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## LOUISIANA'S PERFORMANCE IN THE NEW KNOWLEDGE ECONOMY

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# Louisiana's Performance in the New Knowledge Economy

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## 1. INTRODUCTION

In August 2005, the low-lying regions of Louisiana and Mississippi were dealt a devastating blow by Hurricane Katrina. One of the worst natural disasters in U.S. history, Katrina generated an equally massive response. Public and private organizations moved to offer assistance at the time of the disaster and later. Never enough, and never on time, the assistance still has contributed to a rebirth of the Gulf Coast economy. In the aftermath of these dramatic forces, there are major questions to be answered about the Louisiana economy that is now evolving. Even before Katrina, Louisiana faced a new world of competitive forces. Even then a new global economy was reshaping the economic landscape. A new knowledge-based economy was emerging, an economy that emphasizes entrepreneurship, creativity, and the commercialization of new technologies.

The new 21st century economy demands a more highly educated workforces; it expects closer interaction between research universities and the communities and enterprises they may service. The new economy demands a reexamination of the critical role played by government in providing state of the art services and infrastructure to citizens and organizations that will form a future economic base.

How is Louisiana positioned as a player in this rapidly evolving knowledge economy? How do the state's critical knowledge economy traits compare to the other 49 states, to the nation, and to states in the immediate region? What about the state's major cities? How do they stack up as energetic growth centers? Can Louisiana become a major center of entrepreneurial leadership?

And what about government? When it comes to being competitive in attracting creative people and new capital, how do critical public policies compare with other states and regions? What about education, health care, highways and other infrastructure? Does Louisiana offer competitive bundles of services?

This report addresses these two sets of questions. The next part of the report focuses on the emerging knowledge economy and entrepreneurship. In this section, we provide data and discussion that compare Louisiana's evolving economy with that of the United States. We provide data on a battery of indexes and maps that show how Louisiana ranks with other states in the new economy. We also analyze migration patterns and the nationwide movement of knowledge workers. We then turn to the metropolitan areas and identify their relative strengths. We finally examine data on entrepreneurship and new businesses to see how Louisiana is faring.

Part three of the report focuses on government. Here, we report data on tax burden, regulation, and liability risk. All along we compare Louisiana with the other states as well as with states in the region. We focus sharply on education and linkages to the cyber world, since knowledge is the challenge in a knowledge economy. But we also examine healthcare and other important services. Going further, we look to see how Louisiana is ranked by those who track transparency and measure corruption.

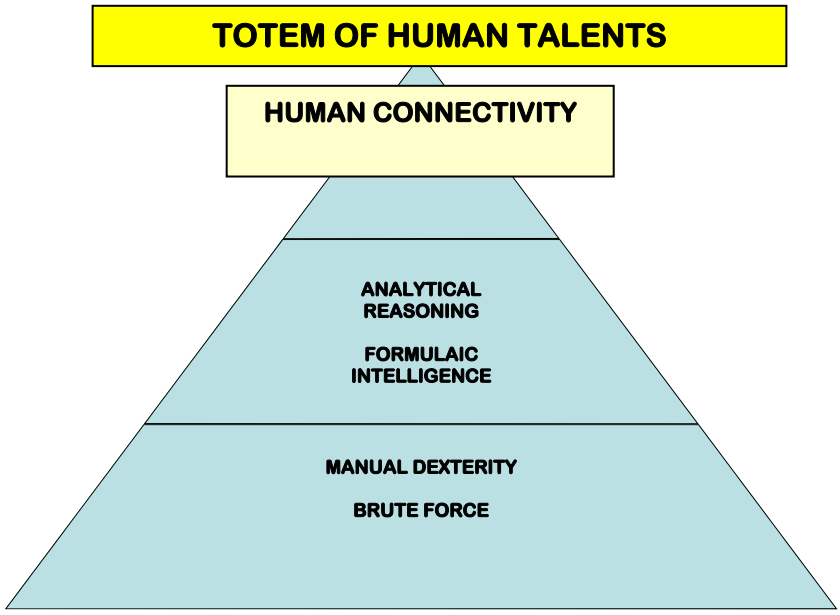
While we provide a rather large amount of data on Louisiana's economy, public sector, and prospects, we recognize that there is a huge amount of information still left unexplored. In short, there is more to Louisiana's story than can be covered in this short examination from a distance. Knowing full well that there is more to be learned, in the report's fourth part, we reflect on and summarize what has been discovered and discussed in the report's earlier sections. It is here that we offer recommendations for policy changes and other actions that we believe will strengthen Louisiana's new economy.

## 2. LOUISIANA AND THE EVOLVING KNOWLEDGE ECONOMY

Since 1960, the U.S. economy has undergone a dramatic change in where people work and what they produce. In what was then a smokestack economy with heavy employment in manufacturing, highly skilled workers were trained largely on the job, and their skills, once learned, were good for years. We now have a knowledge economy where more goods are produced but with fewer and more educated workers; we have an economy where change is rapid and knowledge is king. Driven by globalization, the new knowledge economy calls for a more educated work force with higher reading and math skills; it places a premium on the ability to think abstractly, to reason and to communicate. At the margin, these new skills are replacing an earlier desired skill set that rewarded manual dexterity and physical strength.

The shifting skill priorities are seen graphically in the accompanying figure, which is based on work by Michael Cox, chief economist at the Federal Reserve Bank of Dallas

and Richard Alm (Cox and Alm, 1999, 170-173). With brute force at the bottom of the triangle and human connectivity skills at the top, the figure illustrates the notion that highly valued worker traits change across the decades. Those states and regions that were more specialized in activities that fit a less educated workforce are now challenged to stay abreast of the emerging knowledge economy.




## 2.1 Louisiana's Evolving Economy

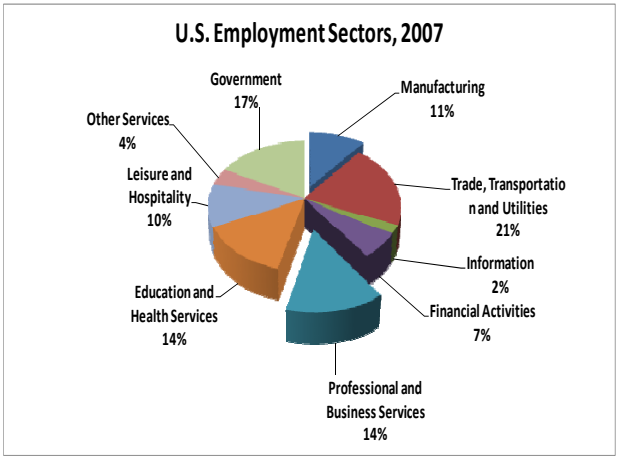
The emergence of the new knowledge economy is seen vividly in the employment shift from manufacturing to services in the U.S. and Louisiana economies. The data reported in the next table show remarkable parallel movement for the two economies, with Louisiana becoming more like the nation with each passing year.

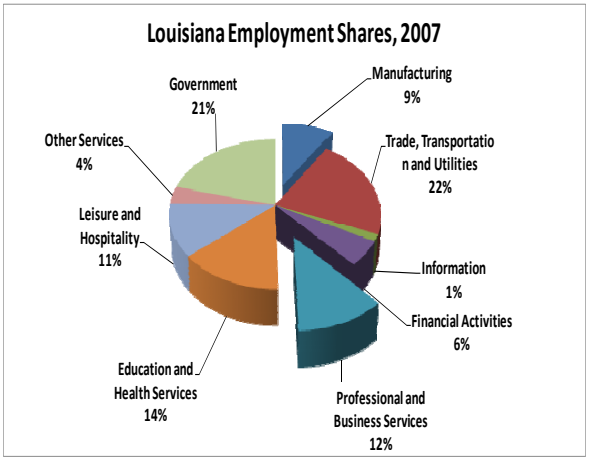
| Employment Sectors | | | | |
|---|---|---|---|---|
| **Evolving Employment Patterns: 1960-2007** | | | | |
| | **Louisiana** | | **U.S.** | |
| ***Year*** | ***Mfg.*** | ***Svc.*** | ***Mfg.*** | ***Svc.*** |
| | | | | |
| 1960 | 21% | 15% | 30% | 27% |
| 1970 | 19 | 17 | 27 | 30 |
| 1980 | 16 | 20 | 22 | 28 |
| 1990 | 12 | 33 | 17 | 34 |
| 2000 | 10 | 39 | 14 | 39 |
| 2007 | 9 | 41 | 11 | 42 |
| Source: Bureau of Labor Statistics, U.S. Department of Labor. | | | | |

In 1960, 21% of Louisiana nonfarm labor was employed in manufacturing and 15% in services. For the U.S. that year, the shares were 30% in manufacturing and 22% in services. By 1980, the Louisiana share in services had risen to 20%, while manufacturing employment's share stood at 16%. In 1990, services in Louisiana employed 33% of the labor force, and manufacturing then employed 12%. That year, the shares for the nation were 34% in services and 17% in manufacturing.

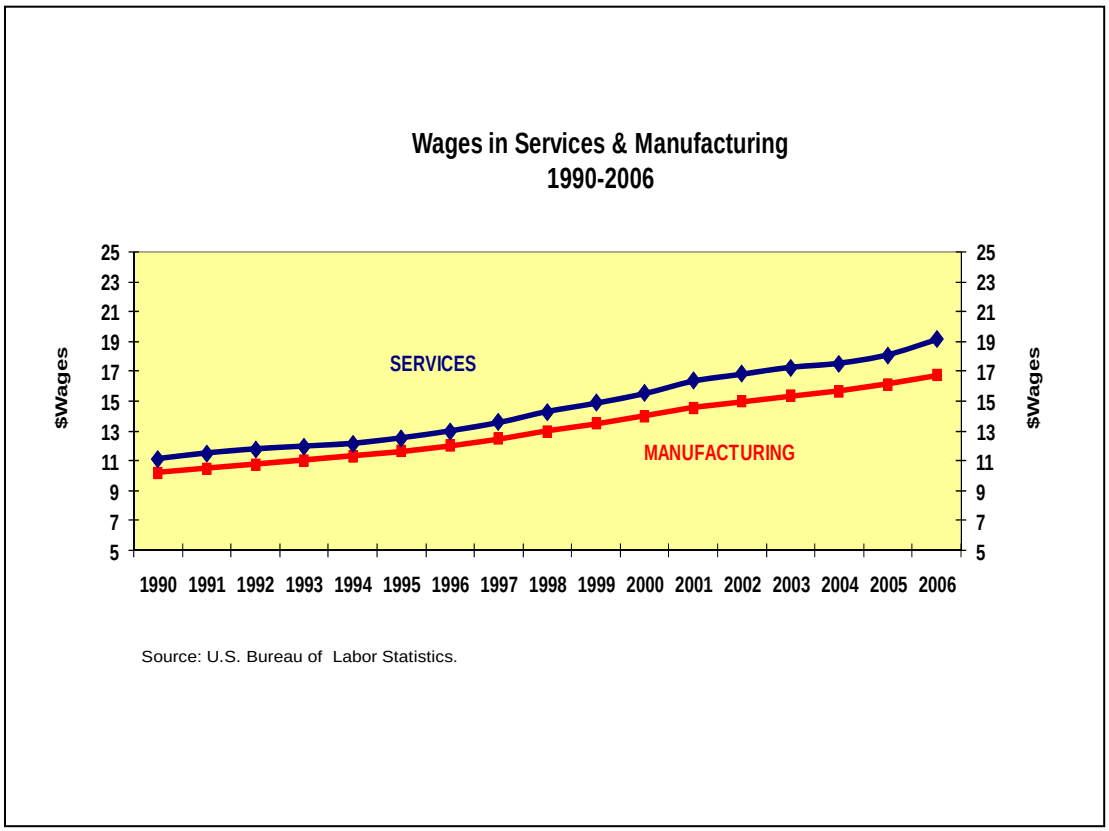
In 2007, Louisiana employment in services accounted for 41% of the labor force and just 9% was employed in manufacturing. For the nation that year, services took 42% and manufacturing employed 11% of the labor force. Louisiana converged with the nation. The sector changes are seen in the accompanying Louisiana and U.S. pie charts for 1960 and 2007, which, based on Bureau of Labors Statistics data, show a more important detailed breakdown for the services sector. We have extended two slices of the chart to emphasize the relative amounts of employment in manufacturing

and professional and business services. It is the latter sector that proxies for the size of the knowledge economy.

