
Mississippi Economic Review and Outlook

Dear Readers,

With the state losing over 25% of its manufacturing jobs between 1995 and 2003, the creation of more high-paying jobs is a priority for the state, and will be a key concern of this legislative session. As Pete Walley notes in his commentary in this *Review*, many of the changes needed in education and other areas are familiar to policymakers – it is actually making those changes that is difficult.

Economic development is the theme of this *Review*. What is economic development? Is it at root human development? Policymakers deciding the answers to such questions include not only legislators, but also the public: well-informed citizen participation in policymaking can dynamize the development process. One area to consider is technological capacity: Mississippi ranks 49th in the New Economy Index of the Progressive Policy Institute. A brief article looks at this ranking.

Several specific recommendations are spelled out in the report, *The Future of the South*, which is presented in summary form. Pete Walley, Director of the Bureau of Long-Range Planning for the state, summarizes recommendations found in this and other reports, and offers his own comments.

To subscribe to this *Review*, which is published twice yearly, please fill out the form included in this issue. 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 IS THE RECOVERY FOR REAL?

Key indicators are rising. Consumers continue to spend, and federal expenditures are at record levels. Output grew at a 8.2% rate in the third quarter, the fastest rate in almost two decades. Even manufacturing is picking up: industrial production grew in Q3 by 3.2%, and the Institute of Supply Management estimates that manufacturing activity also increased in October and November.

But where are the jobs? Employment fell every month from February through July, and the upturn that began in August has been modest. Total average employment in 2003 will be somewhat lower than in 2002.

The job market is, in fact, reviving slowly as investment increases and manufacturing picks up. Investment is now rising, and gains in nonresidential construction are predicted in 2004. Corporate profits, while they have yet to return to the levels of 2000, have been rising. And recently industrial output appears to be on an upward course.

Some drags on the recovery remain. Excess industrial capacity persists. The stimulatory effect of the federal deficit, estimated at \$415 billion this year, has been offset to some extent by the slowdown in the rate at which state and local governments are spending.

In addition, the global economy has been lethargic. The projected growth rate of the world economy is 2.1% this year, which is about the same as last year. Although the declining value of the U.S. dollar has boosted U.S. exports, net exports will continue to shrink in the short-run, due to increasing imports.

A well-rounded recovery, in sum, is on its way although some obstacles remain to be overcome. Strong, consistent growth of demand for goods and services from the business sector and abroad remains the key.

Signals from economic indicators throughout 2003 have been mixed. Lately, the numbers have been good, but the blistering 8.2% growth rate of real gross domestic product (GDP) in the third quarter (Q3) seems at odds with the 0.1% decrease in jobs that same quarter. Similarly, the 10.9% increase in residential construction in Q3 is in marked contrast with the drop in private nonresidential structures. What to think?

Mixed signals are typical of a recovery, and, by 2004, indicators will be improving at a steadier pace. However, the job loss experienced this year is unusual even for a tentative upturn. There are several factors explaining the **reluctance of business to hire**. Corporate executives, as Global Insight puts it, are still “somewhat shell-shocked by corporate governance scandals, the bursting

of the stock market bubble, 9/11, the strong dollar and the weakness in the economy preceding the war in Iraq”. Add in the facts that capacity utilization in industry is still low and that health care costs are rising at double-digit rates, and the list of reasons for businesses’ hiring behavior is more than long enough. There is, however, one more factor worth noting: rapid increases in productivity due to new technologies and management practices have reduced the need for additional employees.

At some point, however, more employees will be required to meet the rising demand for products. There are signs that demand is outstripping the growth of productivity. In the third quarter, nonfarm productivity, as measured by output per worker-hour, grew at an unsustainable 8.1%

Table 1. TRENDS IN EXPENDITURES BY SECTOR							
Billions of Dollars Unless Otherwise Indicated							
	2002	2003	2003 II	2003 III P	2003 IVP	2004 IP	2004 IIP
Description	QIV	QI	QII	QIII	QIV	QI	QII
Gross Domestic Product (1996\$)	\$9,518	\$9,552	\$9,625	\$9,822	\$9,923	\$10,024	\$10,117
(% change)	1.4	1.4	3.2	8.2	3.6	4.1	3.7
Consumer Expenditures (1996\$)	\$6,638	\$6,671	\$6,734	\$6,842	\$6,860	\$6,920	\$6,987
(% change)	1.7	2.0	3.8	6.4	1.1	3.5	3.9
Gross Private Domestic Invest. (1996\$)	\$1,622	\$1,600	\$1,608	\$1,644	\$1,726	\$1,768	\$1,783
(% change)	6.1	-5.4	2.0	9.0	19.8	9.8	3.5
Nonresidential Fixed Investment	\$1,185	\$1,172	\$1,193	\$1,225	\$1,255	\$1,286	#####
(% change)	2.2	-4.4	7.3	11.1	10.3	10.3	6.7
Residential Fixed Investment	\$396	\$406	\$412	\$432	\$436	\$430	\$420
(% change)	9.1	10.1	6.6	20.4	4.2	-5.6	-8.9
Total Government Purchases (1996\$)	\$1,735	\$1,737	\$1,773	\$1,778	\$1,787	\$1,795	\$1,809
(% change)	4.5%	0.4%	8.3%	1.3%	1.9%	1.9%	3.0%
Federal Govt. Purchases (1996\$)	\$631	\$633	\$669	\$672	\$680	\$686	\$697
(% change)	10.6	0.7	23.4	1.3	4.8	3.6	6.6
Federal Defense Purchases (1996\$)	\$413	\$410	\$450	\$450	\$453	\$457	\$465
(% change)	10.6	-3.4	39.5	-0.0	2.2	3.7	7.2
State and Local Govt. Purchases (1996\$)	\$1,104	\$1,105	\$1,104	\$1,108	\$1,108	\$1,110	\$1,113
(% change)	1.2	0.2	-0.2	1.3	0.3	0.8	0.9
Net Exports of Goods & Services (1996\$)	-\$532	-\$510	-\$546	-\$523	-\$537	-\$545	-\$551
(% change)	-36.2	16.4	-28.1	17.3	-11.4	-5.8	-3.8
Exports of Goods and Services (1996\$)	\$1,062	\$1,058	\$1,056	\$1,079	\$1,098	\$1,120	\$1,148
(% change)	-6.0	-1.3	-1.0	9	7	7.8	10.2
Imports of Goods and Services (1996\$)	\$1,594	\$1,568	\$1,602	\$1,602	\$1,636	\$1,665	\$1,699
(% change)	7.2	-6.4	8.5	0.1	8.4	7.1	8.1
P = Preliminary or Projected. Percentage change refers to seasonally adjusted average annual rate, based on quarter-to-quarter growth rate.							
SOURCE: Global Insight, Inc., November 2003							

annual rate. (By comparison, the average growth rate for the most recent five-year period was 3.2%.) A continuation of high levels of demand, with slower growth of productivity, will result in more jobs. And employment growth is the main ingredient missing in the recovery.

Trends in Demand

Table 1 shows the value of goods and services purchased by major sectors of the economy in constant dollars. By far, the

largest component of demand is consumer expenditures, accounting for over \$6.8 trillion of the \$9.8 trillion of total real domestic output in the third quarter of 2003. The next largest source of demand is government purchases, at \$1.8 trillion (\$1.1 trillion in state and local spending, and \$0.7 trillion in federal spending). Gross private domestic investment is of a similar magnitude, at \$1.7 trillion. Finally, the contribution of net exports continues to be negative, with imports exceeding exports by approximately \$0.5 trillion.

The trends in these sectors explain both the course of the recession and of the current recovery. A large drop in investment precipitated the 2001 recession, which would have been worse had not consumers and the federal government continued to increase their levels of spending as they did.

Consumers kept the economy rolling in 2002, and Federal spending was even stronger. Just as the growth in consumer spending was beginning to slow in 2003, tax cuts kicked in, leading to the 6.4% annualized increase in Q3, as shown in Table 1. Slow labor markets are expected to moderate the growth of consumer spending over the next few months, but growing employment levels will quickly translate into increased spending by mid-2004.

Investment levels, despite some improvement in 2002, faltered at the start of this year and have been coming around only recently. The increases in nonresidential fixed investment in Q2 and Q3 are especially welcome, following drops of 5.2% and 5.7% in 2001 and 2002. Residential fixed

investment has held up well over this period, due to a strong housing market, buoyed by low interest rates. Some slowdown in the housing market is expected in early 2004, but this will be offset by increased business investment. Businesses are already investing heavily in information technologies, and construction of nonresidential structures is forecast to turn positive by Q1 of 2004. Total real investment is expected to return to its 2000 level by mid-2004.

The stimulatory effect of **federal expenditures** has been basic to the recovery. Most of this year's deficit of \$415 billion has been impacting the U.S. economy, despite the fact that many of these funds are supporting the military actions in Iraq. Economist Mark Zandi of Economy.com estimates that economic growth has been nearly 0.7% higher this year because of spending on defense and homeland security. Steps taken to increase security, however, have also negatively impacted the economy. Foreign customers are finding it more difficult to get visas to attend trade shows or to visit tourist

Table 2. PROJECTED GROWTH OF GROSS STATE PRODUCT AND EMPLOYMENT BY REGION

	Real GSP Annual % Change		Nonfarm Employment Annual % Change	
	2001-2003	2003-2005	2001-2003	2003-2005
U.S. Total	2.8%	3.9%	-0.6%	1.5%
East North Central	2.2	3.5	-1.2	0.8
East South Central ¹	2.3	3.5	-0.6	1.2
West North Central	2.6	3.8	-0.8	1.3
New England	2.7	3.5	-1.1	1.1
Middle Atlantic	2.8	3.6	-0.6	1.2
West South Central	2.9	3.9	-0.4	1.2
Pacific	2.9	4.2	-0.5	1.8
South Atlantic	3.0	4.1	0.0	2.0
Mountain	3.6	4.6	0.0	2.1

Note: compound annual percentage change is shown.

¹Includes Mississippi.

SOURCE: Global Insight, Inc. November 2003.

attractions. “Losing a sale because you can’t get a customer into the country for three months is a real problem”, stated William Reinsch, president of the National Foreign Trade Council, which has been working to expedite the visa process.

State and local government spending, which grew 3.1% in 2001 and 2.8% in 2002, will scarcely increase this year, due to the fiscal squeeze facing the states. The effects of this slowdown can be seen in employment figures: there were 172,600 fewer persons employed by local governments in education this September than a year ago. Overall, employment in state and local government was down 0.1%, when Q3 of 2003 is compared to Q3 of 2002. Slow growth of state and local spending is especially worrisome, since state and local expenditures are almost twice as great as federal expenditures. Fiscal pressures on the states are expected to continue into 2004 and will constitute a drag on the recovery. Nonetheless, the revenue picture is improving for the states, and once outstanding obligations are met, the new revenues will be available to fuel increasing growth rates. Currently, the growth rate of state and local expenditures is projected to reach about 1.0% by mid-2004, rising to 1.2% in 2005 and 2.0% the following year.

Exports have been a disappointment, falling in both 2001 and 2002. Although the declining dollar is finally boosting sales abroad, net U.S. exports have yet to show much improvement, given the continuing strength of demand for imports. In fact, the current account deficit is predicted to continue growing until the first quarter of 2006, although its rate of growth will gradually slow.

The Regional Factor

Economic news this year has varied greatly by region. Global Insight (GI) is of the opinion that Nevada, Arizona, New Mexico and Wyoming bypassed the recession completely. These states are all in the Mountain region. This Census region enjoyed an estimated average annual increase in real

output of 3.6% over the 2001-2003 period, and employment was stable. See Table 2. The **East Central states**, which include Mississippi, were the lowest-performing states in terms of the growth rates of real gross state product – the East North Central and the East South Central regions had real growth rates of about 2.2%, according to GI’s estimates, and both were among the six regions losing jobs during these years.

Regional variations are of course linked to the differing industrial bases of the states. States with a heavy dependence on **manufacturing** have been weighed down by the contractions in that sector, and several states with a heavy concentration in information and communication technologies industries, such as New York and Massachusetts, have also been hit hard.

