not been that successful in doing a lot of evaluations of programs. We were intended to evaluate economic development programs a lot more regularly and systematically, but it’s very difficult in government, or near government, to do this without at least somebody really wanting it to happen, and it’s very difficult to have people out there who want to say go do it. We did have 17 senators who said we should take a look at our science and technology corporation, which we did and that led to a basically total mission change for that corporation back in the early ‘90’s.

So there are some of the things we do...it’s definitely a valuable vehicle. For Minnesota, you have a number of other private, quasi-private kind of state-level organizations like the Quality Council, Advantage Minnesota, Competitive Council and so forth, as well as a much stronger and larger department of development than we have. Our department is totally non-merit, which means that basically there is a total turnover of staff when there is a new administration. So that is all the more reason we have an important role for consistency and continuity. You have to weigh up how you’re structured on some of your institutional arrangements with this kind of model. I think I’ll finish off there and then we can get the questions after we’ve heard from these guys.
I’d like to thank Lee for flooding the Mississippi to make me feel at home. Being from Oregon, I’d say a surplus of water is just sort of a daily happenstance for us this time of year. And I also have to commend Lee for being brave enough to want to talk about your state economy after dinner. There are usually few subjects that will put people to sleep as quickly as that, except possibly having people from out of state talk about their state economy.

Knowing that I should heed my own warning, I’ll try to be brief and just address a couple of points. First of all, I’m going to tell you a little bit about Oregon, and focus more on how we got to where we did, rather than the specifics of what we did, because you will want to do something different I’m sure. Not because what I think we did was wrong, but I think you have to adapt a state economic strategy and strategic organization to the particular political economy you have. Yours is different from ours and you will have a different history than we do, so you will do different things, which is appropriate. I’ll just talk about Oregon and tell you a little bit about the Oregon story very briefly; and I’ll try and focus on the Oregon Progress Board, which is our state strategic planning entity. From that I’ll try and draw some lessons, what I think the fundamental learnings of trying to do state strategic economic planning have been in Oregon.

First of all, the brief history of Oregon. I’m not sure any of you know what our state’s slogan is. Anybody know any memorable things that have come out of Oregon? We had a governor about 25 years ago, Tom McCall, who said, “Come visit but don’t stay.” I think that’s the only thing people remember about our state, but throughout the 1970’s Oregon grew very rapidly; had an extremely successful economy, to the point where the general prejudice of the population was, “we don’t want growth.” That was reflected in our state policy. As you did, in the late ’70’s early ’80’s, we went through a wrenching recession. We lost ten percent of our employment in the space of three years and it totally changed the political climate in the state. It went from nobody talking about economic development—in fact no growth being the policy—to the state desperately trying to do anything it could to stimulate the economy.

People were saying that Oregon was going to be the Appalachia of the West, which was an overstatement to be sure. But it was a reflection of the political climate of the time. I’d say we went through three phases in our process of adapting that brought us to the Oregon Progress Board and our more strategic approach. I would call those phases reaction, rejection and reflection.

The third step is reflection. Which is to step back and think about your state economy, to think about what its problems are, not in the short term but especially in the long-term, and what you can do over a ten- or a twenty-year period to influence your economic destiny. I think that process of reflection is what brought us to the Oregon Progress Board. We had a governor, Neil Goldschmidt, elected in 1986, who really made the economy—in talking about the long-term focus, the long term of the Oregon economy—a focus of his administration. He impanelled a group of Oregon business and government leaders to create something. I know you won’t believe the title, but our state’s strategic plan is called, “Oregon Shines.” Well, it doesn’t matter what you call your strategic plan. The name will probably be pretty bad anyhow, but the content is what is important; probably more important than the content is the process. Oregon Shines was an opportunity for segments of the business community and government to get together and focus on the long term of the Oregon economy.

I think that the two most important aspects I would highlight in Oregon Shines were, first, we took a sectored approach to the state’s economy. We looked at it in the original Oregon Shines document. We looked at nine key industries in the state and tried to identify the factors that drove the health of those individual industries. Not to talk about some generic business climate, but about the specific factors that influence the health of the industries that drive the state’s economy. They vary from industry to industry. The second thing we did was to say we need institutional structure to provide for continuity that will focus Oregon on its future—on its economic future to be sure—and on all of the constituent parts of the state’s political environment and policy environment that influence its economy.

So the 1989 Legislature created something called the Oregon Progress Board which institutionalized that strategic planning responsibility. I’ll tell you a little bit about the mechanics of the Oregon Progress Board. Their chief responsibility was to develop something
called the Oregon Benchmarks. (You have something called Minnesota Milestones here, which is a similar idea.) The idea is to essentially create a report card on the state that identifies where we want to be and how close we are to being there, and to periodically report back to the citizens and institutions of the state on the quantitative progress that we are making towards goals. It’s a very performance-oriented thing. It’s not how much we are spending per kid on education. It’s not a benchmark. How our kids are doing in terms of their preparedness for the world of work in the 20th and 21st century is a benchmark. So it’s very performance-oriented. The other thing I would say is it’s not restricted to narrow economic issues. It addresses health, liveability and environmental issues, the physical infrastructure, and the natural environment. It was originally 260 benchmarks; it’s now 100 benchmarks. That defines what we want Oregon to look like in the future. With that quantitative set of benchmarks in mind, that gave a whole set of guidelines and goals for state agencies, for the legislature to use in budgeting and the like, to guide the state in its policy endeavors.

I think it is important to tell you a little bit about the Oregon Progress Board. The Progress Board is a statutory entity. It consists of seven members appointed by the Governor. The Governor is the Chair of the Progress Board and actually—surprise—attends all of the meetings of the Board. The personal involvement of the Governor is very important and they do take an active role. The other thing I’d like to say is that this isn’t a low-key agency; this is very prominent Oregonians, including past candidates for Governor. Governor Roberts, who was the second Governor during the Oregon Progress Board era, appointed the person who ran against her in the election she won in 1990. I think that gives you an indication of the level of bipartisan support for that entity. The Progress Board has gone through three governors now: its initial founding governor, Governor Goldschmidt, Governor Roberts, the second governor on the Progress Board, and now the current governor, John Kitzhaber who was elected in 1994. So it has survived three gubernatorial transitions and it’s pretty well insinuated itself into the fabric of state government.

Let me just say one other thing about the Progress Board, because the work it has done with benchmarks has served to reshape the way we do economic development. Since the Progress Board passed the benchmarks, we put a lot more emphasis, for example, on sector-based strategies in Oregon—working with individual industries and trying to develop those industries. Oregon now has a total of 14 key industries, and the state has either formed a formal arrangement with or helped organize an industry association for each of those key industries, and started dialogues with those industries to identify things the state can do as a matter of policy to help improve the industry’s competitiveness, as well as encourage and assist the industry to undertake efforts that will help it become more competitive. That’s a major change in economic development policy that I think Oregon has pursued.

The other thing I would say is that the Progress Board’s impact is not limited to the narrow portfolio of the economic development department. It spans the breadth and width of state government. It addresses everything from teen pregnancy to restoring the threatened and endangered salmon runs (I hope we didn’t eat them tonight for dinner) to a lot of issues, like road congestion in Oregon, that don’t relate directly to the economy but are part of the state’s strategic vision for what it wants to be. One of the things I would say is, if you are going to be successful in a strategic endeavor, it’s appropriate to focus on the economy, but bounding it too narrowly will create problems, because so many important things you can get involved in, particularly education and worker preparation, are things not usually within the portfolio of an economic development department, but which increasingly are critical to your state’s economic health.

So, that’s a short description of the Oregon story, and I hope it’s given you some idea of how we got to the Progress Board and the special niche that it fills in the Oregon political environment. Let me see if I can just summarize what I think some of the key lessons are from our experience.

First of all, as I tried to mention in my opening remarks, I think that any strategic planning entity has to be rooted in the political economy of your particular state. We didn’t do it the way Indiana did. We didn’t do it the way Michigan’s arrangement is different still from those. Don’t try and slavishly copy what others have done. Your particular history, your culture and your institutions need to be reflected in whatever strategic planning approach you take.

Second, I think it’s really important to be goal-oriented. The performance-oriented approach we pursued in Oregon, which in our case has been through the benchmarks—there are probably other ways to do it—is very valuable. Know what you are trying to achieve.

The third point is that it’s appropriate strategic planning efforts be broad in scope, that you don’t limit them narrowly to economic development.

