

DEVELOPMENTS *New England*

New England Developments

Policy Issues Shaping the Regional Economy

May 2003

New England Council Identifies Legislative Priorities

Health care, financial services, energy, research and development funding, transportation, workforce and the creative economy top the issues on The New England Council's 2003 agenda.

The New England Council is an alliance of large and small companies, educational institutions, nonprofit and other agencies dedicated to promoting federal public policies and regional initiatives which support economic development and a high quality of life in the six-state region. Founded in 1925 to slow the outflow of jobs to the south, the council is the oldest regional group of its kind in the nation.

"Because our membership is varied, we focus our attention on issues that affect a variety of businesses and organizations throughout the region. We work closely with the New England Congressional delegation to articulate the voice of New England's business community on Capitol Hill," says James T. Brett, the council's president and CEO.

In the area of health care, the council will continue its advocacy work on issues such as Medicare reimbursements and long-term reform as well as the Medicaid crisis and the continued shortage of nurses.

"New England continues to be the leader in all aspects of health care. More than a million New Englanders make their living in this industry. But this



important sector is dependent on a sound infrastructure to support research and delivery," Brett says.

Federal research and development funding is an important resource for the region's research community. This funding helps to fuel the leading sectors of health care, biotechnology and higher education. The council's efforts on Capitol Hill in recent years have helped secure a five-year high level of federal research and development funding for New England institutions, with consistent increases in the health and science areas. Research and development funding from the National Institute of Health, for example, is expected to double from 1998 levels by the end of 2003.

More than 400,000 New Englanders work in the financial services industry. New England is considered the center of retirement savings, managing in excess of one trillion dollars in assets for tens of millions of retirement customers worldwide.

In recent years, the council has been a strong advocate in favor of legisla-

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New Ideas in Economic Development

By Mark D. Waterhouse, CEcD

Have you ever thought about how frequently—or more accurately, how infrequently—we see new ideas that significantly change and shape the way the economic development business works? Probably not, because most of us are too busy trying to put out a thousand fires ... using the same fire extinguishers we've had for 30 years.

The current major, new idea is Richard Florida's analysis of the Creative Class, what community attributes have the best chance of attracting creative workers, and what that means for attracting companies that look for those workers. There are some who say Florida's premise is not a new one. However, he is the first to statistically quantify the data to demonstrate key relationships, and his work comes at a time when many communities were starting to think about recruiting workers as just as important as recruiting companies. And his Gay Index has certainly gotten people's attention.

Before that, you have to go back 10 or 15 years to Michael Porter's initial work on cluster development theory, which was sort of a blending of target industry analysis with a retention and expansion focus. The key to cluster building is identifying those core competencies of a community or region that are the glue holding companies there and helping them expand. Then you

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**Northeast
Utilities System**

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tion that increased 401(k) and IRA contribution limits and simplified complex pension plan regulations that made it difficult for small businesses to offer plans. The council also worked with the Bush Administration and congressional leaders to ensure passage of terrorism insurance legislation before the close of the 107th Congress. These bills are important to the economic health of the financial services sector.

Energy and environment issues have long been part of the council's issues agenda. New England's economic health, future growth and well-being are directly linked to the availability of reliable, reasonably priced energy and environmentally-sound energy policies. To that end, the council promotes fuel diversity and the expansion and improvement of the region's energy infrastructure.

Transportation Funding Takes Center Stage

The 108th Congress will make crucial decisions related to transportation funding with such programs as the Highway and Transit Funding (TEA-3) and Airport Funding (AIR-21) up for reauthorization.



"The nation's commitment to these bills will make a difference in the future of highway and airport improvements in New England. A reliable and extensive rail service will also play a major role in the region's transportation planning. There are many additional opportuni-

ties for expansion of rail to connect cities and spur economic growth in the region," Brett says. "The New England Council is considered a leader in regional aviation planning. For the past decade, the council has promoted increased utilization of New England's regional airports, both to take some of the burden off Logan Airport as well as to stimulate the economies of the areas around those facilities. Building on the success of this effort, the Federal Aviation Administration, the six New England state departments of transportation, and 10 of the region's airports, have embarked on the next phase of regional aviation planning."

