

Mississippi Economic Review and Outlook

Dear Readers,

The war in Iraq, the rising cost of health care, stresses on the environment--there are more than enough challenges facing the U.S. as we enter 2005. All demand attention and tax dollars. Despite the improving economic situation, both the Mississippi and U.S. governments are finding that the fiscal squeeze has not let up--that funds available seem inadequate.

At the national level, it appears likely that steps will be taken to increase federal tax revenues and so reduce the federal deficit (see *National Economic Outlook*). In Mississippi, while the state maintains a balanced budget, debt levels are rising and debt service is taking up more of the state budget. The article on the state economic outlook explores the current economic trends that will determine the ability of the state to meet the demands of 2005 and beyond.

An introduction to Governor Barbour's *Momentum Mississippi* is provided by Pete Walley; Robert Neal examines Mississippi's economic development incentives; and James Davis and Jason Pugh look at the question of stable funding for workforce training. I also provide a brief overview of new overtime regulations.

To subscribe to this *Review*, which is published twice yearly, please fill out the form included in this issue. The *Review* is also available at our website. National projections are based on the forecast of Global Insight, Inc. As always, the views expressed in the *Review* are those of the authors and do not necessarily represent the official position of the Center for Policy Research and Planning or the Mississippi Institutions of Higher Learning. Letters to the editor are welcome, as are suggestions. Email me at mhill@ihl.state.ms.us.

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NATIONAL ECONOMIC OUTLOOK: PACE OF UPSWING TO MODERATE IN 2005

After a robust growth rate of over 4.0% in gross domestic product (GDP) in 2004, slower growth of both consumer and federal spending will translate into a more moderate economic pace in 2005. Strong investment and export demand continue to bolster the economy, however, and state and local government spending will pick up as the states' fiscal situation improves.

When final figures for 2004 come in, total average employment this year will still be somewhat lower than in 2001, despite the recent job gains. By 2005, though, the job total will move past the 2001 benchmark.

The slow recovery of employment has meant slow growth of wage and salary income, and much of consumer demand during the recovery has been fueled by rising debt levels. Recently, though, workers are beginning to enjoy increased purchasing power as real wages finally turn up.

High oil prices continue to push up energy and transportation costs. The overall increase in the consumer price index (CPI), however, remained below 3% in 2004, a low rate of inflation by almost any standard. Some decrease in inflation as measured by the CPI is expected in 2005 as oil prices drop.

The strongest growth of the world economy since 1988, estimated at 4.1%, contributed to the solid performance of the U.S. economy in 2004. China's economy expanded at a remarkable 8.8% rate and South America's at a rapid 5.0% rate. While these rates won't be matched in 2005, the overall growth rate for the global economy is expected to be a healthy 3.4%.

The major risk to the U.S. forecast is from the potential for mounting inflationary pressures, which could come from a continuation of high oil prices or from a federal deficit that expands more rapidly than predicted.

The upswing in the economy in 2004 has been modest by historical standards, but the dominant trends remain positive. High levels of spending propelled a growth rate of production of more than 4% nationally, and in 2005 a growth rate of over 3% can be expected.

A slower pace of growth in 2005 is almost inevitable. First and foremost, both consumers and the federal government are hampered by high levels of **debt**. Rising interest rates will also have an effect -- cutting into purchases of homes and autos, and raising the cost of debt service on the national debt. On the positive side, strong demand for **exports** and continuing **investment** by business in both buildings and new tech-

nologies will keep the economy growing at a healthy pace in 2005 and 2006.

Table 1 shows current and projected trends in the main components of demand. In the third quarter (Q3), both gross private domestic investment and exports of goods and services grew an estimated 5%, even after adjustment for inflation. The strongest growth of the world economy since 1988, estimated at 4.1%, contributed to the solid performance of the U.S. economy in 2004. (China's economy expanded at a remarkable 8.8% rate and South America's at a rapid 5.0% rate.) Consumer expenditure rose 4.6% in real terms, but government purchases grew only 1.4%, due to a drop in real state and local government purchases. A slowdown in the

Table 1. **TRENDS IN EXPENDITURES BY SECTOR**

Billions of Constant Dollars Unless Otherwise Indicated

Description	2004	2004	2004	2004	2005	2005	2005
	QI	QII	QIII	QIV ^P	QI ^P	QII ^P	QIII ^P
Gross Domestic Product (2000\$)	\$10,698	\$10,785	\$10,883	\$10,981	\$11,060	\$11,149	\$11,230
(% change, SAAR)	4.4	3.3	3.7	3.6	2.9	3.2	2.9
Consumer Expenditures (2000\$)	\$7,543	\$7,572	\$7,659	\$7,705	\$7,759	\$7,813	\$7,860
(% change, SAAR)	4.1	1.6	4.6	2.4	2.8	2.8	2.4
Gross Private Domestic Invest. (2000\$)	\$1,765	\$1,843	\$1,866	\$1,909	\$1,913	\$1,932	\$1,947
(% change, SAAR)	11.8	17.8	5.1	9.2	0.8	4.0	3.2
Total Government Purchases (2000\$)	\$1,936	\$1,947	\$1,953	\$1,968	\$1,981	\$1,995	\$2,007
(% change, SAAR)	2.5	2.2	1.4	3.1	2.5	2.8	2.4
Federal Govt. Purchases (2000\$)	\$713.3	\$718.1	\$726.1	\$733.1	\$739.4	\$745.7	\$750.6
(% change, SAAR)	6.9	2.7	4.5	3.8	3.5	3.4	2.6
Federal Defense Purchases (2000\$)	\$477.6	\$479.9	\$490.6	\$494.0	\$497.8	\$501.6	\$504.3
(% change, SAAR)	10.2	1.9	8.9	2.7	3.1	3.1	2.1
State and Local Govt. Purchases (2000\$)	\$1,222	\$1,228	\$1,227	\$1,235	\$1,241	\$1,249	\$1,256
(% change, SAAR)	-0.0	1.9	-0.5	2.7	2.0	2.4	2.3
Net Exports of Goods & Services (2000\$)	-\$550	-\$580	-\$598	-\$605	-\$595	-\$592	-\$585
(% change, SAAR)	-16.5	-22.0	-12.2	-4.4	6.2	2.2	5.0
Exports of Goods and Services (2000\$)	\$1,095	\$1,115	\$1,129	\$1,147	\$1,172	\$1,202	\$1,231
(% change, SAAR)	7.1	7.1	5.0	6.4	8.7	10.2	9.9
Imports of Goods and Services (2000\$)	\$1,646	\$1,695	\$1,727	\$1,751	\$1,767	\$1,794	\$1,816
(% change, SAAR)	10.2	12.1	7.5	5.7	3.5	6.1	5.0

P = Preliminary or Projected. Percentage change refers to seasonally adjusted average annual rate (SAAR), based on quarter-to-quarter growth rate.

SOURCE: Global Insight, Inc., November 2004.

growth of consumer and investment expenditures is forecast to occur by Q1 of 2005.

Table 2 provides insight into these trends. Although employment has been increasing (line 1), wage and salary disbursements (line 4) have only recently been gaining on the rate of inflation, which is estimated at 2.7% this year. **Consumers** are increasingly reluctant to take on added debt (line 5). In addition, consumer confidence faltered this year, although it is projected to turn upward in Q1 and remain in the low 90s throughout 2005. Rising oil prices (line 10) have cut into purchasing power, and higher interest rates will keep housing starts at a low rate of increase (line 9).

Although productivity gains are slowing (line 3), after-tax corporate **profits** (line 7) are up about 14% for the year, and are expected to do even better in 2005. The outlook for the stock market is positive (line 8). Industrial activity (line 2), while moderating, will also continue to be strong over the next few quarters. In brief, the indicators show fairly

balanced sources of growth and sufficient momentum for a strong, if more moderate, economic pace in 2005 and 2006.

Job Recovery Weak

The number of persons employed in the U.S. in 2004 was fewer than at the start of the recession. Recent **job gains**, however, all but guarantee that by 2005 there will be a net gain in jobs compared to March of 2001. The slow growth of employment may be due to a significant change in the structure of the economy. In every recession since 1939, it took at most 31 months to recover jobs lost. This recession has been different. The Economic Policy Institute in November noted that “in the three downturns since the early 1970s, the economy had not only recovered from any jobs lost during the recession (by this point), but had also generated 4.6% more jobs than were lost in those downturns. If this standard had prevailed, the economy would have had a

positive job gain of 6,114,000 by what is now the 43rd month of the recovery, or 6.6 million more jobs than we have today.”

Globalization and the outsourcing of jobs, along with higher levels of worker productivity, are usually cited as the root causes of the **slow job growth**. Growing income inequality, which has shifted purchasing power towards upper income groups, is another factor mentioned: higher-income groups have higher savings rates than other income groups, which means lower demand for consumer goods.

Federal Tax Increase Predicted

Since 2000, federal spending has increased from 18% to 20% of GDP, led by a growth in defense spending. At the same time, federal receipts have dropped from 21% to 16% of GDP, the lowest percentage since the 1950s. Global Insight’s forecast incorporates a gradual increase in taxes, expecting that there will be an attempt to reduce the **deficit**.

“While deficit reduction is a manageable problem in the United States, ultimately it cannot be accomplished without some increase in taxes,” states their November report. They note that this could be done by broadening the base tax, while leaving tax rates the same; for example, if some of the deductions permitted corporations were capped or reduced, the alternative minimum corporate income tax would apply in more situations.

Although federal budget receipts are low, the **deficit** is not as high as it was in the years following the Reagan tax cuts. In 1983, the deficit stood at 4.6% of GDP, while today it represents 3.0% of GDP. Nonetheless, the situation is expected to deteriorate unless there are some policy changes. Pressures on the budget are building from the growing demands made by Medicare, Medicaid, Social Security, and Homeland Security. There is a limit on the extent to which cuts in these programs would be politically feasible, and , in

Table 2. OTHER QUARTERLY NATIONAL ECONOMIC INDICATORS

(Seasonally Adjusted Average Annual Growth Rates)

	2004 QI	2004 QII	2004 QIII ^P	2004 QIV ^P	2005 QI ^P	2005 QII ^P
1. Establishment Employment (% change, SAAR)	1.1	2.3	1.2	2.0	1.7	1.8
2. Index of Industrial Production (% change, SAAR)	6.4	4.8	2.9	3.1	4.5	3.2
3. Index of Productivity (% change, SAAR)	3.3	3.9	1.8	2.5	1.9	2.2
4. Wage & Salary Disbursements (2000\$) (% change, SAAR)	0.3	0.2	2.5	2.3	3.6	3.6
5. Consumer Credit Outstanding (% change, SAAR)	6.3	2.2	3.1	4.2	2.6	4.8
6. Index Consumer Sentiment Mich.	98.0	93.3	95.6	92.7	94.5	93.1
7. After-Tax Corporate Profits (2000\$) (% change, SAAR)	-6.8	3.7	-16.3	42.9	114.0	-10.4
8. Standard & Poors 500 Equity Price Index (% change, SAAR)	29.1	-3.7	-6.7	16.0	7.6	2.8
9. Housing Starts, Millions, SAAR	16.5	16.5	17.1	16.9	16.8	17.0
10. Crude Oil, West Texas Intermediate Average Price	\$35.4	\$38.3	\$43.9	\$51.5	\$51.5	\$49.0

SAAR - seasonally average annual rate, based on quarter-to-quarter growth rates.

