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Mississippi Economic Review and Outlook

December 2000

Dear Readers,

We have taken our first steps into the new millennium, and are about to set foot into 2001. Productivity growth has taken an impressive jump in the past two years, thanks in large part to the new information technologies. But is Mississippi keeping up? Check out the Mississippi economic outlook.

The national and the state economic forecasts delve into the reasons behind the current slowdown, and the factors that will determine the growth rates of output and employment over the coming five years. Brief highlights from news about the Mississippi economy are presented following the economic analysis.

With Social Security, Medicare and Medicaid heading for financial difficulties within the next twenty-five years, is it time to consider some changes? The current debate on Social Security is explored in the article by Marianne Hill.

Not all counties have shared equally in the economic boom of the mid-1990s in Mississippi. Christian Pruett explores the changes in county rankings in per capita income between 1990 and 1998, and makes some surprising discoveries.

Gaming has transformed the Coast and River counties where casinos have located. A study of the economic impact of gaming by University of Southern Mississippi is available on-line, and some of its findings and conclusions are presented here.

With the number of families in the state on welfare dropping from 53,000 to 15,000 over a five-year period, interest in the economic fate of these families is growing. Marianne Hill compares the findings of some studies nationwide with the results of a recent Millsaps study which finds that most former recipients here earn less than $2,400 annually.

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 the WEFA Group. 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.

Best wishes to you and yours in 2001!

Marianne T. Hill
Editor and Senior Economist
Center for Policy Research and Planning
Jackson, MS 39211

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NATIONAL ECONOMIC OUTLOOK

***Gross domestic product, industrial production, payroll employment, housing starts, corporate profits and investment all showed significantly slower growth in the third quarter of 2000, signalling that the long-awaited slowdown has arrived.**

***At the same time, inflation stood at its highest level since 1996, pushed up by skyrocketing energy prices, although the core rate of inflation (which excludes energy and food) remained in the 1.7-2.0% range.**

***Productivity growth this year was at a twenty-year high, while the unemployment rate was at a thirty-year low.**

***The unrest in Israel and the Middle East will mean continuing uncertainty in energy markets. Oil prices reached over $30 per barrel in August and remained high even after the U.S. released oil from the Strategic Petroleum Reserve.**

***Consumer confidence remained high, with spending outpacing income gains.**

***Rising interest rates have not had much effect on spending on information technology equipment and software, which continues its double-digit growth. But housing starts and residential construction have slowed.**

It was just a matter of time. The inevitable slowdown of the U.S. economy is well underway, according to the latest numbers. In fact, the 2.4% growth rate of gross domestic product (GDP) in the third quarter may have been just a little too slow for many, after the sizzling 5.6% growth rate of the second.

Industrial production, payroll employment, motor vehicle sales, housing starts and investment all showed significantly slower growth in the third quarter than at the start of the year. At the same time, inflation stood at its highest level since 1996, pushed up by skyrocketing energy prices.

On the brighter side, productivity growth this year is at a twenty-year high, while the unemployment rate is at a thirty-year low. The high productivity has helped to keep down labor costs even as wages rise.

A gradual descent to a sustainable 3.0% growth rate of GDP, with low inflation and low unemployment, appears to be the concensus forecast. The threats to this agreeable outcome come from the unpredictable stock market and the inflammable Middle East.

An overview of recent market indicators is provided in Table 1. The drop in manufacturing capacity utilized is linked to higher energy prices, which have cut into both foreign and domestic demand, and to rising interest rates,

Table 1. **SELECTED QUARTERLY NATIONAL ECONOMIC INDICATORS**
Percentage Change, SAAR, Current Dollars Unless Otherwise Indicated

	III 1999	IV 1999	I 2000	II 2000	III[p] 2000
Gross Domestic Product (1996$)	5.6	8.0	4.7	5.6	2.4%
Index of Industrial Production	4.7	5.2	6.3	7.9	2.8%
Manufacturing, % Capacity Utilized	79.7	80.3	80.8	81.5	81.3
Establishment Employment	2.0	2.2	2.6	2.8	0.2%
Index of Productivity	5.4	7.7	1.7	6.2	3.7%
Business Loans	5.0	9.3	10.4	13.6	9.4%
Consumer Credit Outstanding	5.3	8.0	10.2	9.4	6.1%
Personal Disposable Income	4.1	6.6	5.4	5.7	4.7%
Index of Hourly Compensation	5.2	4.2	4.1	5.6	6.2%
Standard & Poors 500 Equity Price Index	3.7	9.2	13.3	8.0	7.8%
Consumer Expenditures	6.9	8.0	10.9	5.2	6.8%
Light Vehicle Sales, Millions, SAAR	17.1	17.0	18.2	17.2	17.4
Housing Starts, Millions, SAAR	1.66	1.69	1.73	1.60	1.53
Gross Private Domestic Investment	14.2	16.8	5.0	20.2	3.2%
Before-Tax Corporate Profits	7.2	25.3	23.0	9.5	2.6%
Current Account Balance (Billions $)	-359	-385	-406	-425	-482

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

[p]Third quarter data are projections or preliminary numbers.

SOURCE: WEFA Group, November 2000.

which have slowed investment spending and consumer purchases of big ticket items. The falling growth rates of industrial production, establishment employment, and GDP are related to these factors as well.

On the other hand, both businesses and consumers continue to borrow to finance their purchases, with consumer expenditures growing considerably more rapidly than after-tax personal incomes (6.8% versus 4.7% in the third quarter). This consumer optimism is explained in part by the rising compensation levels in today's tight labor markets. Another factor has been the generally upward trend in equity prices over the past two years. Rising interest rates, however, have begun to affect consumer demand for housing and vehicles.

Spending by the business sector has been tempered by third quarter numbers on corporate profits. Gross domestic investment, which is sensitive to profit levels and to interest rates, is estimated to have grown a modest 3.2% in the third quarter, although spending on information technology equipment and software continued its double-digit growth.

The primary threat to a satisfactory soft landing is the reliance of the current economy on a rapid increase of debt held by business and consumers, including debt held by foreigners. A massive shift to a payoff of debt, rather than its accumulation, could bring the economy to a standstill. Business debt has grown 12.1% and household debt 9.6% in 2000 alone. Foreign debt has increased over 15%. Consumer credit outstanding now stands at $1.47 trillion, business commercial and industrial loans at $1.1 trillion, and net U.S. financial debt to foreigners at $2.3 trillion.