The fourth point is that this has to be a very long-range effort. It’s one where you are not thinking about this recession or this particular crisis, but you are trying to understand the nature of economic change that’s reshaping the way the economy works—what individuals and families have to do, what corporations have to do to succeed in the economy. Really, the nature of the planning is anticipating long-term changes that don’t show up in anybody’s econometric model.

The fifth point would be that we are also really talking about institutional change, creating new paths for information and knowledge to flow between the public and private sectors, creating opportunities for businesses to influence what goes on in government policy, not in a controlling and negative sort of way, but to inform the debate and let people in government who are making policy and running major public institutions like schools, have a clear understanding of what it is that the world of work requires.
The final point I would emphasize from our experience is that the Governor’s role is key. I don’t think this is something you can do if the Governor is not an articulate and forceful advocate, because a governor plays a key role in a leadership way. I worked for the Legislature when the Oregon Progress Board was created, and I know that prior to Governor Goldschmidt being elected we would have liked as a Legislature to try and enact something like this. We tried a couple of times and it failed miserably; we could get the legislation passed but it wouldn’t work without strong executive branch support. Getting the governor to be not just an understanding and complacent ally, but an advocate of a strategic planning effort like this is very important. And so with that, I’ll conclude. Thanks.

Lou Glazer
MICHIGAN FUTURE INC.

Now we are going to talk about Michigan, which has a model at the moment which is entirely different from either of the two that you have heard. I’ll do a little preamble.

From a distance I have admired the work of both the Progress Board of Oregon, where I think the benchmark project is really innovative and very interesting, and does in fact have the possibility of driving big change. These are tools that aren’t often available in government. So, I have an enormous amount of respect for the work that they’ve done. I’ve had a chance, over the last five or six years, to work with Graham, and I think if you’re interested in adopting a state economic strategy agency, Graham’s is the best. It’s the one to look at. Having said that, what Michigan Future is all about has nothing to do with government. We are a nonprofit 501C3 that we call a nonpartisan, nonprofit, citizen’s organization, which is not connected to government, does not take government money, and does not get involved in policy issues. I want to explain the model because it’s completely different.

As was mentioned in the introduction, I spent eight years as one of the lead economic and community development officials during the ‘80’s in Michigan during the Blanchard administration. When Blanchard lost and I needed to go find something else to do, I made a conscious decision at that point—even though I had spent my whole life in government—not to look for another job in government, for two reasons which I think bear a lot on what Michigan Future is all about. The first is that I had come to the conclusion that, even when we were doing good things, it was at the wrong scale. State government simply did not have the power, even when it was using the power it had, to fundamentally make the transformations necessary in our economy. I still believe that is true. I think, when it comes to economic change, state governments are not powerful enough to fundamentally make a difference. One of the ways I came to that conclusion is, like Graham mentioned, people in Michigan, Indiana, Illinois and Ohio spent a lot of time looking at what each other was doing in economic development and yet, when you look at the statistics, the tidal waves going on in our economy virtually mean that we move in lock step. There is not a bit of difference, no matter what the policy is. We all got socked in the ‘80’s; we’re all coming back now. It has to do with the fact that we are all now part of an enormous global economy. So, that’s the first conclusion that I came to personally.

The second conclusion is that we were working in government with supply-side solutions to a demand-side problem. We would create programs for manufacturing modernization which were free, and no companies would use them. Or we would create wonderful workforce development programs, and because parents and kids and educators thought that the only jobs that paid well required a four-year college degree, no students would use them. At that point it sort of hit me that there was something other than state economic development policy that mattered in terms of trying to fundamentally move a community’s economy. So, along with a group of people, prestigious leaders from around the state, we put together this nonprofit around the assumption that as a community, we had pictures in our heads of an economy that was declining.

Our pictures of economic success were really industrial age pictures. Unless we change those pictures in our heads, nothing else would matter. I think it is human nature to assume that success in the future comes from doing what you used to do, only better. This is one of those times in history where that is a path of decline, not a path of success.

We started not with strategy, but with vision. We have a mission statement—that is to build a shared vision of Michigan succeeding in a new economy—with sufficient clarity and power to inspire action. The action we want to inspire is from the three institutions which we believe are the most powerful in society: business, schools and families. We’ve spent the last five or six years doing a vision for the state, spending time as creatively as we can trying to communicate a vision in a way that is powerful enough to inspire action. On a few occasions we decided we would be a catalyst for some strategic activities, which we thought were particularly essential to realize our vision.

So, it’s a completely different model. I mean it really is a model that says that there is a way of attacking these issues on a much more holistic level. Business, schools and families are part of the same system, not parts of separate systems, which is the way government and society tend to treat them. We don’t believe this notion that if you affect government you therefore affect family, schools and businesses. Government is
one of the institutions that needs to have a new vision and a new way of working along with businesses, schools and families, but it’s not the key lever. As a matter of fact I think we would argue that, of the four, it’s probably the weakest.

I brought along copies of our vision, a description of what Michigan Future does. There is a list of the people who are involved with Michigan Future, and you’ll find it’s very interesting for an economic organization. We have a police chief, who is one of our founding board members; we have the woman who runs the Catholic Conference in the state, and all sorts of people that would never end up on economic organizations, but who, because they are innovators and pioneers, and because of this notion that businesses, schools and families all matter in terms of moving the economy.

There is an old Chinese proverb that we used right from the beginning, which is this notion that if you don’t know where you’re going, all roads lead there. It’s our sense that is a fundamental problem with economic policy in government, not just at the state level but the national level and other places. We’re following all these roads because we have no idea where we want to get, so Michigan Future has spent its time trying to define in a compelling way a place where we want to get that is consistent with the new economy.

Kent Eklund: Let me first open the floor to the three states that I put on warning that I might be calling on, and ask if you have any particular insights or responses, any other kinds of insights you might want to share with the group from your state’s perspective. Yes.

I’m Michael West, Texas Department of Commerce, and I’m willing to share a few insights. We are currently involved in our current legislative session. We have a number of issues before the legislature, tax reform the foremost among those, and it is occupying the time of our very important leaders, including our Lieutenant Governor and our Governor who are of two different parties—Governor Bush and Lieutenant Governor Bullock. Economic development is one of the issues that is currently being looked at by the Legislature, and there are several very important issues related to that, perhaps the most important of which is capital access.

But there are other issues, especially the reorganization of the Texas Department of Commerce, one of the options being a public/private partnership with, at this moment, no one particular model taking precedence or gaining the upper hand in the legislative process. So I’m very interested in hearing your questions about their different model and I look forward to hearing what you have to say and I also look forward to the rest of the conference.

Eklund: Great. Thank you. From Connecticut?

Comment: I’m now with a group called the Connecticut Economic Resource Center, a utility-funded private nonprofit 501C6 organization whose initial mission, when they were incorporated three or four years ago, was one of marketing states. That mission is changing a little bit now to become more of a resource agency for state agencies, for regional planning agencies and for businesses directly, so we’re a very innovative organization in many respects—or at least not changing quite with the potential to become a new sort of model. I’m very impressed with the comments that I’ve heard tonight from the panelists, and share some of the frustrations of continuity and problems with bridging the administrations and things like that. Our agency, the Department of Economic Development, was merged in the ’95 session with the Department of Housing to form the new Department of Economics and Community Development. That combined agency was going from a staff of 380 down to 180, so big changes in the works in Connecticut. Luckily, our economy is going well, along with all the others; it’s sort of picking up the rides, but I’m looking forward to a very interesting, innovative exchange of ideas here.

Eklund: Great. Andy?

I’m Andy Reamer, Economic Development, based in Boston, and consultant to the Rhode Island Economic Policy Council which was created about a year ago. The council looks probably most like Graham’s Indiana organization. Rob Atkinson, who is Director of the Council, will be here tomorrow.
People may want to talk to him directly, but my sense is that there is not a whole lot of variation between Rhode Island and Indiana. Some of you may remember something called the Greenhouse Commission of 1984, which was IRA magazine's 1980's project that blew up. I think, has spent a good part of his year saying this is not the Greenhouse to people. In fact, the Greenhouse, for those of you who are familiar with it, was a very, very innovative effort for its time. IRA's idea was to bring it before the voters and let them vote on this fundamental change and the approach to guiding their economy. There was not enough information out there. It was overwhelmingly rejected. It was like 80 to 20, and so the result was that politicians did not want to touch anything that smacked of variation to what they had been doing for ten years. And so Rhode Island had a traditional Department of Economic Development until a year ago and the same thing that motivated the Greenhouse Commission in the early '80's to get started, motivated this counsel in the early '90's to percolate up in peoples lives. Rhode Island is a very heavily manufacturing oriented economy. In fact—it's amazing—in 1950, one in two jobs in this state was on the factory floor. Which is phenomenal. Now it's 17 percent. Thousands of jobs got wiped out. People realized they had to do something different.

