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Revitalizing Louisiana's Economy: Industry Diversification and Reform

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I. Executive summary

Louisiana ranks 46th out of 51 in WalletHub's[1] state economy analysis, making it the 6th worst nationally for economic diversity. The oil and natural gas industry generates 25% of Louisiana's revenue, and with such a large share the state would be economically devastated if exposed to any vulnerabilities. The brief will cover how the state can attract new industries that will diversify the economy and make Louisiana less reliant on oil and natural gas in the long-run, in order to not only improve quality of life and pollution levels, but also create thousands of new jobs and opportunities for state residents.

II. Overview

In the recent election, President Donald Trump ran on a campaign of lifting roadblocks to oil and gas production in the United States and the promise to increase domestic oil and gas production in Louisiana and elsewhere. However, a recent study by the Institute for Energy Economics and Financial Analysis[3] revealed that the global petrochemical market, particularly for ethylene, which is a key component in many Louisiana-made plastics and chemicals, is becoming increasingly stagnant. Ethylene is primarily produced using fossil fuels sourced from within the state, tying its production closely to Louisiana's fossil fuel economy. Data from the Independent Commodity Intelligence Service[4] shows that industrial capacity to manufacture ethylene has exceeded global demand by an average of 17 million tons annually between 1990 and 2023. Looking ahead, the gap is expected to widen, with capacity projected to surpass demand by 53 million tons over the next six years. This persistent overcapacity poses a serious economic risk. Because Louisiana's economy relies so heavily on this sector, even small downturns in ethylene prices or demand can trigger major losses, deter private investment, and jeopardize thousands of jobs. Currently the oil and gas industry provides 13.1% of Louisiana's total employment, creates 16.7% of our labor income, and contributes to 21% of the state's total GDP according to the American Petroleum Institute.[5] The petrochemical industry is not only a key part of Louisiana's economy, it contributed to 5.4% of total U.S. employment in 2021[5]. But with fossil-fuel driven growth in decline and the nation-wide increase in production of sustainable products that take the place of fossil fuel-based products, this kind of economic dependency cannot continue. If the market continues to decline with no shift in policy, the state's revenue will become largely volatile and dramatically increase unemployment and recessionary pressures. Additionally it will waste millions of dollars in taxpayer subsidies and inhibit the ability to grow and attract more beneficial business sectors to the region. Louisiana must mirror other states' diversification strategies in order to revive its sluggish GDP growth trajectory. This brief will first examine the structural and historical factors that have shaped Louisiana's dependence on fossil fuels, then assess the risks of continued reliance, evaluate past and current policy efforts, and propose actionable strategies for diversifying the state's economy.

A. Relevance

Despite the decline in growth of the oil and natural gas industry in recent years, lawmakers in Louisiana have continued to reveal dozens of expansions and new fossil fuel-driven petrochemical investments. However, there are hardly any companies with new or expanding fuel projects. Moreover, most of the investment does not align with market conditions and could lead to significant taxpayer money being wasted. This kind of mismanagement of tax dollars is something the state cannot afford. Under Louisiana governor Jeff Landry's tax plan, corporations are going to see their income taxes cut in half, going from 7.5% to 3%[6]. His administration is also eliminating the franchise tax, which is a tax on a business net-worth. Louisiana already had a very generous corporate tax policy, and adopting these provisions will eliminate a significant portion of the state's revenue. Louisiana also ranks 10th in the nation for having the most regressive tax system, with the poorest families shouldering 13.1% of the tax burden, while the wealthiest taxpayers face a rate of just 6.5%, according to the Institute for Taxation and Economic Policy[7], a nonpartisan, nonprofit organization. Continuing to invest in a declining industry will undermine Louisiana's long-term economic stability. At the same time, cutting taxes for corporations will reduce the state's ability to fund essential public services like education, healthcare, and infrastructure. This will likely increase the burden on everyday residents, especially those in lower income brackets, and prevent the state from building a more stable and diverse economy. Without a better plan to manage its finances, Louisiana risks falling further behind.