Monthly employment data are also revealing. September 2003 nonfarm employment data in comparison to September 2002 show that only three of the nine Census regions recorded an increase: the South Atlantic, West South Central and Mountain divisions. In fact, post-recession employment increases have been concentrated in four Sunbelt and western states – Florida, Georgia, Nevada, and Arizona. And, when September 2003 is compared to August 2003, again only three regions showed an increase. In this case, the regions were West South Central, West North Central and the Middle Atlantic.

Global Insight predicts that employment in the South Atlantic, Mountain and Pacific regions will grow nearly twice as fast as in the other six Census regions, based on their track record in recent years and their sectoral strengths. GI notes that the health service sector has been strong in the Mountain and South Atlantic regions due to large retirement populations, and that the high-tech sector is expected to lead the recovery in the Pacific region.

Inflation and Monetary Policy

Consumer prices have been rising at an average annual rate of 2.3%. Excluding food and energy, the core consumer price index posted only a 1.7% 12-month increase

Table 3. SELECTED QUARTERLY NATIONAL ECONOMIC INDICATORS							
(Percent change, SAAR, Current Dollars Unless Otherwise Indicated)							
	2002IV	2003I	2003II	2003III ^P	2003IV ^P	2004I ^P	2004II ^P
Gross Domestic Product (1996 \$)	1.4	1.4	3.2	8.2	3.6	4.1	3.7
Index of Industrial Production	-3.4	0.3	-3.8	3.2	3.9	4.6	5.2
Manufacturing, % Capacity Utilized	73.5	73.2	72.5	72.9	73.6	74.2	74.7
Establishment Employment	0.3	-0.3	-0.7	-0.4	0.5	1.3	1.7
Index of Productivity	1.6	2.2	6.6	8.1	2.1	2.4	1.8
Business Loans	-3.2	-7.2	-8.9	-7.1	-1.2	-0.6	0.6
Consumer Credit Outstanding	-0.4	5.0	4.7	4.2	1.3	4.6	0.6
Personal Disposable Income	3.2	4.2	3.3	9.5	2.0	8.7	3.9
Hourly Compensation	1.7	3.9	3.9	4.4	2.8	3.8	3.9
Standard & Poors 500 Equity Price Index	-3.0	-12.6	36.3	26.7	20.6	6.1	7.1
Consumer Sentiment, Michigan	-15.7	-18.4	46.5	0.1	6.7	7.1	-9.5
Light Vehicle Sales, Millions	16.6	15.9	16.3	17.6	16.4	16.9	16.8
Housing Starts, Millions, SAAR	9.6	-1.4	0.5	29.8	-9.3	-10.6	-5.6
Before-Tax Corporate Profits	\$695	\$728	\$700	\$814	\$837	\$858	\$860
Refiners Cost Crude Oil (Average Per Barrel)	\$26.06	\$31.38	\$26.56	\$28.18	\$26.93	\$22.62	\$21.40
SAAR - seasonally averaged annual rate, based on quarter-to-quarter growth rates.							
^P Third quarter data are preliminary numbers and estimates. Fourth quarter and 2004 data are projections.							
SOURCE: Global Insight, Inc. November 2003 and U.S. Department of Commerce.							

in Q3 -- the result, in part, of a 1.3% decline in commodity prices combined with a 2.9% increase in the price of non-energy services. Energy prices rose 7.1% in Q3, and will increase an estimated 12.5% for the year as a whole.

Several supply side factors have operated in the past few years to reduce prices: better inventory management, global sourcing, international competition and the explosion in information technology, to name a few. The effects of these downward pressures can be seen in recent trends in producer prices. Core **producer prices**, excluding food and energy, have scarcely budged this year. A rise in the price of core finished goods of 0.1% in Q1 was followed by a drop of 0.7% in Q2, leaving an average annual rate increase of only 0.1% for the year. Even when the 14.1% increase in energy prices and the 3.3% increase in food prices are included, finished goods prices were up only 2.9% over 2002. By 2004, the falling prices

of crude and intermediate materials, including energy, will mean some deflation in producer prices overall. In 2005 and 2006 as well, producer prices of finished goods will show little increase.

Prices of **farm products** and of processed foods & feeds showed notable improvement in the first part of 2003, and the overall increase in price of farm products will be close to 7.0% in 2003. Both farm products and processed foods & feeds will again enjoy positive, if smaller, increases in 2004, but slight dips are forecast for 2005 and 2006.

Clearly, inflation in aggregate price levels will not be a concern in the coming year. Nonetheless, upward pressure on prices is typical of a recovery, and other factors are also at work: rising import prices, due to the depreciation of the dollar, and increasing labor costs, due to tighter labor market and more restricted immigration. By mid-2004 rising demand will provide companies greater pricing leverage, enabling a restrained rise in

prices and profits. The Federal Reserve Board has indicated that continued increases in productivity will likely contribute to price stability in the coming months, however, and no increase in the **federal funds rate** is expected before the second half of 2004.

Baseline Forecast

“It’s here, it’s clear: it’s a recovery year,” proclaims Global Insight in its fall regional outlook. The GI forecast is moderately upbeat about the fourth quarter of 2003, but positively bullish about 2004. Consumer spending is expected to slow in Q4, but, at the same time, investment spending will post solid growth, as will exports and federal spending. Tables 1 and 3 present quarterly baseline figures on GDP and selected indicators, while Table 4 provides forecast data on an annual basis for 2003 to 2005 for key aggregate variables.

As can be seen in Table 3, a 3.6% annualized **growth rate of GDP** is forecast for Q4, and 4.1% for Q1 of 2004. For 2004 as a whole, the growth rate of GDP reaches

an annual average of 4.3%, which then drops slightly to 3.6% in 2005. This prediction is based on the assumption that profit rates rise gradually in 2004, due to a solid growth of demand, sustained by increased investment, a rise in exports, and continued spending by consumers and the federal government. Allowance is made for a slowdown in the housing market as mortgage rates begin to inch upwards, and for a continuing squeeze on state and local government budgets.

Under the baseline forecast, payroll employment picks up as businesses decide that increased levels of activity are here to stay. **Employment** is projected to increase 0.5% in Q4, and 1.3% in Q1 of 2004. The rate of increase for 2004 as a whole will be 1.1% and 2.2% in 2005. In 2004, all sectors except manufacturing and government will see some job gains (see Table 4). Health & social services and construction employment will have the strongest growth rates, at about 2.4%. By 2005, manufacturing and government will register positive annual growth rates. The sector with the greatest

Table 4. **U. S. ECONOMIC FORECAST 2003-2005**

	2003	2004	2005
Gross Domestic Product (Percent Change)	4.6	6.0	5.4
Real Gross Domestic Product (Percent Change)	2.9	4.3	3.6
Price Level (Percent Change)	1.6	1.6	1.8
Real Private Domestic Investment (Percent Change)	3.5	9.4	4.7
Total Establishment Employment (Percent Change)	-0.3	1.1	2.2
Manufacturing	-4.1	-1.8	1.1
Construction	0.9	2.4	3.2
Trade	-0.7	0.3	1.4
Finance, Insurance, Real Estate	1.6	0.6	1.6
Transportation, Communication, Utilities	-0.9	0.7	1.8
Government	0.0	0.0	0.8
Health and Social Services	2.0	2.4	2.4
Unemployment Rate	6.0	6.0	5.8
Personal Income (Percent Change)	3.2	5.2	5.6
Consumer Price Level (Percent Change)	2.3	1.4	1.9
Prime Rate	4.1	4.1	4.9

SOURCE: Global Insight, November 2003. Employment figures in this table are based on the North American Industrial Classification System as part of changes instituted by the U. S. Department of Commerce.

Table 5. **ALTERNATIVE SCENARIOS AND PROBABILITIES IN NATIONAL ECONOMIC FORECAST**

	Rate of Growth of Real GDP			Probability
	2003	2004	2005	
Baseline	2.9	4.3	3.6	60%
Optimistic	3.0	4.9	4.0	20%
Pessimistic	2.9	3.2	2.1	20%

SOURCE: Global Insight, November 2003.

employment increase in 2005, however, will be construction, due to long-deferred investment spending by industry.

As Table 4 shows, real private domestic investment is projected to increase a whopping 9.4% in 2004. “Improving cash flow, the depreciation bonus, and attractive prices on capital goods are (already) loosening business purse strings”, states Global Insight. The transportation/ communication & utilities sector will also take off, responding to the growth in both goods-producing and services-producing industries.

As employment increases, personal incomes rise, and, by 2005, the unemployment rate drops. Following a modest 3.2% increase in 2003, **personal incomes** will grow by 5.2% in 2004 and 5.6% in 2005, led by increases in wages and salaries and in proprietors’ income. The unemployment rate will hover near 6.0% in 2004, but fall to 5.8% by 2005. Rising incomes will have a positive multiplier effect, increasing not only consumer expenditures but also government spending.

Despite the improved economic climate, price increases will remain manageable due to continuing competitive pressures, lower energy costs and rising productivity. The **rate of inflation** will actually drop for consumers, from 2.3% this year to 1.4% in 2004, due to falling fuel prices. In 2005, consumer prices will rise at about a 1.5% rate, and then slowly accelerate to about 2.5% by 2010.

The rate of inflation, as measured by the **GDP deflator**, is estimated at about 1.6% this year, and will stay close to that level in 2004, despite increased upward pressure on

prices during the upswing. Barring unexpected increases in the price of crude materials, including oil, the rate of inflation as measured by the GDP deflator is forecast to remain below 2.5% until 2010.

Alternative Scenarios

Recent news confirming a broad upturn in economic indicators has boosted the growth rate of the baseline forecast. At the start of the summer, a growth rate of 2.3% was expected this year. Now, the increase in GDP in 2003 is estimated at 2.9%, and the rates of increase in 2004 and 2005 are higher as well, at 4.3% and 3.6%, respectively. The probability that the economy will do even better, growing 4.9% in 2004 and 4.0% in 2005, is estimated at 20% under Global Insight’s optimistic scenario. Lower growth rates, namely 3.2% in 2004 and 2.1% in 2005, are the pessimistic alternative, assigned a 20% probability as well. See Table 5.

The **optimistic scenario** assumes a stronger corporate balance sheet, with profits rising 12.5% in 2003 and 14.9% in 2004. A stronger rebound in foreign growth rates is also assumed, and these two factors boost the U.S. economy. State and local government spending accordingly rises above the baseline forecast.

Should job growth fail to take off as forecast, due to unexpected caution on the part of businesses, growth rates will be lower than forecast. The **pessimistic scenario** assumes, in addition, that OPEC succeeds in cutting production, despite soft demand, and so maintains a \$25 per barrel price of oil longer than in the baseline forecast. Also,

under this scenario, the government mistakenly supports a rise in the value of the dollar, thus reducing exports. Consumer confidence falls and investment slows. These problems all prove to be short-term, however, as government policymakers react appropriately to these developments and, after a brief period of adjustment, the underlying strength of the economy prevails.

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

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MISSISSIPPI ECONOMIC OUTLOOK: READY FOR TAKE-OFF

The state economy is ready for take-off. Key indicators have improved this fall. The national economy is moving ahead, with the increased economic activity beginning to translate into greater demand for the state's goods and services.

The labor market, however, remains slack. The number of persons employed, which had climbed during the first four months of the year, shrank mid-year. In August, payroll employment levels began to inch upward again, and the improved trend is expected to continue, as the national recovery picks up steam.

Services-producing employment in the state was 0.9% higher in 2003 than in 2002, based on employment data through September. Manufacturing employment continued to fall, and construction employment remained close to 2002 levels. Overall, a small increase in jobs is estimated for 2003.

Household survey data on employment, which are used to measure unemployment rates, show that the unemployment rate for Mississippi has been falling, hitting 5.0% in September – the lowest rate seen since April 2001. The household survey also found a positive overall increase in employment.

The growth of income, both in the state and in the nation, continues to be slow, adversely impacting both goods-producing industries, and such service industries as accommodations and gambling.

Tax Commission collections so far in FY2004 reflect this slow growth of income and sales. The continuing squeeze on the state budget will affect the growth rate of state expenditures – which, in turn, will adversely impact total demand.

