Will Success Spoil Oregon?

by Joseph Cortright

Oregon's economy and population are growing and changing. Traditional industries such as agriculture and timber, are shrinking, and new ones, such as high technology, are growing exponentially. There are doubts about these developments. Many worry that the changing economy is undermining the very aspects that make Oregon unique.

It is fashionable to say Oregonians are ambivalent about growth. The truth is that we are deeply schizophrenic. In the boom of the 1970s, Tom McCall's plea to "Come visit, but don't stay" gave voice to popular skepticism about growth. A withering economic reversal in the early 1980s obliterated one job in ten, and our attitude shifted to desperation. Leaders blamed the state's hostile business climate, high taxes and restrictive regulations. Retooling our state slogan, we officially asserted "We're open for business" (a Salem billboard with this message was quickly defaced with "Hey, Sailor").

The state's economy grew rapidly, adding 300,000 jobs between 1982 and 1990 and outpaced the US economy every year after that. Surging job and population growth have resurrected popular doubts about the value of economic development. A November 1996 survey showed that while about 50% of Oregonians felt that growth had been good for Oregon, a solid 40% felt that it had been bad.

If there is dissatisfaction about the effects of growth, it is partly because growth has done little to benefit the living standard of the average Oregonian. Oregon has nearly half a million more jobs than a decade and a half ago, but Oregon incomes have not improved relative to the nation. Oregon's per capita income was above the national average in 1979 but sank below 90% of the national average in the early 80s. As of 1995, according to federal statistics, we had regained only four points to reach 93.1% of the US average.

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Our roller coaster ride of the last two decades should teach us two lessons about the economy: first, Oregon is fundamentally well-positioned to grow. We created 300,000 jobs with pretty much the same taxes and regulations in 1990 as we had in 1980. Second, we must realize that just creating more jobs is not going to solve Oregon's economic problems.

Historically, the high wages earned by many Oregon workers have stemmed from our proximity to abundant raw materials. Our economy of the 21st century will hinge largely on our wealth of knowledge. Oregon can no longer live off our natural resource endowment. Increasingly, we will have to think for a living.

At its heart, the knowledge-based economy is about the creation of economically valuable new ideas. As Stanford economist Paul Romer has convincingly shown, economic progress comes from our ability to continuously generate better ways to use Earth's finite stock of resources. New ideas don't sprout only in universities or industrial R&D facilities, and learning doesn't occur only in schools. Growth is as much a product of better ways to sew a shirt as it is Nobel Prize advances in physics.

Despite claims that the Internet has made all knowledge ubiquitous, economically valuable innovations and ideas are created—and their benefits are realized—in particular places. Our ability to thrive in this knowledge-based economy will depend directly on our ability to create new ideas here. To do so, we must foster four dimensions of learning: learning for workers, learning for firms, learning for industries and learning for communities.

Learning for Workers: Skills for Lifelong Learning

Learning for workers means more than schooling. To succeed, we will not only need better basic skills—reading, writing and math—and applied knowledge, but also skills for learning. The accelerating pace of technological and economic change means that one cannot stop learning in one's late teens or early 20s. Increasingly, we will all need to be lifelong learners. And to learn, all workers will need stronger teamwork, communication, and problem-solving abilities.

For example, Intel now requires that all of its workers have the equivalent of at least a two-year associate degree. Even the front-line workers in the company's wafer fabs are expected to collaborate in monitoring process equipment, designing experiments to improve yield and training co-workers.

To prepare the next generation for this world of work, we must reverse our disinvestment in education and change the way schools work. Although public education funding solutions are not in sight, we at least have the blueprints for reform that can promote both higher academic achievement and critical teamwork, problem solving, and communication skills.

Although the new economy has worked to the advantage of those with more education, increasing college enrollments will not solve our problems. For one thing, we lack the will and the resources to triple the 30% of the population that now gets a four-year degree. More importantly, college doesn't necessarily give graduates crucial skills. Focus groups of Oregon employers criticized recent Oregon college graduates for "not having critical-thinking skills, communication skills, not being prepared to be team players, and lacking a work ethic".

To promote learning for Oregon workers, the state must carry out school reform legislation, find a more stable way to finance schools, and promote lifelong learning for every citizen.

Learning for Firms: Restructuring the Way We Work

Increasingly, the best firms in Oregon are restructuring the workplace to harness the creative energies of all workers, pushing responsibility for innovation down to front-line workers. Under labels from "total quality management" to "high performance work organization", there is an unmistakable trend toward using teams of workers to continuously improve productivity, products, and services.

