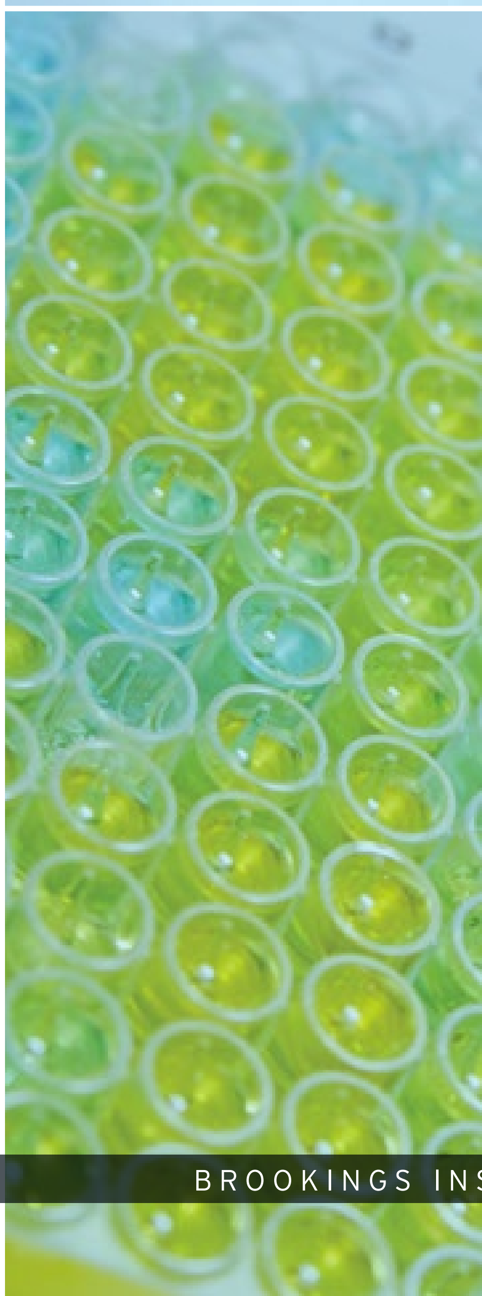
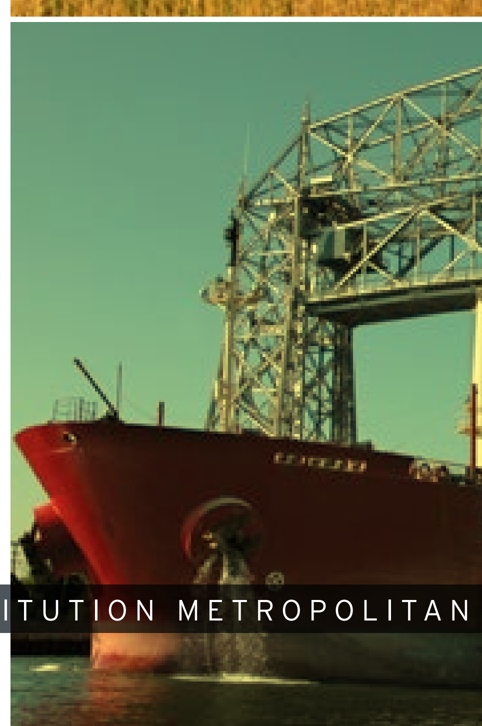
PILLARS OF PROSPERITY

LEVERAGING REGIONAL ASSETS TO GROW MINNESOTA'S ECONOMY





BROOKINGS INSTITUTION METROPOLITAN POLICY PROGRAM

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PREPARED BY THE BROOKINGS INSTITUTION METROPOLITAN POLICY PROGRAM

Summary

Minnesota has always been rich with assets—a skilled labor force, good jobs in diverse industries, globally competitive companies, and abundant lakes and parks that provide a high quality of life for the people who call it home.

However, to maintain its strong economy and quality of life, Minnesota must adapt to fast-changing trends in the global economy, trends that affect each of the state's regions and communities differently.

This report explores how the state of Minnesota—the governor's administration together with the Minnesota Legislature—can partner with regional networks to foster economic growth and extend prosperity to greater numbers of Minnesotans.

The trends and recommendations in this report emerged from a multiyear collaboration with the Minnesota Department of Employment and Economic Development (DEED) and regional partners throughout the state. The report sets out a comprehensive and nuanced picture of the challenges and opportunities confronting Minnesota's regions—from the greater Minneapolis-St. Paul metro to the regions in Greater Minnesota that anchor the state's health care, manufacturing, and agricultural assets. It highlights new approaches the state of Minnesota can deploy to empower leaders and institutions in these regions to develop and execute solutions tailored to their communities. As regions are the building blocks of the state economy and the locus of opportunity for workers and families, the state of Minnesota must embrace an asset-based, regional approach to growth and opportunity if it is to nimbly adapt and prosper going forward.

In particular, this report finds the following:

Although Minnesota's economy has performed well on many counts in recent years, its future economic strength is not assured.

While Minnesota's recent growth highlights the state's many competitive advantages, it also masks three troubling realities.

First, economic growth has been highly uneven across Minnesota's regional economies and among different population groups and communities. Though most regions have now recovered the jobs lost during the recession, the pace of their recovery and their current growth trajectories vary widely, as do their levels of productivity and income.

Second, the people of Minnesota saw only meager income growth despite the state's strong gains in productivity. The majority of Minnesota's workers have not seen real wage growth for some time.

Third, too many residents lack the necessary education and skills needed to access good jobs that provide higher wages and better benefits. Furthermore, significant disparities among racial and ethnic groups in educational attainment, employment, and incomes undermine one of the state's key competitive advantages: the quality of its workforce.

Like many places, Minnesota and its regions face these challenges amid strong headwinds, including increasingly fast-paced global competition, rapid technological change, significant demographic shifts, and widening gaps in income and economic opportunity that disproportionately affect younger workers and communities of color.

Regions need to invest in the proven pillars of economic growth and competitiveness—innovation, trade, and talent—in order to ensure that all Minnesotans benefit from the state's strong economic performance.

Minnesota's competitive advantages come from the distinct assets within and among its regions, which are the geography of the state's economy. Entrepreneurs and workers, firms and research institutions, civic organizations and philanthropies, universities and community colleges come together in regions to form rich networks that generate economic growth.

Several regions are home to innovative industries that deliver new renewable energy technologies, health care solutions, and information technologies. Other regions benefit from global trade thanks to their manufacturing and commodities-producing sectors. And in each region, innovation and trade depend upon the unique talents and skills of area workers.

At the same time, each region must also contend with troubling socioeconomic trends that threaten long-term growth and prosperity—particularly with regard to educational outcomes and income disparities.

Regions are best positioned to understand the performance and dynamics of their own economy, identify their unique assets, and organize the leadership, investments, and collaborations needed to knit together powerful strategies to drive inclusive regional growth.

Targeted strategies that support greater regional innovation, increase trade, and invest in education and worker training will yield the greatest benefits for Minnesota's residents.

To expand economic opportunity and prosperity, the state of Minnesota should empower its regions to accelerate action and problem-solving on the three pillars of economic growth.

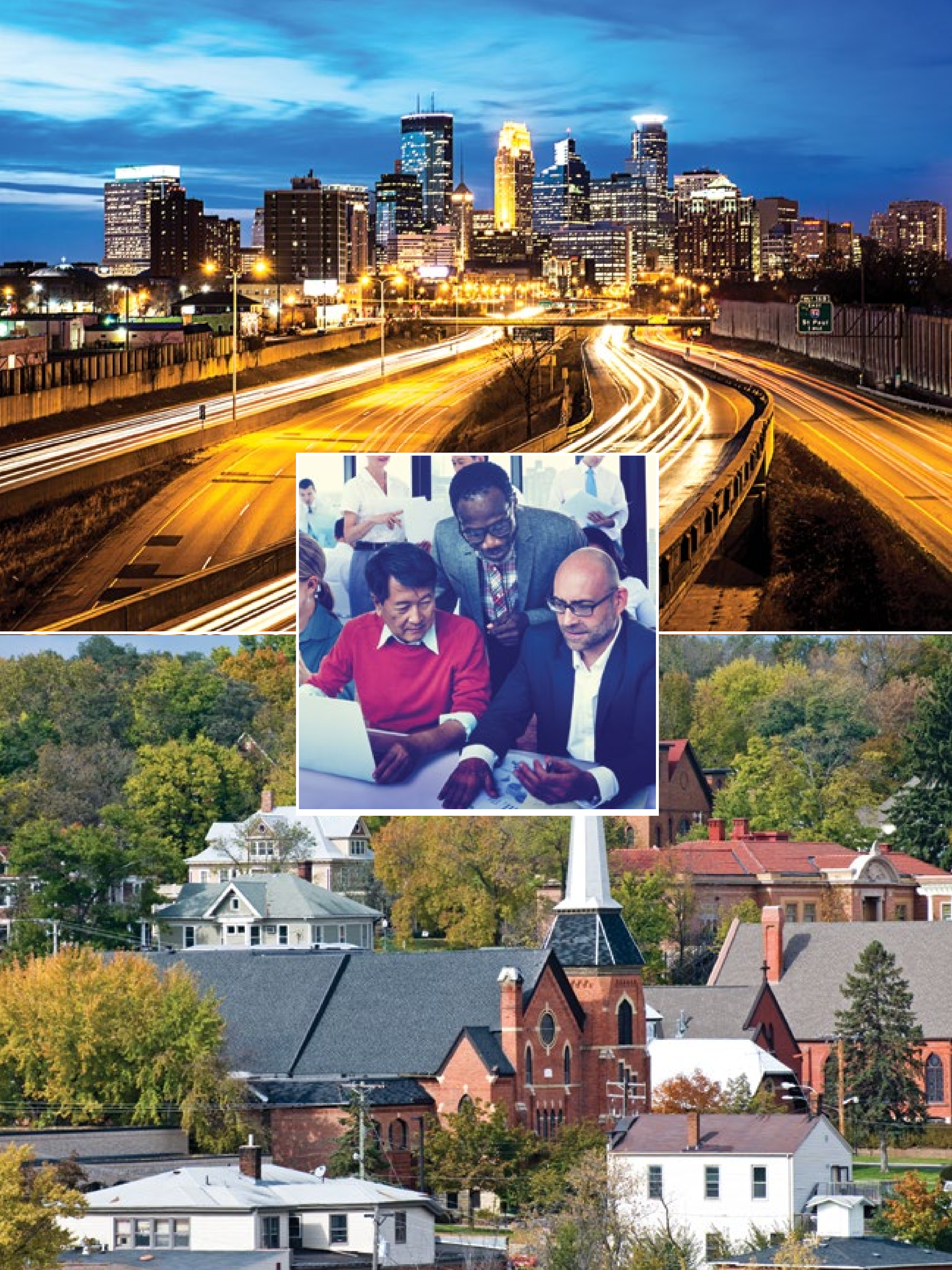
DEED currently has a strong relationship with regions, including through its regional staff who work directly with local leaders and organizations to respond to specific economic or workforce development opportunities. But to reflect the true nature of integrated strategies at the regional level, the state of Minnesota could go further than a single agency and ensure that key programs across state agencies help all of Minnesota's regional economies reach their potential. The state's future investments in regional economic success would benefit from alignment with other strategies for innovation, talent development, and trade.

