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# How Utah Avoids the National Economic Funk

*Beneath the Mountain West pastoral roars a jobs engine fueled by low taxes and sound fiscal policy.*

By SOHRAB AHMARI

Logan, Utah, sometimes looks as though it was preserved in a time capsule. The small city of 50,000, home to Utah State University, is surrounded by the towering, tree-dotted peaks of the Wasatch Range. "Downtown" is a single main street where you can find a movie theater, a bookstore, a few eateries and stores, and a Mormon tabernacle.

Beneath Utah's Mountain West pastoral, preserved in places like Logan, roars an economic engine that—thanks to a combination of smart policy and local culture—continues to create jobs even as the national economy stagnates. As Ashok Khandkar, a material scientist who has launched successful medical-technology ventures in Utah, recently told me, "It's a very lucrative place if you have the idea and the talent."

I returned to Logan last month for my 10-year high-school reunion expecting a prosaic trip down memory lane. (I immigrated to Utah from Iran at age 13.) But Logan and much of the state had undergone great change. I was particularly struck by the number of new businesses and housing developments clustered in and around Logan and Ogden—the historic midway point on the First Transcontinental Railroad. The feel of economic vitality was unmistakable.

That anecdotal impression is backed by economic data. Utah's official unemployment rate in July stood at 6%—more than two points below the national average. Between May 2011 and May 2012, the Beehive State added nearly 29,000 jobs, a 2.4% increase. Meanwhile, both the state's total personal income (\$96.6 billion in the last quarter of 2011) and average annual pay (almost \$40,000 last year) are on the rise.

Economic growth has been accompanied by positive demographic shifts. Utah's population grew by about half-a-million, or 23.8%, to 2.76 million over the past decade or so. And the state is becoming more ethnically and racially diverse. "In Utah, minorities are 17.4% of the adult population and nearly one-fourth of the youth," noted a 2011 study by the University of Utah's Bureau of Economic and Business Research (BEBR). That's in stark contrast to a population that 12 years ago was almost 90% white.

As the 2010 Census showed, Utah remains the country's youngest state, with a median age of 29.2—eight years younger than the national median. "It's because of the dominance of the Mormon culture [in the] region and the high value placed on having children," BEBR economist Pamela Perlich told the Salt Lake Tribune last year. "We're younger because we're an in-migration state. . . Those coming are young people, and young people have babies. And the people who are having babies are having them at higher rates than other states."

Businesses are taking note of these trends and going West. Mining and natural resources are staple industries that continue to thrive. But now information technology, along with financial and professional services, are emerging as growth industries. New arrivals include Goldman Sachs—the firm has its second-largest Americas site in Salt Lake City—and tech heavyweights like Adobe, which is planning a 1,000-employee campus south of Salt Lake.

"The overriding factor working in our favor is that Utah is seen as an island of stability in a chaotic context," says Jeff Edwards, head of the state's Economic Development Corporation. Thanks to a conservative state legislature, Utah's 5% corporate-tax rate has remained unchanged for 15 years. Compare that to, say, New Jersey, where the corporate-tax structure has been overhauled no fewer than four times since 2000—and where the top bracket pays a whopping 9%.

"The companies we talk to with money to invest are asking themselves where to go," says Mr. Edwards. "If you invest in Utah, you know what you're going to get."

State business leaders echo these sentiments. "We've been fortunate to have a positive business climate here," says Jeff Nelson, president and CEO of Nelson Laboratories, a family-owned pharmaceutical and medical-products testing company. "There aren't a lot of policies that get in your way—not a lot of trouble from the government."

Mr. Khandkar, the medical-technology entrepreneur, agrees. "The most important reason is an appropriate tax level," he says, "and government that makes it easy to start companies."

Utah's flat, 5% corporate-tax rate is 1.6 points below the 50-state average, according to the Tax Foundation, and it is one of the lowest among states that levy corporate taxes. Barriers to business creation are minimal. No wonder Utah ranked fourth among states in the Pacific Research Institute's last U.S. Economic Freedom Index (from 2008).

The Beehive State's fiscal house is also in order. "We have eliminated all structural imbalances in our budget," says Spencer Eccles, executive director of the Governor's Office of Economic Development, somewhat immodestly. "In the first two years of the downturn, we cut two billion dollars out of the budget. We did it by eliminating programs and cutting the size and staffing of government down to 2000 levels."

State-agency budgets were trimmed by 19%, on average, during this period. "We did all of that," Mr. Eccles boasts, "while virtually not increasing taxes, except for a small tobacco-tax increase."

Then there are the quality and culture of the Utah workforce. "Our secret sauce is our ability to work together," says Mr. Eccles.

"We've been able to find a quality workforce that's sustainable," explains Mr. Edwards. "It's a young state with young people who want to stay here. So we know where our workers are coming from 20 years down the road."

But what about Utah's supposedly puritanical ethos and straight-laced cultural atmosphere? With the influx of out-of-state businesses, things are changing, says Mr. Daniels. Even so, he cautions, "Utah is not for everybody. If you're looking for an intense urban lifestyle, Salt Lake may not be for you."

Still, you'll find transplants around from New York and San Francisco. And the easy proximity of dozens of marvelous outdoor sites—among them Bear Lake, Zion National Park and skiing destinations across northern Utah—has many new arrivals choosing to stay for the long haul. Says Mr. Nelson: "If that's dull then I like that kind of dull."

*Mr. Ahmari is a Robert L. Bartley Fellow at the Journal this summer.*

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