



Civic Caucus

2104 Girard Ave. S., Minneapolis, MN 55405

civicaucus@comcast.net

September 8, 2014

Human Capital: Minnesota's Strength and Challenge A Civic Caucus Focus on Competitiveness Statement

Summary

While the state's economy is, by most measures, enviably healthy today, Minnesota faces a serious risk in the near future of having too few qualified individuals for all levels and types of employment. Broad collaboration on this problem by employers, employees, educators, and government is essential if Minnesota's primary competitive advantage, its high-quality human capital, is to be maintained. The state needs leadership from public, private and non-profit sectors to (1) highlight the gravity of its human capital shortage, (2) fully acknowledge the real changes in the nature of work, (3) promote new initiatives addressing the problem, and (4) measure and report progress in meeting this challenge to the state's ongoing prosperity.

Introduction

Human capital encompasses the collective skills, knowledge, and other intangible assets that can be used to create social and economic value for individuals, their employers, or their community. The formation of human capital starts with education but requires many other diverse social and economic contributions that advance the general well-being of citizens.

The development of Minnesota's human capital has not, in recent years, kept pace with the new demands of the state's evolving economy. To prepare the state for economic and social changes we know are coming and those we can reasonably expect to come, the state must bring its development of human capital to a far higher level than sufficed in the past.

Background

For much of the last five years the Civic Caucus has focused on the redesign of Minnesota public systems, looking to develop new incentives and better outcomes through creative rethinking of old, accepted patterns. Two Civic Caucus reports, [one in 2009](#) and an [update in 2011](#), stressed the need for redesign to maintain effective and efficient public services at a reasonable cost. As we have reviewed many actions on and proposals for the redesign of public services, we've seen that successful redesign places greater emphasis on *creating incentives* to change, rather than on *imposing mandates* to change.

About a year ago we started to focus more sharply, looking at the potential for redesign to improve Minnesota's overall economic and social climate in comparison with other states, that is, to bolster its competitiveness. We have been particularly concerned with foundational competitiveness, those essential elements of a successful community, such as human capital, physical infrastructure, education, transportation, health care and other resources contributing to quality of life. Of these essential elements, the quality of our human capital has emerged as the most critical to the ongoing prosperity of the state.