In the past five years, airports in Manchester, N.H., Providence, R.I., and Hartford-Springfield (Conn.-Mass.) have attracted seven million new passengers, substantially reducing the pressure on Logan Airport.

Other bills slated for reauthorization this year include the Higher Education Act (HEA) and the Workforce Investment Act. These two pieces of legislation are particularly important to the region's economic recovery.

HEA administers the federal government's student aid and loan programs.

In addition to deliberating whether HEA's programs have made post-secondary education more accessible, Congress will also consider the rising costs of college, federal tax benefits, standards and accountability.

The goal of the Workforce Investment Act is to better coordinate the delivery of federal job training programs. This year's reauthorization

presents the opportunity to make program changes to better prepare workers with the skills they need to meet employers' needs in the region.

In addition to giving the region a voice on these pieces of legislation, The New England Council has led a number

of regional economic development initiatives, including one focused on the creative economy.

The Creative Economy Initiative began as a partnership between the council, New England Foundation for the Arts, the six state arts agencies and the Boston Symphony Orchestra. The initiative conducted an economic impact study of the creative sector in the region. A strategic blueprint for the further economic development of this sector soon followed. Earlier this year, a Creative Economy Council was formed and charged with guiding the implementation of this plan. The Creative Economy Council is comprised of more than 70 leaders from throughout the region representing business, government, media, the arts community and academia.

"The creative economy is an already-vibrant contributor to the regional economy. It has huge growth potential. Nurturing this sector can also have a positive impact on some of our challenges in workforce and job growth," Brett says. "Numerous studies and surveys have been conducted that illustrate how the arts and cultural offerings serve to attract workers, companies and help anchor economic development initiatives." ■

The New England Council has offices in Boston and Washington, D.C. and may be reached at 617-723-4009 or on the internet at www.newenglandcouncil.com.

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Guest COLUMN

A Human Capital Agenda for New England



By Robert A. Weygand

In the 1990s, New England's labor supply grew by just 2 percent, compared with 30 percent in the Rocky Mountain states. With its slow population growth, New England can compete only on the *quality* of its labor supply. Indeed, smart workers are New England's single most important economic asset. But are we preparing the workforce to fuel tomorrow's cutting-edge industries?

The New England Board of Higher Education recently completed a round of regional conferences aimed at developing an effective, forward-looking human capital agenda for New England's six governors, five of whom are relatively new to office. Here's some of what we heard:

1 Fully 180,000 young adults between ages 16 and 24 in New England are idle—out of school and out of work. We need a new system combining basic skills and occupational proficiencies to direct these young people off the road to nowhere. Young people who are involved in programs that connect school and work are more likely to attend school each day, do well, go on to college and succeed in the world of work. As one expert told us, "Internships should not be a sideshow, but the driving force in education." To prepare students for the world of work, schools should require as part of their curricula internship/externship and coop programs with direct ties to students' academics.

2 New England is faced with skilled labor shortages in key areas. There is an immediate and long-term need to bolster college enrollments in high-demand science, engineering and information technology fields, while we address acute labor shortages in areas of social need such as teaching and nursing. We should provide formal incentives, including targeted scholarship programs and business- and state-financed student loan forgiveness programs, to encourage students to enter these fields.

3 The recent economic downturn has hit jobs in the electronics and telecommunications industries especially hard. This flashes a warning light for young people. Fewer of them will prepare for critical science, technology and engineering fields unless we can stir their interest in science early on. To do so, we must have qualified, motivated teachers in our math and science classrooms. The region should introduce differential teacher salaries aimed at attracting top-notch teachers to specialized fields that command high salaries in the private sector. Once in place, teachers need state-of-the-art tools and technologies to make these fields come alive for students.

4 Our expert advisors also recognized that higher education cannot and should not bear the burden of workforce preparation on their own. Schools and colleges should work together with business to build pipelines for science, math, engineering and technology talent. This is especially important for New England's fast-growing ethnic populations who are under-represented in science, information technology and engineering fields. It is also essential that states recognize the special role of community colleges in training under-represented students and provide adequate funding for those institutions to provide the frontline in skills development.

