



Economic Growth in Kentucky: Why Does Kentucky Lag Behind the Rest of the South?

Report submitted to
*Partnership Board for the Cabinet for
Economic Development*

By

*Center for Business and Economic
Research at UK*



Introduction

- Between 1939 and the present Kentucky has consistently been one of the poorest states in the country.
 - On top of this already low level of income, Kentucky has experienced fairly slow growth in output in recent years.
- Many of Kentucky's neighbors, especially to the south, have experienced relatively rapid growth in average earnings in recent years.



Introduction

- These facts prompted the Kentucky Cabinet for Economic Development to ask us to examine the success of economic development in Kentucky.
- In our report we examine whether there are identifiable factors that can explain why Kentucky remains mired at the bottom of the income distribution and what we might do to changes these factors.



Introduction

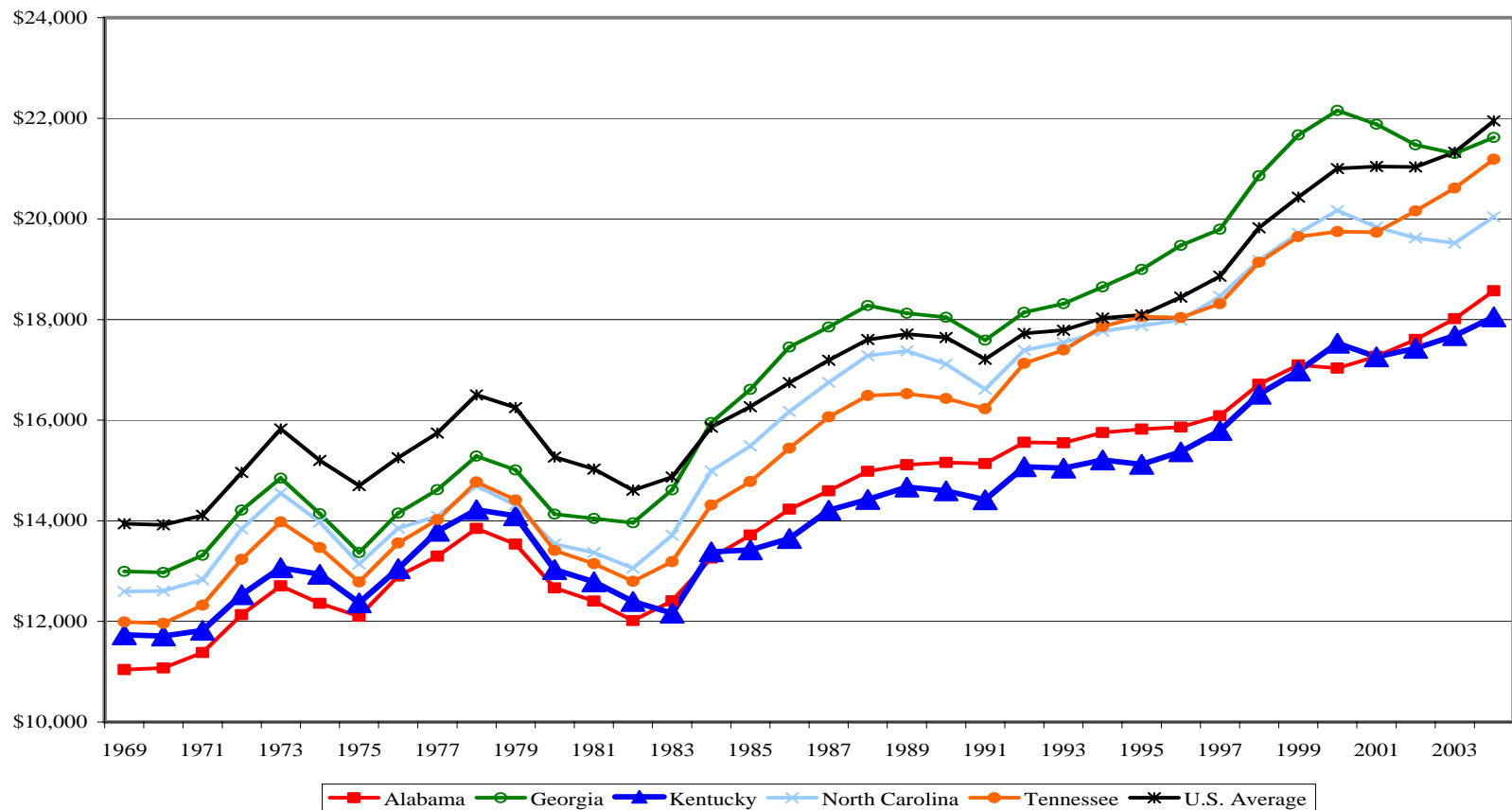
- Start by determining what factors are most important in explaining state growth.
- Then compare the growth of these factors in Kentucky with their growth in our comparison states: Alabama, Georgia, North Carolina and Tennessee.
- Finally, examine policies in our comparison states to try and identify specific policies that explain why these states have grown faster.



