

IOWA GOVERNOR’S INDUSTRY AWARDS

Des Moines, Iowa
October 13, 1999



A. Intro

- 1. Thank you all for inviting me to speak here today.
 - a. Its great to be here in Iowa: any state that can produce septuplets really does deserve to have a ceremony that honors manufacturing [you need to deliver this with a bit of a laugh for it to work]
 - 1) When it comes to success, there must be something in the Des Moines area water: even the Des Moines office of the Fed has been exceptional, having been celebrated as one of our most efficient on many occasion.
 - b. I'd just like to take a moment to tip my hat to those of you who will be honored at lunch today for your innovation and contributions to the Iowa economy.: ACKNOWLEDGEMENTS
 - c. Governor Vilsack is recognizing you for your ability to assess the needs of the market at a time when business is never the same two days running, and the competition has never been more intense.
 - d. Iowa manufacturers are up against the best in an increasingly competitive world. So congratulations. You can be truly proud of your accomplishments.
 - e. In fact I'd like to congratulate all the firms that participated in this award competition. It's the breadth of support for quality and innovation that will keep Iowa and the Midwest competitive in world markets.
- 2. No matter what industry you are representing here today, there is no doubt that you're seeing lot of changes these days, especially in terms of technology.

- a. Those being honored today have found the current pace of change an inspiration. But for all the prosperity and opportunity that has been visited upon us by advances in technology, I think we all sometimes feel as if the Chinese curse “may you live in interesting times” has been cast on us. It’s not too comfortable to look into the future and see lots of change, but not very many indicators as to how it’s all going to turn out.
3. Tomorrow I will be visiting Western Iowa and my trip will include a tour of Gateway’s manufacturing facility in North Sioux City, which as I’m sure you all know, has been a consistent innovator.
 - a. In many ways, Gateway exemplifies how quickly a good idea can become an established success nowadays.
 - b. Gateway has gone from a two-person start-up in an Iowa barn in 1985 to a Fortune 250 company with 18,000 employees across the world. This in itself is a remarkable transformation for such a short period of time.
 - c. But the surprises just keep coming. For just when you’ve gotten used to the idea that tycoons come in the shape of California-based twenty-somethings, Gateway presents a new and unexpected face for success in the computer industry: the fourth-generation Iowa Cattleman.
 - d. Who would have thought back in the mid-80s that cutting edge technology would be one day mailed directly to your home, in cow-spotted boxes no less.
 - e. You could say that Gateway has given the old expression taking the bull by the horns a new twist.
 - f. This just shows how dangerous it is to try to accurately predict the future. That’s why economists always say, when giving an economic forecast you should give a number or a date, but never both.
4. Today I’m going to give you neither. What I will do here today is help you step back and look at how the Midwest has gone from America’s Rust Belt to the industrial engine behind the greatest economy in American history, and describe some of the challenges our region will face in the new Millennium.

B. Y2K

1. Let me begin by saying a few words about the role of the Fed and our involvement in Y2K preparations.
 - a. As most of you probably know, the Federal Reserve’s mission is to serve as the nation’s Central Bank by fostering a safe and sound financial system and a healthy, growing economy.
 - b. To ensure that our central bank would be in touch with all corners of the economy, the Fed was created with a system of 12 regional banks.
 - c. The Chicago Fed serves a five-state area consisting of most of Indiana, Illinois, Michigan, Wisconsin, and all of Iowa.

- d. You wouldn't believe how much of the other states we had to give up to get all of the great state of Iowa. In addition to our head office, we have offices in Indianapolis, Detroit, Milwaukee, Peoria and one here in Des Moines.
2. Obviously, given the Fed's role as the nation's central bank, we are focussing considerable attention on Y2K.
 - a. First of all, I'd like to reassure you that there is no truth to the rumor that the Fed is stockpiling slide rules, sundials and adding machines.
 - b. In fact, we're confident that the century date change will come and go with a minimum amount of disruption.
3. At the Fed we are addressing Y2K at all levels. Nationally, the Fed has three main areas of responsibility.
 - a. First, we're a service provider — we provide financial services such as check processing and electronic payments to commercial banks and the U.S. government.
 - b. Second, we are a bank regulator — we supervise and regulate state member banks and bank holding companies and branches of foreign banks.
 - c. Last, but not of least importance, we formulate national monetary policy. We are committed to doing all we can to safeguard the operations of the U.S. financial system. That's why Y2K is so important to the Federal Reserve System.
4. The Fed has already made significant progress in preparing for the rollover; all of our internal systems are ready for Y2K and are already being used on a daily basis.
 - a. As a financial service provider, we're confident there will be no disruption in our ability to meet the needs of our customers — be they commercial banks or the U.S. government. And we're confident that the banking system will be ready too.
 - b. Regulators have already examined every bank twice to check for Y2K readiness and we've found that 99 percent of banks are making satisfactory progress.
5. There is an old saying that a person surprised is already half-beaten. We have certainly taken this to heart, and we have no intention of being surprised by anything Y2K has to offer.
 - a. But sound preparation is only part of the battle. We must also encourage the public not to overreact.
 - 1) There has been concern that popular misconceptions about Y2K could lead some people to withdraw unusually large sums of money from their bank accounts. For this reason the Federal Reserve is making available more than enough cash to cover any unusually large demands.
 - 2) However, I'd like to remind everyone that there is no safer place for your money than where it is, Y2K or not.

