

# BREAK AWAY

SOUTH CAROLINA



# 2010

ECONOMIC  
COMPETITIVENESS  
PROFILE





February 2010

Welcome to the fifth edition of *Break Away South Carolina*, an annual benchmarking review brought to you in partnership by the South Carolina Chamber of Commerce, the Palmetto Institute, New Carolina and the Palmetto Business Forum.

*Break Away* gauges over time how well South Carolina is performing relative to peer states. The review is based on six drivers: education and workforce preparedness, business costs, legal environment, infrastructure and connectivity, dynamism and entrepreneurialism, and quality of life. Research using more than 100 sources compares South Carolina with 49 other states for the latest full year of data.

The South Carolina Chamber, the state's unified voice of business, has embraced the goal of advancing prosperity for South Carolinians. *Break Away South Carolina* serves as our guide in developing legislative priorities. We realize as we implement sound policy to progress our position, other states may be moving at the same rate or even slightly better in some cases. Therefore, we must always have our eye towards the future and the impact of policy, not just on the moment but also for years to come.

Of course, the first focus must be on jobs: creating jobs and retaining jobs. South Carolina has one of the highest unemployment rates in the nation, and some of the jobs lost during this recession will not return. This year's *Break Away* report examines trends related to jobs and unemployment. It also discusses South Carolina's tax structure, namely the elimination of residential property taxes swapped with a new reliance on the sales tax to fund programs. The report breaks down what that means during economic downturns.

I think it is important we each examine this year's report, in conjunction with past reports, and act with sound policy decisions. For example, South Carolina is not as business tax friendly as it has been in the past. The solution lies in a strategy of pro-growth economic policies that do not overly burden one entity over another. The report also finds education and workforce preparedness as an area for concern. Therefore, programs like Personal Pathways to Success (the 2005-passed Education and Economic Development Act) should be continued. Further tort and workers' compensation reforms should move forward to move South Carolina ahead of our peer states.

As we've said in past *Break Away* reports, we realize this race towards prosperity and global competitiveness is a marathon, not a sprint. The commitment to moving South Carolina forward must be shared by all of us, including those responsible for policy in this state. We are committed to this charge. Will you join us?

A stylized, handwritten signature in black ink, appearing to read 'Otis B. Rawl Jr.'.

Otis B. Rawl Jr.  
President and Chief Executive Officer  
South Carolina Chamber of Commerce

# PURPOSE

Bolstered by a new vision and mission adopted in late 2004 — to take a more active role in increasing the state’s aggregate productivity, improving the prosperity of our citizens and enhancing overall competitiveness — the South Carolina Chamber of Commerce seeks to play a lead role in achieving sustainable economic development, innovation-driven global market viability and long-term state growth in what is becoming a very different economy in the 21<sup>st</sup> century. In order to stay competitive, the Palmetto State must consistently monitor where it stands in relation to other states.

*Break Away South Carolina* provides an annual benchmarking review that reflects the South Carolina Chamber’s commitment to gauging how well the state is performing year by year. The Chamber believes the adage: “If you can’t measure it, you can’t improve it.” This work, with research from Dr. Graham Toft, comprehensively evaluates South Carolina’s economic standing compared with the other 49 states. While at times it may appear that South Carolina is improving, is the state doing better than its rivals? And if not, what can South Carolina do about it?

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# EXECUTIVE SUMMARY

Global competitiveness is the key to advancing South Carolina's position, not just with our neighbors but also the rest of the world. In order to stay competitive, the Palmetto State must consistently monitor where it stands in relation to other states. *Break Away South Carolina* provides an annual benchmarking review that reflects our commitment to seeing how well we are performing year by year. This report comprehensively evaluates South Carolina's economic standing compared to 49 other states. It reflects how we are improving, not in isolation, but in relation to competitor and comparator states.

This year's *2010 Break Away South Carolina* is substantial in that it is the fifth edition, which provides the opportunity to compare long-range data from when the measurements were first captured five years ago, using the first full year data from 2004 – 2005.

## South Carolina's Progress – Key Findings

As South Carolina moves to a very open and innovation driven economy, it will draw from its unique strengths while confronting critical challenges. To remain competitive in the global and national markets, it is important to know where the state does well.

South Carolina scores above average in the Business Costs and Infrastructure and Connectivity drivers, showing significant improvement in Infrastructure in 2008. It continues to rank in the bottom half of states in some of the key six drivers, such as Education and Workforce Preparedness and Dynamism and Entrepreneurialism.

ECONOMIC DRIVERS						
	Rank 2008	Five-Star Scale				
		2008	2007	2006	2005	2004
<b>Education &amp; Workforce Preparedness</b>	39	☆☆	☆☆	☆☆	☆☆	☆☆
<b>Business Costs</b>	24	☆☆☆	☆☆☆	☆☆☆	☆☆☆	☆☆☆
<b>Legal Environment</b>	26	☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆	☆☆☆☆
<b>Infrastructure &amp; Connectivity</b>	23	☆☆☆	☆☆☆	☆☆	☆☆	☆☆
<b>Dynamism &amp; Entrepreneurialism</b>	45	☆	☆	☆	☆	☆
<b>Quality of Life</b>	39	☆☆	☆☆	☆☆	☆☆	☆☆

The **Education and Workforce Preparedness** driver continues to be an area of concern with a below average national ranking of 39. South Carolina is held back by its performance in the K-12 sub-driver, while scoring in the top 10 in the postsecondary sub-driver.

In terms of **Business Costs**, South Carolina continues to score well due to improvements in unit labor costs and average health care premiums, but the rating has declined in workers' compensation premiums and costs (benefits paid) and overall business tax burden.

The **Legal Environment** rankings were about average, 26<sup>th</sup> in the country, with some improvement over the years, especially in the tort system and malpractice costs. However, South Carolina has continued to lag behind its peers in the business liability costs category. As other states make improvements to their regulatory climates, especially through tort reform, it is imperative that South Carolina follow suit in order to not fall behind.

For the first time in five years, performance was above the majority of states on the **Infrastructure and Connectivity** driver in 2008 at a rank of 23. Also for the first time, South Carolina performed better in physical infrastructure (22<sup>nd</sup>) than in digital infrastructure (28<sup>th</sup>). This ranking change is due to the state's strong progress in the quality of both its water and electricity system. Regarding digital connectivity, South Carolina now has a solid telecommunications foundation and good broadband coverage. Today's challenge is to increase use and applications of broadband at the individual and firm levels.

The state's ranking in the **Dynamism and Entrepreneurialism** driver continues to be discouraging (45<sup>th</sup> nationally), indicating research, innovation, entrepreneurial activities and creative industries in South Carolina have room for significant improvement. Nevertheless, South Carolina shows some improvement in research and creativity metrics, such as university spinoffs. Several small business metrics also indicate improvement, such as certain small business financing. Its continuing underperformance in growth in export intensity (share of GDP) and growth in foreign business employment deserves further attention. It is important South Carolina maintains its position in port trade and improves general international activity.

South Carolina's performance in the **Quality of Life** driver is again below average. The state ranks 39<sup>th</sup> in the U.S. with a two-star score. Interestingly, state quality of life scores are converging, with each state seeking to capitalize in natural, cultural and man-made amenity assets. South Carolina as a travel and tourism state cannot pause on sustaining and improving its competitive position in this area.

While improvements in Infrastructure and Legal Environment are encouraging, South Carolina's rankings and scores in the past years indicate the need for continued aggressive deliberation and change to make the state more competitive. The better performance of surrounding and competitor states creates a keen competitive environment. While the recession of 2007-09 has stressed most states, opportunity abounds for more flexible, previously trailing states like South Carolina to "break away" in the next expansion phase of the business cycle.

# INTRODUCTION

The South Carolina Chamber of Commerce has pursued the goal of advancing state wealth and the prosperity of our citizens for much of this decade. That remains its long-term focus. But this year's introduction to the fifth edition of *Break Away South Carolina* highlights two related considerations immediately on the minds of the state's business, government and civic leaders: jobs and taxes.

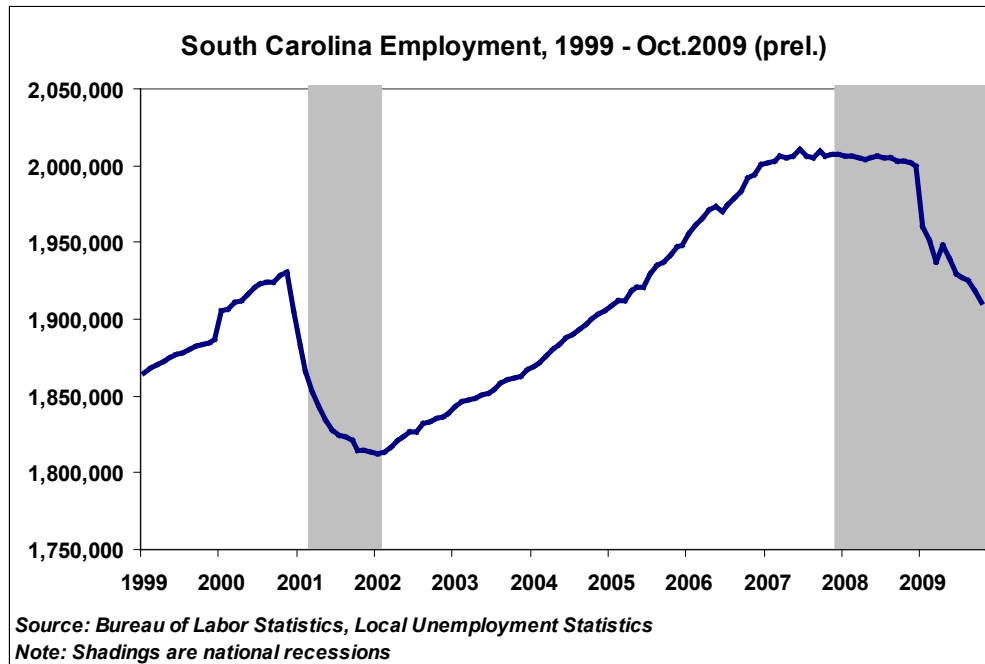
Last year's 2009 report warned the U.S. leading economic indicators were pointing to a protracted recession. It noted, "There are signs that at least the next one-to-two years are going to be a tough economic transition for the U.S. economy as it weans itself off excessive debt and shifts to a more normal growth path, which will rely more on savings, investment, innovation and entrepreneurship. South Carolina will feel the pain but also have the opportunity to prepare for 'break out' down the road."

