MIDCONTINENT PERSPECTIVES
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Leadership For More Dynamic Midwestern States

I'm glad to be here. I think we're in the middle of a tough decade or two for the Midwest. I was born a few miles upstream on the Missouri River bottom in Nebraska and drank enough Missouri River water to want to come back and help to the extent I can.

I have learned enough to know I shouldn't tell Missourians or Kansans what needs to be done in either of these two states. But what might be helpful would be for me to summarize the kinds of lessons our research has turned up in other states. Those of you who know Missouri better than I can sort through these lessons and see what you think about their applicability here.

To put it briefly, I think the Midwest faces a tough outlook. Let me cite the regional economic forecast by DRI, which is as good as any of the major national econometric modeling and forecasting firms. It forecasts for the west north-central states, which include Missouri and six of her sister states to the north and west, a decade-long slow rate of real growth between now and 1995, at a rate significantly slower than the national average rate of progress, which it also expects to be a little slower than average. So we're slower than the slower-than-average rate of progress.

No forecast is certain because the forces for change are strong and their precise effects are very difficult to forecast. There are a number of those forces at work and some of them are newer and different in size if not in kind. Three from the international side, in particular, impress me these days. They're playing increasingly strong parts in the economic picture for the country and for the Midwest. One of those is the increasing international competition our firms are facing, both in selling final products and in the competition for sites for plants to produce products. The second is the unhappy fact that national economic policies in this country and some other countries as well are tending to lag well behind the pace of increasing international competition. That lag in turn increases the risk of big and sustained swings in foreign exchange rates, like the big rise in the dollar exchange rate that badly hurt Midwestern farmers and manufacturers and is still hurting them. And a third international force, whose dimensions impress me, is the rapid rate of technological advance, including how quickly it spreads from country to country.

All of these special international forces add up to increasing the likelihood of change. I would not put changeability at the top of a list of Midwestern virtues. When I think of Midwesterners I tend to think more about stick-to-itiveness, that mixture of determination, hard work, and patience that gets a family through the drought or through the depression or through the grasshoppers.

Now, determination and patience aren't bad. They're certainly good virtues, key Midwestern virtues. But they do create a need for stronger than average leadership that can call attention to those changes that need to be adapted to rather than just endured or waited out. There are some changes that require hunkering down, gritting your teeth, and digging through it. Midwesterners are very good at that. But once in awhile, a situation comes along where that's dumb. Doing so simply means that you have to live with the pain longer. The leadership has to be the one to recognize when to adapt and change rather than endure. That's why I say leadership of more than average strength, of more than average talent, of more than average determination is required in the Midwest during this next decade or two.

When I look around to see where the key leadership is going to be needed, it seems to me that it's going to have to come from the state level – from the state government, from state business leaders, and from state universities. Why? I can think of many reasons, but let me give you two. First, our national government can't do as much as we used to think it could. We've learned from hard experience it can't manage effectively many of the programs it voted into law. Furthermore, those strong international forces of change I cited are working to limit how much initiative our government, or any national government, can take these days.

Second, some of the most important adjustments to make are those for which the key power resides within each state. If you stop to think for a moment, the basic public infrastructure on which businesses depend so much for success (transportation, electricity, water, sewer, education), are all either provided or controlled by the state government or by the local governments that are themselves the creatures of the state government.

What our states and their leaders need to deal better with change is a clearer vision of what each Midwestern state can become. But that vision cannot be simply a dream. It has to be a realistic vision. Moreover, it needs to be a broadly accepted vision. These requirements mean it cannot be imported, and it cannot be just a one-man revelation, like some latter-day Moses coming down from the highest mountain in the Ozarks with Ten Commandments for a good Missouri.

There was a time when perhaps that would sell. I don't think so now. A broadly based acceptance of that vision is key, and in state after state that we studied, we could tell the difference when one person's vision was pushed forward as compared to when the vision was developed with enough discussion and acceptance so that it was backed with broad state support.

A good vision for Missouri needs to hang a flag on Missouri's basic strengths. The state is well advised not to go for gimmicks as a major part of its vision for the future. There are always going to be ad hoc efforts that any government, state or local, has to engage in, but I don't think they make sense as a major strategy. As we look around the country, those states that are guided by a broader strategy, a broader vision, are the ones that seem to contribute the most to sustained economic development.