The growth rates of these debts are outstripping the corresponding growth rates of income. Table 1 gives numbers on the increase in debt vis-a-vis those on the increase in incomes and profits in recent quarters. In the eyes of many, surging stock market prices are behind the growing consumer indebtedness. In fact, until this year, the growth rate of financial assets has exceeded the growth of debt. Should stock market prices continue to fall, they will have a restraining effect on spending. A serious shock to the Dow-Jones Industrials could even put brakes on the expansion.

The President-Elect

The close election race this November is not yet over as the *Review* goes to press. Whoever gains the White House will do so by the narrowest of margins. Despite the pre-election promises of sizeable tax cuts by both of the candidates, it will be difficult for the new President to achieve the needed concensus in Congress for his tax package. Increased tax credits for research and development and for children were part of both the Republican and Democratic platforms, but it would be very difficult for other changes to pass. For example, a package including a general lowering of marginal tax rates is a controversial change that would cut substantially into the projected government surplus. Analysts do not expect such legislation to be enacted. Similarly, major changes in Social Security, another major campaign issue, would not be easy to achieve. In particular, diversion of part of current Social Security taxes into private investment accounts would involve major transitional problems and the proposal has sparked considerable opposition. (Payments into Social Security are projected to be insufficient to meet commitments by the year 2034, and Medicare and Medicaid face similar funding problems even before then). Some of the issues involved are addressed in another article in this *Review*.

Oil and the Economy

High energy prices are reducing the spending power of consumers and the profit levels of business. The West Texas Intermediate (WTI) price of crude oil will average almost $30 per barrel for the year, versus $19.31 in 1999. The unrest in Israel and the Middle East will mean continuing uncertainty in energy markets. Oil prices reached a new high September 20 of $37.20 per barrel (WTI) and remained high even after the U.S. released oil from the Strategic Petroleum Reserve in September. At the end of November, prices were in the mid-$30s. Inventory levels of petroleum remain lower than expected and refinery problems and cold spells will put occasional upward pressure on prices.

Production of oil has reached record levels , however, and current predictions are for an easing of prices by December, to continue into 2001. The price of crude is forecast to be $22.58 in 2001 and $21.90 in 2002. Colder winter temperatures than usual, however, would drive up the price of heating oil and affect this prediction. Beginning in 2001,
new non-OPEC supplies from Africa and Brazil, and the possible completion of the CPC pipeline from the Caspian, will provide competition for OPEC and put further downward pressure on prices.

Market psychology has been a major factor in the fluctuations in oil prices--with prices often behaving perversely. For example, when OPEC announced they would increase production by more than expected in October, prices did not fall, but rose by $1.50 per barrel, with traders rationalizing their behavior by pointing to fears of refinery bottlenecks. With more settled markets, price trends will become more in line with the basic forces of supply and demand. That, however, depends upon developments in the Middle East, where no end to the current unrest is in sight.

Table 2. **U.S. ECONOMIC FORECAST 2000-2002**

	2000	**2001**	**2002**
Gross Domestic Product (Percent Change)	7.4	5.4	5.0
Real Gross Domestic Product (Percent Change)	5.2	3.2	3.4
Price Level (Percent Change)	2.1	2.1	1.5
Real Gross Priv Domestic Investment (Percent Change)	10.4	4.0	5.3
Total Establishment Employment (Percent Change)	2.1	1.2	1.3
Manufacturing	-0.3	0.2	0.1
Services	3.5	2.1	1.9
Construction	4.3	0.8	1.7
Trade	1.7	1.4	1.7
Finance, Insurance, Real Estate	0.5	0.5	0.7
Transportation, Communication, Utilities	2.3	1.2	1.0
Government	2.1	0.5	0.8
Unemployment Rate	4.1	4.4	4.5
Personal Income (Percent Change)	6.4	5.5	5.1
Consumer Price Level (Percent Change)	3.4	2.7	2.5
Prime Rate	9.2	9.5	9.4

SOURCE: WEFA Group, November 2000.

Table 3. **ALTERNATIVE SCENARIOS AND PROBABILITIES IN NATIONAL ECONOMIC FORECAST**

	Rate of Growth of Real GDP			Probability
	2000	**2001**	**2002**	
Baseline	5.2	3.2	3.5	55%
Low Growth	5.2	2.3	2.8	20%
High Growth	5.3	4.0	4.1	10%
Recession[1]	5.1	1.3	2.3	15%

[1]Includes two consecutive quarters of negative growth.

SOURCE: WEFA Group, November 2000.

Inflation

Despite the 15% increase in energy costs this year, which has pushed the Consumer Price Index up 3.4 %, the core rate of inflation (which excludes energy and food) remains in the 1.7-2.0% range, due in part to high rates of productivity growth. This is an acceptable level for the Federal Reserve Open Market Committee (FOMC), which November 15 opted not to increase interest rates. The FOMC inflation forecast for 2001 is 2.0-2.5 %, and WEFA predicts that the Fed will boost interest rates should inflation push against the upper limit of that range in early 2001.

Although the increase in hourly earnings will slightly exceed the increase in consumer prices this year, the jump in the CPI has meant that for many real wages were effectively stagnant for the first time since 1995. This in turn leaves many consumers with less purchasing power, and dampens consumer confi- dence.

The International Economy

The world economy picked up steam in 2000, with rest-of-the-world GDP, excluding the U.S., growing by 3.4%, up from 2.4% in 1999. Economic growth in Europe was spurred by increasing domestic demand in Germany and France. The economies of Latin America and East Asia also improved, strengthening U.S. exports. Higher energy prices, however, have hit hard in Europe and in other oil-importing areas, so that in 2001, the growth rate of GDP is expected to drop slightly, to 3.2%.

The value of the euro in turn has been hurt by the slowing growth in the Eurozone. After beginning the year at $1.01 per euro, the exchange rate was down to $.86 per euro in November.

The higher growth rate of the world economy this year has boosted US exports and so has slowed the growth of the U.S. trade deficit. U.S. exports of goods and services grew just 2.9% in 1999, but have increased about 8.3% this year. Offsetting the improved exports, the growth rate of imports was a considerably higher 12.8%. As a result, the current account deficit reached $480 billion in 2000 and is expected to gradually rise during the next few years, hitting $550 billion by 2005.

The growing U.S. trade deficit will eventually have the effect of driving down the value of the dollar as it becomes necessary to coax our trading partners to buy more U.S. goods, services and assets through lower prices and higher interest rates. See the June issue of this *Review*. Currently, WEFA forecasts a drop in the trade-weighted value of the dollar of 0.7% in 2001, and an annual depreciation of about 2.0% during the 2002-2005 period.