State leaders outside of Minnesota have come to this conclusion as well. Throughout the country, governors and their legislative partners in states as diverse as New York, Tennessee, and Oregon have launched new economic development strategies that empower regional action. These states have set a clear vision for their economies that prioritizes the market fundamentals of innovation, trade, and talent, with regions as the primary drivers of growth.

In the near term, Minnesota's state officials should focus on what its leadership can do best: establishing a high-level vision and goals for Minnesota's growth and prosperity; better aligning existing programs and investments in innovation, trade, and education/skills development to support such goals, especially at the regional level; and creating shared interests among regions to benchmark progress against key indicators of success.

In the longer term, the state has an opportunity to formalize a policy framework and high-level interagency approach to regional solutions to economic prosperity. The governor's administration and state legislature could more directly invest in bottom-up initiatives and collaborations.

With Minnesota's economy and revenues rebounding, now is the time to ensure that growth is broadly shared—in every region and for every Minnesotan. The most effective way to do so is engaging the leaders who are on the frontlines of change, and giving them the streamlined tools, incentives, and resources to create the foundation for long-term prosperity. Adopting a regionally driven economic development agenda today will bolster the competitiveness of Minnesota and its regions tomorrow in the ever-changing global economy.



Introduction

Minnesota has always been rich with assets—a skilled labor force, good jobs in diverse industries, globally competitive companies, and abundant lakes and parks that provide a high quality of life for the people who call it home.

However, to maintain its strong economy and high quality of life, Minnesota must adapt to fast-changing trends in the global economy, trends that affect each of the state's regions and key population groups differently. Ultimately, the state's fortunes are only as strong as the fortunes of its regions and all of its people.

From the major cities of Minneapolis and St. Paul to agricultural and mining strongholds that reach to the Canadian border, to the world-renowned health care center of southern Minnesota and the agricultural and manufacturing centers in the state's heartland, Minnesota's regions possess core economic strengths and assets that support quality growth and opportunity. It's time for the state to set a strategic course focused on leveraging these assets, including the strategies and initiatives that support them, to ensure that Minnesota's diverse regions generate lasting prosperity for their people in today's global marketplace.

Minnesota emerged from the Great Recession of 2007–2009 well positioned to compete in the global knowledge economy. The state recovered from the downturn more quickly than most states and has experienced continued growth in both jobs and productivity. The talent that resides in the state's workforce and the many innovative firms based in Minnesota helped make this recovery possible.

However, this strong statewide performance masks three realities that are a cause for concern.

First, economic growth has been highly uneven across Minnesota's regional economies and among different population groups and communities. Though most regions have now recovered the jobs lost during the recession, the pace of their recovery and their current growth trajectories vary widely, as do their levels of productivity and income.

Second, the people of Minnesota have seen only meager income growth despite the state's strong gains in productivity. The majority of Minnesota's workers have not seen real wage growth for some time.

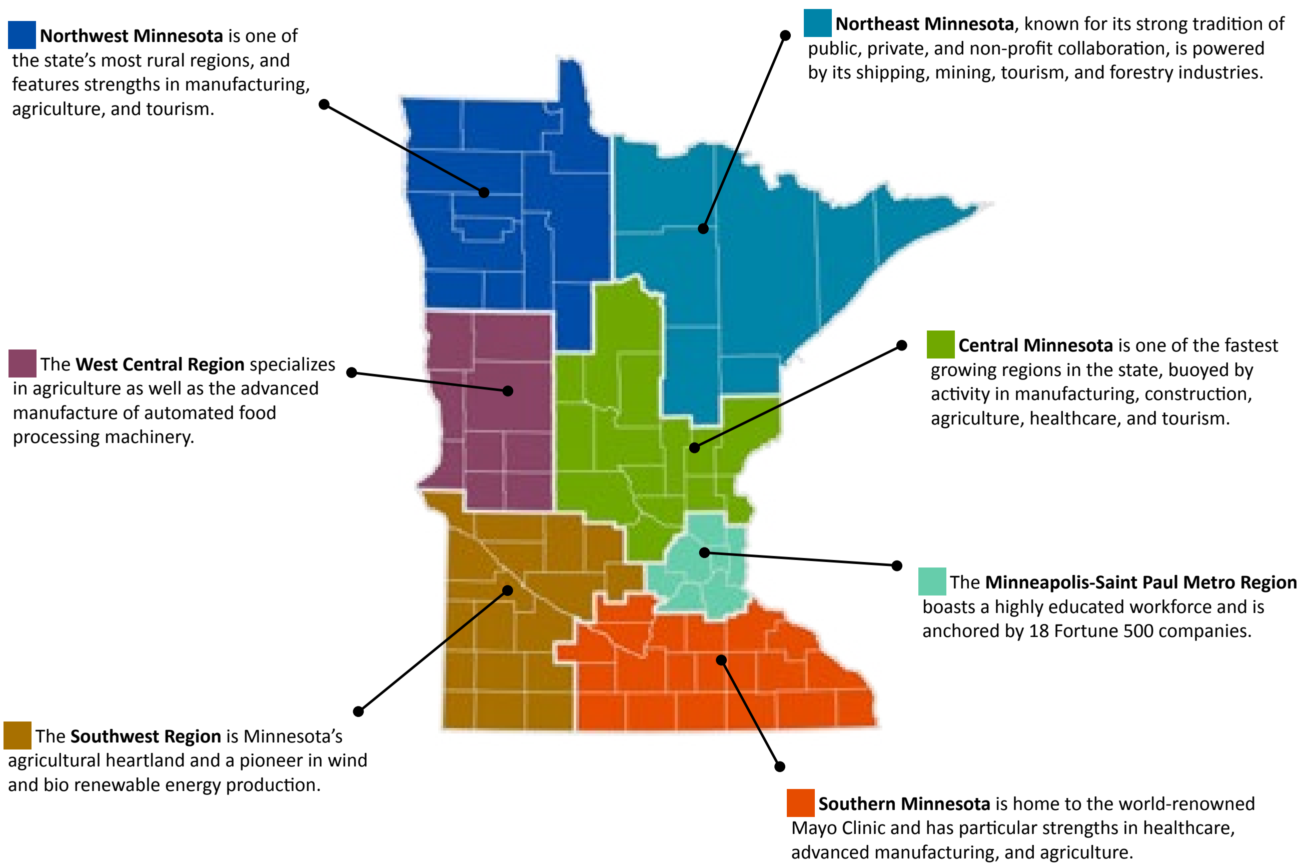
Third, many residents lack the necessary education and skills needed to access jobs that provide high wages and good benefits. Furthermore, significant disparities among racial and ethnic groups in educational attainment, employment, and incomes undermine one of the state's key competitive advantages: the quality of its workforce.

Like many places, Minnesota and its regions face these challenges amidst strong headwinds, including increasingly fast-paced global competition, rapid technological change, significant demographic shifts, and widening gaps in income and economic opportunity that disproportionately affect younger workers and communities of color.

Now more than ever, regions need to invest in the proven pillars of economic growth and competitiveness—innovation, trade, and talent. The state needs to empower its regions to fashion new economic development and workforce strategies tailored to their unique strengths and assets in those areas.

Each region of the state has its own distinctive economy and culture, which contributes to the overall state economy. The economic geography of Minnesota's regions is not fixed by political or natural boundaries but shaped by the extensive networks of firms, workers,

Figure 1. Minnesota's economy is composed of seven distinct regions



Note: While this map of the seven Minnesota Initiative Foundation regions was used for the purposes of this report, the geography of regional economies is more fluid than it can portray. Given that regional economies do not mirror established geographic or political boundaries, it is important to adopt a flexible understanding of regions as places where networks of firms, industries, workers, and civic leaders come together as partners in designing and implementing strategies for economic growth tailored to the economic region.

and institutions that power regional economies. Some regions are especially well equipped for research and development of new technologies. Others span large areas of the state and actively engage in international trade, shipping commodities produced from mining, agriculture, and manufacturing around the globe. Still other regions are home to highly educated workers and centers for innovation that are attractive to advanced industries, defined as those sectors that invest the most in innovation and employ the largest numbers of workers in science, technology, engineering, and mathematics (STEM) fields.

The current challenge for the state of Minnesota is to empower regional leaders to devise and implement economic development strategies that invest in and bolster the strengths of those regional networks in order to better position each region for economic growth and widely shared opportunity.

The state's most critical role in advancing economic growth is to set a statewide vision for growth and prosperity as well as an economic development agenda designed to realize that vision by building on each region's distinct advantages in the key areas of innovation, trade, and talent.

Regions, in turn, are best positioned to understand the performance and dynamics of their own economy, know their unique assets, and then organize the leadership, investments, and collaborations needed to knit together powerful strategies to drive inclusive regional growth.

Accomplishing that does not require the creation of new agencies or organizations but rather building on existing regional structures already deeply involved in guiding regional investment and growth, strengthening capacity where needed, and leveraging regional efforts with streamlined state programs and resources.

This report proposes an agenda and framework for such an approach. It describes how the state of Minnesota—through a collaboration between the governor and the legislature—can partner with regional networks to foster economic growth and extend prosperity to greater numbers of Minnesotans. It provides a high-level overview of current economic conditions and performance in the state and its regions, with particular attention to key trends, significant disparities, and critical assets that support economic growth. More detailed profiles of economic performance in each region are included in an appendix.

