

MINNESOTA Journal

A PUBLIC POLICY MONTHLY FROM THE CITIZENS LEAGUE

Volume 18, Number 11 • November 27, 2001

"Minnesota will never be a low-cost state. The climate precludes it, the commitments we've made to higher education preclude it, our experience with government since the time of the Farm and Labor Party in the 1930s precludes it. But if you think about it, the states that have been most successful in attracting high technology are not low-cost states."

— Rep. Dan McElroy

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Cold Sunbelt:

Maintaining Minnesota's institutions of public policy

by Ted Kolderie

This is the first of a three-part series adapted from the 2001 Stans Memorial Lecture delivered by Ted Kolderie this fall at the Minnesota History Center. This series sets the context for the celebration of the Citizens League's 50th anniversary in 2002. During the coming year, the League will reflect on its contributions in building a community that has been widely admired around the country. But more importantly, we'll use the discussion to remind people that understanding problems and what to do about them is a constant process that needs nurturing, and a new generation of leaders.

Minnesota has been trying to do what might seem not possible: to run a high-tech, high-service, high-tax economy from a cold, remote location up against the Canadian border in the middle of the continent. Sunny, actually, but definitely cold. Our January weather map looks exactly like college students' idea of where *not* to live.

Astonishingly, we have done this quite successfully. Minneapolis and Saint Paul began providing processing, trade, transportation and financial services to the central Northwest and the upper Midwest. When Al Godward wrote his remarkable 50-year projection for the *Minneapolis Star* in 1929 that was still our function. But by 1950 we were on our way to a new economy built on high-value manufacturing and business services. Population grew by half from 1940 to 1960, and it has doubled since. In the '90s we grew faster than even some areas in the warm Sunbelt.

People attribute our success largely to the "quality of life." But most of this is not God-given. With all due respect, our water bodies —

Red, Leech and Winnibigoshish — are not quite Long Island Sound nor San Francisco Bay nor the west coast of Florida. Hard as we try, it is not easy to persuade people it is fun to ski on flat land.

Rather, the "livability" of this place is *made*. It is the quality of public facilities and housekeeping, . . . the high level of education. In 1950 most adults in Minnesota had not been to high school; by 1990 most adults had some college. It's the range and quality of our sports and cultural activities and a health care system able to care for and to insure people better than most. Some of it is intangible: the entrepreneurial drive, the openness, our more than ordinarily clean government, a decent ethical climate. As my wife observed when we moved here, there's an optimal combination of big city and small town. And, underlying all this, what Dan Elazar called "moralistic" politics, in which there is a felt obligation to deal with public problems rather than to enrich one's clan. This has given us an unusual ability to generate leadership and to raise and resolve issues, to capture opportunities and deal with problems. This comparative advantage in collective action is one of this state's priceless assets. Social capital, as Robert Putnam wrote in *Bowling Alone*.

All this is made and sustained by Minnesotans' determination to have private institutions and governmental institutions here of national and world class; to count in this country for more than the two percent of its population that we represent.

This theme goes back to the beginning of Minnesota's history. This small frontier community realized from the start the importance of deliberately massing resources.

Minnesota was the only state to combine the

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state and land-grant university, and to put it initially into the population center of the state. Minnesota put almost everything into one major "city": the university, the Capital, the fair, the prison, and in time, the headquarters of almost every major business and nonprofit institution.

But we did not always have the reputation we have today. The 1917 plan for Minneapolis was put on the shelf. In the 1920s aldermen were facing prosecution. In the 1930s there was a spill over of racketeering from Chicago. Far too many people were being shot in bars in the middle of the night. When Gurney Breckenfeld came here in the 1970s to write about our urban success, he brought along *Fortune* magazine's famous April 1936 article on the decline of the Northwest claiming the timber was gone, the flour mills were moving out, and the truck strikes had ended the ability to exploit labor. The author argued: "If tomorrow Saint Paul should slide off its banks and disappear into the Mississippi River it would scarcely create a ripple in the economic life of the United States of America." A little while later in *The Nation*, Carey McWilliams tagged Minneapolis the most anti-Semitic city in America."

Building

Then about 1938 Minnesota began a remarkable revival of its public life. What was built in the generation that followed gave us the community and the national reputation we have today. Let me sketch in a few major pieces of this.

New leadership

The Cowles came up from Iowa in the 1930s and put together ownership of the Minneapolis newspapers. They were willing to challenge old attitudes about isolationism, about political life and the newspaper business. In Minneapolis, younger people replaced the little group of bearded men who used to walk to work from their mansions near Washburn Fair Oaks. Coming out of the war communities all across Minnesota, they had a remarkable drive for civic improvement. Humphrey appeared in Minneapolis, ran for mayor in 1943; successfully in 1945. In business, the Dayton brothers took over the store.

The political parties

Politics revived. On the Republican side, first around Harold Stassen as governor, then again in the 1960s with what Betty Wilson loved to call "the young

Turks" in Hennepin County. On the Democratic side, the old party merged in the 1940s with the remains of the Farmer-Labor party to create the modern DFL. Pre-primary endorsement and the central financing of candidates produced a generation of public officials only recently retired, including two vice presidents and two nominees for the presidency, not to mention members of the cabinet and the Supreme Court.