Short-Term Forecast

Based on November estimates, real GDP growth, which was 4.2% in 1999, rose an unexpected 5.2% in 2000 and is predicted to be at 3.2% in 2001. The unemployment rate, which dropped from 4.2% in 1999 to 4.1% in 2000 will remain fairly stable, rise only slightly to 4.4% in 2001. Table 2 summarizes WEFA=s national forecast.

Productivity gains are expected to be above trend at 4.3% this year and 3.3% going forward. This, along with the expected fall in energy prices in 2001, will keep inflation low. The high productivity will also keep labor costs in check and boost corporate profits.

Consumer spending will slow in 2001, as households bring their expenditures into line with their incomes. Rising interest rates, which have already cut into the housing market and consumer durables, will further slow spending by both households and businesses, although spending on information technology equipment will remain strong. Lower energy prices will have a positive impact on demand by mid-2001, bolstering consumer expendi- ture. Lower interest rates are not expected until 2002, when, if necessary, the Federal Reserve will act to maintain satisfactory levels of economic activity. Should energy prices remain high into 2001 or the stock market continue to fall, however, the Fed may be forced to act sooner.

The federal surplus, which in 2000 is coming in a handsome 89% greater than last year, will bolster government spending in 2001--financing some of the President-elect=s campaign promises.

Alternative Forecast Scenarios

The baseline WEFA forecast for the national economy discussed above has an associated 55% probability. The November forecast, shown in Table 3, is little changed from that predicted in June–the major difference being that a somewhat lower growth rate of GDP is expected in 2001: 3.2% is the current 2001 forecast, compared to 3.8% this summer. A slight upswing to a 3.5% growth rate continues to be predicted for 2002.

The probability of a high growth scenario has been reduced from 15% to 10%, while the probability of a recession has been increased from 10% to 15%. The slowing of output and employment growth at a greater rate than expected in the third quarter explains this shift.

The high growth alternative could materialize if energy prices drop more rapidly than expected, if interest rates rise more slowly, and/or if productivity continues to increase at its current rate. Another positive that might push up the economic pace would be a prolonged rise in the stock market.

The lower growth alternative would be the result of the same factors mentioned above moving in the opposite directions. Increased turmoil in the Middle East would also be a negative factor, with the adverse impacts on energy prices and expectations outweighing the stimulatory effect of any increased military spending.

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

MISSISSIPPI ECONOMIC OUTLOOK

***Employment growth in the state is slowing. Payroll employment has grown only 0.1% year-to-date through September, compared to the same period last year–although based on past revisions, these figures will likely be adjusted upward to closer to 1.0%.**

***The transportation/ communications/ utilities sector had a very respectable growth rate of employment of 4.0%, but manufacturing employment continued to falter in the first three quarters of 2000. Services showed a mixed picture, with a 6.2% increase in jobs in amusements but less than 1.0% growth in health services. Overall, services employment increased 1.0%.**

***Total Tax Commission collections going to the General Fund are 3.2% higher this fiscal year than last, which, however, represent a shortfall of $53 million from the estimate of $1.2 billion. While the income tax grew 6.3%, the slow growth of the sales tax and the drop in the corporate income tax are particularly disappointing.**

***Business confidence dropped below 50, to 49, in the second quarter of 2000. This is only the second time since 1994 that this index has fallen below 50. An index of less than 50 indicates more negative than positive responses.**

***Consumer confidence remains strong in comparison to 1994, however, although it continues to decline from the all-time high of the fourth quarter of 1999.**

Down, but not out. Growth indicators across the board are turning down in Mississippi, although employment and output levels remain near record highs. Retail sales, state revenue collections, building permits issued and business confidence, all slower or lower than last year, flash the same warning: slowdown ahead.

A drop from the steaming pace of the mid-90s was inevitable, and, though in the case of the state budget the landing has not been as soft as might be pre- ferred, Mississippi remains in a favorable position for continued growth.

A graphic overview of trends in Mississippi's economy is given in Figure 1. What is most remarkable about the course of the state's economy this year, as depicted in the graphs, is how close this year's numbers are to those of 1999, indicating only slight increases, if any. With a few exceptions, this year's figures are just a bit above those of last year, and the up=s and down=s are much the same. Figure 1a, showing personal income tax returns, is particularly striking: the lines for the two years actually merge in several places. And overall tax trends, Figure 1b, show a similar pattern, with revenues in 2000 only ahead of those of 1999.

The associated data on taxes show that, overall, personal income tax revenues for FY2000, which ended June 30, 2000 were just 3.2% above those of FY1999, and total collections up just 2.9%. In FY2000, through October, the growth rate of the personal income tax has been stronger, at 6.3%, but that of overall tax commission revenues is only slightly ahead of last year=s. Slowing sales tax and corporate tax collections account for much of the continuing doldrums, with $35 million of the $53 million shortfall arising from those categories.

Behind the lagging tax collections are business, government and consumer expenditures that remain close to last year=s levels. Explaining the lagging sales tax (Figure 1c), for example, retail sales (Figure 1d) were up only a modest 2.8% through August of this calendar year, even though increased gasoline prices pushed up the dollar value of sales at the pump.

Gaming Revenues Up

The value of building permits issued (Figure 1e) was down, a development linked to both rising interest rates and slowing gaming-related construction. In fact, construction employment during the first nine months was down 3.4% from a year earlier.

The gaming industry continues to do well, however. Gaming revenues year-to-date at summer=s end were up 10% on the Coast and 4.6% in the River counties (Figures 1f and 1g). State tax revenues from gaming, July through October, were growing at a rate of 9.5%.

The downturn in total nonagri- cultural employment since May, shown in Figure 1h, is perhaps most indicative of the current state of the economy. While these figures are preliminary and are generally revised upward (for the past six years this has been the case), they show that since May monthly employ- ment figures have been lower than the previous year=s. And in September there were 10,000 fewer jobs than in May. In the past, employment has typically increased over this period: in 1999, for example, 5,300 persons gained employ- ment over this period.

Slowing expenditures by government and by consumers are behind this recent decline in employment. There were 6,000 fewer persons employed by government in September than in May, as agencies braced for budget adjustments triggered by the squeeze on state revenues. Falling services employment accounted for another 3,000 jobs lost since May, although health services and amusements were exempt from this downward trend and actually expanded employment. The other categories of services, where the downturn occurred, include business services, professional services, and services such as repair and private sector educational services.