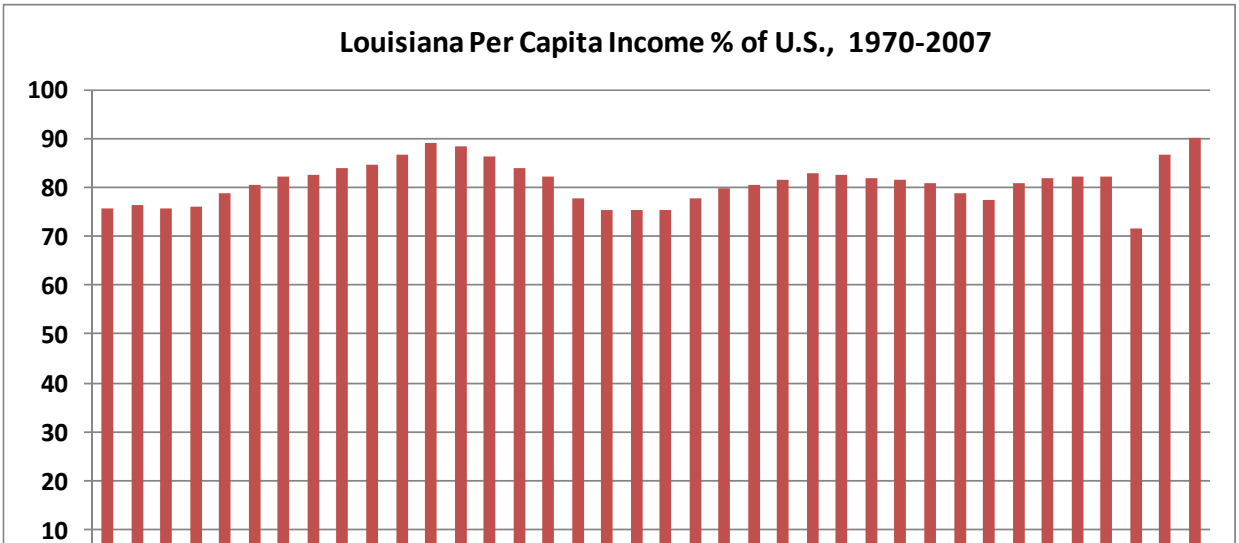



The shift from manufacturing to services, while challenging, has delivered higher per capita income. Part of the explanation for this outcome is seen in the next chart, which shows average U.S. wages in manufacturing and services. On average, wages in the services sector are higher than in manufacturing, and the gap is widening.



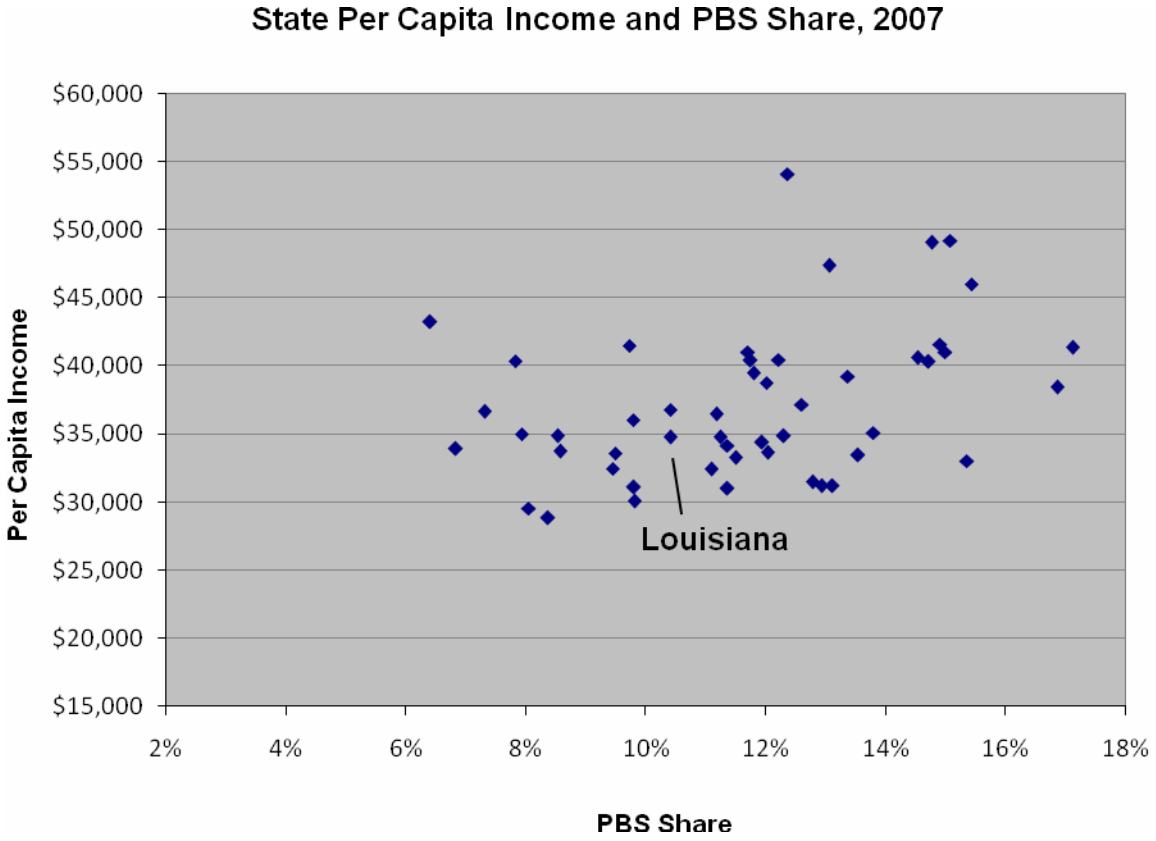

While Louisiana's per capita income has risen across several decades, income growth until recently had not begun to close the gap between Louisiana and the nation. (It should be noted that the chart's last three observations are affected by Katrina and post-Katrina activities.) Louisiana per capita income as a percent of U.S. per capita income is shown in the next chart. One reason for Louisiana's weaker performance relates to the size of Louisiana's Business and Professional Services sector. This sector, which is just one part of the services sector, can be thought of as a marker species for the health of the knowledge economy and entrepreneurship activities. The larger the specialized service sector, the healthier the emerging new economy.



## 2.2 The importance of the professional and business services sector

The higher income that springs from a larger services sector is easily understood when the content of the sector is explained. The services sector includes Education and Health, Leisure and Hospitality, Professional and Business, and Other Services; the sector does not include fast food restaurants, as is often thought. But it is the Professional and Business Services sector that predicts and is critical to the size of a knowledge economy. This sector contains scientific research organizations, accounting, law, business consulting, software design, engineering, and construction management. It is here that special knowledge workers get counted by the U.S. Bureau of Labor Statistics. While Louisiana's growing knowledge sector now contains 12% of the labor force, it is some 14% smaller than the national counterpart. To become a force within the nation, this sector will need to become larger than the nation's.

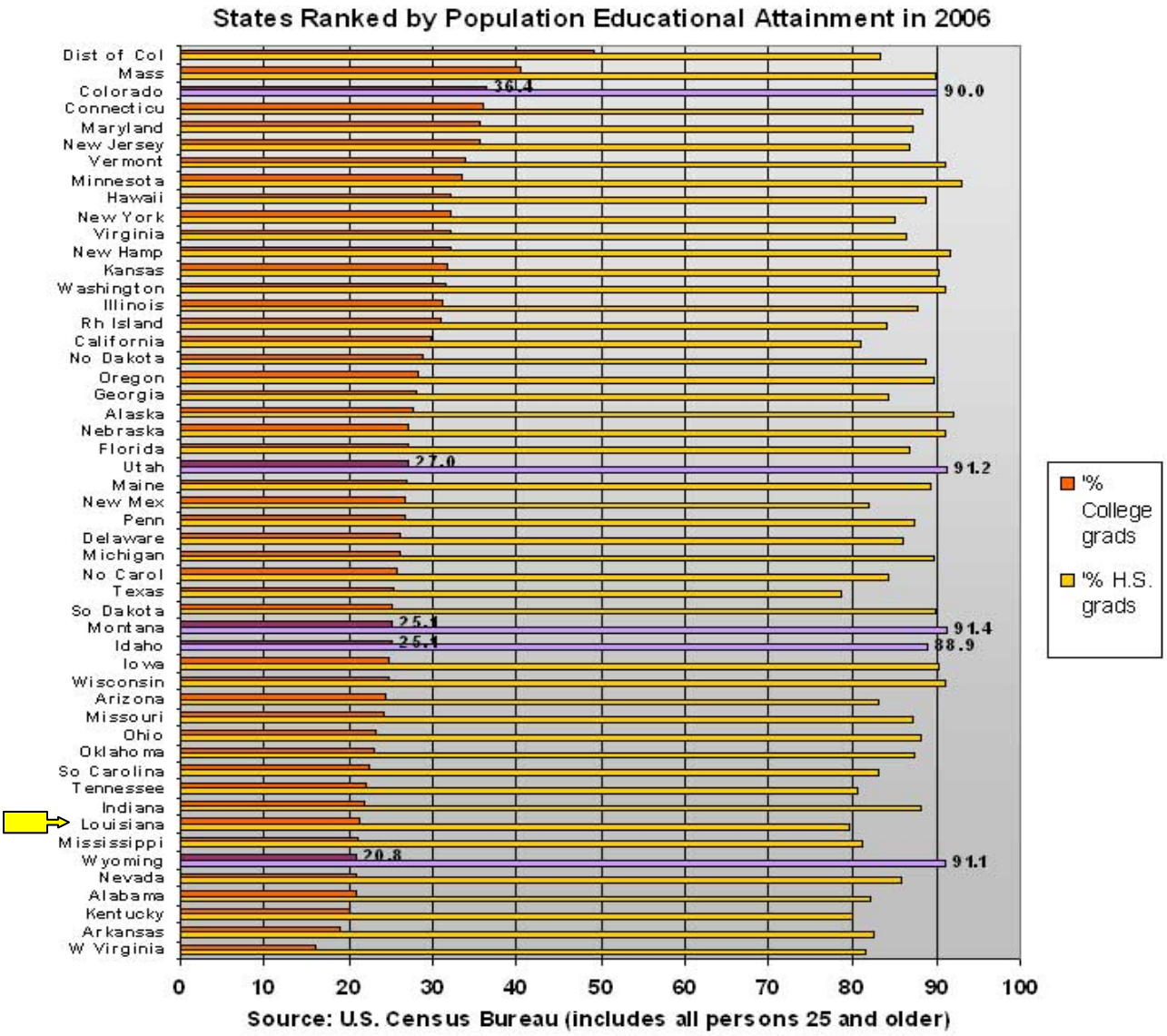
The relationship between the share of workers in the Professional and Businesses Services (PBS) and state per capita income is shown in the next chart. Examination of the data leads to one quick conclusion: To raise per capita income Professional and Business Services employment must expand. Put another way, expand the knowledge economy.