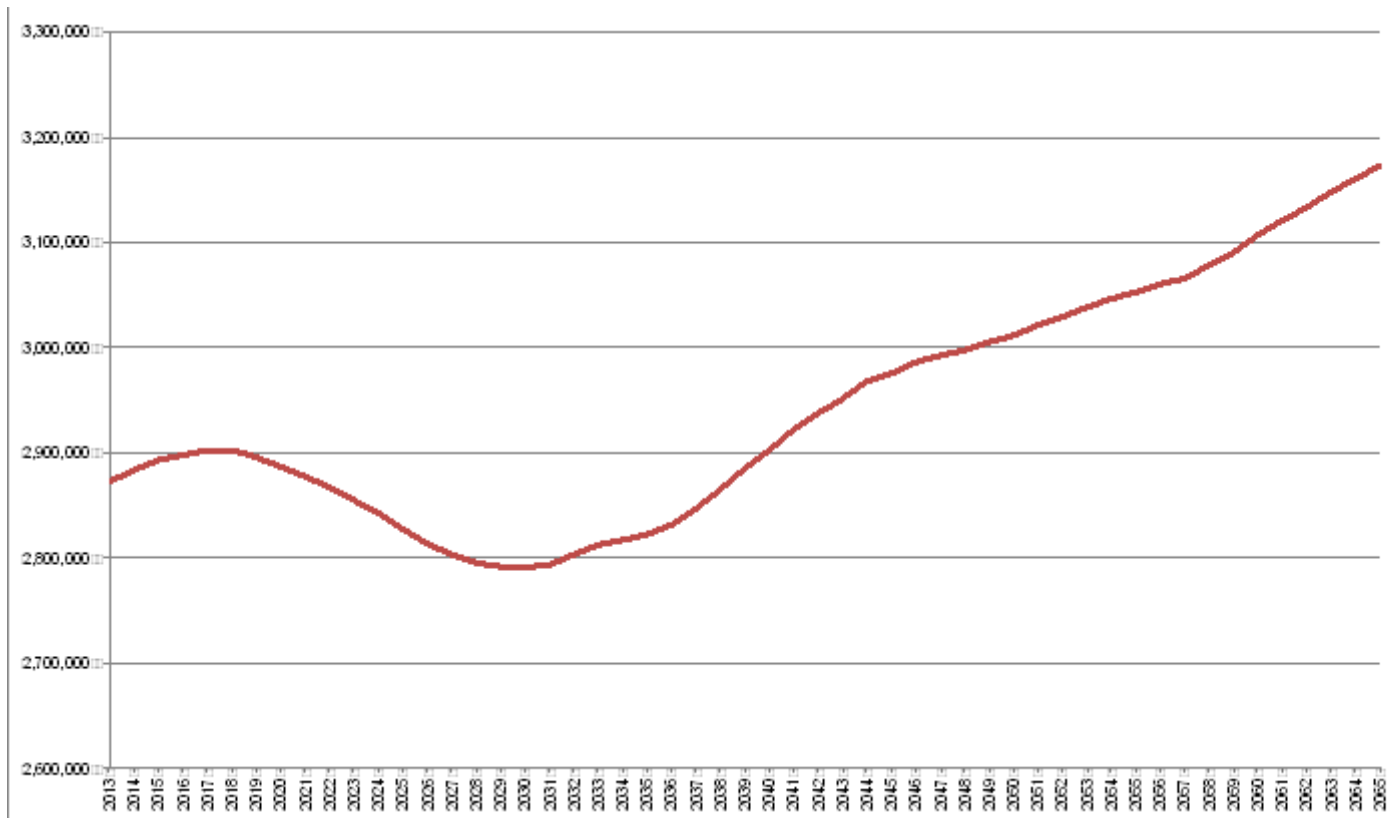
Our Principal Findings

The economy is a combination of labor, capital, entrepreneurship, management, infrastructure, institutions and natural resources that together provide what a community needs and wants. And over the years, on average, our state has enjoyed an exceptionally good economy. Minnesota ranks very well today among the 50 states in economic activity, employment rate, health, quality of life, and similar measures.

However, among all the assessments of competitiveness we have reviewed, it is the state's outstanding reputation for human capital that repeatedly shows up as *the* leading factor in its investment attractiveness, that is, its appeal as a good place to build thriving enterprises and to share in community benefits. While this is gratifying, Minnesotans should be neither self-congratulatory nor complacent. Serious challenges are emerging:

- **State demographers and economists report that the state will soon have more unfilled jobs than there will be individuals in the state to fill them.** Within six years, more Minnesotans will be retiring than there will be younger people to replace them. While productivity improvement may reduce the need for more employees and for hours of work, the state nonetheless faces a serious net decline in the number of employable individuals needed to sustain and grow the economy. Both the quality and quantity of the human capital base must be strengthened if Minnesota is to continue to get what it wants and needs from its economy.
- **Projections show Minnesotans in prime employment years shrinking by 100,000.** The 25-to-64 age group is projected to shrink by about 100,000 persons between 2017 and 2030 and is not projected to fully recover to its expected 2017 high point until 2040, according to Minnesota State Demographer Susan Brower.

