

ENTERPRISING STATES 2011

RECOVERY AND RENEWAL FOR THE 21ST CENTURY

About the Report

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About the U.S. Chamber of Commerce

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

About the National Chamber Foundation

The National Chamber Foundation (NCF), a nonprofit affiliate of the U.S. Chamber of Commerce, is dedicated to identifying and fostering public debate on emerging critical issues. We provide business and government leaders with insight and resources to address tomorrow's challenges.

About American Free Enterprise. Dream Big.

The Campaign for Free Enterprise is the U.S. Chamber of Commerce's comprehensive, multiyear campaign to support free enterprise and entrepreneurship through national advertising, grassroots advocacy, citizen, community, and youth engagement, and research and ideas leadership.

The opinions and conclusions expressed or implied in the report are those of the research agency. They are not necessarily those of the National Chamber Foundation and the U.S. Chamber of Commerce.

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MEASURING THE STATES: A LIST OF THE TOP PERFORMERS

A primary goal of any state economic development program is not only to increase the number of jobs in the state, but to improve the quality of jobs and the overall prosperity of the state's residents. States and regions must balance increases in productivity driven by innovation and technology with the need to maintain overall employment for citizens.

This study combines metrics for each economic development policy area to measure performance in each policy topic area. States were ranked in each metric and top states were determined by a composite ranking of all metrics in overall performance and in each policy area. For a full description of all metrics and results for each state, see the Rating the States section on page 27.

To identify the overall best performers, we combined:

- Ten-year and two-year job growth.
- Gross State Product measures: real GSP growth since 2000, GSP per job in 2009 (measuring productivity of industries), and growth in GSP per job 2000-2009 (measuring productivity increases).
- Income: per capita personal income growth 2000-2010 and median four person family income adjusted for cost of living in 2009.

Top Growth Performers

1. **Alaska**—Alaska places in the top 10 in six of seven economic performance rankings, trailing only in adjusted family income. Its rapid gross state product increase propelled it to the top spot in this year's rankings. The state has seen job growth in the past decade in every industry super-sector, and is home to high-value energy and natural resources industries whose growth has fueled large gains in gross state product and productivity. Since 2002, Alaska has added more than 6,600 jobs in oil and gas extraction, metal ore mining, and related support activities, as well as another 3,800 in the seafood products industry and 1,700 in new management, science, and technical consulting.
2. **North Dakota**—North Dakota is a top five state in short- and long-term job growth, GSP growth, productivity growth, and per capita personal income growth. Alaska's rapid ascension nudged North Dakota from the No. 1 spot. The energy boom has created 15,000 jobs in the state in the last decade and the state has added another 9,400 in business and

financial services. North Dakota avoided the housing market collapse, and its construction employment is up 29 percent since 2002. Its manufacturing sector has not seen the decline occurring in other states.

3. **Wyoming**—Wyoming moves up two spots this year to third. The state places first in four of our seven performance measures: long term job growth, GSP growth, productivity growth, and per capita personal income growth. But the state's job losses in the last two years (more than just two other states) kept it from the top two spots. Employment in the state's energy cluster has grown by 47 percent since 2001, adding nearly 19,000 jobs. The business and financial services cluster saw similar growth, adding 9,800 jobs for 46 percent growth.
4. **South Dakota**—South Dakota falls one spot to fourth in 2011, placing in the top 10 in job growth measures, GSP and productivity growth, and per capita personal income growth. South Dakota's manufacturing industry (especially machinery manufacturing) has remained more stable than most states, while the construction industry added nearly 2,700 jobs since 2001. The state added nearly 5,300 professional and technical services jobs over the same period, led by computer systems design, programming, engineering services, and various other scientific and technical consulting services.
5. **Maryland**—Maryland is a center for high-end professional and technical services and 60,000 new jobs in that sector make it a strong all-around performer. It places fifth this year, down one spot from 2010. The state places in the top 15 in every measure, and fifth in median family income adjusted for cost of living. Highly competitive clusters in Maryland include information technology, defense and security, business and finance, and advanced materials.
6. **Virginia**—Virginia is strong in most performance measures, highlighted by tenth place in both productivity and productivity growth. The influence of the nation's capital is reflected in strong growth since 2002 in business and finance (158,000 new jobs), defense and security (60,000), biomedical and biotechnical (58,000), and information technology and telecommunications (25,000) clusters.
7. **Oklahoma**—Oklahoma moves into the top ten this year after placing 14th in 2010, most notably due to an increase in gross state product. The state placed fourth

in GSP growth and fourth in productivity growth. It also enjoyed a sixth place ranking in per capita personal income. Like many states in this year's top ten, Oklahoma's energy cluster saw huge growth in its energy cluster, which added 86,000 jobs for 60 percent growth since 2002. The state also benefits from a competitive advantage in other productive economy clusters, such as machinery manufacturing, forest and wood products, advanced materials, and chemical products.

