

REMARKS TO OCALA ECONOMIC DEVELOPMENT CORPORATION

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Thank you. I am delighted to be here today. We are a strong advocate of these sorts of gatherings as a means of bringing together the right people at the right time to talk about issues important to all of us. I am here to learn, and I am here to share our recent experiences in South Carolina.

I want to start by saying that my Executive Director, Jim Fields, sends his regrets for not being here today. I'm sure you would rather hear from him: He has the finest old-school stories to share – and some of them are true! He did ask me to share a story about former S.C. Senator Edgar Brown.

Before South Carolina enacted Home Rule, our local governments were controlled down to the penny by the legislative delegations. A widowed woman with children living in Senator Brown's district was having financial difficulties, so she decided to send a letter asking for help and addressed it to "God."

When the local Postmaster saw the envelope, he called Senator Brown and said, "Sir, I have this letter addressed to God, and I don't know what to do with it; I'm supposed to deliver all the mail that comes into the Post Office."

Senator Brown said, "Don't worry about it; I'll take care of it." So he gets the letter, opens it up, and reads it. The lady is asking for \$200 to help pay bills and feed her children.

The Senator decides to help, so he shows up at her door and gives her an envelope containing \$100 in cash.

The woman was grateful but, not long after, she sent another letter. In this one, she said, "Thank you for the money, God, but I'm still in need of help.

By the way, this time, don't send that politician Senator Brown because, last time, he kept half.

By the way, that is a TRUE STORY!! And, it illustrates why we all have to work so hard on those collaborations between the public and private sectors.

I want to give a shout-out to **Don Upton**. Jim describes him as a good friend to the Institute and an incredible resource on economic development activities.

Like many of the states and regions around the country, South Carolina is facing global economic competition with an under-educated workforce, a disproportionate level of poverty, especially in our rural areas, and many of the other aspects of educational and economic disparity.

This is not the position you want to be in when you are competing with emerging economic powers that enjoy highly-skilled, low-cost production centers.

It is this position that formed the very reason Palmetto Institute began in 2002. Shortly before, my chairman, Darla Moore – a self-made Wall Street financier – decided to make a contribution to the University of South Carolina’s School of Business.

A relatively small investment – just an initial \$25m out of about \$90m total she has donated to our research universities. Her donation led her to being asked to deliver an address to the State Senate.

To help prepare her, Jim was asked to run some numbers on where the State stood – per capita income, educational attainment. And the picture wasn’t pretty: South Carolinians earned just 80% cents on the dollar nationally, and we were dead last in high school graduation rates, no matter how you sliced it.

Ms. Moore’s response was to the point: “Did I just (I’ll use the more polite term) *flush* \$25m down the toilet?”

From that telling comment, the Palmetto Institute was formed with an outstanding group of business and community leaders with one simple mission: To increase the wealth of all South Carolinians. We try to accomplish this by producing independent, high-quality research on important public policy issues.

Now, we have fine research universities and policy think tanks that do great research on their own, but what our State needed was an organization with the independence, muscle, and wherewithal to do the research and then drive the policy recommendations forward.

We have found that the private – not the public – community drives innovative thought. Good research sits pretty on the shelves collecting dust, but unless you have community participation & persistence to

accomplish something meaningful, then the research won't do you much good.

We began with a baseline study by Global Insight to determine our comparative economic position in the global, knowledge-based economy. The results confirmed that we were not very competitive with our existing mix of industries and the quality of our economic foundations, particularly workforce quality. This led us to retain Dr. Michael Porter of Harvard, a leading expert on regional competitiveness.

His research told us that we had to change from hunting only the buffalo (for us, recruiting mostly textiles) and pitching ourselves as a place of low-cost labor and high financial incentives (Boeing excluded!).

With Professor Porter's help, we developed a long-term strategy for economic development based upon clustering and, from there, the Council on Competitiveness (now, New Carolina) was born. We have now 20 clusters (10 regional, 10 statewide, PLUS 3 taskforces), with around 1000 volunteers from both the private and public sectors, all working toward collective, prioritized purposes.

I'm sure most of you have been keeping up with South Carolina in the news lately. But, did you also know that, in the past few years, we've elected an agriculture commissioner who was later convicted of a crime related to cockfighting, a treasurer who was later convicted of cocaine possession, and a governor who admitted an extramarital affair with his Argentinean "soul mate" and was on the verge of being impeached (His divorce was final last Friday, in case you're interested).

It has been said that in a normal state with a normal system, this would cause problems. Despite headlining stories on CNN, the Jon Stewart "Daily Show," and even Larry King, South Carolina is nevertheless advancing forward, as illustrated by our recent coup in landing Boeing, which is projected to create about 12,000 jobs in the next three years. Add in the suppliers & satellite industries, and we could see a 5-1 ratio of new jobs.

Boeing came to South Carolina for several reasons, which I will refer to as the 4 C's: Chance -- Cash -- Clustering -- Collaboration.

As you're all probably aware, a lot of good fortune happens because of CHANCE. As luck would have it, Billy Wilkins, now in private practice but formerly Chief Judge of the Fourth Circuit Court of Appeals, had a Chance relationship with the General Counsel of Boeing.

This helped crack the door to serious negotiations.

Also, you can never underestimate the value of Cash. Before consideration by Boeing, we already had in place a financial incentive package that would serve as a teaser. All we had to do was to negotiate the levels.

When looking at economic value, we also offered non-union labor and an outstanding technical college system that guaranteed targeted workforce training. If you believe all the stories put out by the press in Washington State – our rival state for Boeing – We won't be able to deliver, we don't have the experience, we don't have the intellectual capital (TO PUT IT NICELY). South Carolina has, from time-to-time, been described as a *defiant* state, and, this time, we aim to prove them wrong.