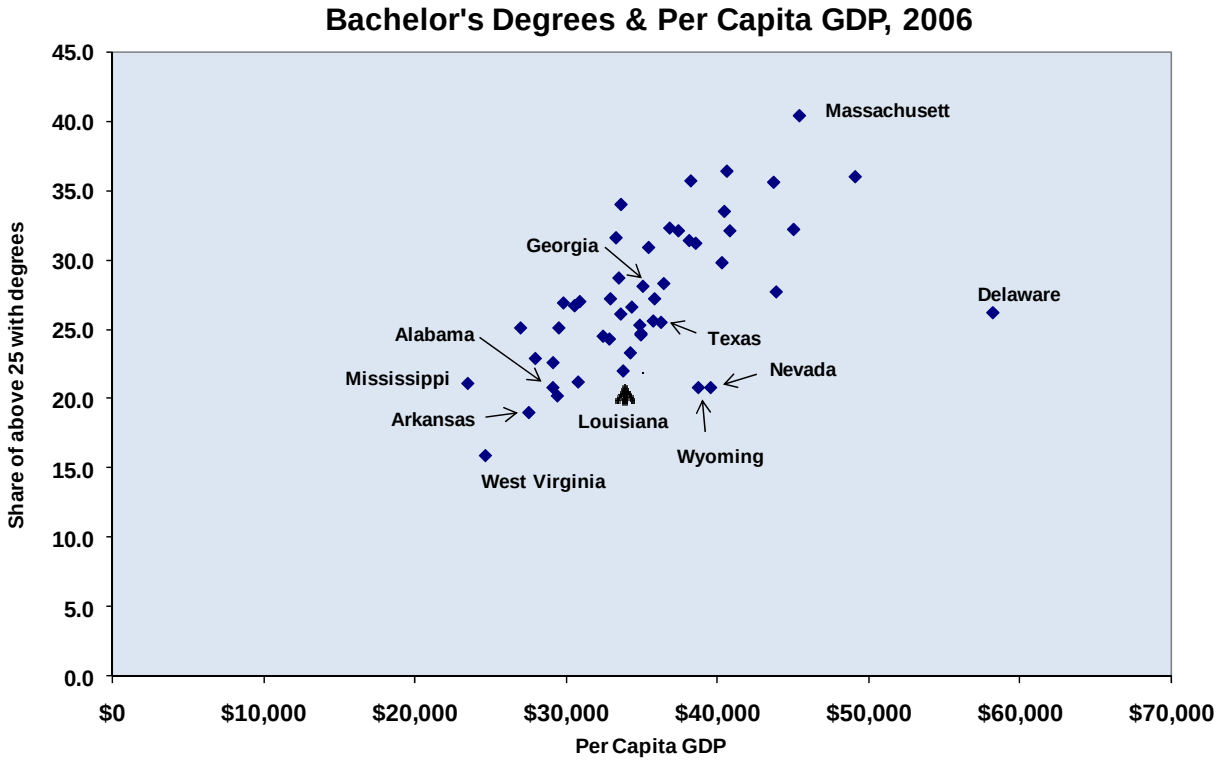

## 2.3. Expanding the knowledge economy

Of course, expanding Louisiana's or any other state's knowledge economy is a tall order. But part of the challenge relates to expanding the number of knowledgeable people living in or attracted to the state and then getting them connected to wealth creating activities. The next chart, which was produced by the O'Connor Center for the Rocky Mountain West (Swanson, 2006), shows how Louisiana compares with the other 49 states in terms of the 2006 share of population who have completed high school and college. Louisiana ranks eighth from the bottom in the share with college degrees. Only Texas has a smaller share with high school diplomas. But it is important to note that while Texas has a smaller share with high school diplomas, the state ranks much higher in the college educated share. In other words, Texas is attracting and keeping a larger share of young people who completed their bachelor degrees. Several noteworthy states are identified in the chart. These include Colorado, Idaho, Montana, Utah, and Wyoming with an exceptionally high share of high school graduates. These

turn out to be states with extraordinarily high growth in entrepreneurship and per capita GDP.




As might be expected, the share of population with bachelor degrees maps closely to state per capita GDP. The data are shown in the next chart.

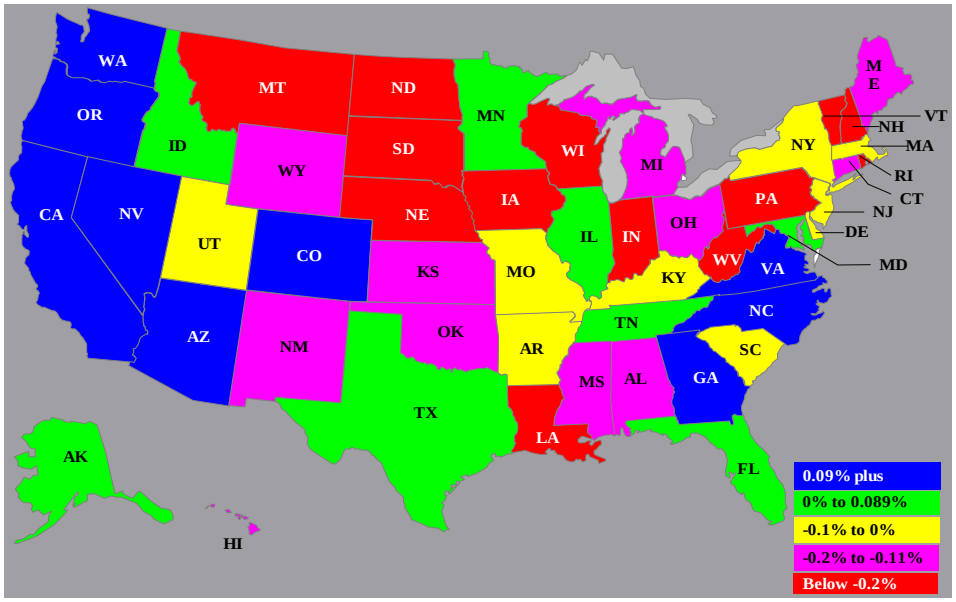



Louisiana is located along a horizontal line that includes Mississippi, Alabama, Wyoming, and Nevada. Notice that Arkansas is below and to the left of Louisiana. Texas and Georgia are above and to the right of Louisiana. Those states to the left of Louisiana have about the same level of educational attainment but have not produced as much GDP per capita given their attainment. Those to the right of Louisiana have produced more GDP per capita for about the same level of educational attainment. Progress in producing more GDP per capita can come from two forces, first by increasing the level of educational attainment and second by improving knowledge economy opportunities for the educated population that is present in the state.

## 2.4. Attracting knowledge workers to Louisiana

What does it take to attract young educated workers to Louisiana or keep them there? An examination of special census data for 2000 enables us to identify cross-state migration trends for young college educated men and women across the years 1995-2000. States that are net importers are gaining knowledge workers and future entrepreneurs. The census data are for internal migration patterns of people 25-39 years old, single, and college educated. These are among the most mobile people in the U.S. economy. The next map identifies the quintile positions for each of the 50 states.

NET 1995-2000 INTERNAL MIGRATION OF PEOPLE WHO WERE 25-39, SINGLE & COLLEGE EDUCATED
PERCENT OF 2000 POPULATION

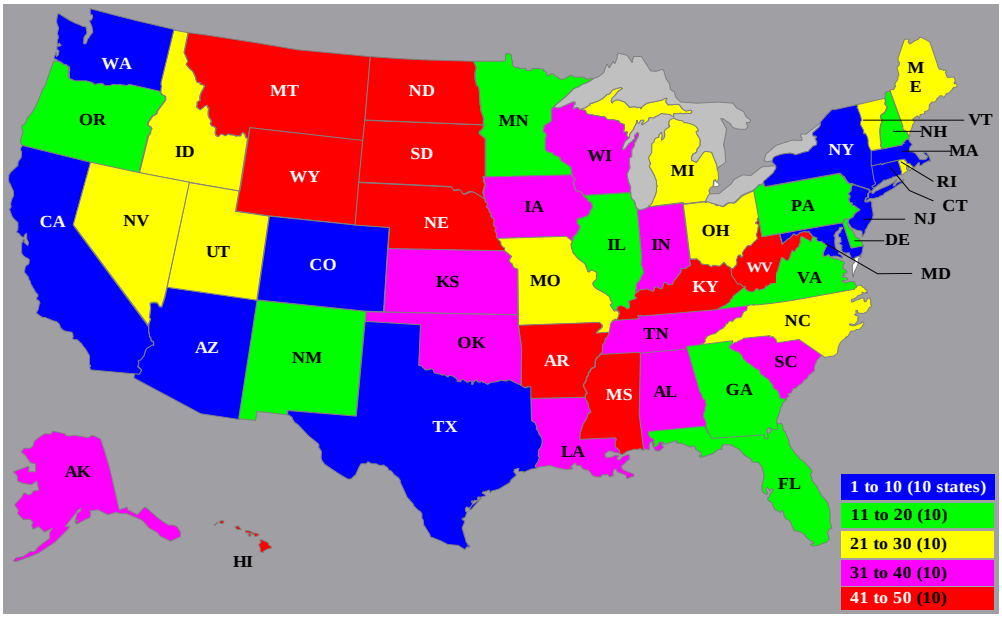



The data help to explain the relative position of Texas and Louisiana discussed earlier. Across 1995-2000, Louisiana was a net exporter. In fact, Louisiana was a net exporter of all age groups during the five-year period. Texas was a net importer. It should be noted that Louisiana is not alone as an exporting state. Others in the region include Mississippi, Arkansas, and Alabama. Indeed, there are 29 states that exported young college educated men and women during 1995-2000.

In an attempt to explain the patterns shown in the map, we performed statistical modeling and found that young college educated workers were repelled by taxes, attracted by the size of the professional and business sector, and strongly attracted by creative communities as measured by Richard Florida's state creative class index (Florida, 2003). (The next map reflects Richard Florida's 2003 creativity rating for the 50

states.) When these three things are accounted for, per capita income does not matter. The message from the model gives hints about what might be done to reverse the flow of young college educated men and women. These actions include reducing the tax burden for young people, improving infrastructure that supports the arts and community life and giving better recognition of the professional and business services sector. We will have more to say about this in our section on the public sector.

**CREATIVITY INDEX 2003 RANKINGS**




## 2.5. How Louisiana ranks as a knowledge economy

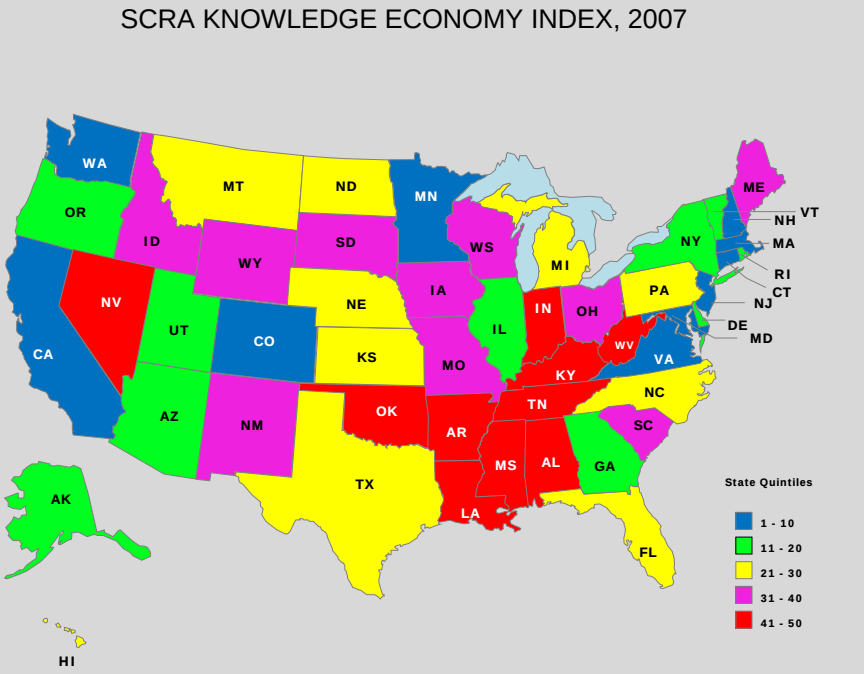
In recent years, researchers at think tanks and universities have focused considerable attention on state activities related to knowledge economy building and entrepreneurship. As a result of this effort a number of state rankings have been developed. Among these is the Milken Institute state technology and science index that was formed from a number of variables that included measures of research and development, the count of scientists, venture capital, fast growth firms, and initial public offerings (DeVol, Koepp, and Ki, 2004). A more comprehensive new economy measure was developed by the Information Technology and Innovation Foundation (ITIF) in conjunction with the Kauffman Foundation ( Atkinson and Correa, 2007). This ranking was based on the average ranking of 23 variables that were organized to account for education, entrepreneurship, and enterprise development. Then, most recently, researchers at Clemson University developed a knowledge economy index for the

South Carolina Research Authority (Watkins, 2008). The SCRA Knowledge Index is based on statistical models that explain variation in 2007 per capita income across the 50 states. The index includes three variables. These account for educational attainment through graduate education, fast growth firms located in the state, and industrial research and development.

A summary of Louisiana's ranking for these various indexes is given in the next table.

| Comparing Three Knowledge Economy Rankings | | |
|---|---|---|
| **INDEX** | **YEAR** | **RANK** |
| SCRA | 2007 | 48 |
| ITIF | 2007 | 44 |
| Milken | 2002 | 44 |

The three rankings, each reflecting different approaches, place Louisiana near the bottom of the 50-state stack. Louisiana is not now a knowledge economy contender. Neither are the states in the same neighborhood. A state outline map of the SCRA Index is shown next. As indicated, Louisiana is nested in a group of states with lower knowledge economy rankings. The challenge, of course, is how to pull away from the pack.