Growth in Income

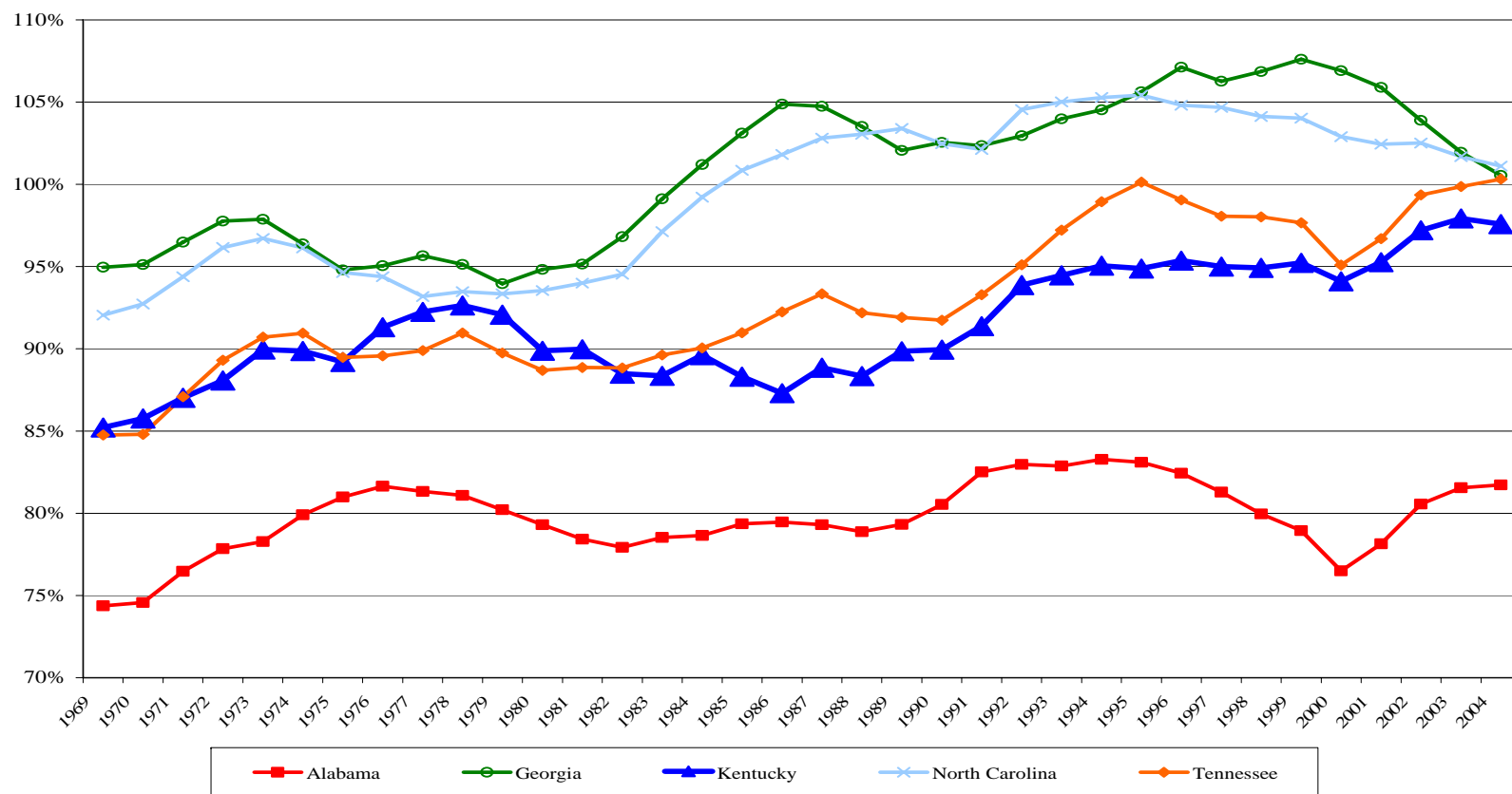


Average Earnings for all Residents in a State



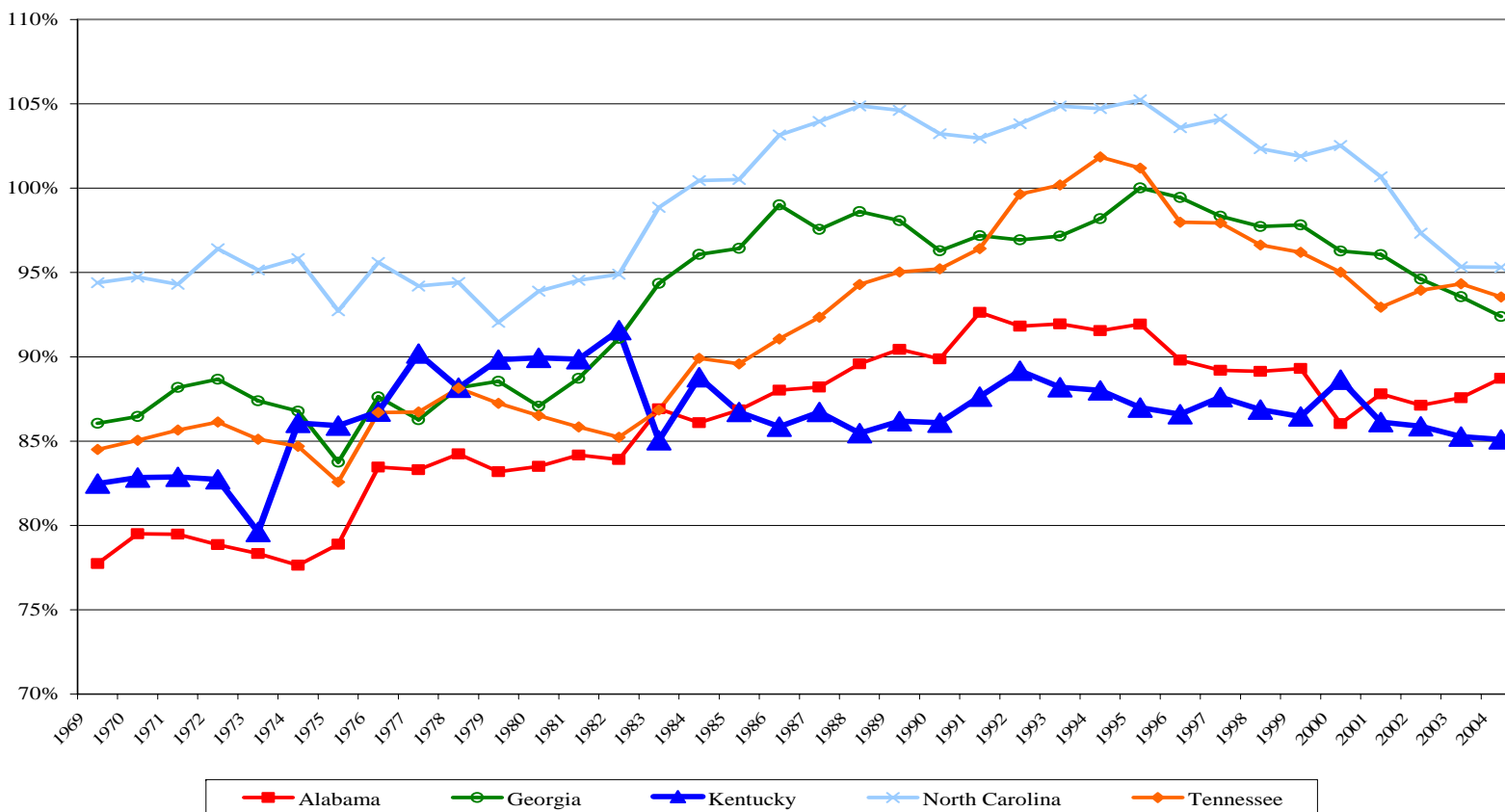


Average Earnings of Urban Residents Relative to U.S. Urban Average





Average Earnings of Rural Residents Relative to U.S. Rural Average





Income Growth

- Slow growth in income in Kentucky is almost entirely attributable to the slow growth in income in the rural areas of Kentucky.
 - Kentucky's urban areas have experienced faster income growth than the average urban area in the U.S.



When examining differences in the growth in income across states we focused on seven possible explanations

- (1) the stock of knowledge
- (2) the business climate and taxes
- (3) state industrial structure
- (4) state infrastructure
- (5) the size of the government sector and role of transfer payments