The Rhode Island Council is a public/private partnership half-funded by the private sector. Twenty-four companies put in money; the other half comes from the state. The governor and the head of the largest bank in the state are co-chairs, AFL/CIO right down to the very heavily unionized labor is on the council, legislators are on the council, staff is only two people. They are brand new and they've just come out with their strategy, very much as Graham described it, as facilitator, educating people. This is our economy; this is how we can get people to work together. Rhode Island, because of its union history has a lot of antagonism between workers and management and it permeates the state. I think Robin and her staff are trying to create a new kind of dialogue.

Eklund: Mark, do you want to say just a couple of words about the Minnesota experience? (Watch what you say about the governor.)

Mark Vander Schaaf: No. I'll be kind. But I feel a lot better after hearing these speakers—those of you in the group that have participated in our process. I think that confirms we are going down the right path. It probably won't be precisely what any of these people have done, but our own plan—and, just for the benefit of you people who don't know what we've done, I guess I'll just recap it very briefly.

There was a grass-roots organization formed, Strategies For Economic Growth, and it came out of Advantage Minnesota as Economic Development Advisory Committee. We got together and formed a steering committee and said we should probably not begin by an evaluation or a witch-hunt on what isn't working, but maybe start with a blank sheet of paper and build. We created the agenda by asking economic development professionals what issues should be put on the table. Then we did a series of interviews with all the leaders that these gentlemen indicated they worked with—labor, industry, the academic community—and brought all those constituencies together and tossed this agenda around. We eventually broke it down into four or five areas. We did some strategy sessions where we focused on developing strategies. Kevin has a recap that he is going to make available.

We ended up with looking at a lot of things these gentlemen talked about today. I think one of the things we decided was that Minnesota did need a nonpartisan public/private partnership of some kind to do continuous planning and strategic planning. That is our primary initiative, our goal number 1 of the strategies when you see it. We have a bill in the legislature right now that's moving through both the House and the Senate that would charge the State Department of Planning to create. I think a lot of the debate on how it will be created is yet to come. That's why I think it is so valuable that we had an opportunity tonight to learn about some of these things because we are going to be going down that path in the next two years. So if there are any questions, Kevin?

Kevin Walli: Just maybe a 60-second update of where we are at in the Legislature for those who are interested. The interim panel that is going to be put in place to set the vision for what the council should do in the future has been included in one of the Senate Omnibus bills as of today with the funding intact. Tomorrow morning the House committee, the companion committee, will be acting on it as well. I'm not sure if the full funding level is going to come through on the House side, but I know that we'll get the language in and we'll probably have close to the same level of funding, so I'd say by the weekend we'll know for sure how we are going to be treated by the Legislature. I think this is an important first step for us. You know, some of the work that went on last summer is going to be repeated in the context of this work in the office of state planning, but perhaps more detail can be generated in that process and then get a broader political buy-in and bring in more sectors of the philanthropic community, and get some more of the private sector involved in it.

Great. I just want to add that we did learn from everyone here that the strategies had to be broader than just the economic development community. What came out of it made us uncomfortable at first because we thought, boy, are we going to be stepping on some toes here, dealing with labor, preparing workers and dealing in the transportation environment and all these different environments, are we going to have people shooting at us? I think bringing the economic development perspective to those issues may really help advocate in those areas move some of their agendas forward. I know there is an agenda that's been on for a number of years in the Department of Economic Security with regard to job skill classifications rather than what industry people work in. The department's been prepared to do something in this job skill area but they had no advocates, so when they got down to final budget cuts and everything got wiped out. I think, if we bring
the economic development perspective to it, maybe the initiative can be moved forward. I think we could do that on a number of fronts by bringing those perspectives to areas that we really haven’t dabbled in before.

Eklund: You’ve heard from seven states. And we have about a minute for any questions. I was planning on three; we got seven, so. Any questions or comments? Yes sir.

Comment: The model doesn’t appear to be important. Process is perhaps more important. It seems that, no matter what we do in our everyday lives, the only thing that really matters is what we do through partnerships. Whether the partnership is business, government, family, economic goods, we are only as good as the partnerships we form, and the partnerships that work today aren’t necessarily the partnerships that are going to work tomorrow.

That’s what I hear from you folks sitting up there.

Response: They’re familiar, especially with the rate of change in the economy. That’s why our governmental structure is finding it so difficult. We have so many different agencies that have very narrow foci, and then they focus just on that and they get caught up with interpretations. The natural practice seems that they get out of touch with reality. Somehow we’ve got to find ways to bring these different perspectives together constantly and we don’t have the answers. I mean, we’re trying, but we really don’t—I mean some of our partnership efforts as I said simply don’t—hold long enough to bring change - some have. So this is a huge process.

Lou Glazer: You know, partnerships matter, but they are a mechanism. It seems to me that what matters fundamentally are ideas. We all talk about this notion that we are moving into a knowledge age. In economics 101 the first thing I learned is that free markets depend upon perfect information then we forget it. Information, ideas, knowledge are enormously powerful. Not with programs, not with partnerships, not with initiatives, with a book and a set of ideas. Rachel Carson started an environmental movement with a book, with a set of ideas, and ideas are enormously powerful. It’s what we skip when we do this stuff and what matters about the ideas is that they be shared. Not just be a group of people like us who have access to them but that, as a community, we have an opportunity. It is this notion of giving all of us an opportunity to explore the future. Seems to me... to me that’s more powerful than partnerships.

Eklund: Joe.

Joe Cortright: I agree. I think that there isn’t one organization, one way of doing it that’s going to work. I think the trick is finding the institutional arrangement and the process that will work, given Minnesota’s unique history, culture, and political environment—where you are today and what it took to get you there. There are messages in Oregon that resonate with and motivate people to care about different benchmarks and to care about this effort and move it along. And they are the kind of ideas that Lou talks about. It’s not the same set that would work here. Some of them may be similar, but the challenge is to find what will work for you.

Graham Toft: Lou and I really do think alike but let me just act as a Devil’s Advocate here. You’ve got the literature recently emphasizing the importance of social capital as one of the most critical factors in how vital economies are going to be. Why? Because social capital reduces transactions costs significantly. And so while you have the information, while you have good ideas, there has to be the infrastructure for collaboration as the high-trust society, or social capital, as Robert Putnam calls it, whatever it is, you’ve really got to have both. I absolutely agree. I think one of the things that’s missing in state economic development is that there aren’t too many good ideas. We’re talking about old economies stuff and we get locked into that; too often we’re not thinking outside the box. So you’ve got to have a mechanism to think outside the box but it has to be in a partnership or some kind of dynamic environment where there is trust, not the turfism that gets in the way so that you don’t really address the idea; you’re protecting your own turf and the ideas don’t get shared.

Eklund: Last comment Joe?

Cortright: I agree with Graham and I would just take that one step further and say that those models of trust and social capital I agree with but I think every place is going to be a little bit different. The differences among places and the kinds of industries that you have in the interest of people, in the climate, in the ethnic backgrounds and make-up and the social structure and the way that interacts with government and schools and families, those factors and those regional differences have a profound impact on the way the economy functions. The trust and knowledge that you have here and the types of knowledge building that will create is different and it’s a different set of opportunities and the challenge is to find out how you can stimulate the kind of things to happen here that will happen only here. Or that will happen here more easily and better than will happen anywhere else.

Eklund: For you Minnesotans in the crowd, if Joe’s last lesson is right that it takes a governor to be committed, I’m beginning to think our strategy of getting a twelve-month study going will be perfect, so we can wait for the ’98 election and pray. I can get away with that the way others in the room can’t say that. Last comments. Bruce.

Comment: The one theme I have not heard but I am assuming it’s probably implicit in this is leadership. You know, we talk about ideas and wisdom and courage, but unless we have leadership from education and from business, and from labor and from government, we still talk among ourselves. I think that’s been a void in our state frankly and that’s why I think what was born out of a group that was sort of searching for direction was a lack of leadership. I’m hoping that will be discussed over the next few days as well or else we are kind of talking to ourselves but it seems to me we need strong, bold, courageous leaders in all those sectors. I’m done.