South Carolina has been a victim of this severe national recession as it has unfolded, particularly the past year and a half, which has hindered income growth plans. The nation has been in recession since December 2007. South Carolina entered the recession in March 2008, one of the first 11 states to begin the downturn according to Moody's Economy.com. As of October 2009, nationwide 79 metro areas out of a total 381 areas were in recovery according to Moody's/CNBC Adversity Index. Four of these are in South Carolina (Augusta-Richmond County across state lines, Charleston-Summerville, Columbia, Myrtle Beach-Conway and Spartanburg). According to Moody's/CNBC June projections, the end of the recession in South Carolina, in terms of job growth, is predicted for the second quarter of 2010.

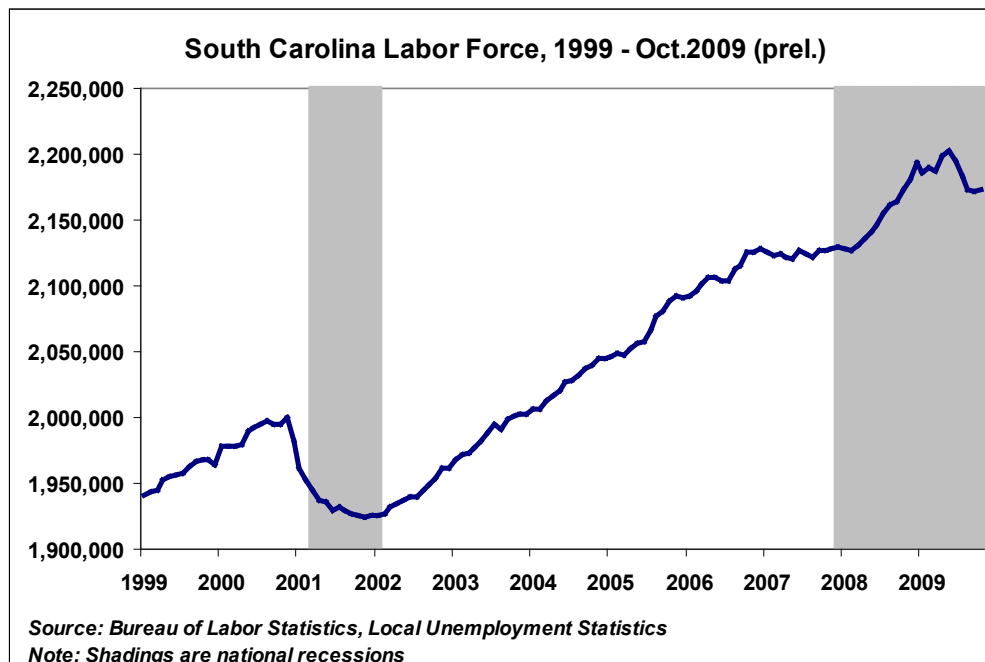
- When the recession hit, the South Carolina economy was still transitioning to a modern, high-value manufacturing and services economy. The slowing economy magnified the resulting mismatch in skill sets. Growth in professional and business services picked up after the 2001 recession until 2008, but it was not enough to counter the decline of the manufacturing sector.
- South Carolina's unemployment rate has remained well above the United States unemployment rate since the previous recession. It accelerated between December 2008 and June 2009 and then slowed between June and August 2009. October 2009 numbers show a 12.1 percent unemployment rate in South Carolina, compared to 7.8 percent in 2008 and 10.2 percent nationally.
- Current forecasts expect total employment in South Carolina to fall about 4.2 percent in 2009. The pace of job losses will slow into 2010, but total employment for all of 2010 also is expected to decline by about 1.6 percent. Right now, South Carolina is not expected to return to positive job growth until 2011.<sup>1</sup>

## ***Jobs, Jobs, Jobs***

The graphs below paint a picture of the South Carolina employment and unemployment situation. To understand the jobs scene, it is insufficient to only know how many jobs there are. One also must know how many working-age adults choose to participate in the labor force and how many of them are unemployed to get an estimate of the unemployment rate and total underemployment rate.

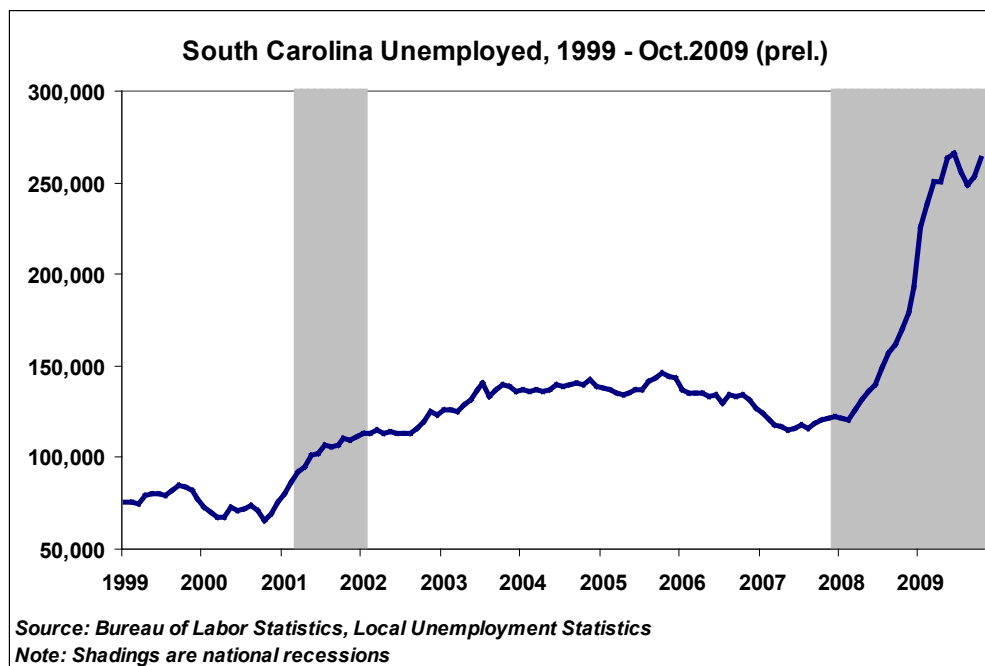


South Carolina employment has been on a 10-year roller coaster. Today's employment level is below the peak of 2000.

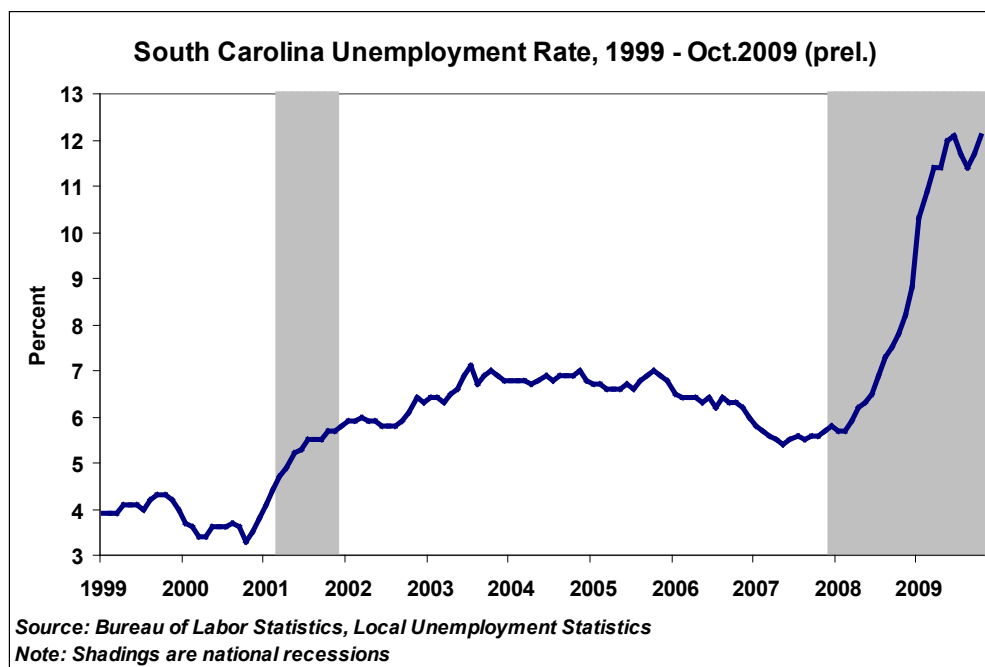


<sup>1</sup> Santee-Lynches Regional Council of Governments and The BB&T Center for Economic and Community Development at Coastal Carolina University (<http://www.santeelynchescog.org/economyPDF/localforecast.pdf>)

Despite the jobs situation, the South Carolina labor force has continued to grow except during the second half of 2009. Not only is the state gaining new residents, but its labor force is notably resilient. Residents are taking whatever work is available, including temporary and part-time jobs, self employment, etc. This is a sign of a healthy work ethic and a good sign for an available workforce when normal economic times return.