The approach advanced here adopts a more holistic perspective than traditional approaches to economic development that focus primarily on business attraction, infrastructure, and land development. By situating economy-shaping activities within regional communities, it highlights the interconnected dynamics of economic growth and other factors including education, workforce training, transportation, and natural resources. It does not attempt to address every dimension of community health and development required to raise the standards of living for all Minnesotans, however. Complementary actions in other critical areas, such as housing, child care, and broader areas of community development, will also play a critical role in delivering the high quality of life envisioned for Minnesota citizens.

The proposed actions transcend the mission and reach of any one state agency; rather, all agencies and all regions have roles to play in advancing this new vision for Minnesota's economy. Implementing this new state agenda will require leadership from the highest levels of state government taking action in partnership with established and emerging regional leaders and organizations.

The agenda can proceed in stages, however, beginning with immediate steps to align state programs and resources that reinforce regional priorities followed by a longer-term strategy for new investments and reforms. As the agenda gains traction, actions over the longer term will set Minnesota on a solid path to future prosperity and expanded opportunity for more people and communities.

Anchored by Brookings research into the economic performance and dynamics of the state and each of its regions, this agenda emerged from a multiyear collaboration with the Minnesota Department of Employment and Economic Development (DEED) and regional partners throughout the state. This project built on past collaborations with DEED and leaders in greater Minneapolis-St. Paul on such issues as global trade, social and economic disparities, and regional economic growth.

It was informed by a number of states that are already moving in this direction, rewarding regions for undertaking ambitious, data-driven economic strategies around innovation, trade, and talent that reinforce statewide goals. At Brookings' invitation, representatives from states as diverse as Nevada, New York, Colorado, and Oklahoma introduced Minnesota leaders to a wide range of models focused on this next generation of economic development built around the pillars of innovation, trade, and talent.

Finally, in the summer and fall of 2014, a series of 22 listening sessions organized by DEED and involving more than 400 leaders across every region of the state solicited insights into regional needs, challenges, and opportunities.

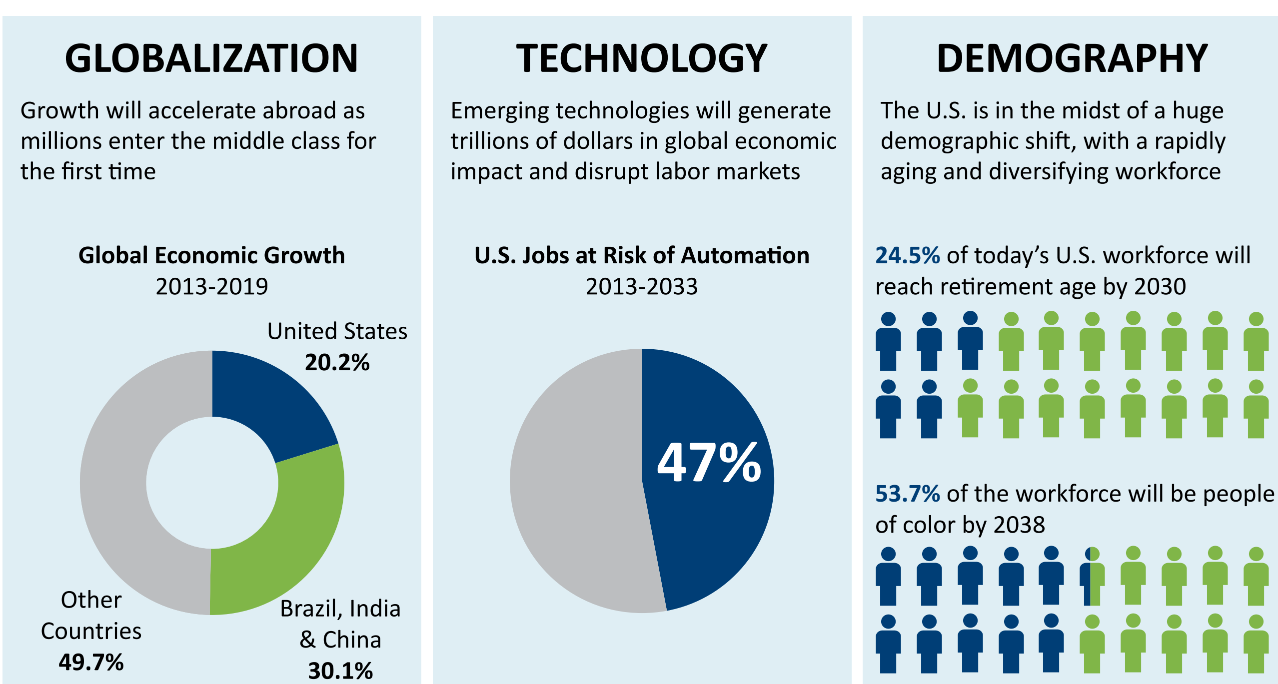
This combination of research, peer learning, and statewide engagement produced a comprehensive and nuanced picture of the challenges and opportunities confronting Minnesota's regions and brought to the surface new approaches the state of Minnesota can deploy to catalyze regional economic growth both in the near term and over the long haul.

With Minnesota's economy and revenues rebounding, now is the time to move forward on this agenda. State and regional leaders can work together to ensure that state investments bolster regional assets in order to produce quality jobs and opportunities that benefit all Minnesotans.

The Pillars of the Next Economy

State and regional leaders in the public, private, and civic sectors must develop and execute economic development strategies that respond to today's macroeconomic realities. Globalization and technology are upending markets and hastening the pace of change for firms and communities both here and abroad. Major demographic shifts, including the aging and retirement of the baby boom generation and rapid diversification among younger generations, are transforming industries and communities. Unemployment and underemployment persist, and many of those currently employed face stagnant wages; together, these trends contribute to rising income inequality.

Figure 2. Global forces of change and a rapidly diversifying U.S. workforce will present distinct risks and opportunities in the years ahead



Sources: International Monetary Fund; Frey and Osbourne, "The Future of Work," 2013; and Brookings and U.S. Census Bureau projections

To adapt to these trends and challenges, leaders will need to move beyond traditional economic development approaches that focus on real estate development and business attraction. These approaches are not well suited to address the challenges that communities face today.

In order to remain globally competitive and expand economic opportunity, Minnesota needs economic development strategies that are focused on strengthening the key drivers of growth and opportunity for all—innovation, trade, and talent—and solidly grounded in the distinctive attributes of its regional economies.

These pillars of economic growth naturally congregate in each of Minnesota regions. Entrepreneurs and workers, firms and research institutions, civic organizations and philanthropies, universities and community colleges come together in regions to form rich networks that generate economic growth. With smart investments and solid strategies, these regional networks can achieve economic gains that are greater than the sum of their parts.

Regional leaders often know their economies best. Working with a clear statewide vision, solid goals, and performance metrics, they are best positioned to design and implement solutions to the major challenges that affect regional growth, opportunity, and prosperity.

But regions cannot do it alone. The state of Minnesota should articulate a high-level vision and provide tools and resources to support regional actions. States are critical partners in regional problem solving and major investors in regional economies. Together, Minnesota state government and its regional leaders can build a "next economy" that holds the promise of more broadly shared prosperity for all of Minnesota's communities.

Innovation

Firms and industries at the leading edge of innovation are the fundamental drivers of growth in every regional economy. In Minnesota, industries as diverse as health care, agriculture, and manufacturing are constantly adapting to changing global demand through research and development of products and services. Firms must also continuously adopt new technologies and methods that boost productivity and generate competitive advantage.

Industries and firms throughout the world are collectively producing technological breakthroughs at a pace that is quickly and dramatically changing how people live and work. Continued global economic growth and urbanization are creating demand for new technologies in water, energy, life sciences, agriculture, and transport. Breakthroughs in materials sciences allow customized products to be manufactured anywhere. Information technology is advancing the frontier of learning and communications around the world.

These new technologies will create entirely new industries and jobs, even as they transform and in some cases eliminate existing occupations. According to estimates developed by Oxford University academics Carl Benedict Frey and Michael A. Osbourne, by 2023 new technologies could put 47 percent of current U.S. jobs at high risk of automation, with more routinized work in office administration, sales, retail, and hospitality in greatest jeopardy.[1] Regions that actively cultivate innovation will be better positioned to adapt to these changes and secure new economic growth and jobs that replace those lost to technology.

Minnesota's state and regional leaders can ensure that regional economies are equipped to innovate and adapt as the global marketplace continues to evolve. Expanding regional capacity for innovation will keep Minnesota at the forefront of technological change while boosting productivity and creating new markets and opportunities in the process.

Trade

To grow and prosper, businesses and industries in every region must sell high-quality goods and services to customers outside of the region. This trade with other places brings new resources into the local economy and stimulates complementary growth in local services.

In today's increasingly interconnected world, trade must extend to global markets, not just domestic ones. Between 2015 and 2019, over 80 percent of global economic growth will occur outside of the United States, with one-third coming from just three countries: Brazil, China, and India.[2] Projections show that China and India's share of global middle-class consumption will surpass that of the United States by 2016 and will account for over half of the total by 2050.[3]

With tens of millions of new middle-class consumers emerging each year, these markets offer important opportunities for Minnesota, its firms, and its regions. Taking steps to expand trade and strengthen relationships with foreign markets and investors will position Minnesota regions to benefit from an increasingly global economy. At the regional level, greater global engagement through trade and foreign direct investment (FDI) can also attract new talent and innovation that fuel local growth and prosperity.

Talent

Investing in the talent, skills, and creativity of the workers in each region is an investment in economic development and competitiveness. Across the entire continuum of education, from early childhood to all levels of postsecondary education, a region's education and training systems have direct impact on the quality of its current and future workforce, the health and competitiveness of its economy, and the prosperity of its people. At the same time, however, regions must also generate the job opportunities and provide the quality of life that will retain and attract talent.

Minnesota has long recognized the importance of talent and invested in the development of one of the nation's most highly educated workforces. But as the pace of economic change accelerates, the importance of ensuring that all Minnesotans can acquire the creative ability and skills needed to thrive in the 21st century economy intensifies. Regions that foster greater alignment between education and training and the skill needs of employers will ensure that greater numbers of Minnesotans have clear pathways to solid careers.