The rebuilding of the cities

The cities began to fix themselves up. Minneapolis under Humphrey cleaned up its police department, and then its reputation for anti-Semitism — the foundation for Humphrey's later work on civil rights. The first effort to fix Minneapolis' governmental structure in 1948 was cut off when Humphrey left for the Senate. The Citizens League formed in 1952 to carry on that work. The Downtown Council appeared in 1954. City planning was revived in Minneapolis, and in Saint Paul with Dave Loeks, partly in anticipation of the coming of the freeways. The Capital Long-range Improvements Committee was established to give Minneapolis some orderly capital budgeting. Mechanisms for urban renewal were created. Minnesota passed its law for housing and redevelopment authorities in 1949, five years before the federal government began to provide big financial support. Through the 1950s we were a big importer of urban know-how; business people and public officials flying elsewhere to get ideas, often on the Star and Tribune plane.

The problems of suburban and metropolitan growth

In the late 1940s, Orville Peterson, secretary of the League of Municipalities, saw the coming postwar growth and persuaded the Legislature to provide a method by which suburban villages could convert to a manager form. This got competent government into place just before the big wave of development. In 1959, after two unsuccessful runs for Congress, Joe Robbie convinced the Legislature to assert the interest of the state in the expansion of municipal boundaries. We owe it to his Municipal Commission that the Twin Cities area today is not a crazy quilt like suburban Chicago.

By the 1950s, fundamental questions began appearing about governmental arrangements in the metropolitan area. In

Hennepin County a county administrator began to emerge, and in the reapportionment after the 1960 census, the Legislature was persuaded not to build-in the conflict then growing between Minneapolis and its suburbs, but to create a majority of the districts overlapping the city/suburban boundary. Freed from that conflict, first Hennepin, then other counties, began their remarkable expansion into parks, libraries, the courts, health care, and social services.

The metropolitan institutions began to appear initially as joint efforts of the two cities: the sanitary district in the mid-1930s; the Airports Commission in 1943 — the work of the Jaycees, of all things — putting an end to any thought of scheduled airline service between Minneapolis and Saint Paul. In 1957, Senator Elmer Andersen got the Legislature to create the Metropolitan Planning Commission. Two years later, a lady in New Hope called the health department and said, "I turn on my tap and the water has a head on it, like beer." The remark touched off a debate about sewage disposal that ran for a decade. The debate wasn't resolved until 1969, after a long and searching public discussion had persuaded the Legislature first to create a policy-making body, the Metropolitan Council, to develop the regional consensus required for the state to act. Over time, more and more non-governmental institutions have taken a fully regional form, most recently the United Way.

State government

The Department of Administration and civil service reform appeared in Stassen's time. The state structure was strengthened again under Gov. Freeman. In the 1960s, Senator Rosenmeier gave the governors a planning agency. In Wendell Anderson's time the Department of Finance emerged. The Legislature was reconstructed. The "flexible" session appeared in 1971: 120 days divided between two years. Legislative staffing grew rapidly and was professionalized.

Social institutions and social policy

Let me take just one area of social policy: health care. As science and medicine writer for the Minneapolis Tribune in the 1960s, Victor Cohn began to educate this community about the coming problem of cost-control, and the idea of pre-paid

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Viewpoint

From the Executive Director

Citizens League: The next 50 years

by Lyle Wray

Ted Kolderie's piece in this issue, "Cold Sunbelt: Maintaining Minnesota's institutions of public policy," is a very fitting kick off to the upcoming fiftieth anniversary of the Citizens League. It describes the historical backdrop of how Minnesota came to be what it is today.

As Kolderie points out, the reputation Minnesota achieved as a high quality of life place didn't happen by accident. It was deliberate and created through vision and hard work by a generation of civic leaders, many of whom were also involved in building the Citizens League. In doing so they succeeded in reviving public life in the Twin Cities.

The very words, "public life" and "public policy," can produce an instant glazing of the eyes for many people. It's important to define what we mean. The actual definition of public policy involves two parts: 1) a statement of a problem or challenge and 2) a set of actions or programs designed to overcome the problem or to take full advantage of the opportunities presented by a challenge. As such, policy is really about "what we want to be when we grow up," and about how we mobilize public life—our various institutions in the public, business and nonprofit sectors—to

rise to the challenge to get the job done.

A vision helps. Civic ambition and drive are forceful motivators. The transformation of Atlanta from a backwater to a major commercial center with world recognition started with a healthy dose of ambition. Building on this ambition, the words "world class" have been a mantra for two decades in that city whether for securing the Olympics, building a high technology sector or greater post-secondary access in the state. The Twin Cities was a credible contender for the Olympic Games ultimately awarded to Atlanta. What's happened to that vision? Has "pretty good" replaced "excellence" as our goal in Minnesota? What are the sources for a new vision for Minnesota?

Well-designed public institutions also help. As Ted Kolderie has said, a lot of the Citizens League work in the first 50 years has been in "large scale architecture" of public policy. Policy designed around market forces and individual choices that act as motivating forces to resist the inevitable forces of inertia and self-protection. The League's charter school initiative provided both citizens and elected officials with a choice of services. The Board of Government Innovation, which waives rules that interfere with outcomes that improve public services, is another example of the League's contribution.

But the state must continue to redesign its institutions. What worked before might not work this time around. And sometimes institutions designed for old circumstances become the problem when new circumstances arise. For instance, a civil service designed for the turn of the 20th century is ill equipped to attract, retain and manage the talent necessary for a smaller, smarter public service. Redesign of public services will be a strong agenda item for the foreseeable future as we respond to new forces of technology, demographics and the economy.