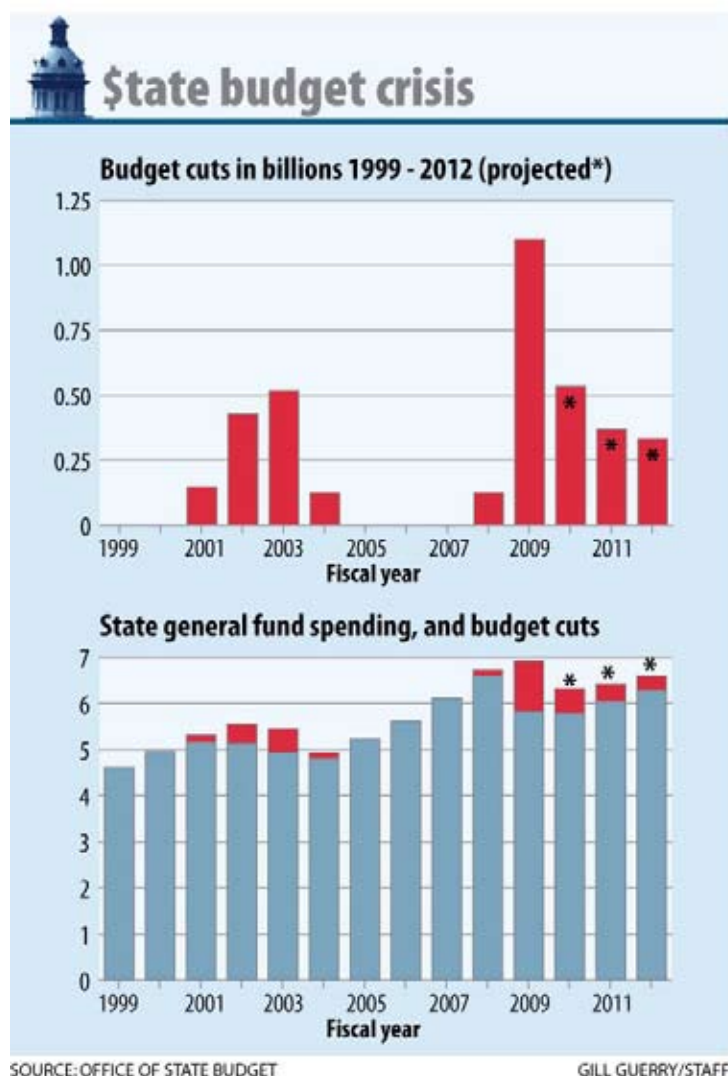
The number of unemployed rose dramatically from mid-2008 to early 2009 to more than double what it was coming out of the recession of 2001. It appears to be peaking.



## Taxation and Economic Growth

An aftermath of all recessions is lingering unemployment and state and local fiscal stress. South Carolina, like nearly every other state, faces budget shortfalls in 2010. The shortfall will possibly be for several years unless economic growth picks up. This leaves state and local governments looking for ways to cut spending, economize and/or raise additional resources to cope with increased demand for social services and increased enrollments in higher education.

In September 2009, to address an estimated \$200 million deficit for FY2010, the South Carolina Budget and Control Board implemented four percent across-the-board cuts to South Carolina's budget due to lagging revenue collections. On November 10, the Board reduced the revenue estimates again, resulting in another proposed cut of about \$120 million from South Carolina schools and prisons.



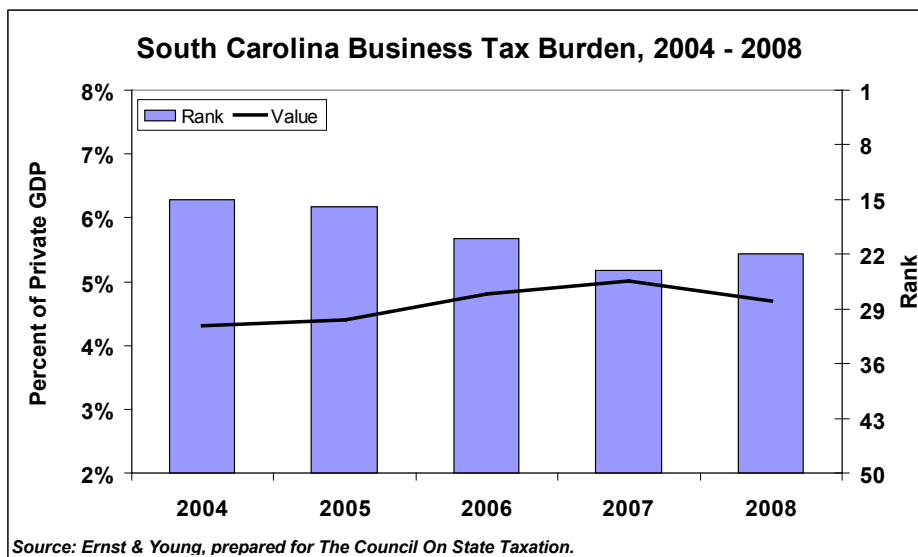
According to a just-released report by the Pew Charitable Trust, South Carolina ranks mid-range among the states on a score of fiscal stress. Much of the public debate about the South Carolina budget crisis centers on if the state did the right thing to reduce property taxes and depend more on sales taxes, which is a less stable source of revenue in tough times. Another way to look at the issue is to examine whether tax burden in the state is making it more or less competitive for economic growth. For example, is increased government taxation and spending crowding out private initiative and investment?

Raising taxes during a recession puts additional stress on individual taxpayers and businesses at a time when reinvestment or business relocations are being considered for the expansion phase of the next business cycle. Also, recessions are

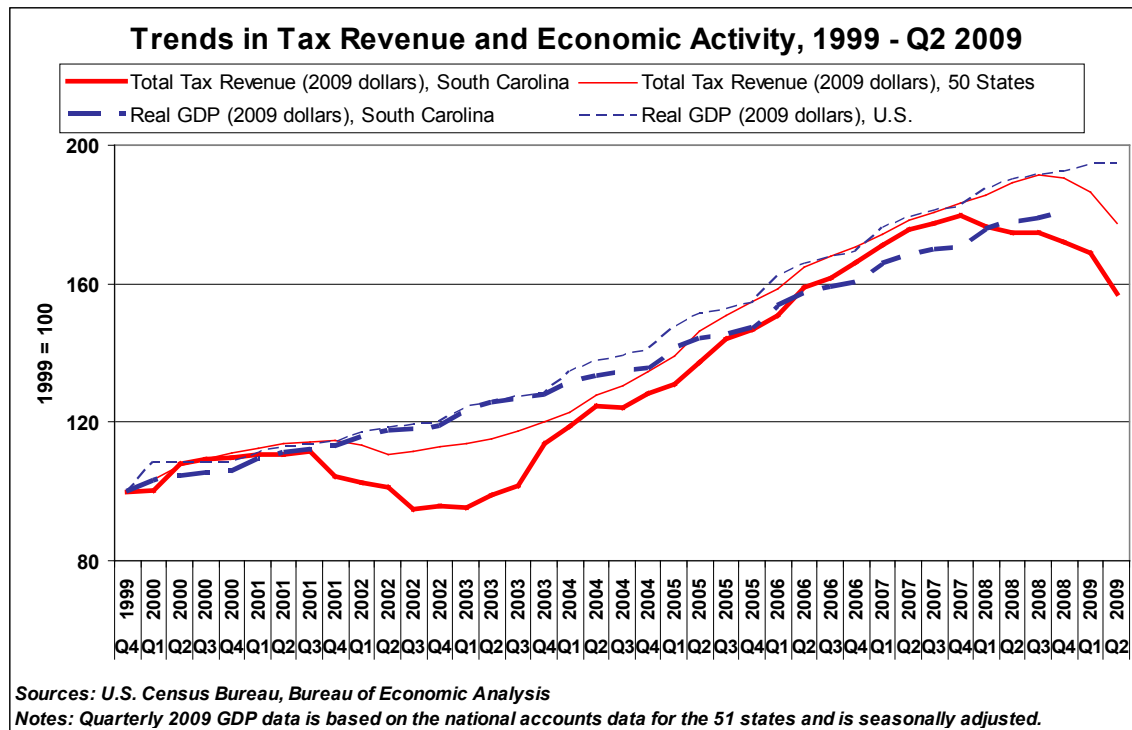
a time of heightened small business formation, where providing conducive business conditions increases the chances of higher survival rates for startups. Such a rule can be relaxed for limited periods of time if the state maintains a healthy rainy day fund.

A rule of thumb in both good times and bad is not to increase the tax burden faster than growth in tax capacity, namely growth in the economic base. Most states do not routinely take such a checkup, sometimes resulting in tax collections exceeding economic growth for extended periods of time and ultimately slowing growth even further. States that diligently keep tax revenue growth below the rate of economic growth create favorable conditions for additional business investment. The following graphs explore South Carolina's tax revenue growth relative to economic performance.