When examining differences in the growth in income across states we focused on seven possible explanations

(6) demographic changes

(7) other observed or unobserved factors that are related to income growth

- We found that the stock of knowledge variables explains the largest portion of the difference in income
 - The percent of adults with a high school diploma
 - The percent of adults with a bachelor's degree
 - The per capita stock of patents in a state
 - Per capita federal spending on research and development (R&D) in a state



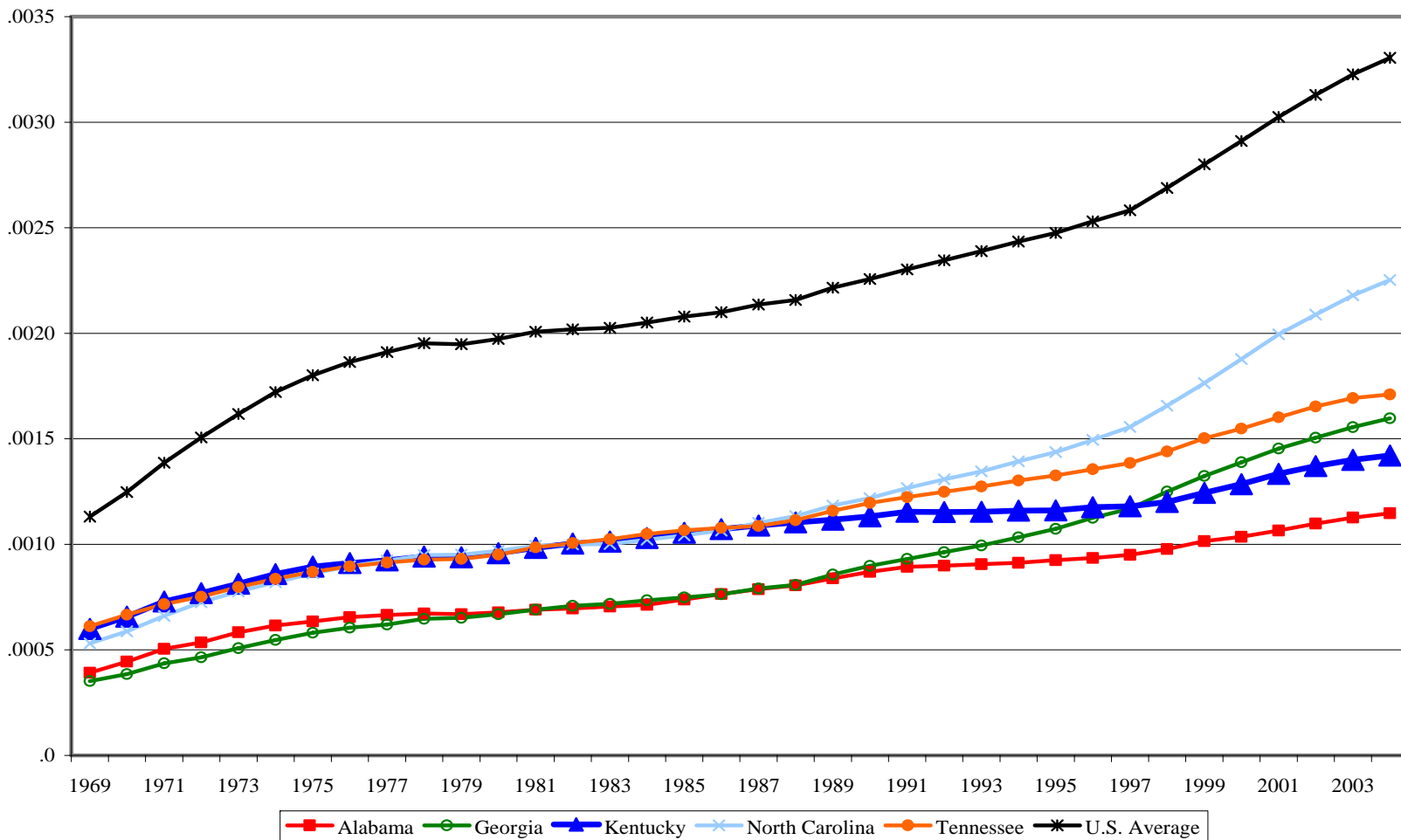
- The variables measuring the demographic changes in a state also play an important role in determining income in a state.
 - The percent of a state’s population living in an urban area.
 - The percent of the population that recently moved into the state.



