

A Case for Change

Introduction

A case for change. Those four words accurately and succinctly describe what readers will find in the following pages.

Iowa is a place rich in natural resources — the sort of resources that make growing food and fiber the world requires an easy task. From the beginning agriculture shaped Iowa's development. While some Iowans farmed the land, others opened retail businesses and manufacturing plants to provide the goods and services farmers needed.

But as the size of farms increased and the number of farmers decreased, the state changed. Retailers and agricultural service companies in rural communities began to close. Manufacturers began to produce goods without an agricultural tie. People began to move to urban areas to look for work.

Iowa's growth now is stymied by a lack of people to do the work. Iowa's population is aging, and not enough people move into the state each year to match the needs of current employers. With the nation's lowest unemployment rate, it's clear why the state isn't having much success attracting new businesses.

Iowa Business Council members have a vested interest in the economic vitality of Iowa. The council's 23 members currently employ 150,000 people in Iowa, about 10 percent of the state's employment. Ironically, that is the same number of people that Iowa Business Council companies estimate they will need to hire over the next 10 years for replacement and growth.

This paper focuses attention on Iowa's past, present and future. It tells where we came from, how the state's economy has transitioned away from agriculture, and some of the challenges we face now and in the future.

It outlines some of the steps the Iowa Business Council has already taken, and plans to take, to be a major contributor to a bright future for Iowa. In short, it presents "a case for change."

Read on.

We're all in this together.



R. Edward Howell
2000 Chair
Iowa Business Council

Iowa's Beginning

To effectively discuss where Iowa needs to be, we must examine where we came from and what made us what we are today.

Our native people named this land Iowa, which means, beautiful land. The European settlers of the early nineteenth century quickly recognized not only the beauty but also the immense wealth of this land of tall grasses, rivers and blue sky. They discovered ample rich, fertile soil, a temperate climate and abundant water.

Settlers, largely from Europe, started arriving in the 1840s and word spread quickly about what they found. When Iowa became a state in 1846, there were just fewer than 100,000 residents. Yet, by the turn of the century, more than 2.2 million residents claimed Iowa as their home.

Agriculture Shapes Iowa

Early farms were small because farmers were limited by the amount of land they could plant and harvest by hand, as well as the availability of labor, largely provided from within the family. In the 1850s, wheat prices escalated in Europe, making many farmers wish they could produce more to cash in on the increased market. This opportunity, combined with the fact that farmers had time during the winter months to “tinker” in their shops, produced great inventions and innovations. The reaper was invented in the 1850s followed by self-propelled steam engines used for plowing and threshing. The largeness and expense of steam engines rendered them impractical and unaffordable to most Iowans, thereby leading to another innovation — John Froelich, an Iowan, built and operated the first tractor as we know it today.

With the arrival of World War I, Iowans were put to the test again as shortages of labor and draft animals encouraged farmers to invent more labor-saving devices. Many, if not most, of Iowa's largest companies today, including members of the Iowa Business Council, got their start during this era, producing equipment to assist agriculture. Some, such as Maytag, started into business making farm implements and later branched to other products. Maytag, needing to do something to produce in its “off season” and seeking opportunities to help farmwives, produced washing machines. These became so popular that the company focused all its attention on that product instead of agricultural implements.

Recognizing that machinery helped farmers be more productive but did little to increase acreage yields, Iowans again were called upon to play a leading role in innovation of genetics and fertilization. Henry Wallace, utilizing the education he obtained at Iowa State College, incorporated the principles of genetics into his scientific experiments of corn breeding. This resulted in the production of a high-yielding hybrid that

revolutionized corn production. Pioneer Hi-Bred International was formed, which became the largest independent seed company in the world.

Because of Iowa's preeminence in farming and other agricultural-related services, farmers became more prosperous, small towns flourished and demand for services increased. The East Coast insurers were both expensive and inexperienced in developing the products Iowans needed. There also was an inherent mistrust of Easterners. Iowans wanted to do business with Iowans. Companies such as The Principal Financial Group and Farm Bureau Insurance were formed to meet those needs.