5 New England's historical strength in liberal arts is still crucial in a workplace that demands critical thinking skills and innovation. Schools and colleges must not focus on preparing students for

their first job only, because jobs are changing so fast. What they will need as they create and re-create their own occupations is a portfolio of competencies and skills including problem-solving, leadership and teamwork. One president of a very practical university noted: "Universities should not become polytechnics. Every good university needs a philosophy program."

6 Whether art history majors or MBAs, the workplace demands that all graduates be not only "computer-literate," but also "information-fluent." Graduates must have the technical skills to navigate the Internet and effectively obtain information on the World Wide Web. But they must also have the critical thinking skills to understand copyright laws and complex Web-era ethical issues. Schools and colleges should implement entry and ongoing undergraduate assessments of students' information fluency to ensure that students are prepared for the workplace.

7 We need to encourage diversity in all our educational settings and in the workforce. Our changing demography is an asset in a global economy; our foreign immigration is the only thing that keeps New England's workforce growing. Therefore, we need student financial aid policies that are relevant to immigrants and other working adults, especially minorities. Businesses also must get more involved in raising basic skills, not just management skills.

Finally, governors and legislators should tell higher education what they want to happen, not how to do it. In other words, government should focus on outcomes, not process. Universities are like pachyderms; they're very hard to push, but if you put a bowl of peanuts over in the corner, they quickly move toward them. Incentive strategies are far more effective in accomplishing policy-makers' goals than the old push and shove strategy. ■

Robert A. Weygand is president and CEO of the New England Board of Higher Education.

Recent Research and Practice in Economic Development

How Valuable Are Headquarters?

("Get Me Headquarters!")

by Jane Katz, Boston Federal Reserve, Regional Review Q4 2002.)

www.bos.frb.org/genpubs

This article documents the number of Fortune 500 companies headquartered in New England in 1960 and in 2001, finding that the region retains a strong headquarters presence, though the makeup of the companies has shifted somewhat, with a notable increase in retailers like CVS on the list. Almost all of the headquarters are in New England's large metro areas (40 years earlier they were dispersed around the region), with 12 of the 28 total in the Fortune 500 list in the Boston metro, eight in lower Fairfield County in Connecticut, five in Hartford and two in Providence. The article cites research indicating that the benefits of headquarters operations, both in job creation and in charitable giving, have diminished over time due to the relatively small number of jobs involved and the rise of targeted rather than geographic philanthropy. Regarding public policy, the author suggests that "the most promising approach for New England may lie in promoting and nurturing the firms that are born on our soil," rather than vying with public dollars for the relocation of headquarters from other places.

Rural Economic Development

(*Innovative State Policy Options to Promote Rural Economic Development*, Issue Brief from NGA Center for Best Practices, February 2003.)

This policy brief surveys efforts to promote rural economic development around the country, noting three broad strategies that seem to be working. Rural areas have been buffeted by declines in both the farm sector and in manufacturing that have caused growth to lag behind that of urban and suburban areas. States and regions are combating these trends by adapting cluster-based princi-

ples, promoting entrepreneurship outside the agricultural sector and reinvigorating the agricultural sector through diversification and value-added agricultural practices. Initiatives cited include developing new rural clusters such as the hosiery network in western North Carolina and the Connecticut agricultural business cluster; new rural entrepreneurship networks in Kansas, Minnesota and Wisconsin that provide access to capital and specialized training programs; and programs to facilitate diversified use of agricultural land, such as using soybean oil to make candles and marketing farmland for use by out-of-state hunters in North Dakota.

Impact of Native American

Casinos (*The Social and Economic Impact of Native American Casinos*, NBER Working Paper, September 2002.)

www.nber.org/papers/w9198

This working paper by Evans and Topoleski for the National Bureau of Economic Research examines the growth of legalized gaming operations on reservations, the impact of the casinos on tribal economies and on the economies of surrounding areas. Beginning in the late 1970s and 1980s as an economic development tool by Native American tribes, and supported by a series of favorable federal court rulings, the expansion of Indian gaming has resulted in more than 310 operations nationwide (and \$10 billion in revenues), including 220 casinos with slot machines/table games. Although the typical operation is small and generates only modest revenues, most tribes have nonetheless benefited by increased employment, a reduction in poverty and tribal population growth. Surrounding communities have shown significant employment gains and some health benefits, but also increases in bankruptcies and crime. In a small number of cases, where casinos have located near major population centers, results have been staggering. In Connecticut, two casinos

have generated over 20,000 new jobs (almost all filled by non-Native Americans) and Indian gaming payments to the state have reached about \$400 million annually. With more states authorizing or considering Indian casinos, the findings of this comprehensive study are timely.