Relative to our comparison states,
Kentucky has experienced significantly slower
growth in a number of these
factors in recent years

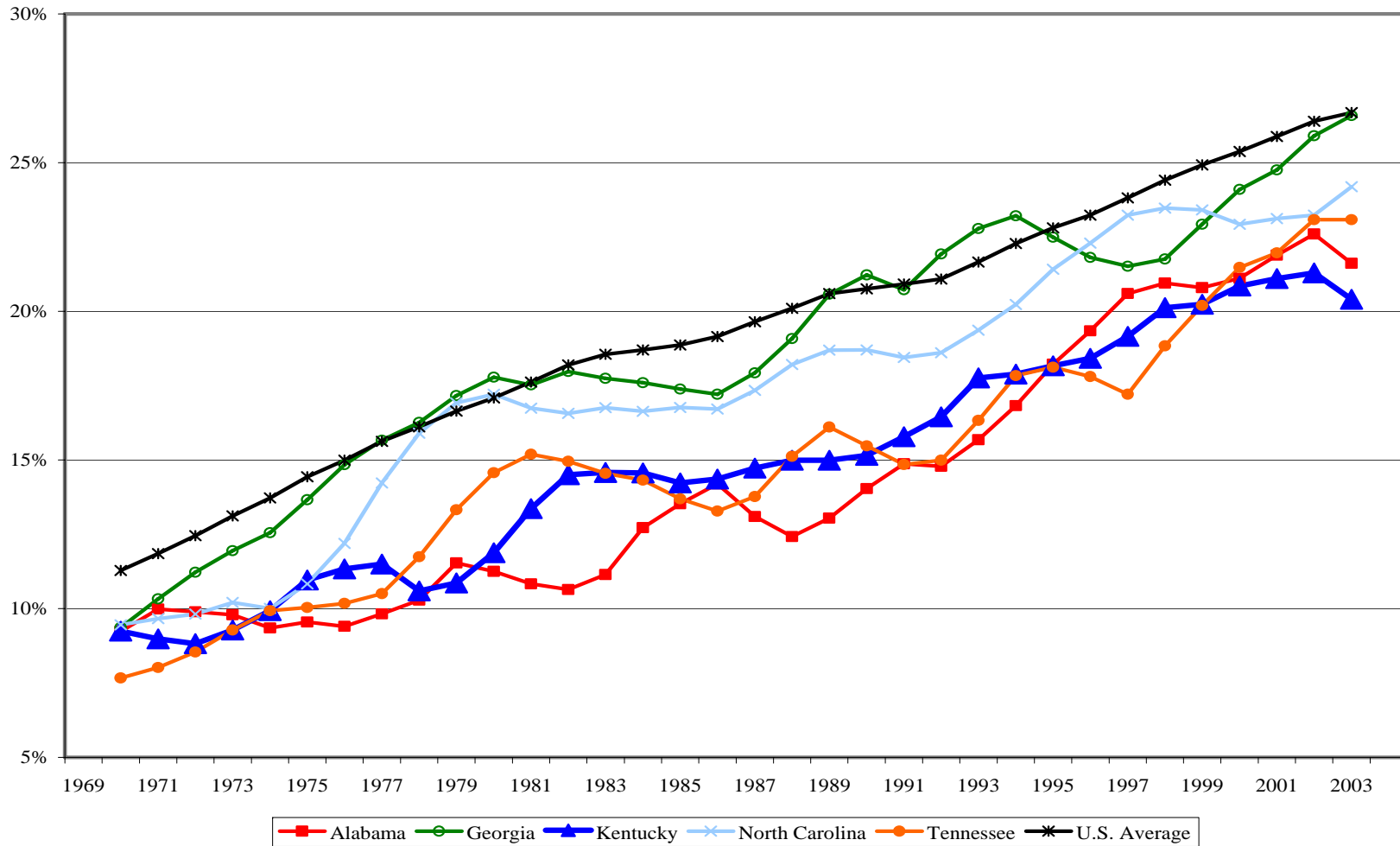


Average Number of Patents per Resident in a State