Engaged citizens are important. Citizens must be more than just consumers of government services. Citizens need to pay

attention to the public sector—and the media needs to provide complete and accurate coverage for them to do so. High expectations and pressure for accountability are vital ingredients in a democratic society. Through the work of the Citizens League, citizens can also provide "good ideas for a better place" by contributing workable solutions to major public policy challenges and by providing "air cover" for good ideas in the legislative and executive branches. Engaged citizens can also become part of the political process. Attracting and retaining leaders in the future will be a significant challenge, judging from the gauntlet through which public figures are put.

Last, but not least, an engaged business community helps. In Atlanta again, the business community has been a relentless force for moving toward "world class" because they see that making the metropolitan area work better is in their interests. In our metropolitan region, as in many others around the country, corporate consolidations, mergers, increasing national and global scope, and a revolving door of corporate leadership provide a challenge in maintaining a meaningful corporate role in public decision-making. While it will always be possible to secure interest to reduce taxes, to advance a specific business agenda, or to engage in high visibility community "cause related marketing," the crucial work of vision building and institutional design is much less attractive and requires much more time and attention.

As the League enters its fiftieth year, it's time for us to acknowledge how our presence has made this a different and much better place than it was in the pre-World War II years. But the League, and the community, must not rest on our laurels or become complacent about our future. At the League we look forward to playing these themes out over the next 12 to 14 months. We have lots to work to do and I hope we can count on you to help. **MJ**

Lyle Wray is executive director of the Citizens League.

The Minnesota Journal

Publisher—Lyle Wray

Editor—J. Trout Lowen

Contributing Editor—Ted Kolderie

Sketches—Ray Hanson

The Minnesota Journal (ISSN 0741-9449) is a publication of the Citizens League, a nonprofit nonpartisan Twin Cities public affairs organization, 708 S. Third St., Suite 500, Minneapolis, MN 55415. Phone: (612) 338-0791. Fax: (612) 337-5919. E-mail: info@citizensleague.net. Web site: www.citizensleague.net. Dave Durenberger, president. Articles and commentary are drawn from a broad range of perspectives and do not necessarily reflect League positions on policy questions. The Journal is published once a month. Periodicals postage paid at Minneapolis, MN.

Annual subscription rate for nonmembers is \$40 for 12 issues. Orders may be placed at (612) 338-0791 or by mail at the above address.

Postmaster: Send address changes to the Minnesota Journal, 708 S. Third St., Suite 500, Minneapolis, MN 55415.

Mind-Opener: High-tech and I-tech: How metros rank and specialize

by Ann Markusen, Karen Chapple,
Greg Schrock, Daisaku Yamamoto and
Pingkang Yu

High-tech economic activity has generally been equated with electronics, computing and information technology. Using a criterion of science, engineering and computer professionals in the workforce, however, we identify a broader set of manufacturing and service industries with high innovative content. These include pharmaceuticals, medical instruments, engineering and architectural services, management and public relations, and research, development and testing services, all of which are large and fast-growing employers, faster even than electronics and computing over the period 1991-2001.

This broader definition alters the ranks of American high-tech metros remarkably compared with other recent studies. Among the top 30 metros in overall job gains in the 1990s, Chicago and Washington DC host the largest numbers of high-tech jobs, just ahead of Silicon Valley, Boston, and New York, while Philadelphia, Dallas, Seattle, Minneapolis/St. Paul and Houston rank sixth through tenth. High-tech is not predominantly a Sunbelt phenomenon. There are five East Coast cities in the top 10. Nor are high-tech jobs concentrated on "the coasts." The mid-continental cities of Detroit, Chicago, Minneapolis/St. Paul, Austin, Phoenix and Denver make the top 20.

The prominence of high-tech jobs is not synonymous with rapid growth. While Atlanta added more jobs in the decade than any other metro, it is less specialized in high-tech than many other cities and does not make the top 10 in high-tech

jobs. In Phoenix, Dallas and Tampa, the story is similar.

Some metros enjoy a diversified portfolio of high-tech industries, Boston, Chicago, Minneapolis/St. Paul and San Diego among them. Washington, DC, Seattle, Austin and New York are among the more specialized. Diversification is not related to regions of the country, size or relative "age" of metro.

We identify a separate set of industries as information technology intensive (I-tech). Chicago and Washington top the I-tech list, as they do in high-tech. New York and Atlanta rise in the rankings, while Silicon Valley and Seattle lose ground. Portland and Austin drop out of the top 20, while Columbus and Kansas City join the group.

Metro areas which are more high-tech diversified may find themselves better positioned to weather a downturn than those that are highly specialized. Among the latter, metro employment trends will be highly sensitive to the performance of lead industries. Seattle's overall performance, for instance, is heavily tied to the aerospace industry, while New York's is tied to finance, marketing and management and Silicon Valley's to electronics and computing.

The findings suggest that cities and regions would do well to rethink their working definitions of high technology and the economic development initiatives that promote it. Abandoning narrow notions of high-tech restricted to maturing technologies in computers, electronics and telecommunications, and using S&T occupations as a marker for high-tech, it may be possible to tag the innovative potential of emerging sectors, including high-tech services. Cities and regions could then search the set for matches with their existing occupational, financial and location

how do we make it politically feasible to have something happen if it's a legitimate role for government?

I would argue that we should concentrate as government on four issues. One is education—I'm not going to go into great detail about that, but we can't rest on our laurels in either K-12 or higher education. The other is non-education infrastructure. Some of my colleagues lump education as infra-

Mind-Opener Policy Forum

In October 2001 the Citizens League hosted a series of Mind-Opener breakfast presentations titled "What's up with Minnesota in the new economy?" The series was designed to revisit the issue one year after the 2000 University Summit on Minnesota's Economy.

