

# Keynote Address

Remarks by Thomas J. Vilsack  
Governor of Iowa



## Introduction

Jeff Plagge, president and CEO of The First National Bank of Waverly and Class A director of the Federal Reserve Bank of Chicago, introduced Iowa Governor Thomas J. Vilsack, who was elected in 1998 and is currently serving his second term. Plagge said Governor Vilsack fully understands rural Iowa and rural development. He pointed out that not only is Vilsack the governor of a rural state, but before he entered into Iowa politics, he lived and worked in a rural Iowa community, so he has experienced the challenges of rural America at multiple levels. Plagge also noted that defining “rural development” is somewhat like defining the “family farm” – everyone has his own definition and biases. However, he said, rural development can only come about through collaboration. He believes that Vilsack has worked hard to foster partnerships within the state, such as the Iowa Values Fund and the Vision Iowa Program. These and other local and regional partnerships are making a big difference in the state of Iowa, Plagge said.

### *Iowa Governor Thomas J. Vilsack's Remarks*

Jeff, thank you very much.

Not only do we appreciate those Illinois dollars coming across the border, but also we really appreciate that Illinois football team coming over from time to time.

I, too, want to thank the Federal Reserve Bank of Chicago for hosting this conference on rural economic development, and I appreciate the fact that there are visitors from a number of states here. But this does give me an opportunity to talk about the state of Iowa, its past, the current situation in our state, and what steps we need to take in the future.

And I think what I have to say about the state of Iowa is applicable to states all across the Midwest. I appreciate the fact that there are in the audience today, a number of members of the Iowa legislature, who share in a desire for

this state to grow and expand and for the rural economies of this state and all of the Midwest to continue to expand.

As of today, our state is but 1,700 jobs away from having a record number of employed Iowans. Our unemployment rate is below the national average. Iowa is an exporting state. In the last year, exports from Iowa grew by 22 percent – compared to the national average of 13 percent. This represents an increase to \$6.4 billion. Our manufacturing employment growth activity as reported by the Bureau of Labor Statistics also grew at a rate higher than the national average, in each of the last five quarters.

Iowa has the fastest growing economy in the Midwest and the eighth fastest growing economy in the entire country. Wage and salary income grew in our state at a rate higher than the national average in 11 out of the last 12 quarters. And last year, the state of Iowa's income growth ranked second in the nation in percentage increase.

More jobs, more exports, more growth, more income. I would suggest to you that there are many reasons for this success story, and many reasons why we need to continue on this pathway to a stronger Iowa that is marked by innovative people and creative economies and communities.

Government has a limited but important role, and to point out how it has played a limited but important role in this growth, let me point to a number of activities that the state has taken to date and the impact of those in rural communities. Working with the Iowa Legislature and the Iowa utility companies, Iowa embarked on a strategy to become energy independent. Six years ago, the state was importing energy and exporting dollars. As a result of innovative legislation and regulatory reform, the state now has six new power facilities either constructed or under construction. This will mean that the state of Iowa will become a net exporter of energy and an importer of resources. This led to over \$2 billion of economic

activities, and many of these facilities are located in small communities in rural Iowa.

The state recognized the need for expanded venture capital in an effort to promote small business development. The legislature, working in conjunction with the business community, provided a series of incentives and opportunities, tax credits for investors, a community venture capital fund, and tax relief for those who invest in it, working with our insurance industry to create an \$84 million resource for small business development, and the creation and funding of the funds.

Mention was made of a program called Vision Iowa. Recognizing that a creative economy requires creative, innovative people, we embarked on an effort to try to create cultural and recreational opportunities in small communities across the state, as well as some of our large urban centers. We leveraged approximately \$250 million of state resources over the last five years to fund 200 projects and communities, large and small. Over \$2 billion in construction has led to a renewed sense that Iowa is on the move. This, in turn, has encouraged many of our college-experienced workers who want to be part of Iowa's future. In the last two years to three years alone, we have seen an increase by roughly 3 percent of our workforce of college educated and experienced workers. This represents approximately 45,000 additional people in the workforce with higher educations.

Mention was also made of our Values Fund. A commitment of resources over the next several years to try to grow businesses in the state, try to link our university systems to business development, and to try to empower our community colleges to do an even better job of worker training. Today, 333 projects have received investments from the Values Fund, retaining or creating 20,679 jobs, leading to over \$3.7 billion of capital investment. Jobs paying \$38,000-plus with benefits – good paying jobs that support families and communities.