Other products and services started appearing to assist farmers. Farm publications, such as *Successful Farming* and *Wallaces Farmer*, were published to give farmers access to the latest farm techniques and methodologies. Sears Roebuck and Montgomery Ward started offering their products to rural America via mail order, thereby allowing Iowans to purchase anything they could have purchased in the East at reasonable rates with home delivery. Houses were even available by catalog!

The European settlers brought to Iowa a thirst for knowledge and a desire for education, which resulted in a very high literacy rate for Iowans compared to the rest of the country. They also were very hard working people, a characteristic that was necessary for those early years on the prairie.

Agricultural-based Society

Agriculture was the economic base of the state, and all policy directives were focused on doing what was necessary to help farmers become more productive. State, county and city policymakers focused on public policies, particularly regulatory and tax policies, that enhanced the agricultural economy.

As a result, Iowa agriculture became the most efficient in the world, making the state known throughout the world. This competitive position spurred more innovations in genetics, farm equipment and agricultural-related services.

The results were readily apparent in infrastructure. To help farmers get their grain and livestock to market, roads were built around nearly every square mile in the state. Those that were direct routes to "market" were paved, creating a network of "farm-to-market" roads rivaled by no other state in the nation. Ninety-nine counties were created with county seats no more than a day's ride by horseback so farmers could conduct their business and be home in time to do chores.

Since education was a high priority, schools dotted the landscape so every child in Iowa could attend school within walking distance of his or her home. By 1950, there were 4,652 school districts in Iowa.

Manufacturing

Small town manufacturers started focusing on non-agricultural products. With farmers looking for jobs to supplement their farm income, there was a plentiful supply of hard working, skilled people, allowing those manufacturers to grow.

Farms were getting larger, and farmers needed bigger and more sophisticated equipment to manage the expanded acreage. Because they were purchasing in larger quantities, they could afford to seek the best price in the area. In addition, many were able to purchase either through wholesalers or directly from manufacturers, resulting in fewer purchases from Main Street retailers.

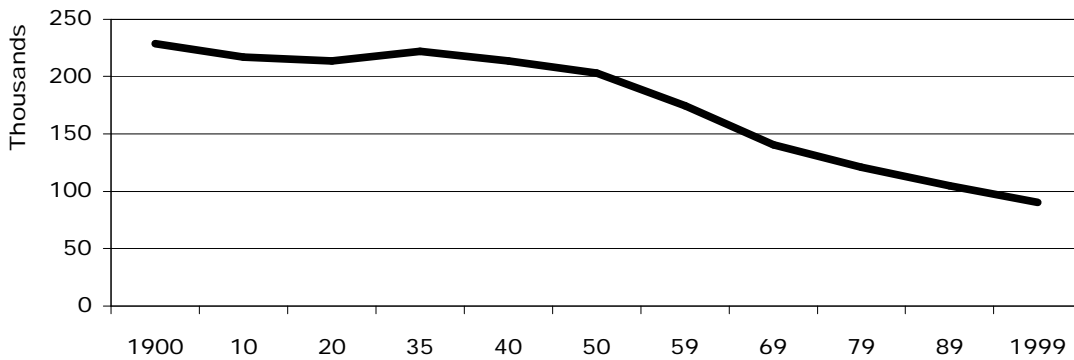
Another result of larger and more mechanized farms was fewer farm families and a declining birthrate. The insurance companies and manufacturing companies that had relied on the steady stream of workers coming off the farm were feeling the shortage of workers. Manufacturers, faced with shortages of labor, the need to increase size to achieve efficiency, more regulations and higher taxes, found it difficult to be competitive.

Iowa Today

With this backdrop, we must now appraise Iowa as it is today. Agriculture was the economic engine that led this state for many decades. But the facts show that engine is slowing.