Throughout much of that year academics, business, and community leaders debated the future of the Minnesota in the emerging knowledge economy. In several well-known studies from that period, Minnesota received mixed reviews on its strength as a new economy location. At the Mind-Opener breakfast series, speakers provided their opinions from the perspectives of business, policy, and academe. Following are excerpts from the presentations. The full text of their remarks is available at www.citizensleague.net MJ

strengths. Strategies developed with this broader set of industries in mind could improve regions' chances of creating comparative advantage and ensuring longer-term dynamism in their economies. Strategies that seek to diversify a region away from one or a few high-tech sectors can help to insulate a region from recessions and from long term structural change. MJ

The authors are members of the Project on Regional and Industrial Economics at the Humphrey Institute of Public Affairs.

structure and it is, but I think it is such an important part of the discussion that we should talk about it as a separate ingredient. We tend to think of infrastructure as highways, but there is a lot more to it.

Access to competitive bandwidth at competitive prices was a key issue and continues to be something where the govern-

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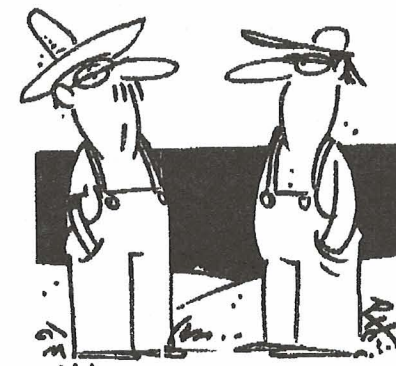
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ment can play a role. We can also manage to mess things up pretty well if we are not extremely careful in how we balance telecom competition in greater Minnesota with the tendency for vendors to come in and cherry pick the highest loads. We don't want to end up with publicly funded general access as the only option in many areas of greater Minnesota. So we clearly have a responsibility in infrastructure, there's no question about that.

I think business climate is also an issue. Minnesota will never be a low-cost state. The climate precludes it, the commitments we've made to higher education preclude it, our experience with government since the time of the Farm and Labor Party in the 1930s precludes it. But if you think about it, the states that have been most successful in attracting high technology are not low-cost states. California is clearly a leader and it is a high-cost state. Massachusetts is a high-cost state. The exception is Texas. The problem with moving your business to Texas is that you have to live in Texas. But they do have some cost advantage.

We have to be a high-value state, where the quality of the infrastructure, the amount of value people get for their money, makes us a high-value solution

when people make decisions about where to locate their businesses. The business climate is clearly an issue—what we do about property tax, business taxation, about personal income tax is key to our ability to compete. Business climate becomes even more important than it was when industry meant a factory with fixed capital costs and a fixed location. When the product is soft-



"...You bet I remember farming in the 'good ol' days' before we were hit with all this 'high tech' stuff...It was terrible!"

ware or medical innovation we compete in a much shorter investment cycle than we have in the past. If you invest in software it is going to be in the marketplace and replaced by new technology in about two to three years. The decision that people

Mind-Opener: Minnesota's future looks a lot like the past

by Vance Opperman

I am going to venture forth and give you some projections of the next 12 to 24 months out, keeping in mind the caveat that obviously my crystal ball, unfortunately, isn't any better than anyone else's. I think we can break down the importance of the future and the things we ought to be doing into two basic categories: jobs and education.

Jobs

We have four basic categories. One-third of all jobs in the metropolitan area are affected by the airport hub—a payroll in excess of \$2.3 billion—and 40,000 jobs are directly related to the hub airport....If you were to look at the impact on the hub we see a 20 percent decline in revenue, more importantly a tremendous impact on high-tech jobs.

The health sector is a positive for those

of us in the seven-county or the 10-county metropolitan area. The health sector is considered the second biggest employer after all government jobs. There will be an increase in health sector employment, probably slower than predicted. Unfortunately, the part of the job market within the health sector that is projected to increase is less high tech.

The number of government jobs will go up and not down. Again, unfortunately...the high tech sector of that employment mix is quite low. Nonetheless, the growth in government jobs at all levels is a stabilizing effect and a stabilizing influence on the unemployment rate we're going to have going forward.

The last major area of employment where this state does well is tourism. There will be a decrease in employment in the tourist part of our economy. I think the long term guess as to what that will do is to continue

make about where to locate can be done on a shorter time cycle also.

The fourth part of the equation is that government has to part of the leadership that breaks the mold. At times we need disruptive government. The old model was if it isn't broken, don't fix it. The new model is, if it isn't broken it may well be obsolete. To be competitive in the race with wherever we are competing against to attract good jobs, I think the cost of government has to continue to go down. Government has to be subject to the same compression of all technologies that the economy is subject to. With the use of technology and communications we can provide better service with fewer people at lower cost so that we can be competitive and keep those elements of being a high cost state that influence our standard of living. Government can't continue to do things the way they have in the past.

We have to do better at delivering services in ways that are effective and help the people of Minnesota. We need to do the things that government is good at, but those things can't consume as much of the state's domestic product as they have in the past. MJ

Dan McElroy is a member of the Minnesota House of Representatives for District 36B.

Mind-Opener: Setting reasonable goals for government

by Dan McElroy

The Citizens League called this Mind-Opener "What's up with Minnesota in the new economy?" Well, let me rephrase that from a legislator's view. In legislative thinking, what is it about the new economy that turns into a reasonable goal for government? How would we pay for it, if it is a reasonable goal for government? And

the 10 county consolidation of population in Minnesota and continue the slow erosion of population in places even as close to us as Isanti County and further north.