CPRP Indexes

Other data on economic indicators and from surveys of consumer and business confidence from the Center for Policy Research and Planning convey a similar story. Leading indicators for the state showed a continuous downward trend from February through September, the latest month available, and coincident indicators, except for a small rise in July, also declined each month. Consumer confidence, which in 2000 fell from the all-time peak reached at the end of 1999, still remained above last year=s level as of July. Business confidence has wavered, reflecting a wait-and-see attitude, with negative responses now outnumbering the positive.

Behind the Trends

In part, regional factors are behind the drop in the state=s growth rate. Economic activity in the southern states has lagged behind the nation as a whole, due largely to the importance of manufacturing here and the relatively greater weight of industries such as apparel that have been hurt by recent trends in trade.

This year the slowing U.S. economy, rising interest rates and higher energy prices have taken an added toll, as has the state budget squeeze.

But to a large extent, the end of the dramatic growth rates of output and employment associated with the mid-1990s gaming and construction boom is key to explaining both the current high employment levels and the slower growth rates in the state.

The gaming industry, begun in 1992, directly employed about 25,000 persons by 1994, but has only added about 3,000 jobs since. Strong growth in the related hotels and lodging industry brought another 22,000 new jobs over the 1992-99 period. And between 1993 and 1999, the construction sector similarly added 20,000 persons to its payrolls.

But by 1999, growth in these industries had slowed considerably, with gaming employment falling and construction employment rising only 2.4%, or by 1,300 jobs, that year. Other sectors were unable to compensate for

Table 1 . **MISSISSIPPI EMPLOYMENT BY SECTOR**

	Jan. - Sept. 2000	Jan. - Sept. 1999	Percent Change
ESTABLISHMENT-BASED EMPLOYMENT	1152.4	1151.0	0.1
Mining	5.8	5.1	13.7
Construction	53.8	55.7	-3.4
Total Manufacturing	242.7	245.2	-1.0
Durable Goods Mfg.	153.0	153.6	-0.4
Lumber & Wood	25.4	26.2	-3.1
Furniture & Fixtures	31.6	30.4	4.0
Stone, Clay & Glass	6.2	6.2	0.0
Metal Products	18.8	17.8	5.6
Industrial Machinery	19.0	19.2	-1.0
Electronic Equipment	22.4	22.0	1.8
Transportation Equipment	23.9	26.8	-10.8
Instruments & Related	1.3	1.3	0.0
Nondurable Goods Mfg.	89.6	91.6	-2.2
Food & Kindred Products	29.7	29.6	0.3
Textile Mill Products	4.3	4.6	-6.5
Apparel	16.3	17.7	-7.9
Paper & Allied	8.4	8.8	-4.6
Printing & Publishing	8.0	8.0	0.0
Chemical & Allied	7.2	7.5	-4.0
Petroleum & Coal	2.6	2.9	-10.3
Rubber & Plastics	13.0	12.8	1.6
Service Producing Industries	850.2	845.1	0.6
Transportation & Utilities	57.4	55.2	4.0
Transportation	35.1	33.6	4.5
Communications	12.1	11.6	4.3
Wholesale Trade	45.3	47.2	-4.0
Retail Trade	202.9	204.7	-0.9
Finance, Ins., Real Est.	42.0	42.5	-1.2
Banks & Credit Institutions	21.3	21.5	-0.9
Insurance	11.5	12.5	-8.0
Services	271.2	268.4	1.0
Hotels & Lodging	33.3	33.2	0.3
Amusement, incl. Movie	27.5	25.9	6.2
Health Services	76.3	75.7	0.8
Total Government	231.5	227.1	1.9
Federal Government	26.2	26.1	0.4
State Government	62.0	59.1	4.9
Local Government	143.3	141.9	1.0

SOURCE: Mississippi Employment Security Commission, November 2000. Preliminary figures.

NOTE: These employment figures differ significantly from the employment figures of the U.S. Bureau of Economic Analysis (BEA), which are reported in Appendix B in this *Review* and upon which the Center=s economic forecast is based. The differences are due to the fact that the state Employment Security Commission=s reports establishment employment on the basis of employer reports on employees covered by unemployment insurance. The BEA, however, adjusts these figures down to the county level on the basis of tax compliance information available only at the national level. It also includes the self-employed, private household employment and agriculture.

the dropoff: manufacturing was still subdued by weak export demand, health care was suffering from a financial squeeze, state revenues were coming in below estimate, and telecommunications and computer services were too small to pull along the entire state. Overall employment rose a moderate 1.9% in 1999.

In 2000, the unemployment rate has jumped to 5.6% from 5.1% in 1999. Employment trends in individual sectors are examined below.

Employment

Table 1 gives figures on **establishment employment**, which counts total payroll employment in Mississippi establishments and does not distinguish between residents and nonresidents. This employment has grown 0.1%, based on figures through the first three quarters. This number is likely to be revised upward to at least a 1.0% growth rate, based on the fact that these preliminary numbers have been revised upward by the Mississippi Employment Security Commission for the past six years and, more importantly, on the fact that the MESC is also reporting a strong 3.9% increase in the **employment of residents**.[1]

Turning to individual sectors, the change in the **construction** sector is striking. Employment in construction, which grew 7.3% in 1998, rose only 2.4% in 1999 and has fallen 3.4% this year. Nationally as well, there has been a drop in residential construction, as interest rates rise and higher consumer prices cut into income gains. The value of building permits issued year-to-date in the state is down 4.0%, portending slow growth next year as well.

Service sector payroll employment rose at an annualized rate of just 1.0% during the first three quarters. There was a 6.2% increase in the amuse-ments/gaming sector, and a 0.8% increase in health services employment, but apart from those two industries, there was little growth as businesses and house- holds re-examined their spending priori- ties. Among the other service sector industries, where the job loss occurred, are business services and private educa- tional and professional services, which at the national level continue to do well.

Amusements (notably gaming) employed about 6% more persons this year than in 1999, based on figures through September, while **hotels and lodging** employment was effectively stable. However, as Figures 1g and 1h show, in recent months gaming revenues have been close to those of 1999, in both the River counties and the Gulf Coast. With most customers from out-of-state, higher gasoline prices and increased consumer caution nationally have com- bined with falling consumer confidence here to lower growth rates since April.

