

FORUM ON THE SILICON PRAIRIE: A LOOK AT INFORMATION
TECHNOLOGY IN CHICAGO AND THE MIDWEST
THE ECONOMIC CLUB OF CHICAGO

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Here to discuss information technology in Chicago and the Midwest. We have two outstanding individuals to discuss this timely topic—Casey Cowell, chairman and CEO of U.S. Robotics, and Chris Galvin, chief executive officer of Motorola. We're really very fortunate to have two such uniquely qualified individuals to talk about high-tech in the Midwest.

I think everyone in this audience is familiar with the astounding pace of change in information technology and how it's affecting all our lives. What's less well-known is how this technology has affected the Midwest. And how Midwest firms have affected the high-tech field. That's what we'd like to focus on today.

To set the stage, I'd like to take a few minutes to provide some perspective on the Midwest economy and how it's changed in the past 15 years. This session is taking place at an opportune time as our Bank is finishing up on a comprehensive study of the Midwest economy. The goal of the study is to determine the region's future by studying its past...specifically the Midwest's dramatic comeback since the early 1980s.

It's easy to forget now, but the Midwest economy is one of the surprise stories of the nation. The Midwest was known as the Rust Belt back in the early '80s. Fifteen years ago our economy lay in shambles — at the bottom of the steepest recession since the Great Depression. One of five Midwest manufacturing jobs disappeared from mid-1979 through '82. Unemployment in the region was a full three percentage points above the nation. We saw industrial mainstays such as Wisconsin Steel close their doors. Other companies barely managed to survive. Chrysler was kept open only through Federal government loans and guarantees.

People were writing our epitaph. But the rumors of our demise were greatly exaggerated as it turned out.

Today, the Midwest unemployment rate is a full percentage point below the nation. Even Chicago's unemployment rates are slightly below the national average...despite the trend of most big cities to do worse than the rest of the nation.

The Federal Reserve Bank of Chicago analyzed this turnaround and examined the forces behind the region's recovery. We looked at:

- Activities by private sector firms
- Government policies
- And external forces, such as changes in the value of the dollar

We found that the main reason for the Midwest's success was its willingness to reinvent itself. The Midwest received a wake-up call. The region found itself facing intense competition...competition from other countries and competition from other regions in the U.S. The Midwest responded to the challenge and initiated a painful, broad-based restructuring.

Midwest producers reduced costs, created new product lines, and made remarkable productivity enhancements. The Midwest renewal was already underway even during the dark years of the 1980s.

The source of the recovery? Our old mainstays—basic manufacturing and agriculture. These economic sectors led us down into the valley...and they are leading us up the hill. We haven't changed what we're doing. But we're doing it much more efficiently...at a world class standard.

Technology has played an important role. The region's remarkable productivity gains can be traced to the adoption of new technologies — computers and specialized software. This has dramatically changed how things get done on the factory floor. Take the steel industry. Midwest producers have been leaders in taking advantage of technologies such as continuous casting. The auto industry is another example of an industry that's changed dramatically. That change is mainly the result of technological advances that have allowed firms to implement new production methods such as lean manufacturing.

This technological side of the Midwest recovery is well documented. The role of emerging high-tech industries is not as well known. If we woke up today after 10 years of sleep, we'd be startled to hear the names of hi-tech firms in the Chicago area such as Spyglass, Tellabs, and Platinum Technologies. Not to mention U.S. Robotics. Motorola would certainly be a familiar name, but its product mix would be quite different.

The emergence of these high-tech firms has had a dramatic impact on the economy. A recent study by the Illinois Coalition indicated that the number of technology firms in Illinois increased 31 percent from 1991 (8,361) to '95 (11,023), creating more than 24,000 jobs. Total employment in the technology sector is more than 330,000 in Illinois, according to the Coalition. That compares with 976,000 for the manufacturing sector and 5.6 million for the state as a whole.

The coalition also estimates that total wages for Illinois technology employees reached \$15 billion. High-tech has meant high wages for employees. The average yearly wage for technology employees in Illinois was \$46,783. That's much higher than the average wage of \$32,524 for all nonagricultural employment.

In short, the number of technology firms in Illinois is increasing rapidly and they're creating a lot of new high-wage jobs.

That's a brief perspective on the Midwest's transformation. I think it's clear that the technology sector will have a lot to do with the future of the local and regional economies.

To help us get a handle on the outlook for information technology, we have two of the leading players in the so-called Silicon Prairie — Casey Cowell and Chris Galvin. They represent the best of corporate leadership in the technology industry today — the entrepreneurial spirit of a young, dynamic company and the innovative drive of an industry giant, with markets that span the globe. Both of these companies have displayed an outstanding ability to constantly reinvent themselves—much like the Midwest economy. Motorola constantly adjusting through the decades to become a leader in the latest emerging technology. And U.S. Robotics evolving from a small start-up firm to a major player in the high-tech industry.

I've asked Casey and Chris to discuss three basic areas this afternoon:

1. First, what technologies will be the major drivers of growth here in the Midwest and elsewhere during the next decade? How do you see Chicago and the Midwest positioned for this growth?
2. Second, what's the environment for information technology firms in Chicago and the Midwest and how does it compare to other regions?
3. And finally, what should we do to support the growth of information technology in our region?