

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

NATIONAL GOVERNORS' ASSOCIATION

\* \* \*

2002 WINTER MEETING

\* \* \*

PLENARY SESSION/EXECUTIVE COMMITTEE

J.W. Marriott Hotel  
1331 Pennsylvania Avenue, N.W.  
Grand Ballroom  
Washington, D.C.  
  
Sunday, February 24, 2002  
9:45 a.m.

The meeting commenced, pursuant to notice  
on Sunday, February 24, 2002, in Washington, at 9:45  
a.m., Governor John Engler, chairman, presiding.

## 1 PROCEEDINGS

2 (9:45 a.m.)

3 GOVERNOR ENGLER: (Presiding) Good  
4 morning, governors, distinguished guests, ladies and  
5 gentlemen. Welcome to the First Plenary Session of  
6 the Winter Annual meeting of 2002.

7 I want to begin this morning by  
8 recognizing some new members, and I'm going to try to  
9 check and see -- I know some of them had some  
10 interviews and were being pulled in different  
11 directions. But we have actually four new governors  
12 who are attending their first session with us. One  
13 is a former Lieutenant Governor who when Tom Ridge  
14 was tapped by the President, moved up to the  
15 Governor's office. And the long-serving Lieutenant  
16 Governor of the state of Pennsylvania, Governor Mark  
17 Schweiker. I'm trying to look around here and see if  
18 I can spot Mark's seat. I'm not seeing it. But Mark  
19 will I'm sure be here.

20 From the two winners from November from  
21 the states of New Jersey and Virginia, Governor Jim  
22 McGreevey from New Jersey. I'm not seeing Jim

23

1     either.  And Governor Mark Warner from the state of  
2     Virginia.  So you get to be new and you get pulled in  
3     lots of directions.

4                   But we do have from the Northern Mariana  
5     Islands, Governor Juan Babauta.  Governor Babauta,  
6     it's nice to see you.  Welcome.  Glad to have you  
7     here.

8                   (Applause.)

9                   GOVERNOR ENGLER:  We welcome you to the  
10    National Governors Association.  We're excited to get  
11    to know you.

12                   We also have some birthdays today.  Kind  
13    of amazingly, we have three birthdays.  And I thought  
14    we ought to start off the morning by recognizing that  
15    Governor Don Siegelman of Alabama, Governor George  
16    Ryan of Illinois and Governor Jane Swift of  
17    Massachusetts all are celebrating.  They're the  
18    birthday people today.

19                   (Applause.)

20                   GOVERNOR ENGLER:  So, Don, Happy Birthday.  
21    And when you see them around, you know.  And so with  
22    that preliminary business out of the way, I'd like to

23

1 call to Order the 2002 Winter Meeting of the National  
2 Governors Association, and the first order of  
3 business, I have a motion for the adopt of the rules  
4 and procedures for the meeting.

5 GOVERNOR HUCKABEE: So moved.

6 GOVERNOR PATTON: Second.

7 GOVERNOR ENGLER: I heard moved over there  
8 by Governor, I don't know who it was, somebody over  
9 in that direction, Governor Huckabee made the motion  
10 and seconded by Governor Patton. All in favor say  
11 aye.

12 (Chorus of ayes.)

13 GOVERNOR ENGLER: All opposed?

14 (No response.)

15 GOVERNOR ENGLER: The motion is passed.

16 Part of the rules, just to remind everyone, require  
17 that any governor who wants to submit a new policy or  
18 resolution for adoption at this meeting will need a  
19 three-fourths vote to suspend the rules. Any  
20 proposals need to be submitted in writing to Frank  
21 Schafroth of the NGA staff by 5:00 p.m. tomorrow.  
22 That's Monday, 5:00 p.m. tomorrow. Frank's right

23

1 back here. This is Frank right there. So that's  
2 where they go.

3 Now we'll move right into our business  
4 this morning. This is an issue that's of great  
5 importance to all of the governors and certainly in  
6 uncertain economic times, a state focus on economic  
7 competitiveness is very, very important. As  
8 governors, we spend an awful lot of time working on  
9 economic development and our ability to compete.

10 And I thought one of the things that ought  
11 to be on the agenda for the Governors Association  
12 this year was a focus on state leadership in the  
13 global economy. It's pretty clear that the economic  
14 leaders of America are the American states. I like  
15 to tell my congressional delegation that all of the  
16 jobs actually from Michigan are created back in the  
17 state, not here in Washington. And the  
18 competitiveness of our country actually depends  
19 collectively on competitive state economies.

20 So the question is, how do states become  
21 and remain competitive? And perhaps more importantly  
22 for us, what can governors do to provide economic  
23

1 leadership while leaving the job of wealth creation  
2 to the private sector, to the entrepreneurs, the  
3 investors, the business and corporate leadership of  
4 America? And then finally, how can we as governors  
5 ensure that competitiveness translates into economic  
6 opportunity for all of our citizens?

7           One way we can do that of course is very  
8 creative workforce strategies at the state level.  
9 We're joined today by a group that I do want to  
10 introduce because I'm very proud of the people from  
11 Michigan who are here. But we have from across the  
12 country state workforce directors and the chairs of  
13 state workforce boards, and they're all here.  
14 Juanita Pearman from Michigan is a past or current  
15 chair of that organization, and they're all kind of  
16 arrayed over there. So would the Economic  
17 Development Workforce Directors, business chairs, all  
18 of you just stand up. I want the governors to know  
19 you're all here. Look at that gathering there.

20           (Applause.)

21           GOVERNOR ENGLER: So thank you for joining  
22 us. Thank you for your public service. I thought it  
23

1 was good that they could be with us this morning.

2 We've had a taskforce of governors, CEOs,  
3 leaders from labor and from academia working together  
4 on the issue of competitiveness. We have built a  
5 relationship with the U.S. Council on Competitiveness  
6 and so today's session really begins to explore and  
7 address some of these issues.

8 We're going to have two follow-up  
9 sessions, one right here tomorrow actually where we  
10 get into -- tomorrow morning in the Governors Forum  
11 on State Leadership and the Global Economy. And I  
12 hope that you can be part of that because we'll have  
13 some outstanding examples of leadership that's made a  
14 difference in different kinds of regions. We set  
15 this up so that every state would take something away  
16 from tomorrow's session. There's something that I  
17 think does apply to all of us because of the  
18 diversity of who's here tomorrow, the sizes of  
19 communities, the types of focus that they've had.

20 The second is our Regional Competitiveness  
21 Forums, and there are two of those, one in Denver  
22 that Governor Bill Owens will be hosting on the 4th  
23

1 and the 5th of April, and one in Atlanta in June on  
2 the 6th and the 7th, Governor Barnes will be hosting.  
3 A paper outline our initiative and giving you  
4 information on the forums has been put at each of  
5 your desks.

6 The forums themselves, we get out into the  
7 states, provide a follow-up opportunity and I think a  
8 unique opportunity to work collaboratively on  
9 economic development with some very skillful  
10 practitioners and experts. And there will be a  
11 Governors Roundtable discussion at the beginning of  
12 each of those forums in Denver and in Atlanta. We  
13 are inviting you to -- certainly we hope that you  
14 could come in for part of those meetings and  
15 participate in the Governors Roundtable and then  
16 ensure that there's a team from your state.

17 And what we're looking for are the  
18 workforce folks, the economic development people in  
19 your state that really do the governor's bidding on  
20 that issue, and then education leaders. We'll have  
21 Phil Silos from the NGA staff has got more  
22 information if you want that, if your chiefs or

23



1 anybody needs that here. We'll also be communicating  
2 that with you.

3           And we will, as I mentioned earlier, be  
4 doing these in partnership with the Council on  
5 Competitiveness and that really is an organization of  
6 some of the leading figures in this country from  
7 business, labor and the university world. And that  
8 organization has really been important I think for  
9 the country in terms of moving forward our  
10 understanding of how we remain competitive, what we  
11 have to do to become competitive to win in a global  
12 competition.

13           This morning somebody that has worked  
14 mostly with the council, he was co-founder of the  
15 Council on Competitiveness, is joining us, and that's  
16 Professor Michael Porter from Harvard. I have asked  
17 him to share the results of an initiative that is I  
18 think quite relevant to our jobs as governors. I  
19 think Mike Porter, more than any other thinker in the  
20 country today, has done work that really gets to the  
21 foundations of state economic competitiveness and how  
22 important the states are to America's global

23

1 competitiveness.

2           It was two years and more actually ago  
3 that the Council on Competitiveness launched a major  
4 initiative. What they were seeking to understand are  
5 a couple of important points:

6           The composition and performance of  
7 regional economies;

8           How clusters of businesses develop and  
9 innovation arises;

10           Why the clusters themselves are so  
11 critical to a region's economic future; and

12           How states and regions then in turn can  
13 foster their development.

14           Professor Porter and his team from the  
15 Institute for Strategy and Competitiveness of the  
16 Harvard Business School actually took the lead and  
17 they've developed -- it is a one of a kind database.  
18 It is unique. And it maps business clusters in every  
19 region of the country. And with this tool, it helps  
20 to identify not only where clusters of innovation are  
21 located, but also how innovative and how strong they  
22 in fact are.

23

1                   Five regions were studied in depth:  
2     Atlanta, Pittsburgh, San Diego, the Research Triangle  
3     area, and Wichita. Consultants from the monitor  
4     group and its affiliate, On The Frontier, have been  
5     on the ground in each of these regions surveying and  
6     interviewing key leaders and integrating information  
7     into Dr. Porter's database. And the result of that,  
8     all kinds of analysis and implications have been  
9     generated. Over 1,000 direct one-on-one individuals  
10    with individuals in business, government, academia,  
11    nonprofits.

12                   And this body of data which is really  
13    unique has been distilled now into a set of key  
14    lessons on regional and cluster development. That's  
15    what Professor Porter is here to discuss today. And  
16    so without further ado, it is my pleasure to present  
17    to you -- and he's not a stranger to this  
18    organization. Mike Porter has been here with the  
19    National Governors Association in the past. Several  
20    of the governors were with him earlier at a U.S.  
21    Council on Competitiveness gathering on a very  
22    similar topic.