Leading indicators for the state - a sign of future growth - have risen gradually since the summer, although coincident indicators have remained flat. The business confidence index for Mississippi has been moving upward this year, but consumers have been wary, with the consumer confidence index dropping sharply mid-year.

The Mississippi economy is ready to take off. Until now, it has been awaiting more favorable conditions, but lately the climate, both national and international, has decidedly improved. Expect lift-off once national industrial production enjoys moderate growth over two consecutive quarters.

Economic Trends in 2003

Mississippi's economic indicators showed modest improvement in the first part of 2003, slipped mid-year, and turned up again in the fall. Consumers continued to spend throughout the year, despite some wavering of

confidence. The trend in business confidence has been positive, rising steadily during the year. Indications are that employment will turn up by early 2004, growing more slowly than in the U.S. as a whole, but at a pace similar to that of other states in the South Central region.

Trends in 2003 are depicted graphically in Figure 1. As shown in Figure 1a, until April, there were more persons employed in 2003 than in 2002 during the same month. In fact, over 13,900 jobs, net, were added between January and April. However, these early job gains were largely

Figure 1a. Nonagricultural Employment

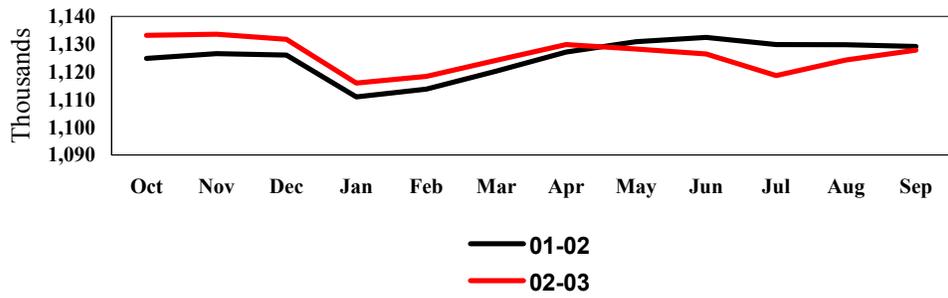


Figure 1b. Manufacturing Employment

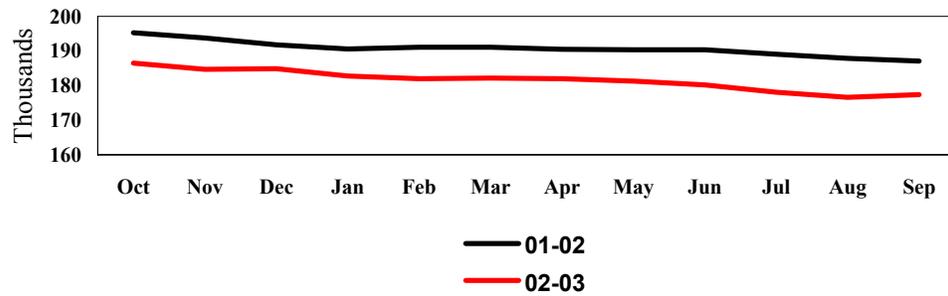


Figure 1c. Value of Building Permits

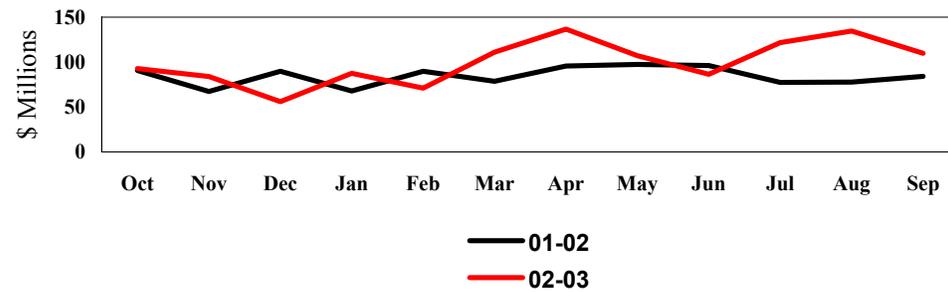


Figure 1d. General Fund Revenues

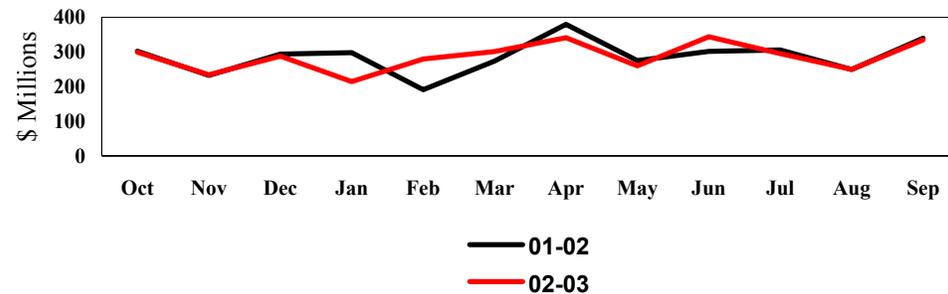


Figure 1e. Personal Income Tax Revenues

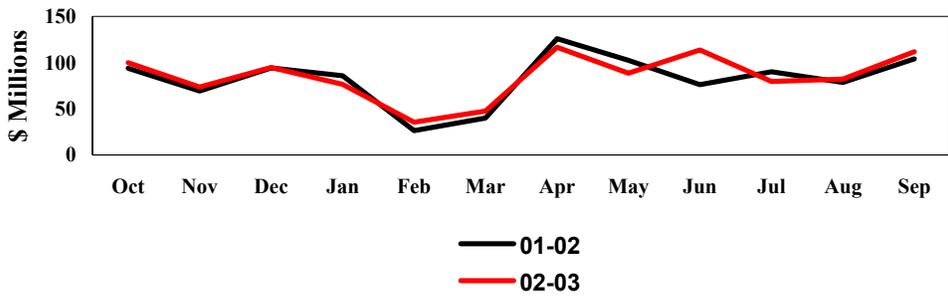


Figure 1f. Retail Sales

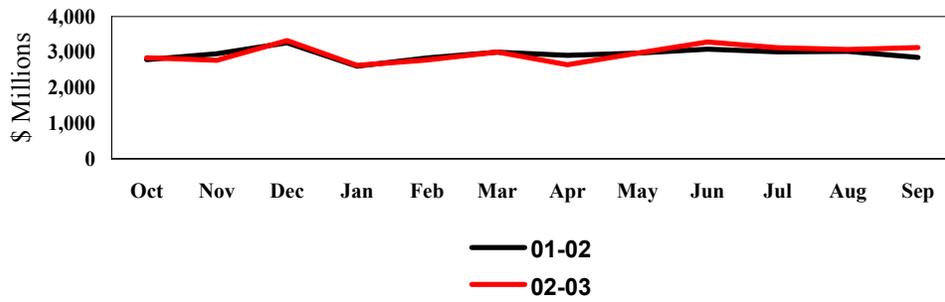


Figure 1g. Gaming Revenue -- Coast

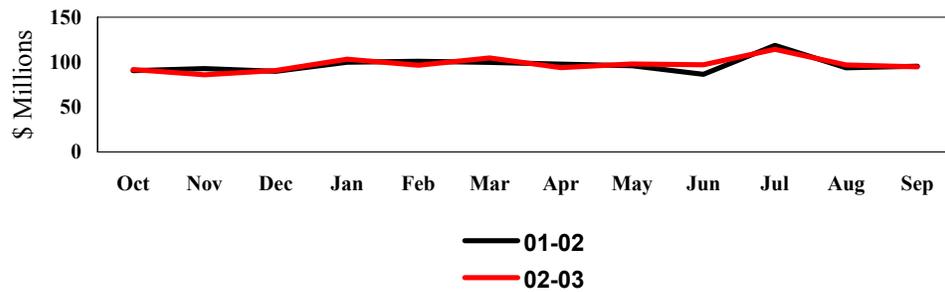
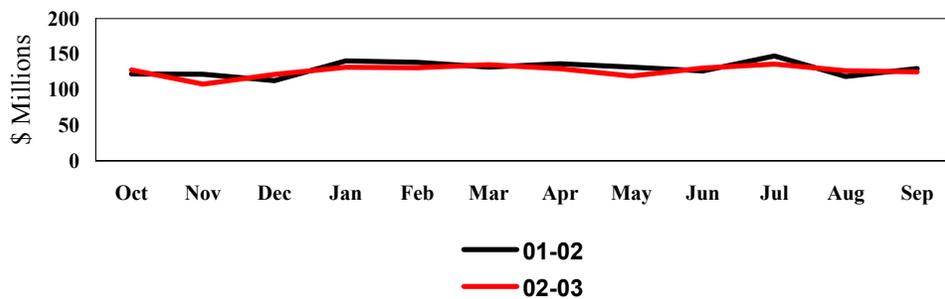


Figure 1h. Gaming Revenue -- River



gone by the summer. **Employment** resumed an upward course by the fall. Manufacturing, unlike other sectors, did not enjoy even a brief rise above 2002 levels of employment (Figure 1b). Construction employment did manage to exceed 2002 levels from April on, but still the average increase for the year will be below 1%. Modest growth in construction is likely to continue over the coming months given that the value of building permits issued has shown a rise in recent months (Figure 1c).

Not surprisingly, **General Fund revenues** (Figure 1d) have languished in the slow economy. Revenues in the fiscal year beginning in July have been at the levels of the previous year, except for a rise in October. Personal income tax collections mirror this trend (Figure 1e). Slow growth of **retail sales** (Figure 1f) has resulted in weak growth in sales tax collections as well. The upturn seen in October may be the harbinger of better things to come, but as of this writing, there has not been a clear upward trend in sales.

Figures 1g and 1h show that there has been little **gaming revenue** growth for either the Gulf Coast or River casinos. In FY2003, which ended in July, revenues from state gaming taxes increased only 0.8%, in sharp contrast with the average annual increase of 7.6% from FY1997 to FY2002. The slowdown in tourism since 2001 also continues to affect hotels and accommodations.

Employment Trends By Sector

Total payroll employment in 2003 was essentially unchanged from 2002 levels, based on data through September, although a few sectors gained jobs. See Table 1. Among the sectors where the number of jobs increased were retail trade, where the number employed was up 2.4%, and wholesale trade, up 0.6%.¹ Local government employment was higher as well, with an increase in jobs of 2.6%, compared to the same period in 2002. Several **service** industries showed growth, including professional & business services (1.3%), arts, entertainment & recreation (1.4%), and hospital employment (2.7%). Although the overall number of manufacturing jobs drop-

ped, the opening of the Nissan auto plant led to a 3.1% increase in employment in the transportation equipment industry. Construction employment held steady, as did finance & insurance, both showing a small 0.6% increase.

In other sectors, jobs were lost. The nationwide slowdown in **tourism** contributed to the drop of 1.1% in leisure & hospitality employment, with accommodations employment falling 3.9%. Gaming employment was down 3.0%.

The fiscal squeeze hitting the state budget affected state and local government employment. State government slashed 2,500 jobs between April and August, after some increase in employment in Q1. For the year as a whole, **state government** employment was down 0.5%, based on data for the first three quarters. Slow revenue growth in FY2004 may mean further reductions in 2004. Total government employment in 2003 was up, however, due to an increase in local government employment.

Manufacturing Jobs Still Decreasing

The disappointing downturn in national industrial production in Q2, following a feeble 0.3% increase in Q1, set back the recovery of the manufacturing sector here. Mississippi manufacturing, which had shed 800 jobs over the January-April period, lost an additional 6,400 by August. Overall, a 4.0% drop in manufacturing employment is estimated for 2003. But there are signs of an upturn nationally, with **manufacturing orders** running 2% ahead of 2002 and industrial production increasing in the fall.

