

## RESURGENT MIDWEST, INSURGENT GROWTH

*A project of the  
Midwestern Legislative Conference of The Council of State Governments'  
Economic Development Committee  
and  
GrowthEconomics Inc.*

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### INTRODUCTION

**In the Midwestern region, there is an urgent need to develop and customize “quality economic intelligence” for each of the region’s states and provinces.**

On Monday March 3, 2008, in his inimical Midwestern style, Warren Buffet, the multi-billionaire investor, “Oracle of Omaha,” made the following observation based on current market activity in his 70 companies: “By any commonsense definition we are in a recession.” On the following Friday, March 7, his case became all the more convincing as the Bureau of Labor Statistics announced a U.S. February jobs loss of 63,000 – worse than expected.

Far be it for the Midwestern Office of The Council of State Governments to weigh in on macroeconomic forecasts, but it does have the job of being on the watch for both major opportunities and threats affecting its members (state policymakers in 11 U.S. states and 3 Canadian provinces). This project is about supporting legislators with sound intelligence to assist them in changing economic circumstances, improving the competitive position of their respective states, and formulating creative options they might consider as they develop policy.

The CSG Midwest takes the worsening U.S. economic conditions very seriously because recessions usually hit the Midwestern region harder than the nation as a whole. Some economists see the current economic downturn as mild while others fear major extended and protracted economic distress as a result of troubled financial and real estate sectors. Whichever scenario bears out, CSG Midwest can and should support the region’s state government leaders and legislators to both cope in the near term and, most importantly, to prepare for a more invigorated economic future long term.

For the past several decades, growth in the Midwest has not kept pace with the rest of the nation. Yet, opportunities created by an open global economy in advanced industrial goods, advanced materials and energy, and agriculture and biosciences are congruent with the strengths of the Midwestern region. Coming out of this downturn/recession, the course taken by Midwestern states to unshackle their sluggish economies quickly and their ability to capitalize on a rapidly changing global economic order could determine their growth paths for decades.

Through this bold initiative – *Resurgent Midwest, Insurgent Growth* – CSG Midwest seeks to provide up-to-date information and analysis on changing state-by-state competitiveness and policy options for long term action. Specifically, participating states and provinces in the Midwestern region are: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin, Manitoba, Ontario and Saskatchewan.

### **This project has four goals:**

- (1) Provide easy-to-digest summaries /interpretations of what various benchmarking reports are saying about the respective states/provinces.
- (2) Provide in-depth explorations of how state/provincial entrepreneurial economies are working and identify where each state/province has strengths and vulnerabilities.
- (3) Provide Midwestern legislators with balanced competitive assessments of economic performance using the most up-to date research findings about what makes for strong economic growth in today's economy.
- (4) Most importantly, foster grassroots economic growth – bottom up solutions that can lead to an economic turnaround for the Midwestern region. CSG observes that the Midwest does best when its residents, businesses, farmers and non-profits “grow from within” – when ingenuity, hard work and investment are free to self-express.

This initiative begins as a 2-year effort sequenced to fit with major planned events of The Council of State Governments. Given the Midwest's mediocre track record at economic growth this decade, the imminent impact of a national economic slowdown, and exploding global trade opportunities, the next two years are believed to be critical for state decision-makers as they seek to obtain the very best intelligence and smart solutions. If successful, CSG Midwest may look to continue the project in subsequent years.

## **GENERAL APPROACH**

### **Two Overarching Themes:**

The two phrases in the title capture both the overarching goal and strategic theme of this project:

- **'Resurgent Midwest'** speaks to the goal of helping Midwestern states get back to a position of regional U.S economic strength, akin to the post-war period when the region outperformed in both manufacturing and agriculture and held its own in advanced services .Since the first energy crisis of the early 70's only two Midwestern U.S states have gained in per capita income relative to the U.S. (Minnesota and South Dakota). It is time to do better! While the economic environment has changed, the Midwest retains considerable economic assets from which to re-emerge as a regional leader again.

- **'Insurgent Growth'** refers to **how** the Midwestern states will re-emerge -- growth from within. Yes, external investment to the region remains important and, yes, federal aid is important, as argued in the Brookings paper, *Vital Center*. But a study by the Federal Reserve Bank of Chicago in 1997 of how the Midwest recovered from the serve back-to-back recessions of 1980 and 1982 provides valuable insight as to how the Midwest transforms under stress. The 80's-90's Midwest turnaround was attributable largely to increased innovation and improved productivity of its mainline industries, particularly agriculture and manufacturing (i.e. 'doing things better, faster, cheaper and now greener'). This project focuses on helping states improve productivity, innovation and entrepreneurship as key drivers of success by measuring competitive position, economic progress and sharing creative solutions.