23

1           But Michael Porter is a leading authority  
2     in the world I would say on competitive strategy,  
3     international competitiveness. He's found time to  
4     author 16 books, more than 75 articles. He is the  
5     Bishop William Lawrence University Professor based at  
6     Harvard Business School and only the fourth faculty  
7     member at Harvard Business School actually history to  
8     learn the distinction University Professor. And he's  
9     currently busy with his leadership of a new institute  
10    for strategy and competitiveness.

11           In the past he's served as a counselor on  
12    competitive strategy to many leading U.S. and  
13    international companies, a counselor to government.  
14    In 1983 he was appointed by President Reagan to the  
15    President's Commission on Industrial Competitiveness,  
16    chaired its Strategy Committee. Sits on several  
17    corporate boards, community foundations. He's given  
18    up a Saturday with his family in Boston to be with us  
19    here today. And now, Michael, I would like to invite  
20    you to come to the podium and take over, and we'll be  
21    involving all the governors as he concludes his  
22    presentation, we will be opening it up. So, ladies

23

1 and gentlemen, Dr. Michael Porter.

2 (Applause.)

3 PROFESSOR PORTER: Well, thank you so  
4 much, Governor Engler and Governor Patton for first  
5 of all giving me so much time. I know that time  
6 among this group is very precious and I'm very, very  
7 honored to be here this morning to talk about in many  
8 respects the most fundamental subject facing any  
9 governor, which is how to create prosperity and a  
10 higher standard of living in your state.

11 I do want to thank not only Governors  
12 Engler and Patton for this agenda time, but I also  
13 want to acknowledge Governor Rowland from Connecticut  
14 who's here who I've been working with for a number of  
15 years on this same agenda. Governor Musgrove, who's  
16 here, who I've been working with. These efforts in  
17 Connecticut and Mississippi and also work that I've  
18 done in Massachusetts, really were some of the  
19 precursors to the project that we undertook that I'm  
20 going to speaking about this morning. And I want to  
21 thank you previous governors for being guinea pigs  
22 and educating me. Hopefully, there was a two-way

23

1 process.

2 I'd also like to thank Council on  
3 Competitiveness, Duane Ackerman, Chuck Vest are  
4 leading this joint process with the National  
5 Governors Association. We're very excited about  
6 that. Michelle Lennihan from the Council's staff is  
7 here and has been very involved. I'd like to thank  
8 Monitor Group, the leading strategy consulting firm  
9 that's been really a major source of the analytical  
10 horsepower behind this project and also my team at  
11 Harvard, Danny Vasquez from Harvard is here, Jeff  
12 Brogan and Curt Dassel from the Monitor Group.

13 Now it's hard thing to hit you with the  
14 first thing on a Sunday morning, to really talk about  
15 economic development. And it may be not at the top  
16 of your mind right now. Most of you are probably  
17 struggling with budget issues, I suspect, trying to  
18 figure out how to make the numbers add up.

19 We are in a very meaningful cyclical  
20 downturn, and that creates all kinds of additional  
21 issues that all of you are struggling with. But what  
22 I've found in many of my works over the years is that

23

1 in periods like this, actually the biggest changes  
2 and the biggest opportunities arise to really make  
3 strategic adjustments and make strategic  
4 redirections.

5           And so even though we've got a lot of  
6 short-term issues to worry about that we're going to  
7 get through, I think it's an extraordinarily  
8 important time for all of you to be really focusing  
9 on the long-term health of your economy. And that's  
10 what we really set out to study over the last two-  
11 and-a-half years in this very unique Council on  
12 Competitiveness project.

13           I think we've done really an unprecedented  
14 body of work that really tries to understand what  
15 makes regional economies work. What makes them  
16 prosperous, how do they get created, what's the role  
17 of public policy in that process. And what I'd like  
18 to do is share some of the highlights of that work  
19 with you.

20           There's no way in this session that we're  
21 going to be able to do justice to that work. We've  
22 given you a number of tools that I hope will allow  
23

1 you and your staffs to get more deeply into this  
2 work. First of all, we've given you a report with a  
3 blue spine on the spine which is the summary report  
4 of this national project. But we tried to go one  
5 step further and take a little bit of a risk here,  
6 and that is we've prepared a special analysis for  
7 you.

8           Each of you I hope will find something in  
9 front of you that looks like this. And it has the  
10 name of your state on it. What we have done is we  
11 have extracted from the unique data that's developed  
12 for this project some particular data on your state.  
13 And what I'd like to do is use this data on your  
14 state as a bit of a case study to talk through our  
15 findings and some of the very important implications  
16 of this study.

17           We've put together this data partly to  
18 whet your appetite. There is much more information  
19 in tremendous richness and granularity in a way that  
20 really has never been assembled before. We have here  
21 I think an opportunity to take regional economic  
22 strategy and competitiveness to the next level, to

23



1 make it more objective, to make it more rigorous.

2 And I think we've learned a lot about the process

3 that I think can benefit all states.

4           So the hope is that this session will whet  
5 your appetite, that you will get your staffs involved  
6 in studying this learning which has come from the  
7 work of enormous numbers of people across the country  
8 and the five regions that Governor Engler mentioned.  
9 Hopefully you will dip into this data. This little  
10 teaser will get your staffs onto the Web site where  
11 this data is freely available to any region. You'll  
12 come and send representatives to the forums that are  
13 going to be held later this year where we can go into  
14 more nitty gritty kind of chalk talk about the real  
15 lessons here and how to go about doing this in your  
16 state and what kind of conclusions you can draw.

17           This is extraordinarily important because  
18 we simply have to keep our states moving forward in  
19 terms of economic vitality. I am convinced after 20  
20 years of work on this that what really makes the U.S.  
21 unique and why the U.S. really is competitive is  
22 actually not the nation but the regions. It's the

23

1 fact that we have so many regions in this country who  
2 take a lot of responsibility for their own economic  
3 future. All of you are out there worrying about your  
4 regions, and it's that regional vitality that I think  
5 really drives American competitiveness more than any  
6 other country in the world. We have much more  
7 independent initiative at the state and the local  
8 level.

9           Also it's the trade and competition among  
10 our regions that in many ways is much more important  
11 to the success of our economy than our international  
12 trade. The international trade is relatively small  
13 compared to the trade that occurs within this  
14 country. And we have this unique economic machine I  
15 think that benefits from that trade.

16           So let me try in a very short amount of  
17 time to give you the essence of this, the work, what  
18 we've learned, talk a little bit with you about your  
19 particular state and ask you to look at a few pages  
20 in this binder. Keep that binder out in front of you  
21 because I'm going to ask you to look at number of  
22 pages later on. And hopefully this will be again the

23

1 beginning of a process that we can continue over  
2 time.

3           Now I guess the most basic question we  
4 need to start with when we talk about economic at the  
5 state and the regional level is what creates  
6 prosperity? Why is a state prosperous? Why are some  
7 states more prosperous than others? Why are some  
8 regions within states more prosperous than others?  
9 And the answer to that question is getting to be I  
10 think very well understood.

11           Competitiveness and prosperity is  
12 fundamentally a function of productivity, the ability  
13 to productively use your resources. To generate a  
14 lot of output for every hour of labor and for every  
15 dollar of capital invested in your state. If you're  
16 productive, you can pay yourself a lot. You'll earn  
17 good returns on your capital. If you're not  
18 productive, you're going to have to squeak by on  
19 lower wages.

20           Productivity is competitiveness. If we're  
21 taking actions that are making businesses in our  
22 state more productive, able to produce more output,  
23

1 valuable output per unit of labor and capital, we're  
2 going to be pushing our state in the right direction.

3           We know that productivity is not just  
4 efficiency. It's also about boosting the value of  
5 the products that your state can produce. Value goes  
6 up because of better quality, because of better  
7 features, because of better marketing, better brands,  
8 not just because of better technology per se. If you  
9 can boost the value, you can be boosting  
10 productivity. Just lowering the cost of doing  
11 business is no longer enough.

12           The idea that you can have a successful  
13 state economy by cutting wages and cutting taxes is a  
14 dead end. We know that in the modern global economy,  
15 there's lots of cheap labor in this world. There's  
16 no way that any of your states is ever going to be  
17 the lowest cost place to do business in the region  
18 and in the world. The way to create a prosperous  
19 state is to create a very productive state that can  
20 create a lot of value.

21           Now we know in order to do that, you've  
22 got to worry about innovative capacity. Because it's

23

1 innovative capacity that drives productivity forward,  
2 that allows new methods, new firms, new ways of doing  
3 things. And so one of the fundamental questions any  
4 state has to ask is what's the state of our  
5 innovative capacity?

6 Now in thinking about innovative capacity,  
7 we've got to understand that it's more than just  
8 science and technology. It also involves  
9 commercialization. You've got to get ideas unlocked  
10 and in the marketplace if you're going to be  
11 successful.

12 We also have to recognize that innovation  
13 occurs not just in the high tech sector. One of the  
14 biggest mistakes I see as I work with states is a  
15 focus only on the high tech sector. And I'll show  
16 you some data later that shows you that if you focus  
17 only on the high tech sector, you have no chance of  
18 building a really prosperous state.

19 You've got to realize that innovation can  
20 occur throughout the economy. There is no industry  
21 today that's low tech. Every field can employ  
22 advanced technology to do things much more

23

1 productively, all the way from tourism to textiles to  
2 semiconductors. We can't look narrowly at a few  
3 parts of our economy and try to build them up. We've  
4 go to build that innovative capacity throughout large  
5 swaths of the economy. We'll talk a little bit about  
6 how to do that later.

7           Now in building innovative capacity and in  
8 building a productive business environment, I think  
9 it's starting to become well known that this notion  
10 of clusters is fundamental. If we look at any state,  
11 any region within the state, we see that the economy  
12 is not evenly distributed across all the sectors.  
13 What we see is clusters, concentrations of economic  
14 activity in a particular field in a particular  
15 location.

16           This is California Wine up on the screen.  
17 Each of you is going to have your own mix of clusters  
18 in your state. What's a cluster? It's the producers  
19 of wine in this case, but it's also the growers of  
20 grapes. It's also the suppliers that provide the  
21 machinery, the grape stock, the corks, the bottles.  
22 It's also specialized educational institutions like

1 UC Davis and the winemaking degree programs in the  
2 various parts of the University of California.

3           It's also specialized institutions like  
4 trade associations, specialized service providers,  
5 venture capital companies. A cluster is a whole  
6 array of institutions and entities and firms in a  
7 particular field in a particular location. And what  
8 we find is that clusters matter fundamentally for  
9 economic growth and prosperity. Why? Because when  
10 you have a cluster, it allows you to be more  
11 efficient than if you're trying to pull in stuff from  
12 all kinds of disparate locations. That's pretty  
13 obvious.

