6-3-2002

Remarks of U.S. Assistant Secretary of Commerce for Economic Development David A. Sampson 2002 Governor's Economic Development Conference Augusta, Maine June 3, 2002

David A. Sampson

Remarks of U.S. Assistant Secretary of Commerce for Economic Development
David A. Sampson
2002 Governor's Economic Development Conference
Augusta, Maine
June 3, 2002

Thank you Deirdre (Mageean, Director, Margaret Chase Smith Center for Public Policy) for the kind introduction. It is a pleasure to be here today.

We meet at a time of great national concern. The 9/11 attacks, trouble in the Middle East and South Asia, a weakened economy, and shrinking government revenues have shaken our confidence. To be sure, many Americans are uncertain about the future.

But I believe, as I know all of you believe, that development of regional economies is absolutely key to rebuilding confidence and prosperity for all our citizens. I hope all of you keep this in mind during your conference, whether you're an educator, an entrepreneur, or a government official.

You'll have the opportunity to talk about new ways and new strategies to spur growth and to create jobs ... all of which I know, will lead to a better quality of life for all Mainers.

Many of you I'm sure are wondering: where do we go from here, some 8 months after September 11?

Will the U.S. economy bounce back? Will global trade remain an engine of growth and prosperity? What about public confidence? Will America regain its footing and sense of purpose? And of course, how does Maine fit into the picture?

I believe things are starting to look up. There are encouraging signs that the economy is beginning to recover.

The economy registered a 5.6 percent annual growth rate during the first quarter – expanding at its fastest pace since the fourth quarter of 1999.

Worker productivity, a key ingredient to the economy's long-term vitality, shot up at an annual rate of 8.4 percent in the first quarter, the best performance in nearly two decades.

Corporate profits showed continued improvement in the first quarter. The Commerce Department's latest figures for profits from current production rose 0.5% in the first quarter, following a 17.9% surge in the fourth quarter. And factory orders jumped 1.2 percent in April, the biggest rise in six months.

Consumer spending and personal income also grew and existing home sales rose sharply in April, while consumer sentiment hit an 18- month high.

As Commerce Secretary Don Evans said Friday "President Bush's tax cuts are helping turn this economy around and build consumer confidence. But we need an insurance policy to make certain this isn't a jobless recovery. What we need is an environment that builds up business confidence. And the best way to do that is by Congress approving Trade Promotion Authority for the President, passing legislation that guarantees reliable energy sources, and making the tax cuts permanent."

These are all signs that the downturn that hit the economy after September 11 is slowly lifting. However, **caution** remains the watchword. As we all know, positive growth figures and up ticks in the market mean little to Americans out of work - those who are trying to support families and pay mortgages.

To that end, everyone in this room, including me, has our work cut out for us during the coming months. We must join forces to enhance employment opportunities and long-term prosperity. America's workers expect and deserve no less.

Dick Thornburg, former U.S. Attorney General, former Governor of Pennsylvania and current chairman of the State Science and Technology Institute, recently provided an excellent historical context for our discussions today.

He said: that "while traditional agriculture and manufacturing will always be important economic sectors in our economy, today's new economic growth is being driven far more by technology industries and their influence on traditional economic sectors than ever could have been foreseen."

While this change is a product of national, indeed international forces at work, it's different for each community. No master plan or industrial policy directed out of Washington, DC can effectively help communities figure out how to tap into the new economy.

As Governor Thornburg notes: the challenge "is to fashion strategies for each state to ensure they are positioned not to just compete, but to thrive in the new economy."

The need to link economic and workforce development strategies is more important today than ever before. President Bush says: "Washington needs to be a results oriented world." And I believe this especially applies to the work we do.

First, what exactly do we mean by economic development and workforce development?

Economic development is the intentional process of finding, sustaining, and capitalizing on locational advantage to create wealth and minimize poverty. When the private sector builds new factories or sets up new service centers, local productivity tends to rise, and the demand goes up for higher-skill, higher-wage jobs.

Workforce development is the intentional process of strengthening the local talent pool of workers to match private sector investments in technology, capital, and product improvement. The main goal of workforce development is to connect job seekers with job providers, and then to connect both job seekers and employers with ongoing education and training programs.