One positive development in manufacturing in the state is the \$1.4 billion **Nissan auto plant**, which is now operational. The plant will employ over 5,000 and produce 400,000 automobiles per year at maximum capacity -- executives claim that this may occur as early as mid-2004. By the end of 2003, employment will be at 3,300, with another 1,000 contract employees also under the same roof. The opening of the plant and the subsequent small manufacturing rally will push up the growth rate of employment in

Table 1. MISSISSIPPI EMPLOYMENT BY SECTOR			
			Percent
ESTABLISHMENT BASED DATA¹	Jan-Sep 03	Jan-Sep 02	Change
TOTAL NONFARM EMPLOYMENT	1123.8	1125.0	-0.1
GOODS PRODUCING INDUSTRIES	244.2	253.1	-3.5
Natural Resources & Mining	9.3	9.1	2.2
Construction	54.6	54.3	0.6
Total Manufacturing	180.3	189.8	-5.0
Durable Goods Manufacturing	114.0	119.3	-4.4
Wood Product Manufacturing	14.1	14.9	-5.4
Fabricated Metal	11.7	13.0	-10.0
Machinery Manufacturing	12.1	12.9	-6.2
Computer and Electronics	3.1	3.2	-3.1
Electronic Equipment	10.0	10.7	-6.5
Transportation Equipment	23.4	22.7	3.1
Ship and Boat Building	13.7	13.7	0.0
Furniture and Related	27.4	28.8	-4.9
Nondurable Goods Manufacturing	66.3	70.5	-6.0
Food Manufacturing	27.8	28.5	-2.5
Apparel Manufacturing	6.0	7.0	-14.3
Paper Manufacturing	6.6	7.1	-7.0
Chemical Manufacturing	6.8	7.3	-6.9
Plastics and Rubber	9.0	9.5	-5.3
SERVICE PROVIDING INDUSTRIES	879.6	871.9	0.9
Trade, Transportation	223.8	220.3	1.6
Wholesale Trade	35.2	35.0	0.6
Retail Trade	143.7	140.4	2.4
Transportation, Warehousing & Utilities	44.9	45.0	-0.2
Utilities	7.9	8.0	-1.3
Information	16.1	16.2	-0.6
Telecommunications	8.3	8.9	-6.7
Financial Activities	46.1	45.8	0.7
Finance and Insurance	34.3	34.1	0.6
Real Estate, Rental and Leasing	11.7	11.8	-0.9
Professional and Business Services	78.6	77.6	1.3
Educational and Health Services	111.6	112.0	-0.4
Educational Services	14.2	14.4	-1.4
Health Care and Social Assistance	97.4	97.7	-0.3
Hospitals	30.1	29.3	2.7
Leisure and Hospitality	121.4	122.7	-1.1
Arts, Entertainment, and Recreation	14.1	13.9	1.4
Amusement	12.9	12.8	0.8
Gambling Industry	6.5	6.7	-3.0

Table 1. MISSISSIPPI EMPLOYMENT BY SECTOR (continued)			
			Percent
	Jan-Sep 03	Jan-Sep 02	Change
Accommodations and Food Services	107.4	108.8	-1.3
Accommodations	36.9	38.4	-3.9
Food Services	70.5	70.5	0.0
Other Services	38.9	37.5	3.7
Total Government	243.2	239.7	1.5
Federal Government	25.4	25.7	-1.2
State Government	61.7	62.0	-0.5
State Education	21.7	22.4	-3.1
Local Government	156.0	152.0	2.6
Local Education	82.7	81.8	1.1
SOURCE: Mississippi Employment Security Commission. November 2003. Preliminary figures. See footnote to Table 1.			
¹ Residence 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.			
These employment figures differ significantly from the wage and salary employment figures of the U.S. Bureau of Economic Analysis (BEA), which are reported in Appendix B in this <i>Review</i> and upon which the Center's economic forecast is based. The differences are largely due to the fact that the state Employment Security Commission does not include military employment, and that it does not utilize information available to the BEA on employees not covered by the state's unemployment insurance program. Workers with the railroads, the Coast Guard, some student workers, workers for religious membership organizations, farm workers and private household workers, for example, may be wage and salary workers not captured by the MESC data.			

manufacturing, contributing to an average annual increase of 0.1% in the sector over the 2003-2008 period. Defense contracts are also having a positive impact. After this year's 4.0% drop, the smaller 1.0% decline expected in 2004 is a clear improvement; and positive growth is then predicted for the following three years.

Mississippi has suffered a severe drop in the number of manufacturing jobs: between 1995 and 2002, 23% of these jobs were lost. By comparison, for the U.S. as a whole, the drop was 11%. This drop, incidentally, was matched by a global decline of 11%. In **China**, where many jobs have emigrated from Mexico, the percentage loss was a surprising 15%, apparently due to the labor-saving effects of more modern

technologies and management systems. As a report by the Global Economic Research department of Alliance Capital notes, firms with outmoded facilities cannot compete regardless of their location. "The giant sucking sound being heard today is not just in the U.S., but across the globe. We don't see the pressure stopping anytime soon."

Factors Affecting the Economic Outlook

Several developments in the state economy will have a favorable impact on jobs and business. The Nissan plant is having a **ripple effect** on the economy, with construction, finance, insurance, administration and other businesses being affected, in addition to the auto parts suppliers that have flocked to the area. Property values in the

area have been rising, which will contribute to wealth and income levels. (A recent study done at the National Bureau of Economic Research estimated that a multi-million dollar plant typically adds 1.1% annually to the previous growth rates of near-by property values.) The Nissan plant may be planning to ship as much as 70% of its product by rail, reports Global Insight. If this is the case, employment and output in rail would be significantly affected. “Highlights from the News”, which follows this article, provides some details on other recent business announcements and developments.

Developments at the national level will be critical to state employment. Interest rate levels, the prices of farm commodities and the growth of demand for industrial products all play important roles here. Low interest rates have been behind the state’s strong residential **housing** market. Global Insight notes that the 11.5% increase in building permits issued in the state in 2002 propelled Mississippi to 19th in the nation in terms of growth rates. As of May, the state ranked 25th for 2003. The mortgage delinquency rate has fallen here, and is almost as low as its level before the downturn. Sales of existing homes are forecast to decrease

from now until Q3 of 2005, however. Construction of new homes, on the other hand, is expected to continue to expand at rates between 4% and 5% in the near term.

The **transportation and warehousing** sector is closely tied to overall levels of economic activity. Employees in this sector transport passengers and freight on airlines, railroads, by truck and by water. With the recovery, employment will turn up: a 0.1% increase is estimated in Mississippi for this year, and a 0.9% increase is predicted for 2004. Over the coming five years, the average growth rate will be close to 1.0%.

On-farm **agriculture** here employs 3.2% of the workforce, compared to 2.2% for the U.S. as a whole. This sector has been facing increasingly heavy competition from overseas, and this will continue as more sections of the NAFTA agreement are implemented over the next few years. The low prices which have been hurting farmers gave way this year: the 6.9% increase in the price of farm products has been welcome news and will boost the incomes of Mississippi farm proprietors, which dropped 75% in 2002. Several bumper crops this year will also push up farm incomes.

Table 2. PROJECTED GROWTH OF OUTPUT AND EMPLOYMENT IN EAST SOUTH CENTRAL STATES

	Real Gross State Product Annual % Change		Nonfarm Employment Annual % Change	
	2001-2003	2003-2005	2001-2003	2003-2005
Alabama	2.2%	3.3%	-0.9%	1.1%
Kentucky	2.2	3.4	-0.9	1.5
Mississippi	1.9	3.6	-0.3	1.0
Tennessee	2.7	3.8	-0.3	1.5
East South Central	2.3	3.5	-0.6	1.2
U.S. Total	2.8	3.9	-0.6	1.5

Compound annual percentage change is shown.

SOURCE: Global Insight, Inc. November 2003.

UPTURN IN HOUSEHOLD SURVEY NUMBERS PRESAGES UPTURN IN PAYROLL EMPLOYMENT NUMBERS

Both nationally and in Mississippi, employment data based on establishment surveys show a decline in the total number of persons employed over the first three quarters of 2003, while household survey data show an increase. The gap between the two typically widens when the economy enters a turning point.

The establishment or payroll survey uses a larger sample, but is more likely to miss turning points since it polls only existing companies and does not count the self-employed – two categories that tend to show sharp increases in the early stages of a recovery. Global Insight believes that the discrepancy between the two of approximately eight million jobs does indeed signal the start of an upturn in employment. In confirmation of their perspective, the small business survey done by the National Federation of Independent Businesses, shows a surge in both job openings and hiring plans in August and September.

Regional Outlook

The economic recovery is finally underway in the Southeast, but just what that means depends on which forecasting group is speaking. **Global Insight** predicts an annual growth rate of real gross state product of 3.5% for each of the three southern Census regions over the 2003-2005 period, as shown in Table 2 of the “National Outlook” article. The forecast of the **Georgia State University** (GSU) Economic Forecasting Center is for more modest growth rates, namely, an average annual rate of 1.7% in 2003 and 2.0% in 2004 for the Southeast as a whole. The employment forecasts are somewhat closer, but a gap remains. Global Insight predicts a compounded annual growth rate of 1.2% from 2003 to 2005 for the East South Central region, which includes Mississippi, with higher rates for the other Southern regions. The GSU prediction is for employment growth of 0.2% in 2003 and 1.3% in 2004 for the Southeast as a whole.

As Table 2 shows, Mississippi’s rate of growth of GSP is predicted to be slightly above the regional average over the next two years, according to GI’s forecast, while the GSU forecast has the state’s growth rate

slightly below the regional average. These difference in predictions underscore the difficulties facing forecasters as the economy reaches a turning point – extrapolations based on past trends are simply not adequate, and the judgment of the forecaster comes more into play. The forecast of the **Mississippi Center for Policy Research and Planning** lies between that of GSU and of Global Insight, and is presented below.

Short-Term Forecast

A heavy reliance on manufacturing and agriculture in the South has meant that the region has been hit particularly hard by the recent downturn. Mississippi experienced only slow growth in 2002 and 2003, and the state is likely to lag the country in employment and income growth during the coming years. The forecast for 2004 and 2005 is presented in Table 3. **Real gross state product** (GSP) is forecast to rise a moderate 2.3% in 2004, compared to the estimated growth rate of 1.3% experienced in 2003. In 2005, the growth rate is expected to peak at 2.9% before falling off slightly in 2006.

Wage and salary employment, which fluctuated over the course of 2003, will also improve next year. The number of jobs will increase more steadily in 2004, at an average annual rate of 1.0%, and by 2005, the growth rate will hit 1.4%. A stronger growth of employment in the service sector will lead the improvement in 2004, along with a greatly diminished rate of job loss in manufacturing. Transportation/communications and utilities employment, which is linked to industrial as well as service sector activity, will also turn up. By 2005, the manufacturing sector is forecast to achieve a net increase in jobs, after which its growth rate will slowly diminish. The share of manufacturing in total employment, which is now 16%, will gradually slip to 15% by 2008.

Increasing worker productivity in wholesale and retail trade will mean slowing growth of employment in that sector over the forecast period. The growth rate of construction employment will peak in 2004, but will continue to rise in line with overall activity levels, aided by historically low interest rates.

In 2003, **personal income** in Mississippi increased at an estimated 4.1%

rate, which was slightly higher than the 3.8% rate registered in 2002. As employment and output levels increase, the growth rate of personal income in Mississippi will trend upwards, reaching 4.3% in 2004 and 4.6% in 2005. Nationally, the growth of personal income in 2003 was modest, at an estimated 3.2%, but the growth rate is forecast to improve to 5.1% in 2004.

The slow growth of income has been impacting Tax Commission collections for Mississippi's General Fund. In the fiscal year which ended June 30, 2003, revenues were up just 2.3% from FY2002. The improvement in FY2004 may seem relatively moderate, but collections should pick up by FY2005.

More detail on the state forecast is provided in Appendix Tables 1-9 at the back of this *Review*.