14           If you have a cluster, it fosters  
15 innovation, because knowledge flows, ideas get  
16 created and circulate. Specialized skills are built.  
17 Specialized research knowhow is developed. A cluster  
18 is important because we find that new businesses get  
19 spun out of clusters. Once in a while we see a new  
20 business off by itself. But most of the time when we  
21 see new businesses we see them sprouting out of  
22 clusters where there was something already there.

1 The reason is that it's much easier to start a  
2 business when you're in a cluster than if you're  
3 sitting off by yourself. You can assemble the  
4 assets, you can assemble the capabilities early.

5 Now it's interesting to look at this case  
6 of California Wine. California is not the low cost  
7 place to grow wine. The land prices in California  
8 are the highest in the world for cultivation of  
9 grapes. California has not become a dominant player  
10 in the U.S. and a leading growing competitor in the  
11 world in wine because they have low costs of doing  
12 business. They've become a leader because they're  
13 the uniquely productive location for producing wine  
14 and because they're able to produce wine of very high  
15 quality.

16 Think of 20 years ago, Bartles & Jaymes.

17 (Laughter.)

18 PROFESSOR PORTER: Think of California  
19 wine today. Premium wine. The average price has  
20 been driven up over a 20 or 25-year period because  
21 that cluster has built incredible quality and  
22 branding and competitiveness. That's the process

23



1 that drives economic prosperity, and we'll talk a  
2 little bit more about that later.

3 We've got to understand these clusters and  
4 how they form and what we can do about them as we try  
5 to develop our economies.

6 One final brief reference, and that is to  
7 something we now call Institutions for Collaboration.  
8 What we've found is that in the modern economy, the  
9 kind of traditional institutions really are not only  
10 what's at work. I mean there's business, there's  
11 government, there's universities. But what we find  
12 in all successful economies today is a whole bunch of  
13 other institutions that are not exactly business,  
14 they're not exactly government, they're not exactly  
15 universities. They're various kinds of institutions  
16 that link the various pieces of the economy.

17 This is an example of those institutions  
18 on the screen here in San Diego, one of the regions  
19 we study. And some of them are informal. They're  
20 alumni network of universities. Some of them are  
21 formal, like UCSD Connect, which is an organization  
22 that links the University of California at San Diego

23

1 to business in a variety of ways through a variety of  
2 programs.

3 As we'll see later, these institutions  
4 take many forms, but they become precious assets in  
5 modern economic development and something we really  
6 need to think about as we create our own strategies.

7 Now what I thought I would do in going  
8 further here is to actually take you through the  
9 methodology, the approach that we used to look at a  
10 regional economy. And in the process of taking you  
11 through that approach, I will illustrate some of that  
12 process in your package in your own state with the  
13 data, and we'll draw some of the key implications.  
14 What is that process?

15 Regional economic development starts with  
16 really measuring how well you're doing, because that  
17 tells you where it is that the issues might lie.  
18 We'll talk about that in a moment.

19 In order to go very far in the process,  
20 you've got to figure out what the right economic  
21 areas are to look at. And what we'll see is that  
22 those are rarely just the state. Indeed, the state

23

1 is not a very meaningful economic unit in most cases.  
2 The state is a very important political unit. It's  
3 very important to you. But the economy doesn't work  
4 around the state borders. It works around a  
5 different logic. And you have to factor that into  
6 your thinking.

7           Number three, we will look at the  
8 composition of the economy of the state or the  
9 region, what's in it? How is the mix changing? How  
10 are the various pieces of it doing?

11           Number four, we need to look at the  
12 historical evolution of the economy. What's the path  
13 that the state or the region has taken? Where has it  
14 come from? What have been some of the key  
15 milestones? What does that tell us about issues for  
16 the future?

17           Next we look at the region's environment  
18 for competitiveness and innovation, kind of an  
19 assessment of where the region stands. Then we dig  
20 down and look at individual clusters within the  
21 region and look at how they're doing and what drives  
22 their competitiveness and how they've developed over  
23

1 time.

2 We then look at how well the region is  
3 actually performing in terms of the process. What  
4 we've learned is that this economic development stuff  
5 can't be done just by the governor. And it can't be  
6 done in four years or even ten years in many cases.  
7 It's a multi-decade process. The successful regions  
8 have sustained energy for decades in some consistent  
9 directions, and how to organize that becomes a very  
10 interesting question. And what role you can play  
11 while you're the steward, while you're in the  
12 governor's chair, is a very interesting question,  
13 given that the process is going to take much longer  
14 than the longest sitting governor usually can expect  
15 to sit.

16 And finally, I'd like to wrap up the  
17 conversation with a few comments about implications  
18 for state governors. Now here we go. Let's look at  
19 some data. On page 7 in your package, what I've  
20 given you is a summary of the performance assessment  
21 that we would do for any regional economy to try to  
22 really understand how to start thinking about what

23

1 needs to be done in that region. Now hopefully  
2 you've all found that page.

3           When you look at a region or a state, the  
4 first thing we need to understand is that we can't  
5 just measure one thing. We need to measure a number  
6 of things. And we tend to divide those into two  
7 categories. There's some measures of your current  
8 economic performance: Employment growth, wages, wage  
9 growth, productivity, exports. Those give you a kind  
10 of sense of where you stand today. But we also find  
11 it very important to measure the innovative output.  
12 How well are you doing in innovative output? And  
13 when you measure innovative output, there's the  
14 upstream part of it, which is the invention part.  
15 And we often measure that using patenting rates.

16           And then there's the more downstream part  
17 of innovation, which is the commercialization part.  
18 And what you see here as we look at things like new  
19 establishments formed, fast growth firms, venture  
20 capital investments, IPOs, and there are additional  
21 measures, but this is kind of a digest that we put  
22 together for this purpose.

23

1           Now as you look at your chart, what should  
2   you be looking for? Well, first of all, it's very  
3   important to make the distinction between growth and  
4   prosperity. Obviously one of the things that all  
5   governors are interested in is whether the economy is  
6   growing, whether jobs are growing. But what we find  
7   it's very important to look at not only how fast jobs  
8   are growing but whether the wages are growing. And  
9   we find that a lot of fast-growing regions, wages are  
10  not growing very fast. And of course when you have a  
11  fast-growing region, what do you get? Congestion,  
12  delays, environmental issues, pressure on the quality  
13  of life. And translating growth and employment into  
14  growth and wages is often an issue. So some of you  
15  may see that. You may be doing better in jobs than  
16  you are in wages. Governor Bush and I were talking  
17  about this earlier in the state of Florida.

18           When you look at wages, you've got to  
19  compare your wages to your cost of living. We don't  
20  have cost of living metrics on this slide because  
21  there are none available at the state level at least  
22  in this form that we could use it easily. We do have  
23

1 cost of living measures available at metropolitan  
2 area levels and that data is on our Web site.

3           You've got to make sure your wages look  
4 good compared to your cost of living and look at that  
5 balance. And so it's seeing the relationships  
6 between these various measures, this starts to give  
7 you insights into the issues your state is facing.

8           On the innovation side, again, how well  
9 are you doing in patenting? Here we see -- and I  
10 picked on Governor Engler. This is Michigan.  
11 Michigan is doing pretty well on patenting in terms  
12 of the rate of patenting per 10,000 employees, ranked  
13 13 in the country, but they don't do quite as well on  
14 the rate of growth impact. Again, there's a  
15 relationship there. Why has the patenting growth  
16 slowed down? Why are we lagging behind other states?  
17 What's going on there?

18           We often see some states do pretty well  
19 upstream but not so well in commercialization. This  
20 was the case in San Diego. Tremendous patent engine,  
21 not quite as good of an IPO engine or an engine of  
22 fast growth. So what you're looking at here is to

23

1 try to get some insight into what's going well,  
2 what's not going well given these fundamental drivers  
3 of competitiveness.

4 Let me hasten to add that these data that  
5 we use exclude government, excludes farmworkers and  
6 purely self-employed individuals. We're looking  
7 really at the mainstream core of the economy here.  
8 And so the average wages here might look a little bit  
9 different than some of the numbers you get. We can  
10 easily reconcile them if you'd like us to.

11 Also the reason that we end our data in  
12 1999 exists in this city. It's that the federal  
13 government hasn't spit out the data yet after 1999.  
14 So we're looking at the '90s basically. But for  
15 regional economic development, as you'll see later,  
16 it takes a long time. So the year-by-year thing is  
17 not nearly as important as the five year by five year  
18 comparisons.

19 Okay. So now let's turn to page 9 of your  
20 packet. Now since we put so much stress on  
21 innovation, what we've given you here is we've  
22 actually given you the top 50 patent generators in  
23



1 your state. Now some of you may have known who these  
2 top 50 patent generators are. What are some of the  
3 things to look at here? Well, first of all, you're  
4 going to see a number of companies, most of you, all  
5 of you, and the question is, who are those companies?  
6 What fields are they in? What insights does that  
7 start to give us about where our innovation is taking  
8 place?

9           Hopefully you also see, as we see on this  
10 slide up on the screen, you see some universities.  
11 We find that successful regions almost always have  
12 universities that are players in the process of  
13 creating and disseminating technology. You see here  
14 Research Triangle had its three universities were  
15 actually number 4, 5 and 6 patent generators. And  
16 there's a very tight horse race between those three  
17 universities, a very spirited competition.

18           We also see in Research Triangle something  
19 else to look for. Do you have other institutions  
20 besides universities that are not companies that are  
21 generating technology? In the case of Research  
22 Triangle, we see that number 19, MCNC,

23

1     Microelectronic Center of North America. Again, the  
2     regions that are doing well have created institutions  
3     beyond simply the firms that are in the innovation  
4     game, and that's increasingly important because firms  
5     are more and more focused now. They're not doing  
6     basic research. They're applying technology. And  
7     we've got to make sure that we've got a very healthy  
8     infrastructure.

9             Some of you may see federal government  
10    institutions in your top patent generators. Those  
11    are often very, very important as they were in San  
12    Diego.

13            Now I've given you some of the basic  
14    thoughts about looking at your performance and trying  
15    to draw some conclusions from that performance, but  
16    this still has not addressed the fundamental question  
17    of what's the right region to look at. And here I'd  
18    ask you to turn back to page 4.

