

# Rural Development Center Newsletter-September 1999

## University of Maryland Eastern Shore

### MD ECONOMIC DEVELOPMENT WEB SITE:

The state inaugurated a web site Thursday that is designed to lure more businesses to Maryland and help local economic development officials make better sales pitches to out-of-state firms.

The site, [www.mquest.org](http://www.mquest.org), offers facts and figures on the types of things a company looks at while deciding whether to move to an area, including location wages and tax rates.

Visitors to the site can also link to public and private economic development agencies, the governments of each of Maryland's 24 jurisdictions and various state agencies. The site is one component of what's called the M/Quest system, which makes extensive information available to state and local officials. Economic development agencies in Maryland can customize the database to their needs and make multimedia sales pitches that address businesses' specific questions in detail, down to where space is available to meet the prospect's needs.

### OF ECONOMIC DEVELOPMENT INTEREST:

The US Department of Commerce recently released three reports on electronic commerce: **The Emerging Digital Economy, The Digital Work Force: Building Infotech Skills at the Speed of Innovation, and Falling Through the Net: Defining the Digital Divide.** **The Emerging Digital Economy** can be downloaded at the Economics and Statistics Administration Web site: <http://cher.eda.doc.gov/agencies/esa/index.html>, and **The Digital Work Force** by the

Technology Administration can be accessed from the TA Web site, [www.ta.doc.gov](http://www.ta.doc.gov), and **Falling Through the Net** by the NTIA can be found on the NTIA Web site [www.ntia.doc.gov](http://www.ntia.doc.gov).

### SINGERMAN LEAVING EDA FOR STATE OF MARYLAND:

Secretary of Commerce William Daley announced recently that Phillip A. Singerman, assistant secretary of Commerce for Economic Development, would be leaving his Commerce Department post next month. Almost simultaneously, Maryland Governor Parris Glendening announced that he had chosen Singerman to head the **Maryland Science, Engineering and Technology Development Corporation.** The agency, also known as **TEDCO** was created by the state legislature last year to help *transfer technology from state universities to the private sector.*

Maryland's secretary of business and economic development, said Singerman was chosen from 120 applicants. "How often do you get the No. 1 economic development official in the nation to come start a program in a state?" Lewin asked. "His background just stood out so dramatically."

Singerman, 54 is a Yale graduate, who spent 12 years as the head of an industry-university partnership program in Pennsylvania before becoming the head of the Economic Development Administration in 1996. Singerman presently lives in Bethesda with his wife and two sons.

The Commerce Secretary's news release continued that "Phil Singerman has served the Administration ably for over four years,

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reorganizing and reinvigorating EDA. Under Singerman's leadership, EDA completed an agency reinvention process, re-engineering its grants processing, streamlining its organization while reducing its staffing by 30 percent. In 1998, EDA successfully achieved the first Congressional reauthorization of its programs since 1981 and the first overall reform of the agency's processes since it was established in 1965.

Chester J. Straub, Jr., deputy assistant secretary of commerce for Economic Development, will serve as Acting EDA Administrator after Singerman's departure.

#### **STATES AND THE NEW INFORMATION ECONOMY:**

The two states that are farthest along the path to the New Economy are Massachusetts and California. Both are quintessential high-tech states. Massachusetts boasts a concentration of software, hardware, and biotech firms supported by world class universities such as MIT and Harvard in the Route 128 region around Boston. California's Silicon Valley has become synonymous with innovation and technology, while for sheer number of technology companies, Southern California is a force to be reckoned with. But they and the other top ten New Economy states (Colorado, Washington, Connecticut, Utah, New Hampshire, New Jersey, Delaware, and Arizona) have more in common than just high-tech firms. They tend to have a high concentration of managers, professionals, and college-educated residents working in "knowledge jobs" (jobs that require at least a two-year degree). With one or two exceptions, their manufacturers tend to be more geared toward global markets, both in

terms of export orientation and the amount of foreign direct investment. Most are at the forefront of the IT and Internet revolutions, with a large share of their institutions and residents embracing the digital economy. Most have a solid "innovation infrastructure" that fosters and supports technological innovation.

Many have experienced high levels of domestic in-migration of highly mobile, highly skilled knowledge workers seeking good employment opportunities coupled with a good quality of life. Moreover, while they tend to be richer states (there is a positive correlation of 0.71 between their rankings and their per capita income), wealth is not a simple proxy for advancement toward the New Economy. Some states with higher incomes lag behind in their scores (for example, New York, Illinois, Michigan), while other states with lower incomes do relatively well (such as New Mexico, Utah, and Arizona). Finally, the top-ranked economies don't score well simply because they have found ways to get the right mix of companies, individuals, and institutions. They also score well because they tend to adapt quickly. A high rate of "creative destruction" —the shedding of old practices while embracing the new—is the key to economic transformation in the private, public, and non-profit sectors. In fact, the degree to which businesses close in a state is positively correlated with total New Economy scores and employment growth from 1986 to 1996 (0.35 and 0.30, respectively).

The two states that are still most firmly rooted in the old economy are Mississippi and Arkansas. Other states with low scores

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include West Virginia, Louisiana, Montana, North Dakota, Alabama, South Dakota, Iowa, and Wyoming. Historically, these and other Southern and Plains states lagged behind in industrialization, and many have made limited investments in education and R&D. Their economies have often depended on natural resources or on mass production manufacturing, and have tended to rely on low costs rather than innovative capacity to gain advantage. But innovative capacity (derived through universities, R&D investments, scientists and engineers, and entrepreneurial drive) is increasingly what drives competitive success in the New Economy.