It is better to recognize the state's basic strengths, and then strive to have everyone nurture those strengths and make fullest use of them. States need to look for places to build on their economic strengths – places where they have a technological edge or a marketing edge or a labor edge, perhaps even an edge in community receptivity to the kinds of steps that need to be taken to foster economic progress. I know enough about Missouri to know it had some good, interesting community programs at a fairly early stage in this economic development movement. There are things there to be gleaned.

To be practical, it is also worthwhile to pay attention to Missouri's big handicaps in the state's struggle for economic progress. Not all the big handicaps, just the big ones that are most changeable. The big ones you can change are important to recognize because that gives you a chance to cut those handicaps down in size.

As we looked around other states, we saw that the leaders there had to work cooperatively together and had to give time and effort to this project to make progress. If DRI's forecast is correct, this state faces serious problems for years to come, so that a short-run or quick-fix approach isn't going to do the job. It needs commitment in time and effort over the years in order to turn some of these matters around.

I can report some states are doing an excellent job of building broad acceptance for the kind of vision I'm talking about. In some of those states, a governor is taking the lead, but he has pulled together government, academic, business, and community leadership, to work with him and develop a broadly based vision that earns community acceptance. In some other states, where the state government has not been that farsighted, a state-level business leadership has risen up to combine its own expertise with other experts from the state universities and communities in order to develop a realistic vision of what the state ought to become. Those groups worked together, developed that vision, presented it to the governor, the legislature, and to the general public, and in some of those states it is stimulating discussion, earning acceptance, and readying the whole state for action. Over time, enough states are going to be taking that road so that the states that do not will find themselves with an extra competitive disadvantage.

When you turn to the question of what helps a state realize its vision, our studies tell us that one of the most important basic responsibilities the state bears in this respect is its education system. It is a painful fact that poor quality primary and secondary education has been a major handicap to economic advance in a large number of the fifty states in this country. Educating the younger generation in ways that equip it well to compete in this increasingly competitive world is very important. You cannot simply leave it to the educators, or the teachers, or the superintendents, or the government. The most effective improvements in education come from working together on the part of the state leaders, the school administrators, the teachers, the parents, and the employers.

Don't leave out the employers. In place after place, they have been a key part of an active cooperative effort to reform education. They have much to contribute once they realize it, and once the school teachers, school administrators, and education experts realize it, too. At first we had some business leaders saying they didn't want to get involved in that "zoo," and some teachers saying business people didn't know a thing about education. They were overlooking the fact that businesses all over the country spend about as much on education and training as the nation spends on its public primary and secondary school system. The best way I can make this point is to tell you that a school superintendent who runs some of the most rapidly improving schools in one of the major cities of the country said the best friends good education had in the city were its business leaders.

In several states, efforts to juxtapose a realistic vision of what the state can be against a realistic recognition of what the state is have served to highlight several other trouble spots worthy of high priority attention. Let me mention a few of those.

One is the problem of antagonisms between major metropolitan areas within the state. A number of states have two or three major metropolitan areas, and oftentimes there is a

divisiveness that develops when the representatives of those differing metropolitan areas each pull in their own direction on the statehouse and on the governor. In the process, they often neutralize their effect on state policies.

In this respect, there are a couple of states that have done a particularly good job, or are in the process of doing a good job. One is California; the other one is Pennsylvania. Both of them have two major metropolitan areas – Los Angeles and San Francisco, and Philadelphia and Pittsburgh. Both have strong business leadership and both have for years, indeed decades, been tugging in opposite directions in their state capitols. Both have used the device of a state-level business leadership group – now typically called a Business Roundtable-to help business leaders focus on areas of common interest concerning which they could speak with one voice to the state government officials. In effect, their policy message was: "We're for it because it's good for state economic progress, and that in turn will be good for us." As the messages from those combined voices funnel into the state house in California and are beginning to funnel into Pennsylvania, you can already see changes, changes very much for the better in those two states.

A second difficult area has been a legacy of labor-management hostility. Even though some of those labor-management difficulties are years old and have been largely corrected on the spot, they frequently have left a lingering image among businesses outside the state that has discouraged businesses from moving into the state with additional plants. Michigan, for example, has suffered from this at various times in its history. One of the best corporate examples I know for dispelling that negative image comes from the Ford Motor Company. Lee Iacocca has been getting a lot of ink for rejuvenating Chrysler, but in the circles I travel, Ford Motor's management is getting even louder applause for how it has replaced what was once intense labor-management hostility with a spirit of cooperation and innovation that has produced a major turnaround in the fortunes of the company. When the heads of the Ford local union and the managers of the Ford plant stand up before a group and talk about their cooperation, that changes perceptions. It is more than simply a story in the newspaper.