Two other sectors I haven't discussed are the agriculture sector and manufacturing. Manufacturing in Minnesota has been kind of a bright spot, unlike the national trends. Where employment in manufacturing has gone down over the last 10 years, in Minnesota it has gone up. Unfortunately, that was already showing a decline by the second quarter and I think that will continue.

Luckily for us the agriculture sector of the economy has always been a backbone of the Minnesota economy. One advantage in having such a large Ag sector is that it does stabilize to some degree the income growth of our area. It's not high-income growth and it's not particularly

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high tech, but it's fairly stable.

Education

MnSCU currently has a \$1 billion unfunded but documented need that has gone unfunded for the past three legislative sessions. I think Jim McCormick has been and will prove to be the best thing MnSCU has ever had. We also think the 230,000 students who annually enroll in MnSCU institutions will continue to increase, though perhaps at a lower percentage increase than in the past. I would look for consolidation of the 53 locations that MnSCU currently operates on a campus basis. And I would also see a merged mission with the University of Minnesota.

Speaking of the U of M, continued low funding is in the cards. I think our low funding of the University in the last four years has been as close to criminal as you can get. Nonetheless, I think that will continue. I'm concerned that Mark Yudof will leave. He is an excellent, tremendous president, and a great asset to the U structure. But Mark's view of the university is a

great public-supported university. And the model that the legislature has clearly indicated to Mark is different than that.

The broader impact

First, the continued loss of Fortune 500 headquarters. I think that's a trend that will not be reversed. But I do think we may see a growth in regional 500 or regionally-based Fortune 1000 companies, in part because merger and acquisition activity has declined rather dramatically. The reason for that is because you can't buy companies anymore with cheap stock because your stock is cheap.

Second, less high-tech growth. That's a trend that existed prior to 9/11 and it's been accentuated as a result.

Third, international trade will go down. Minnesota is currently the seventh largest in the United States based on international trade. That will have some disruption in part caused by the difficulties in Japan, also difficulties in Europe. But the good thing about our location is that most of our international trade, more than 65 per-

cent of it, is agriculture related and more 70 percent of it is with Canada. Borders get tougher to get across, but Canada is not moving.

In other words, we're going to look a lot in the near future like the metro area in 1990/1992. There will be continued metro population consolidation. We will rely proportionately more on public—that is government—investment rather than private investment, as we have done in the last five years.

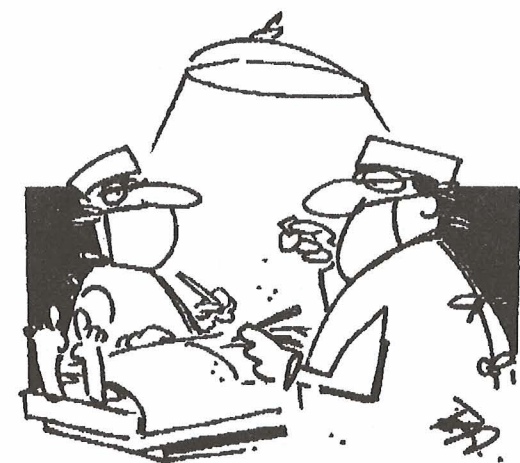
Finally, this will put a greater emphasis on a population that is flexible, innovative, and is not afraid to use high-tech alternatives, such as telecommuting and e-learning. Luckily, those qualities—innovative, educated, not afraid to use high tech—are characteristics of the present Minnesota population, much more so than many states and that is a good trend. **MJ**

Vance Opperman is president and CEO of Key Investment, Inc.

Mind-Opener: Strong industry clusters build strong local economies

by Michael Gorman

We often focus too much just on high tech. We don't think about investing and about how we build our community and how we strengthen our community over the long term. Is the question how do we get more high tech companies, or is the question really, how can Minnesota generate a rising standard of living?



"...You are wrong, Doctor, it's not made in China...the sticker on the back says this little medical miracle was made in the same place you and I were...Minnesota."

I believe that creating a higher standard of living is our fundamental objective and technology can play a role in that, but not the only role. There are a couple of ways to get there, but a higher standard of living is essentially about increasing the level of productivity in our society...We need to be focused on the value-added, or adding knowledge and the intelligence we put in. I think it's very important to consider that

raising productivity and raising the value of those inputs can occur across all industries. In any type of business, industry clusters—that combination and compression of density of networks of knowledge and talent—are an essential driver of creating that increased productivity. So, a higher standard of living is about increasing productivity and productivity is about innovation and innovation comes from clusters.

So what is a cluster?

A cluster is a geographic concentration of interconnected companies and institutions in a particular field. You have all of the cascading effects of a completely integrated community of suppliers. Most of us carry a cell phone

these days. My guess is you're carrying a Nokia or an Ericsson cell phone. Nokia is far and away driving away with that market. What is it about Nokia? Why is it that Scandinavia has become the center of wireless technology? In entertainment, Hollywood obviously leads the world. Something has happened over time and Hollywood has got density. So these are geographically concentrated areas of excellence around the world.

Strong local rivalries

Michael Porter, a professor at the Harvard Business School, wrote an article in the summer 2001 MIT Sloan Management Review titled "Innovation: location matters."

Is there a local context that encourages investment and innovation related activity? Rigorous competition among locally based rivals—this is a central component that I think we have working so effectively in the medical device industry. Think of the ongoing battles and press releases between St. Jude and Medtronic. Those are some of the best companies in the world at what they do and they are just

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down the road from each other. There's an intensity to that rivalry and a shared knowledge base in this community which is very powerful and it's proven itself in lots of other dimensions and other markets as well.

