



Tom Stinson, Minnesota State Economist

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

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Present : Verne Johnson (chair), David Broden, Janis Clay, Paul Gilje, Kris Johnson, Sallie Kemper, Tim McDonald, Jim Olson (phone), Loree Stinson

Summary of meeting: Minnesota State Economist Tom Stinson gives the Civic Caucus an introduction to the topic of economic growth in the context of the state's present situation and longer term outlook. He discusses the available tools for economic intervention, the relative merits of short-term versus long-term thinking regarding growth, and the limits of government to directly create jobs. Suggestions for creating a hospitable business climate are discussed, including-but going beyond-tax policy.

A. Welcome and introductions - Tom Stinson is a Professor in the University of Minnesota's Department of Applied Economics and serves as the Minnesota State Economist. Stinson has a special interest in public finance and regional economic development. He received his PhD from the University of Minnesota in 1973.

B. Discussion

Since the legislature will continue to be expected to take steps to improve the state's economy, the Civic Caucus has decided to visit over the next few months with people who have ideas to improve the economic conditions of Minnesota. Today Stinson will begin the discussion by giving an overview of the components of economic growth and prospects for intervention.

There are different ways to consider growth.

There are two ways state economic growth can be thought of Stinson said: growth in the total of the economy and per capita growth. If a state gets one more worker making one more dollar per year that adds to total economic output. But, in that case, per capita output would not rise but decline. Per capita economic growth improves the quality of life on average, and that is the kind of economic growth most people would prefer to focus on.

A second distinction has to do with the time frame of economic growth-whether the expected window for job growth is a quick, two to four years or whether that window is longer term, allowing actions that require more time to develop, but that are longer-lasting in their impact.

Finally, policy makers and economists need to consider what measures they use to assess growth: the dollar value of per capita personal or disposable income, the number of jobs created or unemployment statistics.

In the past, Minnesota has been successful at cultivating long-term per capita income growth, Stinson said. The state has gone from having 96 percent of the national average for per capita income to 107 percent the national average, over the course of the past half century.

States have limited tools to promote short term growth .

In terms of short-term growth, Stinson said, options for state governments are limited. He said that there are some possibilities for the federal government by increasing the deficit, but given the state's constitutional requirement to balance the budget state policy makers' ability to stimulate the economy is limited to shifting appropriations among different activities.

Moving funds from one activity to another activity increases jobs in the favored activity, but decreases jobs in the program whose funding was cut, leaving no overall increase in jobs. Minnesota can borrow for capital funding purposes, but that means borrowing to finance the building or maintenance of long-lasting assets. Unfortunately that will have only a modest effect on short-term job growth since it typically takes two or more years for the construction activity to get fully underway.

The state should focus on long-term growth.

Stinson laid out two methods for supporting long-term growth.

One approach is that policy makers can seek over the long term to make Minnesota more appealing to business by making the state a lower-cost location for establishing and growing a business. Focusing on type and overall levels of tax is an advantage here.

An alternative view considers that Minnesota's competitive advantage has been its educated workforce and quality infrastructure. A corollary to this view holds that attracting and retaining a young, educated workforce has less to do with taxes than with the state's ability to provide attractive amenities and a high quality of life. Stinson acknowledged his inclination toward this view.

An economic development strategy should be broad.

Stinson said one design element of a successful economic development strategy should be to make it very broad so that policy makers aren't just shifting resources from one sector to another or one firm to another without creating any net increase in output. For example providing subsidies to particular participants in the retail sector is questionable , because all it does is take money from one shoe store, for instance, and use it to subsidize another.

Focus university research funds on areas of opportunity.

A participant asked what industries in Minnesota are growing and which are declining. Health care will be a growth industry, Stinson said. Something to think about for the future is the mineral industry-

copper, nickel and iron ore, where both demand and extraction technology is developing. If he were advising the president of the University of Minnesota or other schools he'd advocate for more metallurgical research.

The state should be wary of trying to pick winners though, Stinson cautioned. Minnesota has tried that in the past, and we have not been successful.

The workforce will not continue to grow.

Because of demographic changes brought on by baby boomer retirement Stinson predicted that growth rates in the state workforce will approach zero in the foreseeable future. In the 1990's Minnesota's workforce grew at an annual rate of 1.5 percent. In the 2020's it will fall to about 0.1 percent. In this context productivity will continue to gain in importance, because more people will be supported by fewer workers. Talented workers will become a scarce resource.