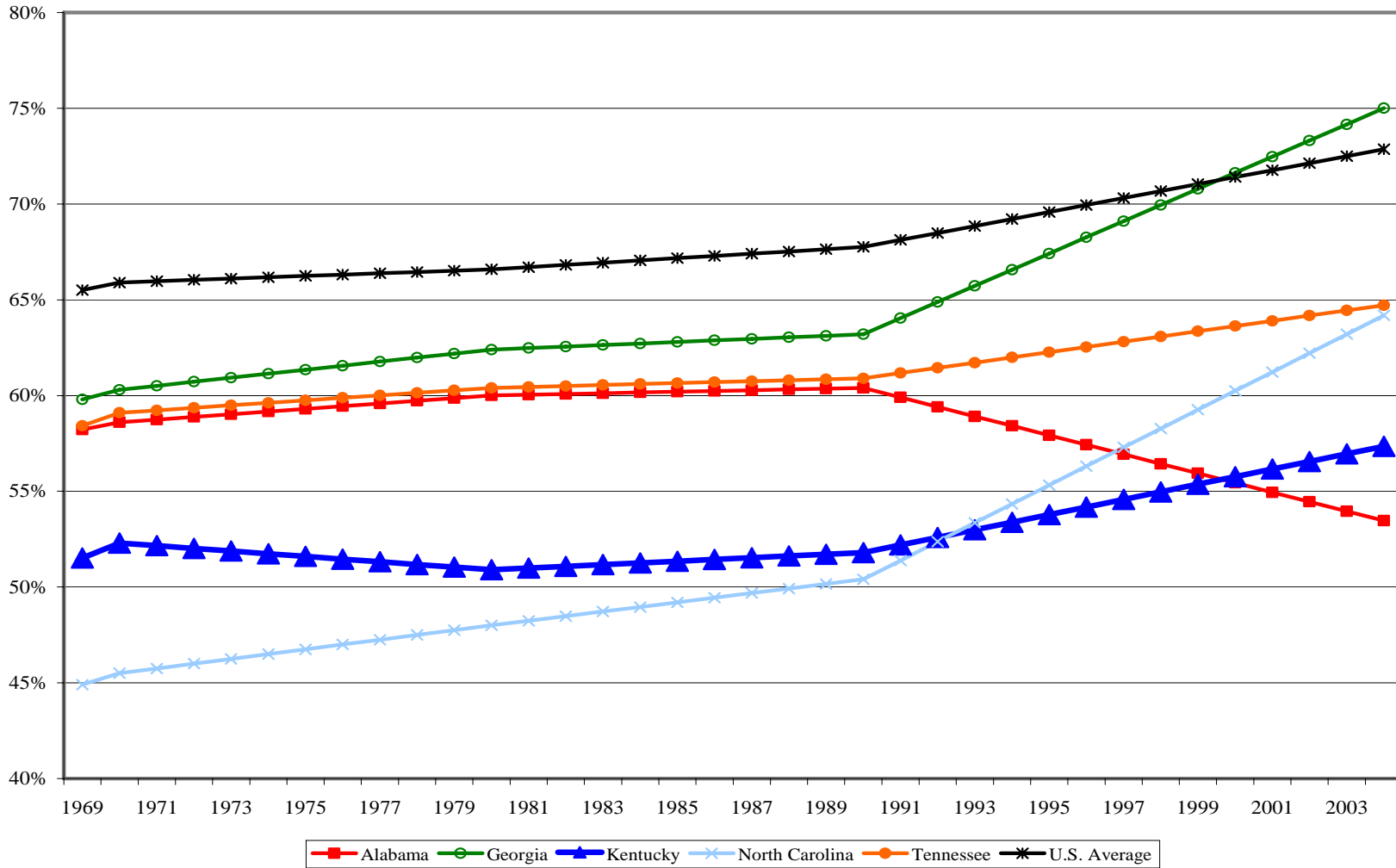


Percent of Residents in a State with at Least a Four-Year College Degree



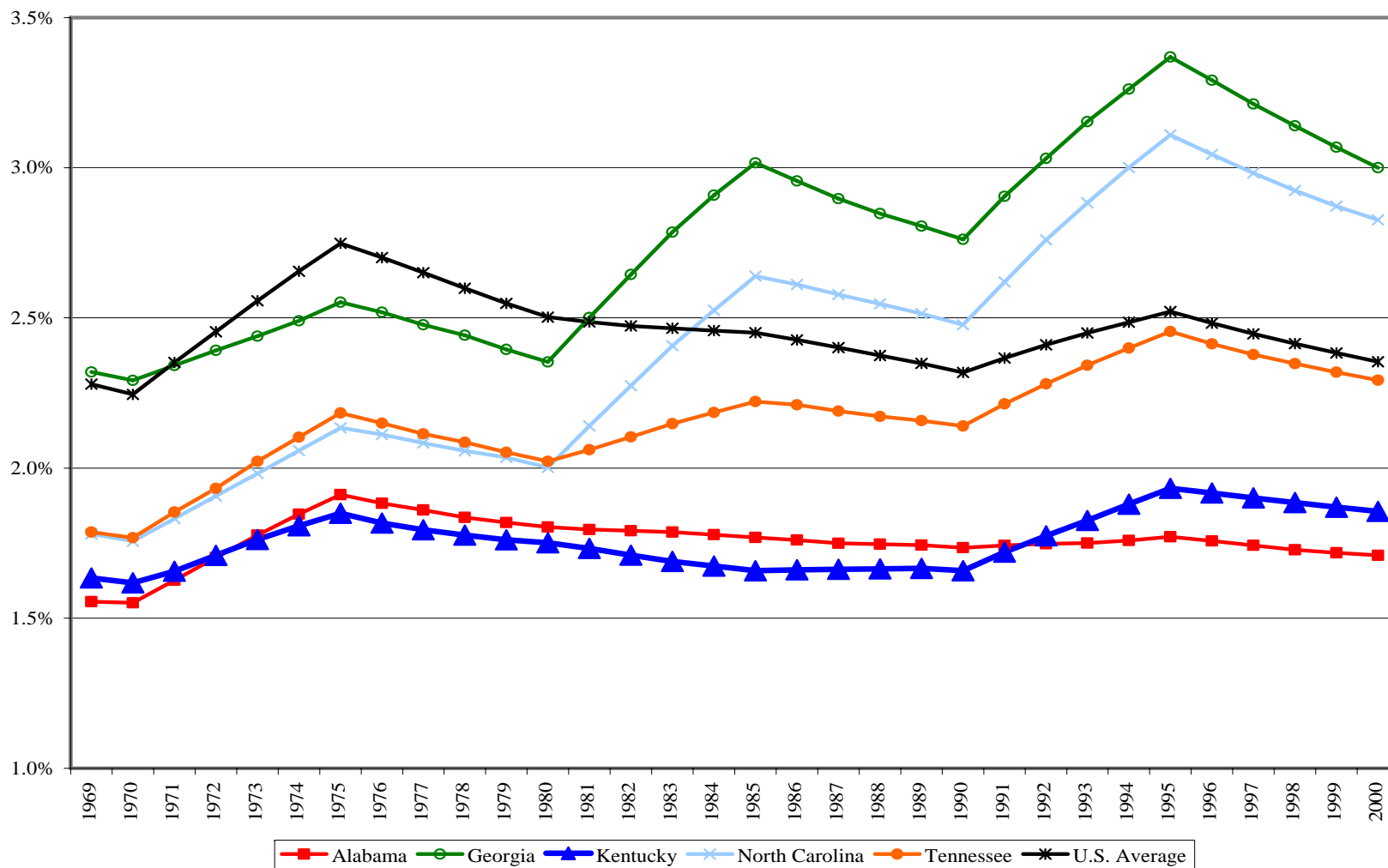


Percent of Residents in a State Living in an Urban Area