* * *

Support structures

Quality infrastructure and good governance provide the foundation for regional economies and enhance the impact of these three pillars.

A region's infrastructure, including its roads, bridges, railways, transit, housing, broadband technology, and essential supports for work such as child care, determines both whether a region is attractive as a place to live and work and whether firms and industries can thrive there. Good infrastructure makes it easier for firms to move goods and ideas readily around the globe and improves access to educational opportunities, jobs, residential neighborhoods, and amenities. Access to transit and quality housing influences whether workers and families can benefit from the opportunities created by a region's economy. In contrast, inadequate infrastructure adds additional costs for both people and firms, making a place less efficient and less attractive.

Like infrastructure, good governance provides the structural supports that determine how well a region functions to foster economic growth and opportunity. Though tax and regulatory systems are important, all civic institutions, including nonprofit organizations, philanthropies, and business and economic development organizations, play a role in the dynamics and operations of regional economies. Fostering regional economic growth requires the active engagement of a wide array of stakeholders, and the quality and level of regional collaboration positively or negatively affect economic outcomes.

* * *

Working in concert, the three pillars of economic growth—innovation, trade, and talent—supported by strong infrastructure and governance, will generate economic growth and opportunities for prosperity that benefits more people, more regions, and the state as a whole.

Minnesota's Economic Performance

Minnesota's economy has performed well in recent years in part because its key assets for growth—innovation, trade, and talent—have provided competitive advantage in a rapidly shifting global economic landscape. However, more work must be done.

This assessment of Minnesota's current economic situation reveals a state economy that is highly competitive but also increasingly unequal. Economic realities vary significantly from one region to the next. Disparities in educational attainment, employment, and income growth across racial and ethnic groups have become increasingly stark, creating a growing threat to the competitiveness of each region's workforce.

However, regions across the state possess their own distinct assets that can be leveraged to foster economic growth and extend opportunity to greater numbers of Minnesotans. Several regions are home to innovative industries that deliver new renewable energy technologies, health solutions, and information technologies. Other regions benefit from global trade ties thanks to their manufacturing and commodities-producing sectors. And in each region, innovation and trade depend upon the unique talents and skills of area workers.

Regional profiles in the appendix of this report offer a more detailed account of each region's size, demographics, industry specializations, market performance, and assets.

These trends reinforce the need for state prioritization of investments in the pillars of economic growth in a way that reflects the unique realities of each of Minnesota's regions. These findings also signal the kinds of metrics for success against which the state and its regions should benchmark progress.

Growth

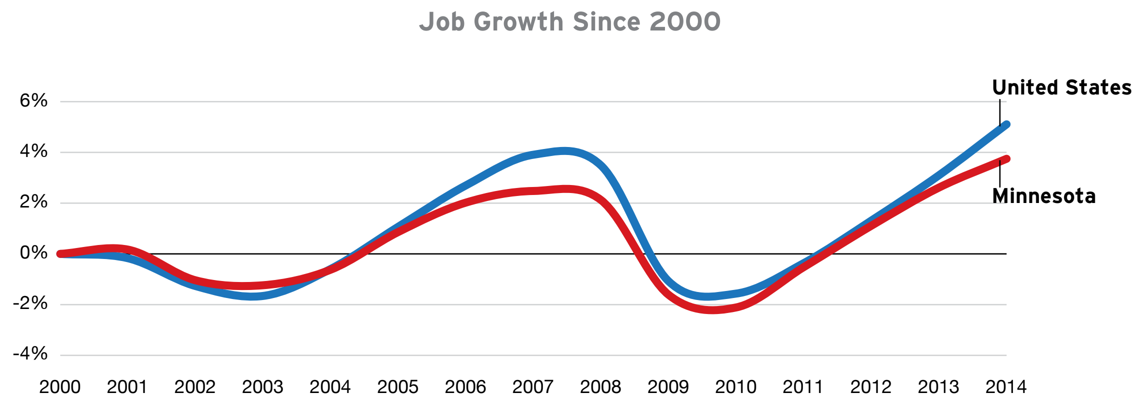
Minnesota's has performed well since the start of the 21st century, due in large part to the competitiveness of many of its traded sectors and increased labor productivity.

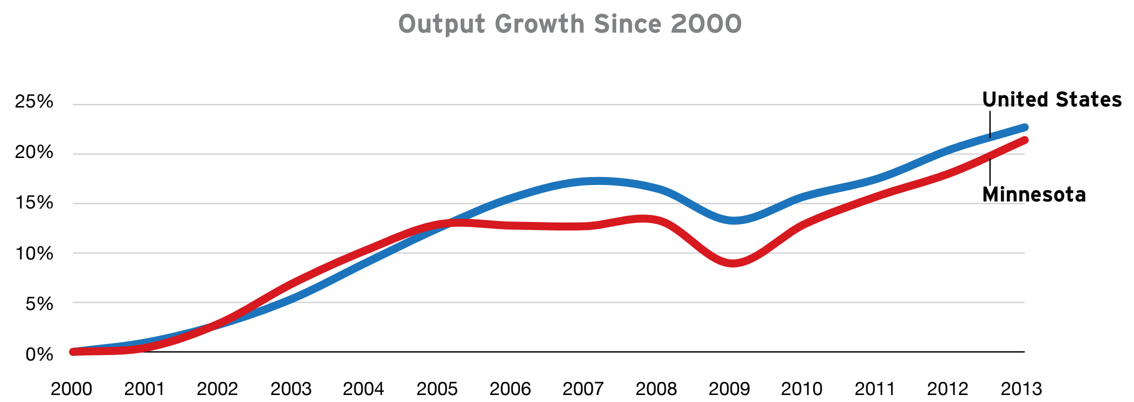
Minnesota grew in step with the nation during the first decade of the 21st century and experienced a stronger recovery from the Great Recession of 2007–2009.

- From 2000 to 2014, Minnesota added 105,000 jobs, expanding the state's job base by 3.7 percent. This growth rate trailed the national average of 5.1 percent during that time.[4] Since the recovery from the Great Recession began in earnest in 2010, Minnesota's employment has grown 1.5 percent per year on average, slightly slower than the nation's 1.7 percent growth rate.[5]

- The state's economic output—a measure of the total value of products and services produced in Minnesota—grew by 1.5 percent per year on average from 2000 to 2013 (the latest year for which state output data are available), just below the national rate of 1.6 percent.[6] Minnesota's economic output grew by 2.4 percent per year on average from 2010 to 2013, above the nationwide average of 2.0 percent.[7]

Figure 3. Minnesota's economy has performed at or near the national average since 2000





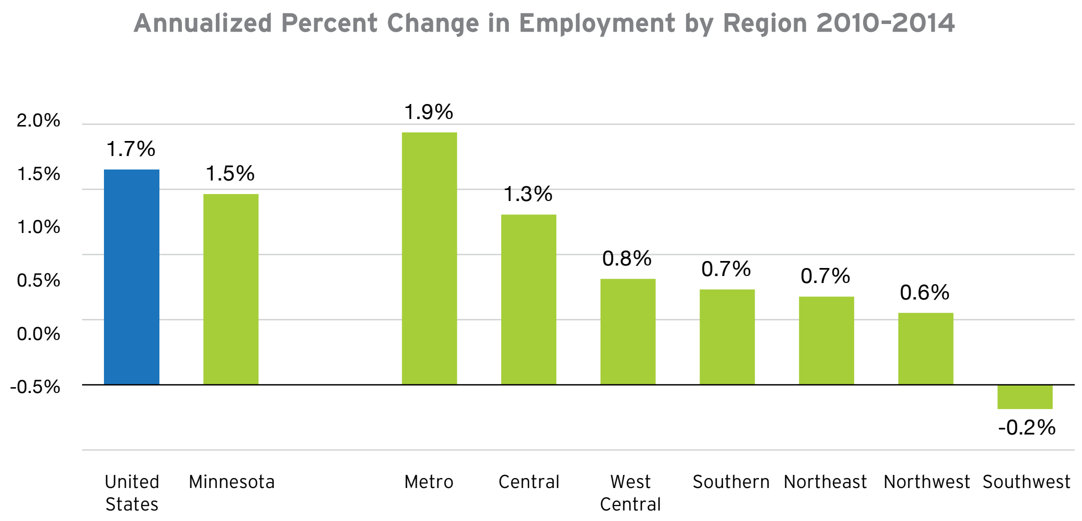
Source: Moody's Analytics

Despite promising employment trends at the state level, growth has been uneven across Minnesota's regional economies since the recession ended. Each of Minnesota's regions has fared differently since the jobs recovery began in 2010.

The Minneapolis-St. Paul Metro region,[8] which suffered the worst recession of any of the state's regions, bounced back the fastest, adding jobs at an annualized rate of 1.9 percent per year from 2010 to 2014.[9] The Central region also suffered during the recession and was not far behind the Metro region in the pace of its recovery. The West Central region lost relatively few jobs during the recession and has added jobs at a relatively fast pace since then.

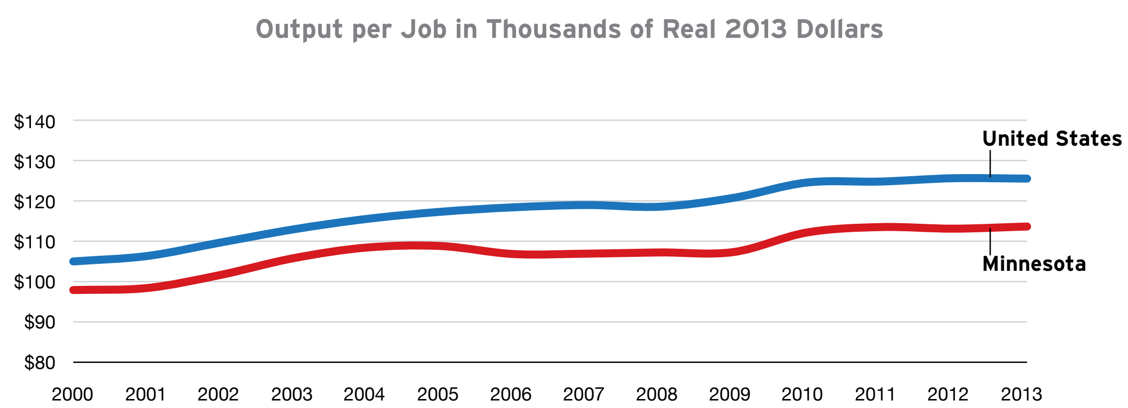
The recovery has been slower in the Northeast and Southwest regions. They are the only two regions that had yet to recover all the jobs lost during the downturn by 2014.