Minnesotans Aged 25 to 64 years



- **In technical sectors the problem may already be affecting productivity.** A July 2014 survey by *Twin Cities Business* revealed that employers want to hire at rates not seen in more than two years, but that it's increasingly difficult for them to find the needed talent.
- **Equally concerning as, or possibly even more significant than, the demographic problem is the changing nature of the economy and the resulting changes in the preparation employees need.** Workers dislocated from previous jobs now need training for positions that were nonexistent a few years ago. New positions perhaps not even imagined today are likely to emerge ever more frequently in coming years.
- **While the development of human capital starts with early learning, it encompasses a wide range of social and economic contributions to the general wellbeing of citizens.** An abundance of effort toward improving human capital is evident among the state's schools, community and technical colleges, trade schools, liberal arts colleges and universities, job training organizations, employers, trade and professional associations, and others, all endeavoring to help Minnesotans become contributing citizens and fully qualified for the necessary work that sustains our community. These efforts are entirely commendable, but hardly sufficient given an expected human-capital shortage of unprecedented dimensions.
- **Many collaborative actions seeking to address the problem are under way .** These include:

The Governor's Work Force Development Council , a partnership including employers, labor, government, and education

Minnesota FastTRAC, a business-backed, nationally recognized effort to help educationally underprepared adults succeed in well-paying careers by integrating basic skills education and career-specific training in fields where new skills are in high demand

The Minneapolis Saint Paul Regional Workforce Innovation Network , or MPSWin, a cooperative grant-making effort of 11 Minnesota foundations

- **No comprehensive, statewide strategy to address the coming human capital shortage is evident.** Better tracking of the state's human capital supply and demand is needed. Where is supply shrinking or growing? How is the level and nature of demand changing? What are the consequences? Where are the best workforce preparation results? Does the state fully understand the respective roles and responsibilities of its preschool-through-college educators, job-training organizations, employers, and state and local government in investing in human capital?

Our Central Conclusions

While we have much more ground to cover in our investigation, and while many other legitimate issues continue to emerge from our interviews, we have reached these conclusions:

The state is most vulnerable today at its point of greatest strength, the quality of its human capital. The decline in the number of people of employment age is a demographic inevitability. While this decline may be widely acknowledged, it demands far more serious attention than is apparent. The prevailing lack of urgency, though very troubling, is not altogether surprising, since the predominant human capital problem has long been thought to be too few jobs available for qualified people, not too few qualified people for available jobs.

Minnesota must act to ensure that there are qualified individuals for all levels of employment, from entry-level positions through senior management. The state needs everyone for the opportunities and challenges ahead. No Minnesotan should have to seek employment without reliable qualifications achieved through appropriate training. Our state can no longer tolerate large numbers of children starting school inadequately prepared to learn, finishing middle school without having mastered basic skills such as reading and math, or exiting high school without having been offered the opportunity to take available, free Post-Secondary Enrollment Options courses.

Collaboration will continue to be essential. Joint efforts will be absolutely imperative among all sectors: employers, employee organizations, nonprofit training groups, education from pre-school through college, and state and local government units. Both public and private sectors share responsibility for improving the quality of the state's human capital; it is most definitely *not* solely the province of government.

Attracting and retaining talented people will be crucial to fixing the state's demographic imbalance. Minnesota will need more individuals prepared to contribute than can be expected to emerge solely from its present population. We will need to attract more talent from other states and other countries. Further, crafting the right incentives to retain talent, including that of experienced and capable people over age 65, must also be a priority lest we allow the imbalance to worsen.

The coming shortage will require vastly increased levels of awareness, commitment, imagination, and innovation. The state's entire mechanism for developing, nurturing and retaining its human capital needs rethinking and redesign.

Meeting this challenge will require a difficult re-ordering of priorities by many with a stake in the outcome. There is no doubt that financial trade-offs will have to occur over the entire spectrum of investments in social and economic development. Crafting the right incentives for change and focusing our limited resources where benefits are maximal will be crucial. This would call into question the use of scarce resources to fund financial incentives to businesses that simply take jobs from one community to another. Further, Minnesota must recognize that improved development of human capital cannot occur only through more spending; to improve outcomes we must also redesign our development efforts.

Our Recommendations

While it is demographically inevitable, the coming human capital shortage is not insurmountable. However, to meet this challenge, Minnesota needs to expand its capacity to innovate, to experiment, and to collaborate. By doing so, the state can demonstrate once again why Minnesota deserves the respect it enjoys nationally for its leadership in finding creative solutions to public-policy challenges.