## PRODUCT DESCRIPTIONS

Each Midwestern state is unique so this project produces products customized for each. At a later stage products will be prepared for the three Canadian provinces when data is assembled. In the case of the U.S. states data already collected and compiled by GrowthEconomics ensures that the project can deliver on a pretty tight timeline.

### Product 1: Annual Economic Check-Ups

**Problem:** Throughout the year state legislators and decision makers are dumped upon, often unexpectedly, with reports/benchmarks prepared by outside entities that show how their state stacks up against others. They are forced to deal with each report as it is released, with insufficient time to step back to challenge its assumptions, to look for the ‘big picture’ that several reports combined might be pointing to, or to identify needs/ issues the reports don’t address well. Product 1 attempts to address this problem.

**Solution:** Product 1, *Annual Economic Check-Up*, will be a compact 5-6 page snapshot of what the various cross-state benchmarking and “best states for business” reports, ratings and rankings are telling each state. This analysis will put all the scores/grades into one place and will seek to interpret what they all mean, as well as explain the congruence/incongruence that exists among them.

This summary report will use GrowthEconomics analyses to clarify, expand on, and interpret the findings of each key report for each state. The source reports to be analyzed include those by the Corporation for Enterprise Development’s Development Report Card of the States, the Kauffman Foundation-Information Technology and Innovation Foundation’s New Economy Index, Beacon Hill Institute’s State Competitiveness Report, the ALEC-Laffer’s State Economic Competitiveness Index, and the CNBC, Forbes and Milken Institute ‘best for business’ and ‘cost of doing business’ rankings. Each state Check-Up will conclude with key strategic considerations for the state moving forward. A mock product is provided in the Appendix.

### Product 2: State Entrepreneurial and Business Dynamism ScoreCards

**Problem:** Several state benchmark reports look at a state’s economic competitiveness through the eyes of business recruitment – attracting investment ‘from the outside.’ This remains an important function of economic development, particularly since foreign direct investment is flowing into the United States because of a favorable foreign exchange situation and surplus dollars held overseas. But successful states will be those with a balanced growth portfolio -- balanced between ‘outside in’ and ‘inside out’. While the outside in approach calls for traditional economic development tools such as financial incentives, training grants and tax breaks, the inside-out approach focuses on a sound business climate that fosters innovation, entrepreneurship, industry clusters and peer learning among businesses.

**Solution:** Product 2 is a uniquely designed Score Card that gets at the Business and Entrepreneurial Dynamism of a state, indicating where improvement would be desirable. For four years, the Small Business Foundation of Michigan has refined and published the Michigan Entrepreneurship Score Card in collaboration with GrowthEconomics ([www.sbam.org/content.php?id=914](http://www.sbam.org/content.php?id=914)).

Through a collaborative agreement CSG will have access to all this earlier work. GrowthEconomics will use the Michigan product as a building block to craft a Business and Entrepreneurial Dynamism

ScoreCard applicable to all Midwestern states, and later to the three Canadian Provinces. In essence this will provide overall grades/scores for a Business Dynamism Driver and an Entrepreneurial Dynamism Driver, with sub-drivers for Entrepreneurial Growth, Entrepreneurial Vitality, and Entrepreneurial Climate and International Business. It will be a competitiveness fact-finder/source book that provides both a snapshot and 5-year trends into business growth in each state. Business growth is an essential source of job creation.

In today's competitive environment, state leaders, more than ever, are anxious for thoughtfully prepared annual updates so they can know how conducive their respective states are for business start-ups, expansions and relocations. In short, this ScoreCard will provide state leaders with a balanced assessment of their state as both a good place for business attraction and for internal growth through entrepreneurship and growth companies. It will conclude with a checklist of issues deserving attention if states choose to upgrade their entrepreneurial economies.

### **Product 3: State by State Key Indicators to Watch**

**Problem:** What must each state do to maintain and improve its competitiveness? Across the Midwest, legislators are first anxious for the same answers: which of all the metrics they see reported are the most important to watch? Which will tell leaders that they are on track and which point to transformational activity that will lead to a stronger, healthier economy down the road? They want no more than a dozen, or so, of 'Key Indicators to Watch'. They want the data recent and at least annual.

