Tennessee Economic Update

Prepared for Tennessee Tomorrow, Inc.

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Introduction

As Tennessee entered 2002, the state economy was in the midst of recession. Job losses in the manufacturing sector were mounting and weaknesses were surfacing elsewhere in the economy, including a rising unemployment rate. The state was grappling with its perennial budget problem, aggravated by sharply slowing—and in some specific instances contracting—revenues. As important as these near-term events are to all of us, we cannot take our sights off the longer-term issues confronting the state. Most important is the need to foster stronger rates of economic growth that will enable the state and its residents to improve their relative standing vis-à-vis the nation. Yes, we need to mitigate the problems associated with the currently weak economy. But the economy will rebound and the fight for stronger growth must continue with renewed vigor.

While everyone in Tennessee has a stake in the future, *Tennessee Tomorrow, Inc. (TTI)* has taken on the challenge of promoting public awareness of the state's economic performance, emphasizing in particular the important role played by education in improving economic well-being. A daunting task confronts *TTI*. Last year's *Tennessee Economic Update*, prepared for *TTI*, noted some of the sobering facts regarding the status of education in Tennessee. Consider some more recent facts:

- Education Week's fifth annual *Quality Counts* report, released in January 2001, gave Tennessee an F for its education system, a lower grade than any other state in the southeast.

- The National Center for Public Policy and Higher Education released its report *Measuring Up 2000: The State By State Report Card for Higher Education*, which ranked Tennessee 45th in the nation in its composite score.

- The Corporation for Enterprise Development's *2001 Report Card* gave the state a D for its overall Development Capacity (down from a C in the previous four years) and an F for Human Resource Development Capacity.

Whether perception or reality, this is where education in Tennessee stands today. This is frustrating, given some of the positive strides the state has made in improving educational outcomes for the population as a whole in recent years. For example, in 1990 in Tennessee, the share of the adult population with a high school degree was only 89.2 percent of the national average. Preliminary Census data for 2000 shows that the state has improved to slightly over 90 percent of the national average. Similar improvement has been realized for those with bachelor's degrees.

The reality is that Tennessee and other states are in a footrace. All are interested in fostering economic gains and most realize that investments in human capital are one important means of achieving these gains. The prosperity of people, regions and states is highly correlated with strong stocks of human capital and solid investments in all types of education. While Tennessee is not as prosperous as the nation as a whole, it nonetheless has the resources to support further investments in human capital. It must simply *choose* to do so. There is no guarantee this will prove to be the winning strategy. But one thing is crystal clear: failure to invest in education will certainly compromise the growth of the state in the years to come.

The Economic Goals of Tennessee Tomorrow, Inc.

In order to motivate citizens and policymakers, *TTI* has established four specific and measurable economic goals for the state. The goals were re-affirmed by the *TTI* Board of Directors in 1999 and are outlined in *TTI*'s 2001 Annual Report. Each of these goals extends out to 2012.

- Achieve ***annual total personal income growth*** at 115 percent of the national average.

- Achieve *annual average per capita personal income growth* at 110 percent of the national rate.

- Achieve *annual average wage and salary growth* at 110 percent of the national rate.

- Achieve *annual nonagricultural job growth* at 115 percent of the national average.

Together the goals capture key aspects of the state's economic performance relative to the nation. The goals are realistic based on the state's long-term economic performance; they can be easily measured; and successes and failures can be identified. Monitoring the state's performance and dissecting state education and development policies will be key to engineering success in the years to come.

How Have We Performed?

Data are now available that allow for an updated assessment of Tennessee's progress in realizing the goals established by *TTI*. Figure 1 shows how the state has fared in terms of growth in total personal income for three different time periods and two comparison groups. The initial time period 1990-98 includes the early years of the 1990s expansion when Tennessee led the region and nation by several measures of economic growth. But the tail end of this window, especially the period 1995-98, includes the state's deteriorating position related to the nation. The first comparison group includes all states, and the second group includes a set of 16 benchmark states.