8. **Texas**—Texas is the best performing large state in terms of job growth, ranking fourth in both long term and short term employment growth, and also shows solid overall economic expansion (13th in GSP growth and 14th in GSP per job). Since 2002 the state's business and finance, energy, and biomedical/biotechnical clusters have each expanded more than 30 percent, adding more than 960,000 jobs to the Texas economy. Of the major industry sectors, only manufacturing and information have lost jobs since 2002 — yet manufacturing still outperformed the national manufacturing economy by a significant margin.
9. **Nebraska** — Nebraska keeps its position at number nine in economic performance this year. Nebraska places in the top 25 in six of seven performance metrics, and is seventh in short term job growth. The state has a healthy construction sector along with strong growth in transportation and warehousing (4,400 jobs since 2002); professional, scientific and technical services (11,500); and management of companies and enterprises (4,200). The state's most nationally competitive industry clusters include transportation and logistics, advanced materials, energy, printing and publishing, and chemical products.
10. **Iowa** — Iowa's sixth-place ranking in productivity growth helped place it 10th this year, down two spots from last year. The state shows balance across the board, with five more top 25 performance rankings and no ranking lower than 33rd. Iowa remains a strong, productive economy. Its agribusiness, food processing and technology cluster remain the largest cluster in the state, encompassing 190,000 jobs. While employment in this cluster remains essentially flat since 2002, it is significantly better than in the rest of the nation, making agribusiness one of the state's most competitive industries. Other important clusters in the state include machinery manufacturing, which has gained 2,000 jobs since 2002, advanced materials, computer and electronics manufacturing, defense and

security, and transportation and logistics.

Entrepreneurship and Innovation

Gone are the days of economic development organizations spending the majority of their time luring factories from other states. Businesses built from within a region are more likely to stay for the long term and to be integrated into the local economy, supporting more jobs. Recent research suggests that not only do small companies create the majority of jobs in the nation, younger small companies do. For this reason, states are rapidly increasing their investments in entrepreneurship and small business programs.

Most states are creating small business incubators and entrepreneurship programs, often integrated with university entrepreneurship curricula and designed to serve companies commercializing academic research from nearby universities. Incubators are now being linked into statewide networks to pool resources. Many have created facilities with specialized infrastructure, such as lab space available on an à la carte basis for start-up science and technology ventures. Others are instituting economic gardening programs to assist small businesses with market research or product evaluation.

States are working to increase the impact of federal and academic research on their local economies by coordinating connections between business and academic researchers, and streamlining the process of licensing university-produced technologies. Economic developers are identifying industry clusters where their state holds a competitive advantage and are adjusting assistance programs, infrastructure, and funding for public-private partnerships to focus on these clusters.

Measurements of innovation and entrepreneurship include:

- Growth and concentration of science, technology, engineering and mathematics (STEM) jobs.
- Academic research and development intensity in the state.
- The share of all businesses involved in high technology.
- A measure of small business finance activity.
- Two measures of entrepreneurial activity: net business birth rate and the Kauffman Foundation index of entrepreneurial activity.

RESTORING GROWTH AND UPWARD MOBILITY: A CALL TO THE STATES

Over a year and a half into the recovery, the condition of the American economy is far from satisfactory. For the vast majority of Americans, conditions have improved only marginally since the onset of the Great Recession. Unemployment remains high, job creation meager, and American workforce participation has dropped to near record depths — the lowest rate in a quarter of a century.¹

Not surprisingly, this spring’s Washington Post-ABC poll revealed that far more Americans feel the economy is getting worse than getting better.² There seems to be what the *New York Times* described as “a darkening mood” among Americans about the future. Confidence in the Federal Reserve’s policies on the money supply has eroded among economists, as few benefits have accrued to smaller businesses and middle-class households.³ Times are particularly tough for entry level workers, including those with educations, and have been worsening since at least the mid-2000s.⁴

This stress is felt keenly by state and local officials, even in areas that aren’t suffering from the highest rates of indebtedness or pension liabilities. Without pension

reform, the state of Utah, for example, would have seen its contributions to government workers’ pensions rise by about \$420 million a year, an amount equivalent to roughly 10 percent of Utah’s spending from its general and education funds.⁵ The states often must deal with declining revenues at a time when the demand for services caused by the recession has increased. And, unlike the federal government, states can neither print their own money nor buy their own bonds.