The legislature has also worked with our administration to develop regulatory reform that makes sense by deregulating the telecommunications industry – we are seeing an expansion of Internet access throughout the state. A recent report indicates that over 70 percent of Iowans have access to high-speed Internet. We are also working on limiting the amount of permitting time it takes to secure necessary permits from state agencies. Time is money. I recently was talking to a group of individuals who were starting a company in rural Iowa relating to renewable fuels. They remarked how important it was that permits could be approved in a matter of weeks or days compared to a competing state, where it would take literally months to get that approval.

The state has also actively pursued leveraging of federal resources in small, rural areas in an effort to try to

promote higher income for our farm families, aggressively promoting buffer strips of wetland restoration, and using wind energy tax credits, ethanol and soy diesel tax credits to promote new opportunities in our farm fields – turning them from farm fields to energy fields.

We have aggressively pursued an effort, both in the state in terms of increasing the demand, but also the supply of renewable fuels. We now have 20 ethanol plants currently in operation in our state with another six being constructed. Today, one billion gallons of ethanol is being produced in our state. Within six months, that will be 1.5 billion gallons. We rank first in the nation in ethanol production. We have gone from 50,000 gallons of soy diesel being produced in our state to, within the next six months, 100 million gallons – also ranking Iowa first in the nation. Iowa now, because of the promotion of wind energy, is the third leading producer of wind energy in the country.

But there is more work that needs to be done, which is why we asked the Battelle group to assist us in analyzing the Iowa economy and determining what made sense for development in rural communities and urban centers. They suggested that there were three clusters or segments of the economy that our state was particularly suited to take advantage of. And I suspect that these three clusters are also areas of opportunity for states in the Midwest – biotechnology, advanced manufacturing, information solutions, and financial services. It also suggested that we focus on creating clusters within clusters by linking suppliers and customers, providers of services and goods. In order for us to continue the progress that the state has seen over the last several years, we need to continue to build on the innovative economy.

Now, my remarks today are going to be focused specifically on economic development. Had I had the time, that is, all afternoon, we could have talked about education reform and health care reform and government's reform, all of which are important to the future of this state and to the future of the Midwest. Over the course of the next several weeks, I will be outlining a series of proposals in those three areas, but for today, the focus is on economic development. And specifically, the recommendations of the Battelle group, and particularly in two of the three areas I mentioned – biotechnology and advanced manufacturing.

Let me read this quote to you from the National Innovation Initiative Report, issued by the Council On Competitiveness about six months ago. The report was an outline of the steps that this nation needed to take in order to have a sustained economy. It started off with this: "The legacy America bequeaths to its children will depend on the creativity and commitment of our nation to lead to a new era of prosperity at home and abroad."

America's challenge, and I would suggest to you, the Midwest's challenge, Iowa's challenge, is to unleash its innovative capacity to drive productivity, a standard of living, and leadership in global markets. At a time when macroeconomic forces and financial constraints make innovation-driven growth a more urgent imperative than ever before, America's business, government, workers, and schools face an unprecedented acceleration of global change, relentless pressure for short-term results, and fierce competition from countries that seek an innovation-driven future for themselves.

Over the next quarter century, we must optimize our entire society for innovation. Some of you may have had the privilege that I have had, which is to travel overseas, to see firsthand the competition. Before I go into the recommendations that I suggest for the next steps for Iowa, let me share with you two very brief observations of that trip that I took recently to China, because they are instructive regardless of where you live in the United States.

One was to a great manufacturing facility in Bay Province, China. It is a province of 65 million people. The brake manufacturing facility was operating on a Saturday when we visited. It provides brake pads for 20 automobile companies, including some that manufacture cars in the United States. As I walked through the plant and I watched the individuals working, I asked the supervisor exactly what they were paid. "How much did these workers make?" I asked. The supervisor turned to me with a great sense of pride, and she said, these workers are among the best-paid people in our province, and in our country. I said, how much do they make? And she said, \$150 U.S. per month. That is the competition that we face. \$150 U.S. per month.

So I went to a school while I was visiting China, a school of 8,000 students of pre-K to the equivalent of our junior year of high school. The first thing I learned about this school was that students in this school, which was essentially the equivalent of a public school, were learning not their first but their second foreign language in second grade. They begin taking English when they start school, and by second grade, they are given the option of learning Spanish or Japanese. By the time these youngsters are in the equivalent of our junior high school, they are taking introductory physics and chemistry, and for each year thereafter, they continue to take science courses. By the time they reach the equivalent of our junior year in high school, those youngsters will spend roughly 18 months more in school than our children. For every one of our youngsters graduating from one of our universities or colleges, today in China, three Chinese students will graduate, and three, from India.