Eklund: I’m sure that will be a theme in the next few days. Well, thank you, panel, very much; thank you for coming. And we hope to see many of you in the next few days.
Preconference Roundtable

A SUMMARY

Using Economic Data to Understand Your Region in the Knowledge-Based Economy

INTRODUCTION

Andrew Reamer, moderator, introduced the session by noting that its purpose was to discuss the extent to which current sources of regional economic data meet the needs of economic development analysts and practitioners in the knowledge-based economy, and approaches by which analysts utilize data to guide policy and strategy. He indicated that the National Academy of Public Administration (NAPA), under the sponsorship of the U.S. Economic Development Administration (EDA), recently issued a report on the Federal role in regional economic development. The NAPA study notes that while accurate, detailed and timely regional data are necessary for effective economic development, the U.S. system for generating and disseminating regional data is both fragmented and underfunded. Consequently, the report authors perceived, economic development professionals are not fully able to obtain the data they need.

Participants introduced themselves and indicated whether they were on the demand side” (a data user), “supply side” (a data supplier), or value-added data intermediary. The participants, about 40 in number, represented a wide array of economic development-related organizations, including statistical and economic agencies at the Federal and state levels, local and regional development departments and organizations, university research and technical assistance organizations, and consultants.

THEMES OF DISCUSSION

The discussion, which lasted about two hours, revolved around a number of interconnected themes, as follows. Participants indicated the following types of analyses for which they needed good data:

• Well-grounded, full understanding of the dynamics of the regional or local economy, in order to develop strategy;
• Comparisons with other regions, and comparisons among entities within one region;
• Overviews of individual industries;
• Responses to requests for information from individual businesses, business developers, relocation consultants; and
• Advice to top government decision-makers, including mayors and legislators, with little time and little understanding regarding development issues.

Participants went on to discuss various approaches to data analysis. They noted:

• Integrative thinking is critical to generating analyses that reflect reality and are valuable to decision-makers. Data used in analysis come from a variety of sources; there is a need for strong skills in integrating information from a variety of sources to develop a full picture of economic trends and dynamics.
• “Story-telling” skills, many participants said emphatically, are a fundamental requirement for effective analysis. By “story-telling,” discussants meant organizing analytic results in an understandable and persuasive way for an audience (decision-makers, the public, the business community, journalists) with limited time and understanding of economics. As one participant put it, “Data are like a slab of pig iron. I need value-added interpreters, story tellers, to transform the material into a value-added product.” An important element of story-telling, one noted, is finding good qualitative information to enhance and explain the data. Another key element, it was suggested, is good visual representations of the story, through graphs, charts and the like.
One participant went on to say that story-telling and integrative skills are in short supply—few people know how to do this type of economic analysis well.

With regard to currently available data series, participants noted the following issues:

• **Multiple, conflicting, and hard-to-find data sources** - To some, the number of data sources is confusing, and the data provided often are inconsistent from one source to the next. Several persons pointed out the lack of a guide that identifies data available on the Internet, and how to access these sources. Another said that when responding to questions regarding a particular industry, she was unsure where to obtain needed data.

• **Lack of timeliness** - Data often are released well after the period in which activity is being measured. Data series cited specifically regarding lack of timeliness were the Census Bureau’s Economic Censuses (often taking four years from collection to dissemination), and ES-202 data in certain states.

• **Lack of detail** - A number of discussants were concerned about the lack of sub-state and small area detail in many Federal data series, indicating they need such detail for their work and often had to fill data gaps with more qualitative approaches to identifying trends.

• **Lack of access** - Participants noted that access to ES-202 data was uneven from state to state; some states make the data quite inaccessible.

• **Lack of definitions** - One participant said that it is difficult to know how to use available data to build a picture of key issues, for instance, he noted, “How do you measure ‘poverty,’ really, beyond a pretty simplistic Federal definition?”

Session members also talked about needed data that are not currently available. At the beginning of this part of the discussion, one person noted that it can be hard to identify the types of data one would like to see, because users are conditioned to ask questions that fit existing data sources. Another theme was that current data series do not allow analysts to identify and track changes that reflect a fundamental restructuring of the U.S. economy to a knowledge-based, services-oriented economy. It was noted that the inability of current industry and occupational classification systems to follow such trends made it more difficult to convince interest groups and decision-makers of the need to make necessary adjustments (e.g., skills development) in light of restructuring. “It is difficult to talk about the dramatic change we are undergoing armed with only anecdotes,” one person said.

Participants identified a number of important new structural economic trends for which there are inadequate data, including the shift to knowledge-based industries and occupations, the rise of self-employment and the contingent workforce, and the large-scale expansion in international trade:

• **Knowledge-based industries** - The current industry classification system (SIC code) does not adequately track trends in knowledge-based industries, though the situation will improve with the introduction of the new NAICS classification system.

• **Occupational restructuring** - The current occupational classification codes are inconsistent and do not fit reality, though again it was noted that positive change is coming with the introduction of a new code.

• **Contingent workers** - The current SIC code also does not track contingent workforce trends, as such workers are placed in the “temp agency” industry. Many believe that the contingent workforce is sizable, and the inability to tie contingent workers to specific industries harms the ability to follow industry-specific employment trends.

• **Self-employment** - While self-employed is an important and growing part of the economy, and many communities want to promote such a workforce, the numbers of self-employed persons by industry is not adequately tracked.

• **Firm and employee turnover** - Economic data indicate net changes in employment and establishment levels over time. However, a full understanding of regional economic dynamics requires data on “churning,” the extent to which firms are going into and out of business, and the extent to which firms in various industries are experiencing labor turnover.

• **Trade data** - As the exporting of goods and services has become increasingly important to regional economies, analysts would like to see more detailed (in terms of industry and region), timely and accurate trade statistics.

Many members of the session were in agreement that Federal and state statistical efforts are underfunded, and that this underfunding is a primary reason for data issues described above. Several told of the profound lack of interest and understanding on the part of Federal and state legislators about the importance and value of economic data collection and dissemination. One noted that “I only know one legislator who can sit in this room and have any comprehension of what anybody is talking about here...And no one pays attention to him when he talks statistics.”
Participants also discussed types of efforts they have made to overcome the limitations of existing data series.

- Several persons suggested that, in order to more fully understand their regional knowledge-based economy, they began with microdata supplied by state agencies and then, through intensive field research, reclassified the data into new categories more reflective of true industry clusters not apparent in traditional classification schemes, e.g., biotechnology. One person noted, “I think the most important thing is to have strong analytical methods to let you know what are the true industries in the region and don’t get trapped into the categories that someone is providing you from the data base.”

- A second theme in the discussion was the importance of constituency-building as a means to encourage state legislatures and statistical agencies to providing the funding and support needed for effective economic analysis. Session members from a number of states gave examples of successfully working with industry members (“committed data users”) to bring about (often through political pressure) more detailed, timely, and accurate data collection regarding that industry. Industry examples included software and wood products.

Finally, several participants proposed several new, untried approaches to dealing with several of the issues discussed above. One suggested that, given that under-funding of data collection is a key problem, experiments should be tried in multi-tiered pricing for data services. His thinking was that some number of data users are willing to pay well for good data; consequently, he said, “data services should be priced in accord with the price elasticity of each market segment, and discriminate by type of buyer, like the pricing of airline seats.” Another participant offered the idea of a peer learning network among data users, within which members would share lessons and successful practices regarding economic data analysis.
RAGUI ASSAAD
Ragui Assaad, Assistant Professor of Planning and Public Affairs, joined the Humphrey Institute in the fall of 1990. His research interests include labor policy and labor market analysis in developing countries, the informal economy, community and economic development, and urban planning in the Third World. His current research projects include investigations of the role of formal and informal institutions in the Egyptian labor market, the impact of labor legislation on women’s employment and wages; and an assessment of community development efforts among Cairo’s informal refuse collectors. He earned the Institute’s Teacher of the Year award in 1992, 1995 and 1996. He has served as a consultant to the World Bank, the International Labor Organization, and UNICEF. He is currently Associate Editor for Economics for the Middle East Studies Association Bulletin. He received his M.S. in Mechanical Engineering from Stanford University and his Ph.D. in City and Regional Planning from Cornell University.