In the past, states could look to Washington for assistance. Now, whatever the intentions or real achievements of the stimulus package, future increases in federal spending seem likely to be meager at best. The 2010 election effectively ended the nation’s experiment with massive fiscal stimulus from Washington. Indeed, leaders of both parties, President Obama, and perhaps most importantly the capital markets, now acknowledge that deficit reduction will be a priority in the coming years.

This presents a new, and perhaps unprecedented, challenge for the states. With Washington effectively forced to the sidelines, states will now have to address fundamental

Anticipated State Budget Gap, Fiscal Year 2012

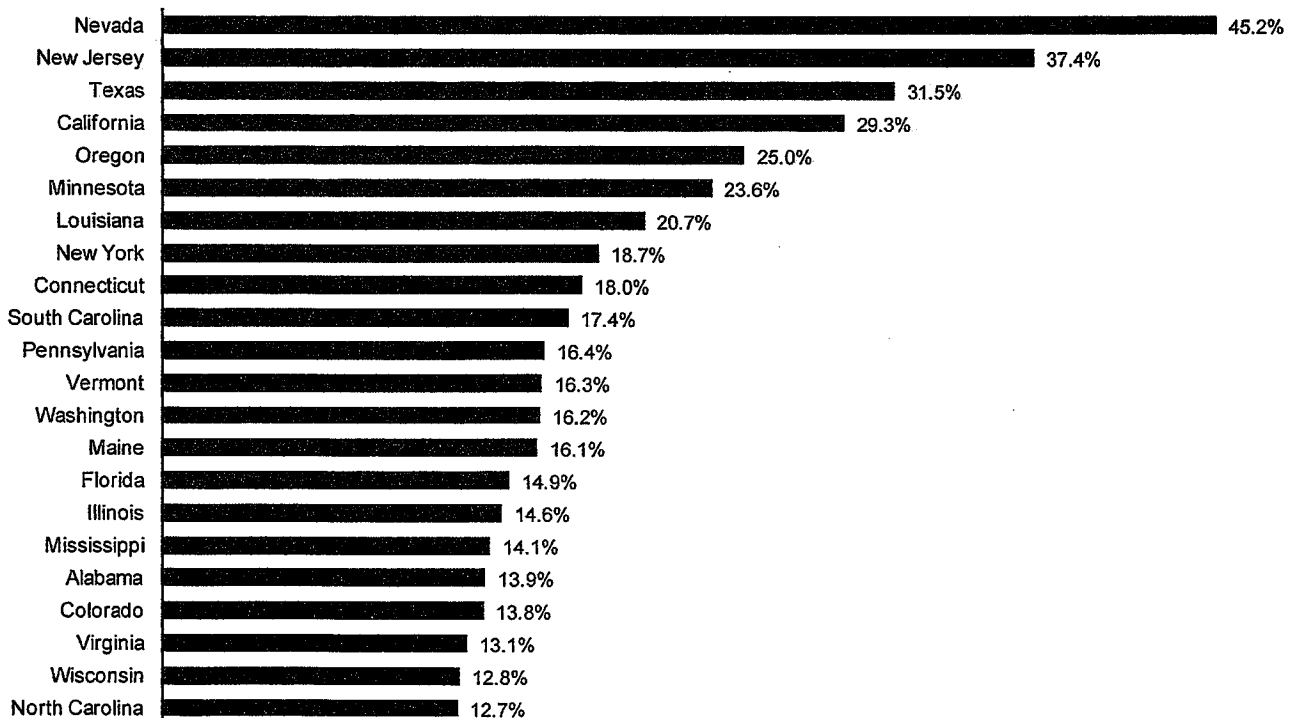


Figure 1. Source: Center for Budget and Policy Priorities. Number indicates projected revenue shortfalls as a percent of a state's current cost of services.

economic issues relating to growth and employment on their own. Most will have to do so without significantly increasing their own spending.

