

The Challenge: *Create a Business Environment that is both Conducive to Economic Growth and Development and Consistent with our Cultural and Environmental Values so that Our State Becomes the Preferred Choice for Business*

ATTRACTING BUSINESS WE WANT

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Forty years ago, Tennessee's economy was centered around manufacturing, like many other states in the southeast. It may come as a surprise to some, but 1968 represented the pinnacle for industry in Tennessee, at least in terms of manufacturing's contribution to the state's employment base. Forty years later, manufacturing remains important, but it is no longer a growth sector or the primary driver of our economy. The economy's transformation has meant the rise of new products and services, as well as new occupations and businesses. Tennessee's strategies and policies focused on economic development must be adapted to reflect the realities of this new economy.

From Agriculture to Industry

For decades Tennessee's path of economic development benefited from the extensive availability of low cost land, low state and local tax burdens and low wage labor. Branch plants from major manufacturers took advantage of these opportunities and established facilities across the state that employed large numbers of Tennesseans. A prominent feature of this development was the rise of the textile and apparel industries in Tennessee and other southern states. By 1973, there were 197,853 jobs in the state's textile and apparel sectors. But at the close of 2007 only 19,045 jobs remained. Most of the lost jobs can be attributed to the movement of production facilities abroad to developing countries where labor costs are lower.

Job creation from the industrialization of the state's economy went well beyond textiles and apparel. Following rapid growth in the 1950s, the total number of manufacturing jobs in Tennessee peaked at 35.9 percent of total nonfarm employment in 1968. But the share of state jobs in manufacturing has been in general decline since that time, reaching a low of 13.6 percent in 2007. The *number* of jobs continued to grow after 1966 until the zenith of 538,900 jobs was reached in 1995. But by 2007, only 380,900 jobs remained in manufacturing, below the level seen in 1965. While some new jobs are still being created in manufacturing, these gains are being swamped by losses elsewhere in manufacturing. Despite the downward trend, most communities in Tennessee still rely on industrial development boards to recruit new capital investment and jobs that are then sited in industrial parks.

Manufacturing jobs were an attractive target for recruitment for a variety of reasons. Workers tended to receive better pay than their counterparts in other sectors of the economy, especially in rural parts of the state where agriculture remained prominent and there were few employment alternatives. As manufacturing workers spent their paychecks, they supported the job and income creation process in other parts of the local community. And industrial facilities offered a significant contribution to the local

property tax base, supporting the provision of important public services like elementary and secondary education.

As the state economy shifted away from agriculture toward industry, it competed largely against other states in the southeast for a slice of the manufacturing pie. This strategy worked reasonably well when there was little competition from businesses abroad since the economies of the southern states were similar. For example, Tennessee's workforce, which was poorly educated by national standards, was not a serious shortcoming since other states in the region had workers with similar levels of attainment. But in today's global economy, workers and businesses in Tennessee compete directly or indirectly against their counterparts across the world. An economic development strategy that focuses on low business costs is not sufficient in this modern environment. Low wages offer no competitive advantage if wages reflect low productivity. Moreover, many developing countries have lower wages than those that prevail in Tennessee. Low tax burdens are good, but taxes must fund the provision of important services like education that lay the foundation for economic development.

Ongoing Economic Transformation

The decline in manufacturing has been accompanied by a rise in the service sector, a pattern that shows no signs of abatement. There are three prominent features of many of the jobs and occupations that are growing most rapidly, as well as the jobs that continue to grow in manufacturing. First, they tend to require more formal training and education than the jobs that are in decline. Second, the new jobs that require more education also pay well. Third, most of the new growth in services is taking place in metropolitan areas of the state, rather than in rural Tennessee. It is remarkable that 42 Tennessee counties saw a net loss of jobs between 2000 and 2007; in Marshall County, jobs were down 28.9 percent while Bledsoe County lost 27.2 percent of its job base. In addition, 20 Tennessee counties lost people between 2000 and 2007, despite the fact that the state population as a whole grew by over 8 percent. (To put these figures in context, not a single Tennessee county lost population in the decade of the 1990s, though population contraction did occur in some counties in earlier decades.) On the other hand, many places in the state have experienced vibrant growth, including Williamson County, which has had job gains of nearly 50 percent.