19            You know, what we find is that in thinking  
20    about regional economies, there are a number of  
21    different definitions of a regional economy that  
22    might be the best definition for you to work on.

23

1 There's clearly the state as a whole. But as I said  
2 earlier, the state may or may not be truly an  
3 economic region.

4 There's something called economic areas.  
5 You see them listed on the left-hand side of your  
6 chart. These are economic regions determined by the  
7 Department of Commerce where research has shown  
8 there's a lot of linkages within that area.

9 And then the third opportunity or the  
10 third possibility would be metropolitan areas. And  
11 again, you see listed the metropolitan areas that  
12 affect your state.

13 This is an example from Ohio which shows  
14 you how complicated this is. Ohio has lots of  
15 metropolitan areas. It has six or seven economic  
16 areas that affect some part of Ohio. And these are  
17 areas that the Department of Commerce sees as  
18 economic regions.

19 Here's just some simple data. Of all the  
20 economic areas in the United States, only 77 of them  
21 are within one state. Ninety-five of the 172  
22 economic areas in the United States cross state

23

1 borders. Metropolitan areas tend to be within one  
2 state, but some again cross state borders. And what  
3 this suggests is that when you think about developing  
4 a strategy for state, an economic strategy, you've  
5 got to make sure that you're essentially looking at  
6 the right set of economic areas.

7           Because what we'll see is that those  
8 economic areas are going to need different  
9 strategies. They're going to have different issues.  
10 And it may be that you actually have to do some  
11 cross-state economic development. I've seen very few  
12 examples of this. I do see governors across states  
13 meeting from time to time about various things, but  
14 most of the economic part of that is competing. But  
15 if an economic area crosses a border and it's really  
16 the same economic area and the firms think of it as  
17 the same economic area, then there's really a very  
18 important reason for governors to actually get  
19 together to think about how they can both improve  
20 that area as opposed to see it as kind of a contest.

21           We've just put together a very simple  
22 slide on Ohio that shows that within states we have

23

1     tremendous differences in economic prosperity and the  
2     need for obviously very different strategies.  So I  
3     want to put a placeholder on this issue, thinking  
4     through how to orchestrate and organize your economic  
5     development strategy and how to really encompass the  
6     different true economic regions that affect you I  
7     think is one of the critical issues that I find few  
8     governors yet have really taken on.

9             Now if I could ask you to turn to page 11,  
10     we'll dig to the next level of understanding of a  
11     regional economy.  What does a regional economy look  
12     like?  Well, the regional economy consists of three  
13     things.  Number one, it consists of a lot of local  
14     things.  It turns out that two-thirds of all the jobs  
15     in an average regional economy are purely local  
16     fields, local industries, that are serving almost  
17     exclusively the local market.  This was a very  
18     surprising finding to me.

19             What we see is as we look across the  
20     United States, as we look across regions, we see the  
21     same local industries in every region in roughly the  
22     same proportions.  And what that tells us is states

1 don't really compete in these areas. These are  
2 purely serving the local market.

3           The second thing we see in a regional  
4 economy is we see what we call traded clusters. We  
5 see clusters in industries that are trading across  
6 regions. You know, aircraft manufacturers and  
7 semiconductor manufacturers and consulting firms are  
8 really trading across. But that's actually only one-  
9 third of the jobs in the average region.

10           And the third thing we see, although we  
11 don't see too much of it in the United States, is the  
12 natural resource dependent industries in clusters  
13 that are in a location because natural resources are  
14 there. And that's a relatively small piece now of  
15 the U.S. economy, but it would be a big piece of some  
16 foreign economies.

17           The local clusters are there. They're  
18 serving the local market. The traded clusters could  
19 be anywhere. And that's really the part of the  
20 economy that's competing with other countries and  
21 with other states.

22           Now if we look at the traded clusters,  
23

1     what we see is although they're smaller in  
2     employment, they are immensely important to your  
3     economy.  If you look down the list here, this is the  
4     national data on the big screen.  On your list you'll  
5     see your state data.  The traded clusters have an  
6     average wage in the United States of about \$42,000 a  
7     year, whereas the local clusters have an average wage  
8     of about \$26,000 a year.

9             The wage growth in the traded clusters is  
10     substantially higher.  The productivity of the traded  
11     clusters is much higher.  The patenting output of the  
12     traded clusters is much higher.  So think of your  
13     economy as consisting of these three parts.  The  
14     traded clusters are really the drivers.  They can  
15     expand to a very large size because they're going to  
16     sell products and services all over the world in many  
17     cases.

18             The local clusters are really there to  
19     serve the traded clusters.  And they also provide the  
20     personal services that people can buy if they're  
21     prosperous.  And if the traded clusters go up in  
22     prosperity, then that tends to boost up the local  
23

1 clusters. But we have to really, really focus on  
2 those traded clusters to understand really where our  
3 economy is going.

4 Now in looking at the traded clusters in  
5 the economy, let me ask you now to turn to page 25.  
6 What we've done here is we've said okay, looking at  
7 the state economy as the unit of analysis, which  
8 again may be too broad or may be too narrow in some  
9 cases, but looking at the state, what's the array of  
10 clusters in the state economy? And we've been able  
11 for the first time to do that objectively and  
12 statistically in a consistent way across all states  
13 and all regions.

14 What you see here is the chart for  
15 Kentucky, the same one that Governor Patton is now  
16 looking at. And what we've done here on this  
17 particular chart is we plotted the clusters, we  
18 plotted their share of national employment on the  
19 vertical axis, and on the horizontal axis, the change  
20 in share of national employment. And the horizontal  
21 line is the average share of national employment  
22 represented by your state.

23



1                   So Kentucky has an average share of  
2           national employment of 1.33 percent. Any cluster  
3           with more than that employment share in Kentucky is  
4           more strongly represented in Kentucky than, you know,  
5           would be the average. And what we see in Kentucky's  
6           case is actually a pretty nice looking chart with  
7           quite a few substantial clusters in the upper right-  
8           hand corner. Strong position, growing that position  
9           over the decade of the '90s.

10                   Each of you is going to be looking at a  
11           different picture. This gives you kind of your  
12           portfolio, if you will. There turns out to be 41  
13           clusters in the traded part of the economy. How do  
14           we know that? We built that statistically by looking  
15           at how the various industries co-locate. And I won't  
16           bore you with the methodology, but the Web site will  
17           have substantial additional data.

18                   So each of you then has this kind of  
19           portfolio of clusters in your state. And this gives  
20           -- that first chart showed you a little bit of how  
21           they're doing, which ones are gaining, which ones are  
22           losing, which ones are strong, which ones are

23

1 relatively weak. If we go to page 17 now, and we're  
2 jumping around a bit because of time, if we go to  
3 page 17, we'll start to see, okay, where are the jobs  
4 coming from in your state? Now we have some other  
5 charts that you can look at later which talk to you  
6 about the total number of jobs by cluster. But page  
7 17 gives you the job creation by cluster and the job  
8 loss by cluster. This happens to be the state of  
9 Idaho. And we can see, where in your state are the  
10 new jobs coming from? In the traded part of the  
11 economy. And where are the jobs being lost?

12           What are some of the key messages here?  
13 Well, first of all, I find that many governors are  
14 surprised by this, but you probably won't be since  
15 you all are all very sophisticated. But many  
16 governors are surprised. They think that their  
17 growth is coming from IT. Many governors think that  
18 their growth is coming from biotech. And the answer  
19 is, it's not. Biotech is a very small employer. IT  
20 is a very small employer. The real generation of  
21 jobs usually is coming from business services,  
22 financial services, a variety of other clusters.

23

1           So this will give you some sense of where  
2     the jobs are really coming from, where the jobs are  
3     being lost. And again, depending on your state, this  
4     is going to be a picture that disturbs you or a  
5     picture that encourages you. And what this tells you  
6     is that you can't just focus on the high tech  
7     clusters. If you take aerospace, IT, biotech,  
8     communications equipment, medical devices, the high  
9     tech -- because if you add them all up, they  
10    represent 2.5 percent of total state employment on  
11    average. You could double your share in IT. You  
12    could double your share in biotech, and it's not  
13    going to make a really meaningful difference in your  
14    overall state prosperity.

15           What we've learned is that to have a  
16    prosperous state, you've got to raise the  
17    sophistication across all the clusters, not just  
18    think that you can push one or two buttons and that  
19    will somehow magically make your state successful.  
20    We've got to look broadly at that economy. We can't  
21    leave out any part of it. All of it's important,  
22    even the local part.

23

1           If you turn to page 21, what we'll do  
2     there is kind of break out your wage rates in your  
3     state. On the screen you see Colorado. What we do  
4     is we array the traded clusters in your state in  
5     order of the highest wage. And the bars are the size  
6     of the employment in that cluster in your state.

7           You can actually take a state wage and you  
8     can kind of parse it into the wages the state has in  
9     all the clusters in the state, and you can kind of  
10    understand where your wages are coming from. And  
11    what I often find when we see this chart is, we see,  
12    again, some surprises. Yes, in the Colorado chart IT  
13    is the highest wage cluster in Colorado, but it's  
14    really not very big in terms of affecting the average  
15    wages in Colorado. Financial services distribution  
16    and business services have a much bigger impact than  
17    what the IT wages are.

18           What we found is that there's two ways you  
19    can raise wages in a state. One is to shift your  
20    employment to higher wage clusters, and the other is  
21    to raise your average wage in all clusters relative  
22    to the national average. And what we find is that

23

1     only 10 percent of increasing wages in America come  
2     from shifting the mix. And 85 percent of increasing  
3     wages come from raising your wages relative to the  
4     average in each field in which you compete.

5             Again, that tells you, don't focus on just  
6     a few parts of your economy and think that's going to  
7     make everything work. Take a broad view, try to  
8     create innovative capacity throughout the economy.  
9     You know, textiles, whatever the fields you're in,  
10    boost the productivity, boost the innovative  
11    capacity, that's the way to win.

12            Now time is very short. How do regional  
13    economies evolve? We have some fascinating stories  
14    about this in the various reports that cover the  
15    individual regions, but this is an example of the  
16    timeline in Research Triangle. The kind of sobering  
17    message from this timeline and all the other  
18    timelines is that regional economies evolve slowly.  
19    Building a regional economy takes decades and  
20    decades.

