Collaborating to Compete in the New Economy

Prepared by the California Economic Strategy Panel February 1996

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Members:

Julie Meier Wright, Secretary
California Trade and Commerce Agency
Chair

Honorable John Vasconcellos
Member of the Assembly

Honorable Bruce McPherson
Member of the Assembly

Honorable Ken Maddy
Member of the Senate

Honorable Teresa P. Hughes
Member of the Senate

Thomas L. Barton
Holtzmann, Wise & Shepard

Richard Douglas
Sun-Diamond Growers of California
International

Margie L. Handley
Harrah Industries

Robert Lowe
Lowe Enterprises, Inc.

Becky Morgan
Joint Venture: Silicon Valley Network

Hal Plotkin
Contributing Writer to INC. Magazine

Alison Lynn Reaser, Ph.D.
First Interstate Bancorp

Jackson L. Schultz
Wells Fargo Bank

Paul Varacalli
Service Employees International Union
(SEIU)

Jacques Yeager
E.L. Yeager Construction Company

Technical Advisors:

Edward K. Kawahara, Ph.D.
California Trade and Commerce Agency
Principal Consultant

Kurt Chilcott
City of San Diego

Belle Cole
The PMR Group

Tim Cooley
Orange County Business Council

Bruce DeVine, Ph.D.
Southern California Association of
Governments (SCAG)

Doug Henton
Kim Walesh
Collaborative Economics

Richard Holden
Steve Saxton
Janet Austin
Employment Development Department

Trish Kelly
California Association for Local
Economic Development

James King
Nancy Nishikawa
Applied Development Economics

Gus Koehler, Ph. D.
California Research Bureau

Joel Kotkin
Pacific Research Institute

Pat Lanthier
Pacific Bell

Stephen Levy
Center for the Continuing Study of the
California Economy

Randy Moory
Lee Neher
Stephen P. Teale Data Center

Tapan Munroe, Ph.D.
Pacific Gas & Electric

Bijal Patel
Fulbright Scholar

Steve PonTell
Mark Dowling
Center for the New West

Phil Romero, Ph.D.
Governor's Office

Barry Sedlik
Southern California Edison

Corporate Sponsors:

The California Foundation for
Commerce and Education
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Pacific Gas & Electric (PG&E)

Pacific Telesis

San Diego Gas & Electric

Southern California Edison

(Note: Addenda to this document include Key Policy Issues for Nine Industry Clusters, California Economic Infrastructure and Results of the Economic Base and Industry Cluster Studies.)

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First, every industry emphasized that skill-sets improvement through education and workforce training is its top priority. Job opportunities and changing skill-sets need to drive job training programs.

California is growing a new, competitive economic base with an industry mix that is substantially different from the defense dominated economy of our past. The state is in a leadership position in many of the most promising global industry growth sectors of the 21st Century. This is the message that over 100 industry leaders delivered to the California Economic Strategy Panel.

California's new economy

California's new emerging economy places new demands on government, on businesses and on our citizens. To meet these challenges, our Panel developed and pursued an effective regional economic priority setting process that uses economic indicators to map emerging industries, and defines economic growth priorities according to the needs identified by regional business leaders, the economic development community and workforce representatives. The goal of this process is to promote the continuous growth and improvement of the economy for the well-being of all Californians.

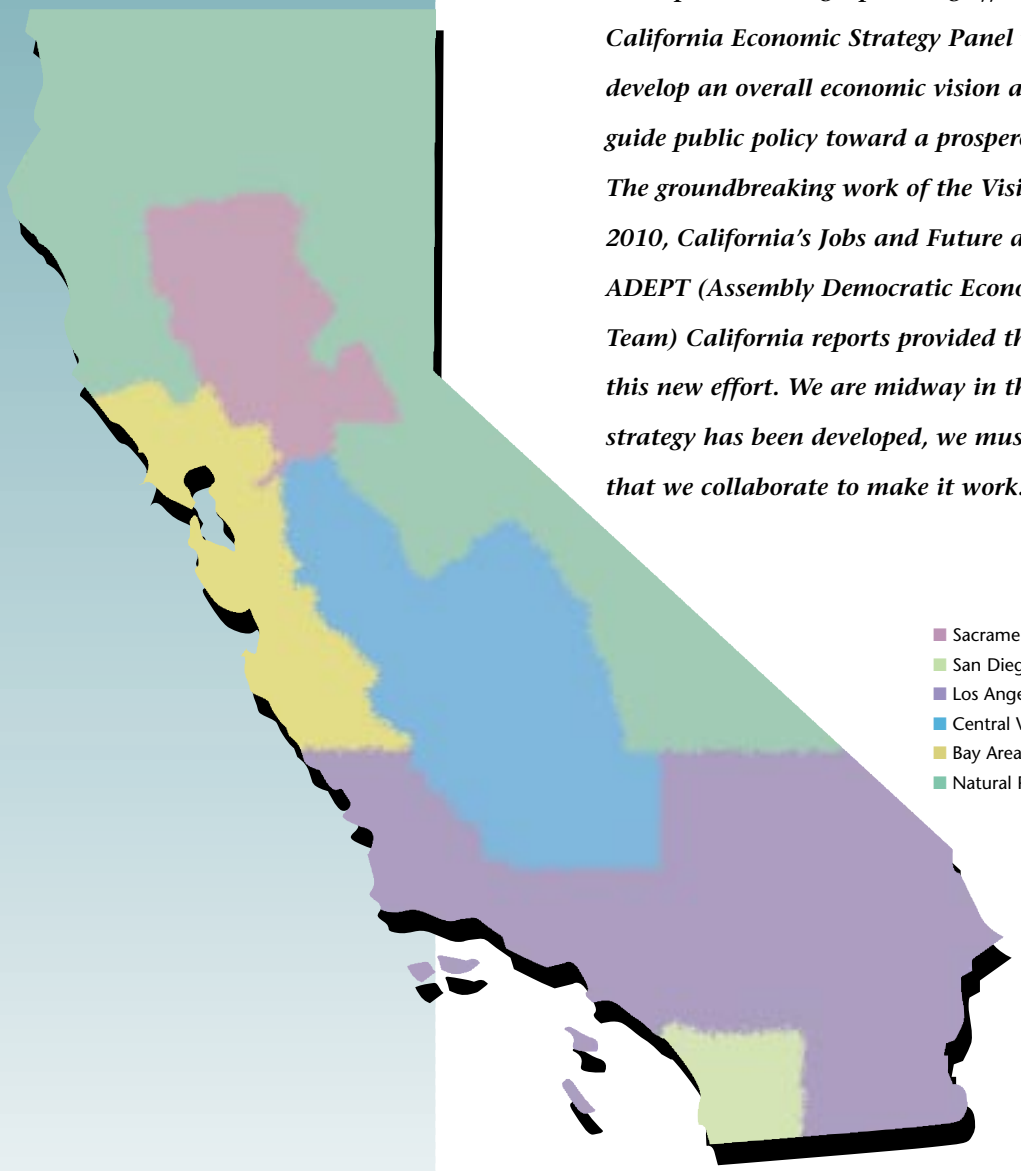
Collaborative, regionalized governance that places emphasis on outcomes must replace our top-down way of setting and implementing public policy. Each critical element that supports the growth of clusters of business must participate in the new governance process. This includes entrepreneurs, employees and communities. Government services must be defined and delivered within this regionalized model.