A shifting economy has had important consequences for our financial wellbeing. Income for the nation as a whole is increasingly concentrated at the top of the income ladder, a trend that has accelerated in recent years. At the same time, low-skilled workers are seeing stagnant or falling incomes. In Tennessee, per capita income—the average amount of income a person in the state earns from all possible sources—benefited from the growth in manufacturing by raising the average earnings of workers. While per capita income stood at only 71.6 percent of the national average in 1960, it saw steady growth until 1995 when Tennessee's income reached 91.8 percent of the nation's income. Since that time, our per capita income relative to the national economy has weakened.

Part of this post-1995 income trend reflects fewer and fewer jobs in the state's manufacturing sector. More importantly, the long-term disparity in income reflects

differences in the educational attainment of Tennesseans versus workers in other states. Despite improvements over time, we continue to lag the nation in virtually every category of educational investment and attainment because other states are increasing their educational investments. In particular, our spending per pupil in elementary and secondary education has risen markedly, but it remains stuck at about 75 percent of the national average. On the other hand, our ability to pay for education—per capita income—is just under 90 percent of the national average suggesting that we have simply chosen to invest less than other states. In 2000, 29 Tennessee counties had more than 35 percent of their adult residents who had not even graduated from high school. For the nation as a whole, fewer than one-in-five adults had not graduated from high school in 2000. The 2010 census will certainly show improvement in attainment levels for Tennesseans. But other states will likely see gains as well and our relative standing may very well be unaltered.

Industrialization has served Tennessee well. Having started with low-skill and low-wage jobs in nondurable goods manufacturing, we were able to engineer a shift to better quality jobs in durable goods manufacturing in the 1980s, notably in transportation equipment production. But manufacturing is now in decline and our economy continues to change through the forces of globalization and technological advancement. Jobs in manufacturing will not vanish, but they will continue to fall in the years ahead. New jobs need to be created elsewhere in our economy.

Creating a Strong Business Environment for Tennessee

Tennessee faces the challenge of developing a state and local development strategy that will make our state a good place to start and grow a business, allow our economy to compete effectively in the modern global marketplace and provide economic security for both people and places. We have many important assets already in place to support such a strategy, including location, relatively low energy costs, and a rich assortment of natural amenities.

An effective economic development strategy will require two broad elements. First is cultivation of the fundamentals of a strong business climate that can support and drive a vibrant economy. A short list of fundamentals includes a well-educated workforce and un-congested infrastructure that can support both commerce and recreation, and tax burdens that are carefully balanced against the benefits we receive through the provision of state and local services. Along the way, we must protect our rich and diverse natural environment, as well as our cultural values. Amenities and quality of life considerations have become increasingly important to where people want to live and where good jobs are grown. Fifty years ago people moved to find good jobs; jobs today are growing where people want to live.

Second is our strategy for business development, recruitment, and retention. Smokestack chasing will bear less and less fruit as manufacturing plants and jobs become a smaller and smaller piece of tomorrow's economic pie. A global perspective and diversified approach will be required, one that retains some focus on manufacturing while at the same time reaches out for new opportunities in other areas of the economy. Industrial

parks will need to be complemented by business parks that support non-manufacturing firms that export their services outside the state. Economic development incentives, especially those used by local communities, must be adapted to meet the needs of modern manufacturers, as well as other businesses. New development strategies must be subject to ongoing review and adjustment because of the rapid pace of economic change.

In the end, the choices that we make—and the choices that we don't make—will together determine our future economic prosperity. I am confident that if Tennesseans come together to promote the common good, we will make our state an ever-better place to live, work and play.

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