Part of Minnesota's growth can be explained by the fact that for many years employment opportunities in the state have been more appealing than those in neighboring states, so we benefitted from inward migration from those states. However, today fewer people moving here from around the upper Midwest region.

The state needs to consider carefully how it can attract people who have the skill sets necessary to be successful and to positively impact the state's economy.

College tuition rates may be an impediment to growth

We need to be thinking about the incentives created by tuition policy, Stinson said. Right now it costs someone a lot of money to become an engineer, for instance. If we want more homegrown engineers for the Minnesota workforce, might a change in tuition policy provide more incentive to study here rather than at other universities?

Certainly post-secondary education is an area where the primary benefit goes to the individual. But there is considerable societal impact as well. We may need to begin thinking of recruiting programs for a highly educated workforce in much the same way as we consider tax subsidies for new businesses.

Combining vo-tech , community colleges and state universities may not be the best policy.

The reason why Minnesota has done so well isn't necessarily because solely due to the quality of the University of Minnesota's liberal arts graduates, Stinson said - it's more due to the well trained workers on the factory floor. The vocational and technical schools are central in positioning for future growth. Minnesota used to be a leader here and isn't now.

He said he is not sure that consolidating the community colleges or technical schools with the state colleges and universities played out quite the way people thought it would. He worries that when a group of academics and people more oriented to practical experience are combined the academics will receive primary attention and those with applied expertise will get less, to the detriment of a trained factory work force.

However, manufacturing has become a less prominent factor in the economy, not just in the state but also nationally. Part of the cause is foreign competition, but there are also basic reasons in the evolution of the economy. As income increases the additional spending that ensues is increasingly on services rather than manufactured goods. The same phenomenon occurs as people age, with fewer purchases of things and more of needed services.

The state needs a shared vision for where it wants to go.

Stinson agreed with a participant that the state would benefit from some kind of unified vision or overall state planning, saying that in the past twelve or thirteen years there hasn't been much effort in this area. Part of the problem, he observed, is that just having a plan by itself isn't sufficient unless there is acceptance of the plan. In the Perpich and Carlson administrations he said there seemed to be more of a shared vision across the state than there is now. At present there is no consensus on where the state needs to be or how to get there. Instead people seem to be saying we're going to be better, without a common agreement on what "better" means.

Consensus will no doubt be difficult to attain. Stinson described an experiment State Demographer Tom Gillaspy began doing recently at meetings where he would hand out forms that said 'Minnesota should be the _____ state,' and people had to fill in the blank. To date, there has been little agreement on how that blank should be filled.

Aid business startup by developing industry-specific conditions.

To a question regarding how a town such as Thief River becomes the epicenter of global distribution for certain digital products (Digitech), Stinson said sometimes the explanation is serendipity-someone happens to live there, or there are the right kind of facilities available.

The question, he said, is "can we do more to encourage this?" People talk about tax burdens being a decisive factor, he said, but when you're a startup you're not paying any tax so that's not the driving issue. It's true venture companies, like to fund the company down the road building on a good idea, that makes for vital business growth. There's a sense that some communities are easier to grow a company in and we need to explore what constitutes a nurturing environment.

As one participant pointed out in the case of medical devices there is a supportive environment for the industry in Minnesota with the regulatory expertise, animal research labs, and industry-specific consulting talent. It's also about momentum, a participant observed-if you're not constantly growing you're losing ground. And, it is also about future thinking: Medtronic in the early days was comprised of people from Honeywell looking forward to the next big growth opportunity.

C. Closing

It is a difficult time to plan.

The state is moving toward uncharted territory and, as often referenced, a "new normal", Stinson concluded. Furthermore, we don't know with certainty what that "new normal" will turn out to be. The situation is complicated by the fact that the demographics of our aging population. In the 1950's,

1960's and 70's our economic growth was easier to predict. The questions then were: How do we get jobs for Baby Boomers and provide education for veterans? It's less clear now. Thinking about long-term growth of the state has to be done in the context of this uncertainty.

D. Thank you.

The Chair thanked Dr. Stinson for meeting with the Caucus to explore this important topic and to set the background for investigating other ideas for growing the Minnesota economy.