Figure 4. Minnesota's regional economies have added jobs at varying rates since the end of the Great Recession



Source: Moody's Analytics

Figure 5. Since 2000, Minnesota has seen a steady increase in productivity



Source: Moody's Analytics

Rising productivity helped strengthen Minnesota's economy after the recession. Although Minnesota has historically had slightly lower labor productivity than the rest of the nation, the state started to improve on this measure during its post-recession recovery. Minnesota's output per job grew 1.4 percent per year from 2009 to 2013, significantly faster than the national average of 1 percent per year. This rise in productivity fueled roughly 60 percent of the state's output growth during the economic recovery.[10]

Figure 6. Wage stagnation poses a challenge for Minnesota and for the nation as a whole

Source: Moody's Analytics

Income

The rising productivity of Minnesota's firms and workers has powered the state's economic recovery in recent years. However, many Minnesotans have yet to see the benefits of this growth in their paychecks.

Minnesota's rapid recent productivity growth has not translated to higher wages for most workers. Despite the state's low unemployment rate and workers' rising productivity, workers' incomes are growing slowly by historical standards.

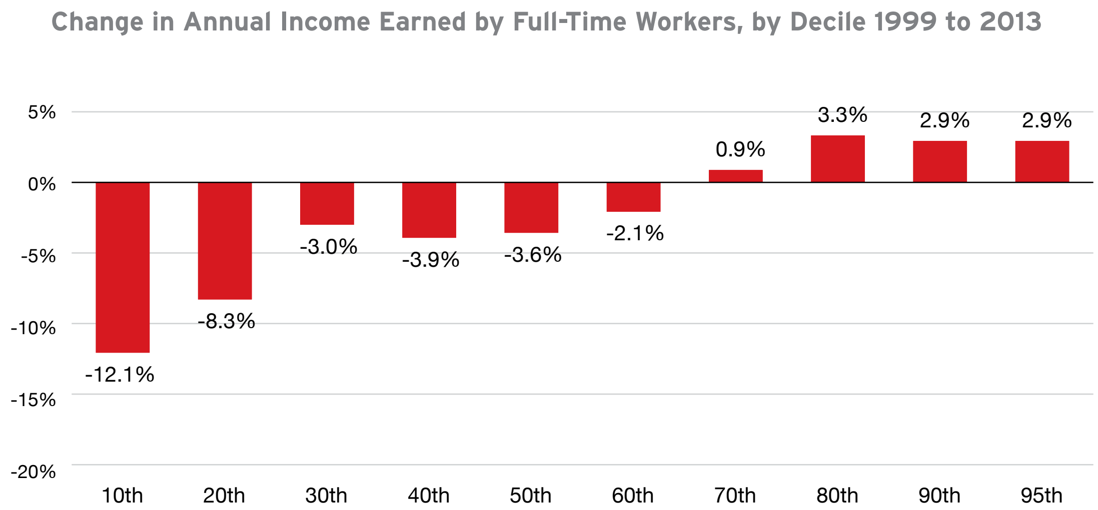
As workers' productivity—measured by output per job—increased from 2000 to 2013, workers on average saw little increase in their wages. Specifically, Minnesota workers' average annual output grew 1.3 percent per year during this period while their average annual wage grew 0.4 percent per year.[11] The gap between worker's productivity and wage growth has widened since the recession. From 2009 to 2013, Minnesota's average annual wage grew less than 0.15 percent per year on average, roughly one-tenth as fast as the state's annual output per job.[12]

Minnesota's modest wage gains have disproportionately benefited high earners while leaving the majority of workers worse off. From 1999 to 2013, full-time workers in the top 10 percent of Minnesota's earners garnered 49 percent of the state's total wage gains. These workers saw annual wages grow by 2.9 percent, from $97,881 to $100,755. The next 20 percent of earners—those with incomes between $65,000 and $100,000 per year—received the remaining 51 percent of total wage gains during that period.[13]

But fully 70 percent of Minnesota workers experienced declining wages on average. Perhaps most distressing, income declines were largest for those who earned the least. Full-time workers at the 10th percentile of earners saw their annual wages decline by 12.1 percent between 1999 and 2013, from $24,750 to $21,763.[14]

These trends in earned income have exacerbated income inequality across the state. In 1999, a worker in the top 10 percent of earners was paid 394 percent more per year than a worker in the bottom 10 percent. By 2013 that gap had increased significantly, with an average worker in the top 10 percent earning 463 percent more per year than a worker in the bottom 10 percent.[15]

Figure 7. Full-time workers in the bottom 70 percent of incomes earned less in 2013 than in 1999



Source: Census Public Use Microdata via Minnesota Population Center at the Unviersity of Minnesota

Growing pay disparities have hurt Minnesota's young people, those with less work experience and education, and communities of color the most. Minnesota employers, like those elsewhere in the United States, increasingly place a premium on skills and experience. These rising expectations make it more difficult for entry-level workers and those with fewer skills to find good jobs.

Young Minnesotans who do find work have experienced steeper declines in wages than their older counterparts. Between 1999 and 2013, median annual wages for full-time Minnesota workers age 18 to 24 years fell 17.7 percent, from $29,364 to $24,181. During that same period, median annual wages fell 8.7 percent for Minnesota workers age 25 to 29 and just 1.8 percent for full-time workers over 30.[16]

Like young workers, Minnesotans without postsecondary education or skills training also face limited job prospects and falling wages. From 1999 to 2013, average annual wages fell 9.2 percent for full-time workers who possess only a high school diploma. During that same period, average annual wages fell 6.8 percent for full-time workers with some college or an associate degree and only 2.3 percent for full-time workers with at least a four-year degree.[17]

Lower levels of educational attainment, wage stagnation, and income disparities disproportionately affect Minnesota's communities of color. Blacks, Hispanics, Native Americans, and recent immigrants to the United States are more likely to be unemployed than their white counterparts. In 2013, the unemployment rate was 16 percent for black Minnesotans and 9 percent for Hispanic Minnesotans, compared to just 6 percent for white Minnesotans.

Measures of educational attainment reveal similar disparities. Although Minnesota has one of the most highly educated workforces in the country, members of its black, Hispanic, Native American, and refugee communities are less likely than whites to hold a high school diploma or a four-year degree. Statewide, 94.7 percent of white Minnesotans possessed a high school diploma, compared to 81.5 percent of black Minnesotans and 64.2 percent of Hispanic Minnesotans. Together, only 18.5 percent of blacks and Hispanics hold at least a four-year degree, compared to 34.7 percent of whites.[18]

These variations in educational attainment contribute to pay disparities among these groups. In Minnesota, blacks and Hispanics on average earn 68 cents in wages for full-time work for every dollar earned by whites.[19]

Assets

Despite the challenges posed by these disparities, Minnesota possesses assets that, if properly leveraged, can continue to generate growth while expanding opportunities for all Minnesotans.

From the Metro region to the distinct regions of Greater Minnesota, each local economy can build on its unique set of assets to foster growth and prosperity.

Innovative firms and industries characterize each of Minnesota's regions, though their relative sizes and specialties vary. One measure of the strength of a regional innovation ecosystem is the relative size of its advanced industries sector, those industries with high intensity of STEM occupations as well as research and development investments.[20] In Minnesota, advanced industries produce 10.6 percent of the state's total economic output and provide 5.5 percent of its jobs—roughly on par with the national average for that sector of the economy.[21]

However, advanced industries are not evenly distributed across the state. Their concentration ranges from a high of 7.2 percent of jobs in the Metro region to 1.6 percent of jobs in the Central and Northeast regions. In the Southern and Southwest regions, the proportion of advanced industries is just below the national average at 4.8 percent and 4 percent, respectively, due to the presence of computer equipment manufacturing. In the Central region, only 2.5 percent of jobs are in advanced industries such as computer systems design and medical devices manufacturing.[22]

Most of Minnesota's regions punch above their weight on exports, which include a wide array of products and services. Minnesota benefits from highly diversified exports, which generated 10.3 percent of the state's economic output in 2013.[23] Raw agricultural and mined commodities, manufactured products, and advanced business services are the primary drivers of Minnesota's export activity.

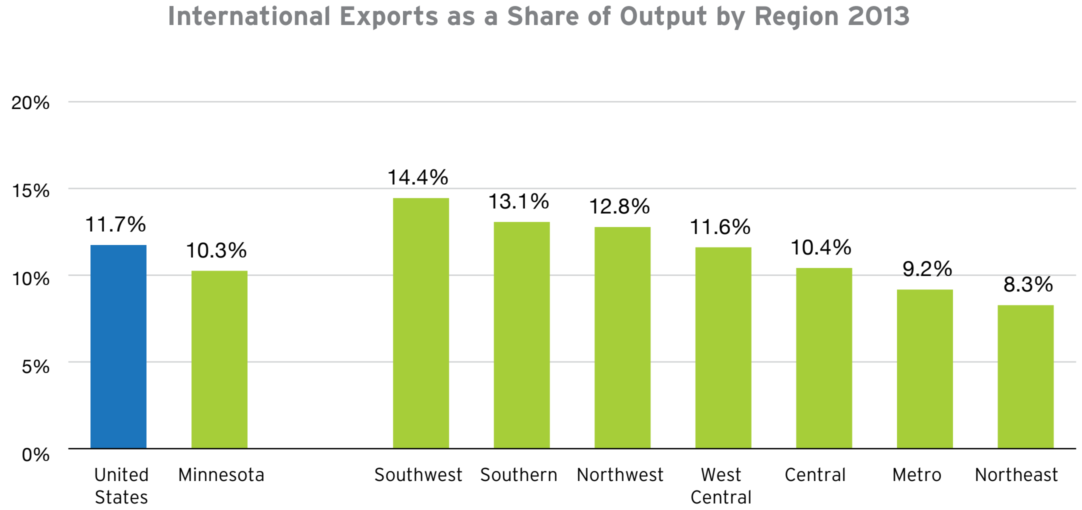
The types of exports and their contributions to economic output vary by region. The Southwest region is the state's heaviest exporter, generating one-fifth of its total output from export trade. Like other regions in Greater Minnesota, exports from the Southwest region are primarily agricultural commodities and manufactured goods such as machinery, computers, and food.

