Brains or Brawn? Which Economic Development Policy is Best for Iowa?

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Brains or Brawn? Which Economic Development Policy is Best for Iowa?

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During this period of sluggish economic growth, state governments have been forced to consider whether they will be able to maintain valuable government services in both the near and distant future. Short-run concerns are shared nationwide, as lower tax collections create holes in state budgets. In the longer run, states such as Iowa face the dilemma of an aging and declining workforce, leading eventually to inadequate support for their economies.

Iowa Governor Tom Vilsack has been at the forefront of policy prescriptions for economic development. At the beginning of his first term, his Strategic Planning Council released the “Iowa 2010 Plan.” The Council recommended that Iowa adopt a program to recruit 310,000 foreign workers by 2010. The recommendation was based on the belief that Iowa’s economic future with a shrinking labor force would be grim, and the logical solution is to bring new workers and families into Iowa to maintain its current economic base of agriculture, manufacturing, and services.

Now, at the beginning of the governor’s second term, the policy prescription has changed to emphasize education, value-added agriculture, and biological sciences. In his recent condition-of-the-state address, Governor Vilsack set a goal of doubling the proportion of Iowa’s workforce with college experience and adding 100 new life science companies. As he puts it, “Iowans who learn more earn more.”

Which of these two policy prescriptions is best for Iowa? Should the traditional economic base that needs low-cost, high-quality labor be supported? Or should our traditional emphasis on “brawn” be replaced with an emphasis on “brains” by growing and recruiting companies that need highly educated workers, venture capital, and access to high technology?

The Changing Color of Iowa’s Workforce

The 2000 census contained some good news for Iowa: the state’s population increased by 5.4 percent in the 1990s. This increase reverses the 4.7 percent loss that occurred in the 1980s. But a closer look at the census numbers reveals some age and race trends that point to important changes for Iowa’s future.

The first trend is that the gap between the number of older Iowans and the number of younger Iowans continues to grow. In 1980, for every 100 Iowans over the age of 44 there were 100 under the age of 20. In 2000, the number under age 20 had fallen to 76. This ratio also has fallen in the rest of the United States, but Iowa’s ratio has fallen 20 percent more than the U.S. ratio. This is another way of saying that Iowa’s population is turning gray faster than the country’s as a whole.

Iowa’s workforce is also turning less white and Anglo. The ratio of young to old would have fallen by even more had it not been for the rapid increase in the number of non-white Iowans and the number of Iowans of Hispanic origin in the last decade. Iowa’s non-white population increased by 89 percent, to 178,000 individuals in the 1990s. Its Hispanic population increased by 159 percent, to 82,000. These new Iowans are much younger than the population as a whole.

In 2000, non-white Iowans numbered 280 under the age of 19 for each 100 over the age of 44. The ratio of younger to older Hispanics was 3.46. The importance of immigrants in stemming population decline is illustrated by U.S. census
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Director of Equal Opportunity and Diversity, having inquiries concerning this may contact the status as a U.S. Vietnam Era Veteran. Any persons sexual orientation, sex, marital status, disability, or basis of race, color, age, religion, national origin, Iowa State University does not discriminate on the basis of education, and skilled, and the labor shortage shows up predominantly in a shortage of low-skill and low-wage workers, then the sectors that would become relatively less competitive in Iowa—and the ones that would most likely relocate—are those that depend on low-skilled, low-wage labor. Meatpacking, livestock production facilities, some manufacturing, and some service industries would decline in relative importance in Iowa. The insurance, higher-wage service, manufacturing, finance, and communications industries would fare relatively well. On the other hand, if current trends continue, with less than 30 percent of Iowa’s labor force having some college education, then Iowa will continue to be a state specializing in lower-wage jobs.