Trends Over the 2003-2008 Period

The economic recovery will bring higher growth rates of output and employment to both the U.S. and Mississippi over the 2003 – 2008 period than during the previous five years period. As shown in Figure 2, the real growth rate of output in Mississippi will rise from the 1.5% rate of

Table 3. **ECONOMIC FORECAST FOR 2003-2005**

	2003	2004	2005
Mississippi			
Gross State Product (Percent Change)	2.9	3.6	4.6
Real Gross State Product (Percent Change)	1.3	2.3	2.9
Price Level (Percent Change)	1.5	1.3	1.7
Establishment Employment (Percent Change)	0.4	1.0	1.4
Unemployment Rate	6.7	6.7	6.4
Personal Income (Percent Change)	4.1	4.3	4.6
Consumer Price Level (Percent Change)	2.1	1.6	1.9
United States			
Gross Domestic Product (Percent Change)	4.6	6.0	5.4
Real Gross Domestic Product (Percent Change)	2.9	4.3	3.6
Price Level (Percent Change)	1.6	1.6	1.8
Establishment Employment (Percent Change)	-0.3	1.1	2.2
Unemployment Rate	6.0	6.0	5.8
Personal Income (Percent Change)	3.2	5.2	5.6
Consumer Price Level (Percent Change)	2.3	1.4	1.9

SOURCE: Center for Policy Research and Planning, Mississippi Institutions of Higher Learning, November 2003. Global Insight, November 2003.

1997-2002 to 2.7%. And the growth rate of employment will become clearly positive, increasing from 0.3% to 1.2%, as shown in Figure 3.

Embedded in these forecasts are estimates of trends in **productivity**. As can be seen, the gap between the U.S. and Mississippi is greater in the growth rate of output than in the growth rate of employment. This means that the growth of output per worker or productivity in the state is expected to lag that of the U.S. This lag in productivity growth is largely due to the relatively small size of the state's high-skill and high-tech sectors, which are fueling current productivity increases along with changed management practices. The brief article on Mississippi and the New Economy in this *Review* provides several statistical indicators comparing Mississippi with other states in measures of the New Economy. It is relevant to note that only 73% of Mississippians over the age of 25 are high school graduates, 7 percentage points below the national average, and only 17% in that age group have completed a four-year college degree, versus 24.4% in the nation as a whole.

Although the gap in the growth rates of productivity will narrow as today's new technologies become tomorrow's standard, the **income gap** will be more difficult to close. While Mississippi is building technology clusters in such areas as remote sensing and organic pharmaceuticals, other states are generally further along in the development of areas of high-skill competitive advantage.

Innovators enjoy a period of higher prices and profits before their products become standardized and subject to widespread competition. This initial advantage provides innovators an edge in the long-term growth of income and wealth.

The next graph, Figure 4, shows the average annual rate of employment growth by sector over the 2003-2008 period. The positive growth rate of 0.1% for manufacturing in the state is higher than the U.S. rate of -0.1%. While a positive growth

rate here is welcome news, the overall growth rate of employment is 1.2%--meaning that the relative size of the manufacturing sector will continue to shrink. It is expected to account for 15% of total employment in 2008. In the U.S., manufacturing currently accounts for less than 12% of total employment, and the **falling share** of manufacturing is part of a global trend.

As has been the case for several years, the services sector will have the highest growth rate over the coming five years. At 2.2%, the average growth rate of service sector jobs will be almost twice that of the other sectors. Construction, trade, transportation/ communications/ utilities, finance/ insurance/ real estate and government will all grow at an average annual rate of close to 1.0%. Mining will lose jobs, as energy prices moderate. And agriculture, which includes agricultural services, forestry and fisheries, will see little increase in employment, as farm prices fall from 2003 levels. For comparison, the average annual growth rates for the state's four largest sectors from 1997 to 2002 were: 1.4% in services, 0.9% in retail/wholesale trade, and 1.8% in government, while manufacturing employment fell at a rate of 3.5%.²

Notes

¹ For more information on the new North American Classification System, go to the U.S. Bureau of the Census website at www.census.gov and click on NAICS.

²The state's economic structure is gradually shifting. The state's fastest growing sector, services, now provides 31% of total wage and salary employment. The three other sectors employing 15% or more of workers are: government (21%), manufacturing (16%) and retail/wholesale trade (16%). Despite its declining share in total employment, manufacturing still provides work for 16% of all persons employed in Mississippi. By comparison, less than 12% of total U.S. employment is in manufacturing. The composition of manufacturing in the state

differs as well, with the percentage of employees in furniture and lumber & wood products in Mississippi being more than twice the corresponding percentages for the U.S. These two industries, along with food products, account for over a third of manufacturing employment. Transportation equipment, fabricated metal, machinery, and electrical equipment account for another third. Mississippi's top manufacturing exports in 2001, accounting for 44% of total exports, were ships and boats at \$948 million, machinery at \$342 million, and electrical machinery at \$289 million.

The largest industries in the service sector are leisure & hospitality, educational & health services, and professional & business services. The introduction of gaming to the state in 1993 is behind the doubling of

employment in the leisure & hospitality industry since that time: it now accounts for 11% of total payroll employment. Ten percent of workers are employed in educational & health services, and 7% in professional & business services.

Agriculture, despite its declining numbers, is also critical to the state economy. This sector provides 3% of employment, as measured by the household survey, but its outputs feed into food processing, wood products, and other industries. Poultry and catfish are the two leading livestock commodities, grossing \$1.5 billion in cash receipts in 2002, and cotton and soybeans the highest value crops. Forest products cash receipts, at \$1.1 billion in 2001, surpass the total value of crops (\$0.8 billion in 2001).

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

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HIGHLIGHTS FROM RECENT NEWS ABOUT THE MISSISSIPPI ECONOMY

See the website of the Mississippi Development Authority, www.mississippi.org, for more information about recent economic developments in the state, or contact Sherry Vance, Director of Public Information, at (601)359-3041.

New Businesses and Expanded Facilities Announced

The value of **nonmanufacturing** investments in new and expanded facilities, announced through September 2003, was \$339 million higher than for the same period in 2002. Overall, however, the \$2.7 billion of investments in 2003 to date was lower than last year, due to a drop in the value of **manufacturing** facilities planned.



Among the highlights of new facilities announced were the Hard Rock Hotel and Casino, planned for the Gulf Coast, and the Choctaw Gas Generation facility, to be built in Choctaw County. The \$225 million **Hard Rock Hotel** will employ 1,000 persons, the largest job-creator among the 330 new facilities and expansions announced. The Choctaw power plant was the largest single investment in dollar terms, at \$425 million.

Among the 25 largest investments announced were six **health care** facilities, including both public and private hospitals. An expected \$78 million expansion of the Northrop Grumman shipyard was the largest manufacturing investment.

The 25 largest job creators among the investments announced included four facilities manufacturing **furniture**, the largest of these being Max Home LLC in Itawamba County, which is expected to provide 275 new jobs. **Vertex Aerospace** in Madison County will create 300 new jobs, overhauling and modifying aircraft. (This company, which was recently purchased by L-3 Communications, has also recently received a contract to provide maintenance for a fleet of 650 Army helicopters that, if renewed for the full ten



years, could be worth up to \$2.7 billion.) **Bass Pro Shops Outdoor World**, to be opened in Rankin County in 2005, was the third largest job creator. It will employ 300 persons.

New Technologies Spur Growth

Tenix LADS, the U.S. subsidiary of an Australian company, will locate in Biloxi, where it hopes to take advantage of expertise available at the Stennis Space Center and the University of Southern Mississippi. This Australian company developed the Laser Airborne Depth Sounder, which uses a laser to estimate the depth of the sea floor. It is more efficient than traditional sonar mapping, enabling “20 times the coverage at about 30% of the cost”, according to Michael Janus, business development manager. The firm has recently won a three-year \$12 million contract with the National Oceanographic and Atmosphere Administration.



Northrop Grumman is converting one of its facilities into the nation’s first large-scale composite shipbuilding operation, at a cost of about \$64 million.



The facility will be part of the move toward the construction of ships using advanced materials that are lighter, stronger and stealthier than materials currently used. Among its projects the facility will enclose masts that house radar in various models of ships used by the U.S. Navy and Coast Guard. Earlier this year, the state authorized \$48 million in bonds for improvements at Northrop’s shipyards as part of a three-year package totaling \$144 million. Northrop will

supply the remaining funds for the shipyard expansion and overhaul. The total value of Northrop's planned three-year modernization program will be about \$334 million. Currently about 800 persons are employed at the plant, and that number could double after the expansion.

Corus Bi-Steel, a British company, has chosen the former International Paper (IP) site in Jackson County to produce a blast-resistant construction material for the defense and offshore industries. The project will require a \$27 million investment in equipment, construction and buildings, and will begin after demolition of the IP facilities. The company expects to use about 35 acres of the 300-acre IP waterfront site, and employ about 250 people.

American Pride Paint, developed by the School of Polymers and High Performance Materials at the University of Southern Mississippi, is an environmentally friendly coating that is enjoying a rapidly expanding market in the months following its initial offering. "Sales have doubled every month", said Rocky Prior, vice-president of the firm marketing the product. The paint contains no hazardous organic compounds and retails for about \$8 less than leading premium brands, while offering higher performance, according to Prior.

The Arts

The Walter Inglis Anderson Centennial Traveling Exhibition, "**Everything I See Is New and Strange**", debuted at the Smithsonian Museum in Washington, D.C. this September. It will be open through January 11, 2004, and is expected to attract more than 350,000 visitors. The exhibition includes 160 pieces of original art by Anderson.

A Buena Vista Pictures film, "**The Ladykillers**", will include several scenes shot in Mississippi. Natchez was chosen by filmmakers Joel and Ethan Coen as the setting for outdoor shots. The film tells the story of an eccentric Southern professor, played by Tom Hanks, who assembles a band of less-than-competent thieves to rob a riverboat casino.



Mississippi in the Nation

Mississippi ranked number 15 in the nation in terms of **business climate**, according to the annual report of *Site Selection* magazine. The ranking is based 50% on new plant performance and 50% on the results of its annual survey of corporate real estate executives. The magazine noted that work force development expenditures by the Mississippi Development Authority had nearly doubled in 2003, compared to 2002.

Mississippi has again been rated a top golfing destination, this time by *The Golf Insider*, a golf travel publication. The state was named "**The 2003 Best Up and Coming Golf Destination**", due to the quality and variety of its 140 courses. The *Insider* highlighted the Dancing Rabbit course at Pearl River Resort and the Jack Nicklaus Grand Bear course in Saucier. It also noted the state's mild climate, its gaming industry and the quality of 12 new courses that are being added. In the first quarter of this year, 9% of 450 Gulf Coast tourists surveyed by the Convention and Visitors Bureau of the Gulf Coast said that they planned to play golf or tennis, up from 4% in 2002.



Tupelo was among six cities nationally that received the 2003 James C. Howland Awards from the National League of Cities. The award is offered for initiatives to enhance the quality of life in their communities. Tupelo won for the Haven Acres Neighborhood Revitalization project.

ECONOMIC DEVELOPMENT AS HUMAN DEVELOPMENT NEW STRATEGIES EMERGING

Marianne Hill

With all the talk about the New Economy, IT (information technologies), computers, and more, the focus of all these efforts – the human being – can sometimes seem forgotten. And, as things stand now, economic development is not identical with human development. Although the two are closely related, there are significant differences, and these differences are giving rise to new policies, strategies and outcomes as the primacy of human development is acknowledged.



Economic development is associated with the attainment of economic goals for a region, such as higher-paying jobs and higher per capita income levels. Human development is associated with the attainment of a higher quality of life for the persons in a region. It is true that, almost always, a higher income level will enable an individual to attain a higher quality of life. But it is also true that more of other goods, such as a longer life expectancy or greater knowledge and skills, can have equal or greater ability to raise the quality of life. Also, not all goods are available on the market. This means that higher income levels will not enable an individual to obtain more of some highly valued non-market goods, such as a healthy and beautiful natural environment, equitable laws or the ability to participate in public decision-making.

If human development, that is, a higher quality of life, is the ultimate goal of development efforts, then trade-offs between market and non-market goods, and between our present standard of living and the future standard of living of our children, must be explicitly considered when economic decisions are made. This involves, among other challenges, estimating the value of natural resources and of non-market goods, such as a longer life expectancy. It is a difficult task, but one vital to the decision-making process.

How should policymakers proceed?

First and foremost, policymaking should involve the persons whose lives are affected by the policies chosen. Also, information relevant to alternative policy options must be available to all involved in the decision-making process and should be as comprehensive and as objective as required. Finally, and related to this, the quality of life must be considered when decisions about economic policy are made – not afterwards.