To begin the process, we recommend the following steps:

First, everyone must accept responsibility for fixing the human-capital shortage. There must be wholehearted, nonpartisan endorsement and collaboration by education and training institutions of all types and at all levels, by employers, labor groups, media, community organizations, local and state governments, research groups, and by anyone with an interest in the future of the state to:

- Expand efforts to bring existing education and job training programs to standards necessary for 21st century jobs. This includes strengthening both public, nonprofit and private education institutions and employers' on-the-job training of their employees.
- Promote more experimentation and innovation; accept that some efforts won't succeed.
- Honor what otherwise might seem insignificant, such as a small employer welcoming an unproven intern or a potential retiree deciding to stick around longer.
- Tackle critical obstacles, such as transportation to and from jobs and child-care during working hours.
- Encourage public officials and political candidates to respect new ideas from every corner and to keep the discussion focused on solving problems.

Second, the state must mount a coordinated effort to (a) create awareness of the state's human-capital shortage; (b) identify and communicate widely throughout the state the most successful

initiatives already undertaken; (c) promote new initiatives; (d) regularly measure and report on how well the state is doing in overcoming the shortage; and (e) identify changing skills requirements and job opportunities as the workplace evolves.

Third , all public-policy actors must bring their endeavors to a higher level. Individuals and groups in the state involved in originating, explaining, advancing, advocating, or approving public-policy action must redouble their efforts. The current environment for generating creative proposals is far from adequate for the future.

Signers of Civic Caucus Statement on Human Capital

* Indicates member of Civic Caucus Interview Group

*John S. Adams	Kevin Edberg	*Ted Kolderie	Tim Penny
David Alley	Diane Flynn	Thomas B. Kosel	Addison Piper
Donald Anderson	Don Fraser	Cheryl Kreager	Eric Premack
Donna Anderson	Bill Frenzel	Nancy Larson	Dave Racer
R.C. Angevine	*Amir Gharbi	Todd Lefko	John A. Rollwagen
Stephen R. Alderson	Laura H. Gilbert	Matthew Lewis	Art Rolnick
Cheryl Avenel- Navara	*Paul Gilje (coordinator)	Bryan F. Lindsley	Martin Olav Sabo
Ray Ayotte	Kitty Gogins	Greer Lockhart	Don Samuels
Dave Bartholomay	TrixieAnn Girtz Golberg	Dee Long	Hans Sandbo
Jim Barton	David Griggs	Diana Longrie	Mark Sather
Ellen Benavides	Dino Guerin	*Dan Loritz (chair)	Kate Schaefers
John Branstad	Scott Halstead	Bruce A. Lundeen	Noel Schenker
Chris Brazelton	Mina Harrigan	Charles P. Lutz	Larry Schluter
*David Broden (vice chair)	Susan Myhre Hayes	Marina Munoz Lyon	Lynn Schoen
Bob Brown	Peter Heegaard	Mali Marvin	*Dana Schroeder
Ellen T. Brown	Lowell Hellervik	Tim Marx	Jon Schroeder
Kenneth L. Bush	Jan Hively	Walter McClure	Lyall A. Schwarzkopf
		Tim McDonald	