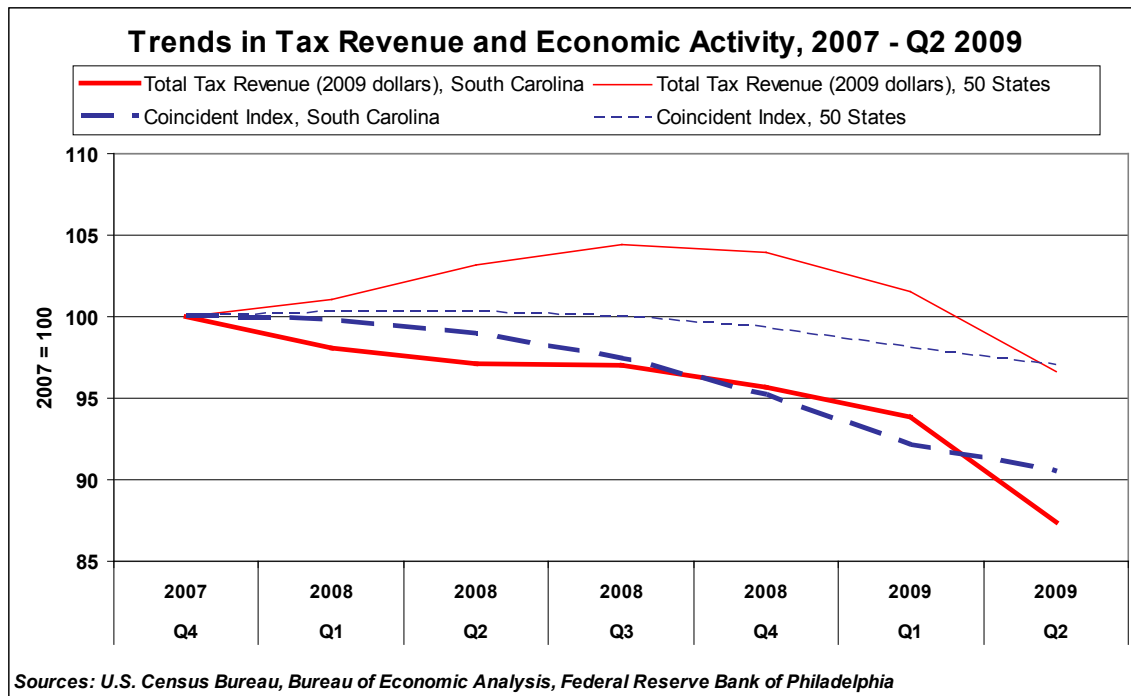
One way of identifying whether business taxes are proportional to economic activity is to look at the business tax burden relative to state gross domestic product (GDP). The data below is taken from a study prepared by Ernst & Young for the Council on State Taxation. It shows the share of state and local business taxes in proportion to total business revenue for the most current fiscal year as represented by private gross domestic product. South Carolina has ranked above average in past years in business tax burden, though it experienced a decline from rank 13 to 24 in 2007. It has shown a small improvement in 2008 in tax burden (a decline in the burden), now ranking just above the midpoint. In other words, from a business tax-friendly point of view, South Carolina is not as attractive as it has been in the past.



Looking more broadly at taxes and economic growth, the following graph looks at own-source total tax revenue in South Carolina beyond the 2001 recession. The tax revenues in the graph are the total tax revenues averaged over rolling four quarters for South Carolina and the 50-state composite, both indexed to inflation. The graph shows that South Carolina experiences a much stronger decline in tax revenue around recessions (2001 and 2007-09) than the 50 state composite (solid red lines). It also shows state GDP growth less than the U.S. growth (dashed blue lines). The graph clearly indicates that between 2003 and 2007, tax revenues in South Carolina kept pace with other states and U.S. growth, outpacing state growth. The result has been increasing fiscal burden relative to state economic growth.



The next chart provides a more detailed picture of tax revenue and economic activity trends in South Carolina relative to 2007 values. The Federal Reserve Bank's State Coincident Index is used instead of GDP because it provides more recent growth data (released monthly with a one-month lag). The index is a well-tested measure of the current economic health of a state. The Coincident Index is an inflation adjusted composite of four monthly-released state metrics: non-farm payroll employment, average hours worked in manufacturing, the unemployment rate and wage and salary disbursements deflated by the consumer price index (U.S. city average). It is presented as a four-month average for each quarter in the graph below, indexing both South Carolina and all 50 states to that point in time. The graph illustrates that in recent years South Carolina's tax revenue growth, or rather the decline in tax revenue, has been more pronounced than the 50-state trend, especially during 2008, but it has generally been in line with its aggregate economic activity.

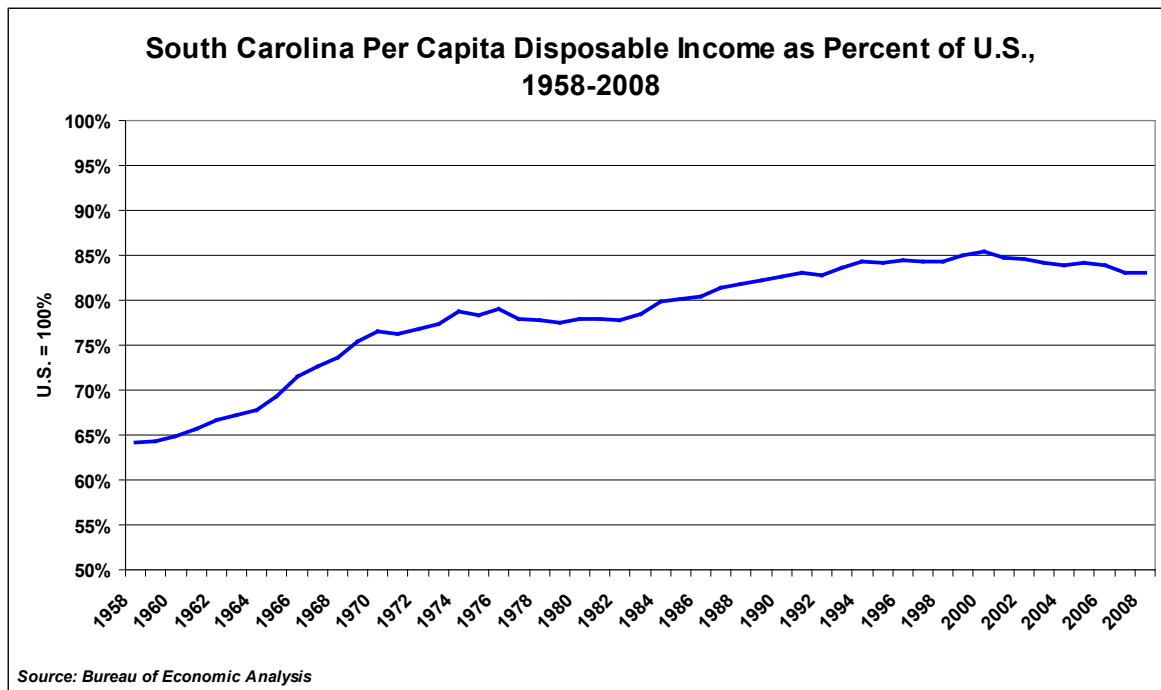


## The Bottom Line

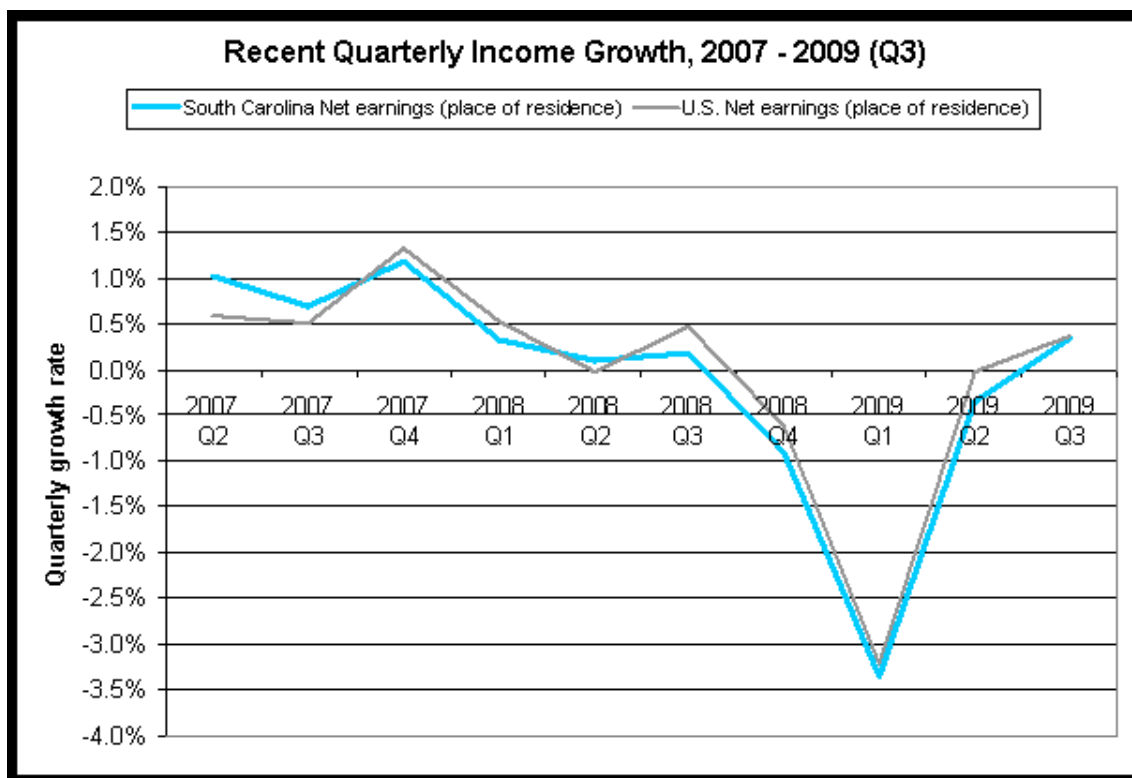
From a competitiveness perspective, these three charts point to a state at or beyond taxing capacity. To improve South Carolina's tax competitiveness for economic growth, a joint strategy of restrained growth in tax burden coupled with pro-growth economic policies makes the most sense.