History

A. Current Stances

Louisiana's economic dependence on fossil fuels largely originates from geologic history. The state is fortunate to have the ideal conditions for hydrocarbon formation. The sediment layers beneath its coastal and offshore areas are a key part of the Gulf Coast Continental Margin basin, which stretches from Mexico through Texas and Louisiana to Florida's panhandle. Since offshore drilling began in 1901, Louisiana has had around 1.165 million oil wells drilled, producing 25.2 billion barrels of oil and 214 trillion cubic feet of natural gas, according to the Louisiana Department of Energy and Natural Resources.[8] The first oil refinery in Louisiana, built in Baton Rouge in 1909, which later became the Exxon refinery, is now the largest oil refinery in North America. In 1932, populist governor Huey P. Long created a "social construct" with the largest oil and gas companies, where the state would invest a large share of revenue to develop the industry in exchange for the businesses to pay taxes and help fund the government, which would effectively make taxes lower for everyone else. This policy is what led to the industry controlling such a large share of Louisiana's economy and maintaining a significant presence in the state for decades, making up nearly 25% of the state's total revenue, or about $1.2 billion. However, the use of fossil fuels has largely declined as a result of the nation's push to transition to clean, renewable energy. As a result, the state has never been able to find a way to replace the money generated from the industry. Efforts to offset the decline in fossil fuel revenue and explore new economic opportunities have largely fallen short due to insufficient support from lawmakers and the overwhelming influence of the sector. Proponents for diversification argue that bringing new industries to the state could not only revitalize Louisiana's economy and steer it toward sustainable growth, but also create fresh opportunities for communities currently losing jobs as the industry declines. Oil and gas projects are primarily developed in predominantly Black communities, including in the area known as 'Cancer Alley,' which is the corridor between Baton Rouge and New Orleans (here communities exist side by side with some 200 fossil fuel and petrochemical operations, and suffer the effects of extreme pollution from the fossil fuel and petrochemical industry, facing elevated rates and risks of maternal, reproductive, and newborn health harms, cancer, and respiratory ailments)[14]. While the industry's presence may have historically benefitted these communities by creating jobs and economic growth, it is now only a burden. Opponents argue that it is very difficult to find a sector that will support the state as much as the oil and gas industry did, and as a result lawmakers will continue to push to revitalize the industry as opposed to attempting to diversify. As the state grapples with the decline of this vital sector, the challenge remains to reshape its economy to continue to support the communities and systems that have shaped our success.

III. Policy Problem

A. Stakeholders

The designation of stakeholder is not limited to business and corporation owners; it is the people of Louisiana. If the state were to remain on its current trajectory and remain dependent on petrochemicals, it would experience a period of significant economic decline. If no new forms of industry are introduced or developed, the reduced interest for oil and gas would lead to high unemployment and high vulnerability to economic recession. Low levels of productivity and economic development are conducive to stagnating and falling incomes for all Louisiana residents across the board. Additionally, while providing for a significant amount of employment within the state, the oil and gas industry also worsens living conditions for residents. As a result of abundantly burning fossil fuels, Louisiana has been ranked the state with the 6th highest amount of carbon emissions nationally[5]. This has led to the state being more vulnerable to the effects of climate change, which include but are not limited to: stronger hurricanes, rising sea levels and increasing heat and rainfall. These kinds of living conditions have the potential to drive people out of the state, further depressing it economically. In order to secure a prosperous future for its residents, the state needs to attract new industries to energize the economy and restore the environment, and other industries such as technology, or financial technology, as adopted in other states, could be the answer.

B. Risks of Indifference

Continued reliance on fossil fuel revenue will leave the state vulnerable to global oil price shocks, which Louisiana cannot control. According to the Institute for Energy Economics and Financial Analysis[3], the global supply of chemicals produced in Louisiana is already exceeding worldwide demand, and the industry will see price shocks in the future that will lead to mass unemployment for the millions of residents employed by the energy sector if it remains one of the largest employers. Without any alternative industries available to contribute to the workforce, the poverty level and unemployment rate will rise in the state significantly. Additionally, if the state remains reliant on revenue incurred from the industry to support government-funded services, it will experience a structural budget deficit and be forced to cut spending on essential public services like healthcare, education, and infrastructure, further decreasing quality of life and economic growth. Therefore, it only makes sense for legislators to create policy that makes the state more attractive to other industries, such as technology and manufacturing, by mirroring actions taken in other states such as tax abatements and public-private partnerships (explained later in brief).

C. Nonpartisan Reasoning

The wellbeing of the state's economy is not only crucial to the people of the state, but to the nation as well. A resilient Louisiana helps the national economy thrive as a whole, and it is therefore imperative that nonpartisan intervention takes place. The benefits of such intervention include but are not limited to the following:

1) Employment Stability and Resilience: Diversifying away from oil and gas would reduce Louisiana's vulnerability to global market volatility, such as oil price shocks and fluctuating demand. Attracting new businesses will foster productivity and growth and ensure employment security for working citizens long-term. New industries, like financial technology, could offer sustainable, high-wage jobs, reducing the risk of mass unemployment as the fossil fuel sector contracts. Additionally, for the United States, reduced reliance on fossil fuel-dependent regions such as Louisiana promotes a more balanced national economic portfolio, safeguarding against sector-specific downturns that would otherwise devastate the economy.