During the longer-time frame of 1990-98, Tennessee enjoyed total personal income growth of 63.2 percent, or 6.3 percent compound annual growth. This represents a 21.8 percent premium over the nation as a whole and a 15.1 percent premium over the 16 benchmark states. However, the relative advantage held by the state vanished between the end of 1998 and the end of 1999, as Tennessee's growth was only 3.8 percent, versus 4.3 percent for the 16 benchmark states and 4.7 percent for the nation as a whole. In fact, total personal income has shown stronger growth for the nation than for the state since 1996. The state improved its performance in 2000 but still lagged the two comparison groups.

Figure 2 tells the story for per capita personal income, using the same time periods and the same comparison groups as were used for total personal income. As with total personal income, the state outperformed the two comparison groups in the long time period shown, but then lagged their performance for the more recent time periods. Particularly discouraging is the fact the Tennessee's relative well-being, measured by the ratio of state per capita income to national per capita income, has deteriorated in recent years. The problem surfaced prominently in 1996 when state per capita personal income growth trailed the nation, a pattern that has continued up to today. In 1998 state per capita personal income stood at 89.6 percent of the national average, falling to 88.7 percent in 1999, and falling further to 87.9 percent in 2000. In order for Tennessee to match the US in the level of per capita personal income, it must experience much stronger growth than its national counterpart. This requires the creation of more high-wage jobs than has been the case in recent years, as well as increasing other forms of personal income for state residents.

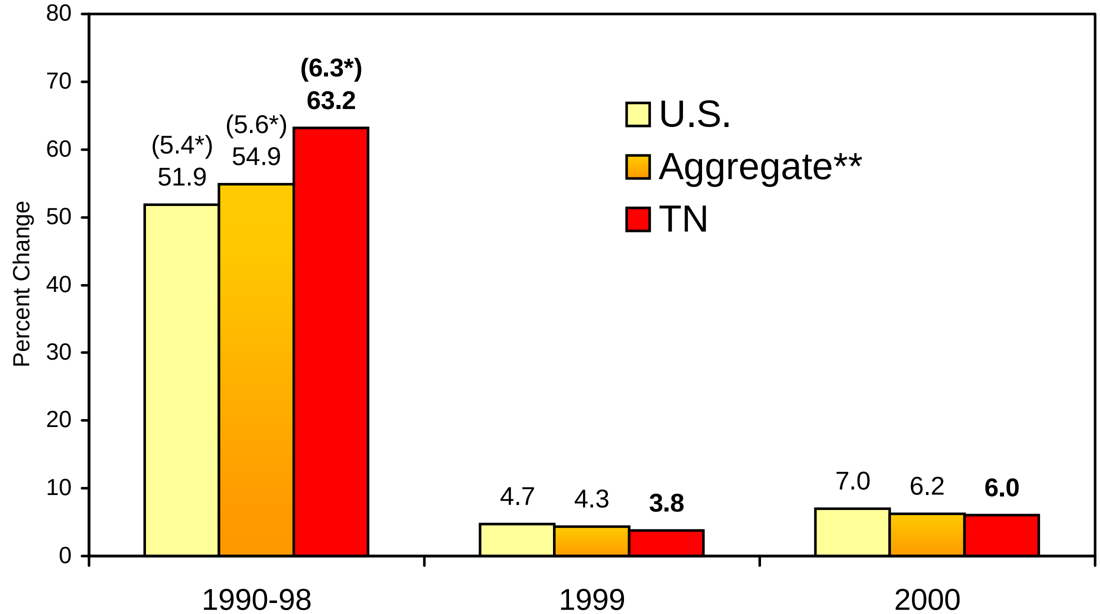
The performance of average earnings per job is displayed in Figure 3, and the same pattern as discussed above emerges. Earnings growth between 1990 and 1998 of 34.1 percent, while better than the two comparison groups, was nonetheless too low to allow the state to realize its goal of a 10 premium over the national economy. State earnings growth was 88.1 percent of the national average in 1999, slipping to 67.9 percent in 2000. It is important to note that average earnings per job have slipped relative to the nation in every year going back to and including 1996.