Table 2. **MISSISSIPPI MERCHANDISE EXPORTS TO THE WORLD, 1995 - 1999, BY PRODUCT SECTOR**

(Thousands of Dollars)

	1995	1997	1999
TOTAL	1,368,686	1,421,336	1,454,289
MANUFACTURES	1,261,125	1,307,492	1,352,208
Food Products	138,539	203,506	53,386
Textile Mill Products	59,879	81,944	66,294
Apparel	54,550	111,120	109,120
Paper Products	169,447	91,177	88,241
Chemical Products	70,678	71,884	117,780
Fabricated Metal Products	35,068	62,380	73,559
Industrial Machinery & Computers	106,762	190,331	194,579
Electric & Electronic Equipment	178,719	139,102	218,773
Transportation Equipment	216,780	52,880	127,165
AGRICULTURAL & LIVESTOCK PRODUCTS	81,057	65,040	87,309
Agricultural Products	80,388	62,974	85,547
OTHER COMMODITIES	26,505	48,803	14,772

Note: all product categories with exports of $70 million or more in 1997 or 1999 are listed individually. Others are included in totals and subtotals.

SOURCE: Office of Trade and Economic Analysis, International Trade Administration, Department of Commerce, Exporter Location Series, Census Bureau.

Health services employment increased only modestly this year, and a continued squeeze on government funds to this sector along with a tightening of health insurance practices will keep growth rates below past trends for the next two or three years.

Manufacturing

Manufacturing employment dropped slightly in 2000 as nondurable goods employment fell 2.2% and durables employment remained flat, based on data through the first three quarters. In **durable goods** manufacturing, furniture and fixtures, the largest employer, enjoyed the highest growth rate of employment, at 4.0%, with metal products a close second. A strong housing market the past three years is behind the high demand for furniture. Electronic equipment employment has held steady, although nationally employment was up an estimated 1.7%. The lower growth here may be due to the falling production nationally of home appliances, radio and TVS. These figures are year-to-date through September 2000.

Also behind the zero growth of durables manufacturing, higher interest rates and the national drop in housing starts has been hurting construction-related manufacturing, such as lumber and wood products. Lumber products employment in Mississippi is down 3.1%, and has been falling steadily. Construction machinery employment here is also down, by 8.3%. Slower world growth than expected also hurt durables manufacturing, which includes several of Mississippi's top exports. Table 2 gives details. Top exports in 1999, accounting for almost one-half of the total, were industrial machinery and computers, electric and electronic equipment, transportation equipment and chemicals and allied products.

As is the case nationally, durables employment should continue to grow only slowly over the coming years, with a slight jump in 2003 and 2004 as the planned Nissan auto plant begins production. An estimated 4,000 workers will be employed at the Madison facility, adding over 2% to the current 153,000 persons in durables manufacturing. More information is provided in the brief article on Mississippi Development Authority highlights.

Declining employment in **nondurables** has long been a problem, exacerbated since 1993 when NAFTA (the North American Free Trade Agreement) was enacted. The apparel industry this year continued to shrink, after a 17% drop in employment last year. Although food and kindred products grew a modest 0.3% during the first nine months of 2000, most nondurables saw the number employed fall, in preliminary figures. One exception was rubber and plastics, where the number employed rose 1.6%. A strong growth in petroleum products employment in the U.S. did not translate into higher employment in that industry here. Overall, nondurables employment was down 2.2%, with the greater importance of textiles and apparel in the state accounting for the larger drop here than in the rest of the country. With the phase-in of NAFTA complete and the world economy likely to improve over the coming months, some improvement is forecast in nondurables over the 2000-2005 period.

Other Sectors

Employment in **finance, insurance and real estate** continues to grow more slowly in the state than nationally. Employment in this sector was down

Table 3. **ECONOMIC FORECAST FOR 2000-2003**

	2000	2001	2002	2003
Mississippi				
Gross State Product (Percentage Change)	4.8	4.7	4.6	4.8
Real Gross State Product (Percentage Change)	2.4	2.5	2.7	2.9
Price Level (Percentage Change)	2.4	2.1	1.8	1.9
Establishment Employment (Percentage Change)	1.1	1.3	1.3	1.4
Unemployment Rate	5.6	5.9	5.8	5.7
Personal Income (Percentage Change)	4.4	4.8	4.8	4.9
Consumer Price Level (Percent Change)	3.1	2.4	2.5	2.5
United States				
Gross Domestic Product (Percentage Change)	7.4	5.4	5.0	5.4
Real Gross Domestic (Percentage Change)	5.2	3.2	3.5	3.7
Price Level (Percentage Change)	2.1	2.1	1.5	1.7
Establishment Employment (Percentage Change)	2.1	1.2	1.3	1.3
Unemployment Rate	4.1	4.4	4.5	4.5
Personal Income (Percentage Change)	6.4	5.5	5.1	5.0
Consumer Price Level (Percentage Change)	3.4	2.7	2.5	2.8

SOURCE: Center for Policy Research and Planning, Mississippi Institutions of Higher Learning.
WEFA Group, November 2000.

1.2% here, while there was a 0.5% increase in the country as a whole. A large part of the explanation for this is the on-going merger movement. When corporations headquartered out-of-state consolidate operations, it is often the case that jobs move to other locations, with the end result being a net job loss for the state. The national forecast is that employment in this sector, which grew at an average annual rate of 2.4% from 1993-99, will grow at an average rate of only 0.8% over the 2000-2005 period. A similarly low growth rate is forecast for the state over the coming period.

Government employment in 2000 grew at close to 2%, led by growth in state education of 6.9%, but the trend in this sector has been downward since May. The downward trend is un- doubtedly due to the shortfall in state general fund collections, which has already resulted in modifications to the projected FY2002 budget. Expenditures in FY2001 will also be below those anticipated at the time the budget was adopted. The result is that government employment will grow considerably more slowly over the forecast period than in the past three years.

Employment in **retail trade** has flattened, mirroring the slower growth in sales. Trends in this sector are based on consumer spending, which has been hurt by rising prices, higher interest rates, and growing unemployment. However, with employment remaining near record highs and gasoline prices expected to fall by spring, the forecast is for some modest growth to continue in this sector, on the order of 1.4%.

Short-Term Outlook

In line with the trends sketched out above, Mississippi has experienced a slower growth of **employment** in 2000 than the nation as a whole. If the U.S. drops to a growth rate of 1.2% in 2001 as forecast, however, the state should again match national employment growth rates. **Gross state product** (GSP) is expected to increase about 2.4% this year and next, rising to 2.7% in 2002. This, however, remains below the national growth rate of output over the next two years, which is forecast to be 3.2% in 2001 and slightly more in 2002. See Table 3. A slower growth of produc- tivity in the state than

This slowdown follows a prolonged period of steady growth in wages and

nationally is implied, as discussed below.