A more useful picture is seen when Louisiana's 2007 SCRA and ITIF ranking are compared for several regional states. These comparisons are shown next.

| Comparing SCRA and ITIF Indexes for Regional States | | | | | | |
|---|---|---|---|---|---|---|
| **STATE** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| SCRA | 48 | 44 | 49 | 18 | 46 | 25 |
| ITIF | 44 | 46 | 47 | 18 | 49 | 14 |

We note that Louisiana's relative weakness is found in all three components of the SCRA index. Louisiana ranked 49th among the states in private sector R&D; 42nd in fast growth firms; and 46th in educated workforce. Georgia and Texas stand out in the six-state ranking. In both cases, education and entrepreneurship make a large difference. Making progress on any of the three fronts is not easy, but education is where the state and state-corporate partnerships might make the greatest difference.

## 2.6. Taking a look at Louisiana metropolitan areas

When we probe a bit deeper into the Louisiana economy, we find several measures of entrepreneurship/knowledge economy strength that are particularly noteworthy. Our findings relate to work by Mark Henry and David Barkley (2005) that focused on 107 southern MSAs. Henry and Barkley defined "southern" as the old cotton states that include the southeast and extend to Texas. Their survey, which examines pre-2000 data primarily, shows unusual strength for entrepreneurial high growth companies, patents per 1000 population, and R&D expenditures at universities and colleges.

The next chart reports some rankings for high growth firms. Note that Baton Rouge and New Orleans rank above the U.S. average.

**Entrepreneurial Growth Companies as a Share of Business in Labor Market Areas, 1991-1996.**

*Entrepreneurial Growth Companies*

- Annual employment growth rate ≥ 15%
- Employment growth ≥ 100% for 1991-96

*Southern Metropolitan Areas*

| Labor Market Area | Companies | High Growth | Share |
|---|---|---|---|
| Austin | 20,915 | 1,514 | 7.2% |
| Atlanta | 69,279 | 4,479 | 6.5 |
| Nashville | 24,458 | 1,465 | 6.0 |
| Pensacola | 10,863 | 643 | 5.9 |
| Raleigh | 25,768 | 1,507 | 5.8 |
| Little Rock | 13,036 | 757 | 5.8 |
| Baton Rogue | 13,449 | 769 | 5.7 |
| Dallas | 64,298 | 3,727 | 5.7 |
| Fort Worth | 29,981 | 1,732 | 5.7 |
| Charlotte | 28,383 | 1,544 | 5.4 |
| New Orleans | 27,031 | 1,307 | 4.8 |
| United States Average | | | 4.7 |

Source: National Commission on Entrepreneurship, 2001

The chart on entrepreneurial growth firms is followed by data on patents per 1000 people. Note that Baton Rouge ranks second in the sample of cities.

**Patents Per 1000 People by Southern Metropolitan Area, 1995-1999**

*Leading Southern Metropolitan Areas*

| | | |
|---|---|---|
| 1. | Austin-San Marcos | 4.28 |
| 2. | Baton Rouge | 3.71 |
| 3. | Raleigh-Durham-Chapel Hill | 2.66 |
| 4. | Gainesville, FL | 1.96 |
| 5. | West Palm Beach-Boca Raton | 1.75 |
| 6. | Houston | 1.52 |
| 7. | Dallas-Fort Worth-Arlington | 1.49 |
| 8. | Melbourne-Titusville-Palm Bay | 1.45 |

The final metro chart shows R&D expenditures at colleges and universities. Note that Baton Rouge ranks fourth among the cities in the sample.

**Total R&D Expenditures at Universities and Colleges, 1998-2000**

| Area | Total R&D 1998-2000 | R&D Expenditures Per Capita |
|---|---|---|
| *Leading Southern Metropolitan Areas* | | |
| 1. Bryan-College Station, TX | 1,193,191,000 | $7.81 |
| 2. Athens, GA | 713,914,000 | 4.63 |
| 3. Gainesville, FL | 893,001,000 | 4.09 |
| 4. Baton Rouge, LA | 703,565,000 | 3.62 |
| 5. Hattiesburg, MS | 388,843,000 | 3.46 |
| 6. Charlottesville, VA | 410,689,000 | 2.56 |
| 7. Auburn-Opelika, AL | 260,924,000 | 2.26 |
| 8. Raleigh-Durham-Chapel Hill, NC | 2,550,055,000 | 2.12 |

Source: National Science Foundation

## 2.7. A final focus on entrepreneurship

Discussions to this point have examined how Louisiana and some major Louisiana cities are positioned to participate in the emerging new knowledge economy. Along the way, we have brushed against activities that form a foundation for entrepreneurship. These have included an examination of data on R&D, educationally qualified workers, and indexes that reflect where Louisiana stands as a competitive new economy. We have seen some relative strengths and weaknesses, but we have not as yet directly examined the pulse of new firm growth. Fortunately, there is an established way to do this. For several years, the Kauffman Foundation has produced an entrepreneurship index for the 50 states (Fairlie, 2008). The index is fundamentally a statement of the percentage of new firms formed per capita in the adult population. The data for the U.S., Louisiana and states in the region are given below. As indicated, in 2007 there were 440 firms organized per 100,000 adults in Louisiana.

| **Kauffman Entrepreneurship Index** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year** | ***U.S.*** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| 1996-98 | 0.29 | 0.32 | 0.23 | 0.31 | 0.31 | 0.27 | 0.30 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2007 | 0.30 | 0.44 | 0.10 | 0.34 | 0.40 | 0.30 | 0.29 |

The strength of this direct measurement of 2007 Louisiana entrepreneurial activity is indeed impressive. Louisiana ranks above the U.S. average and well above states in the same region. Louisiana's faster pace in 1996-98 is also noteworthy, inasmuch as some of the 2007 activity may be associated with unusual post-Katrina action.

### 2.8. Summary

Our review of Louisiana's competitive position in the evolving knowledge economy identifies several significant weaknesses. Louisiana is a rapidly evolving economy, but the state is not now a contender in the knowledge economy arena. This is shown by the relative size of the Professional & Business Services sector, the weak ability to keep and attract college-educated people, and the state's low rating in three composite knowledge economy indexes. There are bright spots within the overall picture, however, and these are found in Louisiana metro areas and in Louisiana's surging entrepreneurship activity. These data suggest that a strong future knowledge economy has emerged in urban places, but that the pace of progress will be limited by the supply of knowledgeable people. The state should find ways to provide incentives that attract young professionals to live in the state; the state should consider developing special tax incentives for people with graduate degrees to work and build enterprises in Louisiana. Both state and local governments should increase support of the arts, the development of parks and improving urban space. Obviously, Government plays a heavy role in increasing the supply of knowledge workers. We now turn to a discussion of public policy and economic competitiveness.

## 3. PUBLIC POLICY AND ECONOMIC COMPETITIVENESS

As Thomas Friedman (2005) points out in his book, *The World is Flat*, the 21st century economy is characterized by unprecedented resource mobility. Capital crosses international borders with ease. Labor migrates with fewer and fewer obstacles. And, technology spills over across all artificial barriers. Lines drawn on maps no longer mean what they once did, and if these realities apply to international resource movement, they apply all the more to U.S. states.

As with analyses of resource movement, most economic growth theory is couched in terms of countries. Yet, many of the principles that apply to countries also apply to states. Attracting resources and technology are essential to growth and development.

Incentives matter. And, public policy can have powerful effects on incentives. In fact, government institutions, how they are designed and how they function are critical to building a competitive knowledge economy.

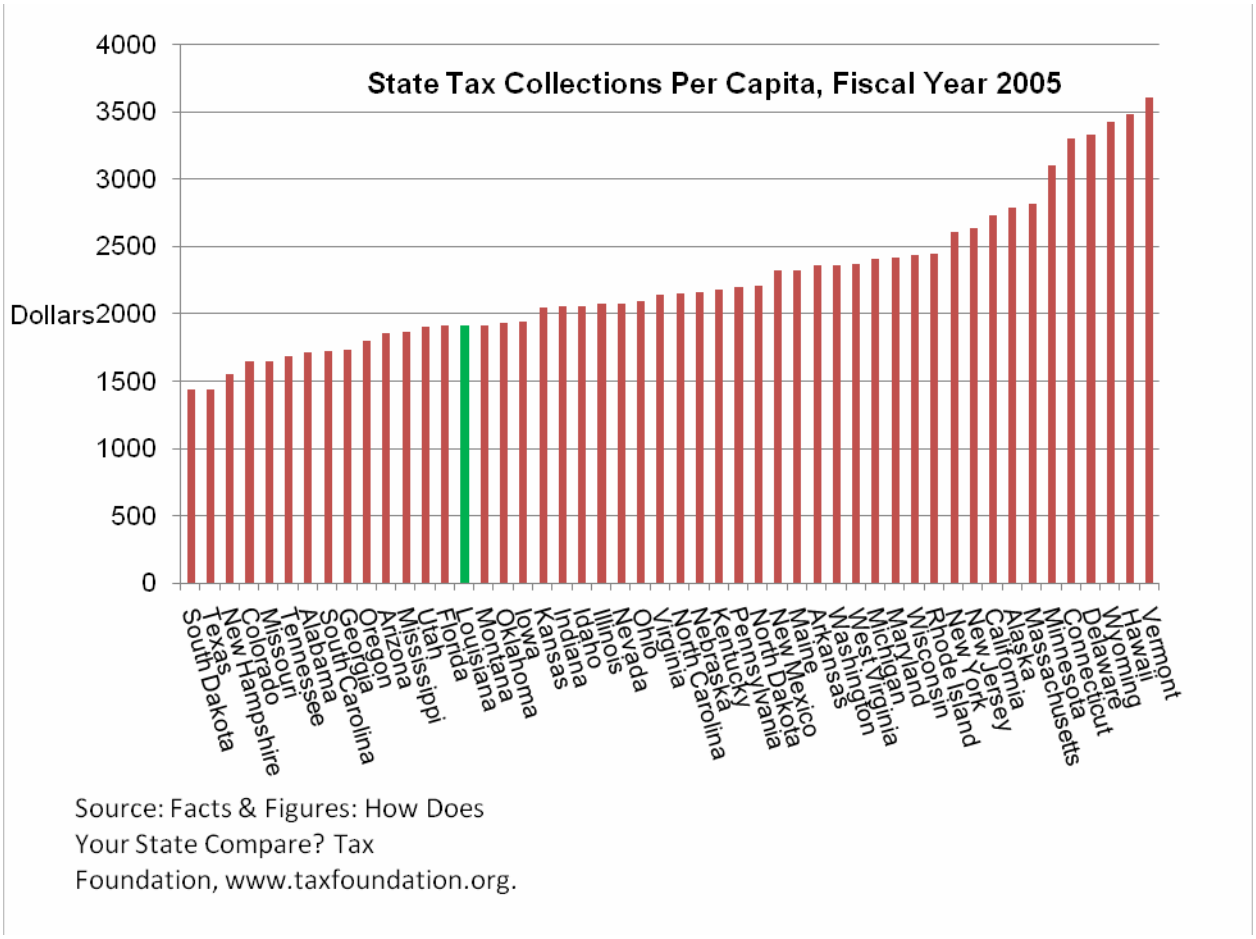
The purpose of this section is to evaluate Louisiana's public policies. Do these policies encourage or discourage the accumulation of increasingly mobile resources and technology that fuel economic growth? Public policies that minimize the burden on the private sector and produce valued public goods should attract resources and technology and enable a state's current resources to thrive and prosper. On the other hand, public policies that overly burden the private sector and fail to produce valued public goods discourage the in-migration of resources and technology as well as their development. We note too an important warning from the outset: public policies may face resource constraints and limitations in effectiveness.

In this section, we first examine public policies that take resources from the private sector or influence how the private sector allocates its resources. Next, we look closely at public policies that provide goods and services important to the private sector. Throughout the two sections, we show how Louisiana compares with the other 49 states and with regional peers. A section summary offers some closing thoughts and policy recommendations.

