The Road to Recovery on a Budget
Creating Jobs and Avoiding a Future Repeat

Kenneth E. Poole, PhD
Executive Director

President

National Conference of State Legislators
August 11, 2012
Key challenges facing the States

- Understanding what makes your economy tick
- Finding the leverage points with the greatest impact on job creation
- Determining the public policies best able to affect those leverage points
- Freeing resources to implement those policies
Industries that bring money into the state (about 20–30% of jobs), e.g.,
- Manufacturers
- Private sector exporters
- Government (esp., federal and military)
- Education sector (serving out-of-state students, research)
- Health sector (serving out-of-state patients, research)
- Tourism (from out-of-state visitors)

Locally-serving industries (about 70–80% of jobs)
- Local retailing
- Can also include many of the above sectors

Retirees (and others receiving transfer payments)
Economic mega-trend #1: Demographic shifts

- Continued population migration to the South and West
- Aging workers: Need to replace key skill sets
- Rising population share with different cultural/ethnic backgrounds

Population Change
Population change is the rate of change in population between decennial census years. While every census region grew considerably during the twentieth century, the South and West experienced the largest increases in population.
Economic mega-trend #2: Increased knowledge intensity

- Higher skill demands for the same jobs
- Skill/wage polarization
- Services as differentiator for products


U.S. Unemployment Rate by Education Level, 2009
Economic mega-trend #3: Shortened product & industry cycles

- More rapid industry structural change and workforce transition
- Higher rate of innovation per cycle over time
- Shorter duration of cycles over time

Industrial Revolution – steam power, steel, railroads

- Electricity, internal combustion engine
- Rocketry, aeronautics
- Computers, information technology
- Biotechnology
Economic mega-trend #4:
Increased fragmentation across the enterprise

- Increased outsourcing and increased trade
- Logistics management critical

The Value Chain

1. Create & design product (or service) ideas
2. Support customer after sale
3. Distribute & deliver to customers
4. Sell to customers
5. Package for markets
6. Assemble components from suppliers
7. Receive & store inputs
8. Produce component products or services
9. Prototype & test product offerings

Center for Regional Economic Competitiveness
Economic mega-trend #5: Greater integration across regions

- Strong linkages to places with complementary specializations
- Inter-regional growth influences over varying distances

Economic Leverage Points: Some Criteria for Action

- **Demographic shifts**—
  Add/retain population with income and wealth
  - Make state attractive to in-migrants
  - Incentivize experienced workers to remain in the workplace

- **Knowledge-intensity**—
  Improve economic productivity
  - Provide access to education for adults and young people
  - Up-skill existing workforce

- **Shortened product & industry cycles**—
  Increase innovation activity
  - Enhance firms’ access to new product ideas/technologies
  - Promote private investment in new products and technologies
  - Ease technology’s impact on workers
Economic Leverage Points:
Some Criteria for Action (cont.)

- **Fragmentation**—
  Establish competitive advantage in the state’s economic specializations
  - Help new/existing firms to compete for global market niches
  - Increase access to international customers
  - Promote more intelligence about unique international opportunities
  - Provide world-class infrastructure – highways, ports, telecom, etc. to promote trade

- **Integration**—
  Recognize that marketplace complexity demands collaboration
  - Encourage inter-firm and inter-industry cooperation
  - Promote economic interaction among:
    - Govt./industry/academia,
    - Industries and industry clusters,
    - Regions (within the state and among states)
...But How?

The Fiscal Realities for States
Resources Are Increasingly Limited

State-allocated funding for Economic Development Programs, 2011–2012

*Includes Governors' Proposed Budgets for States Without Approved Budgets as of August 5, 2011

Note: Data do not include revenues foregone from tax credits or deferrals
Change in Economic Development Investment from FY11 to FY12

- Business Assistance: -$427
- Tourism/Film: -$145
- Business Finance: -$178
- Workforce Preparation & Development: -$384
- Community Assistance: -$427
## A Few Principles for Economic Development Investing

<table>
<thead>
<tr>
<th>Address Market Failures</th>
<th>Balance low tax rates with targeted breaks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Provide information (about investment or market opportunities)</td>
<td>- Promote preferred behaviors (e.g., investing in new markets or products)</td>
</tr>
<tr>
<td></td>
<td>- Reimburse past actions rather providing benefits for future promises</td>
</tr>
<tr>
<td>- Address chronic private under-investment that result in public benefits (e.g., training or research)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Ensure transparency in offering incentives</td>
</tr>
<tr>
<td>- Enhance market access (esp. for smaller employers with limited capacity)</td>
<td>- Develop a “budget” for tax expenditures as well as program investments</td>
</tr>
</tbody>
</table>
Key Elements of an Economic Development Strategy

1. Invest in better evaluation (seriously)
2. Focus available tools to help groups of companies rather than individual firms
3. Provide industries (i.e., companies) with data, information, and analysis that will help them succeed
4. Offer job training focused on sustaining the competitive edge of important industries (and recognizing the unique training challenges facing smaller employers)
5. Help economic developers collaborate
6. Target investment on diversification – new products, new ideas, new industries
7. Invest for the long-haul in R&D that leverages private investment or solves critical state policy problems
Thank You!