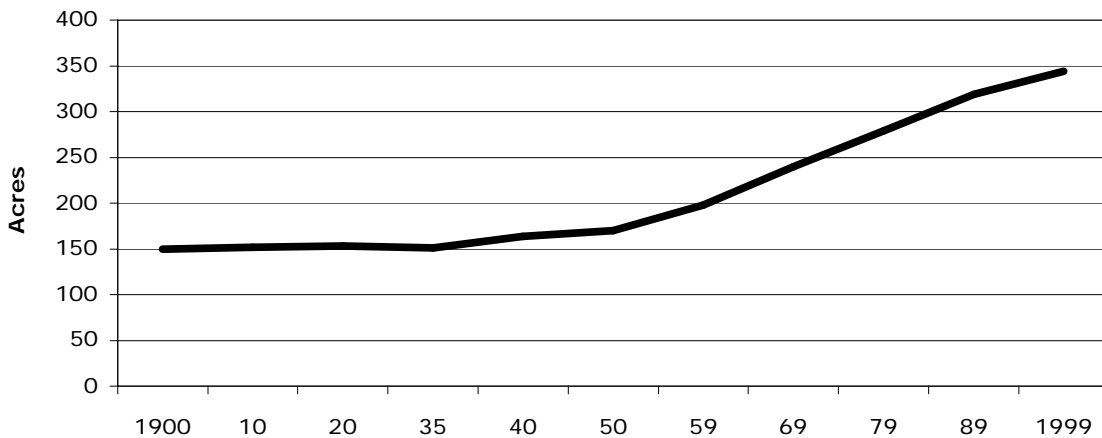
During the twentieth century, the number of farms declined, and the size of farms increased. Although the number of acres in production agriculture remained fairly steady, the number of farms and farm families was cut by more than half.

Number of Iowa Farms, 1900-1999



Number of farms in 1900 – 228,622 Number of farms in 1999 – 90,000

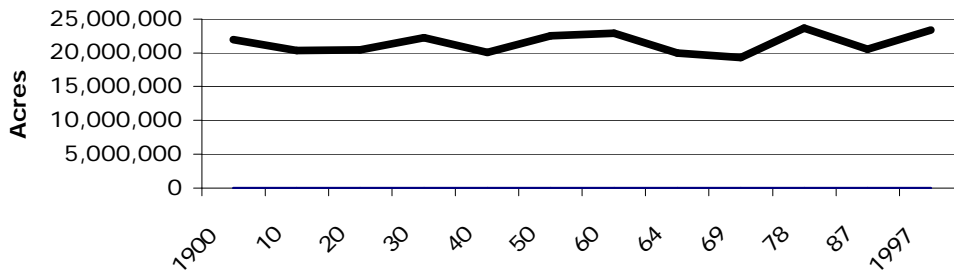
Estimated Average Size of Iowa Farms, 1900-1999



Average size of farms in 1900 – 150 acres Average size of farms in 1999 – 344 acres

