

Economic Development Thoughts

Stan Harpstead
Regional Council of Mayors

January 2009

- “Civilization is on the brink of a new economic world order. The big winners in this increasingly fierce global reach for leadership will not be those who simply make commodities faster or cheaper than the competition, ultimately leading to a downward spiraling competition for low wages and lower margins. Rather, **the winners will be those who develop talent, techniques and tools so advanced, that reaching a dimension of innovation beyond competition is ensured.**”

Compete 2.0 advisor Joseph Bordogna

Research Alone is not Enough

Science, Vol. 321, p. 915

Background:

- USA share of doctorates was 52% in 1986 → 22% in 2003
- Scientific publication share was 38% in 1988 → 30% in 2003
- In 2007 China (2nd) passed Japan (3rd) in R&D expenditures
- US continues to fund basic research, but wrongly assumes that market forces are sufficient to bridge between basic research and commercial innovation.
- When global companies are surveyed for where the most attractive places are to locate R&D facilities, China (61%) outranks the USA (41%) with India in 3rd place (29%). All other countries are at or behind Japan (14%).
- China's domestic value-added share of high-technology output quadrupled over 8 years to 16% (It now exceeds the UK and Germany, just behind Japan).
- Between 1998 and 2003 the US share of R&D investment grew twice as fast outside-US (52%) as it did domestically (26%).

Creating Wealth



Global Economy



Export-Driven Industries

e.g. Semiconductors aerospace
 biomedical copper
 computer equipment knowledge

Low % of
state's
employees

High value
added



Products/Services



Linkage Industries

e.g. business services transportation
 metals distribution

Medium % of
state's
employees

Medium value
added



Products/Services



Population-Driven Industries

e.g. Retail hotels
 real estate construction

High % of
state's
employees

Low value
added

Population Growth

Tourists - New \$

National Statistics

U.S. Metro Economies

U.S. Metro Economies; Gross Metropolitan Product with Housing Update, January 2007, Table 5

**2005 Gross Metropolitan Product of the
Top 10 Metro Areas**

(\$3.74 Trillion)

**Exceeds the Combined Output
of 35 States**

(\$3.73 Trillion; including MN)

Regional Statistics

U.S. Metro Economies

U.S. Metro Economies; Gross Metropolitan Product with Housing Update, January 2007

Minnesota

	2005 GMP (Billions)	%
• Duluth, MN-WI	\$ 9.39	4.0
• Fargo, ND-MN	\$ 1.51	0.6
• Grand Forks, ND-MN	\$ 1.13	0.5
• La Crosse, WI-MN	\$ 0.54	0.2
• Minneapolis-St. Paul- Bloomington, MN-WI	\$148.90	63.5
• Rochester, MN	\$ 7.99	3.4
• St. Cloud, MN	<u>\$ 8.08</u>	<u>3.4</u>
• <i>Sum of Metro Areas</i>	\$177.53	75.7

MSP Real GMP growth rate 2003 to 2005 is ranked 212th @ 3.2%;
2006 = 2.8%;
2007 = 1.9% (Source; Table 10, p. 78)

Regional Statistics

U.S. Metro Economies

U.S. Metro Economies; Gross Metropolitan Product with Housing Update, January 2007

- A key element behind the economic development and success of metro areas is the **proximity of businesses and skilled labor**. The easy access to and synergy provided by
 - **labor**,
 - extensive **business networks**, and
 - **cutting edge research** at institutes of higher learning, that
 - attracts **both capital and entrepreneurs** to metro areas.
- As a result, **metro areas are at the center** of the development of many new technologies, such as nanotechnology or biotechnology, and play a major role in shaping the future economic development of the US economy and its global competitiveness.