For many states, the short-term prognosis is dire. Altogether, 44 states and the District of Columbia are projecting budget shortfalls for 2012 amounting to \$112 billion. The upcoming fiscal year, according to the Center on Budget and Policy Priorities, will be “one of the states’ most difficult budget years on record. Retiree benefits for state employees add yet another strain, with the states facing a \$1.26 trillion shortfall.”⁶

As a result, states and localities increasingly find themselves forced to impose tough, even draconian cuts in spending. This affects not only newly minted conservative Republicans, but new liberal Democratic governors such as California’s Jerry Brown and New York’s Andrew Cuomo. The only real debate now is how much to rely on taxes and how much on cuts in spending to address the fiscal issues ahead. One casualty: infrastructure spending, which was boosted by the stimulus, now seems to be winding down as well.⁷

This report will try to address the nature of this dilemma and suggest ways to best deal with it. Although we agree with the notion of fiscal probity, ultimately, states can deal with the fundamental problems only by spurring growth and upward mobility. This will not only create new revenues, but also dampen the demand for social services.

A state can neither cut nor tax itself into prosperity. Weak public infrastructure combined with low taxes has failed through history to create strong state economies, as was long the case in the Southeast. But at the same time many large states—California, New York, Illinois—have raised taxes and spending

and have suffered a strong out-migration of middle class citizens and jobs for decades.

Now, faced with enormous deficits, there is a temptation to reduce those very “crown jewels,” such as the California public university system, into what University of California President Mark Yudof describes as “tatters.” In trying to balance their budgets, states run the risk of undermining their own long-term recoveries.⁸

The great danger that looms here, in our estimation, is not bankruptcy. Rather, it is long-term stagnation, in which growing demands for social services, combined with weak revenues, foster pressure for more taxes, reduced services or a deadly combination of both. This represents something of an existential problem in a country where the prospect for a better future has long been a hallmark.

The founders of the republic understood the critical importance of maintaining this aspiration, and European observers were struck by the remarkable social mobility in America’s cities. In the 19th century, American factory workers and their offspring had a far better chance of

Fastest Growing States for Middle-skill Jobs, 2001-2010

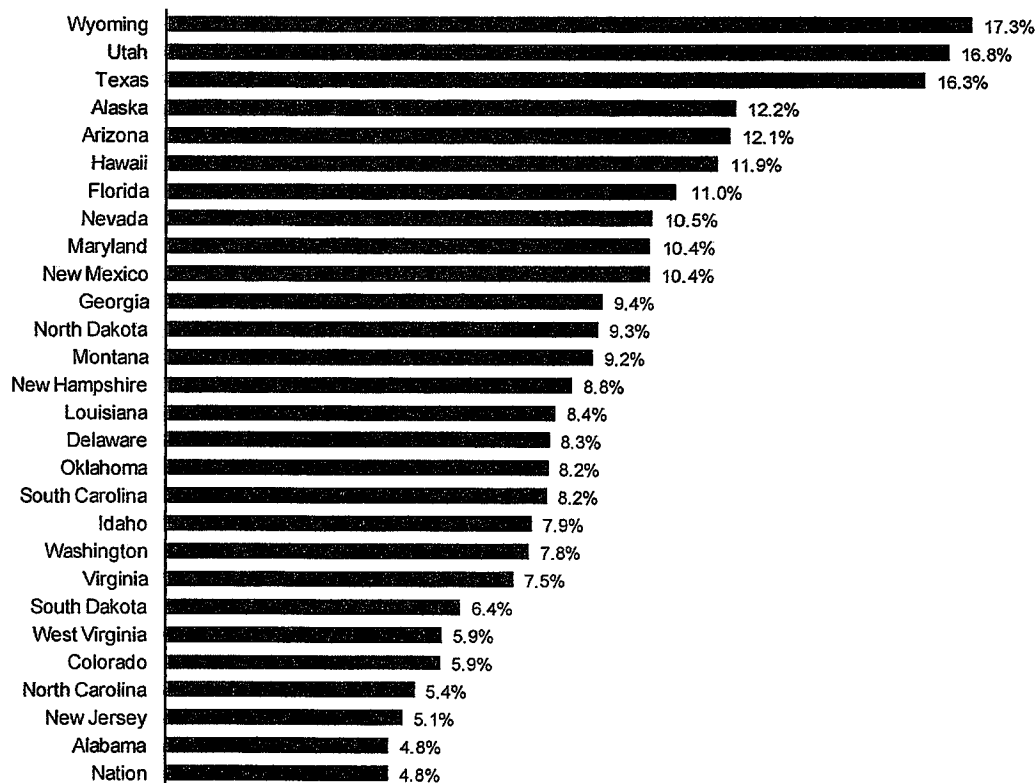


Figure 2. Growth in jobs for “middle” education levels, including long term on-the-job training, up to associate’s degree or other post-secondary credential for states above the national average growth rate. Source: EMSI Complete Employment 1st Quarter, 2011.