ROBERT D. ATKINSON
Rob Atkinson is Executive Director of the Rhode Island Economic Policy Council. Co-chaired by Governor Lincoln Almond and Lawrence K. Fish, Chairman, President and CEO of Citizen’s Financial Group, the Council is a group of representatives from the private sector, higher education, labor and government. The 19-member council works to identify the ongoing strengths, weaknesses, opportunities and threats facing the state’s economy; develop and recommend creative strategies and policies to address them; and advise the Governor on policy matters related to economic development. Prior to coming to the Council, Atkinson was a senior analyst and project director at the former Congressional Office of Technology Assessment. At OTA he directed The Technological Reshaping of Metropolitan America, a report examining the impact of the information technology revolution on the economies of America’s urban areas. In addition, he co-authored reports on the effect of new technologies on productivity in the service sector, the impacts of defense downsizing, and the relationship of environmental regulations to industrial competitiveness. Prior to OTA, Rob was Director of the Clearinghouse on State and Local Initiatives on Productivity, Technology and Innovation at the National Institute of Standards and Technology. He is also active in the American Evaluation Association, currently serving on the editorial advisory board of its New Directions for Program Evaluation. He has testified numerous times before Congress, has been an invited speaker at conferences around the world, and has published extensively on economic development and technology policy. Atkinson has a Ph.D. in City and Regional Planning from the University of North Carolina at Chapel Hill.

MARGARET BAU
Research Fellow Margaret Bau recently joined the State and Local Policy Program to direct economic and community development research activities. She has played a primary role in planning and organizing this conference. Prior to her current position, Bau served as a research assistant to the Program for the Southeastern Minnesota Industry Cluster Study. Bau developed an interest in promoting regional and local economic development while a Peace Corps Volunteer in a remote mountain village of Costa Rica from 1988 to 1992. Her primary activities centered around helping a group of women create an income-generating project that could sustain families overly dependent upon coffee cash crops. Bau received a Bachelor of Science in Psychology from Carroll College, Waukesha, Wisconsin in 1987 and a Master of Arts in Economic and Community Development from the Humphrey Institute of Public Affairs in 1996.

DON BEZRUKI
Don Bezruki is Program Evaluation Director at the Wisconsin Legislative Audit Bureau, where his duties include working with legislators in identifying evaluation topics, overseeing staff performing program evaluations, and presenting evaluation results at legislative hearings and other public forums. He has participated in evaluations of programs in all areas of government, including agriculture, education, the environment, economic development and transportation. He is active in the American Evaluation Association, currently serving on the editorial advisory board of its New Directions for Program Evaluation. He is also active in the National Legislative Program Evaluation Society, having served as newsletter editor and as Chair of the Executive Committee, and is currently the NLPES liaison with the American Society for Public Administration. He has served as the Chair of the Wisconsin Capitol Chapter of ASPA. Bezruki has bachelors and masters degrees from the University of Illinois at Champaign-Urbana.

BILL BISHOP
Bill Bishop is the Editorial Page Columnist/Associate Editor for the Lexington Herald-Leader in Lexington, Kentucky. His columns have appeared in the Washington Post, the Baltimore Sun, the Charlotte Observer, the Miami Herald, the Los Angeles Daily
Robert Buuck serves as Iotek’s President and CEO and is Co-Chairman of the Board. He is the co-founder and former CEO of American Medical Systems (AMS), the world’s leading manufacturer of urological implants. He served as CEO from 1972 until 1988. He positioned AMS to be acquired by Pfizer in 1985 for $105 million. From 1988 through 1992 he served as Chairman of AMS and assumed additional management responsibilities within Pfizer’s Hospital Products Group. In January, 1993, he joined Medical Innovation Partners, a Minnesota-based venture capital firm, as a Special Limited Partner to advise and assist in strategic planning for portfolio companies. With the founding of Iotek in May of 1994, he joined the company on a full-time basis. He brings extensive medical device industry experience to Iotek, with special emphasis on product innovation and marketing techniques specific to the urology specialty.

**PETER CAPELLI**

Peter Cappelli is Professor and Chair of the Management Department at the Wharton School, co-director of Wharton’s Center for Human Resources, and co-director of the U.S. Department of Education’s National Center on the Educational Quality of the Workforce (EQW). He has degrees in industrial relations from Cornell University and in labor economics from Oxford, where he was a Fulbright Scholar. He has been a Guest Scholar at the Brookings Institution, a German Marshall Fund Fellow, and a faculty member at MIT, the University of Illinois, the University of California at Berkeley, as well as at the Wharton School. He was a staff member on the Secretary of Labor’s Commission on Workforce Quality and Labor Market Efficiency, and was a member of the Technical Subcommittee for Adult Literacy (Goal 5) of the National Goals for Education Panel. Cappelli’s research has examined labor relations, changes in work and the effects on skill requirements, the contribution of workplace attitudes and behaviors to job related skills, and the effects on work force skills associated with choices of employment practices. He has completed a major, multi-authored study of the changing nature of the employment relationship for the National Planning Association. Currently he is completing a 70-company study of performance in the life insurance industry and a book about how management practices are emerging in the absence of long-term employment commitments. Cappelli directs a program on managing higher education in Wharton Executive Education.

**JOSEPH CORTRIGHT**

Joe Cortright is a consulting economist in Portland specializing in industrial competitiveness, workforce and small business issues. His firm, Impresa, works with state and local governments, private businesses, foundations and advocacy groups in more than a dozen states. For more than twelve years, Joe served as the Executive Officer of the Joint Legislative Committee on Trade and Economic Development, the Oregon Legislature’s policy-making arm on economic issues. During that time, Oregon adopted a number of nationally-recognized innovations in economic development policy, including the Oregon Benchmarks, key industry strategies, small business development, and workforce improvement. He has authored more than three dozen reports on economic issues including *Reinventing Economic Development: Ten Ideas for Market-Driven Approaches to Industrial Competitiveness and Learning to Compete*. Cortright is a graduate of Lewis and Clark College and holds a
masters degree in public policy from the University of California at Berkeley.

ANITA S. DUCKOR

Anita Duckor is Director of Electric Delivery Marketing, Community and Economic Development for Northern States Power Company. She has been co-leader of the Energy Services Process Team for Primergy (NSP and WEC merger), Director of Community and Economic Development, Director of Planning Development, and Manager of Economic Development. Her responsibilities include planning and implementation of the company’s community and economic development plan for Minnesota, community relations for 150 metropolitan communities, and Vice President and member of the board of Eloigne Corporation, a wholly-owned subsidiary of NSP. Prior to this position she was Director, Energy Services for NORESCO, a wholly-owned subsidiary of NSP. Previous utility employment included the development and marketing of residential, commercial and industrial energy conservation programs for San Diego Gas and Electric. Other work experience includes various positions in telephone, insurance, real estate and restaurant industries. In 1994 she was appointed by St. Paul’s Mayor Norm Coleman to serve on the Economic Advisory Council—and developed a citywide agenda—and the Steering Committee for the City of Saint Paul’s Re-engineering Initiative. She has had numerous board memberships, including Milestone Growth Fund, Minnesota High Technology Council, CommonBond Communities, and the Humphrey Institute’s State and Local Policy Program Advisory Council. Duckor graduated with a degree in Business Administration from San Diego State University with highest honors and distinction. She is a graduate of the Economic Development Institute, University of Oklahoma, recipient of the Howard Roepke Award, Mid-America Economic Development Council, and graduate of the Public Utility Executive Program, University of Michigan School of Business Administration.

KENT E. EKLUND

Mr. Eklund, President of Cincinnatus, offers a broad range of senior management skills and experience. His background allows him to work comfortably with public, private and not-for-profit organizations. With Cincinnatus, Mr. Eklund provides leadership search support services and confidential leadership counsel. Prior to joining Cincinnatus, Mr. Eklund was President of CEO+, a Minneapolis-based consulting firm assisting in business transitions and executive searches, and providing interim management at the executive level. Before this, he served as President and CEO of Parkside Senior Services, President and CEO of the Ebenezer Society and Vice President of Market Development with Lutheran Brotherhood. Mr. Eklund’s public service background includes service as commissioner of two departments under Minnesota Governor Al Quie and as Mayor of the City of Northfield, Minnesota. Concurrently, he was Chair of the Political Science Department at St. Olaf College. Mr. Eklund holds a Ph.D. from the University of Pennsylvania in political science with specializations in planning and organizational theory. He currently serves on the boards of directors of the Ebenezer Social Ministries, Search Institute and Padilla Speer Beardsley. He was named Outstanding Professor in the Masters of Arts program in Public Administration at Hamline University, where he teaches organizational theory, non-profit management and theories of leadership and management as an adjunct associate professor.

CHRIS FARRELL

Chris Farrell is Minnesota Public Radio’s Senior Economics and Business Editor. Although he only joined MPR full-time in June, Chris has had a long relationship with MPR as the regular finance expert on Sound Money, the one-hour personal finance call-in show produced by MPR and syndicated to 143 markets around the country. Before coming to MPR, he was Economics Editor at Business Week magazine. He contributed to the magazine’s extensive coverage of the economy, frequently wrote editorials and commentaries, and wrote several cover stories, including “IPO Capitalism, Productivity to the Rescue,” “Why Are We So Afraid of Growth,” “21st Century Capitalism,” and “The Economics of Aging.” He also covered corporate finance (as staff editor and later corporate finance department editor) for Business Week during the 1980s deal mania before moving over to economics in 1990. In the early 1980s he worked as a reporter and later finance editor at Business Times, a one-hour cable TV business program, and on Business Times Radio, a half-hour business program syndicated by American Public Radio (now Public Radio International).