Mississippi politicians and policymakers recognize that there are many dimensions to the quality of life with which Mississippians are concerned. However, there are few attempts to measure progress in the various dimensions, and even fewer to bring these measurements together in one report, with discussion of trade-offs faced. Yet without such information, an informed and focused public debate on these issues is not possible. In addition, public forums are needed to enable the development of a community's vision for itself, and to identify the value placed on different outcomes, when trade-offs are involved.

The UN Human Development Index

In response to these issues, the United Nations Development Programme (UNDP) has been working to develop a better measure of the quality of life than per capita incomes. While consensus on what variables should be included has been difficult to achieve, a start has been made. The UNDP now calculates a Human Development Index (HDI) that ranks countries on the basis of three indices: life expectancy, education and GDP per capita. As Table 1 shows, there can be significant differences in how a country ranks based on life expectancy or education, and the GDP ranking. For example, in 2000, 13 countries ranked higher than Sweden in terms of GDP per capita, but Sweden stood at number two

gender inequality, on the environment (e.g. carbon dioxide emissions by country), and on human and political rights. In addition, the quality of health care isn't captured by life expectancy alone, nor is the quality of education and knowledge created captured by school enrollment and literacy rates, and additional data are provided in these areas.

Democracy – the Key to Economic Progress

The 2002 Human Development Report focuses specifically on democracy and its importance to human and economic development. "Participating in the life of one's community, political freedoms and physical security are as fundamental as being able to read or to enjoy good health. They are not included in the HDI because they are difficult to measure appropriately, not because they are any less important to human development," notes editor Fukuda-Parr. Mark Brown notes in the introduction that politics is as important to successful development as economics for two reasons. First, democratic participation is a critical goal of human development, not just a means to an end. And, second, democracies are "notably better in meeting the most pressing social needs of citizens".

The Human Development Report 2002 documents several instances in which democratic processes enabled a community to improve the lives of some of its citizens, or to reduce conflict and build peace.¹

"Politics is as important to successful development as economics." Mark M. Brown, Administrator, UN Development Programme.

Nobel Prize winner Amartya Sen, author of the theoretical framework for the HDI, provides a more detailed understanding of the relationship between democracy and human development in his book *Development As Freedom*. Democratic institutions, civil liberties and a free press affect the formation of social norms, ethics and goals. Public

deliberation and discussion is highly effective in addressing problems ranging from corruption to the neglect of urgent social problems and needs, such as social security.

Summary and Conclusions

If it is granted that human development is the ultimate concern of economic development, there are a few steps that can be taken to move towards that goal:

1. Involve everyone in the policymaking that affects their lives.
2. Develop and disseminate widely the information needed to assess the relative costs and benefits of alternative policy options, taking both market and non-market goods into account.
3. Consider the long-term effects of decisions on future generations, particularly in the case of irreversible decisions, such as those that result in permanent damage to humans or the environment.

These steps, which may be considered "basic common sense", are, of course, more easily said than done. But agreement with these basic principles can lay the groundwork for significant progress towards greater economic and human development in Mississippi.

Notes

¹The importance of democracy to a society's well-being is underscored by the results of a study presented in the HDI report. As summarized in Table 4.2, the number of unarmed people intentionally killed by government during the 20th century was: in democracies, 2 million; authoritarian regimes, 29 million; and totalitarian regimes, 138 million. The numbers killed in wars pale by comparison in all nations except democratic countries: 4 million in democratic countries, 15 million in authoritarian countries, and 14 million in totalitarian countries. "Where governments rely on security for their power base, security forces are often the main cause of insecurity for their citizens and neighboring states," concludes the study (p. 87).

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MISSISSIPPI IN THE NEW ECONOMY

Although there can be no single measure of how well-prepared a region is for today's New Economy, the index in Table 1 provides provocative information on how well Mississippi stacks up against other states in several areas. Overall, Mississippi ranks 49th in the Progressive Policy Institute's (PPI) New Economy Index. The state ranks 50th in only one sub-category, the percentage of adults with internet access (41.8%), but it ranks close to the bottom in most others.

Mississippi scores highest in **Economic Dynamism**, where it ranks 23rd. And, in the sub-category of "gazelle jobs", the state ranks 6th. Despite the fact that only 1.9% of the state's workforce is employed in high-tech jobs (defined as electronics manufacturing, software and computer-related services, telecommunications and biomedical industries), a surprising 14.7% were employed in "gazelle" jobs, that is, in new companies with annual sales revenue that has grown 20% or more for four straight years (1994-1999 in this case). In Mississippi, these jobs are likely to be related to tourism or gaming, although new firms in other areas, such as business and professional services, have also done well.

Mississippi Moves Up in Economic Dynamism

Compared to its 1999 ranking, the state showed the greatest improvement in Economic Dynamism, largely due to the fact that there was more job churning (defined as start-ups and failures as a percentage of all businesses), but also because the percentage of gazelle jobs in other states dropped. Mississippi also improved considerably in Knowledge Jobs, where the post-secondary education levels of the Mississippi workforce were ranked 36th in 2002.

In both the **Digital Economy** and the **Innovation Capacity** categories, the state ranked 50th. In several subcategories, the state improved between 1999 and 2002, but not as rapidly as other states. For example, in

the Innovation Capacity index, the state's score on patents relative to the number of workers was 0.12 in 1999 and 0.21 in 2002, but in both years Mississippi's rank was 48th. Technology in Schools, a subcategory of the Digital Economy, improved in the state, moving the state from 46 in rank to 41 in that subcategory. But a change in how digital government was measured was among the factors moving the state down in that subcategory and in the Digital Economy index overall.

CIT's Innovation Index

The Communication Information Technology Organization of Mississippi has developed its own index to measure and promote the state's progress in innovation. As Table 2 shows, the factors considered are different from those of the New Economy Index, although the two are clearly related.

This year was the second one in which the index was published, and the state moved down in four of the eight categories. It moved up in two: **R&D expenditures** and **industrial productivity**. The increase in productivity, however, was substantial, going from \$75,903 per manufacturing employee to \$82,845. As a result, the overall score on the index did improve.

Implications

Both the Mississippi Innovation Index and the PPI New Economy Index indicate several areas where the state has the opportunity to improve. Increased levels of education and support for research and innovation can lay the foundation for substantial improvement in the quality of life for Mississippians. See also the articles which follow: the *Future of the South* and the commentary, by Peter Walley, Director of the Bureau of Long Range Planning for the state.



Written by Marianne Hill.

Table 1. THE 2002 STATE NEW ECONOMY INDEX - MISSISSIPPI		
	RANK	SCORE
OVERALL*	49	40.94
Aggregated Knowledge Jobs	44	7.29
Information Technology Jobs Employment in IT occupations in non-IT industries as a share of total jobs.	48	0.6%
Managerial, Professional & Tech Jobs Managers, professionals, and technicians as a share of the total workforce.	46	22.3%
Workforce Education A weighted measure of the educational attainment (advanced degrees, bachelor's degrees, associate degrees, or some college course work) of the workforce.	36	45.7%
Education Level of the Manufacturing Workforce A weighted measure of the educational attainment of the manufacturing workforce.	27	1.01
Aggregated Globalization Score	49	7.30
Export Focus of Manufacturing Manufacturing export sales per manufacturing worker.	49	\$9,650
Foreign Direct Investment The percentage of each state's workforce employed by foreign companies.	49	2.2%
Aggregated Economic Dynamism Scores	23	9.70
"Gazelle" Jobs Jobs in gazelle companies (companies with annual sales revenue that has grown 20 percent or more for four straight years) as a share of total employment.	6	14.7%
Job Churning The number of new start-ups and business failures, combined, as a share of all establishments in each state.	24	19.7%
Initial Public Offerings A weighted measure of the value and number of initial public stock offerings of companies as a share of gross state product.	34	3.55

THE 2002 STATE NEW ECONOMY INDEX - MISSISSIPPI (continued)		
	RANK	SCORE
Aggregated Digital Economy Scores	50	3.74
Online Population The percentage of adults with Internet access in each state.	50	41.8%
Commercial Internet Domain Names The number of commercial Internet domain names (.com) per firm.	48	0.32
Technology in Schools A weighted measure of five factors measuring computer and internet use in schools.	41	1.05
Online Agriculture A measure of the percentage of farmers with Internet access and who use computers for business.	49	0.80
Online Manufacturers The percentage of manufacturing establishments with Internet access.	37	83.4%
Broadband Telecommunications A measure of the use and deployment of broadband telecommunications infrastructure over telephone lines.	47	1.55
Aggregated Innovation Capacity	50	5.90
High-Tech Jobs Jobs in electronics manufacturing, software and computer-related services, telecommunications, and biomedical as a share of total employment.	47	1.9%
Scientists and Engineers Civilian scientists and engineers as a percentage of the workforce.	45	0.3%
Patents The number of patents issued to companies or individuals per 1,000 workers.	48	0.21
Industry Investment in R&D Industry investment in research and development as a percentage of Gross State Product (GSP).	45	0.2%
Venture Capital Venture capital invested as a percentage of GSP.	43	0.03%
*Because of differences in methodology, changes in ranks between 1999 and 2002 cannot all be attributed to changes in actual economic conditions in the state.		
SOURCE: Progressive Policy Institute (PPI) Technology, Innovation, and New Economy Project, 600 Pennsylvania Ave., S.E., Suite 400, Washington DC 20003. See www.ppionline.org .		

Table 2. **COMPONENTS OF THE MISSISSIPPI INNOVATION INDEX**

Published by the Mississippi Technology Alliance

Wealth Creation:	High Tech Employment as % of Total Employment
Statewide Research:	R&D Expenditures Relative to Gross State Product (GSP)
University Research Capacity:	University Royalties Relative to University R&D Expenditure
Business Research and Development:	Small Business Innovation Research awards relative to GSP
Technology Business Development:	Net Growth in Number of Technology Intensive Firms
Industrial Productivity:	Value Added per Manufacturing Employee Technology Workforce Development: Percentage of Scientists and Engineers in Workforce
Investment Capital:	Venture Capital Invested in Mississippi Firms Relative to GSP

SOURCE: *Pointe Innovation* Magazine, Spring 2003. Published by the Mississippi Technology Alliance. See www.pointeinnovation.ms.

The State of The South 2002

A summary of the influential report on development strategy, State of the South 2002, by the MDC Inc., is presented below. A commentary by Pete Walley, Director of the Mississippi Long Range Economic Development Planning Bureau, follows.

In this report, a panel of distinguished Southerners assesses anew the region's response to economic change – change moving even more rapidly than at the time of the last report. While several metropolitan areas have burgeoned and some rural communities have made a successful economic transition, shadows have darkened in many rural and urban places that lack distinctive competitive advantages in today's economy.

The “clarion call” to the South from the 2002 MDC panel is:  You're in a whole different race. Run hard, but also run smarter.

The Job Ahead

The 2002 panel urges the states of the South to redefine their vision of and thinking about economic development. It recommends the following:

- **Refocus the state agencies** responsible for economic development to pursue a broader, more strategic approach. State governments should not measure success simply by the number of new jobs, but also in terms of higher incomes for people and improved competitiveness of regions within the states.
- **Modernize tax systems**, so that states have the fiscal capacity to provide excellent education, widely accessible job training, necessary infrastructure, and community amenities that enrich the soil for economic advancement.
- **Tighten performance criteria** for industrial incentives – and encourage Southern governors and legislators to reexamine the one-dimensional, incentives-driven recruitment strategy in favor of a comprehensive economic development strategy.

- **Preserve and enhance rural communities** by forging regional collaborations and rural/metropolitan linkages to break their isolation and improve their competitiveness.
- **Develop a set of metropolitan-focused policies** to assure sustained economic and quality-of-life improvements in burgeoning metro areas on which the South has grown increasingly dependent.
- **Dramatically expand efforts** to erase serious deficits along the entire education continuum in the South, and bolster the education, health, and well-being of children from birth to five-years-old as a prelude to greater achievement.
- **Draw on the power** of the South's universities and community colleges to act as catalysts for state and regional economic advancement.
- **Aggressively support** universities, community colleges, and nonprofits to prepare public officials to address the region's tough challenges and to raise up a new generation of civic leaders. 