21            The Research Triangle park was actually  
22    created in the mid-1950s. The first meaningful

23

1 corporate research activity in the Research Triangle  
2 area really didn't develop until 20 years later. And  
3 the real business generation in the Research Triangle  
4 Park didn't develop until 20 years after that.

5           So, again, when we're building regional  
6 strategies, we've got to have the right time  
7 constant. We've got to see this as an enduring  
8 process. No one governor will ever be in office long  
9 enough to see this through. That puts a tremendous  
10 stress on creating the right institutions, the right  
11 processes in the state. And we'll talk just a little  
12 bit about that later.

13           Now here's another regional evolution  
14 picture. We have some folks here from San Diego.  
15 They're probably tired of looking at this picture  
16 because I talk about it a lot. This essentially  
17 looks at how the San Diego economy has evolved. And  
18 I think there's some very important lessons here.  
19 San Diego economy really starts in 1910 when the  
20 earliest key things start to happen. It's a very  
21 wonderful climate, as we all know. It's on the  
22 ocean. Wonderful weather. Hospitality and tourism

23

1 cluster builds up there, kind of sand and surf.

2           Then San Diego is able to attract the U.S.  
3 Navy, I think Teddy Roosevelt to base the Pacific  
4 Fleet in San Diego. That was not an accident. There  
5 was a long-term lobbying campaign to get that fleet  
6 based there. So what this tells us is that part of  
7 regional economic success is what you inherited, you  
8 know, the wonderful climate, the port, the harbor.  
9 Part of regional economic success has to do with  
10 purposeful action, leveraging, taking advantage of  
11 what you've inherited, what you've built over time.

12           The city fathers in San Diego, all fathers  
13 in those days, actually agreed to dredge the harbor,  
14 and that was part of the deal. So there was civic  
15 action. And what you see here is the kind of process  
16 by which one cluster led to another. What we find is  
17 that very rarely do you build a cluster from scratch.  
18 You build on assets that were already there.

19           You might see on San Diego on the upper  
20 right-hand side of this slide the sporting and  
21 leather goods cluster in San Diego. Now what that  
22 really is for you golfers is that's Big Berthas.

23

1 (Laughter.)

2 PROFESSOR PORTER: San Diego is the center  
3 of the universe in golf equipment, or at least it has  
4 been in recent decades. How did that happen? Well,  
5 it partly happened because of hospitality and  
6 tourism. La Costa, pro tournaments, a wonderful set  
7 of recreational and golf venues that any golfer would  
8 like to be near. But it also was the aerospace and  
9 vehicles and defense cluster which led to the  
10 building of capability in casting and advanced  
11 materials and titanium and all that sort of stuff.  
12 And when golf equipment went from wood and steel to  
13 composite and advanced materials, the cluster shifted  
14 from New England to San Diego.

15 But look at, I mean, what if you set out  
16 to do that from scratch? Impossible. You had to  
17 build the base. You had to build the skills. You  
18 had to build the capabilities. So again, we find  
19 that governors are prone to want to create something,  
20 you know, that doesn't exist. The favorite poster  
21 child today is life sciences and biotech. Every  
22 governor wants a biotech cluster. It's not going to

23



1 work that way. You've got to build the institutions  
2 and the skill base, and we'll come back to that  
3 example later.

4 Now I'm going to skip quickly, just given  
5 the time. Once we understand what clusters exist in  
6 the region, the regional economy as a whole, then the  
7 really next challenge is to assess the  
8 competitiveness and productivity environment and the  
9 innovation environment. And this simply is an  
10 example from the Research Triangle. There's a  
11 methodology for doing this that I won't bore you with  
12 today. But there's some systematic processes that  
13 one can use to really assess what are the elements of  
14 that innovation environment, where do we stand, how  
15 well are we doing? We can do that objectively. We  
16 can compare ourselves to other parts of the country.

17 And again, there's some key findings  
18 there. We've got a lot of survey data that you'll  
19 see, and we'd be happy to share the survey with you  
20 and you can use it in your own state to actually  
21 objectively poll your business community and your  
22 other communities. That helps you do that.

23

1                   And once we understand the overall  
2 innovative capacity and competitive capacity of a  
3 regional economy, then we kind of dig down to  
4 clusters and look at individual clusters. And again,  
5 this is an example from Research Triangle of biotech  
6 pharmaceuticals. And data allows you to essentially  
7 say, okay, where in that cluster are we strong?  
8 Where in that cluster are we weak?

9                   We now have objective data for every one  
10 of your clusters. We can tell you where do you rank  
11 nationally and along a variety of metrics. Again, we  
12 didn't put this in your package just because each  
13 state is different, and it would have been  
14 extraordinarily difficult to do that for all of you  
15 at once, but we'd be happy to help you, show you how  
16 to find this data on our Web site.

17                  There are some survey findings that kind  
18 of give you some objective data. This I thought  
19 you'd all be interested in. This is the development  
20 of the biotech cluster in San Diego. Again, it's a  
21 picture -- I think we have to face the reality of  
22 what cluster development is like. That cluster

23

1 really got really its beginning in 1955 when Jonas  
2 Salk decided to set up an institute there. The folks  
3 in Pittsburgh were deeply unhappy about that. But he  
4 was on a trip and got entranced with the area, and  
5 boy, the city was right on it. They gave him the  
6 land. They zoned Torrey Pine Mesa as a research  
7 area. Jonas Salk gets established. That starts a  
8 domino effect with other research institutions around  
9 biopharmaceuticals.

10 Then in 1964, the University of California  
11 at San Diego was established. That was not an  
12 accident. It was a long process of getting that to  
13 happen. Then it wasn't until '78 that the first real  
14 indigenous company grew up. You see later in the  
15 '80s and '90s some institutions grow, then it starts  
16 becoming a self-generating process. This is typical  
17 of how clusters develop. If we looked at aircraft in  
18 Wichita or advanced materials in Pennsylvania, we'd  
19 see the same kind of a story.

20 What this tells you is you can't build  
21 this thing in two or three years. Look at how many  
22 research assets San Diego had to build before the  
23

1 first real indigenous company popped up. It's a  
2 process that we have to be realistic about. The good  
3 news is we don't all need a biotech cluster. They're  
4 small. We can build on whatever we have in our  
5 regional economy and make it more advanced. There's  
6 a gigantic world out there that's clamoring for  
7 sophisticated goods, and there's tremendous export  
8 opportunities in virtually every cluster. And we  
9 need to get away from thinking that we can kind of  
10 quickly build a few clusters and that'll help us.

11 This shows you how an individual company  
12 often is very strategic in the cluster development  
13 process, in this case Hybertech in San Diego.

14 We also find that new opportunities often  
15 grow out of the intersections of old opportunities.  
16 Now remember Big Bertha. Big Bertha came out of the  
17 intersection of hospitality and tourism and  
18 aerospace. And if we kind of look for those  
19 opportunities you can often find them as we saw in  
20 our study.

21 Cluster development is partly serendipity.  
22 It's partly chance, partly good fortune. But cluster  
23

1 development can be effected by purposeful action.  
2 This is an example from Minneapolis in medical  
3 devices. And what this example shows us is that in  
4 modern international competition, the old boundaries  
5 don't apply.

6           It used to be that government was  
7 government, business was business, universities were  
8 universities, and everybody went about their business  
9 and they all had their clear roles and they were  
10 separate roles. Today what we find is these roles  
11 are inextricably intertwined. That the best cluster  
12 development and regional economic development  
13 processes involve really creative integrations of  
14 business, government, universities and other  
15 institutions. And again, you'll see many examples of  
16 that in our research.

17           How do you create a strategy for your  
18 state and regions within the state? Well, again, we  
19 have a lot of examples in our work and hopefully you  
20 and your staffs will dig into this. The first thing  
21 I would say is that you do need a strategy. We found  
22 that the most successful regions actually had a

23

1 conscious approach. It wasn't just kind of a bill  
2 here, a bill there responding to an economic  
3 downturn. There was a constant approach.

4           If you're going to create a strategy and  
5 apply it, you need to get organized. In  
6 Massachusetts, we created a Governors Council.  
7 There's a similar Governors Council in Connecticut.  
8 An organized process of bringing together the various  
9 constituencies over many, many years to tackle the  
10 agenda and get things to happen.

11           What we find is that in many regions you  
12 have these fundamental transition points. In the  
13 Research Triangle, for example, the Research Triangle  
14 model is just about finished. The idea that they  
15 could use those three universities as really the core  
16 to attract a whole new kind of economy, that was a  
17 great idea. It was a phenomenally great idea. But  
18 now 40 years later, they need the next idea. And so  
19 one of the things you have to do as any governor is  
20 to kind of understand okay, where are the limits of  
21 the past approach that we've been taking? Do we need  
22 to jump to the next level? And again, many of the

23

1 states I work in have to address those issues.

2           The transition points are often very hard  
3 to overcome because there's so much momentum around  
4 whatever it is that you've been doing that it's very  
5 hard to get people onto a different model.

6           Finally, just a few implications for state  
7 governments. Number one, you know, although cluster  
8 development is really fundamental to building  
9 innovative capacity and competitiveness at the state  
10 level, it's something that I hope all of you will, if  
11 you haven't already pursued this approach, will start  
12 to think about pursuing it.

13           It's not only important for stimulating  
14 new business, but it's very important for business  
15 recruitment. We find that it's not very successful  
16 any more to go out big game hunting with subsidies.  
17 The kind of companies you're going to get in your  
18 state if you're competing in low wages and low taxes  
19 are not the companies you really want. The way to  
20 get companies to come in is to build them around  
21 clusters, to go out and recruit for clusters, not  
22 just across the board. To really understand where

23

1 you're offering more than just the low cost of doing  
2 business or a nice place to live. Where you're  
3 building assets that you can use to sell. And  
4 companies now want to be part of these clusters.

5           Ironically, after 9/11, clusters are going  
6 to get more important, because people don't want to  
7 ship and have to deal with logistics across countries  
8 and thousands of miles. Yes, I think in New York and  
9 Washington people are not going to want to have all  
10 their eggs in that basket anymore, perhaps at least  
11 for the next little while. But in general in the  
12 economy I think what we're going to find is the value  
13 of proximity, logistical simplicity is going up, not  
14 going down.