The final barometer of economic performance, total nonagricultural jobs, is shown in Figure 4. The state experienced growth between 1990 and 1998 that was 20.2 percent better than the nation and 23.9 percent better than the benchmark states. While state job growth slowed appreciably in 1999, a rebound was experienced in 2000 as Tennessee outperformed both comparison groups. Unfortunately, the evidence indicates we are still not creating a sufficient number of higher-caliber jobs.

Summary

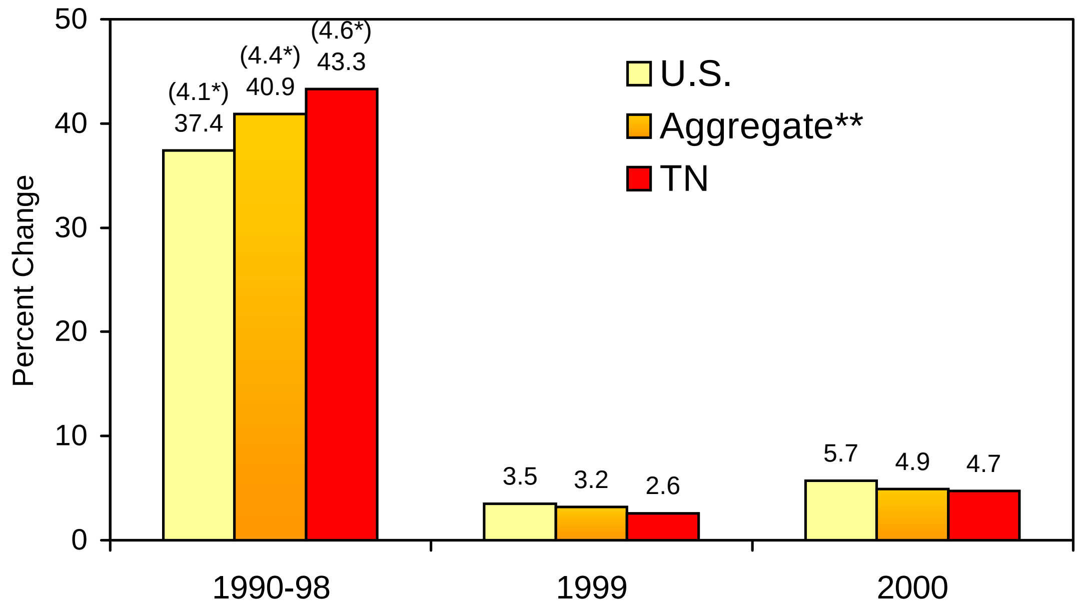
The state confronts many challenges as it seeks to foster stronger economic growth for its residents. While there have been some notable economic development successes, the evidence for recent years points to a state that is losing ground relative to the nation as a whole and to a set of key benchmark states. This trend surfaced prominently and conspicuously in 1996 and has continued unabated up to today. There is no easy solution to this problem. Important ingredients include aggressive state economic development policies that can attract and retain high-caliber jobs and investments in education to support a quality workforce and to provide a foundation for strong economic growth. Absent these important policies and investments, the state is likely to lose further ground in the years to come. Once this ground is lost, it will be exceedingly difficult to recover.

Figure 1: Change in Total Personal Income



*Compound Annual
**Aggregate area includes Alabama, Arkansas, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Virginia, and West Virginia.

Figure 2: Change in Per Capita Personal Income



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**Aggregate area includes Alabama, Arkansas, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Missouri, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Virginia, and West Virginia.