entering the middle or upper classes than their European counterparts.⁹ In politics and in daily life, expansion of opportunity was seen as essential to the American experiment. Writing in 1837, one Whig lawyer in Pittsburgh suggested, “If you deny the poor man the means to better his condition . . . you have destroyed republican principles in their very germ.”¹⁰

Today, this traditional faith is being sorely tested in much of the country. Although both stock prices and corporate profits have rebounded, little has been done that has stimulated employment. Large companies may be sitting on large caches of cash, in part due to low interest rates and a buoyant stock market, but capital remains scarce for the small businesses that create most of America’s new jobs. Indeed, entrepreneurial growth, as the Kauffman Foundation recently found, has now slowed down among most segments of the population.

Of course, there have been remarkable stories of wealth creation and success despite these hard times. But even in Silicon Valley—home to such high-fliers as Google, Apple and Facebook—the overall impact on jobs has been minimal. Of the nation’s 51 largest metropolitan

regions, San Jose, the Valley’s heartland, has suffered the largest net loss of jobs over the past decade of any major metropolitan region outside Detroit. The San Francisco area suffered job losses only slightly lower, on a percentage basis, than hard-hit Cleveland.¹¹ Due in part to financial controls, investment in promising new companies has become ever more undemocratic, with the bulk of new money pouring into firms like Facebook coming not from public markets, but from a small, well-heeled cadre of private investors. Venture-backed technology companies, notes Intel co-founder Andy Grove, now find it expensive to “scale” their operations and add employees in California or even the United States. As a result, he suggests, companies tend to indulge in “an undervaluing of manufacturing” that erodes employment. This contrasts with, for example, China, where job creation is considered “the number one objective of state economic policy.”¹²

Much the same can be said of New York, where the paper economy has been boosted by Fed policy but the creation of middle-income jobs continues to lag. New York City’s current financial boom—Wall Street pay hit a new record in 2011¹³—simply reinforces a level of income inequality that is the highest in the nation. Unemployment in the