Sophisticated and demanding local customers

This is part of the demand condition side. There's an important element of what the most successful clusters offer. Either they have intense local demand or a product that is demanded elsewhere. It's got to be a traded cluster, something where we can export the value of it. Roughly two-thirds of any economy is local clusters, goods and services that are totally a function of what consumers need here, but aren't necessarily something you can trade. Whereas if you make cell phones, you're going to sell them here and you're going to sell them all around the world. It's the same with medical devices, you'll sell them here and all around the world.

There's a whole set of supporting industries underneath medical devices that are really powerful and we've got them in spades. Then, are there high quality human resources, do we have the best teams here? Can we go out and actually say this is the best team to pursue this opportunity? Do you have the research infrastructure and the research capacity?

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medical groups like Kaiser-Permanente. Hospital planning mechanisms developed here early. Paul Ellwood moved from the Kenny Institute to start ARF—and then, with Walter McClure, InterStudy—to work on the strategy for change and improvement. Both as a strategy and as a business the HMO developed here. The over-use of hospitals stimulated by third-party payment came down dramatically. In response, with the help of the Metropolitan Health Board and a new Hospital Trustees Council, and as the hospitals merged into larger groups, the hospital plant was brought down to appropriate size. In the 1980s and '90s the Business Health Care Action Group was formed to carry on the effort at cost and quality.

The foundations

Saint Paul had Hill and Wilder and its

Educational foundation

There's been a great deal of talk about what we can do to make the University of Minnesota more effective than it is. It is not just having a large research institution; it's having a research institution that's focused on some of the relevant issues addressing a particular cluster.

Do we have a skilled workforce and a strong K-12 education system that's going to prepare people generically, and then do we have specialized training that is relevant to that specific cluster? How strong is the firm rivalry? Do we have just one competitor or do we have five or six? One of the challenges on the technology side of the equation is the lack of that local rivalry.

The role of government

Here is a very interesting question. I think all of us have come to the point where we believe that government shouldn't be picking which clusters we should go after. But what government can do is create the fundamental conditions for innovation to exist, a business climate and a tax climate that encourage investment and having a strong education system.

Institutions for collaboration

Porter's group has done five target studies around the country. One of the consistent findings is that institutions of collaboration and the way in which we bring together government, business, and the right

resources are not as strong in general as they should be. For the most successful clusters they are really strong, so for medical devices we have Medical Alley. We can't have enough of that. They can't be strong enough.

So where does Minnesota stand in technology-related clusters specifically? Well, I just went through the four elements of Porter's diamond in terms of input conditions, firm rivalry, demand conditions, and supporting industries. I think in medical devices, it's clear we are a national leader. We have a full-fledged, functioning, self-sustaining cluster going on in medical devices.

In summary, we should be focused on standard of living, not just technology. Technology can be an important part of improving our standard of living, but it is not the ultimate objective. Industry clusters are important too. We can improve the standard of living and productivity across society if we improve the value of agribusiness and medical devices, certainly. What are the other clusters that exist here? What can we do to find those, to map them and to strengthen them? I believe strongly that figuring out a way to raise productivity across all clusters is much more powerful than purely focusing on high tech. **MJ**

Michael Gorman is general partner of St. Paul Venture Capital.

community foundation for years before organized philanthropy appeared in Minneapolis, when Russ Ewald moved into the Syndicate building about 1967 to set up the Equal Opportunities Fund. Soon after, Minneapolis' Community Foundation evolved out of the trust department at the Northwestern Bank. Two of the 3M fortunes generated new, large foundations: McKnight and—thanks partly to Elmer Andersen and Doug Head—Bush. Later a Council on Foundations appeared.

New mechanisms were created for research, discussion and action as new questions appeared. The Urban Coalition appeared and lasted, as it did not in many cities. Cameron Thomson started the Upper Midwest Research and Development Council to claim for Minnesota a place in

the space-and-defense industry. The University of Minnesota geographers added an urban study through which John Borchert became invaluable as an educator of the business community. The Business Partnership followed in 1977. Spring Hill Center appeared in the 1970s. NSP started the Itasca Seminar. The University upgraded its school of public affairs into the Humphrey Institute. Minnesota Public Radio became a phenomenon and educational television was transformed into "public television." **MJ**

Part two of this series will trace the erosion, beginning in the 1980s, of our region's institutional structure of policy development. The final installment will talk about the acceleration and consequences of that erosion and what we might do to restore our civic process.

TakeNote

Policy Tidbits

The late November sun glints off these bits of illumination as the days grow shorter and the shadows longer...

Reality bites. Back in May 1999, a Take Note in the *Journal* noted that Minneapolis traffic managers admitted that LRT would increase congestion in downtown, but suggested that drivers would find a way to get around it.

Seems like the drivers aren't doing a very good job. What's worse, the current difficulty in getting through and into downtown Minneapolis, especially from the east during rush hour, is not a short-term problem created by temporary construction. Until now, few people have paid attention to the fact that Fifth Street, one of the three primary west-bound arteries through the heart of Minneapolis, will be permanently closed when LRT comes to town. Many downtown people embraced the rail line because of increasing congestion in the core. Ironically, it looks like this solution will instead be part of the problem. - Phil Jenni.

Women get less bang for their buck when it comes to higher education, or at least that is what the universities of Iowa, Missouri and Florida say. In a recent study conducted by these schools, the data showed that women do not learn as much as men do during college. Men's test scores increased from 27 to 32 percentile points between first year and senior year of college. Women's scores increased from 19 to 23 percentile points. The researchers did not conclude what caused the difference. -Scott McMahon.