2) Improved Public Health and Climate Preparedness: Economic diversification, particularly into cleaner and tech-driven sectors, would effectively reduce Louisiana's carbon emissions. This would lead to healthier living conditions for residents, especially in vulnerable areas like 'Cancer Alley,' reducing rates of pollution-linked illnesses like cancer and asthma. Diversification helps Louisiana adapt to climate change by decreasing reliance on industries that exacerbate environmental degradation and increase vulnerability to natural disasters like hurricanes and floods. As the U.S. aims to meet national and international climate goals, Louisiana's transition from fossil fuels to sustainable sectors can serve as a

model for decarbonization in historically energy-dependent states.

3) Greater Equity and Opportunity: Diversification can bring new industries and investments to underserved communities, creating inclusive economic growth. Since predominantly Black communities in Louisiana have served as the basis for the growth of the fossil fuel industry, providing them with new, stable and high-wage employment opportunities could serve as a way to give back to the very populations that have played a critical role in building the state's economy, and empower residents with access to safer jobs and long-term career development. This shift would not only improve quality of life but also promote greater equity across the state by ensuring all communities share in the benefits of a modern, diversified economy.

IV. Tried Policy

Lawmakers in Louisiana have pushed to expand the ethylene and methanol markets as a way to diversify the state's economy beyond traditional oil and gas. However, this strategy isn't working, as both markets are already oversaturated, face declining global demand, and are being outpaced by cleaner, more competitive alternatives. Instead of creating sustainable growth, these expansions risk wasting billions in tax breaks on industries that are unlikely to deliver long-term economic resilience. In 2009, Louisiana lawmakers introduced several bills and a resolution aimed at promoting green energy through tax credits and policy development, including support for alternative fuel vehicles, renewable energy systems, and green jobs. House Resolution 104[9] proposed creating a committee to craft a statewide green energy policy. While these efforts showed recognition of the need for sustainable development, most of the measures were limited in scope, and the initiative is now outdated. Louisiana has since failed to build on this momentum, leaving it behind in the national clean energy transition.

V. Policy Options

Broad Industry Diversification Incentives

Louisiana can take inspiration from Nevada, which boosted its economy by offering targeted tax incentives that attracted major manufacturers, like Tesla, to build large facilities. The tax abatements featured conditions that businesses must meet to be eligible, such as capital investment, minimum wage, and job creation requirements, and in-turn boosted Nevada's manufacturing labor force by nearly 17%[12]. Similarly, South Bend, Indiana, after years of decline from deindustrialization, became a hub for innovation through collaboration between businesses, the University of Notre Dame, and various levels of government. The South Bend–Elkhart Regional Partnership has helped attract a plethora of new industries and opportunities to the area[12]. By adopting a similar strategy of creating public-private partnerships and offering strategic incentives, Louisiana can draw diverse industries such as clean manufacturing, biotech, and technology companies, fostering sustainable growth and reducing reliance on the fossil fuel sector.

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Structural Reform to Improve Louisiana's Business Climate

To attract long-term investment and new industries, Louisiana could also address the core structural issues that currently make it unattractive to businesses. Louisiana's complex tax system, high government debt, and large number of public employees create barriers that discourage businesses from investing in the state, according to the [Pelican Institute for Public Policy](#).[13] These issues contribute to weak job growth, population decline, and slow economic growth. To address these problems, the state should implement reforms aimed at simplifying its tax code and reducing unnecessary steps in the bureaucratic process. By streamlining government operations and creating a more business-friendly legal environment, Louisiana can become more attractive to new businesses, encouraging economic growth and reversing negative economic trends.

VI. Conclusions

In this paper, I have explored the history of the petrochemical industry in Louisiana, its predicted outcome for the future, and different methods the state can use to approach the problem of economic dependency on this sector.

As non-renewable resources continue to be depleted and the world shifts its focus from fossil fuels to more renewable sources of energy, it is imperative for Louisiana to diversify its economy with new industries. Action must be taken in order to ensure all citizens their right to opportunity and prosperity, and to prevent the state from falling any further behind. Attracting the technology industry and providing incentives for public-private partnerships may provide the foundation for a more resilient and stable economy, one that is less vulnerable to market shocks and better positioned to support future generations. The decisions made now will determine whether the state continues to rely on a declining industry or builds a stronger, more sustainable future for all its residents.

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