^PThird quarter data are preliminary numbers and estimates. Fourth to second quarter 2005 data are projections.

SOURCE: Global Insight, November 2004.

Table 3. **U.S. ECONOMIC FORECAST 2004-2006**
(Percent Change)

	2004	2005	2006
Gross Domestic Product (Percent Change)	6.6	5.3	4.8
Real Gross Domestic Product (Percent Change)	4.4	3.2	3.0
Price Level (Percent Change)	2.1	2.0	1.8
Real Private Domestic Investment (Percent Change)	13.3	4.9	1.7
Total Establishment Employment (Percent Change)	1.1	1.7	1.2
Manufacturing	-1.0	0.6	0.1
Business and Profession Services	3.0	4.2	3.5
Health and Social Services	2.0	2.4	2.2
Construction	2.8	2.3	0.7
Trade	0.7	0.7	0.8
Finance, Insurance, Real Estate	0.9	1.0	0.0
Transportation, Utilities	0.9	2.6	2.3
Government	0.2	0.9	0.2
Unemployment Rate	5.5	5.4	5.5
Personal Income (Percent Change)	5.2	4.9	5.4
Consumer Price Level (Percent Change)	2.7	2.2	1.3
Prime Rate (Percent)	4.3	5.6	6.4

SOURCE: Global Insight, November 2004.

any case, much of the rise in the cost of these programs, with the exception of Homeland Security, is due to rising **health care costs**. Cutbacks in health care expenditures would not address the fundamental issue of how to provide adequate health care to the population, a problem which affects businesses and families as well as the government.

Privatizing part of **Social Security**, as has been proposed by this administration, could result in some savings for the federal government, but it would shift more responsibility for care of the disabled and some retired workers to states and families (see *Review* article, "Social Security: Time for a Change?" 12/00). It appears likely that some form of tax increase would be preferred to cutbacks in the social welfare programs like Social Security and Medicare that many families rely on.

There are other budgetary threats on the horizon. There has been a rapid increase in the number of federally-insured **pension plans** going bankrupt and so triggering a federal bailout. This past fiscal year, the government's pension insurance program, the Pension Benefit Guaranty Corporation

(PBGC), paid out \$7.6 billion more than it took in, up sharply from the \$3.6 billion shortfall in 2002. The PBGC took over 152 pension plans covering 206,000 people in 2003. Underfunding of the PBGC, is currently estimated at more than \$350 billion. The House this year approved nearly \$26 billion in temporary relief to companies struggling to keep up with pension plan payments, while Congress debates more permanent solutions. The long and short of it: controlling the deficit, a fiscal necessity, will require some tough decisions.

Inflationary Pressures

Inflation remains low, but skyrocketing **oil prices** this year have taken their toll. The average price of West Texas Intermediate crude was \$35.40 in Q1 of 2004, but was above \$50 a barrel in the final quarter. The resulting increase in heating and transportation costs has affected all sectors in the economy, pushing up both consumer and producer prices. Most recently, oil prices have begun to fall, and the baseline forecast presented below assumes that this trend continues at a gradual pace. Demand from

emerging countries, particularly China, will keep prices somewhat higher than in the late 1990s, however. And it is possible that unrest in the Middle East combined with investor uncertainty will push oil prices higher than predicted by Global Insight at this time.

Another factor with the potential to drive up inflation is the growing **federal deficit**. Unless the growth of the U.S. deficit is slowed substantially, the U.S. Treasury will be forced to increase the interest rates paid on U.S. bonds in order to attract investors. Higher interest rates would have the effect of slowing both investment demand and the purchase of consumer durables. Inflationary pressures from higher interest rates or higher oil prices constitute the greatest risk to the forecast scenario presented below.

Baseline Forecast

Next year, the national economy will grow at a slower pace than the 4.4% rate of increase registered in 2004. A 3.2% growth rate of real GDP is expected in 2005, and a 3.0% increase for 2006, as shown in Table 3. The rate of inflation, as measured by the GDP deflator, will hover close to 2.0%. Declining oil prices will bring the rate of increase in consumer prices down from the 2.7% increase in 2004 to 2.2% in 2006 and perhaps as low as 1.3% in 2006, as global competitive pressures drive prices down.

As productivity gains slow to a more moderate rate of increase, demand for labor is accelerating. **Employment growth**, which was 1.1% in 2004, will reach 1.7% in 2005 before falling back to 1.2% in 2006. The bulk of these jobs will be in services, with the most rapid growth occurring in the business and

professional services industries. Construction employment will remain strong in 2005, with a growth rate of 2.3%, and transportation and utilities employment will fare even better, growing by 2.6%. Manufacturing will not regain the jobs it has lost since 2000, but a modest net increase in employment is likely in both 2005 and 2006.

The improving employment picture will boost the rate of increase in labor income, which accounts for the bulk of personal income (64%). **Personal incomes**, which grew about 5.2% in 2004, will grow at a rate of 4.9% in 2005 and 5.4% in 2006. During the next two years, wage and salary growth will be higher, but several sources of nonlabor income will have lower growth rates.

A gradual tightening in financial markets, accompanied by rate increases by the Federal Reserve, will push the prime rate of interest up from an average of 4.3% this year to 5.6% in 2005 and even higher in 2006.

Alternative Scenarios

Key variables to watch over the coming months include the price of oil, the rate of productivity growth, job growth, and the growth rate of the world economy. Developments in Iraq and the Middle East will also play a role. Global Insight assigns its baseline scenario a 60% probability. Under this scenario, the increase in GDP is forecast to be 3.2% in 2005, falling slightly to 3.0% in 2006. However, lower oil prices, a growth rate of productivity that stays close to 3.0%, or a growth in demand for U.S. exports that exceeds this year's estimated 9% would all push the increase in GDP above the baseline forecast. On the other hand, job growth

Table 4. **ALTERNATIVE SCENARIOS AND PROBABILITIES IN NATIONAL ECONOMIC FORECAST**

	Rate of Growth of Real GDP			Probability
	2004	2005	2006	
Baseline	4.4	3.2	3.0	60%
Pessimistic	4.4	2.9	2.1	20%
Optimistic	4.4	3.6	3.7	20%

SOURCE: Global Insight, November 2004.

below the 1.7% increase forecast, a continuation of today's high oil prices, or a failure of the trade balance to improve substantially would cause a more rapid deceleration of the economy. Both the optimistic and pessimistic alternative forecasts are assigned a 20% probability. See Table 4.

Under the **optimistic alternative**, lower oil prices provide a welcome increase in purchasing power for both consumers and businesses. Non-energy demand increases, and higher productivity than expected means that this added demand results in higher profits and higher wages than forecast. The rate of inflation slows below the modest level forecast, moderating the expected increase in interest rates. These developments result in increased levels of demand in all sectors of the economy. At the same time, a stronger world economy means increased levels of exports that boost manufacturing production, which further stimulates the economy under this alternative scenario.

An increase in inflation is the key risk factor to the baseline forecast. Under the **pessimistic alternative**, high oil prices combine with a federal deficit that continues its rapid rise to cause greater inflationary pressures. The Fed responds with higher interest rates, which in turn reduce both consumer and investment spending. Slower job growth may also reduce the growth rate of consumer spending. These problems cause the growth rate of GDP to come in just below 3.0% in 2005 and fall to about 2% in 2006. However, the fundamentals of the economy remain solid and government policymakers re-

spond appropriately to these developments, addressing the rising deficit with reduced spending and higher taxes, and keeping the value of the dollar low enough to boost U.S. exports.

Written by Marianne Hill, with input from members of the Center of Policy Research and Planning.

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OVERHAUL OF OVERTIME

New Department of Labor (DOL) overtime pay regulations went into effect in August. Although Congress voted to block the new rules, it withdrew its overtime pay protection amendment under threat of presidential veto. The Department of Labor states that the new rules “strengthen overtime protections” by guaranteeing overtime protection to 1.3 million salaried workers earning less than \$455 per week. (Salaried workers earning between \$155 and \$455 per week were not protected by the old regulations, and they will now have overtime pay protection.) However, under the new regulations, employers will also be permitted to move several classes of workers earning more than \$455 per week into categories that are “exempt” from regulations requiring overtime pay.



Which Workers May Become “Exempt”?

Among workers who are no longer covered by overtime protection are low-level salaried supervisors and supervisors paid by the hour who have been moved into the “executive” category. Other workers have been moved into the “professional” category, including many without a college degree, and more workers, including some with no supervisory authority, are now in the “administrative” category. Workers in these three categories are considered exempt from regulations requiring overtime pay. “Exempt” workers are usually paid a weekly or monthly salary, and the number of hours worked per week can vary with the requirements of the job.



Some examples of workers who may lose overtime pay coverage under the new regulations include about 130,000 chefs who may now be classified as “learned” or “creative” professionals; nursery school teachers, now considered professionals; and line production employees who are team leaders, now classified as administrative employees. Persons working with computers may more easily be classified as professionals.

There are special provisions for the finance industry, “outside sales employees”, athletic trainers and for journalists “performing on the air or in other electronic media.” These changes make more workers eligible for exempt status. According to Fraser, Gallagher and Coleman (10/04), all the major changes in overtime rules, except for the higher eligibility ceiling of \$455, will reduce the number of workers with overtime pay protection. Under the new finance provisions, for example, about 160,000 mortgage loan officers lose the right to overtime pay.

How Many Workers Will Benefit?

Salaried workers who earned more than \$155 per week but less than \$455 will now be covered by overtime protection. The number of these newly covered workers is estimated at 1.3 million by the DOL. Of these 1.3 million workers, about 400,000 will actually receive overtime pay: the Economic Policy Institute notes that in 2002 there were just under 400,000 salaried white-collar workers who worked more than 40 hours per week. (Blue collar workers were largely already covered by overtime rules).

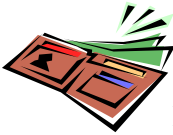
How Many Workers Will Switch from Nonexempt to Exempt?