In a number of states the difficulty of organizing the state government itself to work along these lines has frustrated action after action. Numerous state agencies are more interested in defending their own turf or attending to their own objectives than in attending to the overriding considerations of economic development. There is no magic organization to make all the various branches of the state government keep in mind what they can do for economic development. But we did find three states that have done particularly well in this respect – Indiana, North Carolina, and California. Each used a different technique.

Indiana is the more novel one. They have created a new organizational structure underneath their lieutenant governor that pools the heads of their agencies in order to meet and work on the economic development objectives that have been developed out of a public-private vision for Indiana. The lieutenant governor tugs on whatever state agencies are not recognizing their opportunities or are cutting across other agencies' abilities to help Indiana's economic progress.

Out in California, it was not so much the state government that provided the construction leadership, but the California business leaders that did it. And then, Governor Deukmejian came along and formalized matters by creating what he called an economic development corporation designed to reach out and pull all those threads together. California is not like Missouri.

California comes in seven parts. We did an intensive case study in California and concluded that there were seven Californias, not one. But they've done a remarkably good job of orchestrating some of the activities of those seven Californias.

The final point I want to particularly emphasize for an area in trouble is the state's university system and the research that is done in it. It can do a great deal to fertilize economic progress, if it works at it. Helping your universities help state economic progress is partly a matter of having talented faculty. University presidents sometimes respond to what I just said by saying, "Another hundred thousand for tenured faculty or chairs and we'll do fine." But that isn't enough, and sometimes that isn't even what's most needed. As we looked around the country we saw that sometimes it is every bit as important to have the existing faculty members and researchers alert to the needs of the employers in the state for research ideas, and to have good channels for the fruits of research to flow from academic scholars to businesses wanting to commercialize those ideas whenever feasible.

I think our host here this afternoon, Midwest Research Institute, represents one very good channel of this type. Elsewhere in the Midwest, another good example is the Wisconsin Alumni Research Foundation (WARF). WARF has been at work for years increasing the flow of scientific ideas from the faculty researchers into commercializable applications in the state. The result has been good, easy, unheralded, bit-by-bit fertilization of a higher rate of economic progress in the state.

Elsewhere in the country, I believe the best example we have is Stanford University. There the congenial climate for business-university cooperation has produced results in Silicon Valley and elsewhere that outshine other universities with more Nobel prize winners on their faculties. Nobel prizes are fine in many ways, but research ideas need to filter into commercial application in order to bear fruits to the people who paid the taxes to finance the university.

I gave a talk like this to a California audience and reminded them that half of the students in some of their graduate scientific programs were foreigners. I told them if they rely upon hiring graduate students to retain new ideas, then taxpayers who are supporting the California university system are paying the whole bill. And half of what they're paying for is going to foreign competition because most of those foreign students will go back home and work there. I'm not against foreign students, but I like to have everybody pay their own bills and everybody receive just rewards for what they spend.

In these university systems we're going to find, in the Midwest and elsewhere, some of the most important ideas that will help us raise our head a 1ittle a higher and progress a little more rapidly in this next decade and thereafter. But this can only happen if good, new research ideas flow out into American business from as many different universities as can be opened up, through as many different channels as good imaginative thinking can create.

I expect by now I have said enough to stimulate a lively discussion. For more details, two CED studies that I have drawn upon in these remarks – one called Leadership for Dynamic State Economies and the other called Investing in Our Children: Business and the Schools. If you wish copies of the full texts of those studies or of the more detailed volumes of case studies supporting them, let me know.

QUESTIONS AND ANSWERS

QUESTION: Is there a correlation between the ten years of stagnation that the DRI projected and the ideas for change that you later discussed?

ANSWER: Yes, there is a kind of correlation. The DRI projection for economic growth comes out of an econometric model that looks at the past and calculates what sort of average thrust we are likely to get out of the same industries and forces that we have seen historically in the country. Then they break that projection down region by region. Think of it as a projected average from the past that is able to take better account than we can in our minds of all the forces that were at work in the past either making things a little better or a little worse.