High-Technology Location Factors

EXISTING HIGH-TECH PRESENCE is CRITICAL

Traditional

Business Factors

- Tax Structure
- Compensation Costs
- Space Costs
- Capital Costs
- Business Climate

High-Tech

Specific Factors

- Proximity to Excellent Research Institutions
- Access to Venture Capital
- Educated Workforce
- Network of Suppliers
- Technology Spillovers
- Climate and Quality of Life

Source: Milken Institute, *America's High-Tech Economy*, 1999

Source: Atlanta Forum - Mary Jo Waits

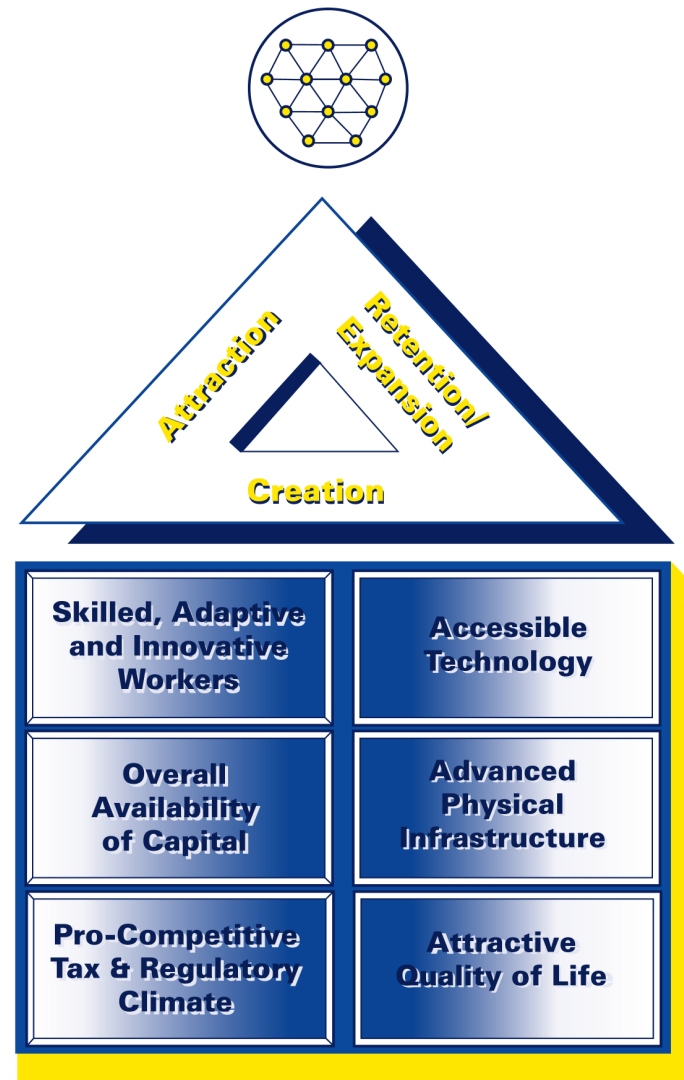
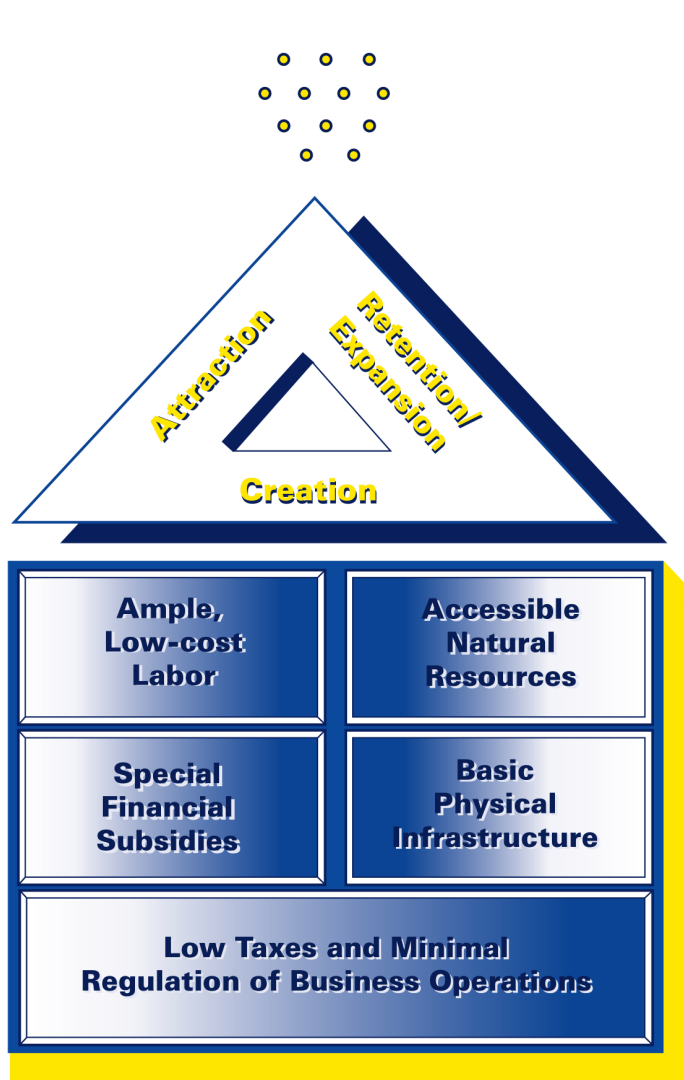
8 Distinguishing Characteristics