None of that was as frightening to me as the following. The principal of the school turned to me, and she said, "We are very proud of our school. We have one challenge. And we are working on it."

And I said, "What is that?"

And she said, "We want to learn how to teach 'creativity.'"

Ladies and gentlemen, if the competition ever learns how to teach creativity, we are really in for a challenge. It is important and necessary for us in this state, in this sector of the nation, and our entire nation, to understand that the future economies must be driven by innovation and creativity. That is our single advantage. The day and age of low-cost, high-quality, rapid product deployment and development in large areas and markets is no longer sufficient to win the game. That just gets you in the game. You win the game by being innovative.

For us, in the state of Iowa, it means innovation in biotechnology, and specifically, in three areas. Biotechnology is a very large field. It includes many, many opportunities, but for the state of Iowa and for the Midwest, there are three in particular that make sense. Iowa is one of six states in the country with a critical mass of activity in the ag sector of biotechnology, and by that I mean, new farming and food production, processes and systems, and technologies, and steps taken to advocate additional health and nutritional opportunities from the food that we produce. We also have an advantage in plant science, which is the activity designed to improve the effectiveness, the efficiency of plant production, and the utilization of crops in a variety of different ways. You may not appreciate this, but there are roughly 3,500 ways to use a kernel of corn. Virtually everything in this room today can, and to a certain extent, is being made from corn in our state. The clothes on your back, there are companies today that are making shirts and socks from corn. The table that you are sitting at, there's a furniture company that is making corn-based furniture. There are efforts to substitute plastic for corn-based products, and, in fact, there is now research and technology allowing us to grow polymers and switchgrass, and corn. The bioeconomy has tremendous opportunities for innovation and success.

Equally powerful are the opportunities to use animal production systems, transgenic animals and cloned animals, to produce new materials, new chemicals, new products to grow an economy, all of which, by the way, can make us less dependent on foreign oil, which is good for the environment and good for national security.

Now, in order to take advantage of the opportunities in biotechnology, in order to build that pathway to a stronger Iowa, we have got to take additional steps beyond what we have done.

First, we have to continue to encourage and accelerate and expand the commercialization of technologies developed on our university campuses. Small companies can grow to big companies. Small companies can start on university campuses with a great idea. The state of Iowa and the Midwestern states have to continue to invest in the expansion of these technologies. That's one of the reasons why the Values Fund is important. It also will allow us to locate those companies close to the raw materials to produce these products, which, in turn, creates more opportunity in the Midwest and in rural areas.

Secondly, we need to continue to formulate alliances between biotechnology companies, so that we can continue to develop clusters between suppliers and customers with products produced by biotechnology companies. That's one of the reasons why the Battelle group proposed, and we have followed through with the establishment of a bioalliance, and the identification of an individual in charge of that alliance, Ted Crosbie, from Monsanto, who will assist us in formulating additional policies to promote biotechnology.

We also need to continue to invest and continue to partner. The Battelle study recommended the development and the creation of an infrastructure fund to help build the platform for success. We need to create such an infrastructure fund. We need to invest millions of dollars in such an infrastructure fund, and those dollars, in turn, must be used to recruit faculty, nationally recognized faculty, to endow entrepreneurial chairs at our university campuses, and to help to fund the building and equipment of new start-up companies.

This goes beyond what we have done with the Values Fund. In advanced manufacturing, the Battelle group looked at 158 manufacturing industry sectors, identified 14 sectors within the state of Iowa that had the greatest opportunity, and specifically identified three which had the greatest potential for success: automotive precision tool making; environmental control systems; and industrial metal processing. It also identified three emerging sectors: polymers and coatings, industrial chemicals, and medical drugs and devices.

Those three emerging areas, I think, hold the greatest promise for rural development. The polymers and coatings tie nicely into biotechnology, as is the case with industrial chemicals. Medical drugs and devices tie into some of the expertise at the University of Iowa, and also allow us to begin the process of determining whether or not plants can be used as a biobase for drugs.

In West Burlington, Iowa, there's an acre of corn being grown today under very close scrutiny that provides a treatment for cystic fibrosis, that may very well be the wave of the future as we deal with issues involving the development of those crops. In order for us to take full

advantage of advanced manufacturing opportunities, there are several additional things that have to be done.