STEM Job Growth, Fastest States, 2001-2010

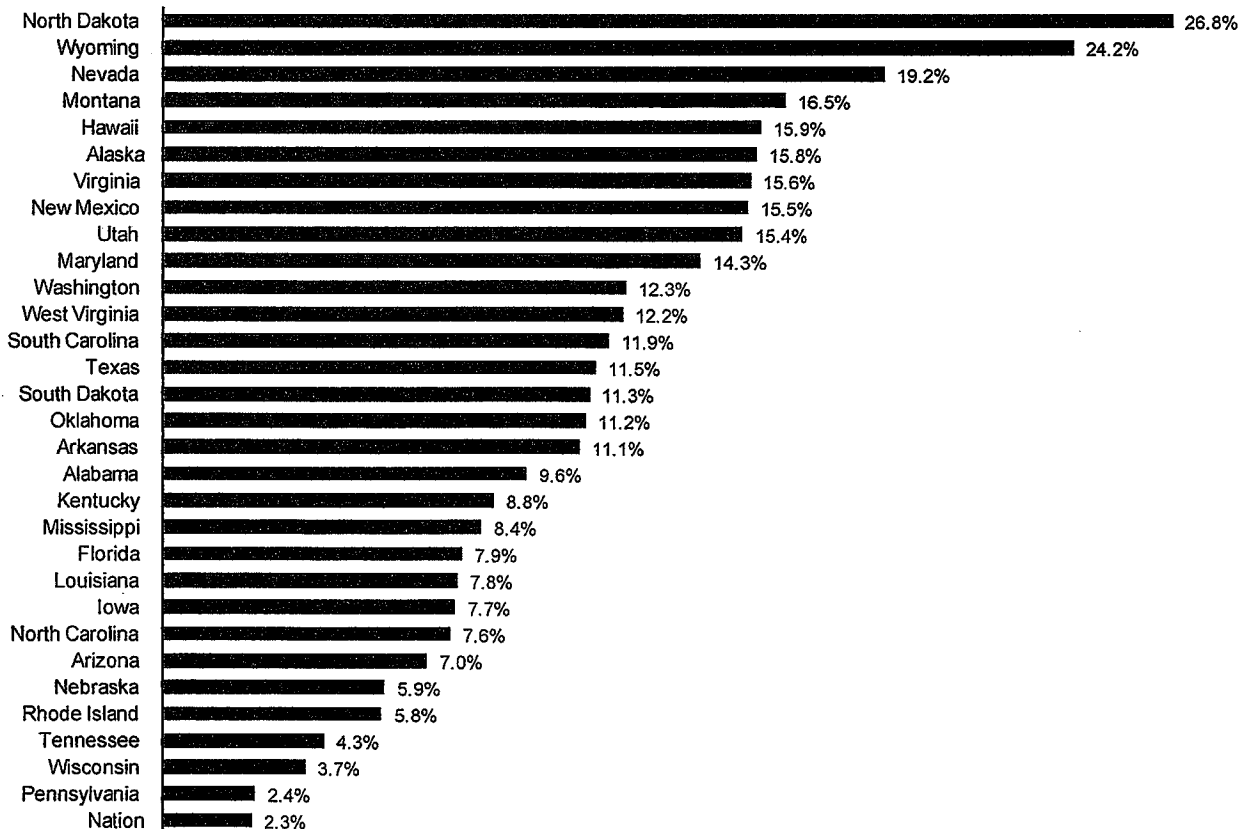


Figure 3. Job growth in Science, Technology, Engineering and Mathematics (STEM) jobs for states above the national growth rate. Includes two-year degree technician level jobs and higher. Source: EMSI Complete Employment, 1st Quarter 2011.

STEM Job Concentration, Highest States, 2010

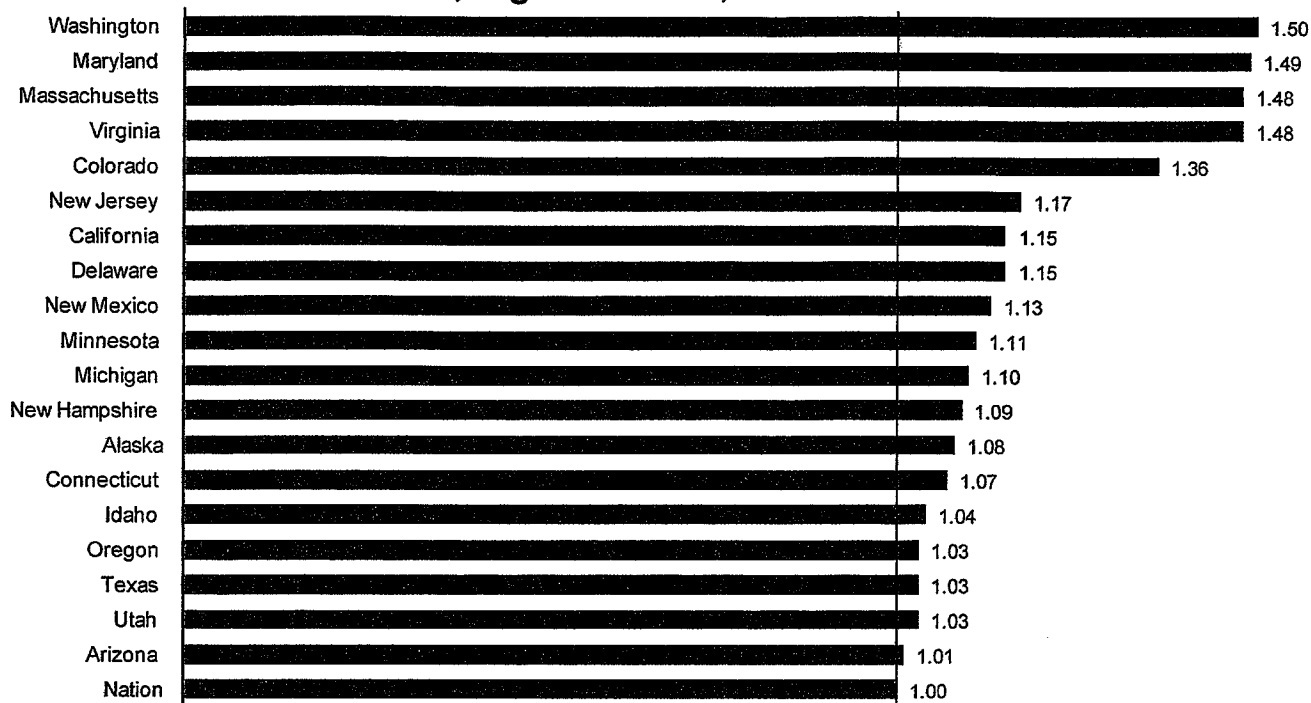


Figure 4. Concentration of Science, Technology, Engineering and Mathematics (STEM) jobs for states above the national level. Includes two-year degree technician level jobs and higher. Measure charted is location quotient, the state employment concentration divided by the national employment concentration. Source: EMSI Complete Employment, 1st Quarter 2011.

