Economic Development Thoughts

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Regional Council of Mayors

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“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 that 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
- Semiconductors
- aerospace
- biomedical
- copper
- computer equipment
- knowledge

Linkage Industries
- business services
- transportation
- metals
- distribution

Population-Driven Industries
- Retail
- real estate
- hotels
- construction

Population growth

Tourists - New $

Source: Atlanta Forum - Mary Jo Waits
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

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

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**

- Ample, Low-cost Labor
- Accessible Natural Resources
- Special Financial Subsidies
- Basic Physical Infrastructure
- Low Taxes and Minimal Regulation of Business Operations

**Target: Industry Cluster**

- Skilled, Adaptive and Innovative Workers
- Accessible Technology
- Overall Availability of Capital
- Advanced Physical Infrastructure
- Pro-Competitive Tax & Regulatory Climate
- Attractive Quality of Life

Source: Atlanta Forum - Mary Jo Waits
## JOBZ Wage Impacts and Tax Benefits, 2004 - 2006 JOBZ Businesses, Tax Year 2006

<table>
<thead>
<tr>
<th>JOBZ Region</th>
<th>Actual Jobs</th>
<th>Average Wage</th>
<th>Estimated Annual Wages (millions)</th>
<th>Estimated Non-Property Tax Benefits (millions)</th>
<th>Estimated Property Tax Benefits (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast Minnesota JOBZ (Arrowhead)</td>
<td>297</td>
<td>$13.10</td>
<td>$12.3</td>
<td>$0.8</td>
<td>$0.0</td>
</tr>
<tr>
<td>Positively Southern MN JOBZ Growth Corridor</td>
<td>1,176</td>
<td>$13.45</td>
<td>$70.3</td>
<td>$6.3</td>
<td>$0.3</td>
</tr>
<tr>
<td>Region 5 JobZone</td>
<td>847</td>
<td>$14.99</td>
<td>$41.8</td>
<td>$1.9</td>
<td>$0.3</td>
</tr>
<tr>
<td>Southern Minnesota JOBZ</td>
<td>970</td>
<td>$15.66</td>
<td>$53.8</td>
<td>$3.6</td>
<td>$0.6</td>
</tr>
<tr>
<td>West Central MN JOBZ</td>
<td>479</td>
<td>$14.22</td>
<td>$26.1</td>
<td>$2.0</td>
<td>$0.4</td>
</tr>
<tr>
<td>Northwest Land of the Dancing Sky JOBZ</td>
<td>198</td>
<td>$13.40</td>
<td>$8.1</td>
<td>$0.6</td>
<td>$0.1</td>
</tr>
<tr>
<td>Region 7E JOBZ</td>
<td>310</td>
<td>$23.91</td>
<td>$17.3</td>
<td>$1.0</td>
<td>$0.3</td>
</tr>
<tr>
<td>Southwest Regional JOBZ</td>
<td>1,105</td>
<td>$13.76</td>
<td>$62.3</td>
<td>$5.0</td>
<td>$1.0</td>
</tr>
<tr>
<td>Combined Regions²</td>
<td>77</td>
<td>$13.05</td>
<td>$4.4</td>
<td>$1.8</td>
<td>$0.0</td>
</tr>
<tr>
<td>Statewide (includes inter-regional and Twin Cities impacts)</td>
<td>5,450</td>
<td>$14.78</td>
<td>$420.4</td>
<td>$23.0</td>
<td>$3.1</td>
</tr>
</tbody>
</table>

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.
Priority Cluster Growth Targets

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

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Target</th>
<th>New Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
<td>Maintain current employment concentration of 260% of national concentration.</td>
<td>12,300</td>
</tr>
<tr>
<td>Bio-industry</td>
<td>Grow to the current US level of concentration.</td>
<td>12,900</td>
</tr>
<tr>
<td>Advanced Financial &amp; Business Services</td>
<td>Maintain concentration of 140% of the current US concentration in high wage segments.</td>
<td>27,700</td>
</tr>
<tr>
<td>High-technology</td>
<td>Return to 1990 concentration of 220% of the US level (increasing concentration in higher-wage sectors of the cluster)</td>
<td>20,500</td>
</tr>
<tr>
<td>Software</td>
<td>Build concentration to 120% of the current US concentration.</td>
<td>32,500</td>
</tr>
</tbody>
</table>

Source: Atlanta Forum - Mary Jo Waits