Whether or not a worker is switched to the exempt classification is decided by the employer, who must, however, comply with the DOL's minimum standards for overtime. But under the new rules millions of workers can now be reclassified as "exempt" and so may no longer be covered by overtime regulations. There are no comprehensive estimates available of the number of workers who lose overtime protection, but the Economic Policy Institute has examined ten of the new rules. The Economic Policy Institute estimates that 1.4 million low-level supervisors, 2 million team leaders, 548,000 hourly supervisors, 900,000 newly-designated professionals (with experience though not a degree in the field), 130,000 chefs/cooks, 30,000 nursery school teachers, 400,000 workers who earn over \$100,000 a year, and others can now be legally classified by employers as exempt, for a total of over 6 million persons. At the same time, another 1.3 million workers will gain overtime protection under the new \$455 eligibility ceiling.



A better handle on the magnitude of the change will emerge over the next year, but for many workers, the traditional 40-hour workweek may no longer be ensured by overtime pay regulations.

The Department of Labor notes that the Fair Labor Standards Act (FLSA) which governs overtime provides minimum standards that may be exceeded, but cannot be waived or reduced. Employers must also comply with any Federal, State or municipal laws, regulations or ordinances establishing a higher minimum wage or lower maximum workweek than those established under the FLSA. Similarly, employers may, on their own initiative or under a collective bargaining agreement, provide a higher wage, shorter workweek, or higher overtime premium than provided under the FLSA. For more information, visit the Wage and Hour Division's website at www.wagehour.dol.gov.



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MISSISSIPPI ECONOMIC OUTLOOK: GAINING GROUND

Payroll employment in the state in 2004 was up 0.6%, based on the latest data available, and the trend this year has been consistent, with employment levels each month above those of the same month in 2003.

Employment in both the services-producing industries and in manufacturing has grown. The unemployment rate has been lower than last year as well.

High gasoline prices contributed to a drop in employment in transportation services; tourism-related industries have also been hurt by the record prices.

Tax Commission collections in FY2004 were 4.3% higher than in FY2003, and collections so far in FY2005 are doing even better. Nonetheless, the squeeze on the state budget continues.

Consumer anxieties related to the presidential elections and the situation in Iraq contributed to a drop in consumer confidence in the fall quarter. The business confidence index was unchanged.

Mississippi's economy experienced an upswing in employment and output in 2004, with most economic indicators showing improvement. The Gross State Product (GSP) grew approximately 2.5% in real terms, payroll employment was up an estimated 0.8%, and personal incomes rose about 4.7%. State revenue collections showed solid increases. Although uncertainty about political and economic conditions this fall led to a drop in consumer confidence, retail sales remained above levels of last year.

The pace of expansion of the national economy has begun to decelerate, but in Mississippi, as in the rest of the South, a pick-up in the economic tempo is forecast for 2005 as gains in employment translate into increased market demand. Lower energy prices and a continuation of strong demand in the investment and export sectors will also contribute to the expected increase in growth rates.

Current Trends

Figures 1a to 1h provide an overview of current trends. Most striking is the increase in the number of persons employed, shown in Figure 1a. Since January, total **nonagricultural employment** has been higher each month than it was in the same month of 2003,

and the number of persons employed has been increasing. This has also been true of **manufacturing** jobs since May (Figure 1b). The outlook for construction activity is indicated by Figure 1c. The fact that the value of building permits issued has been above year-ago levels most of the year, despite rising interest rates, bodes well for construction activity in 2005 and 2006. Construction employment this year has been lower than in 2003.

General fund revenues for FY2004 were 4.3% higher than for FY2003, the fastest rate of increase in four years, and, year-to-date through October, revenue collections are up 7.9%. Figure 1d shows recent trends in total collections. Although personal income tax collections dipped in September, they recovered in October (Figure 1e) and were up 9% for FY2005, as of the start of November. Despite the improving revenues, the state has not yet escaped from fiscal pressures that have built up in recent years.

Retail sales, although above 2003 levels, have risen little since June, reflecting some consumer caution (Figure 1f). **Gaming** revenues, both on the Coast and in Mississippi River counties, have stayed essentially unchanged from year ago levels (Figures 1g and 1h).