The Panel identified three public policy areas as critical to California's economic future. First, every industry emphasized that skill-sets improvement through education and workforce training is its top priority. Job opportunities and changing skill-sets need to drive job training programs. Second, there is a growing concern that our graduates, particularly at the K-12 level, and job-seekers are not matching up with the basic skills required in California's new economy. This situation will become increasingly critical in some of the fastest growing industry sectors and will have a profound impact on our economy and our competitiveness. Third, many industry clusters told our Panel that the costs of taxation and regulation must be weighed against the benefits of California's infrastructure and quality of life.

The Panel will aggressively apply our collaborative model of governance to effect reforms in these three key policy areas. The impact of the recommendations of our Panel will be evaluated in the second cycle. In addition, the Panel will begin holding special sessions in the areas of capital formation and information infrastructure to identify policy issues and growth opportunities as well as complete the two-track planning process in the Central Valley by examining the agricultural production and food processing cluster that is so vital to the California economy.

Introduction

In October, 1993 Governor Pete Wilson signed AB 761 (Vasconcellos) generating a process to undertake California's first-ever statewide, biennial economic development strategic planning effort. The bipartisan California Economic Strategy Panel was created to develop an overall economic vision and strategy to guide public policy toward a prosperous 21st Century. The groundbreaking work of the Vision: California 2010, California's Jobs and Future and Toward an ADEPT (Assembly Democratic Economic Prosperity Team) California reports provided the foundation for this new effort. We are midway in this effort; a strategy has been developed, we must now help to see that we collaborate to make it work.



In June, 1994 our Panel initiated discussions with economists, demographers, planners and economic development practitioners representing diverse views of the California economy. We then completed a series of working documents examining California's competitiveness, local and state economic development strategies and state government plans for physical and economic infrastructure development (See Appendix I, List of Publications).

In October, 1994, our Panel completed its Interim Report adopting this vision and framework for the first strategic planning process cycle:

> *"...to serve as a continuous economic growth and improvement mechanism to preserve and keep the economy growing for the well-being of California's people."*

Our fundamental goal of economic public policy is to raise the standard of living for all California residents. This means that Californians should possess the skills and opportunities needed to attain rising real wages and an increased standard of living.

Based on common themes raised by economists, demographers, planners and economic development practitioners, we defined these key objectives for the initial planning cycle:

- Understand how government can facilitate economic growth, especially by examining industry clusters (Industry clusters are geographic concentrations of competing, collaborating and related businesses that drive the economies of California's regions and, therefore, the state. Supporting the clusters are the workers, investors, institutions such as government and education, the community and other stakeholders that affect the cluster's competitiveness.);
- Institute a process that: 1) defines public policy objectives and goals; 2) uses a local, bottom-up perspective; 3) listens to business, government and the community; 4) is inclusionary; and, 5) provides opportunities for collaboration; and,
- Develop a mechanism for continuous evaluation and assessment of the economy that can be replicated at local and regional levels.

To achieve these objectives, our Panel developed a regionally-oriented, two-track process which examined:

- Regional patterns of employment and businesses at the local level between 1991 and 1994; and,
- How selected regional industry clusters are organized and what factors facilitate their growth and expansion (See Appendix II, How the Panel Gathered the Information).

Working in partnership with local organizations and government, our Panel examined nine industry clusters in five regions (See Appendix III, List of Host Organizations and Local Partners). Five regional forums were held to discuss how the state's economic foundations (e.g. infrastructure, educational institutions and human resources) could facilitate the growth and expansion of the clusters in particular, and the California economy overall (See Appendix IV, Economic Regions by Counties for Planning Cycle I). Table I lists the industry clusters examined.

TABLE I
California Regional Industry Clusters Examined by the Economic Strategy Panel

Economic Region	Industry Cluster
San Diego Region	Telecommunications Healthcare Technologies
Bay Area Region	Multimedia Environmental Technologies
Southern California Region	Entertainment Apparel and Fashion Design Information Technologies
Natural Resources-based Region	Wood Products
Sacramento Valley Region	Diversified Manufacturing (food processing, medical instruments and electronics)

California's new economic base is what other states are trying to create. Name an exciting growth industry of the 21st Century and it is likely California already has an established leadership position.

The Panel heard compelling statistical evidence that California businesses are generating substantial current and future economic and job opportunities. This came from public and private sector economists and more than one hundred leaders representing nine industry clusters. From the VFW Hall in Nevada City to Sony Pictures Studios in Culver City, from San Diego's fastest-growing company, Qualcomm, to the Franklin Templeton Group of Funds in Sacramento to Treasure Island in San Francisco Bay, the Panel heard industry leaders tell their story of California's growing new economic base.

"California's economy has changed in fundamental ways in the past decade, and California's business, government, education and community leaders must respond in equally fundamental ways if the state is to retain its competitive edge in the 21st Century. In short, California needs a new model of collaborative governance that fits the new realities of a 21st Century economy."

Panel Discussion on
Knowledge-Value Economy
Bay Area Regional Forum

California's New Economy

California is growing a new economic base which has an industry mix substantially different from the economic base of our past. This transformation is systemic and not merely cyclical. If we are to prosper, our public policy must reflect the competitive requirements of industries that are emerging in our new industrial mix.

The good news is that much of the California economy experienced a strong recovery in 1995. The state added nearly 300,000 jobs, and income gains out-paced the rise in consumer prices for the first time in five years. The most encouraging part of our economic

"We need new business-government governance mechanisms for an agile, fast moving economy and society. Government should act more as a facilitator than as a regulator. Businesses need to work together and to communicate their needs to government."

Entertainment Industry Cluster
Southern California Regional Forum

recovery is that job growth is being led by industries which will be the growth leaders in the 21st Century economy.

