

# Resurgent Midwest- Insurgent Growth

Prepared for the Midwest Innovation Initiative  
Research Roundtable  
In collaboration with the Midwestern Office, Council of State  
Governments and the Institute for Work and the Economy

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*ready -set -grow!*

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## Outline

1. Why the initiative : 'Resurgent Midwest – Insurgent Growth' ?
2. What is the Initiative?
3. Preliminary Results from Phase One— State Report Cards Profiles
4. Next Steps

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## 1. Why This Initiative?

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- Recent reports, books and unemployment 'rather depressing' about the Midwest, but far too pessimistic
- CSG looking to take a more realistic well-researched approach, using past data but also future opportunities in a changing global economy.
- **This recession points to an urgent need to develop and customize "quality economic and workforce intelligence" for each of the Midwest's states and provinces and to explore Midwest commonalities and collaboration.**

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## 1. Why this Initiative? Cont'd

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- **'Resurgent Midwest'** speaks to the goal of helping Midwestern states get back to a position of regional U.S economic strength, akin to the post-war period when the region outperformed in both manufacturing and agriculture and held its own in advanced services

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## 1. Why This Initiative? Cont'd

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- **'Insurgent Growth'** refers to **how** the Midwestern states will re-emerge: predominately by **'growth from within'**.
- 'Growth' means:
  - increasing numbers and percent of high pay jobs
  - increased opportunities to move up
  - lots of fast growth businesses, exceeding industry averages
  - increasing sales per worker (value creation)

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## 1. Why This Initiative? Cont'd

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- Yes, inward investment remains important-- foreign direct investment etc.
- Yes, federal aid can help -- Brookings paper, *The Vital Center; Federal Stimulus \$\$\$; Richard Longworth's 'Midwest Marshall Plan'*
- But the 80's-90's reminds us of a proven path for the Midwest: increased innovation and improved productivity in mainline industries, particularly agriculture and manufacturing (i.e. 'doing things better, faster, cheaper and now greener').
- This project focuses on helping states focus on adaptive human capital, productivity, innovation and entrepreneurship with sustainable policy tools.

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## 1. Why This Initiative? Cont'd

- Literature Refresher :
  - Federal Reserve Bank of Chicago, 1997: How did Midwest recover from 80-82? Luck + doing things (ag. and mfg.) smarter, better, cheaper!
  - Federal Reserve Bank of Cleveland, 2005 - 2006: Paths to Prosperity- need high levels of "knowledge stock" (education, R&D/innovation) + diversified industry structure.
  - Brookings 2007: "The Vital Center" - -need for renewed Federal - State Compact.
  - Brookings 2007(fall): A World-Leading Bi-national Economic Region (policy implications U.S. States - - Canadian Provinces)
  - Richard Longworth: "Caught in the Middle"

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## 1. Why This Initiative? Cont'd

### □ Recession Refresher:

Amid controversy Washington is understandably focused on stabilization, normalization, recovery, demand stimulus -- 'worry about deficits and growth later'.  
(We are all Keynesians now!)

But why aren't more states/provinces focused on economic growth? Seem to be in "wait & see" mode: 'First, what will the federal package do for us?' 'How do we get the stimulus money out?'

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## 1. Why This Initiative? Cont'd

- But a slow recovery means each state needs more than a 2009-10 federal stimulus:

Weak financial sector, heavy government debt, de-leveraging (households, corporations) may continue; many **states/regions have inherited slow-growth policies**. e.g. incr. personal & biz. taxes; providing training grants only if adding jobs and resulting in certifications.

A plausible timeline:

Recession ends mid-late 2009; banks rehabilitate 2010; high unemployment continues thru 2010, state and local government finances deteriorate; housing finally turns up late 2010-2011; 2011-12 facility relocations pick up, also foreign direct investment; 2010-11 Midwest businesses retool/reinvest -- higher capital-labor ratios (fewer workers per unit of output).

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## 1. Why This Initiative? Cont'd

- Proposition: **2009-2011 a critical time for states/provinces to seize growth opportunities unique to their areas: YOYO-GROW Federalism ('your on your own for growth')**
- History lesson: **Likely only 6-10 states/provinces, 20-30 regions will be the growth leaders in North America when the biz. cycle turns up.**
- Its time to *Rediscover Growth!*

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## 1. Why This Initiative? Cont'd

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- ▣ Opportunities created by an open global economy in advanced industrial goods, advanced materials and energy, and agriculture and biosciences are congruent with the strengths of the Midwestern region.

