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**Massachusetts, New Jersey, Maryland, Washington and  
California Top State Rankings in Transitioning to New Economy,  
Says ITIF-Kauffman Foundation Report**

**KANSAS CITY, Mo., Feb. 27, 2007** – Massachusetts, New Jersey, Maryland, Washington and California top the list of states that are leading an economic transformation in adapting to an increasingly global-, knowledge- and innovation-based New Economy, according to ***The 2007 State New Economy Index***, released today by the Ewing Marion Kauffman Foundation and the Information Technology and Innovation Foundation (ITIF) to mark EntrepreneurshipWeek USA.

The five states that have lagged the most in making the transition are, in reverse order, West Virginia, Mississippi, South Dakota, Arkansas and Alabama, according to the Index.

Regionally, the New Economy has taken hold most strongly in the Northeast, Mid-Atlantic, Mountain West and Pacific regions; 14 of the top 20 states are in these four regions. In contrast, 15 of the 20 lowest-ranking states are in the Midwest, Great Plains and Southern regions.

The Index is a state-by-state analysis of how state economies are transforming from an old industrial economic model based on “smokestack chasing” in which economic development success is measured by the number of big company relocations rather than in the creation and retention of high value-added, high-wage jobs.

The Index, which expands on two earlier reports issued in 1999 and 2002, uses 26 indicators from a variety of sources to rank each state on the extent to which their economies are structured and operate to effectively compete regionally as well as globally. It examines the degree to which state economies are knowledge-based, globalized, entrepreneurial, information technology-driven and innovation-based.

“The most distinctive feature of the New Economy is its relentless levels of structural economic change,” said Carl Schramm, president and CEO of the Ewing Marion Kauffman Foundation. “The magnitude, speed and reach of these changes have profoundly reshaped state economies over the past decade and will continue to drive change over the next. States that have adapted to these new realities will be in the best position to see strong growth in the standard of living for their residents.”

Perhaps the most important driver of the New Economy, according to the Index, is the information technology revolution that is transforming virtually all industries and driving increased productivity. The good news is that various industrial sectors such as health care, education, transportation, government, real estate and others are at the early stages of digital transformation, and as they transform, productivity promises to continue to grow.

On the other hand, technology has ushered in a new global competitive challenge to state economies. It has made it possible for more work to be done at a distance, prompting many developing nations to establish the infrastructure, skilled workforce and business climate to be attractive locations for this work, and at a much lower cost. For example, in the past two decades, the number of industrial manufacturing relocations and significant expansions in the United States has fallen from an average of 5,139 per year for 1995-2000, to 3,162 in 2005.

“In order to succeed in the new global economy, states can no longer rely on a strategy of relentlessly driving down costs and providing large incentives to attract locationally mobile branch plants or offices,” said Dr. Robert D. Atkinson, president of the Information Technology and Innovation Foundation and primary author of the Index. “Rather, these states must create an environment that fosters innovation and high skills in order to help fast growing entrepreneurial firms and innovative existing firms expand.”

According to the Index, states at the top of the ranking tend to have a high concentration of managers, professionals and college-educated residents working in “knowledge jobs.” Their companies tend to be more geared toward global markets, both in terms of export orientation and the amount of foreign direct investments.

All the states at the top of the ranking also show above-average levels of entrepreneurship, even those that are not growing rapidly in employment. Most are at the forefront of the information technology and Internet revolutions, with a large share of their institutions and residents embracing the digital economy. Most have a solid infrastructure that fosters and supports technological innovation and many have high levels of domestic and foreign immigration of highly mobile, highly skilled knowledge workers seeking good employment opportunities coupled with a good quality of life.

Conversely, states ranking at the bottom of the Index tend to depend on natural resources or on mass production manufacturing and rely on low costs rather than innovative capacity to gain advantage.

Massachusetts has held the top spot on the State Index issued in 1999, 2002 and 2007, while New Jersey and Maryland have each made steady climbs with each Index to close the gap and take the second- and third-place rankings this year. Wisconsin, Vermont, North Dakota and Rhode Island made the greatest strides on the Index from 2002 to 2007, while Missouri, Maine, Oregon, Arizona, New Mexico, Oklahoma and Hawaii recorded the biggest decline in the rankings over the past five years.

Given some states' reputations as technology-based, New Economy states, their scores seem surprising at first. For example, North Carolina and New Mexico rank 26<sup>th</sup> and 33<sup>rd</sup>, respectively, in spite of the fact that the region around Research Triangle Park (in the Raleigh-Durham metro area) boasts top universities, a highly educated workforce, cutting-edge technology companies and global connections, while Albuquerque is home to leading national laboratories and an appealing quality of life. In both cases, however, many parts of the state outside these metropolitan regions are more rooted in the old economy.

With the economic indicators as a reference, the Index also outlines an eight-point public policy framework of "best practices" that state officials can use as a guide to transform their economies and ensure raising standards of living for their residents.

The Index was released at a tele-news conference marking EntrepreneurshipWeek USA, the nation's largest organized event celebrating entrepreneurship, with activities designed to inspire, educate and prepare young people to consider entrepreneurship and innovation in all aspects of their lives.

A copy of the Index can be downloaded at either:

[www.kauffman.org/pdf/2007\\_State\\_Index.pdf](http://www.kauffman.org/pdf/2007_State_Index.pdf)

or

[www.itif.org/index.php?id=30](http://www.itif.org/index.php?id=30)

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### **About the Kauffman Foundation**

The Ewing Marion Kauffman Foundation of Kansas City is a private, nonpartisan foundation that works with partners to advance entrepreneurship in America and improve the education of children and youth. The Kauffman Foundation was established in the mid-1960s by the late entrepreneur and philanthropist Ewing Marion Kauffman. Information about the Kauffman Foundation is available at [www.kauffman.org](http://www.kauffman.org).

### **About ITIF**

The Information Technology and Innovation Foundation is a non-profit, nonpartisan public policy think tank committed to articulating and advancing a pro-productivity and pro-innovation public policy agenda internationally, in Washington and the states. Recognizing the vital role of technology in ensuring American prosperity, ITIF focuses on innovation, productivity and digital economy issues.