Several trends link today's recovery to tomorrow's opportunities:

- High-tech manufacturing in California is setting records in sales, profits, exports and new venture capital financing, and high-tech job employment is rising;
- Exports produced in California rose by more than 15 percent in 1994. Exports rose an additional 18 percent in the first three quarters of 1995. High-tech exports are up even more, in some markets more than 30 percent;
- The services sector (i.e., technical consulting, engineering, information processing, for example) accounted for over one-half of the recent job growth;
- Motion picture production added 36,000 jobs since the beginning of 1994;
- California is the location of one-third of new venture capital start-ups;
- The Bay Area ranks first, San Diego fourth and Los Angeles/Orange County sixth as the largest biotech clusters; and,
- California is home to 27 of Fortune Magazine's 100 fastest growing companies.

California's new economic base is what other states are trying to create. Name an exciting growth industry of the 21st Century and it is likely California already has an established leadership position. California is our nation's leader in high-tech manufacturing, motion pictures and multimedia, biotechnology, developing tools for the Internet, specialty agricultural products and the apparel and fashion industry, among others (Refer to the Center for the New West's *California: A Twenty-First Century Prospectus* and the Center for the Continuing Study of the California Economy's *California Economic Growth* for details on California's new economy).

A New Collaborative Model of Governance

The changing nature of our economy places new requirements on government. The responsibility of government is to develop and maintain sufficient infrastructure and quality of life to insure private investment continues in our new economy.

A collaborative model of governance which involves the public and private sectors in a structured process for defining needs and negotiating the availability of resources is required. The process should be an effective tool for policy making at the local, regional and state levels. Based on studies on the development of industry clusters in the United States, Europe and Asia, Andrew Procassini, President of the Semiconductor Industry Association in the Silicon Valley and author of *Competitors in Alliance Industry Associations, Global Rivalries and Business Government Relations,* concluded:

- Government—industry partnerships are necessary in order to develop the high-tech industries required for maintaining the living standards of a nation's citizens.
- Greater emphasis on equal partnerships—not only of government with industry but also of companies with one another and [networks] of companies in an industry—will increase. Less emphasis will be on mandated relationships and greater emphasis will be on the need for individuals and organizations to cooperate voluntarily.
- A middle sector (composed of trade associations, consortia and informal groups) will be of greater importance in every nation that leads the global competitiveness, because the private and public sectors will no longer be so clearly separated.

However, changes in attitude and in practice are required to fulfill the promise of this new collaborative model of governance. The entirety of government's role and functioning must be reexamined and reinvented, in keeping with the need of industry to reexamine and reinvent, in order for both to live up to this collaborative model and to prosper in this new economy (See Appendix V, Demands of the New Economy on Businesses, Government and Approach to Economic Development).

"The California Public Utility Commission's decision for incentive-based regulation of local telephone carriers is an excellent example of pro-investment and pro-innovation regulatory reform. The Commission noted in its decision that the old approach can 'jeopardize a firm's ability to finance capital investments, particularly infrastructure.'"

Panel Discussion on
Demands of New Economy on
Government
San Jose Panel Meeting

The Need for A Collaborative Model of Governance in Key Public Policy Areas

Our Panel concludes that there are three primary public policy areas which profoundly affect the capacity and prospects of California's businesses to prosper and economy to grow. They are 1) workforce preparation; 2) education; and, 3) taxation, regulation, infrastructure and quality of life.

"If we do not proactively grow talent here, the industry will either import talent or not grow here. If we import talent, we are missing a significant opportunity to use job training for local youth and workers and to prevent further deterioration of our social fabric. There will be social costs of not funding training for disadvantaged youth."

Entertainment Industry Cluster
Southern California Regional Forum

"Companies are developing their own ways to train people; technology is useless without training."

Apparel and Fashion Design Industry Cluster
Southern California Regional Forum

"Adaptive adult training programs must be expanded and integrated into the workplace. California needs to take advantage of its vast educational [and training] resources to forge a common commitment to life-long learning."

Multimedia Industry Cluster
Bay Area Regional Forum

Workforce Preparation

Every industry cluster told our Panel that skills improvement through education and workforce training was its top priority. Our Panel strongly heard that California's workforce preparation programs (including vocational education, job training, adult education and school-to-career) must change. Ongoing skills improvement is necessary for California industries to maintain a leadership position in the global economy, and for creating opportunities for our workers to share in future economic growth. The facts are:

- Lifetime employment with one company has passed and the average worker will change jobs an average of six times. Consequently, the focus should be on employability instead of the traditional focus on employment;
- The workplace is being transformed into "high performance" workplaces requiring workers to take on a greater variety of tasks through improved basic skills requiring literacy, English language, computational abilities and work readiness and flexibility skills;
- Jobs will increasingly require rapidly changing skill-sets which will require opportunities for life-long learning for all workers; and,
- In the year 2010, three-fourths of California retirees will be Anglo while two-third of the workforce will be non-Anglo.

A recent report by the California Research Bureau entitled *Restructuring Workforce Preparation Policy* succinctly captured the frustrations expressed by industry leaders, noting that "Research suggests that a fragmented governance structure for job training and employment-related services can have several dysfunctional results:

- Job training of uneven quality;
- An inability to meet the multiple service needs of clients;
- Duplicative and expensive administrative structures;
- Incompatible policies and procedures which impede collaboration and effective service delivery; and,
- Fragmented planning that makes it difficult to upgrade services in response to changing economic conditions.

These characteristics of the current training system are contrary to the requirements of and the way business operates in California's new economy. Our Panel held a special session with principal policy-makers representing the State Department of Education, the California Community Colleges, the School to Career Task Force in the Employment Development Department, the One-Stop Career Center Vision under the State Job Training Coordinating Council and the Employment Training Panel to discuss policy changes in response to the concerns and critiques of industry leaders. Our Panel recognizes the work of the State Job Training Coordinating Council in developing *California's One-Stop Career Center Vision* which addresses many issues raised by industry leaders. The Council's work combined with the potential for more state flexibility in the use of federal training funds under block grant allocation methods affords critical opportunities for change.

Our Panel concludes that any reforms must be tied to California's changing economic base and consider whether the governance and delivery of training services are flexible, agile, customer-driven and decentralized and must include a mechanism to ensure accountability and measurable outcomes. We need to build processes whereby job opportunities drive job training programs.

Education

"Primary and secondary education need to establish new mechanisms of funding and procuring information technology and providing instructor training. Both education and training must allow for experimentation with delivery prototypes such as business/education partnerships to define curriculum and provide expert knowledge in actual application."

Multimedia Industry Cluster
Bay Area Regional Forum

"Poor K-12 hurts in attracting new employees; ...too much money is spent on administration [while] too little [is spent] on education tools [and] teachers; ...inadequate, cast-off hardware can't use education software."

Information Technologies Industry Cluster
Southern California Regional Forum

"Fifty percent of people applying for apprentice [and entry level] jobs are not prepared."