IT and Economic Development

(*What the IT Revolution Means for Regional Economic Development*, The Brookings Institution, February 2003.)

www.brookings.edu/es/urban/publications

Sommers and Carlson build on interviews with chief information officers at 28 companies in several metro areas (including Atlanta, Cleveland and Seattle) to offer insights on the impact of the Information Technology revolution of the 1990s on regional economic development. Among the conclusions are that both the so-called new economy and the old are utilizing IT to shape company operations, meaning that metros with more traditional economies also need to embrace IT-friendly public policies. The IT revolution has accelerated the fragmentation of companies and industries whereby headquarters can be in one area, manufacturing in another and R&D in a third. Metros must specialize to compete in the new marketplace. Also, advances in telecommunications allow firms to "go global," forcing U.S. locations to compete internationally for outsourced business. This has resulted in new location demands by firms, including comprehensive broadband access, highly skilled and educated workers and a superior quality of life in order to attract the new workforce. The authors conclude: "Ultimately, cities or metropolitan areas can do little to reduce the likelihood ... that firms will globalize, fragment, or relocate headquarters. Regional leaders can, however, work to create a competitive setting for all business' survival and success in a high tech era." ■

Power POINTS

Bouncing Back (1)

Population growth in New England has picked up recently and now outpaces many Midwestern states as well as some of the region's Northeastern neighbors. The fastest growing states are still in the South and West, however. Between July 2001 and July 2002, the latest Census Bureau estimates, population increased 1.2 percent in New Hampshire, 0.9 percent in Rhode Island, 0.8 percent in Connecticut and Maine, 0.6 percent in Vermont and 0.4 percent in Massachusetts. All but the Massachusetts rate exceeded the overall growth rates for the Northeast and Midwest, both of which were 0.5 percent. The U.S. population increased by 1.1 percent from 2001 to 2002.

Bouncing Back (2)

According to Census Bureau data tracking movement between 2001 to 2002, net domestic migration (excludes Puerto Rico) was positive in four of the six New England states. New Hampshire and Maine led the way with positive inflow of 9,170 and 8,429 persons, respectively, in 2002. Rhode Island had 4,030 more people move in than out of the state and Vermont had 1,861. Even Connecticut, which has had negative domestic migration for more than a decade, was only a minus 1,409 in 2002. Massachusetts had net outmigration of 28,074 in 2002, the fifth worst performance in the nation, and much of it to other states in the region.

States Control Economic Future

Research by Steven Lanza, a University of Connecticut economist (reported in *The Connecticut Economy*, Winter 2003), indicates that Connecticut-specific factors influence state job growth much more than do national economic conditions. National Gross Domestic Product (GDP) and employment accounted for about one-third of the

variation in job growth in Connecticut between 1989-2000, while almost two-thirds of the variation was "a product of the performances of the state's separate [industry] sectors." Thus changes in the insurance industry are largely responsible for Connecticut insurance employment trends, as is the case for manufacturing and services employment. This finding supports the emphasis on cluster-based economic development now favored by most states/regions.

Population growth in New England has picked up recently and now outpaces many Midwestern states

Public Schools Rule

New England states spend generously on public elementary and secondary education, according to rankings from the National Education Association. In 2000-01, the latest data available, K-12 per pupil expenditures in the region except in New Hampshire were well above the U.S. average (\$7,161). Connecticut led the way, spending \$10,258 per pupil (2nd highest in the nation), followed by Massachusetts, \$9,212 (6th), Rhode Island, \$8,919 (7th), Vermont, \$8,701 (8th) and Maine, \$7,907 (12th). New Hampshire trailed in the region (or led the way, depending on your perspective on the efficiency of public school spending), spending \$7,033 per pupil, ranking 21st.