### 3.1 Public policies that take resources from the private sector or influence resource allocation by the private sector

It is commonly said that taxes and death are life's two inevitabilities. To businesses today, we might add regulation, corruption, and liability. We examine Louisiana's tax and regulatory structures, along with its political and legal climates in the following pages. Our aim is to determine the incentive effects of these structures and climates.

**3.1.1. *Taxes***. First, consider Louisiana's overall tax burden. As shown in the figure below, Louisiana's per capita state taxes of $1,910 do not appear to be overly burdensome. Indeed, 35 states have higher per capita state tax burdens than Louisiana. But there is more to the story than tax burden. We must probe deeper. As the Tax Foundation points out, in a world with mobile resources, "(s)tates with the best tax systems will be the most competitive in attracting new businesses and most effective at generating economic and employment growth" (Dubay and Atkins, 2007, p. 1). The Foundation goes on to emphasize that despite all the attention paid to international competition for resources, competition between individual states is greater. These observations beg the question of what constitutes a good tax system? The criteria are simplicity, transparency, and low, flat marginal rates applied to a broad base.




Source: Facts & Figures: How Does Your State Compare? Tax Foundation, www.taxfoundation.org.

To assess how well states compare with these criteria, the Tax Foundation rates the 50 states on five tax bases: corporate taxes, individual income taxes, sales taxes, unemployment taxes, and property taxes. They summarize their findings with a state business tax climate index. The index is complex, making use of 113 variables (or criteria). It is normalized at a value of 5.00, with higher values indicating better tax systems. As shown below, Louisiana's overall business tax climate is ranked somewhat lower than the middle of the national pack and most of its regional competitors.

| State Business Tax Climate Index: Comparative Analysis, FY 2006-2007 | | | | | | |
|---|---|---|---|---|---|---|
| **State** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| SBTC Index | 5.02 | 5.37 | 4.94 | 5.38 | 5.44 | 6.23 |
| Rank | 32 | 21 | 35 | 20 | 18 | 8 |
| Source: 2008 State Business Tax Climate Index, Tax Foundation, www.taxfoundation.org. | | | | | | |

A similar ranking by the Fraser Institute's Economic Freedom of North America ranks Louisiana's tax policy 29th among the U.S. states (Karabegovic and McMahon, 2006).

Combining data from the Tax Foundation and American Legislative Exchange Council provides more detail on Louisiana's tax system, expressed in a format that lends itself to comparative ease. Louisiana's marginal tax rates are better than those of most states and in line with those in the region. Louisiana ranks poorly in terms of its sales tax burden (sales taxes paid $1,000 of personal income), a result of high local option taxes and a low income. This factor is primarily responsible for Louisiana's low overall rank in the Tax Foundation index.

| Comparative Tax Analysis | | | | | | |
|---|---|---|---|---|---|---|
| **State** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| Top Personal MTR / Rank | 3.90 / (11th) | 4.25 / (12th) | 7.00 / (33rd) | 6.00 / (25th) | 5.00 / (17th) | 0.00 / (1st) |
| Personal Income Tax Progressivity / Rank | $8.35 / (26th) | -$1.51 / (1st) | $12.57 / (39th) | $6.53 / (24th) | $7.53 / (25th) | $0.00 / (2nd) |
| Top Corporate MTR / Rank | 5.20 / (12th) | 4.23 / (5th) | 6.50 / (19th) | 6.00 / (15th) | 5.00 / (9th) | 4.50 / (6th) |
| Weighted Average of County and City Sales Tax Rates / Rank | 4.03 (48th) | 2.91 (46th) | 1.37 (33rd) | 2.76 (45th) | 0.00 (1st) | 0.44 (22nd) |
| Sales Tax Burden / Rank | $44.84 / (48th) | $26.28 / (27th) | $41.33 / (46th) | $27.59 / (31st) | $36.65 / (43rd) | $28.64 / (34th) |

Note: The lower the tax rate, the lower the ranking.

Note: Personal income tax progressivity is defined as the change in tax liability per $1,000 of income.

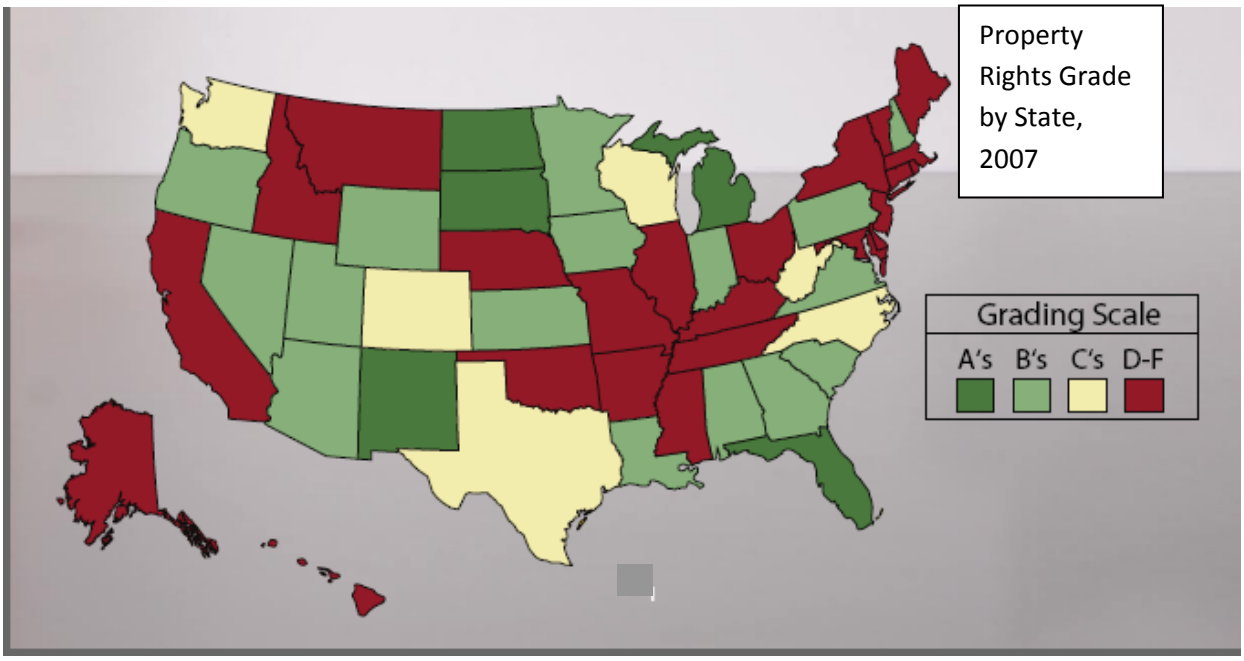
Source: All data are from Art Laffer and Stephen Moore, Rich States, Poor States, American Legislative Exchange Council 2007, www.alec.org, except for the data on county and city tax rates, which are from the Tax Foundation.

To improve state competitiveness and encourage the formation of new businesses, Louisiana should lower its local option sales taxes or exempt sales taxes on business-to-business transactions for manufacturing equipment, utilities, and farm machinery, as most states do, or even cut its marginal tax rates.

**3.1.2. *Regulation*.** Like taxes, regulation can take resources from business and determine how businesses allocate their resources. Unlike taxes, quantifying regulations is problematic. That said, we can still obtain a reasonable evaluation of a state's regulatory system by examining some key regulations important to business decision makers. In this section, we look specifically at takings, labor markets, and business regulations.

**3.1.2(a). *Takings.*** The security of private property is the foundation of a capitalist economy. When private property rights are secure, businesses invest with confidence that their investments and the earnings from them are safe. Without secure property rights, business are reluctant to invest and will seek locales that promise more security.

The Fifth Amendment to the U.S. constitution allows governments to take private property, provided two criteria or met: The property must be taken for public use and the owners must receive just compensation. In June 2005, the Supreme Court's *Kelo vs. New London* decision cast a pall over private property as the Court effectively ruled private property could be taken for another private use. Since that time, local governments have threatened or taken over 5,783 private properties for other private users (Berliner, 2006, p. 2). Nevertheless, the Court allowed states to pass statutes to limit these takings, and at least 42 states have done so. What about Louisiana? The news here is good. As shown on the map below, Louisiana receives a "B" grade from the Castle Coalition for passing legislation that forbids condemnation of residential property for industrial parks




or port facilities and limits blight condemnations to cases where public health and safety are threatened (Castle Coalition, 2007, p. 22). To those worried that limits on government takings might deter investment, the evidence is not supportive. A detailed study by the Institute for Justice finds that reform of eminent domain laws in favor of property rights protection does not slow the growth of a state's construction employment, building permits, or property tax revenues (Carpenter and Ross, 2008).

**3.1.2(b).** ***Labor Markets*****.** If secure property rights are essential to attracting capital, flexible labor markets also help. They lower costs to business and ensure the movement of labor to its most highly valued uses. On the other hand, high minimum wage laws and powerful unions raise unemployment and discourage businesses from locating in a state. How do Louisiana's labor markets fare? As shown in the table below, Louisiana's labor markets are relatively free and competitive. The state has no minimum wage law, workers are free to join or not join unions, yet the percent of its labor force

that is unionized, which is the 10th lowest in the U.S., is higher than three of the neighboring states in the region.

| State Labor Market Freedom: Comparative Analysis | | | | | | |
|---|---|---|---|---|---|---|
| **State** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| State Minimum Wage | No | No | Yes | No | No | No |
| Right to Work | Yes | Yes | Yes | Yes | Yes | Yes |
| Union Density / Rank | 7.9 / (10th) | 9.5 / (18th) | 5.9 / (3rd) | 8.0 / (12th) | 6.6 / (6th) | 6.8 / (7th) |
| Source for State Minimum Wage and Right to Work Status: Rich States, Poor States, American Legislative Exchange Council 2007, www.alec.org.<br><br>Source for Union Density: Economic Freedom of North America: 2006 Annual Report, Fraser Institute, www.freetheworld.com/efna.html. | | | | | | |

**3.1.2(c). *Business Regulations*.** What about business regulations? These can be critical to attracting new businesses, especially small businesses and entrepreneurs who are such an important part of the dynamic economy of the 21st century. While no studies of the cost of regulations by state are available, studies of federal regulations are instructive. Citing a study by the Small Business Administration, the Small Business and Entrepreneurial Council reports that federal regulations cost business $5,633 per employee in 2004. However, for small businesses, defined as businesses with less than 20 employees, the cost was $7,647 per employee (Keating, 2007, 17).

What about Louisiana? Small businesses are important. In 2006, Louisiana's 83,068 small businesses employed 311,249 workers according to the Small Business Administration. Almost one in five Louisiana workers is employed by a small business (Small Business Administration, 2007).

Could Louisiana do better? Yes, there is clearly room for improvement. The Small Business and Entrepreneurial Council collects a wealth of data on business regulations

(Keating, 2007). We examine a few regulations in the table below, making comparisons with regional states.

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| Costs of Doing Business: Comparative Analysis | | | | | | |
|---|---|---|---|---|---|---|
| **State** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| Health Care: Guaranteed Issue | No | No | No | No | Yes | No |
| Health Care: Number of Mandates | 43 | 18 | 40 | 39 | 29 | 52 |
| Regulatory Flexibility | None | None | Partial | Partial | Partial | Partial |
| Sales Tax on Internet Access | No | No | No | No | No | Yes |
| Overall SBSI Score / (Rank) | 60.1 (31st) | 50.5 (10th) | 59.2 (27th) | 52.7 (12th) | 53.8 (16th) | 48.0 (7th) |
| Source: Keating (2007). Small Business Survival Index 2007, Small Business and Entrepreneurial Council, www.sbsc.org. | | | | | | |

Health care regulations can be very costly, especially to small businesses. The Small Business and Entrepreneurial Council clearly considers these regulations a "disincentive to starting up or locating a business" (Keating 2007, p. 9). Taking a closer look at Louisiana, we find that the state does not require guaranteed issue, a significant

plus for prospective small businesses. On the other hand, its 43 health-care mandates rank high regionally and nationally, where only 14 states have more mandates.

The Small Business and Entrepreneurial Council evaluates regulatory flexibility by the presence of statutes that require "state agencies to assess the economic impact before imposing regulations, to consider less burdensome alternatives, to follow judicial review of the process, and to periodically review all regulations" (Keating, 2007, p. 12). Louisiana has no regulatory flexibility statutes.