Diversified Manufacturing Industry Cluster
Sacramento Valley Regional Forum

K-12

Our Panel heard a growing concern of our education system, particularly at the K-12 level, which is having an effect on the economy and our competitiveness. The issues raised are not new; they have been cited in numerous publications over the years. What is new and critical is that our graduates and job-seekers are not matching up with the basic skills required by industries which will be among the growth leaders in the 21st Century economy. In addition, the composition of our students and future workforce is changing dramatically. The facts are:

- California ranks 42nd in spending per student; 49th in computer per student; and, 50th in class size;
- Computer competence and utilization of rapidly changing technologies will increasingly become a prerequisite to compete, or even survive, in the workforce;
- The ability to work together in groups and the self-confidence to respond to change are essential elements for a creative, flexible workforce; and,
- The majority of school-age children are other than white. In the year 2000, only 15 percent of California's 21-year-olds entering our workforce will be Anglo males.

Our Panel concludes that K-12 education must change to produce graduates who are equipped to succeed in California's new economy. Up-to-date technical equipment integrated into the day-to-day curricula and teaching, combined with ongoing training for teachers, are critical needs. Literacy, math skills, creativity and computer competence are imperative to compete, or even survive, in the workforce. There needs to be a concerted effort to reduce the student/teacher ratio. The immediate implementation of systemic changes called for in the *State Plan for California* by the Governor's School-to-Career Task Force would be a significant step forward.

"The top priority is maintaining California's outstanding University system. The system must actively attract people from diverse backgrounds for California to be competitive."

Diversified Manufacturing Industry Cluster
Sacramento Valley Regional Forum

"Don't waste the strength built up in the UC and CSU systems and talent in registered forestry."

Wood Products Industry Cluster
Natural Resources-based Regional Forum

Higher Education

Many industry leaders praised both the state's public and private institutions of higher learning, particularly for their research and graduate programs. Indeed, several individuals credited the universities' work and presence for the formation and growth of the health care technologies, biotechnology, multimedia, telecommunications and other industry clusters and emphasized their importance in an expanding information and knowledge-based economy. *Industry leaders emphasized the need to invest in higher education and to expand access to key disciplines (i.e., engineering and computer science) in order to maintain a world-class educational system and leadership position.*

"The University system has sown the seeds for this industry, but companies need new kinds of specialized expertise, such as pharmacology and toxicology."

Healthcare Technologies Industry Cluster
San Diego Regional Forum

"Keeping the University system strong is absolutely the key to growing the small telecommunications cluster into an international center for wireless communications."

Telecommunications Industry Cluster
San Diego Regional Forum

"From the perspective of these home-grown California companies, there is so much that is good about California—entrepreneurship, diversity, freedom—that tax and regulatory issues are at this stage of the cluster's development less important."

Telecommunications Industry Cluster
San Diego Regional Forum

"Regulation of telecommunications is the primary driver of investment in advanced information infrastructure. The California PUC needs to consider how deregulation of telecommunications will impact the creation of this infrastructure. The ultimate potential of multimedia is intertwined with its ability to be distributed remotely. Regulatory issues need to be resolved and clarified."

Multimedia Industry Cluster
Bay Area Regional Forum

Many industry clusters told our Panel that the costs of taxation and regulation must be weighed against the benefits of California's infrastructure and quality of life. Government taxes business to help pay the cost of infrastructure improvements and public services necessary to maintain the economic foundations critical to support the competitive position of California's industries. These foundations include education and training programs necessary to provide the workforce with required skills, an efficient transportation system, public health and safety systems to insure the public welfare, and public works projects to provide for water and sanitation.

Government regulates businesses to maintain a safe workplace and to insure that a high quality of life is maintained. These regulations include health and safety considerations, environmental standards and specialized regulations affecting particular industries.

"People like it [the environment] here."

Healthcare Technologies Industry Cluster
San Diego Regional Forum

Maintaining and improving the state's economic foundations such as our infrastructure, educational institutions and quality of life that attract and keep businesses are critical. Government taxes and regulations, however, have costs that must be borne by businesses and consumers. The regulations themselves and the way they are implemented can impair the competitive position of California businesses. The cumulative cost of all taxation by state and local government must be considered and compared to that of other jurisdictions where competitors are located. The facts are:

- California currently imposes significantly higher property taxes on new and expanding businesses than are imposed on existing businesses. This policy threatens the long-term economic health of the state by creating an incentive for competitive new and expanding businesses to locate elsewhere.
- The ability of firms to absorb the costs of taxes and regulations and remain competitive is not uniform. Industries characterized by a large number of new, small firms in relatively untested markets or by established firms undergoing transition are particularly vulnerable to the cost of regulations.
- Firms working on small margins of profit in highly cost-competitive markets are less able to absorb tax and regulatory costs than those in high profit, less cost-competitive markets.

"Some companies believe it doesn't pay to 'grow up' in California, and that California can remain only an economy of boutique research firms. If companies expand in California, California's high tax rate gets weighted relatively high in computing worldwide tax liability. Proposition 13 creates artificial differences between existing companies and expanding companies."

Healthcare Technologies
Industry Cluster
San Diego Regional Forum

However, a high quality infrastructure that provides an educated and skilled workforce, high quality public research institutions and efficient transportation, ports and airports, for example, when combined with a high quality of life, are what attract businesses to California in the first place. This is what has made it possible to grow the new, dominant industries that are emerging today.

The Panel concludes that a thorough, objective comparison with other states and global economic regions of the costs of taxation and regulation relative to the benefits businesses receive from California's infrastructure must be part of any competitiveness evaluation process. Such an analysis must be by industry cluster and region specific to determine their relative competitive advantage with competitors in other regions.

"Quality of life for employees is the main reason companies are here."

Diversified Manufacturing
Industry Cluster
Sacramento Valley Regional
Forum

We recommend that the development and implementation of a new policy framework for a comprehensive and coherent workforce preparation system that is consistent with the new economy and that supports emerging clusters be made the #1 priority.

What The Panel Recommends Based on the Findings

California faces significant opportunities in the industries that are likely to be the future growth leaders in the emerging 21st Century economy. Even well-established industries are finding new opportunities, consequently changing dramatically. The way business operates in California's new economy challenges every industry, as well as government, to reinvent itself to succeed and keep our economy growing for the well-being of our people.

Based on this first-ever, strategic planning process for California's future economic development, we present these recommendations to the Governor and Legislature, and to the business leaders and people of California.

Recommendation: Workforce Preparation

The need to change California workforce preparation programs, which includes vocational education, job training and school-to-career, was the most strongly heard message by the Panel. *We recommend that the development and implementation of a new policy framework for a comprehensive and coherent workforce preparation system that is consistent with the new economy and that supports emerging clusters be made the #1 priority.*

Both the development and the purview of this framework should include input from and responsibilities for, the business sector and California's institutions of education, from preschool through post-graduate. The Legislature and the respective state educational governing bodies must be included. The employer and the worker, and both private and public training institutions, should join together to design and implement a training system that is flexible and responsive, so that California can create and maintain the best trained workforce in the world. Such a system will grow and attract businesses and will increase their competitiveness.