## Income Trends

Beginning in 2004, the South Carolina Chamber of Commerce embarked upon a tracking system to benchmark progress and learn about innovations in other states. *Break Away South Carolina* serves as the Chamber's annual economic health checkup with particular focus on measuring improvement in income creation, productivity and business dynamism. Many of the strategic directions set in motion by the South Carolina Chamber and other state public-private partnerships in 2004 become even more relevant as the economy comes out of recession. As shown in the following graph, moving the needle on per capita income remains a major challenge. Disposable per capita personal income in 2008 was \$29,465, which is 83 percent of the U.S. average. That is down slightly from 10 years earlier when it was 84.3 percent. The main reason for the decline is that other states have been progressing at the same rate or slightly better.



The Chamber continues to boldly set a goal to improve the prosperity of our citizens by using per capita income as the metric to measure economic progress. Over the past three years, the state has continued to struggle to keep up with U.S. resident earnings growth, a primary source of total state income. The table below shows quarterly growth rates are generally below those of the U.S. since 2007.



## Where is South Carolina doing well?

The table below illustrates where South Carolina ranks above the 50-state midpoint on select metrics.

South Carolina's Metrics Above Mid Rank of 25 in Report Year 2008			
	Rank		Rank
Advanced placement overall	21	Other innovation degrees	9
Bridge quality	19	Physical sciences and engineers	18
Broadband coverage	1	Private lending to small businesses	9
Business taxes	22	Railway productivity	21
Charitable giving	5	Small Business Investment Corporations financing (SBIC)	13
College migration	16	Self-employment	18
Energy costs	17	Small business payroll growth	14
Energy reliability	9	State and local tax burden	14
Establishment formation rate	20	State business tax structure	9
Federal research and development	24	Technology and technician degrees	16
Golf courses	12	Time to work	22
Health mandates	12	Tort system reputation	14
Highway quality	20	Trails	17
Homeownership rates	10	Unemployment insurance costs	21
HS diploma attainment	20	Unit labor costs	24
Large business payroll growth	11	University research and development	25
Leisure Industry employment	19	University spinoffs	9
Malpractice costs	11	Urban cost of living	9
Metro office rents	19	Urban housing costs	17
Net domestic migration	1	US News top undergraduate programs	6
Non-Labor income growth per capita	16	Water quality	10

# TRENDS IN SIX CORE DRIVERS

## ***Introduction: What are the Core Drivers?***

One can gain a broad perspective on the state's competitive position by charting trends in six core drivers. These drivers are considered by many as essential ingredients for sound economic growth:

- 1) Education and Workforce Preparedness
- 2) Business Costs
- 3) Legal Environment (previously Regulatory Environment)
- 4) Infrastructure and Connectivity
- 5) Dynamism and Entrepreneurialism
- 6) Quality of Life

Each driver score represents the aggregate of 10 or more metric scores. In some cases, a driver is subdivided into two or three sub-drivers. For example, the Education and Workforce Preparedness driver is broken into two sub-drivers: K-12 education and postsecondary education. The summary update presents the ranks for the seven drivers and their scores on a five-star scale. It also highlights key metrics within each driver that have seen notable change over the past six years, both positive and negative.

## ***The Data***

The data used for this report comes from more than 100 sources, primarily governmental, but some data is purchased from credible sources. The data cutoff was November 30, 2009. The latest report year of this edition of *Break Away* is 2008, and this report contains the most up-to-date annual data, most of which is dated 2007 and 2008.

## ***How to Use the Data***

This report is a benchmarking effort. The strength of benchmarking is found in its ability to help improve performance and identify which factors contribute to future success or weakness. Further, benchmarking in the public arena is particularly useful in alerting leaders and decision-makers to areas of vulnerability that deserve special government attention and public-private collaboration. We trust that at least parts of this work will lead to expressions such as “We should be doing better than that...” or “I didn’t realize how good South Carolina was at...” or “We should be doing more to make ourselves a leader in...” Hopefully, such responses will mobilize action to place South Carolina on the global map as an innovation economy in both mainstay and emerging industries.

This annual benchmarking review is designed to look for major performance outcomes relative to competitors. It is not intended to measure the effectiveness or efficiency of specific programs or agencies. Other methodologies are available for that. This report is intended as a fact-finder and does not make policy recommendations.

The design of *Break Away South Carolina* is guided by the following principles:

- ⇒ Focus on the measurement of outcomes, not processes or inputs. For example,

measure the service quality of highways, e.g. bridge quality, not capital investment.

- ⇒ Employ a similar methodology throughout the report (each driver/sub-driver is scored in a similar fashion).
- ⇒ Capture the latest available data, on an annual or biennial basis, for all 50 states.
- ⇒ Use data as a neutral, independent reference to facilitate constructive discussion by leaders on priorities for current and future actions.

The information provided by a benchmarking review can be used best when:

- 1) The reader focuses on long-term trends (some include more than six years, as indicated by the driver and sub-driver scores).
- 2) The reader looks for how well South Carolina is performing relative to competitors and comparators (i.e. South Carolina might be doing better in aggregate score but still losing ground relative to other states).
- 3) The reader uses other sources of intelligence about its competitiveness along with this information.

The reader drives the findings of the report to the next steps by asking why certain states are doing better on a particular score and what South Carolina might learn.

In short, this review is a tool for constructive change.

## ***Ranks and Stars***

The report uses two methods to illustrate how South Carolina compares against other states: ranks and stars. Ranks are widely used and very helpful, but they fail to indicate the actual difference in score between states. For example, a state might be ranked ninth yet be only one-to-two percentage points behind the leader, while the 10<sup>th</sup> ranked state might be 10 percentage points behind. The five-star rating helps overcome this problem by grouping states into five categories according to their actual scores. The full range of scores from top state to bottom state is divided into five equal parts. Those states in the top 20 percent of score range are the “leaders” with five stars; those in the next 20 percent range are “above mid-range” with four stars; those with three stars fall in the mid-range 20 percent; two stars are assigned to those “below mid-range,” and states with one star are the “trailers,” falling in the bottom 20 percent of scores.

Put another way, ranking illustrates the state’s place, while stars tell how well the state is performing. For example, an athlete might do well in the four-minute mile, putting him in ‘best in class’, but may not place in the top three in a race. For most economic and social issues, state leaders and decision-makers want the state to be among the top performers but worry less about being No.1. Since a state’s economic position changes slowly relative to other states, tracking star progress is one expedient way to observe where improvements or slips have been occurring.

NOTE: All metric data is reported with No.1 as the best. So, for example, the state with the highest export growth is ranked first, while the one with the lowest workers’ compensation costs also is ranked first. All metrics are ratios that take into account the size of the state.

# EDUCATION & WORKFORCE PREPAREDNESS

Skills, knowledge and creative thinking are critical assets for success in today's innovation economy. Having a strong human capital base is a necessary but not sufficient competitive condition. States, or even countries, may be endowed with a well-educated population, but lack some other necessary conditions, such as a free enterprise system that cultivates creativity and entrepreneurship. Nevertheless, education and workforce preparedness are core foundations.

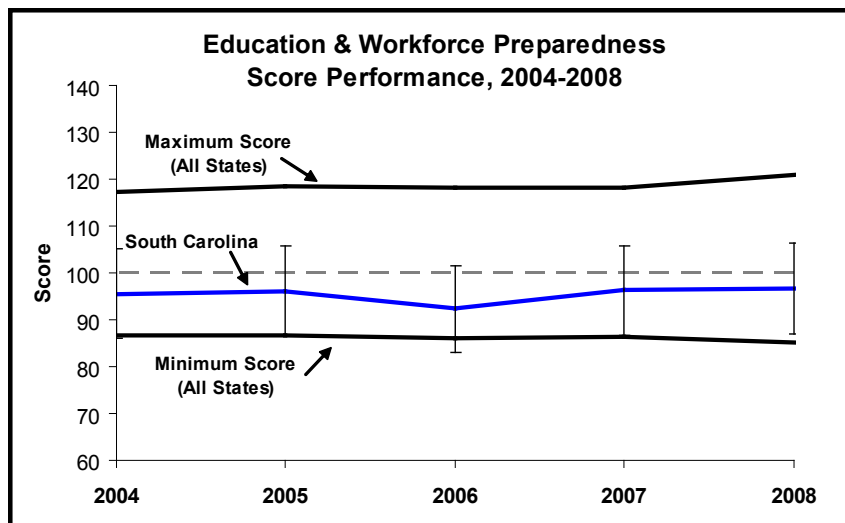
The Education and Workforce Preparedness driver has 24 metrics and is comprised of three sub-drivers: K-12 education, postsecondary education and workforce preparedness.