While lower-ranking states face challenges, they can also take advantage of new opportunities. The IT revolution gives companies and individuals more geographical freedom, making it easier for businesses to relocate, or start up and grow, in less densely populated states, farther away from existing agglomerations of industry and commerce. But a key policy challenge will be to find a way to extend advanced telecommunications infrastructure to these places. Regionally, the New Economy has taken hold most strongly in the Northeast, **the mid-Atlantic**, the Mountain West, and the Pacific regions; 17 of the top 20 states are in these four regions. (The three exceptions are Minnesota, Texas, and Florida.) In contrast, 17 of the 20 lowest-ranking states are in the Midwest, Great Plains, and the South.

Given some states' reputations as technology-based, New Economy states, their scores seem surprising at first. For example, Georgia and North Carolina rank 25th and 30th, respectively, in spite of the

fact that the regions around Research Triangle Park and Atlanta boast top universities, a highly educated workforce, cutting-edge technology companies, and global connections. In both cases, however, the parts of the state outside these metropolitan regions are more rooted in the old economy—with more jobs in traditional manufacturing, agriculture, and lower-skilled services; a less educated workforce; and a less developed innovation infrastructure. As these examples reveal, most state economies are in fact a composite of many regional economies that differ in the degree to which they have adapted to the New Economy.

How closely do high scores correlate with economic growth? States that score higher appear to create jobs no faster than states that score lower. Between 1991 and 1996, there was in fact a slightly negative correlation (-0.04) between employment growth and New Economy score. However, it's not clear that job growth is the true measure of a state's economic well-being. (Rapidly growing states are likely to experience rising home prices, traffic congestion, declining open space, and increasing environmental pollution, among other negative impacts.) Change in per-capita income is a more accurate measure of the economic well-being of the residents of a state. Higher New Economy scores were positively (though weakly) correlated with growth in state per-capita incomes between 1992 and 1997 (0.13). It is possible that this relationship would be even stronger if inflation-adjusted per-capita income growth data were available, since nominal measures may overstate income growth in some faster growing states with lower overall scores, particularly those in the

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South. In addition, many high scoring states, such as California, Massachusetts, Washington, Colorado, and Connecticut, suffered economic slowdowns in the early 1990s due to defense downsizing. As the New Economy continues to take hold over the next decade, higher scoring states can be expected to experience faster per-capita economic income growth than lower scoring states. (**The State New Economy Index**, July 1999)

#### STATE/LOCAL GOVERNMENT EMPLOYMENT UP IN 1998:

State and local governments employed 12.8 million full-time workers in 1998, 1.7 percent more than in 1997 (12.6 million), according to tabulations for the 50 states and the District of Columbia released today by the Census Bureau.

📄 [govs/www/apes.html](http://govs/www/apes.html)

The tabulations from 1998 state and local government employment and payroll data showed that most full-time employees worked in education (6.3 million), hospital services (836,000) and police protection (784,000). Other employment categories are corrections, fire protection, air transportation, streets and highways, solid waste management and financial and central

☐ Taxable professional and management-development training and educational-support services, two new industries under the North American Industry Classification System (NAICS), generated receipts of \$1.8 billion and \$1.4 billion, respectively. Their tax-exempt counterparts reported revenue totals of \$588.0 million and \$2.0 billion, respectively. Examples of educational support services include educational testing services, student

government administration.

The new tabulations also cover part-time employment, gross payrolls, part-time employee hours worked and full-time equivalent employment.

#### CALIFORNIA & NEW YORK 25% EDUCATIONAL SERVICES:

The nation's educational services industries reported \$20.7 billion in receipts and revenues in 1997, with California at \$2.9 billion and New York at \$2.2 billion leading all other states, according to individual state reports from the 1997 Economic Census released by the Census Bureau.

📄 [epcd/www/econ97.html](http://epcd/www/econ97.html)

Together, the two states accounted for about one-fourth of the total dollar value of receipts and revenues for both taxable and tax-exempt firms in these industries.

Among the findings in the reports:

☐ The nation's 33,784 taxable educational services establishments employed 251,633 people and reported receipts of \$15.2 billion. Their 7,153 tax-exempt counterparts employed 72,388 workers and generated revenues totaling \$5.5 billion.

exchange programs, educational counseling and educational curriculum development.

☐ Receipts of taxable technical and trade schools, which includes several new U.S. industry classifications under NAICS, such as flight training and cosmetology and barber schools, totaled \$3.7 billion.

☐ The nation's 2,785 taxable computer-training establishments reported

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receipts of \$2.5 billion.

Other educational services covered by the economic census include dance schools, automobile driving schools, language schools, business and secretarial schools and exam preparation and tutoring. Elementary and secondary schools and colleges and universities, although part of this sector, were not covered in the 1997 Economic Census.

The 52 reports one for each state, the District of Columbia and the United States are part of the 1997 Economic Census, Geographic Area Series, Educational Services series. Released on the Internet, the reports present separate data by industry for firms subject to and exempt from federal income taxes. Summary levels are state, metropolitan area, county and place for taxable firms, as well as state and metropolitan area for tax-exempt firms.

The 1997 Economic Census marks the premiere of NAICS, a new business classification system. It replaces the Standard Industrial Classification (SIC) system begun 60 years ago.

The United States developed the new system jointly with Canada and Mexico, making it much easier to compare data with our North American Free Trade Agreement partners. associate director for economic programs. It also is easier to update, so that economic data can keep pace with the nation's changing economy.

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Economic Development Administration and RB-CS, US Department of Agriculture Sponsored Pages for RD Center and Development Projects at:

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