As a positive note, Louisiana, like most states, does not assess a sales tax on internet access, which can be a strong deterrent to small businesses that rely on the internet to expand their markets locally, nationally, and even globally.

In all, the Small Business and Entrepreneurial Council evaluates states on "31 major government-imposed or government-related costs impacting small businesses and entrepreneurs" (Keating 2007,p. 5). These include not only regulations, but also taxes, electricity costs, litigation costs, and crime rates, among other factors. The upshot of this evaluation is a Small Business Survival Index and ranking for the 50 states. Louisiana's rank, 31$^{st}$, is mediocre nationally and poor regionally.

**3.1.3. *Corruption and Liability*.** A corrupt and legally risky business environment discourages business formation and slows economic growth. Businesses facing corruption and potential liability risk must alter business practices to deal with these threats. Distrust, uncertainty, and unfairness are not favorable business settings.

Quantifying corruption and legal system risk is admittedly difficult. Nevertheless, we utilize two measures that attempt to do just that. First, the Better Government Association assesses state laws that "promote integrity" on the basis of transparency, accountability, and limits. Transparency measures the openness of government operations and is measured by the adequacy of "blue sky" or "sunshine" laws. Accountability assesses the penalties for violating statutory limitations, and limits refer to restrictions on campaign contributions, gifts, or honoraria (Better Government Association, 2002, 2).

Taking a different tack, Corporate Crime Reporter calculates a corruption rate for each state, by tallying the number of public corruption convictions per 100,000 of population, over the years 1993 to 2002 (Corporate Crime Reporter, 2004, p. 5). While acknowledging that these measures do not perfectly assess corruption or laws to prevent it, we are forced to recognize that Louisiana's ratings are not favorable in either case. The data speak for themselves. As shown in the table below, the Better Government Association's Integrity Index ranks Louisiana a poor 46$^{th}$, and in Corporate Crime Reporter's corruption index, Louisiana ranks the third worst in the U.S. Other

states in the region also rank poorly, but this is cold comfort for a population that seeks to be a strong knowledge economy contender.

| Integrity and Corruption: Comparative Analysis | | | | | | |
|---|---|---|---|---|---|---|
| **State** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| BGA Integrity Rank | 46th | 47th | 31st | 26th | 33rd | 9th |
| Corruption Rate / (Rank) | 7.05 (3rd) | 3.67 (15th) | 1.32 (42nd) | 2.76 (23rd) | 7.48 (1st) | 2.41 (29th) |
| Note: The Better Government Association gives high rankings to states with the best laws, while Corporate Crime Reporter gives high rankings to states with the most corruption.<br><br>Sources: Better Government Association, 2002, www.bettergov.org and Public Corruption in the United States, 2004, www.corporatecrimereporter.com/corruptreport.pdf. | | | | | | |

An examination of liability risk is no better. The U.S. Chamber of Commerce, in an attempt to "explore how reasonable and balanced the tort liability system [of a state] is perceived to be by U.S. business" surveyed senior attorneys of companies with at least $100 million in annual revenues. These attorneys were asked about the following criteria: overall treatment of tort and contract litigation, having and enforcing meaningful venue requirements, treatment of class action suits and mass consolidation suits, punitive damages, timeliness of summary judgment/dismissal, discovery, scientific and technical evidence, non-economic damages, judges' impartiality and competence, and juries' predictability and fairness (U.S. Chamber of Commerce, 2008, 1, 12-14, 27). The results are particularly hard on Louisiana, which has the 49th worst liability system in the U.S. The state ranks in the bottom three in *all* categories considered. Its largest city, New Orleans, is ranked the 9th "least fair and reasonable jurisdiction in the nation." "Hedonic damages," a lack of reliance on credible science and experts, and a proliferation of asbestos lawsuits are alerting business that Louisiana's legal environment is hostile (Lawsuit Climate 2008: Where Does Your State Rank, www.instituteforlegalreform.com/states/lawsuitclimate2008/index.cfm). The poor rankings of neighboring states – Georgia at 28, Arkansas at 34, Texas at 41, Alabama at 47, and Mississippi at 48 – are again cold comfort.

What is particularly disturbing about these results is that when questioned about how likely the litigation environment is to affect important business decisions, including where to locate or do business, 64 percent of respondents said either “very likely” or “somewhat likely” (U.S. Chamber of Commerce, 2008, p. 6).

**3.1.4. *Tentative Conclusions*.** As we have seen in this analysis of taxes, regulations, corruption, and legal system quality, Louisiana has room for improvement. Local option sales tax rates could be cut. Health care mandates could be reduced, and regulation as a whole made more flexible. Of particular importance, stemming systemic corruption and legal system risk would do more to attract business to Louisiana and spur economic growth.

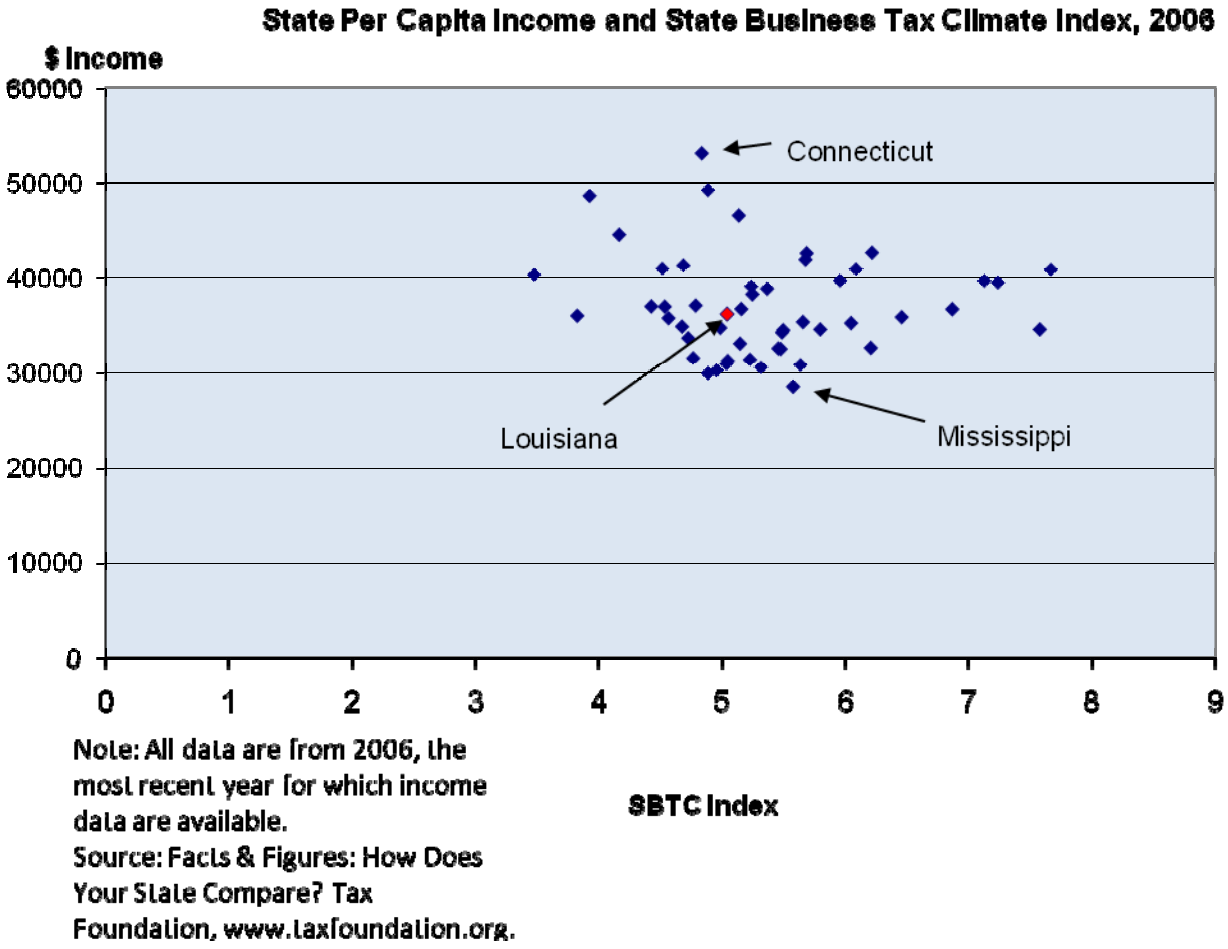
All the news is not bad, however. Louisiana is to be commended for relatively strong property rights protection and free and flexible labor markets. And, as we demonstrate in the next section, there is more to economic growth than attractive tax and regulatory packages.

### 3.2. Public policies that provide goods valued by the private sector

Governments don’t simply extract private sector resources and distort their allocation. They also provide goods that are highly valued by the private sector and that may be difficult for the private sector to produce. Simply put, there is another side to the tax and regulatory coin. Martin Wolf makes this point poignantly in his book *Why Globalization Works*. Though his attention is on countries, the applications to U.S. states are the same. Wolf writes that resource owners move their resources to locales with the “combination of taxes *and services* they prefer” (Wolf 2004, p. 264, emphasis added). He continues: “The question is not where the tax is lowest, but rather where the welfare derived from the bundle of local amenities, income-earning opportunities and taxes is highest” (p. 264). In short, what is the value received by businesses and citizens from the taxes they pay?

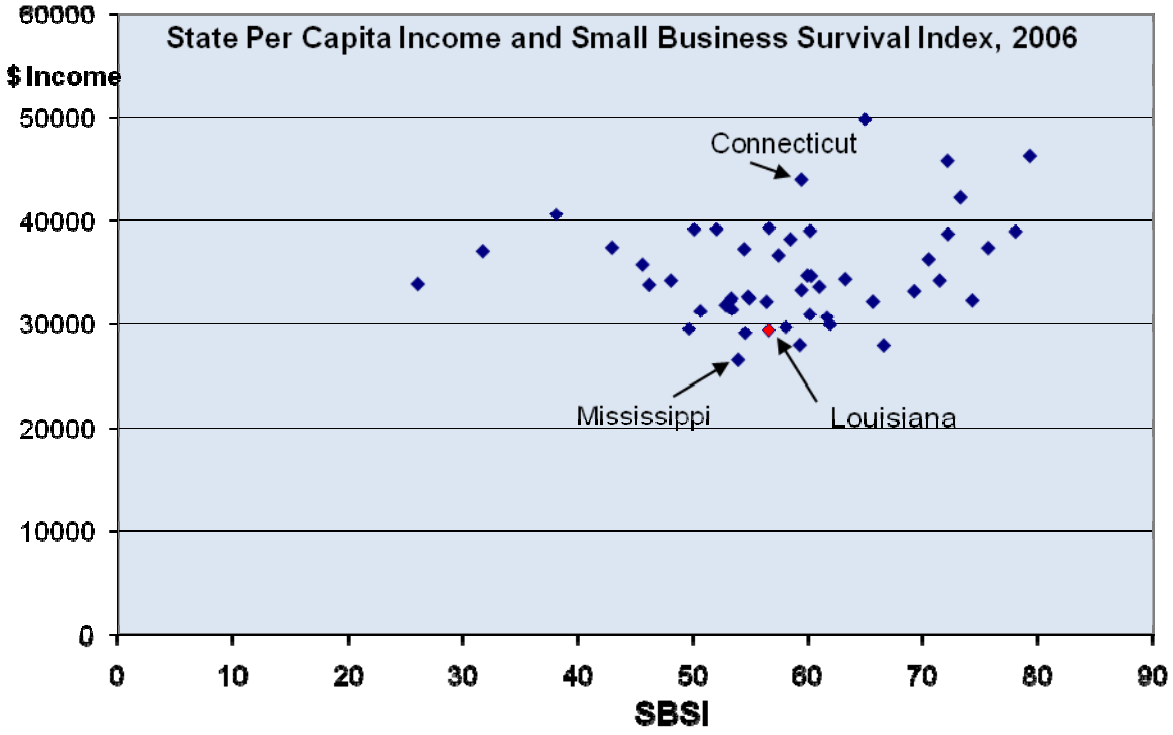
So, while economists rightly point out the disincentives associated with high taxes and burdensome regulations, Wolf’s point has merit. The following figures are instructive.

We begin with a scatter plot of the Tax Foundation’s State Business Tax Climate Index and state per capita income. Recalling that high values of the index indicate a favorable business tax climate, we see virtually no correlation between tax policies and per capita incomes.