The rate of **inflation**, whether measured by the consumer price index or the GSP deflator, will fall in 2001 from this year's levels as gasoline prices moderate. Increased competition from abroad and some slackening of labor markets will also help hold down prices. **Personal income** in Mississippi grew only 4.3 % in 1999 and again this year appears to be rising at a similar rate. With employment growing only slowly but the rate of unemployment low by historical standards, wages have been increasing at a respectable rate of close to 5%, although this lags both the region and the nation. Wages are not the only component of income, however. Low agricultural prices and changes in federal farm programs, along with slower growth of both proprietors' and property income, were behind the low 4.3 % in personal income in 1999. The outlook for farm proprietors in 2000 was not much improved, although some prices were higher, and consumer expenditures have slowed this year, adversely impacting proprietors again. After the state adjusts to the slower growth of consumer and government demand in the coming months, personal income is expected to return to a growth rate of 4.8% in 2001 and 2002, a more sustainable rate than that enjoyed in the mid-1990s.

incomes. Between 1993 and 1998 the average annual wage per worker in

Mississippi rose about 4.3% in nominal terms, total wages and salaries grew 7.4% annually, and personal income rose 6.7%. This outpaced the national growth rate of personal income, which over this period was 6.4%. The growth of personal income in the U.S. this year has been about 6.6%, with the rate forecast to be 5.8 % by 2001, before falling to 5.0 % in 2002 and 2003.

In Mississippi, the forecast is for an increase in personal income of 4.4% in 2000, and 4.8% in 2001 and 2002. Detailed projections of output, prices, employment and income can be found in the tables in Appendix A at the back of this *Review*. Historical series are available in Appendix B.

Regional Trends

The gross regional product (GRP) for the southeastern region is expected to increase about 4.7% in 2000, a slightly slower increase than that predicted for the nation as a whole. The region's dependence on manufacturing exports, which have lagged due to the slow growth of the world economy, accounts for much of the gap. In 2001, the growth rate is likely to match that of the nation, according to the Economic Forecasting Center of Georgia State University. This prediction is based on their leading indicator index, which includes such variables as average weekly hours in manufacturing, the percentage change in construction employment and commercial bank deposits for each state in the region.

Productivity Trends: Mississippi vs. U.S.

Productivity growth in the U.S. has increased dramatically in the past few years, aided in part by statistical revisions designed to capture productivity increases in the service sector, which have been difficult to measure. Using these revised data, WEFA estimates productivity growth increased from an average annual rate of 1.0% from 1988-93 to 1.4% during 1994-98, and up to an estimated 2.9% in 1999 and 4.5% in 2000. WEFA predicts that productivity growth will remain close to 3% for the next four years, although it acknowledges that productivity is a volatile variable and that sudden drops are not uncommon. WEFA uses output per hour of non-farm business as its measure of productivity.

Output per worker, after adjustment for inflation, is another measure of productivity. According to data from the U.S. Department of Commerce, Mississippi=s output per worker increased 0.1% annually over the 1986-91 period, which was lower than the rate for the U.S. as a whole, but jumped to an average annual rate of 1.7% over the 1991-95 period, while the U.S. output per worker stagnated. However, since 1996, Mississippi=s growth rate has been less than 1.0% each year, in contrast to a national growth rate which has been at or above 1.5%.

Estimates based on the state forecast are that Mississippi will be increasing its output per worker by 1.5% annually by 2003, well above its 10-year trend but considerably below the 2.4% rate forecast for the nation by WEFA.

While the size of the productivity gap between the U.S. and Mississippi in the 1990s may be overstated by these estimates, and the projections for the U.S. for the coming three years may be overly optimistic, it appears likely that there is indeed a productivity gap. Much of recent productivity growth is attributable to technological advances embodied in computer and communications equipment. WEFA expects that productivity growth will remain high due to the Ae-commerce and business strategy revolution underway, (along with its) restructuring and cost-cutting.@ New information technologies (IT) are basic to this change, but data on IT show a problem for the state.

The information technology (IT) sector, which employs about 11% of the U.S. workforce, only accounts for about 6% of employment in Mississippi (Zandi 1999). Since the size of this sector is correlated with the use of IT services, the smaller size here indicates that the state is lagging the nation in IT and the growth of productivity that IT makes possible.

Additionally, it is estimated that one-third of current U.S. economic growth has been generated by the expansion of the IT sector, and Mississippi's employment growth in that sector has also lagged the nation's, according to the Zandi study and an independent check by this office.[2]

Forecast for 2000-2005

The extent of the slowdown expected both in Mississippi and in the U.S. are depicted graphically in Figures 2 and 3. Both output and employment growth will be noticeably lower over the forecast period. Perhaps most striking, employment growth in the nation as a whole is forecast to drop a full percentage point over the coming five years, falling from a 2.5% annual increase in 1994-1999 to just 1.4% in 2000-2005. Tight labor markets mean that the expansion of U.S. employment is limited by the size of the working age population in the country. Individual states, however, have somewhat more flexibility, in that they can attract workers from other states. In fact, Mississippi is expected to match the nation in employment growth. Although the 1.4% increase is substantially below the 2.5% increase the state enjoyed during the 1990s, it represents a respectable rate of economic activity.

The state, however, is unlikely to match the productivity growth of the nation. The smaller proportion of high-wage, high-productivity jobs in the state's service sector is one problem, but also the relatively slower growth of information technologies employment, as discussed above, is another. Slower productivity growth means that the national increase in output is expected to exceed that of the state by over 0.5% annually. This is a rough estimate, however, since productivity increases are notoriously difficult to predict.

The sectors expected to have the highest growth rate of employment over the 2000-2005 period are services, mining and construction. See Figure 4. Mining employment will be boosted by the higher petroleum prices, while construction employment will slow from its recent spectacular rates of growth. There is enough construction on line to ensure moderate growth, in any case, and any reduction in interest rates will have an additional positive effect. The forecast is that the prime and other interest rates will begin to fall by 2003.

In recent years, gaming and hotels and lodging employment have had the highest growth rates among service sector industries, although business services employment has also shown strong growth. Health services employment growth has slowed. Table 14 in Appendix B gives the details. These four industries account for 60% of services employment, and will remain leaders during the forecast period. However, professional and educational services are also likely to continue to enjoy a moderate rate of growth. The service sector, which has been the leading source of new jobs in the economy, currently provides 24% of total wage and salary employment.