CHRISTIAN GIBBONS

Chris Gibbons is the Director of the New Economy Program, an innovative “gardening” approach to economic development in Littleton, Colorado. The eight-year demonstration program was developed jointly with the Center for the New West, a think tank based in Denver which serves 17 western states. He is also the moderator of the econ-dev mail list on the Internet. Gibbons graduated with a masters degree in urban planning from the University of Oklahoma in 1973. Prior to joining the City of Littleton in 1987, he worked for the City of Oklahoma City, San Bernardino County, California, and as a private consultant for ten years in the areas of community and economic development.
LOUIS J. GLAZER

Louis Glazer is Executive Director and co-founder of a new, nonpartisan organization that is building a shared vision of a successful Michigan economy and a strategy for what Michigan businesses, schools, families and communities need to do to realize the vision. Prior to this position, Glazer was Director for the Neighborhood Builders Alliance (Michigan State Housing Development Authority) where he designed, implemented and managed a new state agency that assisted more than 250 neighborhoods through grants to community organizations, community policing grants and an urban conservation corps. He has been Deputy Director for the Michigan Department of Commerce, Deputy Director of the Governor’s Cabinet Council on Jobs and Economic Development for Governor James Blanchard, and Director of the Michigan Tax Information Council. Glazer holds a B.A. in history and a masters in urban planning from the University of Michigan.

H. RANDALL GOLDSMITH

Randall Goldsmith is President of the Oklahoma Alliance for Manufacturing Excellence, Inc. The Alliance specializes in brokering technical, marketing and business assistance to facilitate the modernization and competitiveness of manufacturing enterprises. The Alliance is dedicated to assisting small- to medium-sized manufacturers in reaching new markets, improving access to capital, addressing issues of manufacturing workforce competencies and guiding collaborative business opportunities. His responsibilities include the establishment and maintenance of a virtual organization of service providers, educational institutions and state agencies. This industrial extension system leverages existing resources in the state for the benefit of manufacturers. He was previously Director of the University of Houston-Clear Lake Technology Transfer Center and Associate Director of the NASA Mid-Continent Technology Transfer Center, where his responsibilities included the establishment and maintenance of a 14-state affiliate network to facilitate the innovation process between technology sources and industry. He believes that economic development is a cooperative effort between public and private sectors and that economic progress is dependent upon the advancement of technology and human skills.

Goldsmith holds a Masters Degree and a Doctorate of Philosophy in Urban and Regional Planning from Texas A&M University; his special area of interest is economic development.

DOUG HENTON

Doug Henton is President of Collaborative Economics in Palo Alto, California, which he founded in July, 1993. He has more than 20 years of experience in economic development at the national, regional, state and local levels. He is nationally recognized for his work in bringing industry, government, education, research and community leaders together around specific collaborative projects to improve regional competitiveness. He was project manager for the startup of Joint Venture, Silicon Valley Network, an innovative, results-oriented regional economic development alliance. He continues to serve as Joint Venture’s strategy advisor and economist, and is the architect of Joint Venture’s annual Index of Silicon Valley. He advised the California Economic Strategy Panel, California’s first state economic strategy process linked to industry clusters and regions. In Adelaide, Australia, Henton was an advisor and trainer to MFP Australia, a new integrated urban development and economic strategy. He is currently an advisor to the Hawaii Business Roundtable and Massachusetts Technology Collaborative. Prior to founding Collaborative Economics, he served for a decade as Assistant Director of SRI International’s Center for Economic Competitiveness. At SRI he directed local strategy projects in diverse regions, including Tampa, Florida, Southern California, and Austin, Texas. Internationally, he has directed major projects on the economic future of Hong Kong, the technopolis strategy in Japan, and regional development in China. With colleagues he has written a book, Grassroots Leaders for the New Economy: How Civic Entrepreneurs Are Building Prosperous Communities. Henton holds a bachelor’s degree in political science and economics from Yale University and a Masters of Public Policy from the University of California, Berkeley.

EDWARD W. HILL

Edward (Ned) Hill is Professor in Urban Studies and Public Administration and Senior Scholar in The Urban Center at Cleveland State University’s Maxine Goodman Levin College of Urban Affairs. He edits the journal Economic Development Quarterly, which is dedicated to publishing research on the development of the American economy. At the Levin College, Hill teaches micro, labor, and development economics as well as anti-poverty policy. He has co-authored a book on the American banking industry, Banking on the Brink, and co-edited four other books, including The Metropolis in Black and White and Reviving Local Economies: A Guide for Russian Officials—which was published in Moscow by the United States Information Service. Global Perspectives on Economic Development: Government and Enterprise Finance will be published in the spring of 1997. His article on evaluating of urban success stories, written with Harold Wolman, was awarded the Robertson Prize from the editors of Urban Studies. He recently completed two papers on the income relationships between central cities and their suburbs. He is currently completing an analysis of different types of U.S.
Edward Kawahara holds a Ph.D. in the field of political economy. in the School of Urban and Regional Planning.

Community Economic Development graduate course I Irvine as a visiting lecturer. He teaches the Local and University of California faculty at Berkeley, Davis and financing and development. He has been on the economic development with a focus on infrastructure consulting business specializing in community and government experience. He has operated his own cycle. Kawahara has extensive business, academic and currently completing its second biennial planning executives, labor representatives and state legislators, is comprised of business and economic state legislatures and for lieutenant governors; taught at universities for ten years, and directed public policy studies graduate programs. He studied at Binghamton, was a Fulbright Graduate Fellow in Europe for two years, and holds two vocational training certificates.

JACQUES KOPPEL

Jacques Koppel is President of Minnesota Technology, Inc., a $12 million public, nonprofit corporation, created to support the application and development of technology by Minnesota industry. The corporation focuses its services on the manufacturing and technology sectors of the economy. It operates a NIST Manufacturing Technology Center, manages a $7 million equity fund, and is responsible for developing technology policy for the state. Prior to joining Minnesota Technology, Koppel was Director of Pennsylvania’s Office of Technology Development and Ben Franklin Partnership. He was responsible for creating Pennsylvania’s Industrial Resource Center Program. Koppel was formerly president of the Technology Management Group of Philadelphia, where he developed manufacturing technology assistance programs for several states. He was a founding member of the board of directors for the National Coalition for Advanced Manufacturing in Washington, D.C. and currently chairs the Science and Technology Council of the States, an official working group of the National Governor’s Association. He has also served on committees for the National Science Foundation and the National Academy of Sciences. His business experience also includes managing a Washington, D.C. based international trade investment company, and as Project Director for the Commodities Research Unit, Ltd. in New York. Koppel holds a bachelors degree from New York University and a Masters of Science degree from the London School of Economics.

Mary McCain is Vice President for Policy and Public Affairs in the American Society for Training and Development. She is responsible for the development and representation of ASTD’s public policy issues,
both in the U.S. and internationally, and for external relations with the media and other national organizations. ASTD, the world’s largest professional society for workplace performance, focuses on the issues of workplace education and training, occupational skill standards, youth apprenticeship, unemployed worker training, and the integration of technology and the workforce. Before joining ASTD, McCain was Executive Director of a nonprofit social and economic policy and research organization, the Women’s Equity Action League. Her previous experience includes working in the office of U.S. Senator Ernest F. Hollings (D-SC)—both in Washington, DC and in South Carolina—and with the Ethics Resource Center and the Urban Institute in Washington, DC. McCain holds a Ph.D. in British labor and economic history from Georgetown University, where she received a Fulbright Scholarship, an M.A. from the University of South Carolina, and an undergraduate degree from Vassar College.

Marilyn Manser

Marilyn Manser is presently Assistant Commissioner, Office of Employment Research and Program Development at the U.S. Department of Labor, Bureau of Labor Statistics (BLS). Her office conducts research studies and works on a variety of developmental projects involving programs of the Office of Employment and Unemployment Statistics. In addition, her office administers the National Longitudinal Surveys of Labor Market Experience. She held other positions at BLS from 1984 to 1985. Previously, she was Assistant Director and Senior Economist at Mathematica Policy Research, 1978-83, and Assistant Professor, Department of Economics, State University of New York at Buffalo, 1973-78. She has published a number of papers in the areas of price measurement, consumer demand and labor economics. Manser holds a Ph.D. in Economics from the University of Wisconsin at Madison (1974), an M.A. from Duke University (1968), and a B.S. from the University of Maryland (1967).