The Northwest region also makes a strong showing, with exports accounting for 12.8 percent of its economic output. Top exports from the Northwest region are agricultural goods, followed by transportation equipment and tourism.

The Metro region has a highly diversified and more consumption-oriented economy, which translates into a lower share of the total output from exports. The Metro region primarily exports advanced business services, financial services, and high-tech manufactured goods.

"From the Metro region to the distinct regions of Greater Minnesota, each local economy can build on its unique set of assets to foster growth and prosperity."

Figure 8. Exports are a large driver of the economy in most of Greater Minnesota



Source: Brookings, "Export Nation 2013"

Talent provides the foundation for all of Minnesota's regional economies, though each region's workforce varies in its level of educational attainment and skills training. Minnesota's workforce is one of the most educated in the nation. Nearly two-thirds of Minnesotans over the age of 25 have some college experience and one-third have at least a four-year degree.[24]

In the Metro region, nearly 40 percent of those over 25 hold at least a four-year degree, due in part to the knowledge-intensive nature of its economy. Nationally, 32 percent of workers have a bachelor's degree.

Other regions of the state have lower college attainment rates. Compared to the national average, a smaller share of residents over age 25 in these regions have at least a four-year degree. At the same time, a larger share have some form of postsecondary training but not a four-year degree. This educational attainment profile also reflects the nature of these regional economies, which tend to specialize in manufacturing and commodities extraction.[25]

Despite these impressive levels of postsecondary attainment, most of Minnesota's regions are also home to a larger share of adults who have only a high school diploma compared to the nation as a whole. These residents will face increasing barriers to entry and advancement in the labor market as employers place greater emphasis on postsecondary training.[26]

* * *

Minnesota's competitive edge derives from three key assets: some of the world's most innovative firms, strong engagement in the global economy, and a well-educated workforce. These assets exist across the state's distinct regional economies, which are highly interdependent and together drive the state's overall economic performance.

However, the state and each region also face troubling socioeconomic trends that threaten long-term growth and prosperity—particularly with regard to educational outcomes and income disparities. Fostering increased growth and more broadly shared prosperity will require the state of Minnesota to work with leaders in regions to leverage and grow these assets and take deliberate steps to expand opportunity to more workers and communities.

In the years since the Great Recession, Minnesota has made smart new investments in the pillars of economic growth that have positioned the state on a solid path to economic recovery:

- The pay-for-performance Minnesota Job Creation Fund has improved the efficiency and effectiveness of state-led efforts to incentivize business investment.
- The MnDRIVE program provides incentives for technological research and development to strengthen the competitiveness of Minnesota's key emerging industries.
- The state's sizable investments in the Mayo Clinic's Destination Medical Center will ensure that Rochester and the state as a whole continue to deliver state-of-the-art medical care to the world.
- New state trade offices in Brazil, China, Germany, and South Korea are helping Minnesota's firms forge new trade ties within the rapidly evolving global economy.
- The Minnesota Jobs Skills Partnership has encouraged private-sector investment in work-force training for more than 11,000 new and incumbent workers.

Local governments, philanthropies, and other nongovernmental organizations throughout the state made similar investments in their communities to drive the recovery and strengthen key assets in critical areas.

Today the state's economic situation has changed. While it continues to build on earlier investments, the state of Minnesota must also ensure that its economic growth remains strong and benefits people and places more evenly.

By empowering networks of regional stakeholders to invest in innovation, talent, and trade in their communities—and develop the critical infrastructure to support these pillars—Minnesota can help its regions thrive in the rapidly changing global economy.

A State Agenda Anchored in Regional Assets

All across Minnesota, state and regional leaders increasingly understand the importance of regional economies to the state's economic health. At regional listening sessions organized throughout the state, participants affirmed that "economic development happens locally and regionally, and that a one-size-fits-all approach…would be detrimental."[27]

Many participants also confirmed that the three pillars of economic growth—innovation, trade, and talent—play an outsized role in shaping their regional economies. Regions are already working to develop customized strategies focused on these three key factors that can be strengthened and expanded with better state alignment and greater investment. Some spoke of the need for investment in high-tech startups and other innovation activities. Some called for increased export assistance. Most expressed concern that shortcomings in education and workforce development pose a direct threat to economic growth.[28]

State leaders outside of Minnesota have come to these conclusions as well. Throughout the country, governors, with their legislative partners, have launched new economic development strategies and programs that empower regional action. Many of these states have installed high-level, interagency efforts or a chief coordinator in the governor's office to drive interagency action and collaborate with the legislature. In all, these states have set a clear vision for their economies that breaks through program silos to prioritize the market fundamentals of innovation, trade, and talent, with regions as the primary drivers of economic growth.

The state of Minnesota has an opportunity to do the same, advancing its own economic development agenda that capitalizes on the unique strengths of its regions. This will require leadership by the governor and the Minnesota Legislature, working together to ensure that key programs across state agencies help all of Minnesota's regional economies reach their utmost potential.

In general, Minnesota can advance a statewide economic agenda that embraces the following principles:

- **Set a vision and goals for state economic growth based on regions' market assets.** In setting this vision, the state of Minnesota can make regional strategies a centerpiece of state economic development and encourage regional plans and efforts focused on innovation, trade, and talent.
- **Invest in market assets that strengthen regional capacities to innovate, trade, build skills, and create new opportunities for workers.** The state can focus on these fundamental drivers of inclusive growth to ensure that regional plans and state investments address what matters.
- **Leverage regional resources to extend the impact of state investments.** State leaders can establish mechanisms that leverage the capacity of regions to match state funding with public and private resources, expanding the impact of state resources

and ensuring that regional leaders are invested in the strategies they adopt. In addition, efforts to align state activities with federal programs that invest in localities can maximize return on investment for all involved.

- **Align programs, agencies, and systems with shared goals and objectives.** To ensure that resources are deployed efficiently and effectively, the state administration can align operating goals and program delivery across its own agencies.

- **Visibly report on outcomes.** Finally, the state of Minnesota can articulate priority outcomes and track progress on key metrics that reflect statewide goals and can guide the performance of programs and investments in regional economies.

In the near term, state officials should focus on what its top leadership can do best: establishing a high-level vision and goals for Minnesota's growth and prosperity; providing critical investments in innovation, trade, and education and talent; and creating shared interests among regions to benchmark progress against key indicators of success. Investments in roads, broadband, other infrastructure, and housing are important, and will have far greater impact when they complement investments in the three key pillars of growth.

In the longer term, the state has an opportunity to establish a strong and enduring framework for investing in regional economic development strategies.

The following sets out in more detail the components of a near- and longer-term strategy for a state economic agenda anchored in regional assets.

Set a vision—and goals—for economic prosperity

As one of the largest investors in Minnesota's regions, the state is uniquely positioned to establish a high-level vision that guides strategy development and implementation, provides incentives for collaboration, and rewards smart decisions by regional stakeholders.

In the near term, by making Minnesota's economic development priorities explicit and then allowing regional leaders to determine how best to achieve them, goal setting can clarify how best to invest limited public resources.

Clear statewide goals also offer an important performance management tool that will allow state agencies and regional leaders to track progress and identify strategies that work and problems that need correction.

Statewide goals can include two components.

Statewide goals on prosperity

To start, the state should articulate goals in three broad areas of economic prosperity that offer the greatest benefit to Minnesotans: continued economic growth, more widely shared prosperity, and reduced disparities in wages, employment, and educational attainment across regions and among racial and ethnic groups. As statewide and regional trends indicate, Minnesota has a relatively strong economy, but global forces and uneven trends by region and among workers require the state to be deliberate about how its collective investments and strategies are ensuring ongoing progress on growth and opportunity.

The state should set goals for three important dimensions of prosperity and track progress toward those goals by continually collecting data on these example measures:

- **Economic growth**: job growth by industry sector and by quality (hours per week, wages, benefits); output growth (including the sources of growth such as commodities pricing, trade, and investment); new firm creation; and firm expansions.

- **Widely shared prosperity**: growth in median wages and household incomes, average output per worker, and share of economic output from trade.

- **Economic inclusion**: labor force participation rates, unemployment and underemployment, educational attainment, access to employment, and other factors by race, ethnicity, and age.

In monitoring progress, state leaders should consider outcomes and performance across the state as well as in each region, in significant traded sectors and other key industries, and across racial and ethnic groups and age cohorts. Tracking performance along each of those dimensions will provide a more nuanced picture that can ensure more effective and inclusive impact.

Statewide 'stretch goals' by pillar

In addition to establishing goals for these broad economic outcomes, the state should set stretch goals under each of the three pillars of innovation, trade, and talent.

Regions that perform well on innovation, trade, and talent will have the greatest chance of producing measurable improvements in economic growth, income growth, and economic inclusion. The state should set goals for these three critical economic drivers to ensure that both state agencies and regions focus on what matters most for economic growth and prosperity.

These stretch goals will also communicate the state's economic development priorities and provide rationales for specific economic development programs and investments:

- **Innovation** goals that increase the share of output, jobs, and growth generated by firms and industries that invest in research and development; boost the number of firm startups and growth of small and mid-sized firms; and/or expand public-sector support for research and development at public universities and colleges throughout the state.

- **Trade** goals that increase the number of firms exporting to markets outside Minnesota; the number of firms entering new international markets and/or the flow of foreign direct investment into Minnesota; and the share of economic output generated from trade.

- **Talent** goals that focus on increasing postsecondary attainment across all populations and among racial and ethnic groups and immigrant communities, boosting the net in-migration of individuals with postsecondary credentials and skills, and/or raising the number of credentials earned in high-demand and/or high-wage occupations across racial and ethnic groups and within immigrant communities.

* * *

Maryland's StateStat program, described in the box below, offers one model of a performance management system that uses clearly defined goals and data to guide decisionmaking on a wide range of issues related to economic growth and development. Tennessee's Drive to 55, also highlighted below, represents another model of statewide goal-setting that is driving regional action on one critical pillar of growth: the development of skills and talent. Drive to 55 focuses on a single overarching goal: ensuring that 55 percent of Tennesseans have a college degree or postsecondary certification by 2025. These two states show how goal-setting can galvanize regional action and track progress over time.

