



June 22, 2011

Secretary Gregory Bialecki
Executive Office of Housing and Economic Development
One Ashburton Place, Room 2101
Boston, MA 02108

Dear Secretary Bialecki,

For the past several months, on radio, in newspapers and the blogosphere, we have been engaging in a debate with your office on how to craft the right economic development strategy. I know that you personally want to get this right. We have to date, however, not seen real steps to address the issues that matter most to businesses.

In a world where the news cycle focuses on daily and monthly happenings, Pioneer believes its role is to drive a public conversation and a greater sense of urgency about business and job creation. Pioneer has directed significant effort to this issue, producing a seven-part series on job creation trends in Massachusetts since 1990. We have chosen the long term in order to focus on real changes in our state's economy rather than political discussions. What we have discovered must be of concern to anyone interested in the commonwealth's economic future and prosperity.

First, Massachusetts lagged the nation badly in recovering from the 2001 recession, never actually regaining the jobs that were lost before the next recession hit.

Next, we've seen a collapse in the number of headquarters located here and a sharp drop in the average size of Massachusetts firms. The changes cut across almost all industries, suggesting systemic problems not sector-specific issues.

What Massachusetts has been doing for the last 20 years has not worked. Turning our fortunes around will take an unwavering focus on the overall business climate, and that means addressing the cost issues that are our biggest weakness.

Education and Health Care Falling Short

In our public exchanges on the state's ability to compete for businesses and jobs, you cite leadership in education and health insurance coverage as two centerpieces of Massachusetts' economic development strategy. But that strategy has fallen short. For 15 years, education has been Massachusetts' ace in the hole, but progress appears to have stalled. State scores on the National Assessment of Educational Progress are still good compared to other states, but they are now relatively flat and our edge is narrowing. Instead of building on our long-time leadership in education, we are in danger of losing it.

Prior to the 2006 health care reform law, 92 percent of Massachusetts citizens were insured. Today, that number is 97.6 percent. Highly subsidized plans provided coverage to the indigent, and that is important. But for small businesses, reform has been a flop.

Very few businesses have signed up for insurance through the Connector. In fact, small businesses have been adversely impacted by the law because they are now subject to new coverage mandates and have seen their rates skyrocket in part as a result of those mandates. (Large businesses don't face the same impact from the law; since they are regulated by federal not state law, they are not subject to changes in state mandates.)

Focus on the Big Picture

Massachusetts' economic development strategy has long put a disproportionate focus on chasing out-of-state businesses and investment. You have continued that practice. These efforts, whether via film or green tax credits, international trade trips, or other programs, take up a lot of air time at the numerous state entities engaged in economic development.

Pioneer believes that improving the general business climate should be a top economic development priority. The core business climate factors entrepreneurs and investors complain about are cost issues like unemployment insurance, energy, permitting and health insurance costs – particularly for small businesses.

Health care for small business is too expensive and costs are continuing to rise at an alarming rate. It will be years before payment reform addresses the problem, if it works at all. New mandates have driven costs even higher and transparency (cost and quality of care) provisions meant to help drive down costs as part of the 2006 reform have not been fully implemented.

Broad-based changes in the tax code have resulted in hundreds of millions of dollars in tax hikes. Meanwhile, the administration carves out funds to favor niche industries and attract relocating firms in those sectors. This strategy of picking winners and losers is itself a proven loser.

We should welcome – and in some cases chase – relocating or expanding businesses from outside Massachusetts. But addressing the core cost and investment climate must come first.

Nurture Existing Businesses, Cut Costs

Pioneer's message is two-fold. First, flip the focus. There is a far higher return from nurturing the growth of existing businesses than from chasing what we don't have.

Second, focus relentlessly and urgently on business costs. Just because Massachusetts will never be the lowest cost option doesn't mean we shouldn't compete. The successful workers compensation reform in the 1990s is just one example of how we can indeed do better.

Massachusetts needs to create jobs. But we can't succeed by continuing to do what we've always done and expecting different results. Pioneer stands ready to do anything we can to help. Anything, that is, except sitting on the sidelines and applauding when things are not going well.

Thank you,

Jim Stergios
Executive Director