- **Technology** is a given
- **Globalism** is here to stay
- **Knowledge** builds wealth
- **People** are the most important raw material
- There are **no smooth rides**
- **Competition** is relentless
- **Alliances** are the way to get things done
- **Place still matters** — but for different reasons

The Evolving Foundations of Economic Development

Target: Individual Firms

Target: Industry Cluster



JOBZ-2007- Annual Report

JOBZ Wage Impacts and Tax Benefits, 2004 - 2006 JOBZ Businesses, Tax Year 2006

JOBZ Region	Actual Jobs	Average Wage	Estimated Annual Wages (millions) Includes spin-off jobs	Estimated Non-Property Tax Benefits (millions)	Estimated Property Tax Benefits ¹ (millions)
Northeast Minnesota JOBZ (Arrowhead)	297	\$13.10	\$12.3	\$0.8	\$0.0
Positively Southern MN JOBZ Growth Corridor	1,176	\$13.45	\$70.3	\$6.3	\$0.3
Region 5 JobZone	847	\$14.99	\$41.8	\$1.9	\$0.3
Southern Minnesota JOBZ	970	\$15.66	\$53.8	\$3.6	\$0.6
West Central MN JOBZ	479	\$14.22	\$26.1	\$2.0	\$0.4
Northwest Land of the Dancing Sky JOBZ	198	\$13.40	\$8.1	\$0.6	\$0.1
Region 7E JOBZ	310	\$23.91	\$17.3	\$1.0	\$0.3
Southwest Regional JOBZ	1,105	\$13.76	\$62.3	\$5.0	\$1.0
Combined Regions ²	77	\$13.05	\$4.4	\$1.8	\$0.0
Statewide (includes inter-regional and Twin Cities impacts)	5,450	\$14.78	\$420.4	\$23.0	\$3.1

Note: The tax benefits information is based on data reported to the Minnesota Department of Revenue by 292 businesses on Schedule JOBZ and Form M500. Benefits were estimated for those businesses not submitting a Form M500. The tax benefits include exemptions from the individual income tax, corporate franchise tax, general sales and use tax, and the motor vehicle sales tax, and the job creation credit. Tax benefits received by JOBZ businesses total \$45.7 million since 2004.

¹ State and local property tax exemptions are not actual revenue decreases, rather levy amounts are shifted onto all other property. \$0.0 indicates value is less than \$50,000.

² Tax benefit information has been combined for two zones - Headwaters and Upper Minnesota Valley - where there are fewer than four tax returns or where a single taxpayer accounts for a majority of tax benefits.

Note: Job and wage data are collected through the Minnesota Business Assistance form.

Priority Cluster Growth Targets

Greater Phoenix can join the top-tier in the identified clusters by striving toward the following targets:

Aerospace	Maintain current employment concentration of 260% of national concentration.	12,300 net new jobs
Bio-industry	Grow to the current US level of concentration.	12,900 net new jobs
Advanced Financial & Business Services	Maintain concentration of 140% of the current US concentration in high wage segments.	27,700 net new jobs
High-technology	Return to 1990 concentration of 220% of the US level (increasing concentration in higher-wage sectors of the cluster)	20,500 net new jobs
Software	Build concentration to 120% of the current US concentration.	32,500 net new jobs