Performance 2008			
State	Score*	Rank	Five-Star Scale‡
North Carolina	102.0	25	☆☆☆
Georgia	100.0	32	☆☆☆
<b>South Carolina</b>	<b>96.7</b>	<b>39</b>	☆☆
Tennessee	96.4	40	☆☆
Alabama	95.4	43	☆☆
Kentucky	94.8	45	☆☆
<b>Region Average</b>	<b>97.6</b>	<b>37</b>	☆☆

\*Score median is 100  
‡Scale shows range of scores: top 20 percent of score range = 5 stars, next 20 percent = 4 stars, etc.

**South Carolina's 2008** performance in Education and Workforce Preparedness

measures continues to stay below the majority of U.S. states at rank 39. In the past two years, its performance has somewhat caught up, but top performers continue to pull away. If South Carolina were to improve its score by 10 percent, it would be safely above the 50-state median.



Note: Vertical bars show range of values within 10 percent of South Carolina's score.

## South Carolina Metric Highlights

- South Carolina's highest K-12 performance ranked it 21<sup>st</sup> in Advanced Placement tests, down slightly from 17<sup>th</sup> five years earlier.
- After several years at rank 15, South Carolina's performance in Other innovation degrees granted, such as business and management degrees, improved to a current rank of 9<sup>th</sup> in the nation.
- South Carolina ranks 6<sup>th</sup> in the nation in the number of Top-ranked Undergraduate Colleges (as a share of all educational institutions), up from 7<sup>th</sup> place five years earlier.
- The share of Other innovation workers in South Carolina performed below average and slipped from 31<sup>st</sup> in 2004 to 39<sup>th</sup> nationally.
- South Carolina ranks first in the nation in the Net domestic migration rate (net inflow), up from rank 6<sup>th</sup> five years earlier.
- The share of High-tech Manufacturing Employment in South Carolina continuously improved over the past five years, leading a current ranking of 27<sup>th</sup> in the nation up from rank 34 in 2004.
- South Carolina's Labor force participation rate dropped in competitiveness from 36<sup>th</sup> five years ago to 45<sup>th</sup> in the nation.

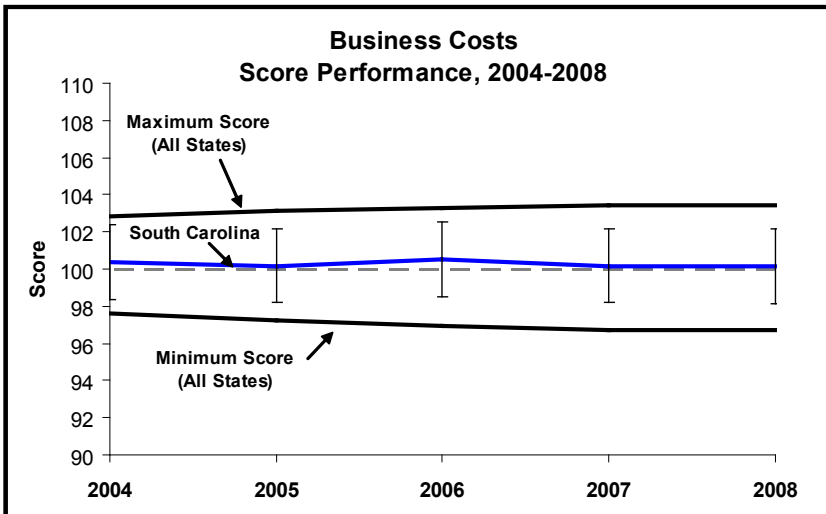
# BUSINESS COSTS

A primary reason for the disinflationary environment of today's national and global economy is overcapacity. Productive investments made during the boom times of the 1990s, along with the recession and a global shift to free enterprise economics, have combined to put downward pressure on prices for standardized products and services. The result is many businesses have lost their pricing power. A typical response is to control costs. Costs of doing business remain a critical factor in business location and growth. The metrics in this driver are weighted proportional to the magnitude of the various cost factors of the typical firm.

Performance 2008			
State	Score*	Rank	Five-Star Scale†
North Carolina	102.9	2	☆☆☆☆☆
Tennessee	100.8	12	☆☆☆☆
Kentucky	100.5	18	☆☆☆☆
<b>South Carolina</b>	<b>100.2</b>	<b>24</b>	☆☆☆☆
Alabama	100.2	26	☆☆☆☆
Georgia	99.9	29	☆☆☆☆
<b>Region Average</b>	<b>100.7</b>	<b>19</b>	☆☆☆☆
*Score median is 100 †Scale shows range of scores: top 20 percent of score range = 5 stars, next 20 percent = 4 stars, etc.			

**South Carolina's 2008 performance** in Business Costs has continued to stay just

above the majority of U.S. states. Since 2006, the state has slipped some from rank 18 to a current rank of 24, and it performs below the average of its peers. Just a two percent improvement would put South Carolina among the top 10 states.



Note: Vertical bars show range of values within 2 percent of South Carolina's score.

## South Carolina Metric Highlights

- After years of below average performance in the beginning of the decade, South Carolina currently ranks 24<sup>th</sup> in Unit Labor Costs, down from 18<sup>th</sup> the year before.
- Workers' compensation premiums continuously declined in performance from rank 13 in 2004 to 39 in 2008 with an above average rise in premiums. Workers' Compensation Costs (benefits paid) also have experienced a decline in competitiveness, falling from 38<sup>th</sup> place in 2004 to 42<sup>nd</sup> in 2007.
- Unemployment Insurance Costs in South Carolina have continued to fall but not at the same rate as many other states, leading to a drop from 16<sup>th</sup> to a current 21<sup>st</sup>.
- Though still ranked above average, South Carolina's Business tax burden slipped from rank 15 in 2004 to 22 in 2008. However, there was some improvement in value and rank from the previous year, which was 24<sup>th</sup> place. The state's Business tax structure outperforms most states at rank 9, up from rank 11 in the previous five years.
- Health care premiums, as an average of single and family premiums in South Carolina, have improved their competitiveness, moving from rank 27 (2004) to rank 18 (2008) as premiums have risen slower than in other states.

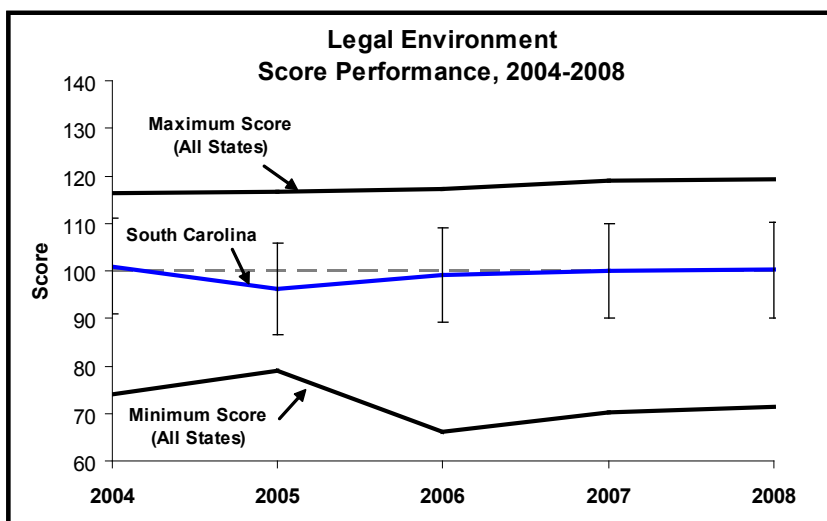
# LEGAL ENVIRONMENT

A state must find the right mix of size, taxing power, programs and expenditures to provide high return on investment in public assets and services, while at the same time interfering minimally in the day-to-day dealings of the marketplace.

Next to tax policy, legal and regulatory policy is probably the most important aspect of business climate. The metrics attempt to measure outcomes from the state's legal environment, rather than policies or regulatory practices. Specific areas of regulation, such as environmental regulation, deserve further research.

Performance 2008			
State	Score*	Rank	Five-Star Scale†
North Carolina	106.5	11	★★★★
Tennessee	103.1	20	★★★★
<b>South Carolina</b>	<b>100.2</b>	<b>26</b>	★★★★
Kentucky	99.4	27	★★★
Alabama	97.6	32	★★★
Georgia	96.6	33	★★★
<b>Region Average</b>	<b>100.6</b>	<b>25</b>	★★★★
<small>*Score median is 100            †Scale shows range of scores: top 20 percent of score range = 5 stars, next 20 percent = 4 stars, etc.</small>			

**South Carolina's 2008** performance in Legal Environment aligns with the majority of U.S. states and the region average at a rank of 26. Since 2005, it has gained some ground from its low of rank 32. But as other states have improved as well, South Carolina has not been able to regain its 2004 rank of 21. A 10 percent improvement in this score would put South Carolina among the leaders.



Note: Vertical bars show range of values within 10 percent of South Carolina's score.