Now this may seem self-evident. But all to often people forget about how these two processes work hand-in-hand. And as a result, the best laid plans will fail.

The challenge is to create more career opportunities for workers at all skill levels, and to create a pipeline of quality workers to meet employers' immediate and long-term needs.

From a public policy perspective, the stakes are very high: "The illiterate of the 21st century will not be those who cannot read ... but those who cannot learn."

And contrary to what you might think about the economic slow down, the need for high-skilled workers remains high.

The "skill-based" technology revolution has dramatically increased the value of skill and knowledge in the economy since 1983. And today, high-skill jobs pay 80% more than non-skilled jobs. All this has led to the highest productivity levels in nearly two decades.

So, the basic equation in today's economy remains:

"KNOWLEDGE <u>EQUALS</u> VALUE AND WEALTH."

The critical component in building this kind of economic development and workforce development system is quite simply…**LEADERSHIP**.

Is there a place for leadership in a system governed by law and regulations? I say: **yes**. As community leaders we need to shine a spotlight on the future. We need to move away from a mind-set of merely training people for lifetime employment in a job, to lifetime employability. And this is done by continuously upgrading worker skills.

So how do we lead on this vital issue? How do we get our communities to focus on lifetime employability? We have to get this right.

Nothing less than our national and global economic security are at stake. The competitiveness of U.S. companies and a high standard of living for American workers can only be maintained if the productivity of industry and the workforce is higher than our competitors. And that means anywhere in the world.

In today's economy, innovation drives productivity, and productivity drives prosperity. Only if technological advances are implemented in the work place will productivity increase and be maintained. Only if the workforce is skilled enough will the new technologies be effectively used.

Unfortunately, American businesses often face a workforce "skills gap" that limits their ability to implement new technologies. And unless the "skills gap" is closed, America's economy will be extremely vulnerable.

To close the gap, we must do a better job of educating our children. That is why President Bush's "Leave No Child Behind Education Reform Bill", that passed with bipartisan support, is so important. We also need better than average education or training at the post-secondary level.

The best way to make sure this is happening in our schools is to give them the resources they need, and to set goals, as the President did with his education reform bill.

As President Bush has stated, a strong commitment to excellence and results is necessary. Let me take a few minutes to tell you why.

- The fastest growing jobs will be those that require the highest education;
- In 1979, the average college graduate earned 38 percent more than a high school graduate. By 1998, the wage disparity had nearly doubled, to 71 percent;
- The most educationally disadvantaged also represent the fastest-growing groups in the workforce. High-school dropout rates for Hispanic students are more than four times higher than for white students; black students have a dropout rate nearly double that of white students;
- Rates of unemployment and poverty are 5 – 10 times higher for those without a high-school education.

Skills and education will be a dominant, if not decisive, factor in our ability to compete in the global economy. And low-income workers want in on the action. They want to acquire skills and move ahead. According to a recent Work Trends Survey, workers with the most anxiety about the future are those who know they are being left out of the technology revolution – the "digital exiles."

Just as the President said that "no child should be left behind" in getting a good education, no worker should be left behind in having the skills necessary to find a place in the 21st Century workplace.

Having the best skilled workforce is as crucial to our economic growth and the kind of society we will have, as technology itself. The President has said that a better educated workforce means America is more productive and that means more jobs and higher paychecks.

This Administration is committed to developing closer linkages between workforce development and economic development. President Bush has directed the Department of Labor and the Department of Commerce to work together to that end and has requested $750 million in his FY ‘02 supplemental for that purpose. At the same time, we need to significantly upgrade and streamline the current workforce development system.

This is absolutely vital to our economic security.

I believe the federal government has put sufficient resources in the pipeline to get the job done. In the President’s ’02 Budget over $54 billion is dedicated to this area.

As community leaders we must now turn to re-establishing the strategic context of our workforce development and economic development efforts. We must re-focus the system for the 21st century economy, while streamlining the delivery system to make it more responsive to the businesses who are creating the jobs.

THE ECONOMIC DEVELOPMENT AND WORKFORCE SYSTEMS OF THE FUTURE

The rate of change in both the business world and the federal government is not going to slow down anytime soon. If anything, competition in both sectors will probably speed up over the next decade.

Organizations everywhere will be presented with even more hazards and opportunities driven by the globalization of the economy, by public policy priorities, by a war environment, by technology and by social trends.