First and foremost, we have to create a lean manufacturing institute. This is an opportunity to help existing businesses continue to learn techniques and strategies that will allow them to be ever more efficient and effective. We have partnered, for example, with Lennox Industry, and the unions at Lennox, to promote lean manufacturing opportunities, which we believe over time will allow for that particular industry to remain stable and secure in our state. We must never forget the contribution that existing businesses make, and sometimes it's hard to figure out strategies that will allow them to be more effective and efficient. Encouraging them to look at the latest production technologies and strategies will be one way in which we can secure a future for them.

Secondly, we need to take the infrastructure fund that I mentioned for biotechnology and expand it to include a matching grant program for new product development. This will compliment our venture capital efforts. It will allow our universities, our private sector and government to partner, in the development and identification of new products from existing businesses and new businesses. And finally, we have to create an innovation economy and education council to continue to look for opportunities to promote innovation and creativity within the state of Iowa.

I intend to create this council by executive order. I intend to have representatives from business and labor, in the education community, as well as recent college graduates serve on this council, so that we can continue to promote innovation in the state, so we can continue to make sure education and economic development are aligned, and so we can continue to look for ways in which we can provide assistance to business development and growth.

Now, there are a lot of other things that need to be done. There are opportunities for us to continue to promote renewable energy and fuel in our state. We will work with the legislature to look at ways in which we can continue to promote the purchase of ethanol in our state and act as an example for the rest of the country. The product and the step that we took in establishing a tax credit for retailers of the product have been tremendously successful. We have created a market within our own state for the use of ethanol. We now have to figure out strategies to improve the use of other products. Our state is currently providing grants to retailers to convert their tanks. We are working with the auto dealers of this state to promote E-85 vehicles and flexible fuel vehicles, and continue to advocate for more of that technology to be developed in our nation, so that we can continue to rely upon renewable fuel.

We will continue to promote and expand wind energy, as well. We recently opened up a plant in Cedar Rapids that is going to produce turbines, very, very large turbines, which we think will be marketed throughout the West to take full advantage of wind energy. We will work with other states and have begun the process of developing standard protocols for transmission lines in terms of renewable energy opportunities.

There are a multitude of steps that have to be taken, but if you focus your resources on what makes sense, if you create clusters that have the greatest opportunity for profitability, if you continue to look for ways in which government can partner, if you continue to look for opportunities to make the regulatory burdens less, if you continue to invest in education and try to tie your education to your economic development, if you continue to look for innovative and next-step technologies and promote them, if you continue to invest in small business developments and new venture opportunities, if you continue to try to create an attractive cultural climate for college, experienced, and educated workers, you will continue to see prosperity.

I think the best days of the Midwest are ahead of us. I think there is an enormous opportunity to provide safe and secure locations. We have great natural resources that can be fully utilized by our nation. There is a growing awareness in our nation's Capitol of the importance of energy dependence, which places strength on the Midwest. We have an ethic of hard work. We understand and appreciate the value of education, and states are taking steps to tie that education into economic development. So, I am bullish on the Midwest, I am bullish on what's happening in my state, and I suspect in the states that are represented here as well.

Let me just conclude by suggesting that one other thing needs to take place in order for the Midwest to fully utilize its potential and for the state of Iowa to do so as well. And that is for us to be champions and advocates for the Midwest and for Iowa. Each of you in this room has an opportunity to visit with young people from time to time. Each of you has young people in your own life or perhaps next-door neighbors or relatives or young people that are friends of your family. Never miss an opportunity to promote the Midwest. Never miss an opportunity to point out that we live in a part of the country that is among the safest and among the healthiest and among the best educated, with the greatest opportunities. Never fail to point out the tradition of the Midwest, the fact that we have helped to feed the world. We are now helping to fuel the world, and over time, we are going to help to solve some of the health care challenges ahead of our nation and the world.

Our state, the state of Iowa, has a tremendous tradition. Henry Wallace, the developer of hybrid seed, allowed agriculture to be far more productive than it ever had ever had been. Norman Borlaug, born and raised in Iowa, educated in Minnesota, went out and created new strains of wheat, which, in turn, provided opportunities for literally millions of people to be saved from starvation and malnutrition. It is a rich history, and it is one that we can build on. It's one that has defined us in the past, and I think will define us in the future. So I appreciate the opportunity to visit with you today, and I look forward to working with states in the Midwest for a brighter and better future.

Thank you.