For illustrative purposes, we highlight the states with the highest and lowest per capita incomes, Connecticut and Mississippi. Connecticut's business tax climate score is not particularly good. In fact, it is worse than Mississippi's. But, its per capita income is much higher.

Next, we provide a similar illustration using the Small Business Survival Index. This time, we recall that low scores indicate a business-friendly environment. Again, we see virtually no correlation in the scatter plot. Looking again at Connecticut and Mississippi, we see that Connecticut's business environment is apparently less friendly than that of Mississippi.




Source: Small Business & Entrepreneurial Council, Small Business Survival Index 2007, www.sbsc.org and Statistical Abstract of the United States, 2008, Table 659.

There must be more to the story. There is. In the pages that follow, we will examine Louisiana's infrastructure, education, health care, and lifestyle amenities. Public policy matters as much as ever, but perhaps not in the same way. And, it faces important limitations.

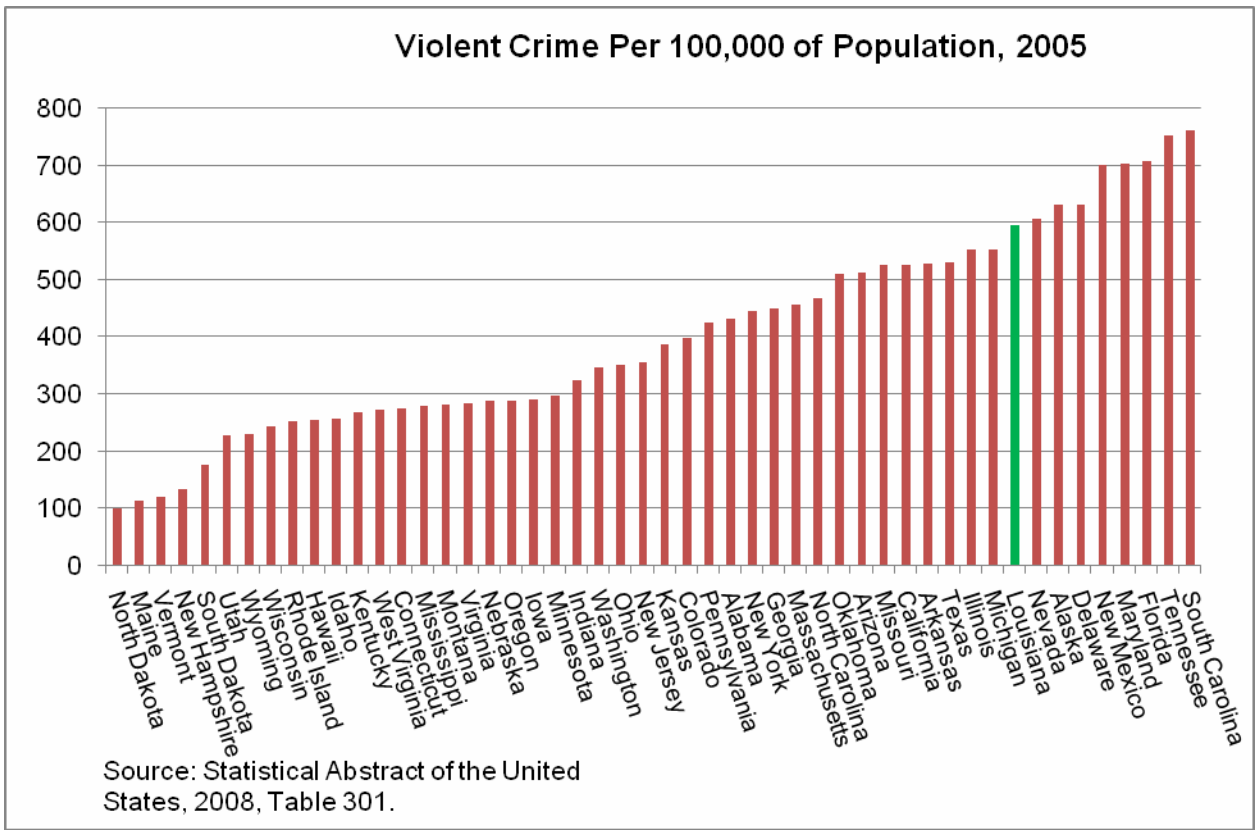
***3.2.1. Infrastructure***. Supportive infrastructure is essential to attracting business and stimulating growth. Much traditional government infrastructure stills matters, but some traditional practices and policies count for much less than in the past. We begin with highways.

***3.2.1(a). Highways***. In the new economy, highways may seem to lack luster. Yet, the low cost distribution of goods and mobility of people are essential to a thriving economy, new or old. The Reason Foundation evaluates state highway systems on the basis of

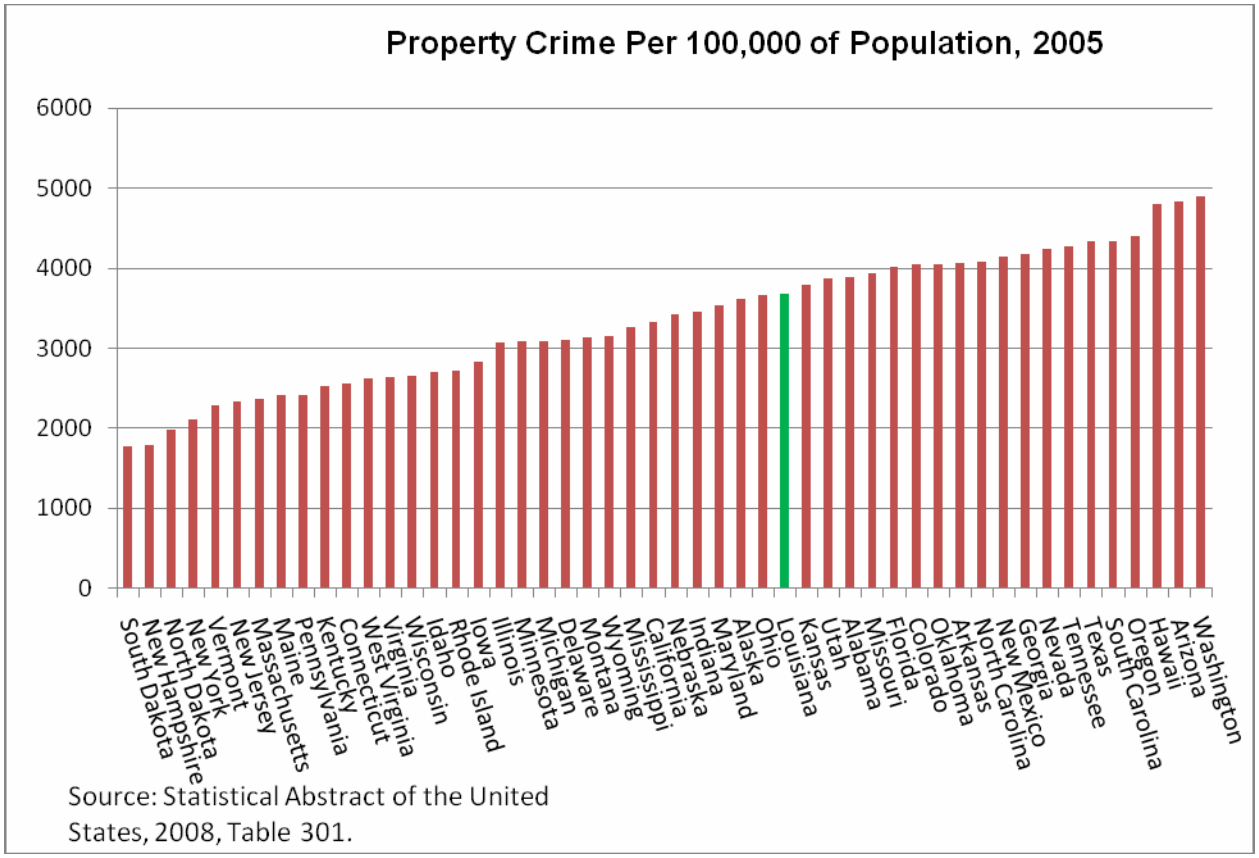
twelve criteria. The index emphasizes cost effectiveness or budgets compared to performance. Louisiana ranks 30th overall among the states, another mediocre performance.

Looking at specific indicators, Louisiana ranks well in terms of disbursements: 6th for administrative disbursements and 17th for total disbursements, scaled by mileage. However, urban interstate and rural road conditions are poor, ranking 36th and 40th, respectively, and its bridge deficiency ranking is 38th (Hartgen and Karanam, 2007, p. 32). The Pew Center underscores this assessment, describing Louisiana's deferred maintenance backlog, exceeding $5 billion for buildings and roads, as the state's "most visible management weakness" (Barrett and Greene, 2008, p. 57).

***3.2.1(b). Crime***. Dating back to Adam Smith, the maintenance of law and order has been recognized as an essential, if not flashy, function of sound government. While law and order may be an old, traditional function of government, it is still relevant, whether an economy produces "old" or "new" goods and services. Neither businesses nor their employees want to locate where their persons or property are threatened by lawlessness. The following charts show rates of violent and property crimes across the 50 states.



Source: Statistical Abstract of the United States, 2008, Table 301.




As these data make clear, Louisiana's crime rates, ranked 9th for violent crime and 20th for property crime, are clearly too high and would normally be a strong disincentive to new businesses and their prospective employees.

**3.2.1(c).** ***Business Support*****.** Next, we consider government support for business. Is Louisiana's government hospitable to business? Arguably so. The state offers a host of business incentives and programs to attract new business. These include various tax exemptions and credits and rebates as well as matching funds for venture capital investments. These programs are complex, and we are not aware of any cross-state comparisons. (See Louisiana Economic Development at http://led.louisiana.gov for details.)

What we are aware of is that traditional means of attracting and supporting industry are of limited value in the new economy. As the Progressive Policy Institute points out, the shift to service based industries and the transformation of traditional industries around new technology means the old mantra for attracting industry – cheap labor, cheap land, and low taxes – is less and less effective. Tax breaks and subsidies don't count for

much now, if they ever did. To attract new industries and ensure that existing ones thrive requires instead a talented, skilled, and highly educated labor force. It requires amenities that enhance quality of life (Atkinson, 2002, pp. 3-6). Developing countries will always have cheaper labor, and perhaps cheaper land and lower taxes. Competing on the old criteria is a losing proposition.

**3.2.2.** ***Education***. Now we come to a critical element in the emerging knowledge economy. Is Louisiana's education system positioning its workers well for the challenges of the 21st century economy? The answer is a resounding "no."