Recommendation: K-16

Every industry cluster told the Panel that the education system needs to teach basic skills to succeed in California's new economy. *We recommend development of a new policy framework for K-16, with a focus on language and math skills and training on up-to-date technical equipment that is integrated into the day-to-day curricula. Teachers need ongoing training. We need to make the case that the education system is an investment, not an entitlement. K-16 will be the #1 priority in the second-cycle of the Panel's planning process.*

Recommendation: Infrastructure, Quality of Life, Tax and Regulatory Policies

We recommend that a comprehensive, objective, ongoing review be made of the appropriate balance of infrastructure and quality of life with state and local tax and regulatory policies. In particular, this review should:

- Determine the competitiveness of California's tax structure and spending on the state's physical and educational infrastructure relative to other states and, where possible, other economic regions;
- Identify which types of infrastructure can best facilitate the growth of California's new economy and determine methods for public investment;
- Determine how the regulatory process can be improved, including the elimination of overlapping, duplicative and unnecessary state and local regulations, so that a region's quality of life is maintained and improved at the lowest cost to business; and,
- Direct the development of a mechanism and approval process for assessing the impact of proposed changing tax policies, and current and proposed regulations, upon the competitiveness of California businesses, including consideration of quality of life factors.

Recommendation: Key Policy Issues

The Panel's regional forums provided an opportunity for industry cluster leaders to identify a number of specific needs and policy issues for their respective cluster to grow. Our Panel's *Key Policy Issues for Nine Industry Clusters,* an addendum to this document, provides policy-makers roadmaps for collaboration. *We recommend that each of the respective local, state and federal agencies of government review, in consultation and collaboration with leaders of our private sector and economic development organizations and other interested Californians, the policy issues summarized in our "Key Policy Issues for Nine Industry Clusters," which are relevant to its jurisdiction.* Examples include:

- The growing multimedia and entertainment industries need more skilled people to fill jobs. The current job training system is based on the traditional factory model which focuses on hierarchy and uniformity. This does not work in the multimedia and entertainment industries where people work for small companies or for themselves, quickly move from job to job and require independence and creativity (Employment Development Department and Employment Training Panel).
- Current environmental regulations need to be flexible and performance-based and goal oriented. California industry and environmental technology firms need to be able to capitalize on their competitive advantage: innovation and entrepreneurship. The state should work towards 1) setting performance objectives that environmental technologies must meet which are tied to real environmental goals; 2) letting companies and "the market" figure out the means to meet the goals; and, 3) using third-party verification to report how companies are meeting the goals (California Environmental Protection Agency).
- Current labor laws developed for manufacturing industries may not fit tasks associated with the use of information and communications technologies. Payment for overtime beyond eight hours a day in a 40-hour work week for some industries such as information technologies, need to be reexamined with the needs of employees (Department of Industrial Relations).
- The healthcare technologies industry depends on timely review of its products by regulatory bodies to get new products to market. California has a Food and Drug Branch (created in 1914 as the Food and Drug Bureau) which, in part, reviews medical products. The relationship between the state regulators and the federal Food and Drug Administration (FDA) should be reviewed for duplication and efficiency (Health and Welfare Agency).
- Current constitutional limitations on local government finance and state budget practices have made it difficult for local governments to reliably provide services required by industries. Industry leaders expressed the need to allow more local control of finances to allow jurisdictions to be more responsive to local needs (Constitutional Revision Commission).

Recommendation: State Agencies and Departments

Our new economy requires that policies be considered and services be organized and delivered in a collaborative, flexible and fast way if they are to make a positive contribution to our economic development. *We therefore recommend that the Governor direct each state agency and department to support continuing development of California's economic foundations. They should:*

- Recast the economic development portions of their mission statements to make it consistent with the principles of

a collaborative model of governance (See Recommendation: Key Principles);

- Initiate a "bottom-up," customer-driven reorganization process of economic development programs to improve the relevance and delivery of services consistent with the elements of regionalized, industry cluster-driven collaborative model of governance;
- Eliminate outdated, overlapping and duplicative programs where appropriate; do not create a new collaborative bureaucracy at the regional, or any other level, with new funding sources, unless other functions are eliminated or consolidated;
- Serve as a catalyst to re-organize government (i.e., local, state and federal) service delivery systems at the regional and local level around the needs of industry clusters, business networks, workforce and community needs; and,
- Work with small and large businesses to identify regulations and regulatory procedures that are outdated, excessively restrictive in defining options for meeting their intended goal or so time-consuming and/or paperwork intensive to be counter-productive, costly and unreasonable, and propose alternative remedies.

At least the following agencies and departments should be included and, upon the Panel's request, report its progress in meeting this recommendation:

California Energy Commission

California Council on Science and Technology

Community Colleges—Chancellor's Office

Department of Conservation

Department of Education

Department of Food and Agriculture

Department of General Services

Department of Housing and Community Development

Department of State Banking

Department of Transportation

Department of Water Resources

Environmental Protection Agency

Employment Development Department

Public Utilities Commission

Trade and Commerce Agency

Recommendation: Key Principles

We recommend the adoption of the following principles as the foundation for the development of a forward-looking economic strategic plan:

- California is growing a new economic base with an industry mix that is substantially different from the economic base of our past and that our public policy must reflect the competitive requirements that support the development and growth of new industrial clusters;
- Collaborative policy-making involving both our public and private sectors in a structured process for defining needs and negotiating the availability of public resources is the most effective tool for decision-making at the local, regional and state levels;
- Industry cluster analysis and the regional forum process are effective tools for examining the changes in our economic base, analyzing the requirements of our new economy and identifying appropriate public policy initiatives; their use should be continued by the state and encouraged for other policy-makers; and,
- An ongoing, comprehensive statistical system for the analysis of our California economic base is critical to sound public and private sector policy-making in a constantly changing economy.

Recommendation: Collaborative Model of Governance

We recommend the adoption of a collaborative model of governance, including these elements as criteria for evaluating existing policies and programs and for formulating future policies and programs having impact upon our state's economy:

- ***Customer Driven**—demand by industry and individuals drive government response;*
- ***Flexible**—the way that services are delivered and regulations implemented needs to be outcome driven, allowing the customer a flexible response to clearly defined standards;*
- ***Agile**—ability to respond quickly to meet rapidly changing market demands;*

Economic competitiveness requires a dynamic information infrastructure that provides accurate, timely and detailed pictures of the economy and changes underway.