toniest Manhattan precincts reaches barely five percent, while it's 20 percent in working-class Brooklyn. Not surprisingly, the city's distribution of wealth is now twice as unequal as in the rest of the nation. It may seem a model recovery on Wall Street, but it is less so on the streets of the nation's premier city.¹⁴

In contrast, the states that have fared best in creating middle-class jobs have been either those close to the expanding federal government, another major beneficiary of the stimulus, or those that have attended to more basic industries, such as energy production, agriculture and manufacturing. These industries have propelled widespread expansions in the Great Plains, parts of the Intermountain West, Alaska and Texas.

More interestingly, many of these states have also experienced a surge in STEM—science, technology, engineering and mathematics—related employment. In some states, this has come as a result of continuing state investment in education and training; in most cases, these states have simply tended to create a business-friendly atmosphere for companies of all sorts. They have also generally kept housing costs low, something critical to young families.

Perhaps the best way to look at our evolving economy is not so much from the point of view of companies or industries, but of individuals. States often focus on their largest employers, but those companies have been cutting jobs for the past decade. Since 2000, large corporations—which employ roughly one-fifth of American workers—have stopped hiring, as they did in the previous decade, and actually reduced their payrolls by nearly three million while adding 2.4 million jobs abroad.¹⁵

Andrei Cherny, an Arizona Democrat writing in the journal *Democracy*, suggests that “both progressives and conservatives have offered little in the way of new answers as their long-held orthodoxies run headlong into new realities.” Cherny admits that the stimulus and the Fed’s strategy of loose money—what he calls “government by hot check”—failed to address the needs of the nation’s large class of small entrepreneurs.¹⁶

Left out of the equation are the small businesses that, according to the Bureau of Labor Statistics, employ half of all workers and create 65 percent of all new jobs. Most of these firms are small, under-capitalized, and run by single proprietors or families.

In this environment, notes economist Ying Lowery,

CONNECTICUT

With a strong foundation of high-tech industries such as aerospace, bioscience, medical technology and defense, Connecticut is well positioned to compete in the 21st century economy. The state has been heralded as a research and development hub, and a leader in emerging fuel cell technologies, alternative energy and nanotechnology. Connecticut is home to many of the leading insurance companies, earning it the nickname "Insurance Capital of the World," and the state's financial services sector is often recognized for its workforce talent and innovation.

State Priorities—Jobs, Making Government More Efficient

Governor Dannel Malloy has proposed cutting state spending, while at the same time working to create new jobs and retain and grow existing businesses to increase revenue coming into the state. Governor Malloy's administration is making key cuts in spending to address budget concerns and to get its fiscal house in order, making state government less costly and more efficient. There is a concerted effort to restructure state government to provide services to Connecticut residents at a substantially lower cost to taxpayers.

Alongside these efforts to rein in spending, the state has proposed increasing income tax rates for many filers, expanding the sales tax base to include more services, increasing the sales tax rate, eliminating select property tax credits, and instituting a rule that would make it harder for corporations to avoid income taxes.

Connecticut is projecting \$2 billion in personnel-related savings over the biennium to be negotiated with the state's public employee unions. Savings will be achieved by freezing state employee wages, moving state employees to a health plan similar to that provided to federal workers, extending furloughs of three days a year until the end of the biennium, and raising the retirement age.

Governor Malloy has also identified an additional \$1.5 billion in new revenue, 81 percent of which is to be paid for by individuals, and 19 percent of which is to be paid for by businesses. For filers who qualify for the federal Earned Income Tax Credit (EITC), a new state EITC at 30 percent of the federal level will help reduce the overall tax burden incurred through other state taxes.