Percent of People Moving into a State

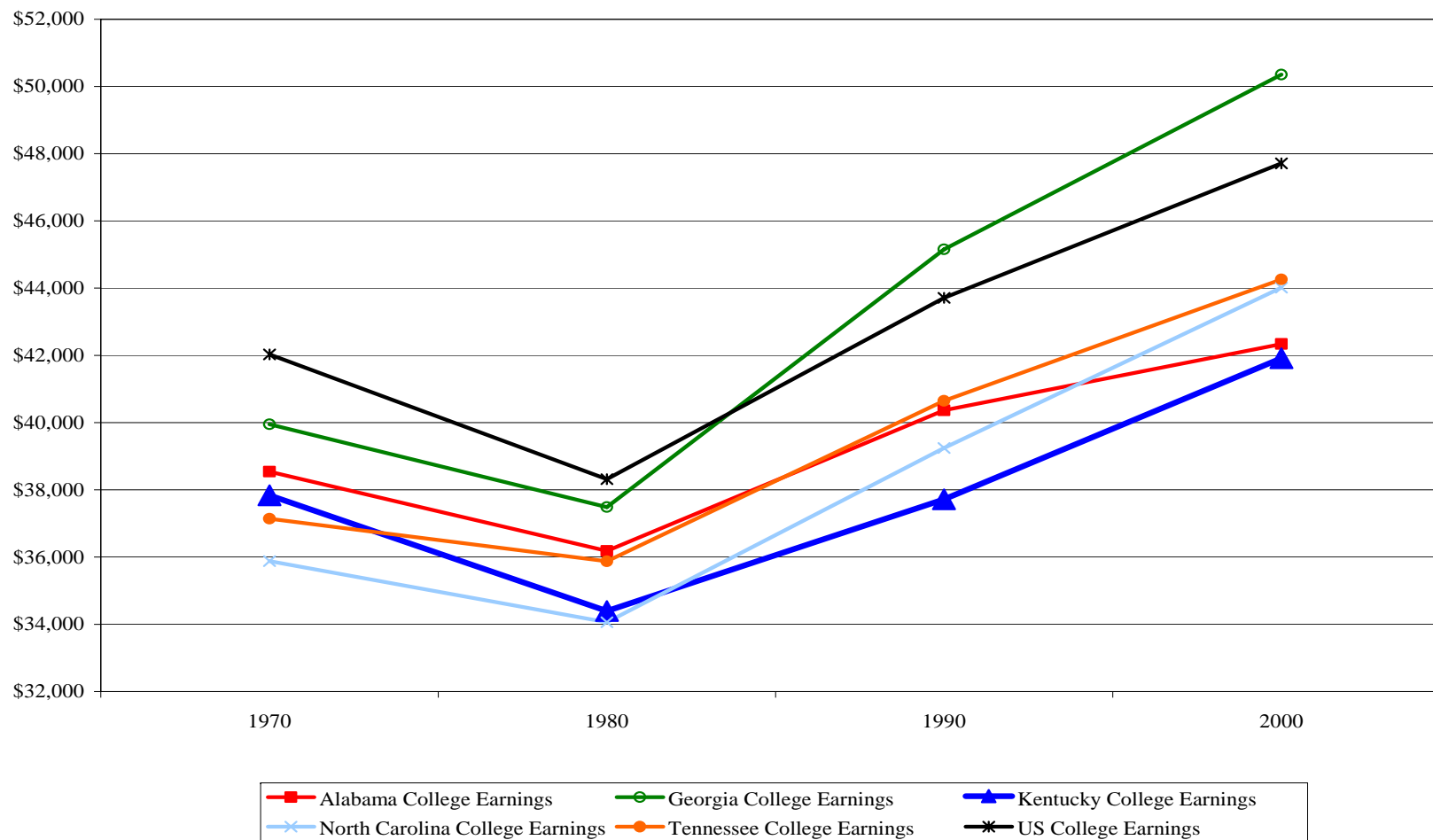




When we look more carefully at these factors we can see additional reasons why Kentucky has experienced slower growth than our Southern neighbors