After I described those projections, everything else I said in my speech concerned ideas to change the institutions, the forces, and the ideas so the states do better than that average. That projected average is not one of those unchangeable outcomes that require hunkering down and enduring with your best Midwestern stick-to-itiveness. It is an average of what is likely to happen if we do not do anything special to make the outcome better. But the ideas I have talked about represent some of the places where, at least in other states, people found they could tip that gradient of growth up to a faster, healthier rate of growth. You cannot raise the growth gradient overnight; we are talking about trends that take time to change. But the whole latter part of my speech was about ideas that, at least in other states, have helped raise the rate of growth. I don't see why some of those aren't applicable in Missouri.

QUESTION: To what extent do economists massage the figures to show growth? In other words in that background paper on Massachusetts, Governor Dukakis took great credit for the fact that unemployment had gone down. What they actually found was that a lot of people had left the state. In other words, the economy of Kansas would be better if more people left the farms and left the state and went to California. The unemployment rate would improve, the average per capita income would increase, and so forth. But is that progress for the state?

ANSWER: People can cite numbers that show unemployment going down in some region, and when you look underneath you see it's because the unemployed left. That might lighten the burden on welfare rolls in one place, but if the people simply go someplace where they're no better off, then the country's no better off. In Nebraska during the thirties and early forties, a lot of people left because they couldn't find anything better to do. But as the war proceeded and the SAC base came to Omaha, Nebraska began to have more productive employment opportunities again and we turned off that population drain. In between, however, a large number of Nebraskans went to the West Coast, in particular, and raised the average standard of living of their families.

QUESTION: Isn't this almost a universal trend? For instance, in Mexico everyone goes to Mexico City and in France everyone goes to Paris. These populations increase tremendously while others grow static or decrease.

ANSWER: Yes, the tendency for people to move out of rural areas into urban areas is almost worldwide. It's a case of individuals thinking that it might be better for them there. But we also know from looking at the statistics, that the results are not always better. That is one of the reasons why I think it's important to keep saying, "Where can those people be most productive?" Rather than, "Where can they make a set of numbers look better or worse?" People sometimes manipulate numbers to generate impressions. Therefore, it is wise to do some

checking of the numbers, and to seek a balanced way to assess what has been happening and at what can be done in the future. A fair share of the money we spent in our CED study was doing just that – making cross-checks on what sounded like easy assertions about what was helpful and what was not.

QUESTION: Does the movement toward a service economy make it more important to stress a higher level of education for everybody?

ANSWER: A short answer is yes, but that is somewhat misleading. Some service jobs require a higher level of education, other service jobs require a lower level of education than some of the jobs in the factories being closed. What we need to do in our economy, if we are going to keep the average standard of living of the average American family stable, high, and growing, is make most of our service employment a little higher tech with each passing year or decade. That requires progressively better educated kids coming along to do it.

You do have to be careful about what you mean by better educated. I'll give you a concrete example. The chairman of one of our study committees was speaking at Tulane University. The president of Tulane introduced him with flowery remarks about how proud he was of the fact that Tulane had four Rhodes scholars in its graduating class. The chairman of our committee, who doesn't mind calling a fact a fact, said, "Yes, but you also had 7,500 dropouts. And I'd worry a lot more about that." We're losing tremendous economic potential with the dropouts, and with the undereducated at the primary and secondary levels of our public schools. We can improve our colleges also, but I worry less about them. The colleges have a great deal of self-improvement potential within themselves, particularly if they have some nagging members of their Board of Trustees and if employers and alumni press them.

The places I see we need the biggest help from outside the education system are in primary and secondary schools, and in pre-primary schooling. We spent between three and four years studying primary and secondary schooling intensively. Our CEO trustees said, "We think good education ought to be viewed as an investment, not an expense." If the money is well spent, you increase the productivity of the youngster; and through the rest of his or her career you reduce the cost he or she imposes on society from delinquency, welfare, all those kinds of things. The arithmetic is terrific in terms of the yield from good education.

We then asked the good businessman's question, "If you had one additional dollar to spend, where would it give you the biggest rate of return?" The answer was a big surprise. Most of us thought that answer was going to be better high school skill courses, with some debate whether it was going to be mathematics or better ability to communicate. They weren't even close. By far the biggest rate of return for an additional dollar spent to improve education came from spending it on a good preschool program. In particular, if you spent it on preschool training to help kids who come from the most educationally disadvantaged parts of society. A dollar spent there gets a return many times more than some of the other places we're spending dollars in education today. As a result, you find the good, hardheaded businessmen and women who are parts of CED going around their communities discussing the need for funding more preschools with the right kind of programs because they are a very good long-term investment.

QUESTION: There was a Forbes article that would disagree greatly with what you say about the return on investment in education. It said the marginal return from increasing investment in education just wasn't there.