**Solution:** The indicators prepared in Product 3 have been determined by careful statistical analyses of data on all states for over 200 metrics since the year 2000. Empirical studies by GrowthEconomics validate that they are all highly correlated with state per capita income growth. In other words, they are either predictive of income or are coincident indicators with improving income levels. As new data comes in, repeat analyses will be undertaken to ensure the list of "Key Indicators to Watch" is current.

At present, 15 Key Indicators to Watch have been identified and are listed in the Appendix. These are organized under the six categories described as 'super-drivers'. This list serves as an excellent start for any pro-growth legislative agenda. According to contemporary growth theories, they address the three most important factors accounting for growth: productivity, investment capital and human capital.

Product 3 reports for each state consists of a summary of the Key Indicators to Watch, followed by a short description on how the particular state performs in on each Indicator and a policy checklist to consider— See mock version in the Appendix.

## APPENDIX: PRODUCT MOCK-UPS

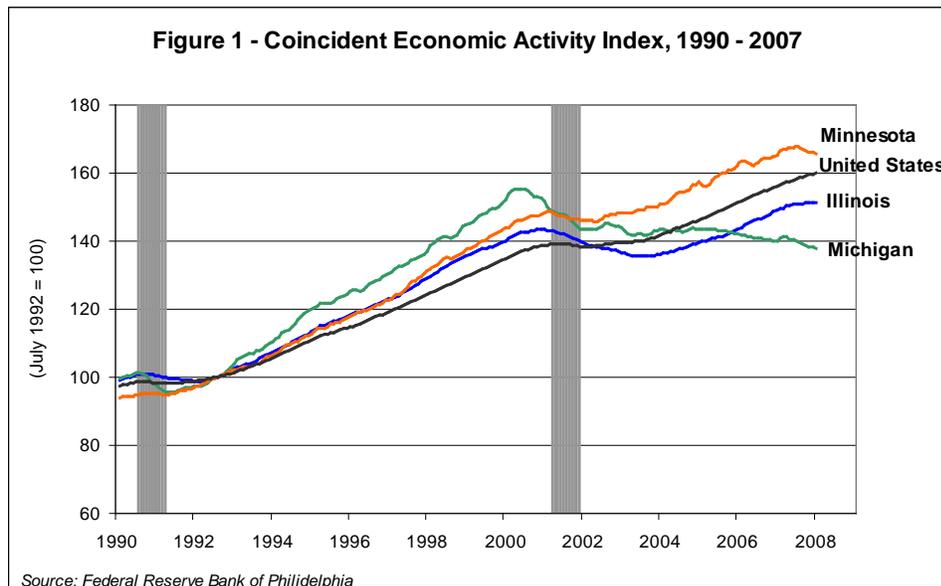
### PRODUCT 1

#### Annual Economic Check-Up: State/Province X

##### 1.1. Recent Economic Performance

Use graph of Philly Fed Coincident Index (only 2 months behind) – four lines from 2001 to December 2007  
: US, CSG Midwestern states, with east and west separate, and the particular state

Example of what the Graph looks like:



*Note: The Coincident Economic Activity Index includes four indicators: nonfarm payroll employment, the unemployment rate, average hours worked in manufacturing and wages and salaries. The trend for each state's index is set to match the trend for gross state product. Shaded areas reflect recession periods.*

Interpretation of how the state has been doing this business cycle (since 2001).

## 1.2. What various Cross-state Benchmarking Reports are Saying

Example:

Summary of 2007 National Competitiveness and 'Best States for Business' Reports: Kansas

Recent Releases on Business Attraction / Good Place to do Business	Rank/grade (rank 1 is best)
-CNBC (2007)	16
-Forbes (2007)	20
<b>Overall Economic Competitiveness/Performance</b>	
<ul style="list-style-type: none"> <li>- Kauffman Foundation / Information Technology and Innovation Foundation, New Economy Index (2007)</li> <li>- Corporation for Enterprise Development , 2007 Development Report Card of the States <ul style="list-style-type: none"> <li>▪ Economic Performance</li> <li>▪ Business Vitality</li> <li>▪ Development Capacity</li> </ul> </li> <li>- Beacon Hill Institute (2007)</li> <li>- ALEC-Laffer State Competitiveness Index (2007) <ul style="list-style-type: none"> <li>○ Economic Performance</li> <li>○ Economic Outlook</li> </ul> </li> </ul>	 34  C A B  17  36 29

Interpretation using supplemental data from GrowthEconomics files

### 1.3 What does this Mean for Public Policy and /Economic Growth Strategy Going Forward?

Brief discussion of 3-4 main strategic considerations for the state if it is to move up competitively.

