

COUNCIL OF GREAT LAKES GOVERNORS

Cleveland, Ohio
October 15, 1999

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- I. **Good afternoon Governor Ridge, Governor Taft, fellow panel members, and all of you who have joined us for lunch today.**
 - A. I'm glad to be here today in Cleveland, a "comeback" success story that epitomizes the experience of the Great Lakes region throughout the 1990s.
 - B. Over the next few minutes, I'd like to share some of our observations at the Chicago Fed regarding our region's remarkable economic performance of recent.
 - 1. In the mid-1990s the Federal Reserve Bank of Chicago initiated a Midwest Assessment study.
 - a. The study explored why the 1990s have been such a dramatic success.
 - b. It focused on the five states that comprise the Fed's Seventh Federal Reserve District: most of Indiana, Illinois, Michigan, and Wisconsin, and all of Iowa.
 - c. We held a series of workshops in which more than 200 participants took part.
 - 2. To help provide guidance to the effort, we established an advisory group, which included the governors of the five Seventh District states as honorary members, including Governors Engler and Thompson.
 - a. We looked at many different aspects of the regional economy—global linkages; the labor force and education policy; the rural economy; tax and regulatory policies; the performance of metropolitan areas; and changes in the manufacturing sector.
 - b. Some 30 studies were produced, as well as summaries of each of the workshops.

3. The results were clear-cut.
 - a. The Midwest is thriving today because it re-invented itself.
 - b. Our manufacturing firms got a wake-up call from foreign competitors during the 1980s and after undergoing painful restructurings, Midwest firms increased productivity and are now able to compete on a worldwide basis.
4. The source of the recovery?
 - a. Our old mainstays—basic manufacturing and agriculture.
 - b. We're doing much of what we used to do, but more efficiently... and at a world class standard.
5. The Milwaukee Electric Tool Company in Wisconsin is an excellent example of a company that revamped its production process in anticipation of increased competition from abroad.
 - a. In 1990 the company switched from an old-style, mass-production approach to a new system which allows for quicker turn-around.
 - b. Milwaukee Electric Tool adopted a team-based approach in which each plant consists of several cells that each produce specific products or components.
 - a. The result?
 - 1) Inventories have been cut in half;
 - 2) sales have more than tripled;
 - 3) quality and productivity have increased;
 - 4) and incoming orders are largely filled within a day.
6. And the Midwest turnaround isn't simply a story of renewed productivity in manufacturing.
 - a. Our Midwestern cities have diversified—much like Cleveland, transforming themselves from manufacturing centers to providers of specialized services, such as business and financial services.
7. How do we maintain our momentum?
 - a. Two broad objectives stand out:
 - 1) an increased emphasis on education and work force training;
 - 2) and the importance of competing in the global economy.
8. In many ways, the most crucial element to our future success is education and training.
 - a. As you know, industries increasingly require strong minds rather than strong backs.
9. The Midwest has been somewhat of an incubator for reform efforts ranging from school finance reform in Michigan, to the nation's first charter schools in Minnesota, to voucher programs in Cleveland and Milwaukee.

10. Workforce training is another key area.
 - a. We need programs that reflect the new realities of the labor market.
 - b. Workers need to receive certifiable skills that can be transferred from one employer to another.
 - c. And work place training that matches more closely the needs of employers.
 11. Recent Federal legislation addresses this issue and leaves room for States to fashion policies to meet local realities.
- C. The second broad issue is the global economy.
1. I've worked as a trade representative, so you won't be surprised that I think it's essential for our national economy to continue to reduce trade barriers.
 2. But the Midwest industries in particular are unusually well positioned to benefit from increased trade with all nations, especially developing countries due to their growing demand for our products.
 3. So, a look back indicates that we can influence our fate...we can affect our destiny.
 4. Our manufacturing sector is far more productive than it used to be, and our economy as a whole more diversified than during our "Rust Belt" days.
 5. Even now, we are weathering downturns in certain sectors better than we used to.
 - a. In particular, the Asian and South American economic weaknesses have hurt several industry mainstays in the region: grain products, farm machinery, and primary metals in particular.
 - b. Yet, the region's manufacturing sector has performed well in relation to the nation, and overall, labor markets here are tighter than the rest of the nation.
- D. We have a window of opportunity that we can use to maintain our economic momentum.
1. The Federal Reserve Bank of Chicago will continue to partner with other firms and organizations to fashion effective policies to improve the quality of life and business climate for one of the world's premier regions in which to work and live.