## South Carolina Metric Highlights

- After several years of declining performance in Malpractice costs, South Carolina's position has improved from its low rank of 21 in 2004 to 11<sup>th</sup> in 2008. It did, however, slip from the previous year ranking of 5<sup>th</sup> in the nation.
- The reputation of the Tort system in South Carolina improved from 36<sup>th</sup> in 2005 to 14<sup>th</sup> in 2007 (only data years available). However, as other states make improvements to their regulatory climates, especially through tort reform, it is imperative that South Carolina follow suit in order to not fall behind.
- Performance in Business liability premiums paid (relative to GDP) has dropped in South Carolina to 40<sup>th</sup> from 12<sup>th</sup> five years earlier.
- Local phone competition in South Carolina has continuously improved over the past years, from a 37<sup>th</sup> place in 2004 to a current rank of 28<sup>th</sup> (2007).

# INFRASTRUCTURE & CONNECTIVITY

In today's innovation economy, sound and basic infrastructure remains important, especially in a state like South Carolina with strong international trade ties. Infrastructure can be broadly defined to include both traditional physical infrastructure, such as roads, ports, water and sewer, and virtual infrastructure, or digital connectivity. The metrics measure outcomes, productivity and level of service, rather than inputs, such as capital expenditures per resident.

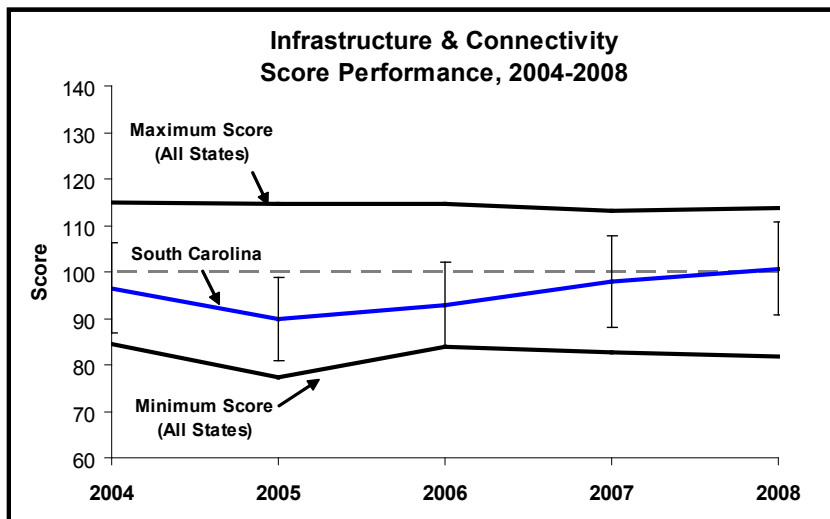
Performance 2008			
State	Score*	Rank	Five-Star Scale†
Georgia	103.2	15	☆☆☆☆
Tennessee	101.2	21	☆☆☆☆
<b>South Carolina</b>	<b>100.7</b>	<b>23</b>	☆☆☆
North Carolina	100.3	24	☆☆☆
Alabama	97.6	35	☆☆☆
Kentucky	82.5	48	☆
<b>Region Average</b>	<b>97.6</b>	<b>28</b>	☆☆☆

\*Score median is 100  
†Scale shows range of scores: top 20 percent of score range = 5 stars, next 20 percent = 4 stars, etc.

For the first time in five years, **South**

## Carolina's 2008

performance in Infrastructure and Connectivity has improved to just above the majority of U.S. states and region average at a rank of 23. A 10 percent improvement would put South Carolina among the lead states.



Note: Vertical bars show range of values within 10 percent of South Carolina's score.

## South Carolina Metric Highlights

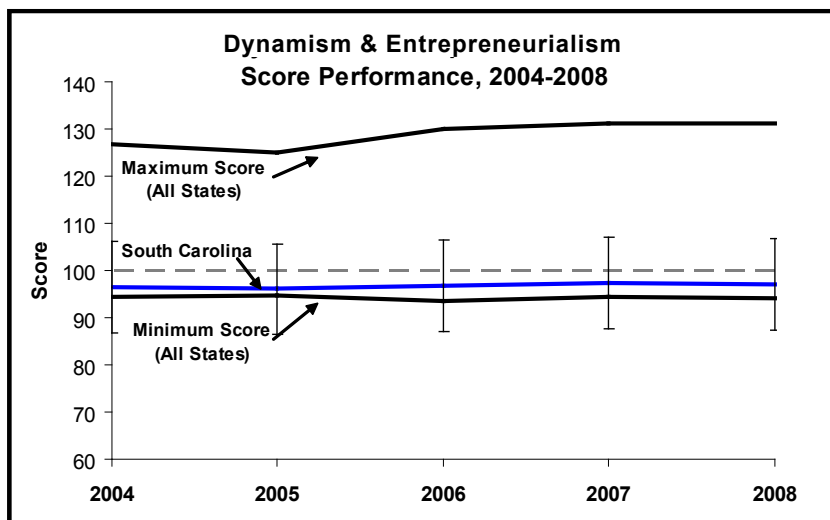
- Highway quality in South Carolina continuously dropped to a current rank of 20<sup>th</sup> from 15<sup>th</sup> six years earlier.
- Railway productivity (tons carried relative to GDP) improved over the past six years, leading to 21<sup>st</sup> place nationally from 30<sup>th</sup> in 2004.
- South Carolina's Water system quality saw a significant rise in performance in 2008 to 10<sup>th</sup> place nationally. There was a substantial drop in the share of the population served by water systems with reported health violations.
- With a substantial drop in average customers affected by major electricity system disturbances, South Carolina's Electricity reliability rose significantly to 9<sup>th</sup> place nationally in 2008, up from rank 44 in 2005.
- Broadband connections in South Carolina improved from 36<sup>th</sup> in 2004 to 31<sup>st</sup> in 2007 due to a strong increase in the number of lines per 1,000 residents. Internet speed increased its competitiveness from 42<sup>nd</sup> to 32<sup>nd</sup> place from 2007 to 2008 (only years available). Broadband coverage reached 100 percent in 2007, tied at first place with six other states where all zip codes had two or more broadband providers.
- With a small increase in the number of participants in the Next generation Internet networks, South Carolina was able to move its competitive position from 37<sup>th</sup> in 2003 to above average in 2007 at rank 23, but it slipped back to 37<sup>th</sup> place in 2008. Rural Internet access in South Carolina has improved significantly from 43<sup>rd</sup> in 2003 to 36<sup>th</sup> in 2007, almost reaching the national average.

# DYNAMISM & ENTREPRENEURIALISM

A dynamic economy is one that is both creating jobs and new businesses, while losing those that are no longer productive. In fact, one characteristic of today's innovation economy is the degree to which it is "churning" – residents coming and going; new occupations forming while others decline; businesses locating, then relocating. This driver comprises a number of growth or change metrics: measurements of the strength of the discovery process behind this churning; the degree of capital formation for business starts and expansions; and metrics of start-up activities and funding for business growth.

Performance 2008			
State	Score*	Rank	Five-Star Scale‡
North Carolina	111.0	10	☆☆
Georgia	105.1	27	☆☆
Alabama	104.4	28	☆
Tennessee	103.1	33	☆
<b>South Carolina</b>	<b>97.0</b>	<b>45</b>	☆
Kentucky	96.3	47	☆
<b>Region Average</b>	<b>102.8</b>	<b>32</b>	☆
*Score median is 100 ‡Scale shows range of scores: top 20 percent of score range = 5 stars, next 20 percent = 4 stars, etc.			

South Carolina's 2008 performance in Dynamism & Entrepreneurialism has been



Note: Vertical bars show range of values within 10 percent of South Carolina's score.

among the bottom five states for the past five years. Its persistent low ranking calls for continuing aggressive entrepreneurship focus by public and private sectors and better understanding of what makes the state growth companies tick. A 10 percent score improvement would put South Carolina above the median.

## South Carolina Metric Highlights

- After several years in the top 10 in the beginning of the decade, South Carolina's Export growth (three-year average) ranks 27<sup>th</sup> in 2008. This is down from 6<sup>th</sup> in 2004.
- South Carolina's growth in per capita Non-labor income (three-year average) from dividends, rents and interests surged to 8<sup>th</sup> place nationally in 2006 from 37<sup>th</sup> in 2004. However, it has since lost some competitiveness slipping to 16<sup>th</sup> in 2008.
- Venture capital performance in South Carolina improved from rank 38 in 2004 to rank 24 in 2007. But in 2008, it slipped back to 39<sup>th</sup> place. South Carolina improved its rank in Seed/Early stage venture capital to 32<sup>nd</sup> from 35<sup>th</sup> five years earlier.
- University spinoffs in South Carolina have seen a significant burst, moving it to a current rank of 9<sup>th</sup> in 2007 from 29<sup>th</sup> in 2004. University licenses to small business dropped in the most recent year to rank 42<sup>nd</sup> in 2007. This is down from 37<sup>th</sup> in 2004.
- After several years of improvement, University R&D spending in South Carolina relative to the size of its economy dropped from 21<sup>st</sup> in the previous year to 25<sup>th</sup> in 2008.
- SBIC financing in South Carolina has continued to improve over the past five years, advancing from rank 31 in 2004 to 13<sup>th</sup> in the nation in 2008. Although in the past two years, the increase was due to other states falling behind faster.