Figure 3: Change in Average Earnings Per Job

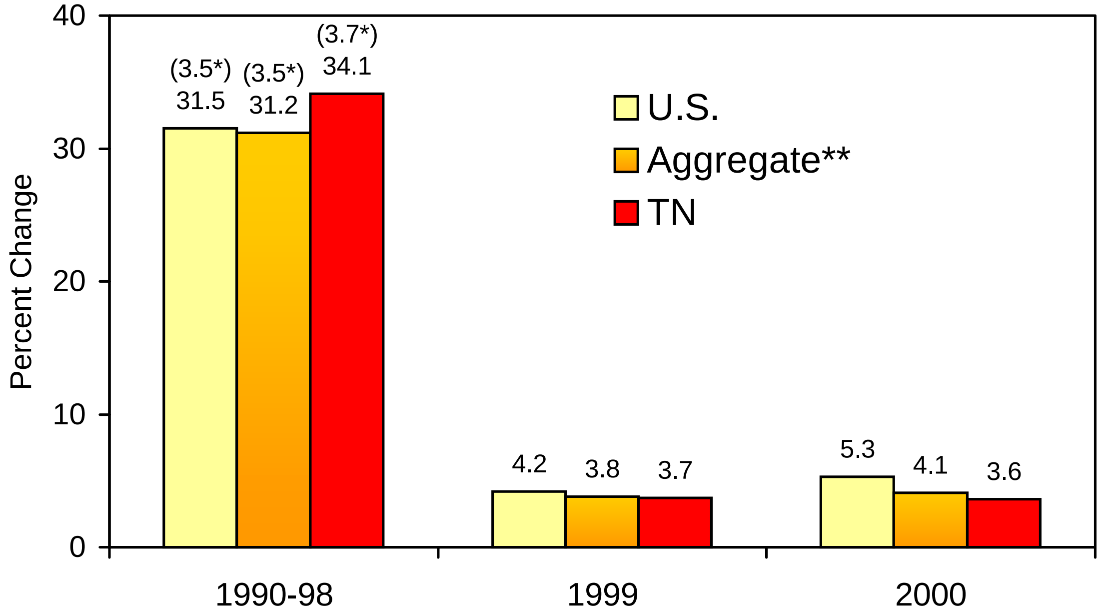

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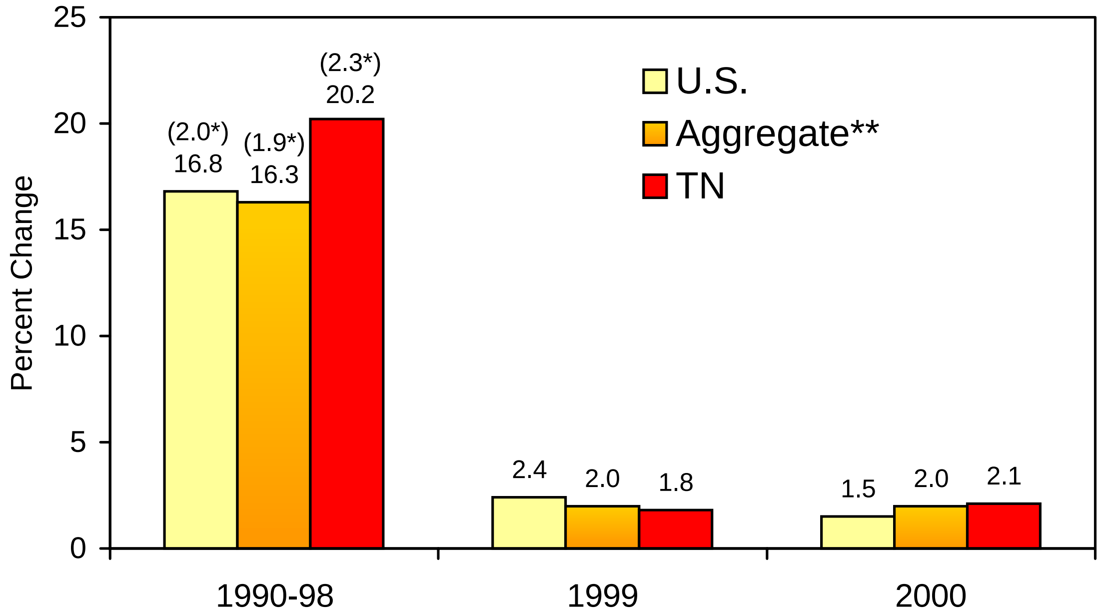
Figure 4: Change in Total Nonagricultural Employment



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