15           States increasingly are playing a role in  
16 science and technology, which is very important. It  
17 used to be left to the federal government. State  
18 universities have enormous impacts on economic  
19 vitality, having strong research capability in those  
20 universities. That's something that all of you I  
21 think need to worry about, making sure that your  
22 campuses and branches of the state university are

23



1 properly focused on the economies in which they're  
2 based. All those become critical issues.

3 Having a state economic strategy that  
4 actually focuses on regions, not just the state as a  
5 whole, very important issue. Relatively few states  
6 doing that. And of course, benchmarking progress.

7 Well, very, very difficult for me to  
8 capture the richness of this in just this short  
9 amount of time, but I simply want to say that  
10 hopefully this has given you a taste of what we have  
11 now started to learn. It's given you a taste of the  
12 kind of data that we now have available that you can  
13 you use to compare yourself, and not just your state  
14 but any economic area within your state. You can  
15 have the same data, you can look at the same kind of  
16 metrics.

17 We've also tried to provide a methodology,  
18 an approach that your own team can use, guidelines  
19 for how to engage the private sector, guidelines for  
20 how to get engagement on the cluster level.  
21 Hopefully now this will give you some ammunition that  
22 you can take back to your state and apply and

23

1 hopefully it will give some of you some encouragement  
2 for things you're already doing, because I know there  
3 are some terrific efforts already underway.

4 So with that, Governor Engler and Governor  
5 Patton, thank you for the forum, and we'll open it up  
6 for discussion. Thank you.

7 (Applause.)

8 8

9 9

10 10

11 11

12 12

13 13

14 14

15 15

16 16

17 17

18 18

19 19

20 20

21 21

22 22

23

1                   GOVERNOR ENGLER: We can probably take  
2 about 25 minutes to open this up if there are  
3 questions. I'll just throw it open and promptly,  
4 since we've got Professor Porter here, I'll just sit  
5 down. He can field the questions. Signal who's got  
6 the first one, I'll hand this off, if there's a  
7 comment or remark that anyone wants to make on this  
8 topic.

9                   It's always hard to get the first one.  
10 Down here. Governor McGreevey, we welcomed you  
11 earlier, Governor, in absentia, but welcome to your  
12 first meeting.

13                   GOVERNOR MCGREEVEY: Thank you very much.  
14 Hopefully, I'll come back in full capacity.

15                   Professor, considering the budgetary  
16 straightjackets many of confront, if you had to make  
17 a strategic investment toward advancing a cluster,  
18 would it be toward investing say in developing  
19 increased research capacity in terms of universities,  
20 per se, or would it be towards transferring that  
21 intellectual capital toward commercialization. If  
22 you had to make one targeted investment, or putting  
23

1 it in the university marketplace, or are we investing  
2 in the commercialization of those ideas that are  
3 developed in the University to make them  
4 pragmatically applicable to the marketplace?

5 PROFESSOR PORTER: Governor, that's an  
6 excellent question. First of all, I want to give all  
7 of you perhaps some comfort here about this whole  
8 initiative. This does not have to be hugely capital  
9 intensive. I find that actually restructuring and  
10 repositioning some of the stuff that you're all  
11 already doing can have a tremendous impact. I think  
12 it's now becoming well known that the job training  
13 process can be substantially leveraged if you can  
14 realign it in clusters, if you can start to get your  
15 job training organizations and boards focused on  
16 clusters interacting with clusters, you can get more  
17 leverage out of those job training dollars with your  
18 university money that you're already spending.

19 We find, in our surveys and research that  
20 a lot of universities don't really do a good job yet  
21 of maximizing the commercialization of what they  
22 already have. And for every good technology transfer  
23

1 office we find in universities, we find at least one  
2 or two more mediocre ones.

3 I think the first thing I would be doing  
4 in a time like this would be let's make sure that we  
5 reallocate and let more leverage out of what we're  
6 already spending, not necessarily think that we have  
7 to spend tons more. We did find that the K through  
8 12 education is fundamental and really is high on the  
9 agenda of many regions and critical to successful  
10 regions. We found that physical infrastructure  
11 issues are important. One of the biggest problems  
12 facing San Diego is they can't get a new airport  
13 built, believe it or not, and that is a huge  
14 constraint. It may be that some of your big ticket  
15 infrastructure things are going to be perceived as on  
16 the critical path.

17 I believe that if you can find a way to  
18 allocate some additional resources, depending on your  
19 individual situation, I'd say infrastructure might be  
20 an area where new resources might be necessary. Also  
21 putting a little bit more capital into the research  
22 infrastructure in the university system, those would

23

1 be two areas where I think the need for new capital  
2 is probably the greatest in the typical state. But  
3 don't necessarily go into this thinking about this is  
4 a big dollar effort. I think this is, as much as  
5 anything else, it's kind of a new way of thinking  
6 about economic development and the new way of  
7 thinking I think opens up new opportunities. You can  
8 get the private sector to do a lot of this if you see  
9 that they're fundamental and need to take a  
10 leadership role, and I know many of you already  
11 believe that.

12 GOVERNOR ENGLER: Michael, what  
13 significance do you attach to availability of high  
14 speed internet services, broad band capacity? Will  
15 that become a limiter pretty soon in some of the  
16 areas if that's not available, or will there be a  
17 competitive advantage to be gained?

18 PROFESSOR PORTER: It's very important and  
19 fundamental and came up a lot in our research.  
20 Having said that, we didn't find too many areas where  
21 that seemed to be a constraint now. Having said  
22 that, I think each of you has to convince yourself

23

1 that you have a trajectory and you're working with  
2 your providers to have enough of that capacity  
3 available. The place where the capacity is often not  
4 available is actually not in the urban metropolitan  
5 areas but in the more outlying rural areas and that's  
6 often a real problem. That may require some policy  
7 intervention because, you know, today to be efficient  
8 you really need to be tapped into that  
9 infrastructure.

10 GOVERNOR ENGLER: Governor Keating?

11 GOVERNOR KEATING: Michael, how do you  
12 avoid what I will affectionately call the Bulgarian  
13 model? How do you avoid perhaps energizing a fading  
14 cluster or creating a cluster to manufacture buggy  
15 whips that soon will be irrelevant? It seems to me,  
16 instead of picking winners and losers, we ought to do  
17 what we can to highly educate the work force, reduce  
18 artificial barriers to growth, taxes, like we did,  
19 pass right to work, things like that, to unleash an  
20 economy. How do you avoid central planning, let me  
21 say that, as they sit down and discuss and debate the  
22 cluster concept?

23

1                   PROFESSOR PORTER: Good question. First  
2 of all, the broad-based policy things that you  
3 mentioned improving the physical infrastructure  
4 logistical system, whatever other legislation you  
5 need to make business more efficient in the state  
6 needs to be done. Many states have actually done  
7 quite a bit on that and have pushed that agenda quite  
8 a long way. I'm sure all of you have things on your  
9 to do list there. But at some point, those things no  
10 longer are the constraint to productivity.

11                   What we find is that that's where the  
12 cluster part comes in. Again, be absolutely clear  
13 about what we're saying here. I said I think four or  
14 five times in the course of my presentation, which  
15 was much shorter than I usually have for a class at  
16 Harvard, I was really disciplined today. I said  
17 three or four times, don't pick clusters, don't pick  
18 them; all clusters are good. Allow every cluster in  
19 your state of meaningful proportions to organize and  
20 see if it can enhance its productivity and  
21 competitiveness. Are all of them going to grow? Of  
22 course not. But what we find is that even if your

23



1 clusters don't grow, you can still raise their  
2 prosperity.

3 Let's take an example of Massachusetts.

4 We have a textile cluster in Massachusetts. It's not  
5 hugely big, it's tens of thousands of jobs, but we  
6 have a textile cluster that used to be much bigger.  
7 It shrunk over time but the average wage has gone up  
8 and up and up because it's gotten more and more  
9 focused on high technology segments of the market,  
10 advanced fabrics and fiber and stuff like that. So  
11 what I believe is very important to state economic  
12 development efforts is don't' disenfranchise anybody.  
13 Any part of the economy can play, any part of the  
14 economy can raise its level of skill.

15 Let's even take hospitality and tourism.

16 You know, hospitality and tourism is an area that's  
17 relatively low wage in many states but think about  
18 the challenge of how do you raise the average amount  
19 the visitor spends in your state. The way to raise  
20 the average amount they spend is to have better  
21 hotels, better attractions, a better experience, so  
22 even in a low wage cluster, like hospitality and

23

1 tourism, you can upgrade it, you can enhance its  
2 contribution to your prosperity. Don't pick.  
3 Government's not the one who's deciding which cluster  
4 is going to get help and which cluster is not. The  
5 government's going to organize itself to try to  
6 enhance and support cluster development really across  
7 the board.

8           Then what's going to happen is the market  
9 forces are going to determine the outcomes. I think  
10 the notion that there's a choice between laissez  
11 faire and central planning is too stark. I think we  
12 understand that government has inevitable roles in  
13 the economy; in education, in science and technology,  
14 in infrastructure, and it's finding that sweet spot  
15 in between laissez faire and central planning that I  
16 think is the key in this modern competition that  
17 we're dealing with now. Today's competition is about  
18 ideas, it's about knowledge, it's about building  
19 technology, and those are all areas where there has  
20 to be these interesting collaborations between  
21 universities, government, business and other  
22 institutions, but that's an excellent question.

23

1                   We don't want to be like Bulgaria, I can  
2 tell you that.

3                   GOVERNOR ENGLER: Governor Kempthorne?

4                   GOVERNOR KEMPTHORNE: Thank you, Mr.  
5 Chairman.

6                   Dr. Porter, to bring some follow-up, I  
7 believe you met with us about three years ago, and at  
8 that time you pointed out to us the tremendous  
9 shortage engineers that were projected throughout the  
10 United States. This year we had micro technology in  
11 Idaho just opened a new research development  
12 facility, a \$200 million facility, another \$100  
13 million of equipment that they're putting in there.  
14 The CEO, Steve Appleton, made the point at this  
15 dedication to the educators that were there to the  
16 University presidents, please ensure that you have  
17 engineering graduates because we need them.

18                   It has been ten years since they build an  
19 R&D facility at their plant. If you fast forward ten  
20 years that those engineers they will need, those are  
21 children in the sixth grade today. So it underscores  
22 what you're saying about K through 12. So we've gone

23

1 to the private sector and we've had these very candid  
2 discussions with them and asked them if they would in  
3 fact partner with us. And so you have the Micron  
4 Technologies and the Hewlett-Packards and others that  
5 are there that are going to join us in a venture that  
6 will be a math academy. It's not for the students,  
7 it's for the teachers in grades 5, 6, 7 and 8 that  
8 teach math.