## PRODUCT 2

### Entrepreneurial and Business Dynamism ScoreCard : State/Province X

This product will be an adaptation of the Michigan Entrepreneurship Scorecard prepared by the Small Business Foundation of Michigan ( [www.sbam.org/download.php?id=904&file=1](http://www.sbam.org/download.php?id=904&file=1) )

#### 2.1 The Entrepreneurial Economy and the Nexus between Entrepreneurship, Growth Companies and Economic Growth—rework of pages 111-134

#### 2.2 State Grades/Scores on Business Dynamism and Entrepreneurial Dynamism.

A rework of pages 5-19 with sub-drivers for Entrepreneurial Growth, Entrepreneurial Vitality, Entrepreneurial Climate and International Business.

The secondary drivers in the Michigan report (e.g. Education, Infrastructure) will not be included. The ScoreCard will focus exclusively on business and entrepreneurial dynamism. The number of metrics in the Michigan report will be reduced using a statistical test that selects only those metrics that correlate with state per capita income growth. To keep the report compact it will not include the actual metrics tables (pp.20-110) but interested states can contact GrowthEconomics directly.

## 2.3 Areas of Focus to Improve the Entrepreneurial Economy in State X, with Examples

### PRODUCT 3

#### Key Indicators to Watch: State/Province X

#### 3.1 How Key Indicators to Watch are Determined

#### 3.2 Summary of Key Indicators

##### Example Summary for Illinois

Super-Drivers	Key Indicators to Watch	Illinois 2006 Rank	5-year Change in Value	
			Illinois	U.S.
BUSINESS COSTS	Healthcare Premiums (2005) <i>Small Businesses:</i>	36	-16%	23%
	<i>Other.</i>	24	38%	41%
	Energy Costs (2006)	21	1.9%	23.4%
PRODUCTIVITY	Service Industry GDP per Job (2006)	8	13.4%	14.8
ECONOMIC DIVERSITY	Industrial Concentration Index (2004)	6	-11.4%	-2.8
	Fortune 500 HQ (2006)	4	-2 <i>abs. change</i>	(n/a)
	Nonprofit Organizations (2006)	31	5.6%	4.8%
INNOVATION AND TECHNOLOGY	Industry/University R&D (2005)	13	3.7%	-6.4%
	Top Ranked Graduated Programs (2006) <i>(per 100 educational institutions)</i>	9	-1.2 <i>abs. change</i>	0.3 <i>abs. change</i>
	SBIR Awards (2005)	42	16.7%	5.3
	Broadband Connections (2006)	29	343%	378%
GROWTH CAPITAL	IPO Financing (2006)	15	28.2% <i>2003-2006</i>	172.3% <i>2003-2006</i>
	Venture Capital (2006)	19	14.6%	-19.3%
TALENT	SAT (2006)	1	31.0 <i>abs. change</i>	0.2 <i>abs. change</i>
	BA Attainment (2006)	15	2.8%	4.6%
	Skilled Immigrants (2006)	9	49%	28%

### **3.3 Super-Driver Discussion: Example from Illinois “Business Costs Still Matter”**

Some “new economy” advocates assert that the costs of doing business are less important today. The argument goes that it is a quality labor force, quality of life, access to affordable broadband and the like that are important today. In actual fact, what makes today’s economic development so complex is that both competitive costs along with “new attractiveness factors” go hand in hand for higher productivity and investment. Traditional business cost factors such as tax costs, transportation costs and occupancy costs remain important, but the ones that show up as Key Indicators to Watch are healthcare costs and energy costs:

#### Health Care – Large and Small

Illinois health care premiums for businesses with 100 or more employees ranked above average in 2006 at 24 nationally, after three years of ranking among the bottom 10 states. Small businesses are particularly susceptible to premium increases and provide, therefore, additional insight into the health care cost burden to the economy. Premium differences between states will affect the competitiveness of these startups and potential growth companies and might hamper future economic growth. In private health care premiums for businesses with less than 100 employees, Illinois ranked 36 nationally, with no clear positive or negative trend over the last seven years. Illinois managed to improve its competitive position in 2002 and 2004 by not growing its premiums as fast as other states but the gain was not sustained.