- 3) Although you may want to have enough cash on hand for the long holiday weekend, remember that credit and debit cards, as well as checks, are expected to work over the New Year's holiday as they would at any other time of the year.
- 4) In short, we are confident that the Federal Reserve and the financial system will be fully prepared for the century rollover.

C. ECONOMY

1. Now, I'd now like to turn to the economy and the challenges and opportunities we have before us here in the Midwest.
 - a. This region faces some major challenges in the next century, but we're fortunate to be beginning the new Millennium in a position of strength.
 - b. Nationwide we've seen a rare combination of robust growth, and both low inflation and low unemployment during the past few years.
 - c. Growth has been driven by unusually strong consumer spending, and our expectations for growth in 1999 are even more positive than earlier this year.
2. The strength of the economy is evident by looking at the Midwest. Most of our manufacturing industries are now running near capacity.
 - a. Sales of both new and existing homes in the Midwest have exceeded practically everyone's expectations, which in turn has kept items such as appliances, electronics and lawn furniture selling rapidly.
 - b. At the same time, unemployment rates in the region are below the nation's average and have been for seven years running.
3. In recent years, Iowa's economy has led the way among Midwest states in job growth and low unemployment.
 - a. Iowa's unemployment rate registered a remarkably low 2.7% as of August; and 35,000 jobs were created in the past year.
4. The current strength of the Midwest economy is even more amazing if you think back to the early 1980s.
 - a. As most of you remember well, the Midwest experienced an extreme downturn during the 1970s and 1980s.
 - b. The manufacturing industry was hit the hardest.
 - 1).The 1979-83 period was especially severe. The Midwest lost over one-fifth of its manufacturing work force.

- c. The severity of the downturns was due in part to the state of the Midwest's technology and stock of physical capital. They tended to be older and less efficient in comparison to the rest of the U.S. and abroad.
 - d. Ironically, it was during those hard times that the seeds of today's success were sewn.
 - e. During the 1980s, manufacturing was reinvented.
 - 1) Facing intense global competition, the industry understood that it had to change or perish.
 - 2) So it changed. It changed its management techniques, reduced its workforce, and reinvented its productive processes.
 - 3) These changes took time and it wasn't until the late 1980s that these efforts finally began to pay off.
 - f. Over the past twenty years, each industry — farm equipment, trucks, construction equipment, machinery, autos, steel — has found its own route to competitive success.
 - g. Today the manufacturing sector is well positioned to compete on a global basis over the long term. Given the success of Midwest manufacturers, it's clear that I don't have to lecture you about the importance of management in the productive process.
 - h. If I did, more than likely, you wouldn't be sitting where you are today, among a group of the best decision-makers in Iowa.
5. There are many examples of Midwest companies that are incorporating new technologies and manufacturing practices into their productive process — many are represented in this room tonight.
- a. Rather than single out one Iowa company as an example of best practices, I'd like to briefly describe the efforts of a company in another Midwestern state — Milwaukee Electric Tool Company in Wisconsin.
 - 1) Milwaukee Electric Tool produces professional quality power tools and accessories.
 - 2) They are headquartered in Brookfield, Wisconsin, and operate five plants with approximately 1,100 employees in North America.
 - 3) Until 1990, Milwaukee Electric's plants were organized on the traditional batch or mass production techniques.
 - b. These techniques, as you well know, require excessive material handling and the need for large amounts of floor space. The completion of the entire manufacturing process could take weeks or months.
 - c. In the early '90s, Milwaukee Electric Tool began to reorganize its plants to implement cell-based manufacturing.
 - d. Cell manufacturing is a team-based approach to production. Under this system, a plant consists of several cells that each produce specific products or components.