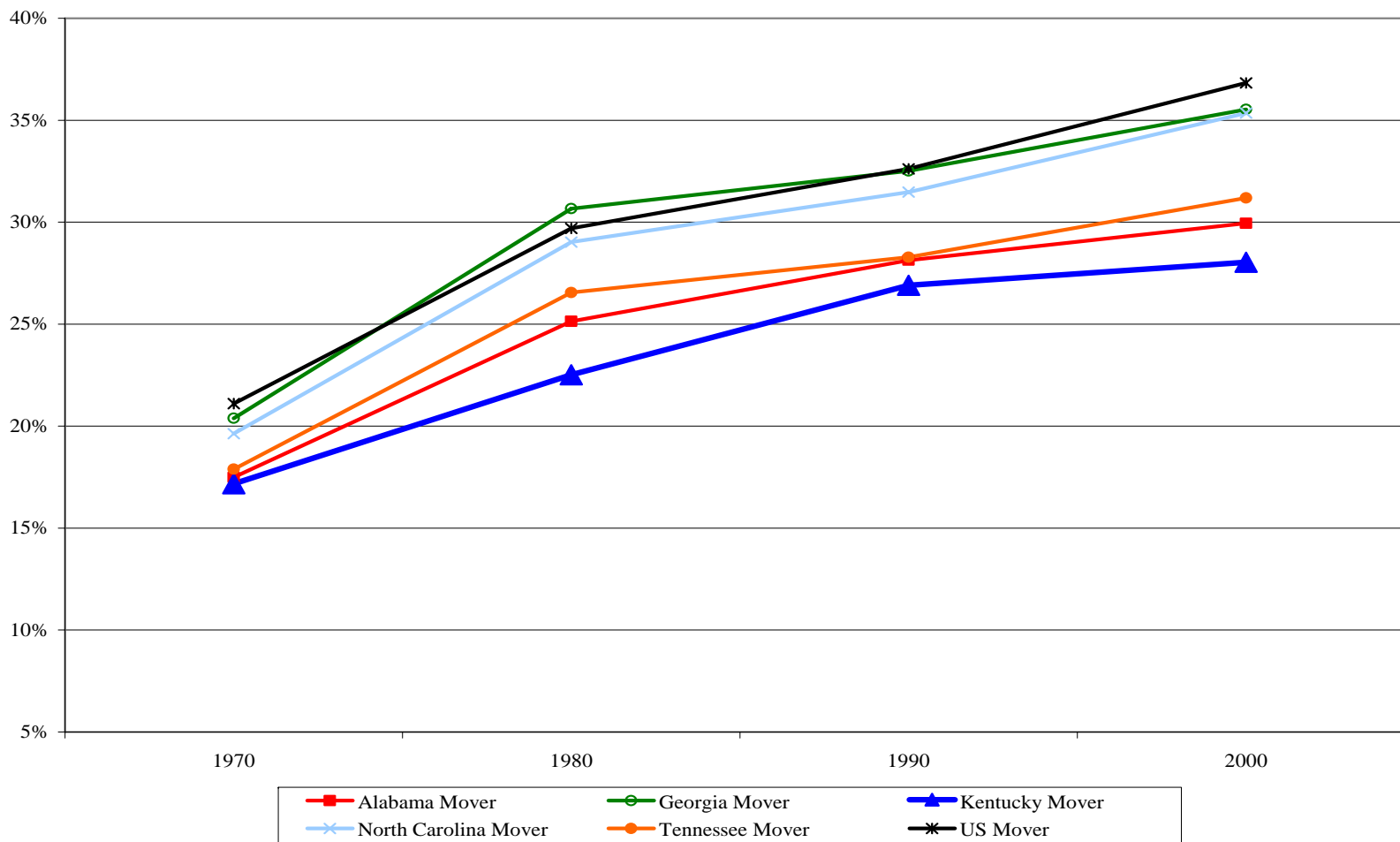


Average Earnings of College Graduates by State





Percent of People Moving into a State with a College Degree





What Do Site Consultants Say About Kentucky?