CLUSTERING. Even before Boeing was conceived, we already had an aviation cluster thanks, in part, to the presence of Vought, which supported the Boeing Dreamliner's fuselage. And, long before Dr. Porter's cluster study, South Carolina already had some natural clusters in place –

- Tourism -- Thanks to our coastline, mountains, and historical areas
- Agribusiness – Of our total land mass, we are 63% forested and 25% farmland
- Automotive – Thanks to BMW and its parts suppliers
- Advanced Manufacturing
- And others

In fact, I want to take a detour for a moment to tell you a story about BMW. Institute staff had an opportunity to tour the facility. Two points the President made that day:

First, when they started operations, BMW had to destroy the first 800 cars they made. They wanted those initial employees to grasp how important quality control was in their competitive market. 800 cars! I would have taken one off their hands, whether it was damaged or not!

Second, he wanted his supervisors on the assembly lines to be able to identify immediately a problem, come up with a solution, and put it in a written formula so that the next shift would not have to solve the same problem. Then he said he expected those workers to come from our technical or “community” colleges.

One of the initiatives we really pushed hard on is expanding our registered apprenticeship program. We were successful in getting our State Technical College System to take charge in expanding

apprenticeships by deploying field agents to walk employers through the federal DOL maze and to support their curriculum and program needs.

Yes, it has been helped because of allocation of marketing dollars, a \$1,000 tax credit for each apprentice, and tapping into the discretionary pot of federal WIA money to offer grants to employers and colleges. But, even though we got creative in finding funding, it is working mainly because we brought a statewide team together to make it work.

Which brings me to COLLABORATION. All of you sitting here in this room today is a reflection of the potential for power in Collaboration. Boeing came, in large part, because of the persuasion of a number of people. I do have to point out that since Boeing was announced, the number of people taking credit keeps growing.

I've mentioned our dysfunctional state. To say that our Governor and Legislature, which are dominated by the same political party, don't see eye-to-eye would be an understatement. Our Governor once sent back 113 vetoes, and our Legislature overrode more than 100 of them without blinking.

Nevertheless, in spite of the squabbling and despite that we have 108 fragmented organizations dedicated to economic development, for this one moment in time, *everyone*, along with our Congressional delegation, teamed up to make this happen.

Translation: Successful collaboration between local, regional, state, and federal in a state not known for playing nice in the Sandbox.

In developing competitive strategies, we found that the key is to first look at your existing assets. What can you develop into a competitive advantage and start working on today even if the payoff is years away? The proper foundation needs to be put in place now.

We can't capture every buffalo that wanders along. Most economic growth comes from within – from home-grown industry and assets.

What helps them grow is dedicated attention and strong foundations, especially education and workforce quality. I certainly can't leave out infrastructure, and that includes not only the roads, but also water/sewer, information technology [Pete mentioned broadband capacity, but you also need to look at penetration/take rates], and quality of life.

A recent survey listed Greenville in our Upstate area and Charleston along the coast as the two cities that young, educated people would most love to live in South Carolina. Both of those cities offer culture, fun events, and a vibrant, pretty downtown area.

Also important is the relationship between the research universities and training colleges to the business community. Years ago, we did a commercialization study that eventually led to major legislation, including creation of SCLaunch! within the SC Research Authority.

They've helped 140 start-up companies and their total value-added impact was more than \$770 million in 2007. The State's one-time contributions of \$500,000 and 1,400 acres of undeveloped land continues to pay dividends years later.

The BMW and Boeing opportunities may only come once in a lifetime. With 75-80% of economic growth coming from existing industry, we

have to find a way to nurture them to enable those businesses to compete successfully. Recruiting should only be viewed as ONE component of economic development.

Positive change can be incremental. Boeing's operation in South Carolina will be small compared to Washington's, but Boeing has major plans for new production lines coming up and you better believe that Washington will be trying to stand a little higher during the next go-round. When BMW opened for business in South Carolina 15 years ago, it started relatively small. Today, it employs more than 5,000 workers.

We're finding in our State, given our farm- and forestland, that we have some real opportunities with renewable biomass energy and niche farming. Our recent Agribusiness study found it has a \$30 billion impact and is tied to more than 180,000 jobs. Our Certified SC food and Fresh on the Menu programs are generating about \$132 for every \$1 invested.

Those are big numbers, folks. We are now demanding that agribusiness have a seat at the table with the State's other economic engines like Tourism, which has an \$18 billion impact. We're seeing fewer tourists, and they're spending less, BUT we will always need food & energy.

But Collaboration is key, especially with our tax and agribusiness initiatives.

Just getting the leaders of agriculture and forestry to sit at the same table took some effort.

Also, trying to get our State to adopt a fair, predictable tax structure so that we can develop these economic foundations has been a bloody mess.

Legislation hastily enacted and sold as tax reform plays really well at home, but it has flattened our commercial real estate market and led to a \$250 million disproportionate tax shift to businesses, most of them small. Our research tells us that we need to broaden the base and lower the rates.

But, we'll keep trying, no matter how long it takes us. Dr. Porter told us that "It's a marathon, not a sprint." Even if we move the needle, if everyone else is outpacing us, if Alabama [or Ocala/Marion County] decides it wants the next Boeing, then we will always be behind.

We're banking on strength in numbers, on independent research, and persistence. AND, a little Cash doesn't hurt!

Well, I think I'm out of time. I appreciate the opportunity to share with you some of the GOOD news coming out of South Carolina.