Figure 1a. Nonagricultural Employment

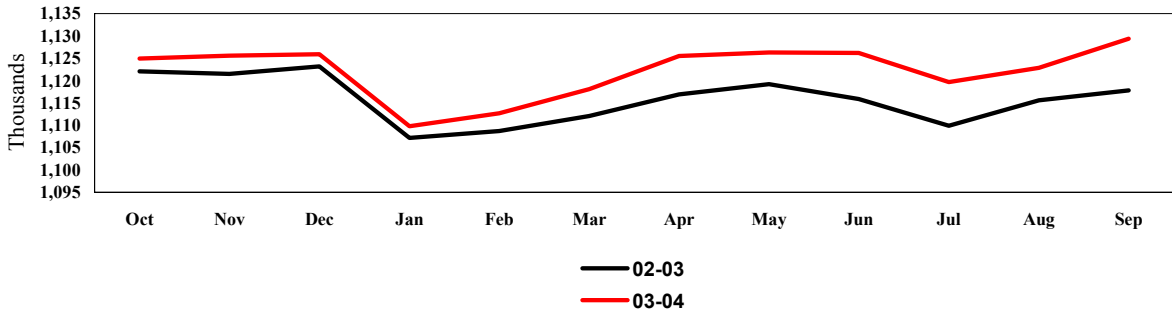


Figure 1b. Manufacturing Employment

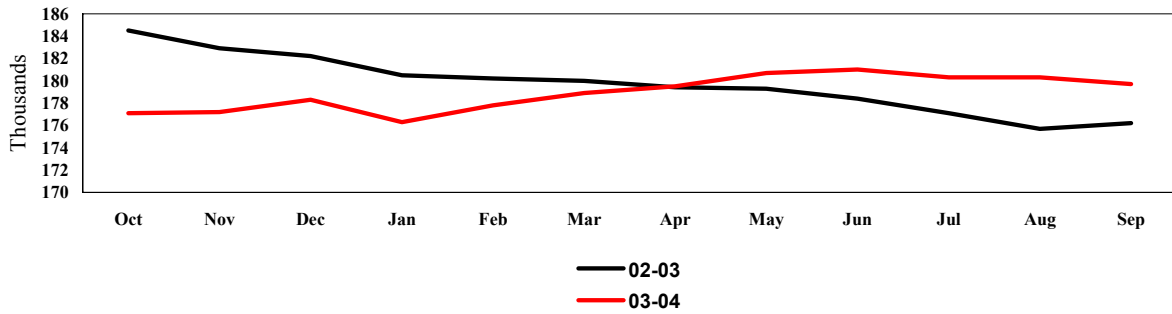


Figure 1c. Value of Building Permits

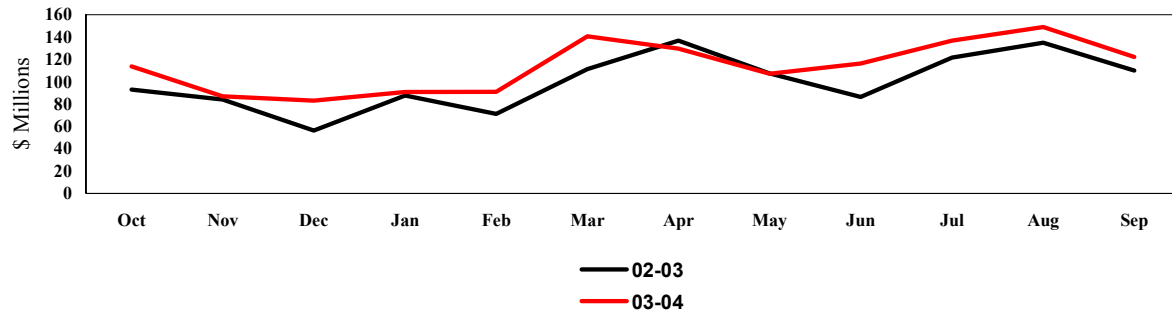


Figure 1d. General Fund Revenues

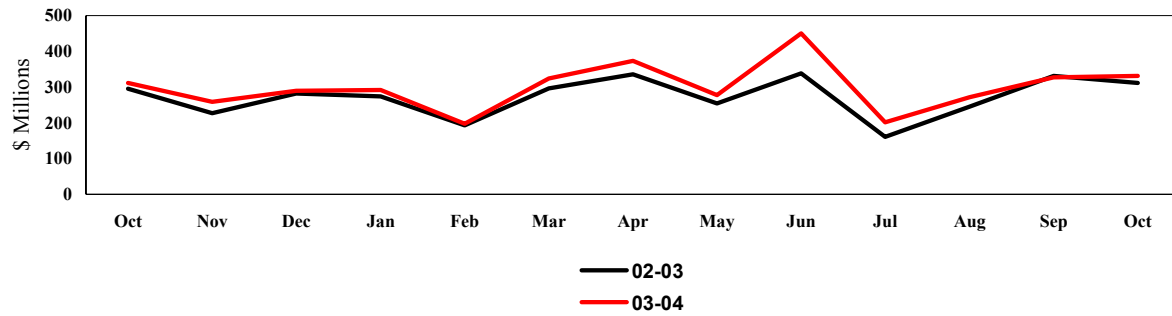


Figure 1e. Personal Income Tax Revenues

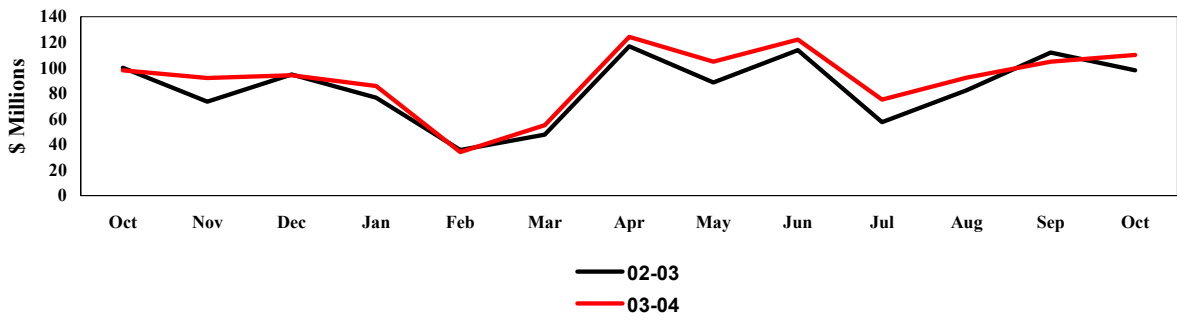


Figure 1f. Retail Sales

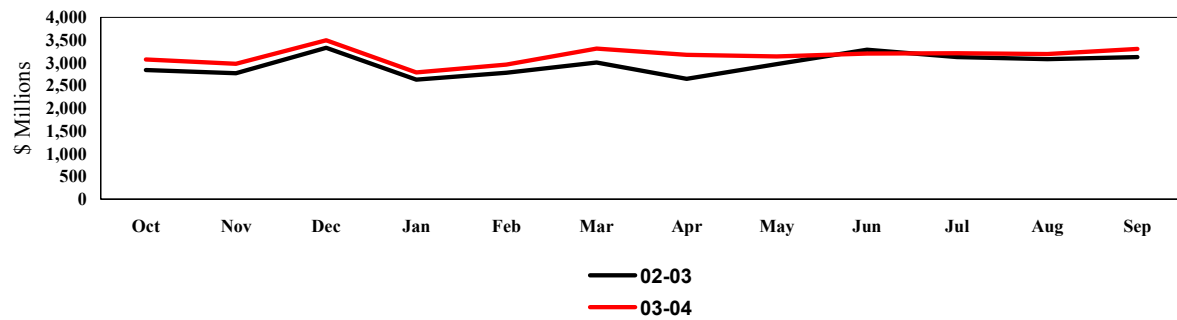


Figure 1g. Gaming Revenue -- Coast

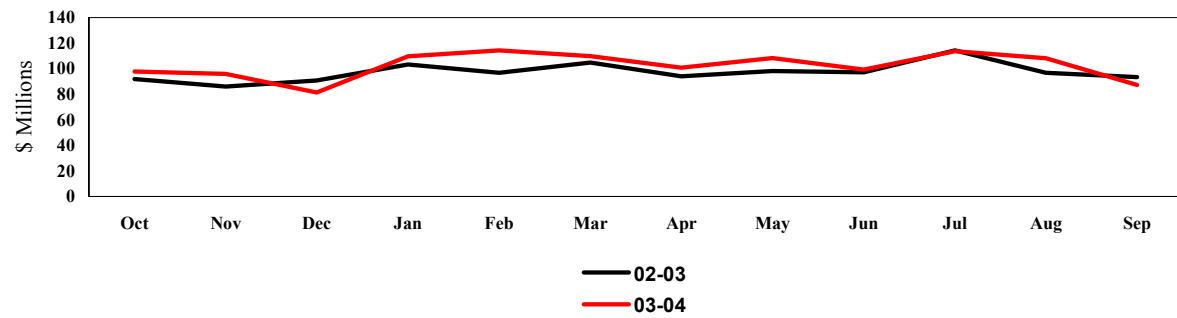
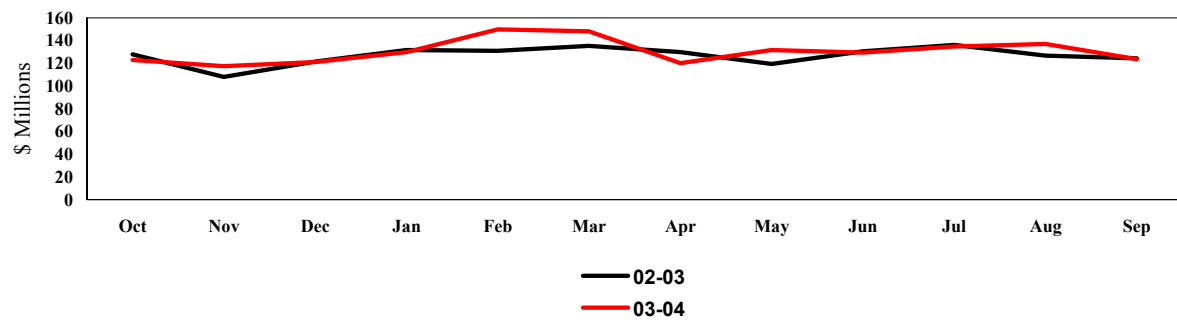


Figure 1h. Gaming Revenue -- River



The Mississippi **business confidence** index remained above 50 for the seventh consecutive quarter this fall, indicating a positive outlook, but there was no improvement. Overall, fewer executives thought the current economy was better than six months ago, but more expected conditions to improve. Responses were vice-versa for consumers: more consumers thought they were currently better off financially than six months ago, while fewer expected their financial conditions to improve during the coming year. Overall, the index of **consumer confidence** fell 9.7% in the fall. With the political ferment associated with presidential election campaigns ending, an increase in consumer confidence is likely by year's close.

Employment Up

Mississippi's labor market has been improving, with payroll employment growing an estimated 0.8% this year. An increase of 1.2% in payroll employment is forecast for 2005 and 0.9% in 2006. Manufacturing employment in the state was up 0.5% year-to-date, based on data through September, and a similar rate of increase is expected in both 2005 and 2006. Service-producing industries expanded as well, increasing 0.8%, based again on the most recent data available. The **unemployment rate** was 5.6%, well below that of last year.

Growth of payroll employment in 2004 was led by net increases of 3,000 or more jobs in each of four industry groups: transportation equipment, professional and business services, health care and social assistance, and local government. See Table 1. The Nissan auto plant, in its first full year of production, added over 2,000 manufacturing jobs to the economy, while shipbuilding added 1,800 – resulting in a growth rate of **transportation equipment** employment of 16.9%. The number of persons employed in professional and business services rose 3.7% as business activity increased, and health care & social assistance employment grew 3.2%, linked to the climb in health care spending. The 2.1%

increase in local government employment was largely due to an increase of 2.8% in jobs in local education.

Growth rates were below 3% in most other industries. High gasoline prices slowed the growth of jobs in **leisure and hospitality**, which rose only 0.3% in comparison to last year. Gaming also suffered from the slowdown in tourism: state funds from gaming taxes increased only 0.7% in FY2004, and casino gambling has shown a net decrease in employment in calendar 2004.

The fiscal squeeze hitting the **state budget** continues to affect the state economy, with state government employment dropping 1.8%. The war in Iraq and spending on homeland security combined to boost federally-funded jobs in the state by 0.8%. Employment in wholesale trade grew a strong 3.4%, but the number of jobs in retail trade remained almost unchanged, rising only 0.4%. Rising productivity in **retail trade** has slowed employment growth in that industry in recent years.

Personal Incomes Up

In 2003, there was a 21% increase in proprietors' income, due to an excellent year for agriculture and a strong year for nonfarm proprietors. This helped to push the rate of growth of personal income to 4.6%, according to recently revised data, the 9th highest rate in the nation. At the same time, wage and salary income rose only 2.9%. This year, the rate of increase in **wage and salary income** has strengthened to an estimated 3.9% increase, and next year the rate of growth will be an even higher 4.1%. Overall, personal income is forecast to grow 4.7% in 2004 and 4.5% in 2005. Nationally, the rate of increase in personal income was an estimated 5.3% in 2004.

Short-Term Economic Forecast

Gross state product (GSP) grew at an estimated 2.5% rate this year versus 1.6% last year, in real terms. Accelerated economic activity has meant more jobs and higher incomes, setting the stage for a strong 2005.

Table 1. **MISSISSIPPI EMPLOYMENT BY SECTOR**

RESIDENCE BASED DATA¹	Jan - Sep 2004	Jan - Sep 2003	Percent Change
Civilian Labor Force	1,316,500	1,310,700	0.4%
Unemployed	73,600	86,800	-15.2%
Percent of Labor Force	5.6	6.6	-15.2%
ESTABLISHMENT BASED DATA¹			
TOTAL NONFARM EMPLOYMENT	1,121,200	1,114,200	0.6%
GOODS PRODUCING INDUSTRIES	238,300	238,200	0.0%
Natural Resources & Mining	8,700	8,600	1.2%
Construction	50,200	51,100	-1.8%
Total Manufacturing	179,400	178,500	0.5%
Durable Goods Manufacturing	115,700	112,300	3.0%
Wood Product Manufacturing	13,000	13,200	-1.5%
Machinery Manufacturing	11,400	12,300	-7.3%
Transportation Equipment	27,700	23,700	16.9%
Motor Vehicle Parts	6,400	6,600	-3.0%
Ship and Boat Building	15,300	13,500	13.3%
Furniture and Related	28,600	27,500	4.0%
Nondurable Goods Manufacturing	63,700	66,200	-3.8%
Food Manufacturing	27,900	27,700	0.7%
Apparel Manufacturing	5,300	5,800	-8.6%
Paper Manufacturing	5,600	6,400	-12.5%
Chemical Manufacturing	5,700	6,900	-17.4%
Plastics and Rubber	9,300	9,300	0.0%
SERVICE PROVIDING INDUSTRIES	882,900	876,000	0.8%
Trade, Transportation	217,500	218,100	-0.3%
Wholesale Trade	36,100	34,900	3.4%
Retail Trade	138,100	137,600	0.4%
Transportation, Warehousing & Utilities	43,300	45,600	-5.0%
Information	14,600	15,100	-3.3%
Telecommunications	8,000	8,000	0.0%
Financial Activities	46,600	46,600	0.0%
Finance and Insurance	34,600	34,100	1.5%
Real Estate, Rental and Leasing	12,000	11,900	0.8%
Professional and Business Services	81,400	78,500	3.7%
Educational and Health Services	117,600	114,700	2.5%
Educational Services	14,100	14,400	-2.1%
Health Care and Social Assistance	103,500	100,300	3.2%
Hospitals	30,500	30,000	1.7%
Leisure and Hospitality	123,800	123,200	0.5%
Arts, Entertainment, and Recreation	12,500	13,600	-8.1%
Amusement	11,500	12,500	-8.0%
Accommodations	37,700	37,600	0.3%
Food Services	73,600	72,000	2.2%

Table 1. **MISSISSIPPI EMPLOYMENT BY SECTOR** (continued)

	Jan - Mar 2004	Jan - Mar 2003	Percent Change
Other Services	36,600	37,500	-2.4%
Total Government	244,800	242,300	1.0%
Federal Government	26,000	25,800	0.8%
State Government	61,700	62,700	-1.6%
State Education	22,000	22,800	-3.5%
Local Government	157,100	153,800	2.1%
Local Education	84,400	82,300	2.6%

SOURCE: Mississippi Employment Security Commission, October 2004. Preliminary figures.

¹Residence employment estimates are based on household surveys, whereas establishment data are based on jobs reported at places of work. A person with two jobs will generally be counted twice by establishment data, but not by the household data. A person residing in Mississippi but employed outside of the state will be included in residence-based data, but not in establishment data. The self-employed are also better captured by residence-based data.

GSP is forecast to increase 2.9% in 2005 and 2.8% in 2006 after adjustment for inflation. See Table 2.

Job growth is finally picking up nationally and the employment picture is improving here as well. This year's 0.8% increase in **payroll employment** will be followed by a 1.2% increase in 2005 and 0.9% in 2006. Although the number of manufacturing jobs will rise slightly, most new jobs will be in services.

The tightening labor market will contribute to rising personal incomes for the next few years. However, in 2005, a faster growth of labor income will be accompanied by a slower growth of farm incomes and transfer payments. Overall, then, personal incomes will rise about 4.5% in 2005, just under the rate achieved in 2004. In 2006, the growth rate will jump to 5.0%.