Connecticut's Place in the Rankings

2nd	High Speed Broadband Availability
3rd	Productivity Growth
5th	Educational Attainment
5th	Entrepreneurial Activity
10th	High School Advanced Placement Intensity
12th	Median Family Income
14th	STEM Job Concentration
16th	Export Intensity Growth
16th	High-tech Share of All Businesses
17th	College Affordability
17th	Growth in Share of National Exports
19th	Export Intensity
20th	Academic R&D Intensity
21st	Job Placement Efficiency
23rd	Higher-ed Degree Output
24th	High Speed Broadband Intensity
25th	Export Growth

To help repair and refurbish the state's aging transportation infrastructure, Governor Malloy is proposing over \$1 billion in capital investments, as well as an additional \$130 million for affordable housing and \$15 million for tourism marketing to help attract visitors to the state.

The governor is proposing an additional \$758 million in spending reductions, including the elimination of the

government unit that regulates charitable gaming and the elimination of outside management contracts for CT Transit. In addition, risk reduction credits for inmates will help save the state \$3.8 million.

Jump-Starting the Economy

To help attract business relocations and new business start-ups, the state has implemented the **First Five Program**. Governor Malloy has proposed significant expansions of the Reinvestment Tax Credit, the Manufacturing Assistance Act and the Job Creation Tax Credit; removed caps on credits for companies meeting job creation targets and allowed the credit programs to be combined in order to increase the benefits to businesses. These programs are structured to reward the "first five" new or existing companies adding 200 new full-time jobs within Connecticut in the next two years. Businesses adding 200 jobs over five years are required to make a \$25 million investment in the state to access the incentives.

To make the case for Connecticut to expanding companies, state leaders emphasize that employee productivity is at an all-time high, with output per worker more than 33 percent above the national average. In addition, a highly trained and educated workforce is a major selling point for business attraction and retention efforts. Thirty-six percent of the state's population aged 25 and older has a college degree. Connecticut is ranked 10th in our *Enterprising States* workforce rankings and third in employee productivity. The state boasts over 45 colleges and universities, ranging from Ivy League research institutions to community colleges offering two-year degrees and job training programs. Connecticut is a top 25 state for college affordability and for the number of degrees produced.

The state also has a wide array of incentives aimed at helping businesses to strengthen their competitive edge. Whether the area of need is equity investment, fixed-asset purchases of land, working capital, or buildings, machinery and equipment, financing programs are available to support both large and small businesses. State programs include direct funding from the Department of Economic and Community Development (DECD), Connecticut Development Authority, and **Connecticut Innovations**, a program offering assistance and funding to high-tech entrepreneurs. In addition, the state maintains a network of local and regional revolving loan funds to assist businesses with their financing needs.

Industry Cluster Initiative

Connecticut's cluster-based economic development initiative is built around the idea that nurturing the state's

key industries improves the competitiveness of businesses within those industries, in turn boosting the state's economy as a whole.

The state is focusing on several key clusters, including biosciences, aerospace and information technology. The bioscience cluster is overseen by **Connecticut United for Research Excellence (CURE)**, which was initially launched with \$300,000 in state seed money and \$700,000 from industry contributions. The cluster has since received more than \$370,000 in additional funds from DECD and \$61.5 million in public funds. Currently, more than 110 Connecticut organizations are members of CURE.

The aerospace cluster operates under the direction of **Aerospace Components Manufacturers (ACM)**. The state's investment of \$769,000 was leveraged by \$2.3 million in industry funds and \$140,000 in other public funds. ACM is made up of more than 40 manufacturers from the aerospace industry and is at work in areas such as progressive and lean manufacturing, workforce development, consolidated purchasing, multi-company teaming, and new business identification in the worldwide aerospace market.

The software or information technology cluster, also known as **eBizCT**, is an affiliate of the **Connecticut Technology Council (CTC)**. This cluster has worked to identify and address obstacles in areas such as workforce development and the state's regulatory environment. To date, the group has received more than \$1 million in state and industry dollars. The CTC continues to develop a strategic plan to strengthen the IT industry, to promote growth, visibility and competitiveness, and to support e-business strategies for all Connecticut companies.

Clusters in Connecticut

Largest Cluster: Business & Financial Services, 345,465 jobs

Largest Growth Cluster: Business & Financial Services, 47,348 new jobs since 2002

Most Competitive Cluster: Transportation Equipment Manufacturing, 9,270 new or retained jobs due to state competitive advantage

Most Concentrated Cluster: Transportation Equipment Manufacturing, 2.53 times the national concentration level