- ***Decentralized****—policy priorities are locally developed and resources applied at the level closest to the customer; and,*
- ***Networked****—opportunities for government to network and partner with other government programs at any level and with economic development organizations, business and the community to define and deliver services are encouraged.*

Recommendation: Economic Information Infrastructure

We recommend the development of a California economic information infrastructure which provides an accurate, timely, detailed picture of our economy and the changes underway with respect to it. We recommend that the Governor direct:

- *the Labor Market Information Division in the Employment Development Department to take lead responsibility in designing and implementing a permanent economic information infrastructure;*
- *the Office of Economic Research in the Trade and Commerce Agency to provide expertise and analyses of California's leading industries and development of industry clusters; and,*
- *the GIS Technology Center in the Stephen P. Teale Data Center to design and develop user-friendly GIS application tools and data base structures that allow integration of a variety of information resources relevant to strategic economic planning.*

Economic competitiveness requires a dynamic information infrastructure that provides accurate, timely and detailed pictures of the economy and changes underway. Our Panel developed a two-track process to study the economic base and industry clusters in regions. (Refer to the *California Economic Information Infrastructure and Results of the Economic Base and Industry Cluster Studies*, an addendum to this document). However, the two-track process needs to be more comprehensive in order to integrate data, tools and information technology and provide critical information for continuous strategic planning and the development of policies that supports the state's business and industry clusters. It needs to be a useful resource for local public and private leaders and economic development professionals who are interested in the vitality of their economic base.

Critical components of this information infrastructure should include:

- The "Business Yellow Pages" that identifies the locations and economic sectors of California's existing businesses and how they are integrated into industrial clusters;
- Wage and employment growth information;
- Sales growth information;
- Environmental and planning information that identifies constraints to growth in specific geographic areas of California;
- Information about the infrastructure (e.g., roads, telecommunications, sewer, water systems and airports) that is necessary to serve new business growth and expansion;
- Information about the characteristics and condition of California's people resource;
- Tools to integrate this information into meaningful policy analysis;
- User-friendly information technology to support the analysis tools, data bases, and delivery of the information and analyses to the widely distributed users in California; and,
- Training to apply the information and analysis system to local, regional and state economic problems.

Recommendation: Distribution

We recommend that copies of Collaborating to Compete in the New Economy: An Economic Strategy for California, be distributed to every state agency and department, to local and regional organizations and governments, to businesses and trade organizations and other interested Californians.

The value of our strategy effort for the state's economic future will be realized only insofar as the respective leaders and citizens of California take it seriously, take it to heart and commit themselves to work in accordance with the goals, insights and recommendations herein.

Appendix I

List of Publications

In June, 1994 the California Economic Strategy Panel initiated discussions with economists, demographers, planners and economic development practitioners representing diverse views of the California economy. The Panel then completed a series of working documents examining California's competitiveness, local and state economic development strategies and state government plans for physical and economic infrastructure development. Published reports include:

- *Report on Competitiveness Assessment of California;*
- *Report on Competitive Analysis of State Economic Development Plans;*
- *Report on Analysis of Economic Development Strategy Proposals for California;*
- *Report on California Infrastructure;*
- *Report on Survey of Local and Regional Economic Development Plans and Planning Efforts;*
- *Report on Assessment of Other Statewide Strategic Plans and Planning Efforts; and,*
- *California Economic Strategy Panel: Interim Report.*

Appendix II

How the Panel Gathered the Information

The Process

Our Panel, working with the consulting firms of Applied Development Economics and Collaborative Economics, respectively, developed a two-track process which examined:

- Regional patterns of employment and businesses at the zip code level by three and four-digit standard industrial classifications code between 1991 and 1994; and,
- How selected regional industry clusters are organized and what factors facilitate their growth and expansion (refer to diagram).

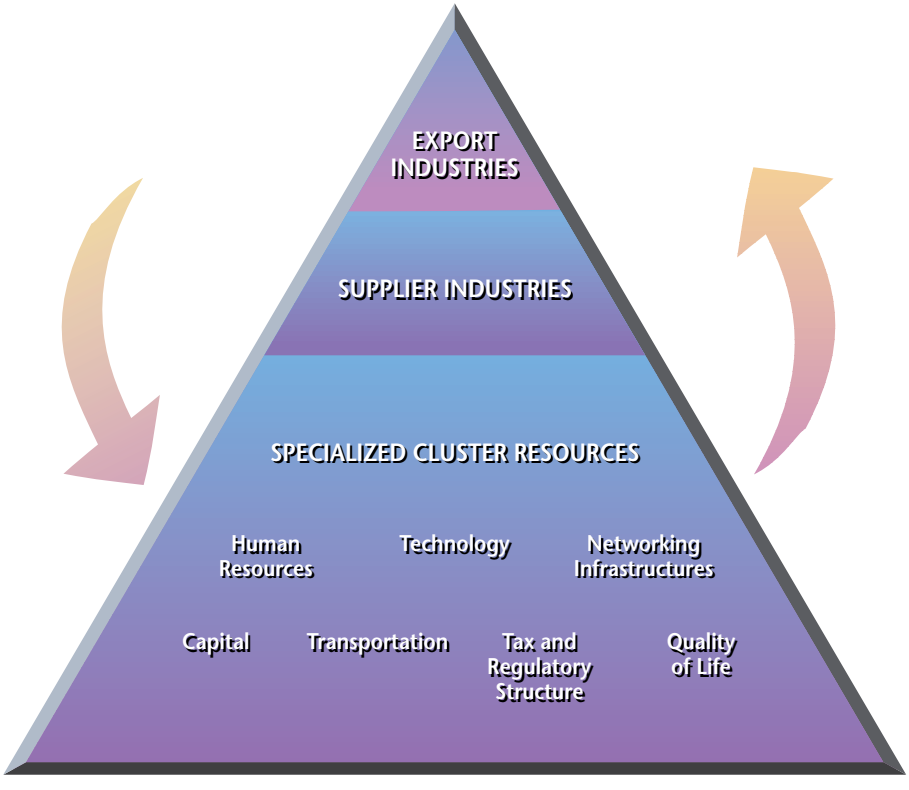
Considering the size, diversity and complexity of California, the Panel identified six regions to implement the planning process. Then the Panel established a new economic information system in state government with the Trade and Commerce Agency, Labor Market Information Division in the Employment Development Department and Stephen P. Teale Data Center to share and use economic data and GIS mapping applications. This system provided a guide in the initial planning cycle and could be replicated for regional economic base analyses.