Industrial designers have not had much influence on policy initiatives in the past, but that may soon change. The New Mobility movement is attempting to bridge the gap between consumers, the auto industry and transportation planners. Dan Sturges, director of New Mobility at the acclaimed design shop, frogdesign, believes the transportation system in the United States has become a design failure. New Mobility recognizes the auto as the preferred form of transportation in the U.S., and that most people want, indeed, need to have a car. But Sturges believes that the car needs to be envisioned less as a product and more like a service. In effect, that's exactly what the car-sharing programs popping up across the country are doing. Sturges would go a step farther, however, simultaneously designing vehicles that work with the existing infrastructure and uti-

lizing wireless technology to make them available and accessible. It doesn't necessarily require massive investment, according to Sturges, "great gains can be achieved by simple design innovations." - P.J.

Mike Opat, chairman of Hennepin County, presented the state of the county address on October 25. He noted several statistics that indicated the county is in generally good health. He also laid out six areas in which the county could do better, including road design and functionality, developmental disabilities, aging population, teen pregnancy, affordable housing and, in the light of the September 11 attacks, security issues.

But you wouldn't have known that there was anything on his mind but security if you relied on the coverage of the speech in the *Star Tribune*. An article in the paper the following day concentrated exclusively on the security issue, detailing the parking changes and interviewing customers and employees in the government center about the impact of those changes. - P.J.

The state of Minnesota is not alone in announcing a multi-million dollar revenue shortfall for the first quarter of the 2002 fiscal year. According to a Nov. 1 report from the National Conference of State Legislatures, state budgets are in serious trouble across the country. For the first quarter of fiscal year 2002 (July, August and September), 44 states reported revenues fell short of forecasts. Fourteen states have already implemented cost saving measures, including hiring freezes, canceling capital projects and travel restrictions, and seven states have called special sessions to address worsening budget problems. -Kristine Lyndon Wilson

At a recent telecommunications and information society policy forum, Sen. Steve Kelley, Vice Chair of the Telecommunications Energy and Utilities Committee, stated that his eyes were opened to the issues of telecommunications while working as a committee member on the Citizens League 1989 report, "Wiring Minnesota: New State Goals for Telecommunications." Kelley went from working on a Citizens League report on telecommunications in 1989 to becoming one of the most knowledgeable legislators in the state on telecommunications in 2001...It appears the Citizens League helped to shape the history of telecommunications in the state with more than just the report! -S.M.

At the same telecommunications forum, Minnesota Public Utilities Commissioner Ed Garvey compared telecommunications reform in the state to the last scene in the movie "Indiana Jones and the Last Crusade." In the movie, Jones must cross a chasm that has no bridge. But as he steps off the ledge, the bridge appears. When he enters the chamber on the other side to claim the Holy Grail, he is confronted by many choices. Commissioner Garvey explained that while we know we must move forward with telecommunications reform, the bridge is not visible. And once we cross, we will have many options to choose from. But, just as in the movie, only one choice is correct; the others result in devastation. Sen. Kelley reminded Commissioner Garvey that in the movie, the simple grail was the correct choice. -S.M.

"Take Note" contributors include Minnesota *Journal* and *Citizens League* staff members. Kristine Lyndon Wilson is a government relations specialist for the Association of Metropolitan Municipalities.

The Minnesota Journal
Citizens League
708 S. Third Street, Suite 500
Minneapolis, MN 55415

PERIODICALS
POSTAGE PAID
AT MINNEAPOLIS
MINNESOTA

Welcome**New and returning members**

Jim Alders
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 Kim Erickson
 Melissa Hortman
 David Morris
 Joan Peters
 Jan Sandberg
 Sharon Sayles Belton
 att Schuerger
 Barbara Toren
 Brian Wilcox
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CITIZENS LEAGUE

708 South 3rd St. Suite 500
 Minneapolis, MN 55415
 612-338-0791 Fax 612-337-5919
www.citizensleague.net

The Citizens League promotes the public interest in Minnesota by involving citizens in identifying and framing critical public policy choices, forging recommendations and advocating their adoption.

The Citizens League is an open membership organization. Suggested dues are \$50 for individuals and \$75 for families. For more information, please call 612-338-0791.

The annual Citizens League financial audit has been completed by the accounting firm of Obermeier and vi. If you are interested in a copy, please call the League office.

League Energy Committee starts heating up

After several unanticipated delays the Citizens League Energy Committee has reached the halfway point in its testimony process, but the conclusion is still far off.

At the October 9 meeting, Dr. Ken Keller, committee co-chair and faculty member at the Humphrey Institute of Public Affairs, presented a lecture on global warming and the possible implications for Minnesota. The discussion included environmental ramifications from the potential for flora changes in the boundary waters area to increases in temperatures in the state. Although if the weather we have experienced through mid-November is any indication of what winters in Minnesota might be like under global warming, many Minnesotans may increase the amount of CO₂ that they put into the atmosphere.

The committee has also met with representatives from Xcel Energy, Great River Energy, the Minnesota Municipal Utilities Association and District Energy St. Paul. Other resource testimony was presented by Dr. David Morris, Institute for Local Self-Reliance; and John Derus, the Administrative Officer for the Metropolitan Counties Energy Task Force – just to name a few.