Employment Trends Diverge

Nonfarm employment continues to decline in the more populous New England states, but is growing in the less populous ones. Bureau of Labor Statistics data for January showed that

employment dropped 1.7 percent (from a year earlier) in Massachusetts, 0.7 percent in Connecticut and 0.3 percent in New Hampshire, but increased 0.1 percent in Maine, 0.3 percent in Rhode Island and 0.6 percent in Vermont (U.S. employment dropped 0.1 percent). Despite the increase in jobs, the unemployment rates grew in these states because of increases in the labor force. As expected, unemployment rates were up in the larger New England states in January.

Sunny Days Ahead?

After an interminable winter, residents of New England are looking forward to better days ahead. Unfortunately, the region lags the nation in the percent of days that are sunny, reports Morgan Quitno, based on average climatic data produced by the National Oceanic and Atmospheric Administration. National leaders like Arizona, California and Florida have 65-80 percent sunny days during the year, while New England states generally have 55 percent sunny days (Maine, Massachusetts, New Hampshire, Rhode Island) or less, 52 percent in Connecticut and just 44 percent in Vermont. Vermont is statistically as gray as Washington and Oregon, apparently.

Connecticut Town Kyboshes Big Deal

In an all-too-familiar scenario to state development officials, the local zoning board in Killingly, an eastern Connecticut town, killed a major deal to bring a major regional Wal-Mart distribution center and up to 1,000 jobs to the area. State and utility economic development staff worked for two years to convince the retail giant to open a distribution center in the region, offering a large subsidy package featuring property tax abatements and major infrastructure improvements. The package was accepted by the company, but, after a dozen public hearings, the local board refused to grant a zoning change on the property, saying it wanted to attract "high-end" employers to the rural region. ■

New Ideas, cont'd. from page 1

identify other companies and groups that will react positively to the same glue. Today, Porter's approach is pretty mainstream for most places.

And back 20 or 25 years ago, we were amazed by David Birch's findings on the impact of small businesses on job creation. Today, most communities eagerly await his identification of the next batch of gazelles so that we can go hunting for them.

This is a pretty slim list of important new ideas.

The Next Big Ideas

That may be about to change. I am part of a group contemplating the creation of a new, not-for-profit "skunkworks" aimed at stimulating innovation for the economic development business. (For those of you not familiar with the term skunkworks, it is basically a think tank on steroids.)

Simply stated, the purpose of the organization is to "aggressively pursue the identification and implementation of new and significantly better ways to conduct the business of economic development." It would do this in a variety of ways, with a strong emphasis on partnering with other organizations, foundations and institutes from outside the traditional economic development arena to cross-pollinate our thinking.

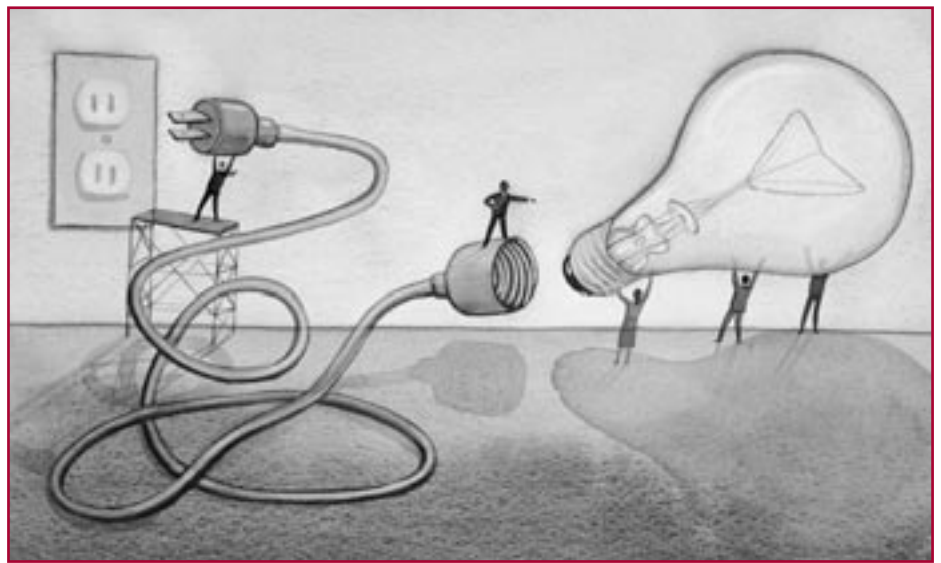
Here's one example of the kinds of ideas that could be explored. I have been interested for several years in what I call Entrepreneurial Government. This appears to be a quietly emerging trend in which some governments are beginning to think and act like risk-taking entrepreneurs. I first encountered this while researching what communities that were fully developed, or that had no land left suitable for business growth, were doing to meet their economic development needs. I found a surprising number of communities around the country that were investing in projects not located in the community. An ongoing project that illustrates this point is an industrial park in Maine