These recommendations are built on a conviction that the South's economic development should flow from two guiding, complementary concepts: **competitiveness** and **equity**. To succeed, our communities, rural and metropolitan, must strive constantly to remain competitive in the global economy. To advance as a democratic society, the South must strive just as energetically to widen the circle of prosperity.

In the midst of the then-unprecedented prosperity in the South, MDC issued its cautionary paper in 1986 titled,

Shadows in the Sunbelt: Developing the Rural South in an Era of Economic Change.

A simultaneous decline in agriculture and manufacturing had undermined the rural South's economic foundation, said the report, and the South's long-standing industrial recruitment strategy would no longer suffice. Instead of the "buffalo hunt" – the search for branch plants to provide employment – *Shadows* said that the South's policy-makers should plant "new seeds for economic growth," with special attention to encouraging entrepreneurship and small business development.



MDC's analysis hit a nerve. So, too, did the report, *Halfway Home and a Long Way to Go*, issued by the 1986 Commission on the Future of the South of the Southern Growth Policies Board.

Since the two reports were issued in 1986, much has changed – and change has accelerated. But some things haven't changed – most especially that, despite its burgeoning affluence, the Southern economic landscape remains spotted with shadows.

The recession that ushered in the 21st Century served to speed up the change and churning in the economy. It hastened the collapse of traditional Southern industries. From Stonewall, Mississippi, to Rutherford County, North Carolina, decades-old plants have closed and won't reopen even in a national recovery, diminishing the tax base of communities and the jobs prospects of older workers.

BIG FORCES PUSH ON THE SOUTH

Globalization

Telecommunications, international investments, and trade agreements like GATT and NAFTA feed an economy gone global. Freer trade across borders brought lower prices to U.S. consumers, while imposing high costs on communities – in the

inner cities and rural areas – not prepared for international competition.

Technology

The recent recession has not slowed the race toward a more knowledge-oriented economy. Technology continues to transform all manner of industries – and the way workplaces are organized – not only the so-called high-tech firms but also textiles and farming. As a core infrastructure, telecommunications has the potential to help rural areas overcome one of the biggest barriers to participation in the global economy: isolation. Yet, most Southern states rank low on preparedness for the knowledge economy.

Virginia, at number eight, is the only Southern state to rank among the top 10 in the ranking of The Progressive Policy Institute's **New Economy Index** which used 21 economic indicators – patents, workforce education, manufacturing exports, information-technology jobs, technology in schools, and such – to assess state programs as they adapt to the new economic order. Among Southern states, Virginia is followed by Texas (14), Florida (18), and Georgia (22). Seven Southern states fall into the bottom 10. (Note: **Mississippi** ranks 49th.)



Demographic destiny

The South's immediate past and its near-term future are shaped by three significant population shifts, which together have contributed to the region's significant gains in population.

1. Over the past two decades, most of the **new arrivals** in the South have been white Americans. In aggregate, these in-migrants have been more affluent and better educated than resident Southerners.
2. Reversing a historic out-migration, more black Americans now move to the South than to any other region of the nation. Blacks moving into the South have flocked to metropolitan

areas, living in suburbs as well as the center of cities, adding to the ranks of a **substantial middle class**.

3. During the 1990s, Latinos pushed beyond Texas and Florida and into states where they found jobs in meatpacking, construction, services, and retail. Immigrants from Mexico and Central America have transformed some small towns, but the great majority has settled in job-laden metropolitan areas. No longer are **Latinos** only migrants; rather they are staying, typically clustering in low-wage occupations.



Metropolitanization

Jobs are clustering in the metro South, and people inevitably go to where the jobs are. And, in a democracy, political power flows to where the people are. Whereas rural barons ruled Southern legislatures only a few decades ago, the South's decision-making bodies will increasingly represent an urban/suburban populace. And yet, like an adolescent who grew too fast for his clothes, traditional policies in development, transportation, and environment reflect the legacy of a more rural era. Often, they don't fit the **new metropolitan reality**.

Fiscal anemia

As the economy slumped in 2001-02, states found their **tax systems under strain** – income tax collections plummeted as a result of both job losses and the drying up of capital gains; sales taxes took a hit from the drop in tourism; and corporate tax revenue dropped with the decline in profits. None of the states has modernized its system to conform to today's more service-and-knowledge-oriented economy.



The upshot is that the states' ability to respond to new challenges and unfinished business has weakened.

CHURNING BENEATH THE RISING TIDE

Many Southern governors, legislators, and policymakers detected the trends and worked assiduously to diversify the region's economy, make communities more competitive, and prepare workers for new jobs. While textiles and apparel declined, information technology, life sciences, plastics, and electronics grew, as did construction, services, and retail. However, the **pace of change** – especially the decline of long-entrenched manufacturing enterprises – accelerated dramatically in 2001 and even more precipitously after September 11. While *Shadows* correctly warned in 1986 that the South was undergoing structural economic change, it could not have foretold the sweep of that change.

Rural Shadows, Old and New

Over the past decade and a half, a gulf has emerged within the rural South, separating prosperous counties from their distressed brethren. The digital divide is a new and growing factor affecting the South's high-poverty regions, as sparsely populated and low-income communities are invariably the last to get telecommunications infra-structure. More than 60% of the zip codes in the Delta still do not have a broadband provider.



But today it is not only the South's persistent poverty areas that are being left behind. The region's economy is in the midst of a **long-term restructuring** in which the big "losers" are manufacturing-dependent rural areas. The recent recession only served to speed up this restructuring, as formerly stable rural towns and counties suffered massive job losses in textiles, apparel, and other manufacturing industries.

In decades past, the impact of recession was temporary – workers would be called back to the plant floor when inventories had been worked off and demand picked up. This time, however, national recovery won't bring jobs back to the rural South. Production has moved to other countries with lower wages, or plants have substituted technologically advanced machines for people. Tens of thousands of jobs are not coming back.

Tsunami of globalization

Today – with free trade well established, corporations seeking less costly labor overseas, computers and machines doing the work of ever more people – globalization and technology have become a tidal wave drowning whole communities.

All told, between 1986 and 2000, textile employment in the Southern states fell from 549,000 to 418,000. Apparel jobs plummeted even faster, from 536,000 to 259,000.

The economic slowdown of 2001-02, along with the devaluation of Asian currencies, led to further layoffs and plant closings. The Southern states reported a loss of more than 375,000 jobs due to “extended mass layoffs” during 2001. **Actual job losses** were higher, since these figures include only layoffs and plant closings that affected 50 or more workers. In North Carolina, a third of layoffs during 2001 were in textiles, and 69% of these were in the state's rural counties. The people who held those jobs – predominately older workers with low education levels, including many women – have few or no options for alternative employment.

“We know what strategies work, but today the pace of change is so fast that often communities just can't keep up,” according to Rick Carlisle, Managing Partner of North Carolina's Dogwood Equity. “Our efforts are simply too small in relation to global economic forces.”

Farming won't save us...

Agricultural jobs (including forestry, fishing, and agricultural services) fell from 17% of nonmetro employment in the South in 1969 to 8% at the end of the 1990s. By 1997, these jobs produced only 5% of the region's nonmetro earnings.



Agriculture remains an important part of the regional economy, and new opportunities and emerging for marketing and adding value to the region's output. Food processing, for example, has become the South's second largest manufacturing sector, employing over half a million people. Today perhaps more than ever, opportunities for small farms depend on forging **creative**



market links. Some family farms are surviving by cultivating specialized crops and marketing locally through farmers markets, restaurants, and direct contracts with food stores or school systems. Still others are marketing nationally and worldwide through the Internet.

But education and entrepreneurship might

How can rural communities build prosperity in the face of the global trends that threaten them? The region must respond with stronger efforts in education and in entrepreneurship.

Two demographic trends have big ramifications for **education** in the South, especially rural areas. First, the current Southern workforce is aging: the number of adults ages 20 to 44 is expected to decline by half a million by 2010.

Second, an increasing portion of young workers will be African American and Latino. At the end of the '90s, only 8% of the rural South's African American adults ages 25 to 64 – and only 5% of Hispanics – had a four-year college degree. For non-metro whites, the figure was 17%. (In contrast, 28% of adults in the metro South

had college degrees.) More than half of the rural South's Hispanic adults ages 25 to 64 had not completed high school, along with 28% of African Americans and 18% of whites.

Like education, **entrepreneurship** has emerged as a critical foundation stone for rural advancement in today's economy. And yet, like education, entrepreneurship was not historically nourished by the culture or economy of the rural South. For generations, the South has raised its young people to work for someone else.

Still, the South recruits industry with much more vigor than it seeks to develop a culture of entrepreneurship. Mac Holladay, who served as head of economic development in three Southern states, mused, "If we had put the vast majority of our economic development resources into incubators, small business services, export training, and existing business assistance – instead of recruitment and overseas offices – it might have made a big difference."

Darla Moore, South Carolina businesswoman and founder of the Palmetto Institute, a think tank devoted to raising per capita income in South Carolina, described the South's buffalo hunt strategy as "depending on the kindness of strangers." The region needs to become more self-reliant.

Competitive advantage through regionalism

In the face of this stark reality, states should use a "preferential option" strategy that would steer private investment toward those rural areas that have a fighting chance for success. Such a strategy should be accompanied by incentives toward regionalism. Public investments in **regional initiatives** are often the best way to aid distressed towns and communities.

Regionalism means actively encouraging communities to band together to achieve economies of scale. States can aid these



efforts in several ways, including by connecting rural communities to thriving areas through **transportation** (road and rail) and **telecommunications** networks.

Over the past decade, the South has seen the creation of regional and statewide nonprofit rural development institutions, such as the North Carolina Rural Economic Development Center, the Enterprise Corporation of the Delta, the Foundation for the Mid South, and Southern Development Bankcorporation. These organizations add value by providing research, innovative ideas, and management capacity for ambitious rural development efforts in their regions. States need such independent organizations to provide social venture capacity, testing new approaches beyond the scope of public agencies.

States also are beginning to grasp the new imperative and providing leadership for regional development. For example:

- Georgia amended its state constitution to allow local jurisdictions (counties and cities) to share revenue from regional industrial parks, airports, convention centers, and other development projects.
- South Carolina created an Infrastructure Authority, which funds only multicounty projects.



In the late 1990s high-profile task forces were commissioned in North Carolina, Georgia, and Virginia to fashion strategies for rural revitalization. These task forces outlined comprehensive approaches, including extending **internet** access to rural areas, making more **capital** for rural business development, and bolstering rural **schools**.

Metropolitan magnets

The businesses fueling today's economy are in fields like communications, finance, health, and business services. They concentrate in metro areas with a skilled

labor force, good public services, usually a strong university nearby, and attractive cultural and natural amenities.

The analysis of Richard Florida, a professor at Carnegie Mellon University in Pittsburgh, suggests that economic growth now depends on the production of new and valuable ideas – and those metro areas congenial to the “**creative class**” that produces these ideas spurt ahead. Creative workers include architects, scientific researchers, computer programmers, musicians, and writers. Cities where creative workers cluster have been dubbed “magnet towns” or “ideopolises.” Places with more creative workers, Florida has found, are outpacing those with fewer.



One community fostering a shift toward the New Economy is Hickory, North Carolina, which grasped the need to diversify and acted on it. The economy of Hickory, the hub of a four-county region that has become North Carolina’s fourth largest metropolitan area, had long rested on a base of textiles and furniture making. But over the past decade or so, Hickory also emerged as a center of fiber-optic and coaxial-cable manufacturing. A strong community college upgraded the local workforce. In May 2000, the metropolitan unemployment rate was down to 1.9%.

For the modern South, the **new economic reality** is multifaceted: (1) whether fast-growth or slow-growth, metropolitan areas generate more job opportunities these days than rural areas; (2) even though telecommunications has broken down barriers of place, talent still clusters into geographic regions; and (3) unlike previous generations when ports or factories propelled urban growth, today’s metro areas are likely to grow from the production of patents, innovative ideas, finance, and services.