The rate of inflation is expected to be lower in 2005 and 2006 than the approximate 2.3% increase registered this year in the consumer price index (South). Lower energy prices will push down the rate of increase to about 2.0%.

Tables in the appendix provide detailed forecasts for output, employment, incomes and inflation.

As Table 2 indicates, Mississippi's growth of employment and output will remain below

that of the U.S. as a whole for the next two years. The slower growth of employment is due both to slower population growth in the state and to the industry mix here. Manufacturing, which has only a slow growth of employment, is a larger employer here than in the U.S. as a whole. In addition, the faster-growing high-wage, high-skill industries, such as information technologies, account for a relatively smaller percentage of employment here than in the rest of the country.

Higher levels of **productivity** in the U.S. as a whole than in Mississippi help to account for the higher growth rates of output nationally. While the growth rate of productivity in the state is forecast to increase in coming years, it is not expected to reach that of the U.S. See the discussion below.

In the southeastern region as a whole, the outlook is for a gradual return to growth rates near 3.0%. According to the October forecast of Economic Forecasting Center of Georgia State University, **gross regional product** is expected to reach 2.3% in 2004 and to improve further in 2005 to 2.8%.

Five-Year Forecast

Over the 2004-2009 period, the growth rate of GSP is expected to more than double in comparison to the previous five years,

Table 2. ECONOMIC FORECAST FOR 2004-2006

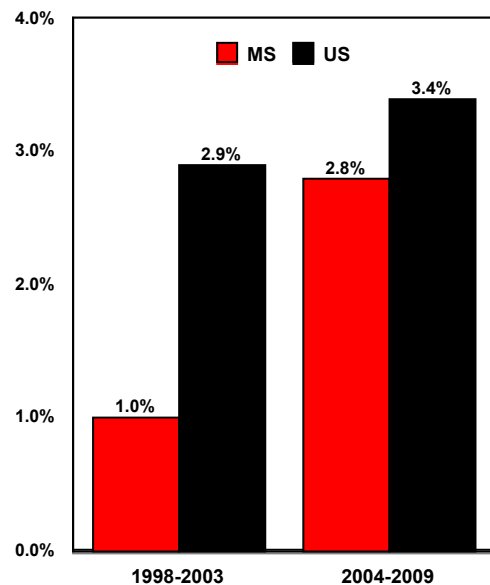
	2004	2005	2006
Mississippi			
Gross State Product (Percent Change)	4.4	4.7	4.3
Real Gross State Product (Percent Change)	2.5	2.9	2.8
Price Level (Percent Change)	1.9	1.8	1.4
Establishment Employment (Percent Change)	0.8	1.2	0.9
Unemployment Rate	5.6	5.5	5.5
Personal Income (Percent Change)	4.7	4.5	5.0
Consumer Price Level-South (Percent Chang	2.3	1.9	2.0
United States			
Gross State Product (Percent Change)	6.6	5.3	4.8
Real Gross State Product (Percent Change)	4.4	3.2	3.0
Price Level (Percent Change)	2.1	2.0	1.8
Establishment Employment (Percent Change)	1.1	1.7	1.2
Unemployment Rate	5.5	5.4	5.5
Personal Income (Percent Change)	5.2	4.9	5.4
Consumer Price Level (Percent Change)	2.7	2.2	1.3

SOURCE: Center for Policy Research and Planning, Mississippi Institutions of Higher Learning, November 2004. Global Insight, November 2004.

averaging 2.8% annually (Figure 2). The number of payroll jobs will increase at an average annual rate of 1.0% over the same period, almost equal to the 1.1% rate predicted for the U.S. as a whole. See Figure 3. Manufacturing jobs are expected to increase by about 0.3% annually, while the rate of increase in health and social assistance and in the “other” services category will be about 2%, as Figure 4 shows. Employment in government, which grew 1.8% each year over the 1998-2003 period on average, will drop to a slower 1.1% growth rate over the coming five years. Employment growth in leisure and hospitality will slow from a 1.7% average annual increase to a rate of 1.1% as the gaming industry matures. Most other industries will enjoy higher rates of growth over the coming period.

The gap between growth rate of GSP in Mississippi and the national growth rate of GDP is greater than the gap in employment growth, due to differences in output per worker, or productivity, in Mississippi and in

Figure 2. ACTUAL AND PROJECTED ANNUAL CHANGES IN REAL GSP AND REAL GDP



SOURCE: Center for Policy Research and Planning, November, 2004.

SOURCE: Center for Policy Research and Planning, November 2004. Global Insight, November 2004.

the U.S. as a whole. The average **output per worker** in the U.S. is about 60% higher than output per worker in Mississippi. The gap is not as great in individual industries, but the industry mix here includes a greater concentration of less skill-intensive industries, which have lower output per worker.

Productivity levels in the state have been increasing: over the 1998-2003 period, output per worker increased 1.3% annually, and over the coming period, the rate of increase in productivity is forecast to average 1.8% annually, as Mississippi updates its production techniques. However, this improved productivity will not be sufficient to close the **productivity gap**. While the percentage increase in productivity for the nation will drop from the annual average rate of increase of 3.4% enjoyed during the 1998-2003 period, the rate of increase for the next five years is forecast to be 2.3%, substantially higher than the 1.8% increase expected in Mississippi. A rapid growth of new technologies and higher-skill industries here could narrow this gap, but the probability that this will happen within the next five years is not high.

Written by Marianne Hill, with input from members of the Center for Policy Research and Planning.

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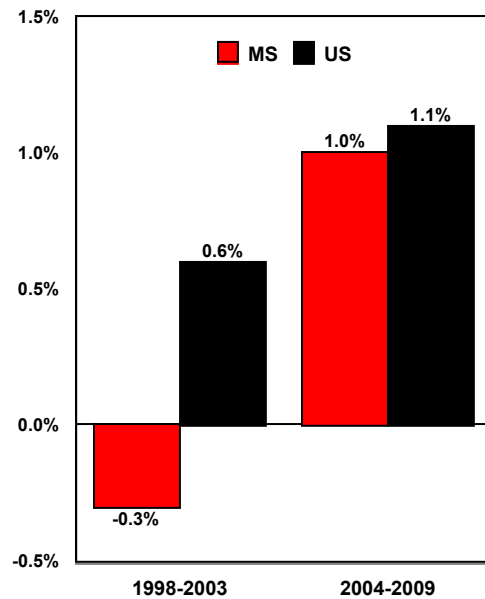
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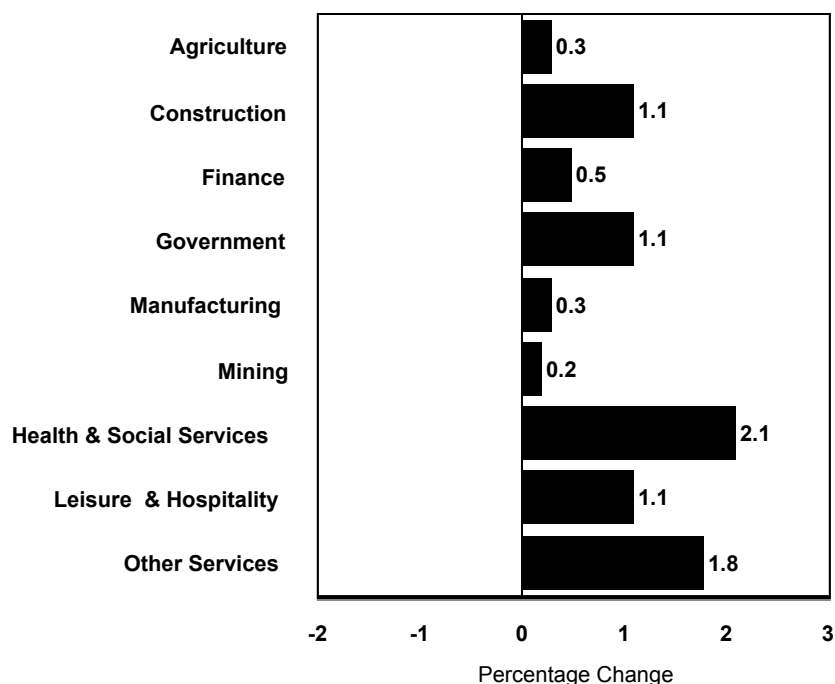
Figure 3. ACTUAL AND PROJECTED ANNUAL CHANGES IN EMPLOYMENT



SOURCE: Center for Policy Research and Planning, November 2004.

SOURCE: Center for Policy Research and Planning, November 2004. Global Insight, November 2004.

**Figure 4. MISSISSIPPI EMPLOYMENT PROJECTIONS
AVERAGE ANNUAL GROWTH RATES 2004-2009**



Appendix State Economic Structure

Eighty percent of wage and salary employment in Mississippi is in service-providing industries, and 20% in the goods-producing industries of manufacturing, construction and natural resources/mining. Despite the dominance of services, goods-producing industries, and manufacturing in particular, are crucial to the state's economy. In the U.S. as a whole, manufacturing provides 11% of total jobs, but in Mississippi the figure is 15%. Manufacturing sustains many of the state's service jobs in transportation, business services, finance and agriculture. Within manufacturing, the percentage of employees in furniture and in lumber and wood products is more than twice the corresponding percentage for the U.S.

These industries along with food products, account for 39% of manufacturing employment, versus 18% of the U.S. total. Transportation equipment, electronic equipment, industrial machinery, and plastics and rubber account for another third of manufacturing here.

Two other sectors employ 15% or more of workers: retail/wholesale trade (16%) and government (21%). The leisure and hospitality sector provides 11% of total employment; health and education services, 11%; and professional and business services, 7%.

Mississippi's top exports in 2003, according for almost 60% of the \$2.6 billion total, were chemicals - \$614 million, paper products - \$308 million, and machinery - \$301 million.

HIGHLIGHTS FROM RECENT NEWS ON MISSISSIPPI'S ECONOMY

See the website of the Mississippi Development Authority, www.mississippi.org, for more information about recent economic developments in the state, or contact Scott Hamilton, Communications Division, at 359-3041.

New Businesses and Expanded Facilities

New investments totaling \$1.4 billion were announced during the first nine months of 2004. The new and expanded facilities announced are expected to provide **8,462 jobs**, or an increase of 15% compared to the same period last year. Of this total, 2,774 jobs are in non-manufacturing and 5,688 are in manufacturing, which is almost double the number of manufacturing jobs created over this period in 2003.

The **top jobs creator** among the investments announced since the last issue of the *Review* was Johnson Controls in Madison County, which will employ 375 persons in the production of seats and other parts for automobiles, vans and trucks. Ionatron, another top jobs creator, will employ 300 persons in Hancock County, producing ordnance and accessories.