that is being developed jointly by more than 20 communities.

Is this—should this be—an important new trend? No one knows yet, but if it is, it has the potential for significantly changing how we go about doing our jobs. Here in New England, where we have a lot of communities that are nearing full development, we would have a new approach to providing a revenue stream to meet future service costs. Bedroom or rural communities that treasure their non-business character would have an option other than continually raising

I would be interested in hearing from you on whether you think having an organization that tries to stimulate big, new ideas for our profession would be useful. This organization would not compete with existing regional and national professional associations, whose job it is to help us do the best we can today. Rather, it would complement those associations by identifying new approaches that may even seem weird today, but could become common in the future.

What ideas do you have that would fit here? What have you thought about,



taxes on local residents. Small communities would not have to decide whether to undertake an expensive new project alone or not at all—they could band together as co-investors. It would no longer be necessary for cities to annex unincorporated areas to increase tax base—they could be developers in the unincorporated area.

That's the kind of inquisitive thinking and research that our profession needs if we are to make major strides in improving how we operate, rather than continuing to tinker at the margins. Deciding that we should create technology incubators rather than just plain vanilla business incubators is a minor change in the history of economic development—not an earth-shaking event.

yet ended up saying, "Boy, I think this would be a great idea, but no one else is doing it, so I probably can't convince my board (or city council) that we should be the first to try it"?

Let me know. I may not suffer from a major case of out-of-the-box thinking, but I am a carrier. And I would be happy to carry your thoughts to those who are spending a lot of time worrying about the lack of big ideas that could make our profession work better in the future. ■

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Regional Economic Trends, cont'd. from page 7

Massachusetts at Dartmouth, as well as at research laboratories from Woods Hole, Massachusetts, to Mystic, Connecticut.

Government and non-government employees commute to all of these sites from homes in Massachusetts and Connecticut, as well as Rhode Island. For example, approximately one-fourth of the Naval Undersea Warfare Center's 2,500 employees live in Massachusetts and Connecticut.

The more than 40 firms that are members of SENEDIA are concerned that all of this economic activity could be jeopardized within the next two years by actions in Washington, D.C. In 1990, Congress passed the Base Realignment and Closure (BRAC) Act, which has resulted in the shutting down or reorganizing of a number of bases across the nation. SENEDIA's concerns are real. One example of

facilities affected in the region by one of the previous BRAC "rounds" was the closing and relocation of the Naval Undersea Warfare Center's laboratories in New London to Newport. As a result of that action, more than 300 of the center's employees now commute to Rhode Island from Connecticut.

Another BRAC round is scheduled for 2005, and SENEDIA has initiated efforts to inform the citizens of the region about the critical role of the defense industry in the region's economy. More importantly, the association has opened dialogs with elected federal, state and local officials to provide them with the information necessary to fully represent the positions and needs of constituents associated with defense-related organizations in the region.

SENEDIA also is looking for opportunities to attract new defense-related jobs to the region, especially

in the area of homeland security, by taking advantage of facilities and capabilities already in place. "Assets such as the Coast Guard's research and development center in Groton, the Navy's primary undersea R&D center in Newport, oceanographic research centers at Woods Hole and Mystic, and academic and research universities such as MIT, the University of Rhode Island, and the 119-year-old Naval War College in Newport, exist now," reminds Mushen. "They need not be generated, just nurtured."

Membership in SENEDIA is open to representatives of companies who support the group's mission and objectives. Public sector representatives also may apply for consideration as members. More information about the organization may be obtained by visiting its web site (www.senedia.org) or by calling 401-965-6899. ■

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