

Why North Dakota Is Booming

By Joel Kotkin

Living on the harsh, wind-swept northern Great Plains, North Dakotans lean towards the practical in economic development. Finding themselves sitting on prodigious pools of oil—estimated by the state's Department of Mineral Resources at least 4.3 billion barrels—they are out drilling like mad. And the state is booming.

**They're drilling for oil,
attracting high tech,
and keeping the tax
burden moderate.
Result: 3.8%
unemployment.**

Unemployment is 3.8%, and according to a Gallup survey last month, North Dakota has the best job market in the country. Its economy "sticks out like a diamond in a bowl of cherry pits," says Ron Wirtz, editor of the Minneapolis Fed's newspaper, *fedgazette*. The state's population, slightly more than 672,000, is up nearly 5% since 2000.

The biggest impetus for the good times lies with energy development. Around 650 wells were drilled last year in North Dakota, and the state Department of Mineral Resources envisions another 5,500 new wells over the next two decades. Between 2005 and 2009, oil industry revenues have tripled to \$12.7 billion from \$4.2 billion, creating more than 13,000 jobs.

Already fourth in oil production behind Texas, Alaska and California, the state is positioned to advance on its competitors. Drilling in both Alaska and the Gulf, for example, is currently being restrained by Washington-imposed regulations. And progressives in California—which sits on its own prodigious oil supplies—abhor drilling, promising green jobs while suffering double-digit unemployment, higher utility rates and the prospect of mind-numbing new regulations that are designed to combat global warming and are all but certain to depress future growth. In North Dakota, by contrast, even the state's Democrats—such as Sen. Kent Conrad and former Sen. Byron Dorgan—tend to be pro-oil. The industry services the old-fashioned liberal goal of making middle-class constituents wealthier.

Oil also is the principal reason North Dakota enjoys arguably the best fiscal situation in all the states. With a severance tax on locally produced oil, there's a growing state surplus. Recent estimates put an extra \$1 billion in the state's coffers this year, and that's based on a now-low price of \$70 a barrel.

North Dakota, however, is no one-

note Prairie sheikdom. The state enjoys prodigious coal supplies and has—yes—even moved heavily into wind-generated electricity, now ranking ninth in the country. Thanks to global demand, North Dakota's crop sales are strong, but they are no longer the dominant economic driver—agriculture employs only 7.2% of the state's work force.

Perhaps more surprising, North Dakota is also attracting high-tech. For years many of the state's talented graduates left home, but that brain drain is beginning to reverse. This has been critical to the success of many companies, such as Great Plains Software, which was founded in the 1980s and sold to Microsoft in 2001 for \$1.1 billion. The firm has well over 1,000 employees.

The corridor between Grand Forks and Fargo along the Red River (the border between North Dakota and Minnesota) has grown rapidly in the past decade. It now boasts the headquarters of Microsoft Business Systems and firms such as PacketDigital, which makes microelectronics for portable electronic devices and systems. There are also biotech firms such as Aldevron, which manufactures proteins for biomedical research. Between 2002 and 2009, state employment in science, technology, engineering and math-related professions grew over 30%, according to EMSI, an economic modeling firm. This is five times the national average.

While the overall numbers are still small compared to those of bigger states, North Dakota now outperforms the nation in everything from the percentage of college graduates under the age of 45 to per-capita numbers of engineering and science graduates. Median household income in 2009 was \$49,450, up from \$42,235 in 2000. That 17% increase over the last decade was three times the rate of Massachusetts and more than 10 times that of California.

Some cities, notably Fargo (population 95,000), have emerged as magnets. "Our parking lot has 20 license plates in it," notes Niles Hushka, co-founder of Kadrmas, Lee and Jackson, an engineering firm active in Great Plains energy development. Broadway Drive in Fargo's downtown boasts art galleries, good restaurants and young urban professionals hanging out in an array of bars. This urban revival is a source of great pride in Fargo.

What accounts for the state's success? Dakotans didn't bet the farm, so to speak, on solar cells, high-density housing or high-speed rail. Taxes are moderate—the state ranks near the middle in terms of tax per capita, according to the Tax Foundation—and North Dakota is a right-to-work state, which makes it attractive

to new employers, especially in manufacturing. But the state's real key to success is doing the first things first—such as producing energy, food and specialized manufactured goods for which there is a growing, worldwide market. This is what creates the employment and wealth that can support environmental protection and higher education.

Thankfully, this kind of sensible thinking is making a comeback in some other states, such as Ohio and Pennsylvania. These hard-pressed states realize that attending to basic needs—in their case, shale natural gas—could be just the elixir to resuscitate their economies.

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