9           During that one-week course at a  
10 university, at the dormitories that are not in use at  
11 that time, the private sector and the department of  
12 education will spend the week bringing those math  
13 teachers up to date as to what is happening out there  
14 in the world, what is the excitement of the new  
15 technology and with that hopefully the infusion of  
16 those teachers back in their classrooms with state of  
17 the art latest technology but also an affirmation of  
18 how critically important those teachers are to us.  
19 So it shows you you've planted a seed and we've been  
20 pursuing that and finding ways to partner with the  
21 private sector.

22           I guess the thing is if you have any  
23

1 comment on that. And the other question I have is,  
2 as I look at these charts, and you point out  
3 employment growth per year, average wages, etc., I  
4 would just suggest when you do look at average wages  
5 that you incorporate cost of living for the area  
6 because I know from firsthand experience when we  
7 moved back to the Washington, D.C. area for a period  
8 of time to live it was three times the cost of living  
9 in Idaho. So if you simply look at the average wage,  
10 it can be misleading.

11 PROFESSOR PORTER: Absolutely. I did I  
12 think briefly mention that really the wage versus the  
13 costs of living is in some sense the acid test of  
14 prosperity. It's not just the wage. The great  
15 catastrophe of Japan was very high wages and  
16 extraordinary costs of living. The average Japanese  
17 had to pay grossly too much for just about everything  
18 he or she bought. That point is extremely well  
19 taken. We actually, in our regional reports, do have  
20 cost of living metrics but for purposes of the state  
21 level report, we were not able to pull that off for  
22 today's session. But you're absolutely right on

23

1 that.

2 I would say a couple of things. First of  
3 all, you might be interested to know, Governor, that  
4 the Boise economic area is the highest patenting  
5 economic area per 10,000 inhabitants in America. So  
6 that's a great tribute to what you're doing. Now, to  
7 be absolutely fair, Governor Engler has a huge number  
8 of people living in his state, so it's a little  
9 harder to get the per-inhabitant number up but it's  
10 an extraordinary thing happening in the Boise  
11 economic area and the micro story I think is just a  
12 sign that if they are willing to put that major  
13 facility there, something's going right, so  
14 congratulations on that.

15 The whole human resource side of the  
16 equation is really extraordinarily important. The  
17 statistics on engineering graduates in America are  
18 still not materially better. On average we still  
19 have really a problem. I suspect that many of you  
20 governors need to put this issue on your radar  
21 screen. Is your university resources, are you  
22 generating enough scientists and technologists to  
23

1 support a higher sophistication economy? In many  
2 cases the answer is no. So I believe I just would  
3 reiterate that from everything we saw, we found that  
4 availability of labor is rarely what separates really  
5 successful regions from unsuccessful regions. It's  
6 really the availability of the highly skilled, highly  
7 trained labor. There's many charts in the reports  
8 about that. That's an extremely good question and  
9 one hopefully that all of you can keep working on.

10 GOVERNOR ENGLER: A follow up.

11 GOVERNOR KEMPTHORNE: Mr. Chairman, thank  
12 you.

13 Dr. Porter, I appreciate the recognition  
14 of the Boise area and its patents and I think Idaho's  
15 number one rank. It's a wonderful setting for the  
16 NGA annual meeting this July.

17 (Laughter.)

18 PROFESSOR PORTER: Maybe I could get  
19 invited to that one.

20 GOVERNOR KEMPTHORNE: We would love to  
21 have you.

22 If I could just follow up on the  
23

1 engineering statistics, I believe last year in the  
2 United States, 164,000 engineering graduates were  
3 hired in the industry. Of that amount, 64,000 were  
4 U.S. citizens, and I believe the others were  
5 international with their visas. I just wonder how  
6 long you can remain competitive and number one in the  
7 world if the farm team's not providing you the  
8 players that you need.

9 I think it again underscores that when you  
10 ask people around the world, where would you like to  
11 send your children to higher education, the number  
12 one choice is still the United States. But if K  
13 through 12 is not staying apace of that, how long can  
14 you stay number one?

15 PROFESSOR PORTER: Absolutely correct.  
16 What we're finding is that these foreign students who  
17 are coming here have now wonderful opportunities back  
18 home, so they're going back to India, they're going  
19 back to Taiwan, they're going back to their country,  
20 so our retention rate has fallen. If you look at the  
21 kind of disproportionate, low movement of American  
22 kids into these fields, you see that a big chunk of

23



1 that can be explained by the very, very low incidence  
2 of women and minorities in these fields, again,  
3 compared in absolute terms and also compared to other  
4 countries. So we think that a critical part of the  
5 equation here would be to unlock and get more women  
6 and minorities moving into these fields, but it does  
7 start with K through 12. Because if young people  
8 think that they're not going to be able to hack it in  
9 engineering, then we're kind of stalled.

10 I think the human resource, engineering,  
11 scientific and technical manpower issue is I think  
12 one of those four or five things that if I were  
13 speaking to President Bush here, you know, this is  
14 really top of the national agenda.

15 GOVERNOR ENGLER: Governor Bob Holden.

16 GOVERNOR HOLDEN: Dr. Porter, you talked  
17 about the regions. We all come from a state. Are  
18 there any regions in this country that have done more  
19 effective jobs in minimizing those state differences  
20 to have a regional economy and what have they done to  
21 build those bridges?

22 PROFESSOR PORTER: Governor, I know a lot  
23

1 of areas that have not done a good job, which I'm not  
2 going to discuss today. I haven't studied this  
3 question and I think it's a natural follow-on  
4 question from what we've discovered here. But I  
5 don't have good examples to point to. I once did  
6 some work in Chattanooga area and Chattanooga is  
7 fascinating because there's a number of states right  
8 near Chattanooga. We actually got quite a  
9 participation of economic development folks on the  
10 state level from multiple states in that process  
11 which I think was very healthy. We've also done some  
12 work in the Kansas City area and of course you have  
13 Kansas and Missouri and some good collaborations. I  
14 think this is still a relatively kind of under-  
15 captured opportunity and frankly I think we're going  
16 to have to break down some of our ways of thinking  
17 about how we organize ourselves. For most states,  
18 you're going to have to have some processes going on  
19 within your state and you're going to have to empower  
20 regional groups within your state to kind of take the  
21 ball and run with it and look in their regions.

22 And for many of you, there's going to have

23

1 to be some cross-state coordinated area work that is  
2 going to need to be done, so I think kind of laying  
3 that out, and kind of creating some new partnerships  
4 and collaborations is going to be very important. I  
5 will commit to you that if I ever get invited back,  
6 I'll talk about that issue because it's something we  
7 really want to study and I'm sure my team is taking  
8 notice of that as we speak.

9 GOVERNOR ENGLER: Governor Babauta?

10 GOVERNOR BABAUTA: Dr. Porter, my question  
11 is in the area of health manpower, specifically in  
12 the area of nursing. There's a critical shortage of  
13 nursing care in this country in the states, and where  
14 I come from in the Northern Mariana Islands, we find  
15 ourselves losing nurses to the mainland U.S. after  
16 having passed the NPLEX because of the critical  
17 shortage of nursing here.

18 What is it that is causing the shortage of  
19 nursing in the mainland U.S., and how can we build on  
20 that labor force so that we have an ample supply of  
21 nursing so that the Northern Mariana Islands don't  
22 lose the nurse to the mainland U.S. and it just seems  
23

1     like it is sucking the nurses that we end up training  
2     in the Northern Marianas to the mainland and it  
3     should be the other way around. Is it because of  
4     labor? Is it wages? Is it the nature of the job?  
5     Or what is causing the problem?

6                   PROFESSOR PORTER: That's a very good  
7     question. Before I answer it, I just do want to  
8     apologize to you, Governor, and Governor Turnbull and  
9     Governor Calderon. We didn't have data to actually  
10    prepare these books for you, but we'd be happy to  
11    talk to you and I've already talked to Governor  
12    Calderon about perhaps applying some of the same  
13    thinking to your regions. So I want to apologize for  
14    really not having these books for everybody. The  
15    nursing issue is not perhaps an issue that I'm the  
16    particular expert on, and haven't studied it. But  
17    from what I do know, and I have worked in health  
18    care, basically it's a situation where I think we're  
19    in the middle of a transition and the traditional  
20    role of nursing, of a nurse and the traditional pay  
21    structure for nurses is kind of breaking down and is  
22    no longer sufficient to attract enough of the

23

1 skilled, talented people that are required in that  
2 field.

3 I think there's a process now going on.  
4 You're seeing that nurses' salaries are rising  
5 dramatically. Nurses' roles are getting redefined,  
6 and I suspect that over some time frame now, we'll  
7 start to see an easing of the shortage but for the  
8 next few years I think it's going to be a shortage  
9 and, you know, we have this undeniable growth in  
10 older folks who are going to need more health care.  
11 So this is a very pressing issue.

12 I think at the state level, making sure  
13 that you're training enough nurses, making sure that  
14 you have adequate seats in your degree training  
15 programs is very importantly, and hopefully we can  
16 get the heat off of you and get the flow moving in  
17 the other direction because it is a very pressing  
18 issue.

19 GOVERNOR ENGLER: Thank you very much,  
20 Michael Porter for an excellent presentation.

21 (Applause.)

22 GOVERNOR ENGLER: Just to again reiterate  
23

1 the meetings that we have upcoming in Denver and  
2 Atlanta, because that is an opportunity. I know some  
3 of you have already committed teams of folks from  
4 your respective states, but I do think that will give  
5 about a day. Those are set up to be kind of compact,  
6 those meetings, but hopefully for your respective  
7 state teams a chance to do this a little more in  
8 depth.

9           On of the reasons we thought this might be  
10 useful also this year, the National Governors  
11 Association, there are so many gubernatorial  
12 elections in 2002, and so much of this needs to be  
13 carried on by in-coming governors as well, so we  
14 thought building a little database, a little capacity  
15 here, could be very, very helpful. At this point, we  
16 are to convene a meeting of the NGA Executive  
17 Committee. Certainly all governors are welcome to  
18 participate. Only the members of the Executive  
19 Committee get to vote. I don't think we've got  
20 anything that's going to be very controversial today.  
21 But the first order of business of the Executive  
22 Committee would be a motion and a second to approve

23

1 the minutes of the December 12th, 2001 Executive  
2 Committee meeting.