Coming out of this downturn/recession, the course taken by Midwestern states to unshackle their sluggish economies quickly, free up human capital, and capitalize on a rapidly changing global economic order could determine their growth paths for decades.

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## 1. Why This Initiative? Cont'd

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- ▣ Mainly boils down to identifying and correcting self-inflicted slow-growth policies and embedding pro-growth ones. Many states/provinces are paying insufficient attn. to harnessing creativity, ingenuity, individual initiative, talent, entrepreneurialism, private investment using
  - tax policy
  - legal climate
  - compliance-friendly regulation
  - grants vs. loans vs. loan guarantees
  - seed /risk capital incentives
  - workforce innovation
  - etc.

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## 2. What is the Initiative?

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- Phase 1 July –Dec 2009: 'Best States' Overview and Dash Boards
- Phase 2: Entrepreneurial/Growth Dynamics ScoreCard for each State/Province
- Phase 3: Drivers of Growth with 'Key Indicators to Watch' reports

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## 2. What is the Initiative? Cont'd

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- ▣ **Product 1, Annual Economic Check-Up**, a compact snapshot of what the various cross-state benchmarking and "best states for business" reports, ratings and rankings are telling each state about its economy and human capital.
- ▣ Legislator/decision maker wants to know: **What is the 'bottom line' situation of this state combining various report cards?**

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## 2. What is the Initiative? Cont'd

- **Product 2: State Entrepreneurial and Business Dynamism ScoreCards.** A uniquely designed report card that gets at the **business and entrepreneurial dynamics of a state**, with indications of where improvement would be desirable. For five years, the Small Business Foundation of Michigan has refined and published the Michigan Entrepreneurship Score Card in collaboration with GrowthEconomics. This will be the building block for the state by state CSG product.
- Legislator/decision maker wants to know: **How does the state stack up on America's proven renewable growth energy--entrepreneurship and innovation?**

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## 2. What is the Initiative? Cont'd

- **Product 3: Drivers of Growth + State by State 'Key Indicators to Watch':** Examine indicators by careful statistical analyses of data on all states for over 200 metrics since the year 2000. Which ones most correlate with competitiveness and contribute to growth? Prepare 'Key Indicators to Watch' report for each state.
- Legislator/decision maker wants to know: **Is the state on a competitiveness track? And which transformational activities will lead to a stronger, healthier economy down the road?**

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### 3. Preliminary Results Phase 1

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▣ Discussion of Handout:

'State Performance Profiles Using Publicly Available 2008/2009 Report Cards – Preliminary Results'

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### 3. Preliminary Results Phase 1 cont'd

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▣ Generalizations for the Midwestern Region:

- Economic Performance and Growth: sub par
- Education scores better than workforce --some notable improvements in education e.g. IN, OH; some exceptional education e.g. IA, MN, WI
- Good education may not mean good economic performance; good workforce may not result in superior economic performance. e.g. KS i.e. workforce development does not necessarily = economic development (mantra debunked?)
- Business climate varies considerably. But much of the Midwest retains strengths in general business climate: cost of doing business, legal climate and economic freedom. But similar to workforce, superior business climate does not ensure superior growth

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### 3. Preliminary Results Phase 1<sub>cont'd</sub>

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- ▣ In short, the growth equation is far from univariate. We don't know the right combination of economic foundations and agents for the Midwest—research needed!
- ▣ **We do know two missing ingredients in most states are technology competitiveness and entrepreneurial dynamism**--shows up in all states except IL, MN
- ▣ Implications for MI2: how do we shape our regional 'labor shed' discussion with the region's technology and entrepreneurial challenges?

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### 4. Next Steps

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- ▣ Secure Funding
  - Phase 1. U.S.DOL as part of the Midwest Innovation Initiative
  - Phase 2 /3 ?
  - Explore funding for Provincial Reports
- ▣ Complete 12 State Reports for Phase 1
- ▣ Phase 1 Dissemination:
  - Midwest Innovation Initiative visits to each state
  - On site CSG staff presentations?
  - State Chamber sponsored events

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# Discussion

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