- As part of our study, we spoke with consultants who specialize in helping businesses choose location sites.



What Do Site Consultants Say About Kentucky?

We asked them two questions:

1. What factors did they feel were limiting opportunities for firms to locate and expand in Kentucky?
 2. What were some of the programs in other states that played a significant role in promoting economic development?
- Their answers to these questions largely confirmed our previous finding.



What Do Site Consultants Say About Kentucky?

- Every site consultant we spoke with indicated the primary limitation to firms locating or expanding in Kentucky is the lack of training and poor education of the workforce.
- This is the primary reason why we struggle to attract innovated businesses and workers to the state.
- The problem of workforce skill is particularly acute in the rural areas of the state.



What Do Site Consultants Say About Kentucky?

- One consultant said, “The states Kentucky competes with had similar limitations in the past but addressed these problems over a decade ago.”



What Do Site Consultants Say About Kentucky?

- Consults mentioned the perceived poor quality of life in Kentucky—by which they primarily mean the poor quality of schools—which is particularly severe in the rural areas.
 - Consultants feel we lack quality education at both the K-12 level as well as at the public universities.
- One consultant claimed that rural Kentucky could be doing much better with a relatively small investment in rural public education.



What Do Site Consultants Say About Kentucky?

- Consults also mentioned that a lack of amenities in our big cities hurts our ability to attract young professional workers to Kentucky.



What Do Site Consultants Say About Kentucky?

- Several consultants mentioned that Kentucky does a relatively poor job marketing the attributes of the state.
 - “Other than the Kentucky Derby and perhaps UK and UL basketball, most people do not know anything about Kentucky.”
 - Kentucky is a “... state of small cities.” Need to make people aware that many of these cities are good places to live and raise a family.



What Do Site Consultants Say About Kentucky?

- Consultants indicated that Kentucky needs work to promote the entire state and that communities in various regions of the state need to work together to promote their region.
 - Several suggested forming economic development regions around cities as a way of tying economic growth in the cities with growth in the rural areas.
 - Several pointed to corridors of opportunities in other states as something Kentucky should consider.



What Do Site Consultants Say About Kentucky?

- Consultants believe that Kentucky is doing a good job on “traditional” economic development tasks such as incentives and site development.
 - Did mention that Kentucky’s incentive need to be more flexible.



What Have Other States Done?

- We also spoke to economic development officials in our competing states and asked them: “What specific programs did they feel were particularly important in promoting economic development in their state?”



What Have Other States Done?

- Every Economic Development official indicated the importance of coordinating workforce development, economic development and tourism when trying to attract businesses to the state.
- The importance of coordinating these efforts was confirmed by site consultants.



What Have Other States Done?

- In our comparison states there is a close interaction between officials in charge of economic development and officials responsible for workforce development.
 - In North Carolina, Georgia and Alabama economic development and workforce development and training are located in the same agency.
 - All three of these states use federal Workforce Investment Act (WIA) funds to develop training programs for expanding businesses.



What Have Other States Done?

- Economic development officials in the comparison states work closely with the community and technical colleges to develop training programs for new or expanding businesses.
 - North Carolina and Georgia officials consult with community college officials on almost all major efforts to attract specific businesses to the state.
 - Georgia employs a direct liaison between economic development officials and community and technical college officials
 - In Alabama an official from the economic development office sits on the board overseeing the community college system.



What Have Other States Done?

- Officials in both Georgia and North Carolina point to the major investment in higher education over the last 40 years as a key to recent economic growth
 - Officials in Georgia and North Carolina work closely with officials at the universities in the state when trying to attract innovative companies and the R&D divisions of companies.
 - Both states also made a significant investment in developing research parks—notably RTP in North Carolina—and this has helped in attracting pharmaceutical companies and other companies such as IBM.



What Have Other States done?

- Our comparison states view efforts to attract people to visit the state as a key part of economic development.
 - In Georgia and North Carolina, the state office of tourism is part of the same agency as economic development.
 - Other states treat tourism as a tool to introduce their states rather than as an industry to create jobs.



What Have Other States Done?

- In an effort to promote economic growth in rural areas, several states have focused on attracting retirees to the state.
 - Alabama works to attract college graduates who have left the state back to retire in the state.
 - Many have used tax breaks for retirees.
- North Carolina has focused on folk art in the mountains in an effort to attract tourists and retirees.



What Have Other States Done?

- All of the partners in economic development work together to ensure that legislators in the state recognize that all of these parts of state government are an integral part of economic development and need financial support.



Conclusion

- All parts of the study point to the same conclusion—the primary limitation to economic growth in Kentucky is the low skills of workers in Kentucky.
- Until we address this problem all other efforts at economic development will fail.



Conclusion

- The keys to economic growth in any state are:
 - Having the inputs necessary for businesses to continue to grow if they locate in the state
 - Having an environment where people want to move and raise a family
 - Ensuring that people know about the positive attributes of the state.
- Other states have accomplished these objectives by adopting a much more expansive view of economic development than we have adopted in Kentucky.