3 VOICES: So moved.

4 GOVERNOR ENGLER: Moved by Governor Patton  
5 and supported. All in favor, say aye.

6 (Chorus of ayes.)

7 GOVERNOR ENGLER: Opposed?

8 (No response.)

9 GOVERNOR ENGLER: That motion is approved.

10 Now approval of the Executive Committee  
11 policy proposals. We've got first an amendment in  
12 the form of a substitute to the EC-1 State Grant  
13 Programs. A motion and a second on that.

14 Moved again by Patton, supported. It's  
15 moved and supported. I'm just reaching for the  
16 document here. Everybody has this in front of them.  
17 These are all in the purple policy. If you've had an  
18 opportunity to review them, we'll just move through  
19 them rather quickly. I'm not going to go, unless  
20 there is discussion that people want to raise with a  
21 motion and a second, and seeing no discussion, all in  
22 favor say aye.

23

1 (Chorus of ayes.)

2 GOVERNOR ENGLER: Opposed?

3 (No response.)

4 GOVERNOR ENGLER: The ayes have it. That  
5 policy is adopted.

6 Next are amendments to Executive Committee  
7 Number #4 the Public Pay and Pension Plans Policy.

8 Again, a motion and a second would be in order.

9 Moved again by Governor Patton and supported by  
10 somebody, I heard a second out there. So any  
11 discussion?

12 (No response.)

13 GOVERNOR ENGLER: Seeing none, we'll call  
14 the vote on that one. All in favor say aye.

15 (Chorus of ayes.)

16 GOVERNOR ENGLER: Opposed, no?

17 (No response.)

18 GOVERNOR ENGLER: The ayes have it.

19 Third, amendments to Executive Policy  
20 Number 9, a federal tax policy. A motion would be in  
21 order. Moved by Patton, and supported. All in favor  
22 -- any discussion on that one?

23



1 (No response.)

2 GOVERNOR ENGLER: All in favor say aye.

3 (Chorus of ayes.)

4 GOVERNOR ENGLER: Opposed, no.

5 (No response.)

6 GOVERNOR ENGLER: That is approved as

7 well.

8 Fourth, a new policy position. I know  
9 we'll have some comments because we're calling a new  
10 policy position on representation in Congress for the  
11 U.S. citizens of the Northern Mariana Islands.

12 Governor, let me first have a motion on the policy to  
13 get it formally in front of us.

14 GOVERNOR PATTON: So moved.

15 GOVERNOR ENGLER: Moved by Governor Patton  
16 and supported. On that policy position, Governor,  
17 would you like to make a couple of comments?

18 GOVERNOR BABAUTA: Thank you, Mr.

19 Chairman. First, I want to thank the Executive  
20 Committee for agreeing to place this proposed policy  
21 position on today's Executive Committee business  
22 agenda. This policy supports the proposition that

23

1 Congress support and adopt legislation providing a  
2 delegate or representative in the United States House  
3 of Representatives for the people of the Commonwealth  
4 of the Northern Mariana Islands. The Commonwealth of  
5 the Northern Mariana Islands is the only part of the  
6 United States having a permanent population with no  
7 representation in the Congress. Since 1790, Congress  
8 has given representation to over 30 non-state areas  
9 in the nation. The most recent, Hawaii and Alaska,  
10 but there were states that were once territories and  
11 those who are seated here at the table could  
12 appreciate where we're coming from on this today.  
13 Only five of the non-state areas have representation  
14 in the Congress; American Samoa, Washington, D.C.,  
15 Guam, Puerto Rico, and the Virgin Islands, with the  
16 sole exception of the Commonwealth of the Northern  
17 Mariana Islands.

18           And so in keeping with the American  
19 tradition of participatory democracy, and basic  
20 fairness, this policy, if adopted by the National  
21 Governors Association, urges the Congress to enact  
22 legislation to provide the people of the Northern  
23

1 Mariana Islands with representation that U.S.  
2 territories have historically been granted, and that  
3 is a delegate in the United States House of  
4 Representatives. Thank you.

5 GOVERNOR ENGLER: Thank you very much.

6 Governor Kempthorne?

7 GOVERNOR KEMPTHORNE: Mr. Chairman I would  
8 just ask a confirmation that this is to represent the  
9 citizens of the Mariana Islands. This is as a non-  
10 voting member.

11 GOVERNOR ENGLER: That's right. It's  
12 called a delegate actually.

13 GOVERNOR BABAUTA: That is correct in the  
14 same manner in which the delegate from the District  
15 of Columbia is representing the District in the  
16 Congress.

17 GOVERNOR ENGLER: Okay, good  
18 qualification.

19 Governor Turnbull?

20 GOVERNOR TURNBULL: The U.S. Virgin  
21 Islands would like to support this measure. It's  
22 only fair that all American citizens everywhere be  
23

1 represented in our Congress. As in the Virgin  
2 Islands, we have a non-voting delegate for the time  
3 being, at least. But I think the Northern Marianas  
4 should be given equal representation with the other  
5 territories of the United States.

6 GOVERNOR ENGLER: Very good. Seeing no  
7 more discussion, all those in favor of the resolution  
8 will say aye.

9 (Chorus of ayes.)

10 GOVERNOR ENGLER: Those opposed?

11 (No response.)

12 GOVERNOR ENGLER: Congratulations,  
13 Governor. Your first meeting and already a  
14 resolution being adopted, so the folks back home can  
15 be proud of that.

16 (Laughter.)

17 GOVERNOR ENGLER: Finally in front of us  
18 is a resolution on homeland security. Again, a  
19 motion and a second would be in order. Moved and  
20 supported by Governor Musgrove. Any comments on  
21 that? That again has been in front of everyone so  
22 seeing none, all in favor will say aye.

23

1 (Chorus of ayes.)

2 GOVERNOR ENGLER: Opposed?

3 (No response.)

4 GOVERNOR ENGLER: The Homeland Security  
5 Resolution is approved.

6 Now let me call on Governor Patton who is  
7 going to do something that's very important. He's  
8 going to talk about money in a year when money is  
9 tight, so we will talk about the value of what we're  
10 all doing here.

11 Governor Patton?

12 GOVERNOR PATTON: Thank you, Mr. Chairman.  
13 The NGA and the Center for Best Practices are midway  
14 through the 2002 fiscal year. The December 2001  
15 financial statement shows that operating funds  
16 revenues are slightly under budget at 47 percent, and  
17 that expenses are under budget at 46 percent due to  
18 staffing vacancies and timing differences on  
19 subgrants. NGA and Center endowments have  
20 experienced declines in net market value for the past  
21 six months but they performed well against benchmark  
22 indexes. NGA does expect that operating funds will

23

1 be at a break even point by the end of the fiscal  
2 year at the end of June, so I think everything is  
3 about on target, Mr. Chairman.

4 GOVERNOR ENGLER: Thank you, Mr. Chairman.  
5 A good report displaying prudence, caution on the  
6 part of the Governors Association and careful  
7 management of the resources contributed by the dues-  
8 paying members of this Association. All taxpayers of  
9 America know that they're funding for the National  
10 Governors Association is yielding benefits far beyond  
11 what had originally been imagined. So thank you for  
12 the excellent report.

13 A couple of announcements. As we bring  
14 this session to a close, we're actually going to  
15 finish a moment or two early. Governors only  
16 luncheon and work sessions starts at noon, so it's  
17 about a 30-minute break here for people to make phone  
18 calls or to attend interviews or whatever. Salon  
19 One, it's right on this level.

20 The topic is Medicaid. We've got a  
21 special report that is being presented and an  
22 excellent discussion intended. Also relative to the

23

1 topic of welfare, on Tuesday afternoon, we have a  
2 roundtable that's been scheduled for some time up on  
3 Capitol Hill. That was scheduled to start at 2:00  
4 o'clock. We're going to push that back to 2:30,  
5 same room, same cast of characters, and what we're  
6 going to do at that roundtable is to have an  
7 opportunity. Secretary Tommy Thompson will join us.  
8 Leading members of the House and Senate bipartisan  
9 gathering to talk about welfare initiatives. It  
10 actually takes on a bit more prominence than it was  
11 intended to have because originally we had not  
12 expected that there would be announcements on  
13 welfare, and I think we're expecting some now, maybe  
14 even that afternoon. So we'll be talking in a very  
15 serious way about some of the President's initiatives  
16 and some of the Governors agenda on that topic.

17 Committee sessions are this afternoon at  
18 2:30 in the assigned rooms that are at this level, so  
19 that gives us an ample period of time at noon to talk  
20 about our sort of most pressing fiscal problem, the  
21 Medicaid situation in America.

22 Tonight the governors are on their own to  
23

1 provide transportation to the White House for the  
2 evening's even with the President and Mrs. Bush.

3 Now on Monday, we're going over there for  
4 our meeting. As you know, this year this will be an  
5 afternoon meeting, so buses are going to leave for  
6 that from the J.W. Marriott, this hotel, at 1:40 p.m.  
7 sharp. That's on the Pennsylvania Avenue entrance  
8 out in front. That's where we're going to start.

9 Finally, just a reminder. The deadline  
10 for submission in writing of new policies under  
11 suspension of the rules is 5:00 o'clock Monday.  
12 Without inviting you to bring forward a lot of  
13 policies, just reminding you that you have that in  
14 mind that that's the deadline, so if you miss it,  
15 it's been mentioned twice now.

16 Governor Musgrove?

17 GOVERNOR MUSGROVE: Thank you, Mr.  
18 Chairman. In support of the resolution on the  
19 Northern Mariana Islands, I would request that the  
20 minutes reflect that it was a unanimous vote, as I  
21 believe it was, and I think that would support it  
22 further.

23



1                   GOVERNOR ENGLER: I'll be happy to make  
2           sure that that is so duly recorded and transmitted to  
3           the leaders of the Congress.

4                   Any other comments or questions?

5                   (No response.)

6                   GOVERNOR ENGLER: If not, this morning's  
7           session stands adjourned. See you at noon.

8                   (Whereupon, at 11:25 a.m., the morning  
9           session of the National Governors Association meeting  
10          was adjourned.)

11

12

13

14

15

16

17

18

19

20

21