Source: Census of Agriculture

Iowa's Harvested Cropland, 1900-1997

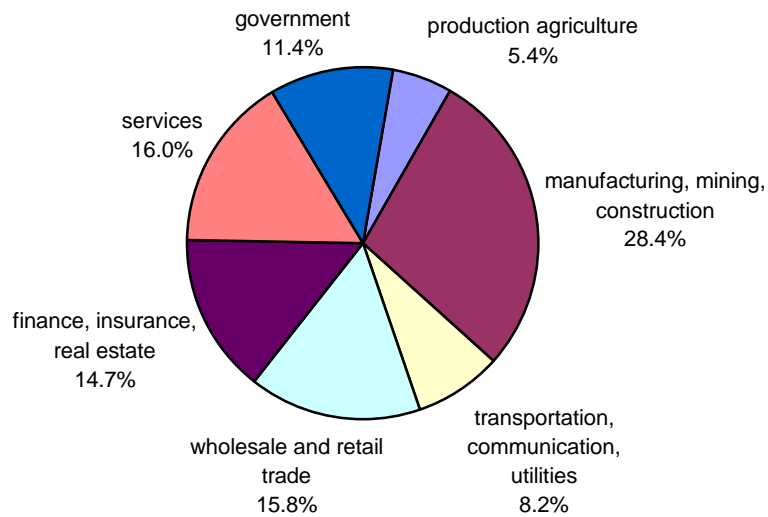


Source: 1997 Census of Agriculture-State Data

Gross State Product

Production agriculture accounted for only three to five percent of the Gross State Product (GSP) in 1998. The broadly defined agricultural sector, including inputs, transportation, processing, wholesaling, retailing and induced effects, accounts for 20 to 25 percent of GSP. However, all other segments of Iowa's economy now account for 75 to 80 percent of GSP.

1998 Iowa Gross State Product



Source: U.S. Department of Commerce

Employment

Production agriculture accounts for six to seven percent of employment, and the agricultural sector in total accounts for about 23 percent of Iowa's employment. That means nearly 80 percent of Iowans are employed in sectors unrelated to agriculture. If we look at personal income, the numbers are even more skewed away from agriculture. In 1999, 2.5 percent of net personal income in Iowa was associated with production farming. Without federal government payments, which are tied to federal farm policies, the number would have been negative.

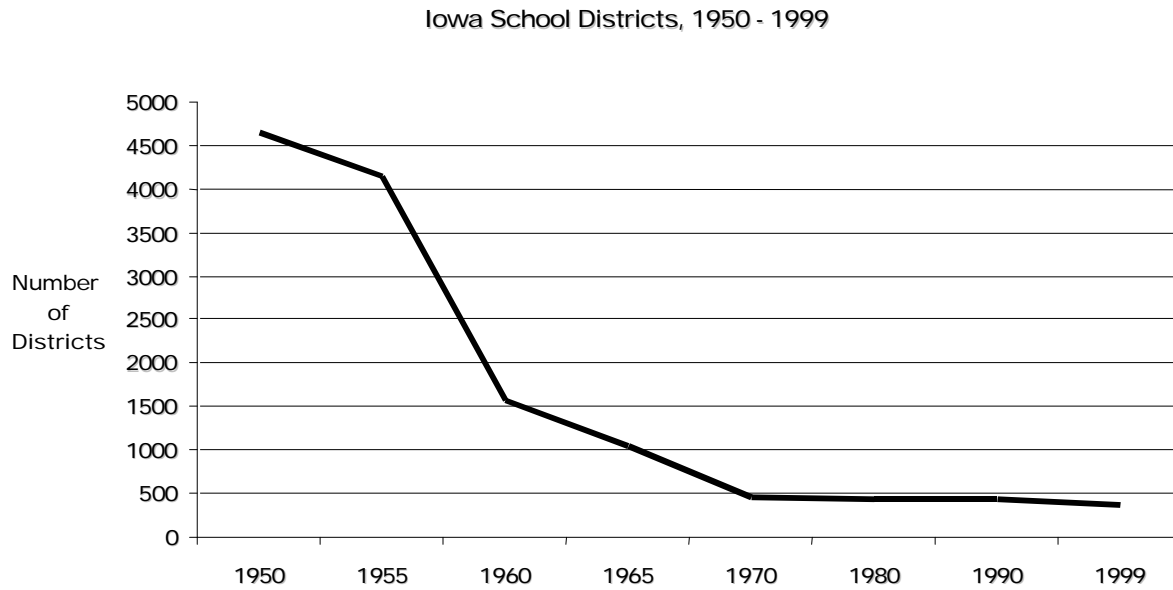
Faced with narrowing margins and increased costs of production, many farmers and their spouses have taken jobs off the farm. Dan Otto, Iowa State University economist, reports that a recent survey of Iowa farmers reveals 73 percent of farm families have at least one spouse in off-farm work and 29 percent of farm families have both spouses engaged in off-farm work. Furthermore, 25 percent of these people are over 65 years of age, and that percentage is expected to increase.