Awilda R. Marquez

Awilda Marquez was appointed Deputy Assistant Secretary for Program Research and Evaluation at the Economic Development Association by the Clinton Administration in January of 1997. In that position, she manages EDA’s Research & Technical Assistance Division, its Operations Review and Analysis Division, and its Budget Division. Among her responsibilities is the revamping of EDA’s Technical Assistance and Research Division, and the development and operation of a program evaluation system for all of the agency’s economic development assistance programs. Marquez previously served as Chief Counsel of EDA, where she supervised 15 attorneys in EDA’s Washington headquarters and six regional offices. Among other achievements during her tenure at EDA, she revamped the roles and responsibilities of the EDA lawyers to provide more customer-friendly service and led an agency-wide regulatory streamlining process that reduced EDA’s regulations by 62 percent. Prior to her appointment to EDA, Ms. Marquez served as White House Liaison in the Department of State, where she coordinated political appointments by the White House Office of Presidential Personnel. Marquez has been active in the community, political and economic development arenas of Baltimore, Maryland. She was founder and President of Women Entrepreneurs of Baltimore (WEB), a nonprofit program that provides community-based, entrepreneurship training and support for low-income women. She worked with local groups on community reinvestment and participated in committees of the local Private Industry Council. She is a graduate of the Greater Baltimore Committee’s 1992 Leadership Program. She is the recipient of the 1994 J.C. Penney National Golden Rule Award and Regional Golden Rule Award for community volunteerism. A Harry S. Truman Scholar from the State of Maryland, Marquez received a B.S. in Foreign Service from Georgetown University and a J.D. with honors from the University of Maryland School of Law.

Maxine Moul

Maxine Moul was appointed Director of the Nebraska Department of Economic Development by Governor Ben Nelson in 1993. As Director, she also serves as Chair of the Nebraska Investment Finance Authority (NIFA), the Nebraska Industrial Competitiveness Alliance (NICA), the Experimental Program to Stimulate Competitive Research (EPSCoR), the Nebraska Worker Training Board, LB693 Commission on Local Government Innovation and Restructuring, and an Associate Fellow, Center for Great Plains Studies, University of Nebraska-Lincoln. She is secretary of the Nebraska Diplomats. In 1995, she was named by Governor Nelson to serve on the Northern Great Plains Rural Development Commission. Elected lieutenant governor of Nebraska with Governor Nelson in 1990, she held leadership positions as a member of the National Conference of Lieutenant Governors (NCLG). Governor Nelson named her the chairperson of the Nebraska Rural Development Commission. In 1992, she served as tri-chair of the Q-125 Commission, celebrating Nebraska’s statehood. She is a member of the Board of Directors of the Nebraska Development Network, Inc., and is chairperson of the Nebraska Community Foundation. She also serves as a member of the Executive Advisory Committee of the National Management Association. Moul is a 1969 journalism graduate of the University of Nebraska, Lincoln.
LEE W. MUNNICH, JR.

Lee Munnich has been a Senior Fellow and Director of the State and Local Policy Program at the University of Minnesota’s Hubert H. Humphrey Institute of Public Affairs since 1991. The State and Local Policy Program undertakes projects in four major policy areas: transportation and the community, regional economic development strategies, science and technology policy, and government finance and productivity. He has over 23 years of experience with state and local government. He served as Deputy Commissioner of the Minnesota Department of Trade and Economic Development (DTED) before joining the Humphrey Institute. His experience also includes serving as Research Director for the Minnesota Business Partnership, Economic Consultant for the Minnesota House of Representatives, and Manager of Midwest Research Institute’s Center of Economic Studies. He was also elected twice to the Minneapolis City Council during the 1970s. In 1987 Munnich received Minnesota state government’s “Excellence in Management” award for developing the state’s annual Economic Report to the Governor as a joint project of six state agencies. He was one of the founders of Partnership Minnesota, an organization of federal, state and local government employees, which recognizes innovative public sector partnerships. Partnership Minnesota has received a National Performance Review “Hammer Award” for its contribution to a government that works better and costs less. Munnich received a bachelor’s degree in economics from Georgetown University in 1967 and has done post-graduate work in economics and computer science at the University of Minnesota.

STEPHANIE NEUMANN

Stephanie Neumann is an Economic Intelligence Specialist for the Business/Industry Affairs department at the City of Littleton, Colorado, providing business information research from computerized databases and other specialized resources. She has been a reference librarian for the Littleton Public Library and the Boulder Public Library, worked for the Equitable Life Assurance Society in New York City and Mountain Bell in Albuquerque, New Mexico. Neumann holds a masters degree in library science from Western Michigan University in Kalamazoo, Michigan.

DANIEL E. PILCHER

Daniel Pilcher is Senior Fellow for Economic Development and Director of the Institute for High-Performance Communities at the Center for the New West. He is working with the Center staff to design the High-Performance Communities Institute, seek funding for its various initiatives, and manage funded projects. Pilcher is nationally recognized for his expertise in state, national and international economic development policy, international trade, strategic planning, governmental organization, program evaluation, workforce development, youth apprenticeship (school-to-work), community development and business development. Before joining the Center, he spent almost 18 years with the Denver-based National Conference of State Legislatures (NCSL), where he specialized in state and local community and economic development. During this period, he managed grant-funded projects; researched and analyzed development policy; wrote numerous magazine articles, reports and books; staffed a committee of legislators and legislative staff; testified before legislative committees; organized national economic development conferences; and served as a general source of information and advice to legislators on development questions. Projects he directed included the 1992-1995 NCSL “Investing in People Project,” funded by a $1 million grant from the DeWitt Wallace-Reader’s Digest Fund to help five states—Connecticut, Iowa, Kentucky, Washington and West Virginia—design and implement major improvements in workforce and economic development systems, including adopting youth apprenticeship systems. His major NCSL publications include: Lessons Across the Pacific: U.S. and Japanese Initiatives in Economic Competitiveness, (1989); The States and International Trade: New Roles in Export Development, (1985); and A Legislator’s Guide to Tax Limits, (co-author, 1979). He also wrote and edited numerous magazine articles for NCSL’s State Legislatures magazine, often on economic development topics. In 1969 to 71 he served as a Peace Corps volunteer in Sierra Leone, West Africa, in a community and rural development program. He holds a B.Sc. in Physical Science from Kansas State University and an M.A. in Economics and an M.A. in International Relations from the University of Denver.

MICHAEL PRZYBYLSKI

Michael Przybylski is a Senior Research Scientist with Indiana University’s Center for Urban Policy and the Environment. He is an economist and planner specializing in public finance, economic development and econometric modeling. Since joining the Center in 1990, Przybylski has also provided economic, statistical and computing work for the Indiana Education Policy Center and the Heartland Center for Aging, Disability and Long-Term Care. He also is an associate faculty member with the School of Public and Environmental Affairs (SPEA) at Indiana University-Purdue University Indianapolis, teaching courses on statistics and various other topics. Formerly with SPEA at Indiana University-Purdue University Fort Wayne from 1987 to 1990, Dr. Przybylski taught and conducted research on local government finance. He has performed policy research work in the nonprofit sector and contract research for federal agencies. He
holds a Doctorate in Economics from the University of Wisconsin at Madison and a Master of City Planning degree from the University of California at Berkeley.

ANDREW REAMER

Andrew Reamer, Principal with Andrew Reamer & Associates, carries out economic development analysis, evaluation and strategy for federal, state and regional economic development organizations. Much of his work involves the utilization of federal and state data sources to determine trends in state and regional economic performance and structure, e.g., a state economic overview for the Rhode Island Economic Policy Council. He has authored a handbook for the U.S. Economic Development Administration on the sources and uses of economic data for industry analysis. From 1984 to 1995 Dr. Reamer was a partner in Mt. Auburn Associates, an economic development consulting firm. He has a Masters in City Planning and a Ph.D. in Economic Development and Public Policy from the Massachusetts Institute of Technology.