- 1) Each cell has between 20 and 40 members and operates like an independent business with total responsibility for the quality, manufacturing and delivery of the product to the consumer.
- e. Why did Milwaukee Electric Tool make the switch?
- 1) It wasn't because they were suffering financially, but because they anticipated increased competition from Europe and Asia.
 - 2) Now all their plants utilize a flexible cell approach with dramatic results: inventories have been cut in half; sales have more than tripled; both quality and productivity have increased; and incoming orders are largely filled within a day.
- f. Looking back at the achievements of Midwest manufacturers, we can see that foreign competition was a common element in their success. It was competitive pressure from foreign companies that forced the painful restructuring within the industry.
- 1) The emergence of foreign competition can pose a threat, but for those that survive there are direct benefits as well.
 - 2) Their presence in the domestic and overseas markets where we compete has allowed us to learn from the interaction.
 - 3) Worthy competitors compel us to rethink our old practices and adopt new management strategies and productive techniques.
 - 4) For example, lean manufacturing practices in the domestic auto industry—which emphasizes teamwork, low inventory, flexible production equipment, and close relationships with suppliers—were originally developed by Toyota Motor Company of Japan.
- g. Increasingly, especially with overseas economies getting stronger, foreign competitors are also becoming foreign customers.
- 1) Foreign auto producers purchase parts from domestically owned auto suppliers.
 - 2) This beneficial interaction illustrates the growing interdependence of our global economy.
 - 3) We can no longer think of foreign and domestic competition as a zero sum game.
 - 4) Their losses are not our gains.
 - 5) The continued economic revival of Asia will be crucial to our future prosperity.
 - 6) It's our natural affinity for competition—not isolation from other countries—that allows us to thrive.
- h. What challenges and opportunities are facing the manufacturing industry in the future?
- 1) One challenge is the changing dynamics of the labor force. The graying of the labor force coupled with population migration trends in the Midwest will affect the number of workers available to work in manufacturing.
 - 2) Currently, the Midwest is experiencing net internal out-migration. In other words, there are more residents leaving for other regions than there are coming in. "And it wasn't because we counted on Saturday when half the state was out of town at the Nebraska-Iowa State game."

- i. According to the Census Bureau, we lost 32,000 residents to other states between 1997 and 1998 (CHECK FOR 1998)
 - j. Tightening labor markets and favorable climates in the South and West have drawn Midwestern residents away.
 - k. Immigration and natural increases have helped offset these losses and have kept the Midwest population increasing in absolute terms, but at a slower rate than the rest of the nation.
 - l. Population growth in the Midwest is 0.5 percent per year, only half the national rate of 1 percent.
 - m. While these numbers are relatively small, over time they can have an adverse effect on our labor markets.
6. The public and private sector must develop new strategies to retain people. If we don't we are at risk of running short of workers at competitive wages.
- a. That's certainly an issue in Iowa where the percentage of the adult population who are working has climbed to record heights, topping 70 percent.
 - b. One approach is working to make the Midwest a better place to live.
 - 1) We must keep improving the quality of life the Midwest is known for, by further addressing issues such as low crime rates, a clean environment, open space, outdoor recreation, and cultural entertainment.
 - c. Even more important is enhancing educational opportunities to expand the existing labor pool, either by attracting new workers or retraining previously unemployable individuals.
 - 1) Offering opportunities for retraining and education to the labor force is simply good business.
 - 2) Improved education will be necessary in the future to remain competitive.
 - d. Our strength in the future will be our ability to compete on quality rather than on price.
 - e. Competitors from abroad will have natural cost advantages due to their plentiful labor supply.
 - 1) By focusing our efforts on education and training, we enable our workers to add higher value to the production process.
 - 2) A particular challenge for Iowa is keeping those who have received a college education from leaving.
 - f. If you look at people 25 years of age or older in Iowa, the state has a significantly higher percentage of High School graduates in the workforce than the nation as a whole.
 - 1) But the percentage of college graduates in the workforce 25 years of age and older is lower than the national average, despite the fact that enrollment rates are.
 - 2) So, it looks as though Iowa is exporting its college students to other states.

7. The Midwest may face other challenges down the road, if manufacturing ceases to see the above-trend growth it has had in recent years. On the horizon there don't seem to be any discernible natural advantages or external trends that will necessarily sustain U.S. manufacturing.
 - a. So we can't just sit back and hope that things work out.
 - b. We cannot become complacent with our progress so far.
 - c. Success is a continually moving target.
 - d. We must continue to innovate and push our competitiveness to new heights.
 - e. In John F. Kennedy's words, we do these things not because they are easy but because they are hard.
 - f. Effective management and forward-looking innovation captures the spirit of these words.
 - g. It is you, the winners of the Governor's Iowa Industry Conference Awards, who will show us the way to meet the challenges of tomorrow.

Thank you.