Main Street

With fewer farmers purchasing from local retailers, the retail trade in small towns has all but vanished. Large retailers such as Wal-Mart and other chain discount stores built stores in larger towns and changed the buying habits of all Iowans. Many rural Iowans always have been large mail order purchasers (Sears, Montgomery Ward, J. C. Penney) and are now transitioning to e-commerce for both business and personal purchases.

Schools

School districts have been forced to consolidate because of declining enrollments. Of the 364 school districts today, 229 have fewer than 1,000 students. There were 62,400 fewer students in Iowa schools in 1999 compared to 1979 enrollments. It is projected this decline will continue in smaller school districts.



Source: Iowa Department of Education

Business

The insurance and banking industries have noticed significant changes. Consolidations, acquisitions and mergers have changed the names of many of Iowa's long-time institutions. Nationwide purchased Allied. Marsh Advantage America now owns KVI. Norwest and Brenton now are known as Wells Fargo. Ownership is no longer in Iowa, and, in fact, not always in the United States. ING and AEGON of Cedar Rapids, for example, are headquartered in the Netherlands. These industries, which traditionally relied on a steady supply of educated workers moving from the rural areas to the urban and metropolitan areas, are facing severe labor shortages. Companies now are opening branch offices in areas where labor can be found, and that, in some cases, is out of state.

Despite the stagnation and decline of the manufacturing sector in other parts of the United States, Iowa experienced 10 percent growth over the past decade. However, this sector is experiencing the same labor shortages that are impacting other sectors of the state's economy. There is general concern among Iowa manufacturers about the lack of skilled workers and the need for the state's educational system to do a better job of graduating workforce-ready students.

Globalization

Another reason for concern about the future of Iowa's economy is the impact of globalization on the state. We no longer are competing with companies just in Iowa or

in the United States—we are competing internationally. Because of the Internet, information and commerce flow freely worldwide. Many goods and services, once available only locally or by mail order, now can be purchased from anywhere in the world.

Demographics

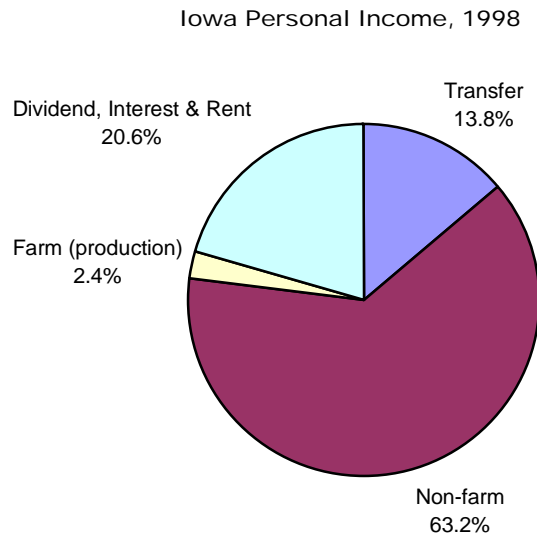
Iowa's demographic changes are worrisome. Iowans are aging. The birth rate has slowed to an all-time low. The number of persons over 74 years of age is greater than those under five years of age.

Furthermore, Iowa is not keeping up with the rest of the country in population. Although there was an increase in population from 1990 to 2000, the state still is lagging when compared to the percentage of growth nationally. Iowa's percentage of the U.S. population peaked in 1880 with 3.3 percent. We have decreased that percentage each decade until we now represent only one percent of the national population. We have the lowest unemployment rate in the country. So low, in fact, that we are virtually at full worker capacity. Unlike past decades, there are few rural Iowans left to move to urban or metropolitan centers to enter the workforce. Iowa has had one of the highest percentages of women in the workforce for many years, so there is no longer an untapped reservoir of that gender.

Communities are suffering because of the lack of social capital. When corporate headquarters move out of state, they often sever their ties to the communities. Funds dry up that companies and individuals in higher income levels put into the communities. In addition, valuable local leaders are lost.