For more information:

Ken Poole
kpoole@c2er.org
703–522–4980, ext. 1016
Background Slides

2011 State Economic Development Highlights
Reorganizing Economic Development

Public–Private Partnerships, Innovation Councils, Regional Councils

- **AZ, IA, WI** — created new state agencies led by public–private leadership teams
- **IA, IL** – new Innovation Corporation to promote entrepreneurship and technology development
- **KS** – Dissolved Kansas Technology Enterprise Corporation; created Gov’s Council of Economic Advisers to serve as E.D. board and advisers on efforts of 6 agencies
- **FL** – new Dept of Economic Opportunity -- consolidates Agency for Workforce Innovation; Gov’s Office of Tourism, Trade, and Econ Dev and part of Dept of Community Affairs
- **NV** – Advisory Council on Economic Dev. & Econ. Dev. Board to oversee new Gov’s Econ. Dev. Office (developing new state plan)
- **NY** – Merger of Empire State and NYSTAR; shifting to regionally-focused strategy
- **OH** – JobsOhio created with proposal to reorganize OH Dept of Dev in mid-Aug.
- **WI** – Wisconsin Economic Development Corporation created
- **TN, CO**—Region or county plans being rolled up into regional economic development plans, which collectively will be rolled up into a statewide economic development plan.
2011–12 Economic Dev. Themes

- **Diversifying State Economy**
  - Diversification and job creation were a major emphasis (with energy as a key source of growth) in 29 states (AK, CA, CO, CT, DE, HI, ID, IL, KS, KY, MD, MO, MS, MT, NC, ND, NH, NV, NY, OH, OK, PA, SD, TX, UT, VA, VT, WV, WY)

- **Investing in Universities for Job Creation**
  - GA, HI, KS, NE, VA focused on new state investment in universities despite budget shortfalls.

- **Creating Business–Friendly State Governance**
  - DE, KS, MI, MO, NE, NH, NY, OR, SD proposed creating councils or other one–stop shops designed to engage with the private sector and support economic growth.

- **Supporting Small Business**
  - 19 states including CO, DE, HI, IN, KY, MD, MI, MS, MO, NE, NM, ND, SC, SD, VA, UT, WA, WI, WY specifically mentioned supporting small businesses as an economic development strategy.
Revisiting Strategic Approaches

- **Tennessee** -- The Jobs4TN plan prioritizes six target clusters
- **Georgia** – GA Competitiveness Initiative created the Science and Technology Strategic Initiative Joint Study Commission
- **California** – Pillars of growth from Lt. Gov (clean economy, WF, regionalism, reorganizing agencies, etc.); CA Science and Technology Council report aims to position innovation as a priority
- **Missouri** – Released five year plan
- **Maryland** – Five-year strategic plan released
- **Nebraska** – Implemented legislative package associated with new NE strategy
- **Colorado** – completed CO Blueprint—regional emphasis with 6 focus areas (e.g., WF, capital, regulation, tech, and retention, recruitment)
- **Iowa** -- The Iowa Innovation Council released a strategic plan focused on entrepreneurship and targeted industries to grow the state's innovation economy
- **Mississippi**– Business leaders and economic dev groups preparing MS Blueprint 2011 for new governor
- **Oklahoma** – Completing study of incentive policies and programs
State Budget Initiatives—Examples

- **California—Small Business Expansion**
  - Funded at $10.1M in FY11; used Federal Trust Fund to increase to $87.8M for Small Business Loan Guarantee in FY12

- **New York—Reorganized Empire State Development**
  - ESD “acquired” NYSTAR, proposed decrease of $34M in FY12

- **Pennsylvania**
  - PA First deal closing fund—combines programs and drops funding from $41M to $25M for FY12
  - NEW – Discovered in PA, Developed in PA—new $10M investment in FY12

- **Texas**
  - Investments in Texas Enterprise Fund increase from $67M in FY10–11 to $151M in FY12–13
  - Decrease of $65M to $22M in Economic Development and Tourism program

- **Iowa—Creation of Iowa Partnership for Economic Prosperity**
  - Grow Iowa Values Fund – cut by $13M in FY12
  - Strategic Investment Fund – cut by $4.2M in FY12

- **Hawaii—Hawaii High Tech Development Corporation**
  - Increase of $5.2M to $9.6M in FY12 to invest in high tech entrepreneurship