The following table presents comparative proficiency percentages for Louisiana and the nation for the National Assessment of Educational Progress.

| **State Achievement, NAEP Scores, 2007** | | | |
|---|---|---|---|
| | ***Louisiana Average*** | ***Louisiana Rank*** | ***National Average*** |
| 4th Grade Reading, Percent Proficient | 20.4 | 49 | 31.7 |
| 4th Grade Math, Percent Proficient | 24.4 | 49 | 38.6 |
| 8th Grade Reading, Percent Proficient | 19.4 | 48 | 29.2 |
| 8th Grade Math, Percent Proficient | 19.0 | 46 | 31.0 |
| Source: Quality Counts 2008, Editorial Projects in Education Research Center, www.edweek.org/ew/toc/2008/01/10/index.html. | | | |

The low proficiency percentages do not bode well, especially when measured against low national percentages. Graduation rates, presented in the table below, tell a similar story, as does educational attainment, already shown on page xx of this report.

| High School Graduation Rates, Class of 2004: Comparative Analysis | | | | | | | |
|---|---|---|---|---|---|---|---|
| | ***U.S.*** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| Dropout Rate / (Rank) | 69.9 | 61.4 (44th) | 59.0 (46th) | 72.2 (26th) | 56.1 (48th) | 62.1 (42nd) | 67.3 (36th) |
| Note: Rankings modified from original source by omitting the District of Columbia. | | | | | | | |
| Sources: Quality Counts 2008, Editorial Projects in Education Research Center, www.edweek.org/ew/toc/2008/01/10/index.html. | | | | | | | |

When compared to state spending on a per pupil basis or as a percent of students funded at or above the national average, as shown in the table below, Louisiana's poor educational performance suggests that more than public policy is the problem. Education could always receive more funds, but relative to other states, Louisiana's education system is not chronically under funded. Whatever the source of the problem, a remedy is needed for the state to gain competitive ground.

| State Education Spending, 2005 | | | |
|---|---|---|---|
| | ***Louisiana Average*** | ***Louisiana Rank*** | ***National Average*** |
| Per Pupil Expenditures | $8,582 | 29 | $8,973 |
| Percent of Students Funded At or Above the U.S. Average | 36.7 | 26 | 46.1 |
| Source: Quality Counts 2008, Editorial Projects in Education Research Center, www.edweek.org/ew/toc/2008/01/10/index.html. | | | |

Turning to higher education, we find that Louisiana is generous to college and university students. Although spending per full time equivalent student is relatively low, Louisiana

performs consistently above the national average in affordability measures. Whether measured against population, income, or the share of tuition, the state outperforms the nation as a whole and many of its regional competitors.

| State Support for Higher Education | | | | | | | |
|---|---|---|---|---|---|---|---|
| | ***U.S.*** | ***LA*** | ***ALA*** | ***ARK*** | ***GA*** | ***MISS*** | ***TX*** |
| Educational Appropriations per FTE (2006) / Rank | $6,325 | $5,583 (38) | $5,617 (37) | $5,899 (28) | $7,824 (9) | $5,053 (41) | $6,276 (22) |
| State Support for Higher Education Per Capita, Indexed to U.S. Average (2005) | 1.00 | 1.23 | 1.24 | 1.24 | 1.16 | 1.18 | 1.21 |
| State Support for Higher Education Per $1,000 of Personal Income, Indexed to U.S. Average (2005) | 1.00 | 1.65 | 1.27 | 1.34 | 1.07 | 1.64 | 1.16 |
| State Funded Tuition Aid per FTE as Percent of U.S. Average | 100.0 | 145.6 | 125.8 | 61.0 | 295.7 | 60.7 | 13.7 |

Source: State Higher Education Finance, FY 2006, State Higher Education Executive Officers, www.sheeo.org/finance/shef_fy06.pdf.

As impressive as these data are, the state's K-12 performance must improve if it is to be a viable player in the global economy.

**3.2.3. *Public Health***. Another key to attract business is adequate health and health care. The United Health Foundation ranks states on the bases of health determinants and outcomes. Louisiana does not fare well, ranking 49$^{th}$ among the states overall. The table below provides more detailed information on the state of health in Louisiana.

| Health Evaluation, 2007 | | | |
|---|---|---|---|
| | ***LA Average*** | ***LA Rank*** | ***US Average*** |
| Percent of Population Smoking | 23.4 | 43 | 20.1 |
| Percent of Population Binge Drinking | 13.1 | 11 | 15.3 |
| Percent of Population Obese | 27.1 | 38 | 25.1 |
| Percent of Children in Poverty | 23.8 | 48 | 17.4 |
| Percent of Population without Health Insurance | 21.9 | 48 | 15.8 |
| Per Capita Public Health Spending | $121 | 33 | $162 |
| Percent of Children Aged 19 to 35 Months Immunized | 72.3 | 49 | 80.6 |
| Percent of Pregnant Women Receiving Adequate Prenatal Care | 82.8 | 6 | 75.4 |
| Primary Care Physicians per 100,000 of Population | 113.5 | 26 | 119.9 |
| Infant Mortality Rate (Per 1,000 Live Births) | 9.9 | 49 | 6.8 |
| Source: America's Health Rankings, 2007, United Health Foundation, www.unitedhealthfoundation.org. | | | |

The causes of many poor public health outcomes are clear. Tobacco, obesity, and poverty take their toll. Yet, there may be little that public policy can do to address these issues. Higher taxes on cigarettes deter smoking, and only seven states have rates lower than Louisiana's 36 cents per pack charge (Tax Foundation). Nevertheless, there are limits to what public policy can, and perhaps should, do to curtail the unhealthy practices of its populace. For example, should a state ban smoking in public places or forbid restaurants to serve trans-fats?

Further, health determinants and outcomes can be disconnected. Consider life's starting point. Almost 83 percent of Louisiana's pregnant women receive adequate prenatal care, but the state's infant mortality rate is the second highest in the nation as is its share of young children not immunized. Again, we confront the limits of public policy.

Economic growth, the centerpiece of this report, would, of course, reduce poverty, raise the share of the population with health insurance, and lead to a healthier population in general. It would also attract more physicians to the state. Integration into the 21st century economy, and the growth that would accompany that, would carry the state some distance in providing the resources that could improve health outcomes. Still, pubic policy cannot force people to take advantage of the opportunities afforded them, nor can it necessarily curb poor lifestyle choices.

**3.2.4. *Lifestyle Amenities***. If in the old economy, attracting industry and increasing growth meant low wages, low taxes, and cheap land, in the new economy, critical elements are lifestyle amenities. A question that must be asked and answered honestly is whether or not life in Louisiana is good. Of course, the "good life" may well be in the eye of the beholder. That said, many businesses in the new economy seek similar amenities that not only help them prosper economically, but also make life attractive for their employees. In this section, we look at three: access to the digital economy, public libraries, and the arts. A word of caution is in order however: While important, the extent to which public policy can promote these benefits may also be limited.

**3.2.4(a). *Digital Economy***. With more and more business conducted on-line, whether a customer ordering a book or a farmer tracking the market price for his crop, access to the digital economy is essential to new business and to participation in the new knowledge economy. As of 2006, 73 percent of U.S. adults were on-line (Atkinson and Correa, 2007, 39). Louisiana with 44.1percent on line lags the nations. According to the 2007 State New Economy Index, however, a relatively high share of this access is broadband (Louisiana ranks 17th in the nation in broadband access), meaning for those with internet access, e-commerce, distance learning, and telecommuting are easier.

The high population density in and around New Orleans likely promotes broadband access, which is generally greater in urban than rural areas. Still, for Louisiana's economy to thrive, more of its population needs internet connectivity.

Turning to schools, the picture is mixed. As shown in the table below, Louisiana scores a bit better than the nation in terms of 4th and 8th graders with access to computers. On the other hand, Louisiana scores somewhat worse than the nation in terms of the number of students per instructional computer and the number of students per high-speed internet connected computer.

**Access to Technology in the Schools**

| | ***Louisiana*** | ***National Average*** |
|---|---|---|
| Percent of 4th Graders with access to computers | 96 | 95 |
| Percent of 8th Graders with access to computers | 87 | 83 |
| Number of Students Per Instructional Computer | 4.1 | 3.8 |
| Number of Students Per High-Speed Internet-Connected Computer | 4.3 | 3.7 |

Source: Technology Counts 2008, www.edweek.org/media/ew/tc/2008/30LA_STR2008.h27.pdf.

In either case, however, differences from national averages are not great.

It is important to point out that the role of public policy in expanding the digital economy may be narrow. As we pointed out earlier, Louisiana is to be commended for not taxing internet access. In addition, funding technology in the classroom should continue to be a priority.

**3.2.4(b).** ***Public Libraries and the Arts***. Access to libraries and the arts is an amenity that many workers enjoy and consider an important part of overall quality of life. As shown in the table below, Louisiana does a fair job in promoting these lifestyle amenities. Access to internet terminals, print materials, video materials, and print serials

in Louisiana's public libraries are reasonably close to national averages, and, state funding for the arts is above the national average.

| Lifestyle Amenities: Public Libraries and the Arts | | | |
|---|---|---|---|
| | ***Louisiana*** | ***Louisiana Rank*** | ***National Average*** |
| Public Use Internet Terminals in Public Libraries Per 5,000 of Population | 3.2 | 28 | 3.2 |
| Print Materials in Public Libraries Per Capita | 2.5 | 34 | 2.8 |
| Video Materials in Public Libraries Per Capita | 104.9 | 34 | 138.5 |
| Print Serial Subscriptions in Public Libraries Per Capita | 6.9 | 24 | 6.4 |
| State Art Agencies Legislative Appropriations Per Capita (2007) | $1.17 | 15 | $1.01 |
| Source: Public Libraries in the United States: Fiscal Year 2005, National Center for Education Statistics, www.nces.ed.gov and Congressional Quarterly's State Fact Finder, p. 163. | | | |

Again, however, we face the dilemma of how involved states should be in supporting these lifestyle amenities. In particular with respect to the arts, many argue that these should be provided by the private sector. Whatever one's opinion on these issues, we reiterate Louisiana's funding of these amenities is roughly in line with national averages.

### 3.3. Public Policy: Its Possibilities and Limitations

As this section has shown, Louisiana's public policies that influence its place in the new economy of the 21st century are neither all good nor all bad. But just being good or average is not enough if Louisiana is to become a knowledge economy leader. Tax policies are "middle of the pack," and the state is to be commended for protecting property rights and free labor markets. Regulations on business could be lighter, but as we have demonstrated, the new economy requires more than low taxes and less burdensome regulations for prosperity.

Thriving in the new economy requires government to perform some very traditional functions, such as providing transportation infrastructure and law and order. Clearly, some improvement is needed. In particular, rates of violent and property crime are too high. And, within government, systemic corruption needs to be rooted out and liability risks reduced.

Thriving in the new economy also requires a skilled, educated workforce. Louisiana appears to be doing well in providing college and university students with opportunity, but students in K-12 are not performing well, despite funding that is in line with national averages. Other components for success in the new economy, such as better public health, deeper integration into the new economy, and the provision of amenities such as libraries and the arts are within government's power to influence. With respect to these criteria, Louisiana's performance is mixed.

Here, however, we confront two vexing questions: (1) What role *should* government play in promoting favorable outcomes and (2) What role *can* government play in promoting favorable outcomes. Reasonable people can disagree on how much government should do to interfere in citizen's lives to, for example, promote public health. In addition, government may be unable to interfere in citizens' lives to get them to take advantage of opportunities or make good choices. The effectiveness of public policy is indeed limited. This said, Louisiana would do well to utilize policy to its full potential.

## 4. LOUISIANA: ITS CURRENT POSITION AND FUTURE POTENTIAL

The aftermath of Hurricane Katrina awoke the state of Louisiana not only to the devastating consequences of a natural disaster, but also to the realities of an underperforming economy. There are bright spots, including innovative metro areas and a thriving entrepreneurial sector. Yet, by many other criteria, Louisiana's economy lags that of the nation and many regional states. Per capita income is low, the professional and business service sector is underrepresented in the employment mix, and educational attainment is sub-par. An out-migration of many of the state's youngest, best educated, and most talented citizens has been an unfortunate consequence.

Can Louisiana improve its economic fortunes? We answer with a resounding "yes." But, improvement will require the state to embrace fully the knowledge economy of the 21st century, a step the state as a whole has not taken, despite the progress of its metropolitan areas. To attract new businesses and bright workers, and to ensure that current businesses and talented workers not only stay in the state, but also thrive, we recommend the following changes.

- Create a more hospitable tax environment, by cutting local option sales taxes and sales taxes on certain business-to-business transactions. Lower marginal income tax rates would also make the state more competitive.
- Examine closely the tax burden faced by young professionals who might be attracted to the state, finding ways to lighten the burden for this important age group.
- Create a more hospitable regulatory environment by reducing health care mandates and increasing overall regulatory flexibility.
- Develop a fast track regulatory process for new businesses and professionals.
- Create a more hospitable legal environment by passing and enforcing statutes that root out systemic corruption. The state's legal system, which the private business sector perceives as unbalanced and unfair, should also revamped to reduce liability risk.
- Improve traditional government functions by upgrading the state's transportation system and reducing the rates of violent and property crime.
- Strive to raise educational performance, particularly in K-12, where reading and math proficiency, as well as high school graduation rates, are low.

- Continue policies that make higher education affordable, recognizing that other policy changes will help the state retain a larger share of its educated and talented citizens.
- Expand state and local support of the performing arts, parks, libraries, and urban areas, taking steps to make Louisiana towns and cities more attractive to young professionals and their families.
- Increase funding for internet coverage and for technology in the classroom and in public libraries. Make Louisiana the country's most connected state.

The economy of the 21st century is dynamic. The challenges are many. Louisiana finds itself in 2008 meeting some of these challenges. Yet, there is much room for improvement. We believe that implementing the steps listed above will help Louisiana catch up to and even surpass the economic performance of many states and grant it the requisite resources and flexibility to become a leader in the knowledge economy.

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