#### Energy Costs

According to a National Association of Manufacturers study, energy costs in the form of natural gas was a competitive advantage in the U.S. in 2001, but had become a cost burden by 2005. The energy cost metric used in this report measures the average industrial and commercial prices per kilowatt-hour and indicates Illinois is above average for low costs in 2006 at rank 21, with significant improvement since its 2002 from rank of 34. Its price levels have risen only 1.9% between 2002 and 2006 whereas the U.S. on average experienced a 23% increase.

### **3.4 Policy Checklist to Consider with Best Practice Examples**

## PROJECT TEAM

### THE COUNCIL OF STATE GOVERNMENTS' MIDWESTERN LEGISLATIVE CONFERENCE

**The Council of State Governments (CSG)** has served state government officials from all 50 states and the territories since 1933. As the only nonpartisan, nonprofit association representing all three branches of state government, CSG is committed to helping implement the best policy solutions and ideas. The Council advocates multi-state problem solving, highlights policy trends and innovations in state government, provides leadership training and support, and champions state sovereignty. CSG is supported by the states and governed by their officials. CSG has a national office located in Lexington, Kentucky, and regional offices in Atlanta, Lombard (Illinois), New York City, and Sacramento. The regional structure of CSG allows the organization to tailor services to the special concerns of policymakers. The mission of the Midwestern Office is to focus on those issues of greatest interest to policymakers in our nation's heartland – providing state leaders with the resources and tools they need to effectively address today's public policy challenges. To that end, CSG Midwest supports the efforts of state legislators and their staff through the Midwestern Legislative Conference and of the region's governors and their staff through the Midwestern Governors Association.

Established in 1945, **CSG's Midwestern Legislative Conference (MLC)** promotes regional, interstate cooperation and facilitates the exchange of information and ideas between the legislatures of 11 Midwestern states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. The Canadian provinces of Manitoba, Ontario and Saskatchewan are affiliate members of the MLC. Through its meetings, publications and policy work, the MLC provides lawmakers and their staff throughout the region with a variety of opportunities to learn from each other by sharing best practices and innovative solutions to common problems. Over the years, the MLC has addressed numerous issues ranging from agriculture, fiscal affairs, and economic development to health care, education and the environment. The MLC has also played a key role in launching several regional cooperative efforts, including the Midwestern Higher Education Compact and the Midwestern Interstate Passenger Rail Compact.

### GROWTHECONOMICS INC.

Graham S. Toft Ph.D. is founder and president of **GrowthEconomics**, of Sarasota, Florida, and Indianapolis Indiana, focused on the growth dynamics of states and regions. The firm seeks to understand how good pay jobs grow, growth companies multiply, and self-reliant families prosper in today's super-charged, disruptive economy. He likes to call this fast-paced, open, green-conscious, global economy, the 'flex-economy'. He spends much of his time with leaders striving to grow their economies through entrepreneurship, innovation development, and pro-growth strategies -- solutions sought by many localities, regions, states, nations, educational institutions, business civic organizations and industries in today's post recessionary uptake. GrowthEconomics has a bias toward the measurement and monitoring of competitive position as a means to grab attention and focus on actionable strategies. To that end, Graham prepares annual state Competitiveness ScoreCards for several state Chambers of Commerce. In these circles, he has become known as 'Dr. Benchmark'. Also, annually GrowthEconomics prepares the state Entrepreneurship Score Card in collaboration with the Small Business Foundation of Michigan. Other specialty benchmarking reports include a Technology Index on Indiana and Kansas. The GrowthEconomics team works out of Florida, Indiana and Ireland.

Graham Toft brings over 20 years experience preparing state benchmark and competitiveness assessments. He has strong Midwest ties and familiarity, including service as President of the Indiana Economic Development Council for 13 years from 1989 to 2002. Along with team member, Dr. Nadine Jeserich, resident in Ireland, he draws on state-of-the-art methods from both the U.S. and Europe.

GrowthEconomics has taken care to build a comprehensive set of over 200 metrics measuring all 50 U.S. states over the past seven years. These data are routinely updated and revised when back data become available. This 'live' dataset now makes it possible for the GrowthEconomics team to undertake sophisticated statistical analyses to determine 'Key Indicators to Watch' and 'Super – Drivers' which prove to be highly correlated with state economic growth. GrowthEconomics is now in the process of developing causal models for use in growth planning and policy development. Empirical work of this type will transform the practice of economic development over the next 10 years, offering decision-makers and practitioners greater confidence that the actions they take will have higher probabilities of success.

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