In recent years, the state of Minnesota has adopted a dashboard that helped leaders elevate and track a number of important metrics. Going forward, the state can update the state dashboard, not only as a visible vehicle to track and monitor state economic progress but also as an internal tool for driving shared accountability among state agencies. As part of the state's performance management system, regular public reporting will inform the alignment of state policies, programs, and actions across agencies as well as the broader agenda to empower Minnesota's regions.

Invest in the pillars of growth

In the last few years, Minnesota has made critical investments in economic development to position the state for quality growth and opportunity. From the Minnesota Jobs Skills Partnership and the MN FastTRAC program to new broadband infrastructure programs and global trade offices, the state of Minnesota has responded to emerging challenges and opportunities with investments in the assets that matter most for long-term growth and opportunity. These actions will strengthen the pillars of growth in the global economy.

Yet, the state should not stop there. In the future, the governor and state legislature could structure programs and investments that can better inspire regional efforts to strengthen innovation ecosystems, encourage increased trade and foreign investment, and help more Minnesotans obtain the industry-relevant education and skills they need to compete in the next economy.

Building capacity for innovation: Oregon

Maintaining a competitive edge in the global economy requires a commitment to ongoing innovation. Although the activities that advance innovation occur at the regional level in firms, universities, and research institutions, state support can accelerate these efforts by providing targeted investment in industries that offer the greatest potential return to the economy.

In Oregon, state investment in innovation is championed by the Oregon Innovation Council (Oregon InC), a public-private partnership established by Gov. Ted Kulongoski and the state legislature in 2005 in order to expand the innovation capacity of Oregon's economy. The council connects businesses to labs and other R&D resources, increases and expedites commercialization of university research, and improves access to capital for innovation-intensive startups.

The centerpiece of Oregon InC's efforts is a competitive grant program that uses proceeds from the state lottery to fund innovation initiatives in the state's key industry clusters. Past winning proposals have led to the creation of signature research centers that support innovation activities in areas such as green construction, nanoscience and microtechnologies, unmanned aerial vehicle research, bioscience, renewable energy, food processing, and electric vehicle technology. Each dollar invested has produced a return of $7 to the state economy.

Other states, including New York and South Carolina, have also invested in the formation of industry-specific centers of excellence. In all cases, these efforts seek to strengthen regional economies by expanding private-sector access to technological expertise and fostering growth, innovation, and entrepreneurship in existing industries or next-generation technologies.

Innovation

Robust innovation ecosystems produce new technologies and other breakthroughs that increase productivity, develop new products, and create new markets. Productivity increases can lead to rising standards of living with positive effects extending throughout the regional economy.

Investing in research and development at universities and other institutions, assisting entrepreneurs working to grow new businesses, helping clusters of firms collaborate to develop new products and solutions—all can contribute to the health and dynamism of a regional innovation ecosystem.

State support for regional innovation can take many forms. In Massachusetts, the state took action to bolster advanced manufacturing, a critical component of the innovation ecosystem. Oregon used proceeds from a state lottery to create a competitive grant program that funds industry initiatives and signature research centers throughout the state. Iowa concentrated on support for early-stage companies focused on innovation and delegated management of its program and investments to a third-party organization outside of state government.

Trade

The traded sectors—those segments of the economy that produce goods and services that are sold outside the state—represent an essential driver of economic growth and a critical component of a healthy economy. Increased trade fosters economic growth by bringing new resources into the region, which in turn fuel growth in local markets and among local-serving businesses.

In Minnesota, each region possesses a particular mix of industries that represents its distinctive offerings to the global marketplace. The state can help regions make the

Adopting an industry-oriented approach to foster success in the global economy: Washington State

As the expansion of the middle class in global markets increases opportunities for global trade, growing numbers of states and regions are looking to export promotion as a way to foster economic growth. Rising export levels helped the United States rebound from the Great Recession and continue to bolster the economic health of the nation and its regions.

As the nation's fourth-largest exporter, Washington State generates roughly 15 percent of its gross product from exports. In 2013, Washington State had its highest-ever return from exports, with nearly 13,000 exporters in the state securing $82 billion in sales.

While most states have trade programs, Washington State is unique in its integrated, industry-oriented approach. The state treats exports and FDI as two sides of the same coin, a practice that allows it to take advantage of overlaps in target foreign markets and potential foreign investors. Staff from the Department of Commerce's International Trade and Business Recruitment, Retention, and Expansion teams share information on contacts, accounts, and potential opportunities, and this coordination allows them to align their efforts for maximum effect. In addition, Washington State employs a sector-focused approach to its export and FDI promotion strategy. Each of the eight target industry sectors has a lead within the Department of Commerce who coordinates export and FDI activities within the agency. The state's longstanding interest in exports dates back to the late 1970s, when it established an export assistance program. Today, the state offers a variety of services to help Washington firms compete in the global marketplace. Export Washington, an initiative of the Business Services division of the state Department of Commerce, helps both new-to-export businesses and existing exporters interested in expanding to new markets. The Department of Commerce also used funds from the federal State Trade and Export Promotion (STEP) Grant Program to establish an Export Voucher program, which provides small and medium-sized firms up to $5,000 (with a 25% match from the recipient) for export-related expenses. The 250 vouchers awarded to date have resulted in $60 million in export sales, with another $100 million in sales expected over the next two years.

By creating an overarching, industry-focused strategy that combines both export support and FDI outreach, Washington State aims to maximize its investments in global engagement activities. The greater coordination that results allows the state to present a united front in its outreach to trade partners throughout the world.

most of these traded-sector assets by supporting efforts to increase the number of firms exporting, expand the number of markets reached, and encourage greater foreign direct investment.

Other states have invested in their traded sectors to great effect. In Washington State, a sector-focused approach to export promotion and FDI allows for greater coordination on all trade-related activities. South Carolina's success in attracting FDI stems in large part from multimodal freight investments and state-supported workforce training initiatives tailored to the needs of multinationals that choose to locate in the state. Meanwhile, Florida delegated export promotion to a private-sector organization, which conducts trade promotion at the regional level.

Talent

While innovation and trade are unmatched in their ability to bolster economic growth, neither is possible without a skilled workforce. Strong education and training offerings, particularly at the postsecondary level, open pathways for individuals to prepare for existing and emerging job opportunities and careers, benefiting firms in the region as well as communities.

Minnesota is fortunate to have a large proportion of highly educated workers as well as a K–12 public education system that consistently ranks well when compared with other states. As the global economy continues to evolve, however, the state must redouble its efforts to work with its regions to prepare, attract, and retain the educated and skilled workers critical to regional growth and the expansion of opportunity among more Minnesota residents.

Aligning state support for early childhood development and primary, secondary, and postsecondary education with statewide economic goals and regional strategies will further increase the return on investment for Minnesota. The state already takes active steps to encourage collaboration between secondary and postsecondary systems. Continuing to reinforce the alignment and connection among education systems, workforce development, regional economic priorities, and industry

Cultivating a skilled workforce: Maryland and Tennessee

States are increasingly recognizing that economic development and workforce development are two sides of the same coin. In practice, this relationship means ensuring that education and workforce training programs align with the existing and expected labor demands of regional economies—and taking some extraordinary steps to open the door to higher education attainment and skills training for all workers.

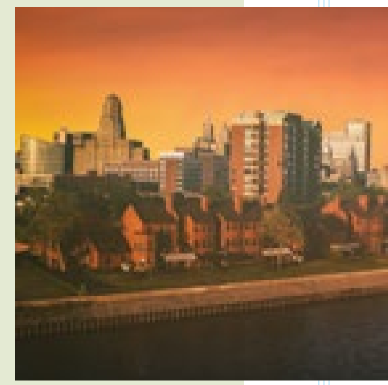
State efforts to empower industry-led regional workforce development take a variety of forms. In Maryland, these efforts begin with StateStat, the state's performance management tool. StateStat establishes clear metrics and performance goals for workforce training and other critical areas in order to improve alignment both within state government and across Maryland's regions. To help meet these goals, then-Gov. Martin O'Malley and the state legislature established EARN Maryland (Employment Advancement Right Now), a workforce development program that uses regional, industry-led partnerships to help close skills gaps. Each year, grants are awarded to support these partnerships as they plan and implement strategies to prepare workers for careers in a particular region or industry sector. These grants give partnerships the flexibility to develop programming that aligns with their needs while also contributing to StateStat goals.

Tennessee also uses state-level metrics as part of Gov. Bill Haslam's Drive to 55 initiative. Drive to 55 seeks to increase the percentage of Tennesseans with college degrees or certifications to 55 percent by 2025. Under this banner, the state has launched three major efforts. Next autumn Tennessee Promise is slated to begin providing Tennessee high school graduates two years of tuition-free postsecondary education at a state community or technical college if the students maintain a 2.0 GPA and complete eight hours of community service each term. Tennessee LEAP is a $10 million competitive grant program designed to improve alignment between industry and skills training providers in order to close critical skills gaps. Tennessee Reconnect allows Tennesseans to pursue skills certification at any of the state's 27 colleges of applied technology free of charge.

By setting clear statewide goals and providing flexible grant support for regional efforts and expanding support for individual students focused on gaining career skills, Maryland and Tennessee are taking action to improve the quality and skill of their workforces. Regions, meanwhile, have the autonomy and resources to tailor programming to their immediate and projected labor market demand. Working together, states and regions can prepare residents for well-paying jobs and strengthen their economies.

Driving state economic revitalization through regional economic development: New York

Recognition of the critical role that regions play in fostering economic growth and prosperity has prompted a number of states to restructure and free up state funding drawn from across multiple agencies, streamline and simplify applications, and invest the authority for developing and proposing strategies to regional leaders in order to align state expenditures with regional goals and strengths. The resulting structures and approaches vary from one state to another, but share their primary principle: aligning state action and resources behind regional leadership.