Firms that transform their workplaces to give workers greater autonomy and responsibility can reap startling gains in

productivity and quality. Ashton Photo, a small Salem-based photo processor, changed from a traditional hierarchically managed assembly line to a cluster of employee-managed teams, and reaped a four-fold increase in revenues per employee. Empirical studies of these new forms of work organization show that they are more productive for business, and more fulfilling and financially rewarding for workers. Organizations such as the Oregon Quality Initiative, a private, not-for-profit organization supported in part by state economic development funds, play a key role in promoting widespread awareness and adoption of these new forms of work organization.

Learning for Industries: Building on Oregon's Clusters of Success

Although individual firms are often innovators, waves of innovation and improvement are more typically the product of a thriving cluster of similar and related businesses competing vigorously, striving to best one another. Such a cluster attracts and develops a skilled labor pool, stimulates the flow of ideas, and provides a base for specialized suppliers. This critical-mass effect is a significant determinant of growth. The most obvious local example is the burgeoning electronics industry centered in Washington County's Silicon Forest. Although it includes household names like Intel and NEC, it is also populated with hundreds of smaller homegrown businesses. Clustering of industry is a pervasive characteristic of industrial location, be it carpet making (Dalton, Ga.), jewelry (Providence R.I.) or furniture (High Point, N.C.).

Building clusters of industry is a vital ingredient of any strategy to build a knowledge-based economy. Oregon has been a national leader in so-called sectoral strategies. The Economic Development Department's key industries program identifies 14 sectors of the Oregon economy, ranging from wood products to biotechnology, and works with them to improve their competitiveness by strengthening worker training, or technology application or marketing.

The evidence about the importance of clusters debunks the old cliché about the importance of "diversifying" an economy. Because businesses thrive when other similar and related businesses are nearby, attracting new companies with no relation to the existing economic base may do little to strengthen the local economy.

Learning Communities: Oregon as an Environment for Innovation

The final dimension of learning may be the least obvious, but for Oregon, the most important. Learning for communities implies that the attitudes, institutions, and culture of a place influence learning by workers, by firms, and by industries. Historian Douglas North, the 1993 Nobel Laureate in economics, has pointed out that the key to continuing good economic performance is institutions that respond to evolving technological and demographic changes.

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The implication of conservative pundits like George Gilder and George Will is that economies will function most effectively if there is no state. But the truth is that well-functioning, capable government plays a key role in setting the context for an economy, especially for learning. Political institutions establish and enforce the rules of the economic game. Because of the rapid pace of change, there is no one best set of rules that will work well over time. Institutions must be flexible enough to learn and to adjust the rules of the economic game to accommodate new circumstances.

We know from history that open, tolerant societies are more conducive to new ideas. Places like Oregon that effectively adapt to a changing world create a conducive environment for new ways of doing business, new products, and new ideas. This translates into the optimum "business climate" for a knowledge-based economy.

Stewardship for learning is a collective responsibility, one that should be the responsibility of all of the state's civic, religious, community, and economic institutions. "As the world becomes more and more closely integrated," says Stanford's Paul Romer, "the feature that will increasingly differentiate one geographic area from another will be the quality of public institutions. The most successful areas will be the ones with the most competent and effective mechanisms for supporting collective interests, especially in the production of new ideas."

Taken together, the four dimensions of learning–learning for workers, firms, industries, and communities—compose a framework for moving Oregon into the future. But will the result be to undermine those things that Oregonians cherish most about where they live?

Harnessing all the forms of learning to create economically valuable new ideas holds special promise for protecting and building on those qualities Oregonians value most. This is because the peculiar preferences of an area affect character of learning and the direction of growth. Oregon's distinctive traits and behaviors have directly influenced the emergence and development of key economic trends. Oregonians were the among the first and most numerous converts to recreational running–little wonder that Nike started here, and other fitness and apparel businesses followed. The willingness to pay a bit more for quality local brands created a fertile seed bed for the emergence of Oregon wineries, which in turn provided a business model that helped make Oregon the premier producer of micro-brewed beer. The Bottle Bill and recycling efforts led to Oregon technology advances in glass-making and de-inking. New businesses and new industries arise from the way we live in Oregon. This is the economic importance of being different.

Our current state slogan, "Things look different here," may seem like just another bit of glib copywriting. But it has a deeper meaning that captures the essence of our economic future. Oregon's economy is thriving because it has established at once diverse and common knowledge bases for several industries to achieve and sustain high levels of innovation and competitiveness. We are succeeding not because things look cheaper here to an imagined generic business, but because things look different and better to a specific set of businesses that find particular advantages in Oregon that cannot be found or easily duplicated elsewhere. While many of the critical advantages are specific to particular industries, in the long run all are supported by our ability and our willingness to be wise stewards of Oregon's capabilities to learn.