There are three sectors besides services employing 19% or more of workers: retail/wholesale trade, government, and manufacturing. None of these are expected to have a growth rate above 1.5%. However, moderate growth rates in the economy will ensure continued expansion of jobs in trade and government. A positive growth of employment in manufacturing will be made possible by improving world economy, an end to the initial phase-in of NAFTA, and continued investments in new technologies.

Taken together, these factors point to a sustainable rate of growth of output for the state that is somewhat below 3%, a still respectable pace.

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

Notes

C An increase in residential employment with no increase in establishment employment is quite possible. For example, when labor markets are tight, some residents exchange two or more jobs for one higher-paying position, thereby decreasing establishment employment, while at the same time new entrants to the workforce increase residential employment. However, it is statistically a challenge to adequately capture the impact of newly-formed businesses and the magnitude of the gap in this case suggests some undercount of establishment employment as well.

C Although Mississippi=s employment growth from 1995-98 appears to have been higher than Zandi=s estimate, calculated at 2.97% by this office, it is still below the national rate of 4.10% over the 1995-98 period. Data gaps due to confidentiality requirements limit the accuracy of these estimates, however.

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Long-Term Trends: Poverty Declines

Over the past ten years, the incidence of poverty in the state has dropped dramatically, from 25% in 1988-90 to 16.8% 1997-99 (the Census uses three-year averages for this statistic). While Mississippi ranked at the bottom of the 50 states plus the District of Columbia (D.C.) at the start of the decade, it now stands in 48th place--New Mexico, Louisiana and D.C. rank lower. It surprising that the 33% drop in the rate of poverty did not move the state up even farther, however, since nationally the overall poverty rate has barely budged, falling only from 13.1% to 12.6%. However, the aggregate figure disguises very different trends in poverty by region.

Research by the Economic Policy Institute (1999) shows the East South Central region of the U.S. to be the only region where all states enjoyed a decline in poverty over the 1988-1996 period. Alabama, Kentucky, Mississippi and Tennessee constitute this region. In the South Atlantic region, by contrast, all states except Georgia had at least a slight increase in poverty. (This increase was less than one percentage point except in Florida and the District of Columbia.) Several of the positive factors affecting this region remained in place in 1997-99, and poverty continued to decline in the East South Central states except Alabama over the 1997-99 period.

Changes in federal programs targeted at the poor, such as indexing social security payments to the rate of inflation and increases in the earned income tax credit, have also contributed to reducing poverty. They do not account for the wide regional variations, however.

HIGHLIGHTS FROM RECENT NEWS ON MISSISSIPPI=S ECONOMY

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

Nissan Plans Auto Plant

Nissan Motor Company will begin construction on a $930 million auto plant in Madison County in April 2001. By 2003, the plant is expected to be producing 250,000 full-size pickups, sport utility vehicles and minivans yearly. Up to 4,000 persons will be employed by Nissan, and suppliers and spinoff industries will provide several thousand more jobs.

In a special legislative session held November 6, the legislative passed a $295 million bond issue to finance site preparation, highway access to the site, the training and education of workers, water and sewer improvements and a vehicular research center at Mississippi State University. Tax incentives will also be provided. In addition, Madison County will invest in site preparation and will construct a 100,000-square-foot facility to serve as a headquarters/ training center for Nissan while the auto plant is under construction.

Carlos Ghosn, president of Nissan, was in Mississippi for the announcement of the future plant November 9. The facility will be the third built by Nissan in the United States. Malcolm Portera, president of Mississippi State University and a member of the recruitment team, predicted that Mississippi will draw at least as many suppliers as Alabama did when it attracted Mercedes. He noted that the smaller Mercedes plant only produces 60,000 vehicles per year. For more information, see the following website: www.mississippiandnissan.com. Also, the November issue of *Mississippi Business*, published by this office, has an article on the economic impact of the plant.

New Businesses and Expanded Facilities

Capital investment in new and expanded facilities was estimated at $1.7 billion during the first three quarters of 2000, according to the Mississippi Development Authority. Of this total, $503 million was in manufacturing facilities, a larger amount than during the corresponding period in 1999. This total does not include the auto plant announced by Nissan in November.

The largest individual manufacturing investment during this period was $128 million in the Lockheed Martin Propulsion Thermal and Metrology Center at the Stennis Space Center in Hancock County. It will employ 270 persons building and testing guided missile and space vehicle propulsion units, parts and auxiliary equipment. Kimberly-Clark in Corinth also announ- ced a $73 million expansion of its plant, to produce nonwoven fabrics, disposable diapers and tissue paper products.

Investments of $1.2 billion in non-manufacturing facilities were also announced--a drop from 1999. The largest of these investments have been in electric power generation or distribution. GenPower is investing $200 million in Attala County; Duke Energy is investing $170 million there as well, and in Vicksburg, Entergy Wholesale Operations is investing $140 million.

Among other non-manufacturing facilities, Lakeview Village is building an $80 million shopping center in Harrison County. The Grand Casino/Terrace Hotel in Tunica County announced a $72 million facilities expansion. Several other casinos also announced expansion plans, including the Horseshoe Casino in Tunica County ($40 million), the Silver Star in Philadelphia ($29 million), the Isle of Capri ($23 million in Coahoma County and $14 million in Tunica County), and Sam=s ($21 million in Tunica).

Service Zone, a Florida-based company, plans to build a new customer service call center in Starkville, at the Mississippi Research and Technology Park. The center will operate 24 hours a day, and will eventually employ 600 people, who will primarily answer technical support questions.

Businesses in the News

Entergy Corporation has agreed to a $7 billion merger with Florida Power & Light, creating the largest electricity producer in the U.S. The merger puts Entergy in the junior position of the new company, with its shareholders owning 43% of the stock.

The sound system installed at Australia Stadium for the Sydney Olympics was designed and created by Peavey Electronics of Decatur, Mississippi. It was the first all-digital system ever, from microphone to the speaker system, and the largest public address system ever installed in Australia.

In a recent study, the Air Force estimates the impact of the Kessler Air Force Base on the local economy at $1.4 billion. The base, on the Coast, employs over 3,600 civilians and 12,055 military (including those on reserve duty and active duty students). There are approximately 10,000 military retirees in the area as well.

Tourism/Retirement

Just one month after opening in September, the Rails-to-Trails project along the Magnolia Trace was already drawing 1,000 users a week. The trail had been expected to average 35,000 users each year, but that number has been increased. The state provided $3.54 million in funding for the first 39 miles between Jackson Road and Prentiss. The final two miles between the University of Southern Mississippi and Jackson Road will be completed with a $1.8 million grant.

