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OUR TURN

In new economy, state's model doesn't work

Population is older, education edge gone

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For several decades, New Hampshire has been the Northeast's economic standout. With a highly educated workforce, high rates of in-migration and high income levels, New Hampshire boasted a dynamic economy that gave it distinct advantages over its neighbors.

The Great Recession disrupted much of the New Hampshire economy, as it has across the country. But it is a mistake to assume that the recession is the sole reason for the recent slowdown in the state's economic engine or that, once the impacts of the recession are behind us, New Hampshire will return to the pattern of reliable growth of years past. After benefiting from nearly three decades of economic tailwinds, New Hampshire now faces a strong headwind.

What does that headwind look like? First, more people are leaving New Hampshire than are moving here. The recession saw a sustained period of out-migration, but migration into the state was already declining well before the recession. That decline in new arrivals has been accompanied by another worrisome demographic trend: New Hampshire's population is growing older and at a faster rate than the rest of the country. While the state's median age was equal to the U.S. average in 1980, New Hampshire's median age rose to 41 by 2010, compared to the national average of 37.

Second, as the state's population has aged, the number of New Hampshire residents participating in the workforce has also declined. This trend was under way before the recent downturn in the economy, so it is not due solely to the recession. Without increases in capital investment and technology to offset this drop in the labor force, we'll likely see further declines in economic output.

Third, New Hampshire is also seeing a decline in its educational edge over other states. Many of the people who moved here over the past three decades were highly educated, allowing the state to race ahead of the rest of the country in the percent of residents with a college degree. This translated to greater worker productivity and higher incomes. But over the past decade, New Hampshire's rate of increase in educational attainment slipped below the national rate. In other words, we're adding college graduates to our workforce at a slower pace than the rest of the country - a marked departure from the previous decades.

Taken together, these trends have significantly slowed growth in the state economy. Between 2000 and 2010, New Hampshire saw a slower rate of growth in Gross Domestic Product than in any period over the past 40 years. Even as the recession slowed economic growth across the country, many areas outperformed New Hampshire, with more buoyant job growth, higher productivity gains, and higher growth in capital stock. New Hampshire also saw a greater drop in GDP growth between the 1990s and the 2000s than almost every region of the country.

Viewed this way, New Hampshire's present economic advantages appear largely to be fueled by decades-old demographic trends that have run their course. Why does this matter? Many of the factors that contribute to the so-called "New Hampshire Advantage" - including a low crime rate, lower tax burdens and high rates of job creation - are driven by the state's economic dynamism. A sustained decline in New Hampshire's record of economic growth will likely change all that.

The outcomes of these shifts may not necessarily all be negative. Slower population growth will likely mean less congestion and less strain on local government budgets, for instance. And some of the fundamental advantages upon which New Hampshire's economy is founded - proximity to Boston and a beautiful natural environment, for example - won't disappear anytime soon. But, at the least, this shift demands a recalibration of the assumptions upon which much state and local policy is founded.

There is no single, simple answer to these challenges. Any response must be a blend of approaches, with the goals of increasing the size and skill level of the workforce, boosting labor productivity, and encouraging capital investment. The question facing the next governor, Legislature and other state policymakers is how to prioritize the options in redesigning New Hampshire's economic blueprint.

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