Norman R. Carpenter	Mike Huck	Carol McFarlane	Joe Sertich
Austin Chapman	Wayne B. Jennings	Richard McGuire	*Clarence Shallbetter
*Audrey Clay	B. Kristine Johnson	Alan Miller	Charles A. Slocum
*Janis Clay	Curt Johnson	John Watson Milton	Dane Smith
Sheldon Clay	Dennis L. Johnson	Katie Misukanis	Roy Smith
Gary Clements	*Dwight Johnson	Roger Moe	Tom Spitznagle
George R. Crolick	Randall E. Johnson	*Bruce Mooty	Tom Swain
Marianne Curry	Ron Johnson	*John W. Mooty	Jack Swanson
*Pat Davies	Ember Reichgott Junge	Lee Munnich	Tom Stinson
Ed Dirkswager	Laura Kadwell	Joe Nathan	Terry Stone
Bob DeBoer	Matt Kane	Sen. Carla Nelson	Brad Tabke
Chuck Denny	Margaret Anderson Kelliher	Judy Norback	David J. Therkelsen
Margaret Donahoe	*Sallie Kemper	Michael O'Keefe	Steve Tjeltveit
Bright Dornblaser	Bruce Kennedy	Jim Olson	Albert Trostel
Richard Dornfeld	Sean Kershaw	Gary Orris	Charles A. Weinstein
Steve Dornfeld	Jay Kiedrowski	*Paul Ostrow	James F Weygand
David Durenberger	Larry Kiewel	Todd Otis	Bruce D. Williamson
	Sheila Kiscaden		Chris Wright
			*Fred Zimmerman

Our Contribution

We of the Civic Caucus commit to giving priority attention in our interviews to pace-setting ideas and actions that promise innovation, beyond simply improving the state's skills training landscape. We will look for proposals that would have potential for quantum leaps in effectiveness. We hope to see evidence of abundant experimentation.

In our efforts to highlight good ideas and spur creative action, we have encouraged our interviewees to articulate (a) the problem being addressed, (b) the goal to be met by solving the problem, and (c) specific actions needed to achieve that goal, that is, the "how" that is so often missing in public-policy discussions.

These are examples of specific actions proposed in Civic Caucus interviews over the last year:

- Invest in pre-K education to ensure long-term economic competitiveness; [interview with Art Rolnick](#) , May 30, 2014
- Employ students in meaningful work as part of regular high school education; [interview with Father Tim Manatt](#), December 6, 2013
- Expand Right Skills Now, a business-led program for skills training; [interview with Darlene Miller](#) , October 11, 2013
- Establish an additive manufacturing technology center in Minnesota; [interview with Stratasys, Ltd.](#) , September 20, 2013

Upcoming Interviews

We expect our coming interviews to be as informative and challenging as those of the past year. We frequently adjust our plans as we learn, but we offer here a brief preview of what we expect future interviews to cover:

- How can more good ideas emerge? What are the characteristics of individuals or institutions that lead in generating innovation in public policy? What changes might be called for to cultivate more good policy ideas among Minnesota's network of colleges and universities, governments, for-profits, nonprofits and thoughtful, concerned individuals?
- We need sensible strategies for establishing priorities in investing scarce dollars. How does the state balance, for example, the value of investing in education with that of investing in economic incentives to businesses?
- Economic health is only part of the state's well-being. How is Minnesota's social and environmental health? How can we best understand the interdependence of these components and optimally balance their respective funding needs?

Background on the Civic Caucus

The Civic Caucus, now celebrating its 10th year, is a Minnesota nonprofit public-policy learning organization. We hold weekly interviews with thought leaders from all regions of the state and all fields of endeavor, including government, for-profit businesses, nonprofit organizations and academia.

Our interviews constitute a rich, civil and very thorough dialogue that transcends partisan differences. The dialogue encompasses the interests of labor, employers, civic and social organizations, and policymakers. We try to consider the impact of policy on every citizen, rural and urban; young, old and in-between; and over the full range of economic and social status. We hear from elected and appointed government officials, college presidents and K-12 educators, large and small employers and a variety of nonprofit social-service providers. Every week, our interviews bring new insights and new perspectives.

We share our findings as widely as possible through frequent e-mailed reports to over 4,000 subscribers and by maintaining our [website archive](#) , now offering access to reports on more than 400 public-policy interviews. We are open to all who wish to receive our weekly e-mails. Our subscribers include interested citizens, members of the media, legislators and local government officials across the state. We welcome suggestions for topics to study, for interviewees, for questions to be asked and for any other improvement to our process. Also, we would gladly help others who might choose to undertake their own interview processes similar to that of the Civic Caucus.

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