

## ECONOMIC DEVELOPMENT

### ISSUE

**What should state policy makers do to develop and grow our state's economy?**

### POLICY

The development of the state's economy and job growth must be the primary consideration of all state policies. Without business and job growth, our celebrated quality of life will not last. Some people believe that our "slide" has already started. To the extent it has, it is entirely due to our failure to grow both businesses and jobs.

States, like Minnesota, can have the greatest positive impact on the development of the economy and growth by minimizing the public-sector driven portion of the cost of doing business; creating a regulatory environment that's predictable and conducive to investment; making cost effective investments in economic infrastructure; and by rejecting policies that favor certain jobs over others. To this end, Minnesota's economic development strategy should be driven by three key principles:

- Focus, first and foremost, on improving the environment for all Minnesota businesses. Make aiding specific subsets a secondary consideration, if they are considered at all. Minnesota's economic base is diverse. That's one of our greatest strengths. Until recently, we have consistently performed as well or better than the U.S. economy because of our diversity. State policies can foster this by focusing on the overall quality of our business environment and resisting the temptation to favor some industries, business structures or specific locations over others.
- Facilitate the evolution of existing businesses and the development of new ones. New and evolving industries and enterprises have been and will continue to be our source of vitality and growth. We see and take advantage of it particularly well. During the last one-half of the twentieth century, computer systems and medical devices became prominent features of our economy while we reinvented others, e.g. iron mining evolved into taconite production, corn production for feeding livestock and sweeteners to ethanol for bio fuels.

In varying degrees, state policy can help in five key areas:

- Permitting: More often than not economic growth and change require a permit of some type. A business or entrepreneur's ability to get that permit(s) in a timely fashion has consequences. Delays in MN have sent new ideas to other states and/or forced MN businesses to chase instead of lead their competition. Restructure our state's permitting processes so permits are "deemed issued" if a final decision has not been made within 180 days of filing a complete application.
- Investment: More so than most states, the development and growth of our economy depends on the start up and success of homegrown enterprises. Many ingredients are necessary for a new business to succeed, but one of the most important is capital. "Family and friends" have and will continue to be a reliable source, especially at birth. And, there are many sources for companies with a proven (or just about to be) product or service in high growth markets. Unfortunately, most Minnesota businesses don't fit this mold. Banks and other financial institutions meet part of their need, but many new companies are too risky for them. Public programs like JobZ and/or tax increment financing are also not likely to help. So, new businesses, Minnesota's economic life blood, will continue to depend on individuals willing to take a risk with a family member, friend or business associate. State policy should

encourage this risk taking by offering an income tax credit for investing in new Minnesota businesses.

- Research: Generating the ideas that fuel innovation and economic change. The University of Minnesota and its partners like the Mayo Clinic and Hormel Institute are keys to this process. Measure and report regularly to the public on the rate of commercialization in Minnesota of products, services and other business innovations developed by the University and its partners. Encourage the development of research partnerships, especially those that will facilitate commercialization of their results.
  - Infrastructure: Moving people, ideas and goods are critical to a growing and evolving economy. State leaders shape this resource not only with their budget but also policy decisions. Our road, transit and airport resources are almost entirely a function of public investment while our energy, telecommunications and rail systems are shaped by state policy but largely owned and financed privately. We need to be sure that all of these systems are developing rapidly enough to support our changing and growing economy.
  - Work Force: Minnesota's work force growth slows until 2025. But, that's not the case for economic change. It's likely to accelerate both in terms of what's produced and the skills required. To keep our work force from slowing development, our education and work force development systems must do two things: first, close the "achievement gap" so a larger percent of young Minnesotans are ready to work; and, second, make our work force development programs (including higher education) more responsive to our changing economy. (See Minnesota Chamber's policies on K12 reform and higher education.)
- Make the public services that businesses need a world class value and have this widely known and recognized. The development and growth of Minnesota's economy depends on the infrastructure that state and local governments provides. As much as businesses need these facilities and services, they must be delivered at a price that's competitive in a world economy. As such, the Governor and Legislature's highest economic development priority should be to reform state and local government services to increase the value delivered for every dollar spent. (See Minnesota Chamber's policy on state spending.)

Beyond using these principles to guide specific policy decisions, two immediate steps should also be taken.

1. Re-structure efforts to aid the development and growth of Minnesota's economy. Public sector efforts are not only numerous, but also frequently overlapping and focused on relatively few business expansion opportunities. The vast majority of Minnesota companies receive no or little attention. And, these organizations typically pay no attention to factors that affect the development of our state's economy. Begin the process of re-structuring by having the Legislative Auditor review and evaluate the current state and local government programs. The Auditor should be asked to answer four sets of questions:
  - What contributions do our state's economic developers make to the development of our state's economy? How do their efforts compare with initiatives by others both in and out of government?
  - How are current efforts organized? What's the division of responsibility relative to business retention, expansion and marketing Minnesota businesses to the world and introducing world businesses to Minnesota? What results has this structure produced in the short and long run? Is it cost effective?
  - What parts of our state development strategy, if any, are best led and financed by the private sector? What work, if any, is best led and financed by the state? Regional public sector organizations? Local government?

- Which states do the best job of facilitating economic change and encouraging growth? How are their efforts organized and financed? What role does the private sector play? And, how do they measure success?
2. Make analysis and reporting the economic impact of proposed legislation part of the debate over proposals of consequence to the development and growth of the economy. The Legislature's staff does Fiscal Notes. It should also do "Economic Impact Notes."

## **BUSINESS IMPACT**

Minnesota's economy is healthiest when it is both changing and growing. Federal economic policy has more influence on this than state action and our state's economic health (or lack of it) generally tracks the national economy. As such, state policies can not guarantee either evolution or change, but they can make sure that our state's economic infrastructure aids both. Hence, our policy focuses on improving Minnesota's overall business environment. Absent are policy recommendations that focus on a few specific businesses and/or favor one type of business or industry over another.

Maintaining the high quality features of our economic infrastructure while improving those that are not is a considerable challenge. It's far more difficult than adopting special incentives aimed at specific industries and/or locations (e.g. high tech, med tech, clean tech, nano tech or bio tech; empowerment zones, job zones, brown fields, etc.). But, there is no question that improving the overall environment is of greater consequence to more businesses. And, there is mounting evidence that our state's incentives are not sufficient to counter the general shortcomings of our business environment. Whether our concern is new, emerging industries or established ones, the greatest gain for businesses, workers and our state will come from improving the overall economic infrastructure.