Reliance on Government

Iowa is becoming increasingly dependent upon income transfer payments. In 1998, Iowans received almost \$10 billion in government support. These payments represent benefits received by Iowans for social security, disability, workers compensation, Medicare and unemployment. These payments represented 13.8 percent of total personal income in 1998, a 26 percent increase from 1988. In 1998, 50 percent of net farm income was from government payments, and in 1999, more than 100 percent of net farm income was attributable to government payments.



Source: Willis Goudy, Sandra Charvat Burke, and Margaret Hanson, *Iowa's Counties: Selected Population Trends, Vital Statistics, and Socioeconomic Data*, 2000 Edition, Iowa State University, Ames, Ia., October 2000, p. 185.

Trends

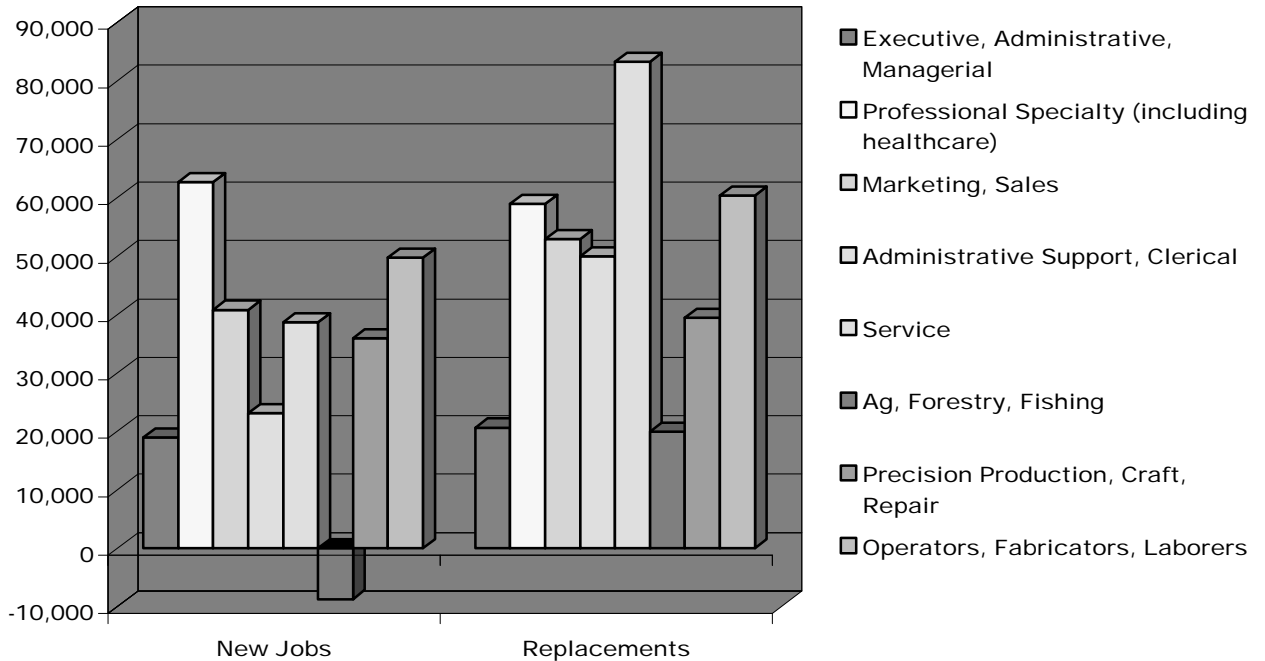
These trends do not bode well for Iowa. According to Dave Swenson, Iowa State University economist, the decline in population has seriously skewed Iowa's property taxation system and has resulted in excess public service capacity in much of the state. In order to maintain cities, schools and counties, local public service financing efforts must increase. Yet, there are fewer taxpayers to bear an ever-higher proportion of public service costs. Iowa will become a less desirable place to live in terms of cost, investment and housing.