ANSWER: I know how they could get that result. If you look at how much was spent on primary and secondary education ten years ago, and how much more was spent five years later, and check how much education improved, the numbers will show education deteriorated with additional dollars of spending. We have not been good over these last ten or fifteen years in spending additional education dollars where they do the most good. I was careful, even if you may not have noticed it, when I was talking about education being a good investment. I said good education is a good investment. Good preschool programs have a very high yield. We are spending a lot of money on inferior, subadequate, poor education programs. There are a lot of dollars that ought to be shifted away from those into good programs as a part of making good education happen. It is analogous to a multi-product firm having some lines generating a fine rate of return and some others that are eating up the cash flow and creating a net loss. You need to reallocate resources. Within the education system, you need to reallocate resources.

Let me give you a concrete example. Vocational education, in many school systems – not everywhere and not in every school, but in many school systems – is one of the poorest ways to spend education money. In the Philadelphia school system, the city superintendent told us at one of our meetings, that they have real literacy problems. Somebody mentioned, how bad the students' statistics were. She said, "Students! One-third of my vocational teachers are illiterate. They flunk the kids' tests for reading and writing, and we're paying them full-fledged teachers' salaries." What do you suppose those teachers were teaching their students about how to talk, how to communicate, how to read English? It's that kind of expenditure of dollars that's a shame, a waste. It's that kind of expenditure that contributes to aggregate totals that produce a negative rate of return that Forbes could be citing in that article. It's when you spend education dollars for the right programs that the rate of return is high.

QUESTION: Who is the watchdog to determine if the money is spent right?

ANSWER: One of the problems in our school systems is that there are too few watchdogs. Government, in general, has a problem of not being its own toughest critic, of not being a careful ex-post evaluator of programs. It does not have the self-correcting discipline that the market system imposes on private sector operators whether they like it or not. The school system is one of the parts of government that has the weakest self-disciplinary evaluation systems. Our study stressed very strongly the need for creating evaluative mechanisms that can root out the poor performers. Is this a good program? Is it worth the money? If not, let's pull it out. We see that as a particularly important function for states: monitoring programs and schools across the state. In fact, we even put a concept in our study that suggests "educational bankruptcy," i.e., allowing a state to declare a school district to be so poorly run that it is, in effect, bankrupt. And we would have the state step in, in that circumstance, take the poor school over, and jack it up to make it perform again. This harsh, extreme remedy would become one part of the strengthened evaluation system that education needs so badly.

ROBERT C. HOLLAND, born in Tekamah, Nebraska in 1925, joined the Federal Reserve Bank of Chicago after earning his doctorate at the University of Pennsylvania in 1959. He was named to the Board of Governors of the Federal Reserve System in 1961 and served until 1976. Since 1976 he has been President of the Committee for Economic Development (CED), which was founded in 1942. Today the Committee has 225 trustees, most of them corporate or educational CEOs.

As a private, nonprofit, nonpartisan research and educational organization, CED has studied pressing social and economic issues such as health care policy, fiscal policy, trade, and strategies for state economic progress.

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MIDCONTINENT PERSPECTIVES was a lecture series sponsored by the Midwest Research Institute as a public service to the midcontinent region. Its purpose was to present new viewpoints on economic, political, social, and scientific issues that affect the Midwest and the nation.

Midcontinent Perspectives was financed by the Kimball Fund, named for Charles N. Kimball, President of MRI from 1950 to 1975, Chairman of its Board of Trustees from 1975 to 1979, and President Emeritus until his death in 1994. Initiated in 1970, the Fund has been supported by annual contributions from individuals, corporations, and foundations. Today it is the primary source of endowment income for MRI. It provides “front-end” money to start high-quality projects that might generate future research contracts of importance. It also funds public-interest projects focusing on civic or regional matters of interest.

Initiated in 1974 and continuing until 1994, the sessions of the Midcontinent Perspectives were arranged and convened by Dr. Kimball at four- to six-week intervals. Attendance was by invitation, and the audience consisted of leaders in the Kansas City metropolitan area. The lectures, in monograph form, were later distributed to several thousand individuals and institutions throughout the country who were interested in MRI and in the topics addressed.

The Western Historical Manuscript Collection-Kansas City, in cooperation with MRI, has reissued the Midcontinent Perspectives Lectures in electronic format in order to make the valuable information which they contain newly accessible and to honor the creator of the series, Dr. Charles N. Kimball.