In New York, Gov. Andrew Cuomo instituted an entirely new structure, establishing new regional councils and new regional boundaries to create a competitive grant program that used sizable tax credits and grant dollars to reward regions with strong economic development plans. Ten regions competed for a portion of $1 billion in state funds, approved by the state assembly and largely repurposed from existing programs and funding streams. Plans were judged by a panel of outside experts to determine the level of state investment flowing to each region. Each region received some measure of state support, with stronger plans securing higher levels of funding.

The state established the parameters of the competition, requiring regions to make a business case for their strategies including specific plans for implementation, the leveraging of other resources, and the use of tracking performance metrics. Each round of the competition invested in a wide array of activities, including technology infrastructure to support the unmanned aerial vehicle industry, an inland container port, new agricultural processing, and initiatives to strengthen entrepreneurial ecosystems. After four rounds of funding, the ongoing, statewide competition is reshaping New York's regional economies.

As part of it, the state created a consolidated funding application that streamlined applying for state economic development grants, allowing regions to apply for a broad range of grants with one application and thus reducing time and resources involved in seeking state support. State agencies came together to improve the alignment of economic development activities to minimize redundancies and ensure alignment with common goals.

The case of New York shows how one state has implemented a regionally driven approach to state investments and activities in economic development. It and other states adopting similar approaches ensure that regions have greater flexibility and access to state resources for investment, build new capacities, and develop tools to collaborate and advance statewide goals. State leadership sets high-level goals and performance targets to guide regional strategies, creating alignment between regional and state efforts. The result is a statewide economic development agenda that responds to the diverse regions and industries that make up the state economy.

needs will ensure that more Minnesota residents gain access to the training they need to stay competitive in the global labor market. Developing that level of alignment requires change not only across the state but within state agencies charged with these missions.

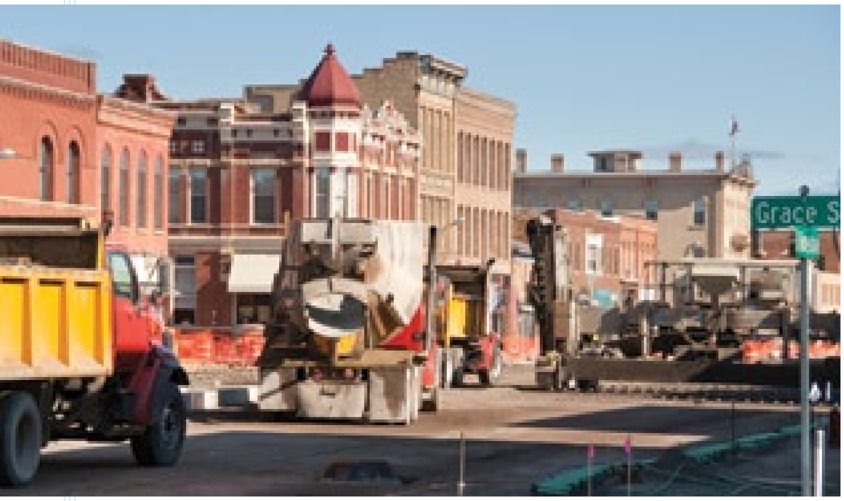
States have adopted different strategies to strengthen workforce development systems and better align them with economic development strategies and industry strengths. Maryland combines statewide goals with targeted investments to close identified skills gaps. Tennessee significantly has expanded access to community colleges and postsecondary training while also awarding competitive funding to regional initiatives focused on aligning skills training with employer needs. In Oklahoma, an intensive empirical analysis of the state's industrial growth opportunities and workforce needs resulted in a reorganized workforce development system centered in regions and the tracking of performance based on outcomes.

Empower regions

Within each region, the networks of leaders from business, philanthropy, universities, research institutions, government, and civic organizations contend with the day-to-day realities and operational dynamics of their economies. As a result, they are positioned to identify priorities for economic development and, working within a broad statewide framework, devise solutions to the challenges facing their area economies.

In the near term, the Department of Employment and Economic Development can continue to strengthen its relationship with regions through collaborative planning efforts to establish shared goals and strategies. The state of Minnesota can also assist regions in realizing local goals and priorities by continuing to improve the alignment and focus of workforce and economic development resources at the state level to these resources.

In the longer term, the state can provide more interagency resources directly to regions to support regional solutions in the form of new competitive planning or implementation grants, more coordinated alignment of existing programs, or new funding for sector-based strategies in innovation, trade, and talent. To do that, the governor could create a high-level interagency cabinet to set coordinated policy approaches to bottom-up solutions to economic growth and opportunity. In partnership, the state legislature can support new investments or create statutory relief and flexibilities in existing programs to unlock the stove-piping of funds and support integrated initiatives to systemic challenges.



For instance, the state could create a "regional economic competitiveness fund" to award flexible planning or implementation grants to support regional, industry, and/or workforce partnerships focused on the three pillars of growth. In addition, state resources could strengthen industry clusters that often extend beyond any one region through programs that support sector partnerships, consortiums of firms with common interests, and other structures that enlist the private sector in designing solutions to the challenges posed by innovation and entrepreneurship, exports and trade, and talent retention and development.

The state could also establish a consolidated funding application that streamlines the process for securing state grants and other investments. Combining existing grant programs and investments into a single application process will make the total funding picture clear while lowering the cost of applying for regions and state agencies alike. It can also improve alignment across state agencies by consolidating funding streams to reduce duplication and fragmentation, creating larger potential funding opportunities for greater impact.

Similar initiatives in other states have taken a variety of forms. New York State uses a statewide funding competition to generate new energy and action in regional economic development. The initiative consolidates multiple funding streams awarded through a competitive application. In Colorado, state leaders sought input from regional stakeholders when crafting the state's economic development plan that is focused on 14 key industry clusters. Nevada combined an emphasis on nine target sectors with steps to empower regional action focused on those sectors.

Although these approaches are tailored to the particularities of each state, these strategies represent an important trend in state economic development in the next economy.

Conclusion

Although Minnesota has enjoyed solid growth while recovering from the Great Recession, its future prosperity is not assured. Growing income disparities signal disquieting trends that are magnified when race, ethnicity, age, and educational attainment are taken into account. These gaps represent long-term threats to Minnesota's continued competitiveness and social cohesion.

This report offers the state a new approach to economic development that capitalizes on the local knowledge and strengths of Minnesota's regional economies.

With clear statewide goals to set the direction and ensure accountability, Minnesota's leadership can empower its regions to accelerate action on innovation, trade, and talent by crafting new strategies that take into account each region's unique assets, opportunities, and challenges.

The imperative to move in this direction stems not only from increasing global competition and technological change but also from the need to reduce disparities in income, educational attainment, and access to opportunity that jeopardize Minnesota's future prosperity.

Minnesota can cultivate a more productive next economy that ensures that greater numbers of its citizens reap the benefits of growth. Adopting a regionally driven economic development agenda today will bolster the competitiveness of Minnesota and its regions in the ever-changing global economy.

Appendix:
Extended market assessment

In addition to the essential findings presented in the market assessment in this report, Brookings analysis also revealed interesting trends in the sectors that have driven Minnesota's economic recovery and the tight labor markets that growth has led to.

Post-recession growth drivers

Key traded sectors have fueled Minnesota's growth in recent years. Minnesota's traded sectors, those parts of the economy that sell goods and services across the U.S. and to global markets, largely drove growth and recovery from the recession.[29]

Employment in manufacturing and wholesaling of both raw materials (such as agricultural products and fabricated metals) and advanced technologies (such as scientific instruments and medical devices) grew faster in Minnesota than elsewhere in the United States.

Banking, insurance, and real estate have also been more competitive, as have the rapidly growing data processing and scientific research industries. These high-value-added sectors tend to be more consistent sources of growth because they bring new resources into the economy.

Service sectors that primarily serve local markets, including some aspects of health care, education, and fields such as temporary employment, also grew faster in Minnesota than they did across the nation.

Low unemployment

Minnesota's recent economic growth, coupled with demographic trends, has led to an especially tight labor market. The state's strong growth has created tens of thousands of new jobs since the recession, helping many of the state's workers who lost jobs find work again. At the same time, a smaller share of the state's population is participating in the workforce. Together, these two trends have lowered Minnesota's unemployment to one of the lowest among the 50 states.

The state's tight labor market may be holding back economic growth. Many employers, especially in Greater Minnesota, say they are finding it increasingly difficult to find workers appropriately trained to fill open positions.

Like the nation as a whole, Minnesota has seen a decline in the share of its working-age population (those age 16 and above) that is working or looking for work. The state's labor force participation rate peaked in 2001 at 75.8 percent. Since that time, it has declined every year, falling to 70.4 percent in 2013, which is still higher than the national rate. Nationally, the labor force participation rate fell from 66.8 percent to 63.2 percent over the same period.[30]

The decline in Minnesota's labor force participation rate accelerated following the recession, which suggests that cyclical pressures rather than structural demographic shifts alone are driving at least some of the reduction in workforce participation. The net result: a smaller workforce must drive economic growth while a larger share of Minnesotans relies on income that is not earned (e.g., retirement accounts, pensions, and disability payments).

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26. Ibid.
27. Anonymous participant, "Minnesota State-Regional Economic Competitiveness Initiative: Regional Engagement Meeting Survey Results," Appendix 3 (St. Paul: Minnesota Department of Employment and Economic Development, 2014), 19.
28. "Minnesota State-Regional Economic Competitiveness Initiative: Summary of Regional Engagement Meetings" (St. Paul: Minnesota Department of Employment and Economic Development, 2014).
29. This finding employs shift-share analysis, a technique used to study regional economics. Shift-share analysis breaks a change in employment down into three components: a *national growth* component, which represents the change in employment that would have occurred in a particular state or region if employment in all its industries had grown at the overall national employment growth rate; an *industry share* component, which represents the difference between the national growth component and the change in employment that would have occurred in the state or region if all the area's industries had grown at their respective national rates; and a *competitive shift* component, which represents the difference between the actual employment change and the sum of the national growth and industry share components. The industry share component captures nationwide industry-specific influences on local job growth, while the competitive shift component captures the influence of factors that are specific to the state or region (or to its industries or employers). Results of a shift-share analysis are sensitive to the start and end years of the analysis and to the level of industry aggregation chosen. We conducted all analyses at the NAICS four-digit level as modified in Moody's Analytics data. Our period of analysis is 2000 to 2013.
30. Brookings analysis of U.S. Census Bureau Current Population Survey data.

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