The typical 20th century organization has not done well in a rapidly changing environment. Structures, systems, practices and culture have often been more of a drag on change rather than a facilitator of change. If the pace of change continues to increase, as most people now predict, organizations won't survive if they fail to change with the times. They will go the way of the dinosaur. The winning 21st century economic and workforce development organizations can be described by the following central characteristics:

Persistent Sense of Urgency

Teamwork At the Top

People Who Can Create and Communicate Vision

Broad Based Empowerment

No Un-necessary Inter-Dependence

Four Basic Rules for Economic Development in the 21st Century

Governor Thornburg stated, "The challenge for today's state and local officials and policy makers is to fashion strategies for each state to ensure they are positioned not to just compete, but to thrive in the new economy." Fortunately they can draw on what we already know about how to promote sustained regional economic growth and prosperity. EDA funded research done by IF, International in 1998 which has identified four basic rules for economic development in the 21st century:

Rule number one: Think regionally to compete globally.

Competing in the global market requires the resources of all businesses, academic institutions, and communities within a region. That is today's reality.

More and more, certain regions tend to have specialized knowledge and capacity that is of a scale and form that distinguishes them from other areas.

Industry no longer cares about political boundaries – except when they're a barrier to business. What they do care about is competitive advantages. And that's where EDA and all of us in economic development come into play. We must cooperate regionally, think regionally to avoid fragmentation of resources and build a strong economic platform for growth.

So thinking regional should be the key point of departure for defining economic development needs and goals.

Rule number two: industry clusters drive regional performance.

Industry clusters are groupings of industries, suppliers and supporting institutions within a region that export to national and global markets. They are a set of industries that have a lot in common in terms of technology, worker skills, finance, and logistical inputs. As a result, they tend to congregate near one another, sharing innovative practices and economies of scale. Industrial clusters are very important to a region because while they typically account for only 25% of the employment base, their economic multipliers account for much of the balance of the region's employment. This makes them the driving force of economic development.

So, you need to understand how cluster development is taking shape in the competitive market place if you are going to have an economic strategy that promotes long-term prosperity.

<u>Rule number three: Economic input-advantage fuels cluster competition.</u>

The rise in competitive clusters is due to the ability of regions to provide them with distinctive sources of economic input advantage - for examples adequate financing, available infrastructure, advanced communications, and most importantly, a skilled workforce. In other words, clusters won't come to, or expand in, regions that fail to provide at least one input advantage – whether for design, production, or distribution.

<u>Finally, rule number four: Collaboration achieves economic advantage.</u>

If industry clusters are the center of action in the global economy, how do they become, and how do they remain, competitive? By collaborating. Citizen leaders, both public and private, must agree on a long-term development strategy that creates a competitive climate.

They need to agree on the investments in regional assets ... education ... research ... physical infrastructure ... and, quality of life over time. With such a strategy in place, you will attract private investment and employment. And you will build a "platform for economic growth."

In the next generation economy that regions are seeking to build, the hallmark of vitality will be the agility of institutions and their leaders to recognize and to collaborate in the improvement of existing – or creation of new sources of economic input advantages. Communities that fail to realize this, that fail to come up with a long-term development strategy, will either decline, or they will stagnate.

I'm proud of the work of the Economic Development Administration in helping regions, states, and communities improve their workforces to strengthen existing businesses, attract new businesses, and diversify their economies.

For example, the Center for Business and Economic Research at the University of Southern Maine - an EDA University Center since the 1970's - recently partnered with the EDD's in Maine and the State Department of Economic and Community Development to undertake one of the largest studies of workforce issues related to economic development.

The information we gained from that study is being used to guide education and workforce programs in their strategic planning, to help companies make expansion and location decisions, and to start dialogues among education, training, economic development, private-sector, and human services organizations around the state about how they can make the workforce-economic development connection at the local level.

Now is the time for strong leadership internationally, nationally, and within the workforce and economic development community. The stakes are high: freedom of trade and commerce; personal and political liberty; and national and individual security. This is serious business.

Your leadership, in your communities, on your state and local workforce development boards is as important to the strength of our nation and its citizens as is the leadership in Washington or the troops fighting overseas to protect our freedom.

Thank you very much.