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HASSENFELD INSTITUTE FOR PUBLIC LEADERSHIP

## DOES A LOST ECONOMIC DECADE LOOM FOR RHODE ISLAND?

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The dire consequences of the coronavirus coupled with failed national leadership has thrust the nation's economy into the greatest contraction since the Great Depression of the 1930's. As a result, many refer to our current economic condition as the "pandemic depression".

Projecting the national economic outlook is challenging because of differing rates of infection and economic performance in the states. Economic forecasts are also problematic because recovery is dependent on the course of the virus and medical advances. Jerome Powell, Federal Reserve Bank Chairman told the Senate Banking Committee, "Until the public is confident that the disease is contained a full recovery is unlikely."

The salient issue for Rhode Island's elected officials is what policies, investments and practices will position the state to be in the vanguard of an economic recovery, and not in our historical position of bringing up the rear?

In addition to being guided by the science in managing COVID, three bold policy initiatives are needed. First is enacting an equity agenda with educational opportunity as the essential foundation. Second is strategically investing hundreds of millions of taxpayer dollars in an Infrastructure Marshall Plan. Third is re-engineering economic development practices and priorities for the post-pandemic future.

In January 2020 there were 18,946 unemployed Rhode Islanders. In June it topped 68,000. During this period the Ocean State's unemployment rate increased from 3.4 percent to 12.4 percent. In 2019 Rhode Island's average annual unemployment rate ranked 28<sup>th</sup> nationally. By June 2020 it had declined to 40<sup>th</sup>, meaning that ten states reported a higher percentage of unemployed workers.

Not only did unemployment skyrocket, but economic output declined at levels not seen since the Great Depression. Nationally GDP declined at an annual rate of 32.9% in the second quarter of this year. According to Bryant University's Center for Global and Regional Economic Studies and the Rhode Island Public Expenditure Council (RIPEC), Rhode Island's economy contracted by an unprecedented 40.6% in the second quarter of 2020. Rhode Island's above average economic slide probably reflects structure economic weaknesses that pre-date the coronavirus. These include the state's demographic profile, under investment in public infrastructure, disproportionate job growth in low wage industries and poor educational outcomes. If the pandemic does not provide the impetus to aggressively deal with these long- standing challenges what will?

A return to prosperity will not likely happen overnight. The Wall Street Journal reported the Congressional Budget Office finds that the U.S. recovery could take the better part of a decade to fully recover from COVID.

The economic scenario for Rhode Island is not any rosier. IHS Markit's April 2020 Rhode Island outlook estimates that the state's employment won't return to the pre-COVID peak until FY2024, and the gross state product until late in FY2022. In 2019 Rhode Island's employment totaled 503,700, according to the State's Consensus Economic Forecast and it is estimated to be 503,400 in 2026.

These projections reflect the economic dislocation caused by the coronavirus which has shredded interrelationships between suppliers, manufacturers and retailers, tenants and landlords, small businesses and lenders and employees and employers. It will take time to mend our economic fabric.

States will not recover from the pandemic depression uniformly. Rhode Island must proceed with all deliberate speed to position itself so the 2020's are not a lost economic decade.

Last December a consultant's report entitled "RI Economic Development Strategy" found that despite economic gains since 2016, Rhode Island faces challenges "which must drive a new round of policy and practice innovations". The pandemic added obvious urgency to this conclusion.

For starters, Rhode Island must re-engineer its economic game plan to focus on an equity agenda, the foundation of which is to relentlessly improve educational opportunities.

Equity issues manifested by the coronavirus has demonstrated the importance of making access to an adequate education an enforceable right. While the Governor and General Assembly have taken steps to enhance student outcomes, unanticipated events can undue these accomplishments. To help ensure sustainability, access to adequate educational opportunities must be made an enforceable right and included in Rhode Island's fundamental law.

If future job growth is to be less concentrated in low wage jobs educational attainment gaps must be addressed. Bryant University economist, Edi Tebaldi reported that in 2017,

32.5% of Rhode Islanders over the age of 25 had attained a college degree. This compared to 41.3% and 38.1% in Massachusetts and Connecticut respectively.

To compete for innovation industry jobs, the role higher education plays in providing undergraduate education in science and technology is critical. With the advent of the RI Promise Program and the governance changes at URI, perhaps now is the time to invest in excellent undergraduate programs in science and technology at RIC?

Rhode Island ranked 44<sup>th</sup> in per capita public capital investments. Strategic capital spending can be a building block to accelerate an economic revival. Investing hundreds of millions of dollars over the next few years in an Infrastructure Marshall Plan can pay dividends if the right investments are made in technology and community development.

The General Treasurer has opined that we can afford additional debt service to invest in school construction, higher education facilities, preparation to address climate change, workforce housing, transportation and technology. Michael DiBiase of RIPEC observed now is a good time to borrow because interest rates are low and the state has affordability headroom.

In 2013 the General Assembly restructured the state's economic development agency and enacted an array of tools and incentives to encourage business to expand and locate in the Ocean State. Several of these initiatives have played a role in improving the state's business climate.

Past practices, however, should be revisited because COVID may have fundamentally altered the way businesses will make location and expansion decisions in the future.

As a result of the pandemic, states will aggressively battle to provide the most productive environment for both big and small businesses to prosper. In the post pandemic period, Rhode Island's competitiveness will be determined by how productively it uses its people, capital and natural resources, and not as much by preferential real estate deals and tax incentives.

In response to the pandemic Rhode Island has the opportunity to make economic game changes if it has the political will.

*Gary Sasse is the Founding Director of the Hassenfeld Institute for Public Leadership at Bryant University.*