Next, host organizations and local partners in each region came together to select industry clusters to examine in the first planning cycle. These regional groups provided 1) information and industry cluster contacts; 2) reviewed and commented on the Panel's reports on the economic base and selected clusters in the region; and, 3) hosted regional forums. The host organizations and partners considered different criteria, such as the largest or fastest growing industry clusters, to select representative clusters for the initial cycle. Industry clusters participating reflected those that are 1) established and expanding; 2) established and in transition; and, 3) emerging. Both quantitative and qualitative (direct interviews) methods were used to understand each cluster selected by regional organizations in regards to:

- the components, including key producers/exporters, suppliers, human resources, investors, institutions such as government, education, research laboratories and associations and infrastructure that make up the cluster;
- size and growth of the cluster;
- evolution of the cluster;
- relationships and networks;
- markets;
- opportunities; and, most importantly,
- requirements for future growth of the cluster.

The findings were presented and discussed during regional forums held throughout the state. Key industry cluster leaders, selected by the host organizations and local partners, told the Panel where they thought their industry would be in five years and what challenges they faced in reaching their business goals. The Panel "listened to the customer" to identify common themes and learn how the state's economic foundations could facilitate the growth and expansion of the clusters in particular and the California economy overall. Discussions were focused around the following key economic foundations:

- Education/Workforce Preparation;
- Research/Technology;
- Capital;
- Information Infrastructure;



- Physical Infrastructure;
- Tax and Fiscal;
- Regulatory;
- Marketing;
- Supplier Development;
- Quality of Life; and,
- Industry Networking.

In the initial planning cycle, the Panel examined nine industry clusters in five regions. The Panel recognizes that some key industry clusters (e.g., agricultural production and food processing) and some industries (e.g., defense-related manufacturing and tourism) that do not neatly fall within an industry cluster, were not examined in the first planning cycle. Also, not all industries have or will establish close industry networks. Recognizing this, at the request of regional host organizations and partners, the Panel deviated from the industry cluster analytical approach and examined the emergence of:

- entrepreneurship in remote, rural economic regions for the Natural Resources-based Region; and,
- information processing (back-office operations) in the Sacramento Valley Region

It should be emphasized the Panel examined industry clusters to identify what government and private investment can do to facilitate the growth and competitiveness of the clusters collaboratively; it is not to provide an industrial policy to support a certain industrial sector. Also, the number and configuration of the regions will be reconsidered, and additional industry clusters will be examined. Due to scheduling problems, the Central Valley had to be postponed until the second planning cycle.

Appendix III

List of Host Organizations and Local Partners

San Diego Region

Host Organization:

City of San Diego Economic Development Services

Principal Local Partners:

San Diego Technology Council; San Diego Economic Development Corporation; San Diego Gas and Electric; San Diego Dialogue/University of San Diego College of Extended Studies; San Diego State University Foundation; San Diego Association of Governments; and, Greater San Diego Chamber of Commerce

Southern California Region

Host Organization:

Regional Economic Strategies Consortium (RESC)

Principal Local Partners:

Southern California Association of Governments (SCAG); Economic Development Corporation of Los Angeles County; Inland Empire Economic Partnership; Orange County Business Council; Los Angeles Regional Technology Alliance; RLA; Los Angeles Area Chamber of Commerce; Center for the New West; Alliance of Motion Picture and Television Producers; Southern California Edison; California State University Institute; and, Greater Los Angeles World Trade Center Association

Bay Area

Host Organizations:

Joint Venture: Silicon Valley Network (JVSV); Bay Area Economic Forum; and, Economic Development Advisory Board of Alameda County

Principal Local Partners:

Monterey Bay Futures Network; Bay Area Economic Forum Economic Development Network; and, Contra Costa Economic Council

Central Valley Region

Host Organization:

Fresno County Economic Development Corporation

Principal Local Partners:

Central Valley Futures Institute at California State University, Fresno; Stanislaus County Economic Development Corporation; South Central Economic Development Agencies; California State University, Bakersfield; Kern County Economic Development Corporation; California State University, Stanislaus; California Central Valley Economic Development Council; Merced County Economic Development Corporation; City of Sanger Economic Development Department; and University Export Center and Economic Development at Fresno City College Training Center

Sacramento Valley Region

Host Organization:

Sacramento Area Commerce and Trade Organization (SACTO)

Principal Local Partners:

Yuba/Sutter County Economic Development; Colusa County; Glenn County Economic Development Corporation; Placer County Office of Economic Development; City of Roseville; El Dorado County; Tehama Local Development Corporation; Chabin Concepts; City of West Sacramento; Sacramento County; Sacramento Municipal Utility District (SMUD); and, Real Estate and Land Use Institute at California State University, Sacramento

Natural Resource-Based Region

Host Organization:

University Center for Economic Development at California State University, Chico

Principal Local Partners:

Central Sierra Economic Development District; Sierra Economic Development District; Plumas Corporation; Mendocino Economic Development Corporation; Superior County Economic Development District; Redwood Region Economic Development Commission; and, Foresthill Chamber of Commerce

Appendix IV

Economic Regions by Counties for Planning Cycle 1

San Diego Region

(Note: San Diego served as a pilot to test the two-track planning process)

San Diego County

Southern California Region

Imperial, Los Angeles, Orange, Riverside, San Luis Obispo, Santa Barbara, San Bernardino and Ventura counties.

Bay Area

Alameda, Contra Costa, Marin, Monterey, Napa, San Benito, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma counties.

Central Valley Region

Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus and Tulare counties.

Sacramento Valley Region

Butte, Colusa, El Dorado (west slope), Glenn, Placer (west slope), Sacramento, Sutter, Tehama, Yolo and Yuba counties.

Natural Resources-based Region

Alpine, Amador, Calaveras, Del Norte, El Dorado (east slope), Humboldt, Inyo, Lake, Lassen, Mariposa, Mendocino, Modoc, Mono, Nevada, Placer (east slope), Plumas, Shasta, Sierra, Siskiyou, Trinity and Tuolumne counties.

Appendix V

Demands of the New Economy on Business, Government and Approach to Economic Development

Our Panel's recommendations are based on the changing demands of California's new economy and requirements of particular growth sectors propelling the state into the 21st Century. This transformation is already causing changes in the way businesses operate to remain competitive. This transformation places new requirements on government and our approach to economic development.

Changes in the Way Businesses Operate in California's New Economy

Our Panel learned that several common characteristics define the way businesses operate in the new economy:

- **Knowledge-based**—Every industry cluster said that employees' knowledge, experience and attitude are central to its competitive success.

  Illustration: Advanced manufacturing in telecommunications depends on high-value-added workers to use and develop technology, not on low production costs based on low wages. The apparel and fashion industry reports, "No new job is low-skilled anymore. Every job needs good communications skills and some technical skills." In wood products, movement into hardwoods (a recent, higher-value field) depends on training workers for new technologies that produce highly competitive products.

- **Networked**—The new economy has deep, rich interconnections within and between companies, organizations and institutions. Companies that compete with each other collaborate to develop shared talent and infrastructure. Information and communications technologies enable this connecting process.