The largest investments announced were in shopping centers. In addition, five of the top 25 new investments during this period are **hospitals and medical clinics**. These medical facilities are located in Lowndes, Madison, Warren, and Lamar Counties. The Baptist Memorial Hospital in Lowndes County, which will cost \$12,000,000, is the largest among these.



Cutting Edge Industries

Northrop Grumman Ship Systems and Integrated Coast Guard Systems celebrated the start of construction of the first **Maritime Security Cutter**. It represents the first major multi-mission cutter to be introduced to the Coast Guard in years. The production contract is valued at \$250 million. The anticipated delivery date for the ship is 2007.



The Northrop Grumman shipyard here and a sister plant in Avondale, Louisiana will build at least nine Navy amphibious assault vessels. This represents a drop from the original plan to build 12. Industry sources report that most of the nation's big shipbuilding programs could be cut or slowed down in response to budget constraints. Another new Northrop Grumman project in the state will be the Fire Scout unmanned aerial vehicle facility in Jackson County, which will be located at the county's aerospace industrial park.

Aurora Flight Sciences, a firm which specializes in **unmanned aerial vehicles**, will open a facility in Starkville that will provide up to 300 jobs. The firm designs, builds and operates UAVs that help NASA perform atmospheric research. The new facility will be at the Raspet Flight Research Laboratory of Mississippi State University. The Raspet Laboratory has the capability of doing computer-controlled testing of prototype composite applications. Flight research and testing of both manned and unmanned fixed-wing and rotary-wing aircraft also takes place at the laboratory.



BioDerm Sciences Inc., a recent spin-off of Health Pathways Inc., a healthcare holding company in Gaithersburg, Md., is locating its **corporate headquarters**, research and development, and manufacturing operations in Oxford. Walt Chambliss, director of the Division of Technology Management at UM, said the momentum exists for development of a "pharmaceutical cluster" in North Mississippi, with Oxford being the hub, given the growing number of pharmaceutical distribution companies near Memphis,



Future Pipe Group plans to move its \$15 million, 150,000 square-foot **research plant** from Houston, Texas to Gulfport, making Gulfport its primary technology center. “My dream is that Mississippi will be the composites center for the nation, like you have the Silicon Valley in California,” said its chairman, Fouad Makhzoumi.

Mississippi and the Nation



Grand Bank of Hattiesburg was named the third best-performing community bank in the nation, among banks with \$50 million to \$100 million in assets, by the *Independent Banker Magazine*.

The 98th Annual Meeting of the National Governors Association is scheduled to take place in the summer of 2006 in Biloxi. This marks the first time the organization will meet in Mississippi since 1935.

A new **interstate, I-69**, set to stretch from Canada to Mexico, will extend through the Mississippi Delta. A federal grant will fund work that will bring the existing State Route 304 to interstate standards, enabling this segment to be incorporated into I-69 by the mid-2020s.

Gulfport is now the third-largest container port in the Gulf and one of the top twenty ports in the country. Imports coming through the port include tropical fruit, apparel, forest products, aluminum, ilmenite ore, and steel. Exports include paper, poultry, cotton, apparel, lubricants, and resins.

Jackson State University was ranked second among historically black colleges and universities in the production of African-American doctorates in all disciplines combined.



The university also ranked fourth in the nation in African American doctorates awarded in education, according to the magazine *Black Issues in Higher Education*.

Mississippi ranked number one among the states in generosity again in 2004, as measured by the Catalogue for Philanthropy. The value of itemized charitable donations as reported on 2002 federal tax returns and the average adjusted income of residents were used in compiling the annual **Generosity Index**. This marks the eighth consecutive year that the state has taken the top spot. The practice of tithing – giving one-tenth of one’s earning to a church – contributes to this ranking.



Mississippi ranked at the bottom of the 50 states and the District of Columbia again in the **Status of Women** report issued by the Institute for Women’s Policy Research. The key indicators used in deriving the ranking include indexes measuring women’s political participation, employment and earnings, social and economic autonomy, reproductive rights and health and well-being. The state moved up from 49th to 47th in the employment and earnings index, due largely to a significant improvement in the ratio of women’s to men’s earnings.



Mississippi ranked 16th in the nation in that category, with the ratio of women’s fulltime earnings to men’s at 77.1%. Also, Mississippi ranked 7th in the nation in women’s voter registration, one of the components of the political participation. However, women’s voter turnout, at 52.5%, placed the state 23rd in that area. The full report is available at www.iwpr.org.

Written by Marianne Hill and Gwen Silas, Center for Policy Research and Planning.



MOMENTUM MISSISSIPPI

Momentum Mississippi – Public Sector Strategic Planning and Implementation

Public sector strategic planning has increasingly become a key part of economic development efforts of states and local governments. Governor Barbour has created a process for guiding Mississippi’s economic development efforts by forming **Momentum Mississippi**, a diverse group of 136 citizens including business, education, and government leaders.

Developing and implementing a statewide strategic plan is a complex process that requires participation and input from all sectors of the state. Good strategic planning leads people to reexamine the basis for decision-making, program development, and actions. Previous efforts for Mississippi’s public sector planning tended to focus on one issue or program at a time, but the Momentum Mississippi initiative offers a radical shift from more simplistic approaches.



Mississippi has toyed with the process of long-range strategic planning for economic development since 1987 when the Statewide Economic Development Planning Act (MS Code 57-63-1) was passed. A statewide plan was developed from that law in 1989 entitled “Seizing the Future: A Commitment to Competitiveness.” Some parts of that plan were addressed over several successive administrations, but no systematic and continuous efforts to update and implement the plan ever took place.

In recent years, several separate groups began to realize that Mississippi’s economy was undergoing a fundamental change and that the previous ways of developing the economy were no longer providing the kinds of outcomes desired. In addition to the state-mandated long-range economic development plan, legislative leadership initiated the “McCoy Working Group” based on higher education; the Mississippi Technology



Alliance, a non-profit organization, began a technology economic development effort; NASA Stennis Space Center began the Mississippi Educational Involvement Initiative; and the Mississippi Economic Council, a business-led group, developed a plan entitled “Blueprint Mississippi.”

Momentum Mississippi will draw on these and other plans and reports to develop recommendations for citizens, agencies, local governments, and the legislature to consider implementing as part of a statewide, comprehensive economic development plan.

Momentum Mississippi is chaired by Anthony Topazi, CEO of Mississippi Power Company. The Momentum board is composed of a steering committee, 7 regional committees and 7 issue or special purpose committees. The steering committee is composed of the chairs of the 7 regional committees and 7 special purpose committees.



Committee names and chairs include the following:

Special Purpose Committees

Economic Growth and Diversification	-Jerry St. Pe', Jackson Co Economic Development Foundation, Pascagoula -Leland Speed, Mississippi Development Authority, Jackson
Existing Business Support International Trade Technology Development and Transfer	-Carolyn Shanks, Entergy, Jackson -Richard Hickson, TrustMark Bank, Jackson -John Palmer, Jackson, Jackson -Dr. Robert Khayat, University of Mississippi
Business Climate and Image Workforce Training and Development Education	-John McCullouch, BellSouth, Jackson -George Schloegel, Hancock Bank, Gulfport -Aubrey Patterson, BancorpSouth, Tupelo

Regional Committees

Northeast Region	-David Rumbarger, Community Development Foundation, Tupelo
Northwest Region	-Clifton Johnson, Tunica County Comptroller, Tunica
Delta Region	-Scott Coopwood, Delta Business Journal, Cleveland
Capital Region	-Bill Farmer, Time Warner, Jackson
Southwest Region	-John Junkin, Natchez
East Central Region	-Wade Jones, East Mississippi Business Development Corp., Meridian
Southeast Region	-Warren Hood, Jr., Hood Industries, Hattiesburg

Mississippi is not the first state to attempt comprehensive public sector strategic planning. Analysis of other state's strategic planning efforts shows that statewide strategic planning is no panacea and can be a pointless exercise if the will to design and implement the plan is absent. Momentum Mississippi is the Governor's process that will carry out strategic planning and implementation of the plan. It will provide the leadership and help build the

partnerships necessary to improve the well-being of all citizens of the state.

Written by Pete Walley, Director of Long-Range Economic Development Planning, University Research Center, MS Institutions of Higher Learning

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Mississippi's Economic Development Incentives: Some Basic Questions

Robert Neal

What factors are important in recruiting business and industry?

In the 1970s, labor quality and quantity, environmental regulations, and the availability of adequate utilities were the greatest concerns cited by U.S. businesses, according to *Site Selection* magazine. Access to low-cost financing, taxes, and development incentives were toward the bottom of the list. Today, firms identify access to an adequate pool of skilled workers, energy costs, and transportation considerations as their most important factors. In a recent surveys of Fortune 500 businesses, only three percent of respondents indicated that development incentives could sway their firm's location decisions. Successful businesses will always use sound business reasons in site selection. Many firms use development incentives only as a tie-breaker when two or more sites under consideration are essentially equal from a business perspective.

But, today more than ever, firms are aggressively seeking to minimize their start-up costs. So, to the extent that state development agencies can help a firm minimize its start-up costs by making some infrastructural improvements, building some roads, or offering some construction grants, economic development incentives may make a difference in a firm's site selection decisions.

When did states first start offering incentives?

State governments have been offering economic development incentives for many decades in their attempts to attract new businesses and industries and retain existing businesses. These incentives have been used since at least 1791, when New Jersey offered tax abatements to persuade Alexander Hamilton to locate his manufacturing facility in the state. In 1936, with the passage of the Mississippi Industrial Act, Mississippi became one of the first states to formally adopt an economic development program.

Governor White's Balancing Agriculture with Industry (BAWI) program was Mississippi's first serious effort to industrialize the state's economy. Every governor since then has encouraged industrialization and favored recruiting more manufacturing employment to Mississippi.

How effective are incentives?

Economic development incentives are typically structured to promote economic growth and competitiveness by preserving existing jobs, creating new jobs, maintaining current businesses, attracting new businesses and encouraging investment. Economic development practitioners believe



that these incentives play a pivotal role in business location decisions, as they offset a firm's state tax burden, lowering the firm's cost of doing business in the state.

However, there is considerable debate concerning the value of these incentive programs. In numerous surveys, businesses have ranked economic incentives as moderately important or not very important in the location decision-making process. Furthermore, empirical research has shown that many communities initiating industrial recruiting programs experienced only limited increases in economic growth. In 2003, the Mackinac Center for Public Policy conducted a simple analysis of the relationship between a state's economic development expenditures and its Gross State Product, and found that there was no statistically significant correlation between the two. Findings such as these have led many economists to question the effectiveness of most development programs.

What economic development incentives does Mississippi offer and how do they compare to surrounding states?