Thus, it is crucial that public policymakers and civic opinion leaders in Southern states reorient their thinking about

economic development and metro areas: wherever and “ideopolis” already exists, it must be supported and its quality of life sustained.

Emerging From the Shadows

To achieve prosperity, a basic hard reality must be faced: the manufacturing buffalo is a relatively rare species these days. Many of the South’s old manufacturing towns are not competitive for the higher-skilled industries that remain rooted in the U.S.

And yet, state, regional, and local economic development agencies, numbering in the neighborhood of 15,000, chase an estimated scant 1,500 plant expansions and/or relocations annually.

Incentives to business may be needed, but they provide a better return on investment when they build a community’s infrastructure, provide workers with higher skills, and attract jobs that pay markedly more than the prevailing wages. In fact, public investments in such areas may well be more important than incentives to new-economy companies and even to manufacturing. *“Keep your incentives and highway interchanges,” Hewlett-Packard chief executive Carley Fiorina recently said. “We will go where the highly skilled people are.”*

RIDING THROUGH A ROUGH PATCH – A TIME OF TRANSITION

Worker transition and training

Retraining is basic to a successful transition to The New Economy. To facilitate retraining, governments should reexamine unemployment insurance, COBRA, and trade adjustment assistance to modify rules that emphasize rapid return to the workforce and to provide more support for workers who need or want training for a better job. Fiscal constraints are no excuse for states to fail to take steps that can improve the employment prospects of Southerners.

States' strongest assets for retraining dislocated workers **are community and technical colleges.** But in times of economic downturn, when the need for retraining is greatest, states invariably cut community college budgets—a self-defeating policy. Instead, governors and legislatures should place high priority on workforce education as central to the state's economic recovery.



Tax modernization

Through the 1990s, the growing economy gave states the financial ability not only to boost teacher pay, build and widen roads, and meet other public desires but also to enact substantial tax cuts. The rapidly changing economy, meanwhile, was also making state tax systems, founded on the old farm and factory economy, increasingly out-of-date.



The South will not fully recover from its current economic travails without a **modernizing of tax systems.** An economy that has shifted markedly from goods to services requires a reevaluation of the sales tax: could sales tax rates come down if more transactions were subject to tax?

In general, tax structures in the South should assure a fair apportionment of the burden, become more responsive to the new economic dynamics, and provide government with sufficient resources.

Spreading the Sunlight

The MDC urges the South's leaders to recognize that a solid foundation for prosperity requires much more than support for business development. They must pay equal attention to workforce development, physical infrastructure, social infrastructure, cultural and environmental stewardship, and civic infrastructure. Together, those six elements comprise the "**Building Block of Community Development.**"

To implement this broader approach to economic development, governors must exert leadership to give departments and agencies a fresh mandate to work together. Business and civic leaders also have a role to play in defining and carrying out a

comprehensive approach to economic development.

As they work to put all the building blocks in place as the foundation for stronger communities and economies, the region's leaders should pay particular attention to two challenges: **education and regionalism.**

SOUTH RISING, TOGETHER

Leadership is central and essential to development. It must be fostered at two levels: at the grassroots to assure that all people have an effective voice locally and at the elective level so that governing bodies respond creatively to the complex issues arising from the consequences of the new economy. Effective leaders:

- Build community alignment around a **common vision** for the future based on an understanding of assets and grounded in values of equity and excellence.
- Seek out new ideas and create a **culture of innovation** and "public entrepreneurship."
- In a spirit of **equity**, strive to create opportunity for everyone.
- Represent diverse voices and include people who have been left out of **civic decision-making** in the past.
- Recognize that their town or county cannot make it alone in today's economy, and **seek opportunities to partner** with neighboring jurisdictions.
- When elected to office, continue to **seek the knowledge and expertise** to govern with skill and vision.

Leaders recognize that what works in one place won't necessarily work in another. But if one size doesn't fit all, one common cause can animate all: to eliminate the shadows and spread more sunlight in both rural regions and metropolitan areas.

Note to Readers

For more information on the building blocks framework, and a copy of this report, see the *State of the South 2002* page of MDC's web site, <http://www.mdcinc.org>. This page also contains links to primary data sources for this report, additional resources that informed the research, and profiles of effective development strategies.

The State of the State Seventy Years Later: Are Mississippians Willing to Do What is Necessary to Move Our State Ahead?

Pete Walley

In only six of the thirty fiscal years between 1902 and 1931 did Mississippi's state revenues exceed expenditures. Against this backdrop, the 1930 Mississippi Legislature created the Research Commission of the State of Mississippi, charging it with "seeking expert investigation into, and study and analysis of all conditions of the State." The results of the effort was entitled *Report on a Survey of the Organization and Administration of State and County Government in Mississippi*, better known as the "Brookings report." Some 669 recommendations were made to the citizens of the state. This was Mississippi's first significant, externally developed report that gave us a blueprint for improving the living conditions of our citizens. Seventy years and countless reports later, our state leaders are still looking for recommendations from external "experts" that will move our state forward.

As Bill Cole, Chairman of the 1989 Special Task Force for Economic Development Planning said in the Chairman's Letter of *Seizing the Future: A Commitment to Competitiveness*, "The question which remains is whether or not we have the willingness to do what is necessary to ensure that competition." He was, of course, speaking to the willingness of our leaders to begin implementation of the recommendations of that report. But in a larger sense, he was asking whether we will begin to take control of our destiny or allow our destiny to be controlled by external forces.

The following reports are the most recent economic development reports with recommendations for Mississippi and/or the southern region of the United States. These reports are yet another set of external and "expert" recommendations, not much different in principle from previous reports. The question still remains of whether or not we have the willingness to do what is necessary to ensure that our citizens will be able to compete.

- ***Building Opportunity in Mississippi Through Higher Education***, January 2002

A Report from the Steering Committee for the Mississippi Leadership Summit on Higher Education.

- ***The State of the South 2002, Shadows in the Sunbelt Revisited***, September 2002, MDC, Inc. Chapel Hill, N.C.

- ***Invented Here: Transforming the Southern Economy***, June 2000. The Southern Growth Policy Board 2001 Report on the Future of the South.

- ***Fulfilling the Promise: Building a Workforce for a Competitive Economy in the 21st Century***, August 2002. A Report to the State Board of Community and Junior Colleges and the Workforce Investment Board Regional Technology Strategies, Inc., MDC, Inc.

- ***Mississippi: A Sense of Urgency, Rural Responses to the New Economy***, April 2002. Southern Rural Development Center and MDC, Inc.

- ***SREB Goals For Education, Challenge to Lead***, June 2002. Southern Regional Education Board.

Common themes among the six most recent economic development reports are as follows:

Education-related recommendations

- **"Sell" Education:** Build strong public awareness of and public demand for education. Promote lifelong learning. Improve

the cultural attitude of Mississippians towards more education and skill attainment.

- **Begin at Birth to Help Children Flourish:** Expand and strengthen early childhood programs statewide to get children ready to learn in the early grades.
- **Maximize Use of Programs:** Increase use of programs at community colleges and universities. Identify, develop and promote critical career fields, focusing on science, math, engineering and technology based education.
- **Erase Knowledge Deficits:** Erase education and training deficits, especially among first-generation college students, African-Americans, and new immigrants.
- **Open Education to All:** Eliminate boundaries and increase flexibility of community college and university programs so that more persons currently in the workforce have access to them.
- **Focus on our Strengths:** Identify and support cluster-skill training and voluntary nationally recognized skill standards in industry sectors where Mississippi has the greatest potential.

System capacity-related recommendations

- **Collaborate Better:** Develop stronger partnerships among K-12, community colleges, workforce development organizations and institutions of higher learning and between business and education communities.

- **Hold People Accountable:** Ensure that the efforts of K-12, community colleges, institutions of higher learning and non-profits are coordinated, focused, efficient and accountable.

- **Train Leaders:** Strengthen the skills of state and local leaders. Demand higher levels of performance from leaders.

- **Think and Act Long Term:** Develop a broader, more strategic approach to economic development efforts.

Business-related recommendations

- **Grow businesses from within:** Develop and promote an entrepreneurial culture for all Mississippians. Support business incubators and small business services that will enable the state to become more self-reliant.

- **Monitor effectiveness of incentives granted.**

These reports imply that status quo as a strategy does not improve our state's economy. Notice that these recommendations focus on the capability and capacity of our people, not on new highways, additional incentives and infrastructure grants. The world is changing at a very high rate, and we must change or be left further behind.

Pete Walley is Director of the Bureau of Long-Range Economic Development Planning for the state, which is housed in the Mississippi Institutions of Higher Learning's University Research Center.

Websites for Researchers

COMMUNITY AND REGIONAL ECONOMIC DEVELOPMENT

Each issue of the *Review* provides descriptions of a few websites that are especially useful to persons seeking information and data on current policy questions. Also, note that the main gateway to federal statistics is www.Fedstats.gov, described in the 12/01 *Review*. The Bureau of Economic Analysis, at www.bea.gov, is the major source of state data on incomes and outputs. For the most recent statistics on Mississippi employment and income, go to the online site of the Mississippi Employment Security Commission at www.mesc.state.ms.us and look for their Labor Market Information (LMI) Guide. Currently, a statewide data and information network for libraries called *Magnolia* is under construction and can be viewed online at the following site:

www.lib.usm.edu/~magnolia/magnolia.html. Anyone can access *Magnolia* by obtaining a user name from her or his local library. Suggestions for this page are welcome. Please send to Marianne Hill at mhill@ihl.state.ms.us.

Regional Economic Development

The National Association of Development Organizations at www.nado.org offers a wealth of information related to regional economic development. You can access their monthly *Economic Development Digest*, which focuses on special topics each month. Their Policy and Priorities section offers talking points and fact sheets on topics ranging from Homeland Security to Federal Loan Programs. The Legislative Affairs section provides issue updates on such topics as brownfields and the environment and internet taxation. There are also links leading to hundreds of other relevant governmental and non-governmental sites.

The website of the Southern Growth Policies Board at www.southern.org has a heading, Promising Practices, that is worth a visit. In each area, Workforce, Community and Leadership programs in member states are highlighted. Among the Mississippi highlights are the Mississippi Center for Community and Civic Engagement at the University of Southern Mississippi and several leadership programs across the state. The 2002 *Report on the Future of the South* is also available.

The *State of the South 2002* published by the MDC Inc., summarized in this *Review*, can be found at www.mdcinc.org. The MDC, Inc. also makes available on-line, at no cost, several other publications relevant to expanding economic opportunities and building inclusive communities, including *Building Blocks of Community Development*, which provides links to websites set up by successful projects across the South. Click on their Publications section. This report uses information on the New Economy and other community-oriented research from the Progressive Policy Institute, available at www.ppionline.org.

Federal Agencies Addressing Community Development

Several federal agencies address economic development issues. These include the Department of Housing and Urban Development, whose Community Development Block Grants are a valued tool for communities. See www.hud.gov and choose Economic Development at left. The Small Business Administration, at www.sba.gov, offers ask-the-expert options in several areas. The Department of Agriculture has an economic research service that focuses on issues



of concern to rural America. Go to www.ers.usda.gov and choose Rural America. The annual project report of the Appalachian Regional Commission presents profiles of 189 projects that have generated businesses and jobs. You may access the webpage as follows: www.arc.gov/entrepreneurship.

Community Networks in Economic Development

The largest grassroots network of community organizations is that of the Industrial Areas Foundation (IAF). This network is active in the Jackson area as the Amos Network and branches are beginning also on the Gulf Coast, Meridian and Oxford. There is no central website for the IAF, but the following Baltimore



site, www.builtiaf.org, provides links to several other cities and also gives examples of community initiatives in its Products section. Another organization, focused on community development and operating in 51 cities, is ACORN, at www.acorn.org. It offers information and resources related to predatory lending, affordable housing, community reinvestment and living wages. Another site of interest is www.civic-strategies.com., with connections to several development-oriented programs across the nation.

Astronomy – Hubble Photos

Looking for some great photos to use as background on your computer? Visit the image gallery at <http://hubble.nasa.gov>. Each photo is accompanied by a brief write-up. Categories include: the solar system, stars, quasars, galaxies, nebulae, supernovae and blackholes.