In the coming months, the committee will discuss issues that include nuclear production and waste, emissions, climate

change, efficiency, conservation, renewable resources and the highly debated deregulation, which has a new catchphrase of “restructuring”. These meetings should take the committee to the end of February or early March, with

**Follow the committee at
www.citizensleague.net**

the possible addition of more testimony meetings.

League members are encouraged to learn, along with the committee members, about the electricity industry. The committee website, available at www.citizensleague.net, has links to numerous state and non-profit organizations that regulate or follow the industry. Also available are articles and

reports on topics ranging from electricity supply to deregulation, and from nuclear power to wind turbines. The website also features a discussion page where people can leave comments and carry on an on-line discussion. For more information on joining the discussion, please contact Scott McMahon at (612) 338-0791 or smcmahon@citizensleague.net.

The Minnesota Department of Commerce recently released the Draft State Energy Planning Report. The Department accepted public comment until November 21, and the final report is due to the Legislature in December. The report is the featured discussion topic for *IssueTalk*, Minnesota Planning's new forum for public debate. You can access *IssueTalk* at www.issuetalk.state.

The Energy Committee has been blessed by an abundance of knowledgeable resource speakers. As is often the case, one of the best was right in our own backyard. The following is an excerpt from the presentation by the committee's co-chair Dr. Ken Keller.

The environmental impact of energy production and use is a serious and major component of any energy policy for a state. One of the primary environmental changes caused by electricity production is global warming, which results from the waste product of a large portion of electricity production – CO₂. This byproduct is largely the result of burning coal, caused much less by the burning of natural gas, and is not a waste product of nuclear energy.

All the energy that we use on earth originates from the sun. It enters the planet and flows through an energy chain of consumption and use. It then leaves earth in the form of heat. Global warming results when the heat cannot escape because

(continued on next page)

Global warming

(continued from page 1)

of the "shield" of CO₂. Carbon, one of the two components of CO₂, cannot be removed from the planet; it can only be converted into other forms or absorbed in plants, soil, or water. However, it is only in the gas form that it decreases the ability of the heat to leave the atmosphere. Therefore, if we prevent carbon from building up in the atmosphere, global warming will not be as serious a problem. Currently, the amount of carbon in the atmosphere is increasing by 3% annually. One problem with this is that there is no easy way to remove carbon from the air. Many believe that forests are net absorbers of the carbon gas, which is true if the forests are growing. However, as trees die, they also release carbon into the air. Therefore, in a mature forest, where an equal number of trees die as grow, there is no net absorption. Forests are unlikely to solve the problem in the long run.

Some people are looking for other "sinks" or reservoirs to store the carbon. Currently, the oceans are the largest reservoir on the planet, but they, too, release carbon as well as absorb it all the time. It is a natural cycle between the air and the water. A similar process is also occurring between air and the trees and soil. The problem is that these "sinks" cannot increase the amount of carbon that is absorbed. Hence, when we increase the amount of CO₂ in the air through industrial production, there is not a similar cycle to bring it back into another form. It is all staying in the air and creating the global warming problem.

There are several utility improvements that are currently achievable that will decrease the carbon emission. First, we can retire coal plants and create a system of carbon-order dispatching of our utility system. Through this reordering, as we need to fire-up more plants, it is done in an order of the lowest carbon releaser to the highest. Second, we can repower existing coal plants with natural gas, which burns cleaner. Third, we can increase the level of production through renewables (wind, co-firing coal plants with biofuels, expansion of hydro capacity). As the economics of wind generation reach the levels of current methods, it is becoming a more economic and cleaner alternative. Fourth, we can extend the nuclear power plant life. Finally, simply improving power plant efficiency will decrease the carbon emission level.

These changes will inherently increase the cost of electricity, but the projected increase is around 10%. Since current rates in Minnesota are around \$.07/kwh, the increase would be around \$.077/kwh. Any future policy changes used to decrease the carbon levels need to be the most economic ones. The order in which we should attempt to change the current standards should affect the three possible areas in the following order: generation, technical efficiency, and conservation. One final note, the federal government spends \$80 billion on research and development per year. However, only \$2 billion is on energy research and development. If that level is increased, then even greater advances in technology and efficiency options are possible.

To read more testimony from the Energy Committee, please visit the League website at www.citizensleague.net.

MIND-OPENER POLICY FORUM

Water, Water... Everywhere?

The Mind-Opener series began on November 13 with a very informative presentation by Gary Oberts, formerly a senior environmental analyst at the Metropolitan Council who now works for Emmons and Olivier Resources. Oberts noted that regional development plans often don't include discussion of water supply and quality. Oberts was followed on November 20 by Lance Neckar, professor of Landscape Architecture at the University of Minnesota who spoke about the role of good design in mitigating the effects of development and infrastructure on water resources.

Join us as the next Mind-Opener series examines the role of water as a resource and source of recreation in the Twin Cities.

Tuesday, November 27, 2001

Kent Lokkesmoe

Director, Water Resources
Minnesota Department of Natural Resources



Tuesday, December 4, 2001

Nelson French

Director
Friends of the Minnesota Valley

7:30-8:30 a.m.

\$10 members; \$15 non-members
(includes a continental breakfast)

The Nicollet Island Inn
95 Merriam, Minneapolis

Ample free parking is available

Mind-Opener transcripts now on-line

Edited transcripts from the last Mind-Opener series, "What's up with...Minnesota in the New Economy" are now on line at www.citizensleague.net. Transcripts of the current series will also be posted soon. Even if you are unable to come to the meetings, you can catch up or keep up on the Citizens League web site. And while you're there, be sure and tell us what you think.

Happy Thanksgiving!