The Mississippi Development Authority (MDA) has a number of tools in its incentive toolbox and is capable of offering virtually any incentive surrounding states might offer. From Industrial Development Revenue



Bonds and Capital Improvement Loans to Jobs Tax Credits and Advantage Jobs Tax Rebates, MDA has over two dozen development incentives and can offer virtually any firm something to encourage it to locate in Mississippi. Some of these incentives reduce or eliminate corporate income taxes, while others provide construction grants or low interest loans. Some are only offered to projects with a capital investment of \$750 million or more and the creation of 3,000 jobs or more, while some incentives have minimal limits on capital investment or job creation. Most development projects in Mississippi involve fewer than 1,000 employees, so a number of these incentives are rarely used.

The incentives most requested by firms and most offered by MDA are:

1. **Community Development Block Grants (CDBG) and Loans**

Community Development Block Grants and Loans provide funding to cities and counties to assist them in providing water and sewer improvements, drainage, bridges, handicapped accessibility for public buildings, flood mitigation, and fire protection.

2. **Development Infrastructure Program (DIP) Grants**

The Development Infrastructure Program provides grants and loans to cities and counties to help finance small infrastructure projects to promote economic growth.

3. **Workforce Training Assistance**

Worker training assistance can include grants or loans to the firm to assist in training or corporate income tax credits to reimburse the firm for private sector or in-house training.

4. **Jobs Tax Credits**

Jobs Tax Credits are credits on corporate income taxes granted to a firm for the creation of jobs that pay a wage 125 percent of the state or county average wage.

5. **Industrial Revenue Bonds**

Industrial Revenue Bonds reduce a firm's cost of financing through the issue of low interest taxable and tax-exempt bonds.

6. **Rural Economic Development (RED) Credits**

Projects financed through the Small Enterprise Development or Industrial Revenue Bond Programs may be eligible for RED Credits which reduce a firm's corporate income tax liability.

7. **Capital Improvements Revolving Loan Program (CAP)**

The CAP Loan Program makes loans to counties and municipalities to finance capital improvements.

8. **Economic Development Highway Grants**

This program assists with the construction or improvement of highway projects which encourage high economic benefit projects to locate in a specific area.

Some economic development incentives offered by MDA are less frequently offered than the incentives listed above because they only apply to large projects (\$150 million or more of capital investment and 1,000 or more employees), they require a wage greater than 125 percent of the state or county average wage, they require the firm to locate in an economically depressed area, or they apply only to tourism-related projects. Some of these incentives include:



- Mississippi Major Economic Impact Authority
- Mississippi Advantage Jobs Act
- Mississippi Tourism Incentive Program
- Growth and Prosperity Act.

What are the most common incentives offered by states? How does Mississippi differ?

Every state offers businesses economic development incentives. The types of incentives, however, vary widely from state to state. Corporate income tax exemptions or rebates are offered by thirty-eight states. Forty-two states provide tax exemptions for the creation of jobs and to encourage research and development. Forty-three offer incentives for industrial capital investment. And,

all fifty states provide workforce/job skill training. Mississippi has over two dozen tax and non-tax incentives it can provide a prospective business. However, Mississippi's competitors also have substantial economic incentive arsenals.

Every southeastern state offers workforce training, capital improvement grants or loans, infrastructural improvement grants, and industrial revenue bonds. Georgia, Kentucky, and Tennessee offer jobs tax credits. Alabama, Arkansas, and Mississippi offer state personal income tax rebates for job creation. And, many surrounding states provide child-care tax credits. Mississippi does not offer businesses a child-care tax credit; however, individual taxpayers can take a 50 percent tax credit on child-care expenditures.

One incentive that Mississippi has in its inventory that other southeastern states do not have is a major economic impact incentive. The **Mississippi Major Economic Impact Authority** provides up to \$67 million in state funds to improve transportation, education, recreation, and medical facilities within sixty-five miles if a project guarantees a minimum of \$300 million in private capital investment and the creation of 1,000 jobs; up to \$351 million if the project guarantees at least \$750 million in private capital and 3,000 jobs. For projects of this magnitude, other southeastern states must take a legislative route to provide similar incentives.

Mississippi has added new incentives over the years in an effort to become more competitive in recruiting new businesses. The Advantage Mississippi initiative in 2000 added the **Growth and Prosperity Act** and the **Mississippi Advantage Jobs Act** and amended Jobs Tax Credits and the Mississippi Major Economic Impact Act to make the state more competitive. But, what kind of businesses and industries are these incentives capable of attracting to Mississippi? Are these the kind of incentives that will encourage cutting-edge, high-tech firms to locate in Mississippi? Or, are these the same smokestack chasing incentives that Mississippi



and every other state have been using since the 1930's?

and every other state have been using since the 1930's?

What kinds of industries and jobs should Mississippi pursue?

Many economic development practitioners measure their success by the number of firms they recruit and the number of jobs these firms bring with them. But the number of jobs created is a less than ideal measure of economic development. All jobs are not created equal. A dozen chicken processing jobs can not be compared to a dozen polymer research and development jobs.

Many low-paying, low-skilled jobs in the U.S. are in industries characterized as smoke-stack industries, while many of the better paying, higher-skilled jobs are in what is becoming known as high-tech industries. Smoke stack industries (a less than complimentary title) are the kinds of industries that have been the mainstay of U.S. manufacturing for many decades. These industries (food processing, apparel manufacturing and knitting mills, furniture manufacturing, etc.) generally use older, more established manufacturing processes and semi-skilled or moderately skilled workers. The average annual wages associated with these industries is usually below the state average wage.



On the other hand, high-tech industries are relatively new and currently represent only about 3 percent of firms in the U.S. High-tech industries, as defined by the U.S. Congressional Office of Technology Assessment, are those industries involved in the design, development, and introduction of new products and innovative manufacturing processes through the systematic application of scientific and technical knowledge. Another method used to define "high-tech" is to estimate the percentage of an industry's employment in high-tech occupations and to consider the industry high tech if this percentage significantly exceeds the national average across all industries. One recent study quantitatively defined high-tech industries as those industries with at least 9 percent (three times the national average) of its workforce

engaged in engineering, mathematics, physical/life/computer science, or science/engineering management.

Using this quantitative measure, approximately 5 percent of U.S. workers are employed in high-tech occupations and 3 percent are employed at high-tech firms. In Mississippi, an estimated 3.6 percent of workers are employed in high-tech occupations and 0.7 percent are employed at high-tech firms.

What do high-tech firms and workers seek in a location?

High-tech firms and workers prefer to be located in large metropolitan areas (see Table 1). Since Mississippi has only three small to moderately-sized MSA's, the tendency for high-tech firms and workers to locate in large markets explains why Mississippi's percentage of high-tech firms and workers is so low.

High-tech workers and the firms that employ them prefer large metro communities for a number of reasons. Since most high-tech occupations are relatively specialized, high-tech workers prefer to locate where their job opportunities are the greatest, typically in large metropolitan areas. Consequently, high-tech firms find it advantageous to locate where there is an adequate pool of high-tech workers. Additionally, studies have shown that workers in high-tech occupations prefer recreational and cultural amenities like museums, zoos, performing arts venues, and professional sports teams, which are most



often found in larger urban areas.

Independent of the preferences of high-tech workers, high-tech firms prefer larger metro areas because they are economically efficient. Many high-tech firms require intermediate goods and services in producing their product. Firms that provide these goods and services often prefer to locate in large urban areas where they are close to a large pool of customers, thus reducing transportation costs. Furthermore, high-tech firms believe that their workers may be more productive when they are clustered together with other high-tech workers; sharing and benefiting from each others ideas. Therefore, high-tech firms will prefer to locate in large population centers where their workers can work and socialize with other likeminded individuals and be more productive.

Do the incentives offered by Mississippi give high-tech and other high-skill, high-wage firms any reason to choose Mississippi over another location?

It is unlikely that high-tech firms will locate in thinly-populated or economically-challenged areas of the state. Therefore, economic development incentives created to help depressed counties are unlikely to attract high-tech industries to Mississippi. Many firms, particularly high-tech, high-skill firms do not report any corporate profits in the early years of operation. So, incentives that reduce corporate income taxes during start-up years are not likely to encourage high-tech firms to choose Mississippi over an adjacent

Table 1.

Metro Size	Percentage of Workers in High-Tech Occupations	Percentage of Workers in High-Tech Industries
Greater than 2 million	7.4	4.4
1-2 million	6.0	2.7
500,000 to 1 million	5.2	2.3
200,000 to 500,000	4.9	2.0
Under 200,000	3.7	1.9
National Average	5.0	3.0

SOURCE: Federal Reserve Bank of Kansas City, *How High Tech is the Tenth District?* At www.kc.frb.org.

state. Most high-tech start-ups are relatively small, employing fewer than 100 workers and spending less than \$20 million on initial capital improvements. Thus, incentives like Mississippi Major Economic Impact Authority and the Economic Development Highway Program will provide little if any incentive for a high-tech firm to locate in Mississippi.

Conversely, incentives that abate start-up costs or apply to relatively high paying, research and development jobs may encourage high-tech and other high-wage, firms to choose a Mississippi location. Therefore, Community Development Block Grants and Loans, Capital Improvement Revolving Loans, the Growth and Prosperity Program, and Advantage Jobs Act incentives may serve as an inducement to high-tech and high-skill start-up firms, because they either lower start-up costs or promote high-wage jobs. But, the most important inducements for high-tech and high-wage start-up firms are the ones that help provide them with highly- educated, highly-skilled workers. And, while Mississippi has several economic development incentives designed to accomplish this task, this is an area of economic development where the state is weak.

Concluding Remarks

Mississippi has many of the same economic development incentives that are available in surrounding states. We are strong in some areas (major economic impact) and weak in other areas (workforce training). And, like other southeastern states, Mississippi has a few economic development incentives that may benefit high-tech and other high-skill, high-wage industries and a number of incentives that, in most cases, will not. Due to the state's weakness in education and workforce training and the absence of large metropolitan areas, Mississippi is not well situated to attract high-tech workers or industries. And, economic development incentives alone can not adequately address either of these two factors.



Mississippi's competitive advantage does not currently lie in high-tech industries or high-tech jobs. That doesn't mean that Mississippi shouldn't be developing programs and policies to make Mississippi more attractive to these high-wage industries in the future. High-tech jobs are important to Mississippi's future. As the Congressional Office of Technology Assessment's definition of high-tech industries indicated, high-tech is involved in product design and development, introduction of new products, innovative manufacturing processes, and the systematic application of scientific and technical knowledge. These concepts describe the high-wage, self-sustaining jobs of the future. As the U.S. economy evolves more and more into an idea producing, information providing economy, there will be fewer and fewer smoke-stack jobs and Mississippi's workforce will be forced to compete in a high-tech, high-skill job market. But, today, the majority of Mississippi workers are not prepared to assume these high-tech, high-wage jobs. Therefore, Mississippi must continue to concentrate on traditional smoke-stack industries while laying the foundation for a high-tech future.