# QUALITY OF LIFE

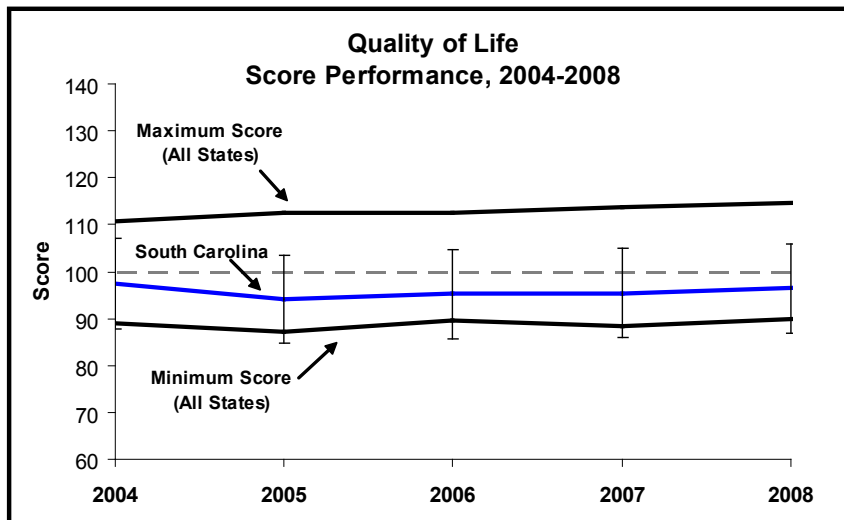
Quality of Life has gained increasing focus for economic development policy and practice, particularly since Richard Florida's book *The Rise of the Creative Class*. States, regions and cities are increasingly concerned about how to attract not just businesses but also entrepreneurs, young skilled workers and active retirees. These citizens appear to be putting more emphasis on quality of life in their location decisions than in earlier times. Although a goal in itself, quality of life also is a key determinant of economic performance in a globalizing economy where attracting and retaining the right kind of workers, investors and companies is an important factor in competitiveness.

Performance 2008			
State	Score*	Rank	Five-Star Scale‡
Kentucky	99.0	27	☆☆
North Carolina	98.5	32	☆☆
Alabama	96.9	36	☆☆
Tennessee	96.8	37	☆☆
<b>South Carolina</b>	<b>96.4</b>	<b>39</b>	☆☆
Georgia	93.4	46	☆
<b>Region Average</b>	<b>96.8</b>	<b>36</b>	☆☆
*Score median is 100 ‡Scale shows range of scores: top 20 percent of score range = 5 stars, next 20 percent = 4 stars, etc.			

While doing well on some Quality of Life metrics, such as golf courses, **South**

## Carolina's 2008

performance still ranks below its region average. Its current rank of 39 is up from 44<sup>th</sup> in 2005, with improvements since 2005. A 10 percent gain in South Carolina's score would place it back above the majority of states.



Note: Vertical bars show range of values within 10 percent of South Carolina's score.

## South Carolina Metric Highlights

- Although still ranking in the bottom 10 states nationally at rank 42 and 45 in 2008, South Carolina has shown notable improvement in both Gender and race equity in employment over the past four years.
- South Carolina has lost ground in Homeownership rates from its number one position in 2002 to 10<sup>th</sup> in 2008. South Carolina has been positioned among the top 10 states in most years this decade.
- Leisure employment in South Carolina improved to 19<sup>th</sup> in 2008 from 26<sup>th</sup> in 2004.
- South Carolina ranks 11<sup>th</sup> in the national for Clean air, with a low share of its population living in pollution non-attainment areas.
- Voter turnout in general elections by voting-eligible residents in South Carolina improved from 49<sup>th</sup> in 2004 to 39<sup>th</sup> in 2008.
- South Carolina's State & Local tax burden improved significantly in 2008 to a 14<sup>th</sup> place nationally. This is up from its 2004 rank of 25 at the average of the nation.

## CONCLUSION: THE NEXT THREE YEARS CREATE OPPORTUNITY FOR STATE ECONOMIC GROWTH STRATEGY

There are two main conclusions to draw from this year's *Break Away* scores, each with key implications going forward: one regarding the national recession, the other regarding the recovery and expansion phases to follow.

**The Recession:** Clearly, South Carolina has been set back economically and fiscally by the national recession of 2007-2009. In particular, the state has been hurt by high job loss and high unemployment levels. But surprisingly, its labor force has been growing, except for the latter half of 2009. This is a good sign of an available workforce ready for action when the economy turns.

The state's economic driver strengths have been affected but not unduly. The state remains very competitive in Business Costs. The Legal Environment driver ranks average at 26<sup>th</sup> in the country, with some improvement over the years, especially in the tort system and malpractice costs. And the state continues to show improvements in Research and Innovation, an ongoing priority for the South Carolina Chamber of Commerce.

For the first time in five years, the Infrastructure and Connectivity driver performed above the majority of states in 2008 at rank 23. Regarding Digital Connectivity, South Carolina now has a solid telecommunication foundation and good broadband coverage.

**Implication:** As other states continue to make improvements in these same areas, South Carolina must remain protective of these competitive edges it has established for itself in recent years. For example, given improvements in digital connectivity, today's challenge is to increase use and applications of broadband coverage at the individual and firm levels.

On the negative side of the ledger, two key driver vulnerabilities persist. The one most widely recognized is Education and Workforce Preparedness. With a national ranking of 39, the state is held back by low performance in the K-12 sub-driver, while scoring in the top 10 in the Postsecondary sub-driver. Performance in Workforce Preparedness is below average at rank 39. Also, the state's 45<sup>th</sup> national ranking in the Dynamism and Entrepreneurialism driver continues to be discouraging, indicating that research, innovation, entrepreneurial activities and creative industries in South Carolina have room for significant improvement. The Palmetto State's continuing underperformance in growth of export intensity (share of GDP) and growth in foreign business employment also deserves further attention.

South Carolina's performance on the Quality of Life driver also is below average. The state ranks 39<sup>th</sup> in the U.S. with a two-star score. Interestingly, state quality of life scores are converging, with each state seeking to capitalize in natural, cultural and man-made amenity assets. As a travel and tourism state, South Carolina cannot let up on sustaining and improving its competitive position in this area.

**Implications:** Continue to reform K-12 and improve career technical education. Find more effective ways to foster entrepreneurship and the commercialization of discoveries and new ideas through private initiatives. Further, it will be very important for South Carolina to maintain its position in port trade and improve general international business.

**The Recovery and Subsequent Expansion:** Recessions create opportunities as well as threats. They are a period of economic cleansing and renewal. Already, this recession is showing signs of being a transformative game changer. Most notably, it is squeezing out debt excesses. The result will be an economy better grounded in the foundations of sustainable economic growth: savings, investment, innovation and entrepreneurship. Most economists, including the Federal Reserve Bank, believe this will be a slow and long process. In short, do not expect quick, easy return to old growth. Equally, do not miss this unique opportunity to prepare for future growth. History indicates that only about five-to-six states will "take off" after a national recession; the rest will then follow. Many states that dominated the national economy the past two-to-three decades are poorly positioned economically and fiscally to take the lead this time. Smaller, more agile, collaborative states like South Carolina are better positioned. A previously trailing state, like South Carolina, has more advantages to "break away" in the next expansion phase of the business cycle.

Lead states will focus on their existing businesses, particularly the fast growth ones. They will do so by paying attention to such policy issues as business tax simplification, lawsuit abuse, compliance-friendly regulation, balanced labor relations laws, career technical education, innovation and commercialization, public-private partnering and business-to-business networking. They will use direct financial aid and tax breaks to favored businesses very sparingly and strategically. The lead states are getting ready now for the "break out" when the inevitable next business upturn begins. This means greater focus on how to grow state economies from their fundamentals, capitalizing on both "inside out" and "outside in" strategies. In other words, a smart balance is needed between entrepreneurial development and inward investment through business attraction.

**Implications:** South Carolina's rankings and scores over the past years indicate the need for continued aggressive deliberation and change to position the state for such

opportunities. This will require continued open deliberations, business-government–non-profit partnerships and strategic intelligence of the kind the Chamber seeks to present in reports like this one. It is no longer necessary to take the trial and error approach to economic development of bygone decades. Solid empirical evidence now points to what really matters to foster economic growth. South Carolina can pursue a sound, fact-based approach to root out “slow-growth” policies and practices and to target those drivers most likely to improve job creation, productivity and the overall prosperity of our citizens.

Prepared by



Florida, Indiana and Denmark

**About GrowthEconomics Inc.**

Graham S. Toft Ph.D. is founder and president of GrowthEconomics, of Sarasota, Florida, focused on the growth dynamics of states and regions. The firm seeks to understand how good paying jobs, growth companies and self-reliant families multiply in today's super-charged, disruptive economy. He likes to call this fast-paced, open, green-conscious, global economy the “flex-economy.” He spends much of his time with leaders striving to grow their economies through entrepreneurship, innovation development and pro-growth strategies -- solutions sought by many localities, regions, states, nations, educational institutions, business civic organizations and industries. GrowthEconomics has a bias toward the measurement and monitoring of competitive position as a means to grab attention and focus on actionable strategies. To that end, Toft prepares annual state Competitiveness ScoreCards, like Break Away South Carolina, for several state chambers of commerce. In these circles, he has become known as ‘Dr. Benchmark’. Also, annually the GrowthEconomics team prepares the state Entrepreneurship Score Card in collaboration with the Small Business Foundation of Michigan. Other specialty benchmarking reports include the Indiana Technology Index for TechPoint, Indiana’s technology industries alliance. The GrowthEconomics team works out of Florida, Indiana and Denmark.  
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