ARTHUR J. ROLNICK

Art Rolnick is Senior Vice President and Director of Research at the Federal Reserve Bank of Minneapolis. His most recent economic research has been directed toward public policy initiatives. He has gained national attention for co-authoring the 1994 annual report essay of the Federal Reserve Bank suggesting that Congress end the economic war among the states. He also co-authored previous annual report essays on reforming the nation’s deposit insurance system and arguing for fixed exchange rates. As a top official of the Federal Reserve Bank, Rolnick regularly attends meetings of the Federal Open Market Committee—the Fed’s principal body responsible for establishing national money and credit policies. A native of Michigan, Rolnick has been with the Minneapolis Federal Reserve Bank since 1970. He has also served as a visiting professor at Boston College and the University of Minnesota. Rolnick is past president of the Minnesota Economic Association. He is a member of Minnesota’s Council of Economic Advisers and the Minneapolis Star Tribune’s Board of Economists. He holds a bachelor’s degree in mathematics and a masters in economics from Wayne State University, Detroit, and a Ph.D. in economics from the University of Minnesota.

HAROLD SALZMAN

Harold Salzman is a sociologist and Director of Research at Jobs for the Future. Prior to this, he taught and conducted research at Boston University in the Department of Sociology and the Center for Technology and Policy, and was Research Fellow at the Center for Industrial Competitiveness and the Department of Work Environment at the University of Massachusetts at Lowell. His research has focused on workplace restructuring, skill requirements and technology design. His publications include two co-authored books, Software By Design: Shaping Technology and the Workplace (Oxford University Press, 1994), and Designed to Work: Production Systems and People (Prentice-Hall, 1993), and articles in the Sloan Management Review, IEEE Transactions on Engineering Management, and a number of other journals. Salzman received his Ph.D. in sociology from Brandeis University.

C. ROBERT SAWYER

C. Robert Sawyer serves as the Regional Director of the Economic Development Administration’s (EDA) Chicago Regional Office, covering Minnesota, Michigan, Wisconsin, Ohio, Indiana and Illinois. Before becoming Regional Director, he was Planning and Technical Assistance Chief, responsible for EDA’s University Center, Local Technical Assistance, Economic Development District, and State and Urban Planning Programs in the Chicago Region. He has held various positions during his eleven years with EDA, including Business Loans Division Chief, Economic Adjustment Division Chief and Economic Development Representative for the State of Indiana. Before joining EDA, he worked in the private sector as a management consultant and corporate executive. Sawyer holds an A.B. from Brown University and an M.S. and an M.B.A. from Stanford University.

KATHERINE B. SCHILL

Katherine Schill is a Senior Budget Analyst and Caucus Liaison for the Ohio Legislative Budget Office, a nonpartisan research agency serving the Ohio General Assembly. For more than ten years, she has evaluated budget requests, prepared fiscal notes and provided fiscal information for legislators in the areas of development, housing, worker training and state government administration. She currently serves as lead staff for the State Controlling Board, the Senate Finance Committee, and the Senate Economic Development, Technology and Aerospace Committee. Highlights of her career include recognition as the 1992 Young Professional of the Year by the Central Ohio Chapter of the American Society for Public Administration, select participation in numerous activities of the National Conference of State Legislatures, and service as the Ohio General Assembly’s loaned executive for the U.N. Summit on Trade Efficiency. Her most recent activities include authoring Ohio’s Economically Disadvantaged Areas: Are We Matching Resources With Need?, a paper which discusses the flow of community development and economic development funds throughout Ohio, and assisting Ohio’s Economic Development Study Advisory Committee, a
special committee chaired by Senator Chuck Horn, to comprehensively examine the true costs and benefits of Ohio’s business assistance programs.

MICHAEL SPRINGER

Michael Springer is Policy Advisor for the Office of Economic Policy with the U.S. Department of the Treasury. His responsibilities focus on state and local economic and fiscal issues. He served as the first chair of the National Rural Development Partnership, federal representative on EPA’s Small Town Task Force, and participant in numerous White House and inter-agency policy advisory groups. On leave from the Treasury, he served as Associate Project Director of a National Academy of Public Administration assessment of the federal role in sub-national economic development. Previous positions include Senior Research Staff with the Urban Institute, and Research Associate with the Center for Urban Studies at Wayne State University. Other activities include: strategic studies for the Defense Intelligence Agency, development of the nation’s first housing voucher program, graduate and mid-career teaching in public administration and policy analysis, and organizing wilderness expeditions.

GRAHAM S. TOFT

Graham Toft is President of the Indiana Economic Development Council, Inc., Indiana’s public/private partnership on economic development strategy and policy. Now ten years old, IEDC is an independent think tank and consultant, contributing to Indiana’s initiatives in capital access, the use of incentives, interfirm collaboration, business-education partnerships, infrastructure finance, small business development, labor market information, and regulation policy. In 1989 he was awarded the Distinguished Professional Planner Award by the Indiana Planning Association. He has consulted to over 40 local areas and five state governments on strategic economic development and policy planning for a changing economy. Toft holds a Ph.D. from Purdue University and undergraduate and masters degrees from the University of New South Wales and the University of New England, Australia.

MARK VANDER SCHAAF

After an earlier career as a college humanities professor, Mark Vander Schaaf returned to school to study urban/regional economic planning, earning an M.S. in this field from the University of Wisconsin-Madison in 1985. In 1985 and 1986 he worked as a Policy Analyst for the Wisconsin Department of Development, then relocated to Saint Paul where he has worked for the City’s Department of Planning and Economic Development since that time. In his ten years with the City of Saint Paul, Mark’s work has been divided between a variety of generalist planning assignments and more specialized economic research. Mark’s economic research interest focuses on applying the insights of high quality regional analysis to the tasks of neighborhood revitalization. As a regionalist, Mark was instrumental in bringing the Michael Porter “industry cluster” perspective into the mainstream of Twin Cities economic strategizing. Now, with his department reorganizing around interdisciplinary geographic teams, Mark’s interests are beginning to focus on the use of geographic information systems as a tool for small area economic strategizing.

MARY JO WAITS

Mary Jo Waits is Associate Director of the Morrison Institute for Public Policy, where she oversees project development, publications, research and analysis in the areas of the environment and economic development. She was one of three leaders of the consultant team for the multi-year Arizona Strategic Plan for Economic Development (ASPED) project. She has written extensively on economic development, including Organizing Economic Development in the 1990s: The Price of Prosperity, and Comparative Analysis and Guidelines for an Arizona Incentive Policy. Both articles received national attention. In addition, her research and writings have focused on positioning the state for new economic opportunities with Mexico and Canada. She wrote State Readiness for Free Trade with Mexico: How Does Arizona Compare? Waits has been involved in the development and analysis of environmental and economic policy for more than 15 years. She was Assistant Director for the Arizona Governor’s Office of Policy Development and Planning during the Babbitt Administration. She also served as a Senior Economic Policy Advisor to the governor and lieutenant governor of Alaska and spent three years providing organizational and land use assistance to Alaska’s regional governments and local communities. She is Chair of the Phoenix Planning Commission and is a member of the North American Development Bank’s Advisory Board, appointed by President Clinton. She holds a masters degree in public administration from the University of Southern California and has done doctoral work in urban and regional planning at the University of Michigan.

BETSY WEITKAMP

Betsy Weitkamp has been in the Business/Industry Department for the City of Littleton since 1991 as a Data Manager. Prior to that she taught elementary school, most recently in Littleton and Denver, Colorado. She has a bachelor’s degree from Macalester College in St. Paul, Minnesota, and graduate credits from the University of Northern Colorado and the University of Colorado.
MICHAEL WEST

Michael West is Director of Planning for the Texas Department of Commerce, where his primary duties include preparation of the agency’s biennial strategic plan, quarterly reporting of the agency’s performance to the Legislative Budget Board, and review of pending legislation for its fiscal impact on the agency and the state. Because the Texas Legislature is in session, this last duty is particularly important right now. Before working at Commerce, he was a lecturer in economics at a private college in Cypress, a management consultant with the Industrial Education Department at the University of Texas at Austin, and a Peace Corps volunteer in Chile. West holds an M.A. in Economics from the University of Texas, Austin.

DELORE ZIMMERMAN

Delore Zimmerman is President and CEO of Praxis, Inc., which works with entrepreneurs, economic development and technology research organizations to innovate and assemble resources to create enterprise opportunities. He is a Senior Fellow for Community and Enterprise Development at the Center for the New West, where he leads the training service for the Institute for High-Performance Communities. His career has focused on the interaction between community and enterprise development, including the development of “enterprise homesteading,” an innovative approach for communities to work more effectively with entrepreneurs. Recently, he served as the lead consultant for the Northern Great Plains Rural Development Commission’s Business Development Work Group, which developed a ten-year rural development strategy for five states. Zimmerman is a sociologist with undergraduate and graduate degrees from the University of North Dakota and a Ph.D. from Pennsylvania State University.