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Appendix

How Can Success in Economic Development Be Measured?

No matter what a state's development strategy is trying to accomplish, a measure of success is necessary to evaluate its performance. However, evaluating economic development success is difficult. Many economic development practitioners measure success by the number of firms they recruit and the number of jobs these firms bring with them. But, the number of jobs created is a less than ideal measure of economic development. All jobs are not created equal. Some jobs pay well and some do not. Some generate significant additional economic activity in the state and some do not. Furthermore, most secondary jobs (indirect and induced jobs) do not pay as well as the direct jobs that generated them. So, strictly speaking, jobs are not comparable and, unaccompanied by some other indicator, are not an adequate measure of economic development.



Another commonly used measure of economic development success is per capita income. This variable is used by many development professionals because it can measure changes in average income per person in their community or state. But, because it is an average, it may not reveal important information about sub-groups of the region's population. In a given region, the per capita income may be rising solely because the most affluent residents are experiencing huge income gains, while the middle and low income residents are experiencing income stagnation or losses. Once again, per capita income, by itself, is not a good measure of economic development success.

Some other commonly used indicators of economic development success include changes in the unemployment rate, the poverty rate, or state and local tax revenue.

The effectiveness of economic development efforts cannot be measured by one or two isolated variables. A variety of variables must be used to adequately assess development efforts. Perhaps the best approach would be to combine several of these variables into an index of economic development success, similar to the Mississippi Innovation Index developed by the Mississippi Technology Alliance.

NATIONAL TRENDS IN FUNDING OF STATE-SUPPORTED WORKFORCE TRAINING

James E. Davis and Jason V. Pugh

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Editor's note: This research was conducted at the request of the Mississippi State Board for Community and Junior Colleges. Most legislatively-funded workforce training programs offered by Mississippi's community and junior colleges are project-based: Mississippi businesses and industries in conjunction with their local college petition the state for training funds on a project-by-project basis. There are other training activities in the state as well, which utilize federal and other funds. At the national level, which institutions, individuals and programs receive funds from state legislatures varies by state.

Mississippi's state-funded workforce training programs are administered by the Mississippi State Board for Community and Junior Colleges (SBCJC) and the states' 15 public two-year colleges. These training programs have historically provided needed training for employees and individuals across the state, with current yearly training numbers exceeding 150,000. Although some federal funds and tax credits are available, most funding of training programs is via direct general fund appropriation by the Mississippi Legislature on a yearly basis. This yearly appropriation approach, which is strongly affected by factors such as economic conditions, means fluctuations in funding exist that can potentially adversely affect the training of Mississippi's workforce. A stable mechanism for workforce training, with adjustments for inflation, is more desirable. This research examines what other states are doing to provide fiscal support for state-funded workforce training.

Overview of Findings

All 50 states fund workforce training programs. The programs span decades of history, are varied in scope, and derive funding from a myriad of sources. A brief elaboration of the history of these programs sets the stage for findings on funding mechanisms.

Historical Background

State-funded job training programs date back to the 1960s and before. In the 1960s and 1970s, general fund appropriations typically financed job training programs. Starting in California in 1982, states began to move toward employer taxes, tax diversions or trust funds (i.e. dedicated funding sources). Four additional states switched to these sources during the 1980s, sixteen states in the 1990s, and New Hampshire continued the trend in the new century in 2001.

The accompanying graphic depicts the timeline of implementation for those states which fund workforce training via a stable funding source. Of the sixteen states that have made the move to stable funding sources, six are found in the Southern Region (as defined by the U.S. Census Bureau). The Southern Region is second only to the West in this trend among regions. Seven western states have made the move to stable funding sources.

What States are Doing

The number of workforce training programs varies widely among the individual states. Typically, state-funded training programs number between one and five for any given state; however; there are many exceptions. Consider, for example, Florida, Georgia, Kansas, Minnesota and North Caro-

Stable Funding Source Implemented	State
1982	California
1985	Washington
1986	Delaware, Kansas
1987	Oregon
1989	Alabama, Nevada
1990	Montana
1991	Hawaii
1993	Rhode Island, New Jersey
1994	Michigan
1995	Texas
1996	Nebraska, Idaho, South Dakota, North Carolina
1997	Louisiana, Wyoming
1998	Indiana, New York
1999	Massachusetts, Tennessee
2001	New Hampshire

SOURCE: Adapted from GAO's survey of states that use employer taxes to fund their own workforce programs, 2/04. See www.gao.gov.

lina. Florida's Agency for Workforce Innovation lists 10 different training programs; researchers at the University of Georgia found nine Georgia agencies involved in training programs; Kansas's legislative research department identified 30 programs administered by six agencies in Kansas in 2003; and Minnesota's Inventory of Publicly-Funded Workforce Development programs in 2003 indicated 27 job-training programs in that state. North Carolina's Commission on Workforce Development's website states that North Carolina maintains 49 state-supported workforce training programs operating in 8 separate state agencies. (These North Carolina programs are funded by several different mechanisms, the most

notable of which is a Worker Training Trust Fund, which derives its income from an Unemployment Insurance reserve fund.)

The Program Areas

The chart shown next indicates six different areas of state-funded workforce training. While the list is not comprehensive and does not encompass all states, a picture emerges of what is occurring nationwide.

Current Funding Sources

There are two primary funding mechanisms for state-supported training programs across the nation: general fund appropriations and the stable tax mechanisms of the Unemployment Insurance tax offset or

Training Activity	Example States
Employment Placement Individualized Training Vouchers	AL, NY, WA, OR, DE, NV, KS, MI AK
Welfare to Work Customized Employer Training and Employer Driven Skills Upgrade	CA CA, HI, KY, TN, NJ, MS, NC, MD, OK, PA, MT, MO
New Hire/New Business Training Retraining/Incumbent Worker Training	CA, CO, IA, MO LA, OH, TN

SOURCE: Mississippi State Board for Community and Junior Colleges, 2004.

employer taxes. There are also other sources of funding, such as lottery proceeds, which can provide stable sources of revenue.

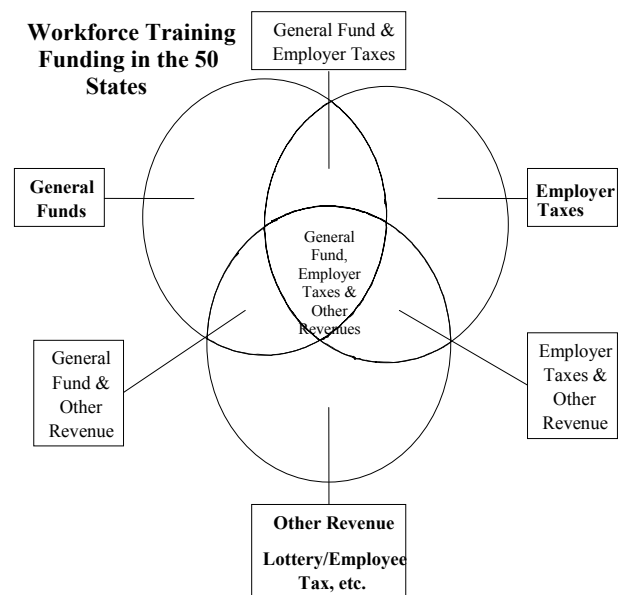
General Fund Appropriations – This funding source refers to the legislative appropriation of funds on a yearly basis or other legislative cycle from the general revenues of the state in question.

UI Tax Diversion or Employer Taxes – This refers to the practice of diverting a portion of the employers’ Unemployment Insurance tax into other state funds for the specific purpose of supporting training programs. The process of utilizing trust funds and/or interest monies generated by various trust funds is also included in this category. Employer taxes, outside of the UI systems, that are levied by a state for the specific purpose of training, are also included here.

Other - The “other” funding mechanism refers to a cadre of funding mechanisms such as lottery proceeds, employee taxes and special revenue funds, which are often diverted to accounts for worker training.

As can be seen in the graphic illustration, funding mechanisms often overlap, creating scenarios where a state does not draw its fiscal support for training from a sole source, but rather from multiple sources.

Twenty-four states use some form of UI tax offsets or employer taxes to fund workforce training, 22 states utilize some combination of general fund and other sources, and 2 states use other sources. (See table above).



California, a leader in alternative funding, serves to illustrate use of both a UI tax offset and a separate employer tax. California levies a tax of up to \$7 per employee and assesses .01 percent of wages subject to UI tax as a diversion that is paid into an employment training fund. Of the states utilizing trust fund scenarios to fund training, Nebraska, Indiana, Wyoming and North Carolina are representative examples. These states have set up funds into which the interest and penalties associated with their UI or UI reserve funds are funneled and used for workforce training activities. North Carolina maintains a Worker Training Trust, which derives its income from interest on a \$200 million UI reserve fund, for example.

General fund appropriations are the norm in 22 states, including Arkansas, Florida, Georgia, Kentucky, Mississippi, and Texas of the Southeastern region.

Finally, “other” funding sources exist in 6 states, but are the sole source for only two states, Alaska and Iowa. Alaska funds its State Training and Employment Program by employee taxes and Iowa utilizes a process that allows its community colleges to sell bonds for training which are repaid by businesses via income tax and property tax withholdings.

Conclusions

The trend is clear: over the last 20 years, 24 states in the nation have moved towards a stable funding source for worker training. Only 20 states still fund training solely with general fund appropriations. This move away from general fund appropriations towards stable funding sources for workforce training,

with built-in adjustments for inflation, positions states to avoid the pitfalls associated with yearly appropriations and to be better equipped to train their workers. The recent interest in identifying and implementing a non-general fund mechanism for stable funding of workforce training in Mississippi is timely.

Sources

This report was compiled from a February 2004, United States General Accounting Office report to the U.S. Senate subcommittee on Employment, Safety and Training and a 1999 report requested and supported by the National Governors’ Association entitled *A Comprehensive Look at State-Funded, Employer Focused Job Training Programs*. Additionally, a variety of state-based research reports and websites were reviewed in order to verify and expand on the information on a state-by-state basis.

Method of Funding Workforce Training	Number of States Utilizing Method
Offset or Employer Tax Combinations	24
UI Offset* or Employer Tax	16
UI Offset or Employer Tax and Other	1
UI Offset or Employer Tax and General Fund Appropriation	6
UI Offset or Employer Tax and General Fund Appropriation and Other	1
General Fund Appropriation Combinations	22
General Fund Appropriation Only	20
General Fund Appropriation and Other**	2
Other	2

*UI Offset refers to a diversion of the employers mandated unemployment insurance fund payments.

**Other includes items such as employee taxes, lotteries and special revenue funds.

SOURCE: Mississippi Board for Community and Junior Colleges.