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HASSENFELD INSTITUTE FOR PUBLIC LEADERSHIP

## COVID-19 WILL CHANGE HOW STATES COMPETE FOR JOBS

*The following article appeared in the May 22<sup>nd</sup> edition of the Providence Business News*

COVID-19 has triggered an economic contraction unlike any other. States that adopt a strategic vision to address the crisis will have a better chance to compete for future jobs than those that do not. As President Dwight D. Eisenhower advised, “In preparing for battle I have always found that plans are useless, but planning is indispensable.”

According to the Tax Foundation, Rhode Island’s unemployment insurance claims equal one-fifth of the state’s entire civilian workforce. Since March, more than 200,000 Rhode Islanders have made claims for unemployment insurance and pandemic unemployment assistance.

IHS Markit forecasts the Ocean State’s unemployment rate will approach 16% by fiscal 2021, and Rhode Island’s state and local governments face an unprecedented revenue shortfall that puts essential public services in harm’s way. The state alone is looking at a combined \$800 million revenue gap for this and next fiscal years.

In 2013, the General Assembly restructured the state’s economic-development functions. An Executive Office of Commerce was created under a commerce secretary, and the Economic Development Corp. was reorganized as the **R.I. Commerce Corp.** These agencies were tasked with developing, implementing and overseeing an integrated economic-development program.

Utilizing the new economic-development structure, Gov. Gina M. Raimondo recommended an array of tools and incentives to help companies expand, locate and develop products and services in the Ocean State.

Growth incentives included preferential tax deals for job creation and real estate projects. Innovation incentives were provided in the form of vouchers to help businesses unlock research and development potential, encourage university-business relationships and build industry clusters. Financing assistance included tax-increment financing, small-business credit enhancements and capital-access opportunities. The Real Jobs Rhode Island program changed the way workers were trained while providing incentives to retain college graduates.

Since 2014, and before COVID-19, the state economy has made real gains. The unemployment rate dropped to historic lows as Rhode Island-based jobs grew. Between February 2019 and 2020 alone, 13,800 jobs were added as real gross domestic product advanced.

Before the coronavirus, the state economy was accelerating, but Rhode Island lagged the nation in labor force and GDP growth. Structural problems also persisted. Jobs had become more concentrated in low-wage industries. Public schools failed too many students, and a labor-quality mismatch continued. Unfortunately, the pandemic could make it infinitely more difficult to address these concerns.

To successfully reboot the economy in the post-COVID-19 world, Rhode Island will need to review and revise its current economic-growth strategies. The strategy should be built around a “productivity agenda.” An inescapable result of COVID-19 will be states battling to provide the most productive environment for businesses to grow and prosper.

A decade ago, Michael E. Porter, a Harvard Business School professor, made a presentation to the National Governors Association. It was entitled, “State Competitiveness: Creating an Economic Strategy in this Time of Austerity” and it is particularly germane to the current crisis.

This presentation suggests a framework to rethink the Ocean State’s economic vision in coronavirus America. It is focused on a productivity agenda built on the following core principles.

- A state’s competitiveness is determined by the productivity with which it utilizes its human, capital and natural resources.
- Productivity drives sustainable economic growth, which determines standards of living and wages.
- Only productive businesses can create wealth and sustainable jobs.
- Innovation in product and process is necessary to drive productivity growth.
- The public and private sectors must play complementary roles in creating a productivity agenda.
- The essential foundation of a productivity agenda is relentlessly improving education.

The economic dislocation brought by COVID-19 will hit Rhode Island hard and could be protracted. The path to a speedy recovery will require strategic thinking by visionary leaders.