Governor Vilsack’s first-term proposal to bring in a large number of immigrants is consistent with the goal of meeting the future labor needs of Iowa’s current industries. A large influx of low-cost, relatively uneducated workers would support Iowa’s traditional economic base. His second-term proposal for economic development focuses on transforming Iowa’s workforce into a more educated, higher-wage labor pool, employed by a high-tech, bio-based economy.

WHICH PATH SHOULD IOWA TAKE?

Iowa, like any state or country, has limited resources to invest in eco-
nomic development. Should Iowa invest in programs that would grow its population through immigration, or should it invest in programs that would encourage advanced education and the recruitment of high-technology companies?

Before we consider this question, it is important to note states, and countries too for that matter, have a limited ability to affect the robustness of their economies. The links between government policy and economic growth are poorly understood and cause and effect are highly variable. Often the best government policy is the one that does the least, in the sense of not giving subsidies to favored industries and levying taxes on those that have fallen out of favor.

But we do know something about Iowa's demographics and comparative advantages. We know that Iowa's population is aging. Older people demand different goods and services than do younger people. So, we can expect to see increased demands for health services, hospitality, assisted living, and leisure activities. All of these activities require large amounts of labor. An expanded labor force would allow Iowa companies to meet these increased demands.

Iowa will continue to have a comparative advantage in production agriculture. The growing, processing, and transportation of grains and livestock and the provision of supplies to these basic industries will continue to be important to Iowa for the foreseeable future. Again, increasing the supply of workers to support these industries would keep Iowa's comparative advantage in this traditional, and still important, sector.

Iowa currently does not have a comparative advantage in high-tech, bio-based industries that require a highly educated labor force. Recent history has taught us that high-tech companies prefer to locate in places where there are other high-tech companies. Bio-based research and development is being conducted by companies across the United States and the world, but there are high concentrations of companies in southern California, the San Francisco Bay area, Boston, Baltimore–Washington, D.C., and the North Carolina Research Triangle area. Internationally, Israel and Saskatoon, Canada, are regarded in the top circles of plant and life science research. A relatively minor player, St. Louis, currently has more than 23,000 people employed in plant and life sciences by 1,200 companies.

So Iowa starts with a distinct disadvantage: new companies are much more likely to want to locate close to the existing hubs of life science commercial activity rather than in Iowa. And venture capital is more available to companies that are located in existing hubs. It would help if Iowa could attract a small number of established and influential life science companies to locate here to complement the skills that Iowa's existing seed companies can offer.

But Iowa does have some potential advantages. It has two major research universities: Iowa State University has agricultural life science expertise, while the University of Iowa has bio-medical expertise. Iowa farmers are world leaders in the ability to raise livestock and grow crops, which can be an important consideration for companies that need to use crops or livestock in their production processes and who want to be close to their production facilities.

While any prediction of the future is tenuous, there is little doubt that the world will continue to demand the types of products that Iowa has excelled at producing: food and a variety of manufactured goods, such as windows, appliances, and farm machinery. The state would be wise to continue to adopt policies that support these traditional sectors and other sectors, such as insurance and finance, that currently are important to the state's economy. Such support could include programs that reduce technical and social barriers to immigration.

But we know with as much certainty that the world is moving toward an economy based on knowledge, information, and biotechnology. Thus, the wage gap between highly educated, highly skilled workers and those with less education and skills will continue to grow. Thus, policies that encourage Iowans to pursue higher education are sound as well.

Whether Iowa can attract and generate enough companies to employ these college-trained Iowans is a bigger question. The state undoubtedly faces large obstacles to attracting the amount of venture capital and the kind of workforce needed to successfully compete with those regions that have a significant headstart.

A prudent strategy might be to roll the dice on the risky investment of life sciences by building on Iowa's current strengths in the area, while simultaneously taking out an economic insurance policy by making sure that Iowa's existing industries are supported. And, whichever direction economic development policy takes, enhancing educational opportunities is always a winning strategy.

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What would happen to Iowa’s economy if the labor force were allowed to shrink? The answer depends on the educational and skill levels of the labor force.

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