  Illustration: Small apparel companies are coming together in Southern California to develop joint training programs for machine operators and owners. Because of technology convergence, the multimedia industry is rife with alliances between multimedia developers, technology providers and content providers. The information technology industry reports that in the future, smaller specialized companies with alliances will predominate.

- **Global**—Companies operate (manufacture and sell) globally and compete against foreign competition.

  Illustration: Forty-person CERONIX in Butte has two foreign competitors and no domestic ones in its market niche. One Hewlett-Packard product includes components that crossed 301 international borders.

- **Fast**—Companies compete to develop and produce innovative products and services faster than their competition.

  Illustration: The entertainment industry says "speed is the key theme. Change will happen increasingly faster." The apparel and fashion industry reports, "we must not compete on cheaper, but on faster and better."

Companies of all types and in many industries have made a marked shift toward specialization of focus and decentralization of operations. Companies increasingly view themselves as part of an industry cluster that includes related business suppliers, partners, customers and competitors, as well as a workforce with specialized skills, education and training organizations, support services and government.

Why are clusters important now? Because companies can exploit their own competencies and gain performance advantages by operating within a cluster. They are able to access specialized resources (including human, other businesses, capital, information and intelligence) on a quick-turnaround basis. This ability to pull resources together quickly makes all the difference in increasingly fast-paced markets. As Ed McCracken (Chairman and CEO of Silicon Graphics) stated: "To be a world-class company, everything you do must be world-class. But we can't do everything in-house. We must find world class partners." Industry clusters have become the building blocks of California's new economy.

Changes Required of Government to Facilitate California's New Economy

Our Panel concluded that there are several common areas that require changes in policies and practices by government, so as to become responsive to the demands of California's new economy, particularly in light of the fact that our key industries are the likely growth leaders in the 21st Century economy:

- **Facilitative**—Government must become a facilitator, informing itself of the trends, challenges, obstacles and opportunities of this new economic world, and serving to support the efforts of California's workforce and businesses to succeed in it.

  Illustration: The old adversarial paradigm that has dominated so much of business-government relationships in the past must now be based more on an information-age model in which many firms of all sizes operate within clusters and where the role of government is to provide support to these industry clusters working in partnership with business. Our Panel heard from nearly all the industry clusters that to improve governance of the state and region, businesses have to have the discipline to talk with government while government must have the discipline to not see itself as the solution to every problem.

- ***Customer-driven***—Demand by industries and individuals should drive government response. This approach is in contrast to programs that are driven by the budget process and often search for clients.

  Illustration: The growing multimedia and entertainment industries need more skilled people to keep up with their potential for growth. Our current job training system is based on the traditional factory model which focuses on hierarchy and uniformity. This simply cannot work for industries where people work for small companies or for themselves, quickly move from job to job and require independence and creativity.

- **Flexible**—One-size regulations and laws no longer fit all. A major concern expressed by industry leaders was our need to make regulations more flexible to meet the requirements of the new economy.

  Illustration: Current environmental regulations need to be flexible and goal oriented. California industry and environmental technology firms need to be able to capitalize on their competitive advantage: innovation and entrepreneurship. Regulatory agencies need to move toward performance-based objectives.

  Illustration: Current labor laws developed for manufacturing industries may not fit tasks associated with the use of information and communications technologies. Payment for overtime beyond 8-hours in a 40-hour work week for some tasks in industries such as information technologies, need to be reexamined, of course, with the prerogatives of employees to be considered.

- **Agile**—Speed and agility are required for meeting rapidly changing market demands. Industry needs government to be as agile in responding to its needs.

  Illustration: The health care technology industry depends on timely review of its new products by regulatory bodies to

get new technologies to market. The current federal FDA review process is too time-consuming and costly. California also has the Food and Drug Branch (created in 1914 as the Food and Drug Bureau) in the Health and Welfare Agency which, in part, reviews medical products. The relationship between state and federal regulators must be reviewed for duplication and efficiency.

- **Decentralized**—Resources should be applied at the level closest to the customer. Companies are reengineering to become more efficient, better able to serve the customer. The new governance model must follow a similar pattern, get closer to its regions and to its industry clusters.

  Illustration: Current constitutional limitations on local government finance and state budget practices have made it difficult for local governments to reliably provide services required by industries. Industry leaders identified the need to allow more local control of finances to allow localities to be more responsive to local need. This could include allowing localities to develop "local services compacts" as recommended by the Constitutional Revision Commission.

The Panel heard that the major determinants of broad-based economic prosperity in California are the capacities, inspiration and actions of our state's entrepreneurs and workers. Our private sector has the principal role in creating jobs and wealth and raising living standards. The public sector has an essential correlative role to play in raising our standard of living. Our public sector provides the environment, the economic foundations that support economic growth, in at least two key policy arenas:

- Policies that make California an attractive place to live and to work. Public policies and public investment (e.g., roads, schools and universities, telecommunications, water systems, ports, prisons and culture and art) are critical determinants of where the most creative people choose to live and work; hence, where private investment will occur in an increasingly competitive, increasingly global economy.

- Policies that enhance the capacities of our people—entrepreneurs and workers alike, necessarily beginning with our children. Education and job training programs and policies are the major tools of public policy for raising the living standards of all our people.

Economic Regions: A Strategic Approach to Economic Development

The Panel learned the common characteristics of high performing regions from economic development practitioners and industry representatives. Ironically, although the global economy transcends national boundaries, globalization has made economic regions more important. Companies invest anywhere in the world where they can find the markets, skills, suppliers and technologies essential to their global success. This "new globalism" of local sourcing and strategic alliances in multiple regions is different from the old globalism in which many international companies saw regions as merely lower-cost platforms for exporting.

In the new model, companies need to draw on the local assets such as human skills and talent, suppliers, infrastructure and technology in the regions where they operate. The availability of this business infrastructure and a distinct, higher quality of life have become the key determinant for attracting and growing high-value businesses.

High performing regions succeed because business, government, education and the community collaborate to create an environment and invest in infrastructure that attracts and sustains high-wage, high-value businesses. Successful regions sustain clusters of complementary industries that share a common talent and infrastructure base. This success ranges from the technology clusters of Silicon Valley and Austin to the textile clusters of Northern Italy and the furniture clusters of Denmark. Just as successful companies develop and sustain core competencies, regions develop niches where they can sustain a competitive advantage by investing in human skills and talent, specialized infrastructure, technology and quality of life.

California Trade and Commerce Agency
801 K Street, Suite 1700
Sacramento, CA 95814
(916) 322-1394

Pete Wilson, Governor
Julie Meier Wright, Secretary

For more information,
please contact us on the web at:
http://www.ca.gov/commerce

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