Some services Iowans have taken for granted may no longer be available to them. Many towns and rural areas in Iowa have relied on volunteer labor for fire departments. But with fewer and older people, who is going to fight the fires? Where are the paramedics going to come from? What about skilled labor for nursing homes and hospitals?

Another troubling aspect of this trend is that without an adequate supply of human capital, companies will be forced to search for options, which may lead them out of state or even out of the country. Iowa Workforce Development economists estimate that by the year 2008, we will need a total of 260,000 additional workers for newly created jobs. This does not include the estimated 310,000 people needed to replace workers who have left the workforce. That brings the total to 570,000 workers. Today, Iowa is in grave supply of engineers, pharmacists, nurses, and social workers, just to name a few. Iowa Business Council companies, which collectively employ over 150,000 workers (about 10 percent of the total Iowa workforce), estimate that they will need to

hire at least 150,000 people over the next 10 years for replacement and growth. In essence, Iowa's economic growth is now stifled by a lack of people to do the work.

Iowa Statewide Occupational Projections



Source: Iowa Workforce Development, March 2001

Change Is Occurring Whether Iowans Like It or Not

At town meetings held last year, Iowans told Governor Vilsack's Strategic Planning Council they like Iowa the way it is. But, the state's citizens need to take a serious look at these trends:

- The number of Iowans working full time in production agriculture is declining and will continue to decline.
- Government payments are responsible for a large percentage of both farm and non-farm income in Iowa today, and they are expected to increase as Iowans age.
- Retail trade in Iowa's small communities is on the decline.
- The number of school districts in Iowa continues to decline, as does the number of students in rural schools.

- Several Iowa-based companies have been sold to or merged with out-of-state owners.
- Several Iowa companies have opened facilities in other states, or other countries.
- Iowans are aging. There are more people 74 years of age and older than under five years of age, and the state's birthrate is at an all-time low. Projections indicate this trend will continue.
- Iowa communities are losing valuable leaders and vital sources of income.

The state's rural population is being forced to pay for an expensive infrastructure originally designed to serve more people.

The 2000 census shows Iowa's population increased by 150,000 in the last 10 years. But the Governor's Strategic Planning Council report shows the state's population needs to increase by 310,000 in the next 10 years just to replace workers who have left the workplace.

Consider how these trends will play out in Iowa 10, 20 and 50 years into the future. It is a sobering exercise.

Searching for Solutions

This is not new information. Governor Vilsack's Strategic Planning Council's final report, "Iowa 2010: The New Face of Iowa," consolidated many of these facts and focused on remedies to the symptoms. For instance, there were several recommendations for solving Iowa's projected population shortage.

The 2010 strategic report suggested immigration held the best promise for alleviating worker shortages. The Iowa Business Council acknowledges this is a good strategy and that Iowans need to be open and accepting of those individuals from all parts of the world. Many efforts are now being made to help communities assimilate immigrants into their communities. The Governor has commissioned a New Iowans pilot project that sets up model cities to focus on welcoming immigrants. Obtaining the workers projected to be needed over the next 10 years will require a lot of effort by many people and organizations. It also may require changes in many of our nation's laws.

It is estimated there are more than 80,000 disabled workers in Iowa, many of whom may be employable. Unfortunately, no exact inventory of this population exists. Iowa Creative Employment Options, a program of the University of Iowa Hospital School, has embarked on a project entitled "Bridge to Employment" to help bring people with disabilities into the workforce. Legislation eliminated some of the barriers to employing some of these individuals. Although these strategies have promise, and Iowa should be

doing all it can to enable these individuals to contribute to our economy, they alone cannot fill the state's labor deficit.

Currently, we consider most people retired at age 65. With the change in Social Security regulations, retirees now are able to work beyond retirement without penalty. The Iowa Department of Elder Affairs is developing a program to help older workers re-enter the workplace. This group could offer employers additional workforce but not necessarily in large numbers. Tax relief is another strategy that would help keep retirees in Iowa.

Iowa is not the only state concerned about its young people leaving the state for better opportunities after college graduation. The percentages quoted seem alarming, but it is not too different from what other states are experiencing. In our mobile society, it perhaps is unrealistic that we expect all our students to stay in Iowa. We do, however, need to give them reasons to stay, including meaningful job offers, tuition reimbursement and other incentives that are perceived to be of value to their generation. Again, the numbers involved are not large enough to offset the workforce needs.

Recruitment trips to other states is a good idea. The Human Resource Recruitment Consortium, through its Smart Career Move program, is actively recruiting former Iowans back to Iowa. About 400 people have returned over the past two years. Companies such as Rockwell have been very pleased with the program, as it is enticing experienced engineers back to Iowa. Even if the number of people returning to Iowa is not large, the publicity and awareness created that Iowans want their natives to return is a positive. Meaningful job opportunities and community support will be key in this initiative.

The Iowa Business Council believes the aforementioned recommendations focus on treating symptoms rather than getting to the heart of the issue. These are short-term fixes and do not identify and solve the root cause of the population shortage.

Creating Iowa's New Economy

To begin, Iowa needs to determine where it has a true and definable comparative advantage—areas in which it can create economic activity, and thus wealth, more efficiently than any other region in the world. Iowa's founding leaders were wise to develop the agricultural industry to leverage the state's soil, climate and talented people. Now we need to identify and solve additional unique areas in which Iowa has a comparative advantage and can leverage the innate innovative spirit that Iowans possess to create new wealth for the state.

The Council on Competitiveness, the leader in advancing the concepts of regional clusters, points out in its just released study, "U.S. Competitiveness 2001," that the key to long-term prosperity is the capacity to translate knowledge into high-value products and services. Because clusters draw on local networks that link technology, resources, information and talent, they believe the fastest way to innovate is through clustering.

The Iowa Business Council suggested in 1999 that Iowa should create clusters around three areas in which it believed Iowa had a comparative advantage: life sciences, advanced manufacturing and research, and information technology. Governor Vilsack created the Governor's Technology Advisory Network, which, through independent research, verified the Council's suggestion. The Network developed a strategic plan for the three clusters and proposed forming the New Economy Council to further refine and implement that plan. Governor Vilsack has asked the business community to assist with this effort. Iowa Business Council members have and will continue to do so. They strongly believe the state must make this a priority and focus all of its resources on making the clusters succeed.

But, the state has limited financial resources. These public funds need to be expended in those areas that will bring the highest return on investment. This raises various policy issues that need to be addressed. These issues include but are not limited to:

- The effect on current industries in the state that do not fall in the targeted clusters.
- The responsibility for maintaining infrastructure that does not contribute to the targeted clusters.
- Refocusing education all the way from K-12 to higher education to assure that graduates are prepared to work in the target clusters.
- Changing state laws, policies and programs to assist in giving Iowa a competitive advantage in the targeted clusters.
- Assessing the effect if Iowa has selected the wrong clusters.

In previous years, the Iowa Business Council has been a leader in determining areas of concern for Iowa's economy and helping search for solutions. It has done this by choosing an annual topic and developing a report that is shared with elected officials, educational leaders, the Iowa business community and the public. The hope has been that by helping raise awareness of an issue change would occur.

Iowa Business Council members now believe the state's economic condition is more serious than ever before. The issues facing Iowans are important and complex, and the stakes are high.

Iowa's business community is standing at a crossroad, and it must be certain it chooses the right road. Iowa Business Council members have a vested interest in insuring the economic vitality of this state, and they want to take a proactive approach to economic vitality. So, the year 2001 has brought change to the Council's plan of action.

This year, Iowa Business Council members will not just be doing research and producing a report. Council members will meet with experts, look at options, search for solutions and assemble an action plan to move the state's economy forward. They will become advocates for change, working in both private and public sectors to help develop a stronger, more vibrant Iowa economy.

The many penalties of inaction are serious. The Iowa Business Council is committed to spending the next few months actively seeking solutions to the problems facing our state and to returning early next year with an action plan.

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