Mississippi in the Nation

A long-proposed bridge linking Mississippi and Arkansas was given the green light by the Federal Highway Administration. The river crossing will tie into the proposed Interstate 69 connecting Canada and Mexico. The Great River Bridge will link Highway 65, McGehee, Arkansas and Highway 1, Benoit, Mississippi.

Business Facilities magazine ranked Mississippi sixth in the nation for business start-ups over the 1997-99 period, making Mississippi the only state in the eastern half of the country to place in the top ten. Such factors as business survival, job growth and sales growth were considered.

The Carnegie Foundation for the Advancement of Teaching placed the University of Southern Mississippi among the nation=s top 150 institutions, based on the breadth and effectiveness of its doctoral programs. Only schools that award 50 or more doctoral degrees per year across at least 15 disciplines are eligible to be designated a ADoctoral/Research Extensive Institution@ by Carnegie.

Forbes magazine ranked Gulfport/Biloxi/Pascagoula on the Coast as number 82 on its list of best places in the U.S. to do business or advance a career.

Social Security: Time for a Change?

Marianne Hill

For 65 years, the Social Security system has been in existence, providing retirement, disability and life insurance benefits. However, the proportion of the population over 65 years of age has increased, and the number of workers paying into the system relative to the number of persons receiving benefits has gone down, falling from 16 workers per recipient in 1950 to 3 workers today. The reduction in the number of dependent children per worker does not eliminate this problem. As this trend continues, by the year 2037 or so, the system will be unable to maintain the current real level of benefits without raising the payroll tax that funds the system, or taking other steps to enhance revenue inflows.

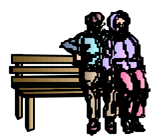
Because of this expected financial squeeze, Social Security has come under close scrutiny, and what to do about Social Security was an important topic in this year's presidential elections. Some relevant issues are presented below in question and answer format.

How much does Social Security pay a typical beneficiary?

Most retired households depend on Social Security for the majority of their income, and Social Security can be just as important to disabled workers and the survivors of deceased workers. But the typical Social Security payment is modest. In Mississippi, where payments are slightly lower than the national average, the average level of benefits paid in December 1998 was $696 per month for retired workers, which was just above the poverty threshold of $666. Other average monthly benefits:

$606 for widows and widowers;
$681 for disabled workers;
$336 for spouses of retired and disabled workers;
$310 for dependent children of retired workers.
$183 for dependent children of disabled workers.

Some groups are more dependent upon Social Security than others. Two-thirds of older African-Americans and three-quarters of older Latinos receiving Social Security do not receive any other pension benefits. Similarly, only 27% of older women get a pension, compared to 47% of men.



Would retirees have done better if they had invested in the stock market instead of relying on Social Security?

Using the calculator at the Cato Institute website, www.cato.org, a worker retiring at age 65 with monthly Social Security benefits of $696 would have received over $2,000 monthly if, instead of paying payroll taxes, he or she had invested an equivalent amount in the stock market at a 7% rate of return (the average over the past 75 years). For a more accurate comparison, however, it should be noted that if the worker had a spouse over age 65, the spouse would receive $348 in spousal benefits, if she or he opted for spousal benefits, and any surviving dependent child, $310.

As long as the stock market continues to perform well, retirement income from investment in stocks should be greater than Social Security benefits for most retiring workers who have continued to work fulltime until age 65.

So, for workers who retire at age 65 or later, private investment accounts would be better than the current Social Security system, right? That depends on whether or not the worker also wants the protection provided his or her family by disability and life insurance. It should be kept in mind that Social Security is just as much an insurance plan as it is a retirement plan, and equivalent private sector coverage for many workers would cost close to the amount paid in Social Security taxes--and depending on age, cost-of-living provisions and pre-existing health conditions might not be available at all.

In Mississippi, 48% of Social Security beneficiaries are not receiving retired worker benefits(see chart below). If a worker had invested annually in stock with an average return of 6.5% but became disabled and unable to work at age 45, he would have received more in Social Security payments than he would have from his private stock investments. In addition, his dependent children and caregiver spouse could also receive Social Security benefits.

What about privatizing part of Social Security?

The most discussed option would permit workers to divert 2 percentage points of the 12.4% payroll tax into private investment accounts. This would reduce payments into Social Security, and so funds available, by 16%, but the returns from the private investments would then supplement retirement income. Maintaining current benefit levels for the disability and life insurance portions of Social Security would be a problem under this proposal, and the transition period also poses difficulties. In brief, the transition problem is this: since the payroll taxes paid by today=s workers are financing today=s benefits to retirees and other Social Security recipients, a 16% drop in payroll taxes would mean roughly a 16% drop in current benefit payments. Those workers who did not have time to invest under the privatized system would suffer benefit reductions unless alternative funding could be found. Tapping the Social Security Trust Fund might be able to handle the problem of maintaining retiree benefits during the transition. But this leaves unanswered the long-term question of how to continue funding survivor and disability benefits at the same levels.

How many people besides retired workers depend on Social Security?

Currently, one out of two beneficiaries of Social Security in Mississippi (48%) are not primary wage-earners who have retired. They are instead the spouses of retirees who choose to receive spousal benefits rather than any worker benefits

they may have earned (5%), or are disabled workers (16%), or the qualifying families of deceased (19%), retired (1%) or disabled workers (7%). Most of these persons would not be helped by privatization.

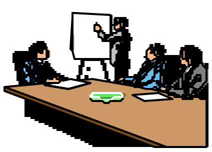
Would low-income workers be especially affected?

There is some progressivity built into Social Security. A person earning $78,000 annually at retirement in 2003 will receive about $1,611 in monthly benefits, using the quick calculator at the Social Security website (www.ssa.gov). Someone earning only $7,800 will receive $499. This progressivity is intended to ensure some minimal benefits for workers, including, for example, those who have worked fulltime all their working lives at or near the minimum wage. Private accounts would not show such progressivity--in fact, it is likely that the return to higher-income wage earners would be greater than that to lower-income wage earners to the extent that they would be better-positioned to take advantage of higher-risk, higher-return options.

Besides privatization, what other changes are being considered to keep Social Security solvent? In addition to lowering benefits and/or raising payroll tax rates, there are several possibilities being considered (see ASocial Security Advisory Board Solvency Options@ at www.ssa.gov.) One alternative would allow up to 40% of the Social Security Trust Fund, which now stands at almost $1 trillion, to be invested in stocks or other, higher-yielding assets than those currently permitted. One significant advantage this option has in comparison to individual investment accounts is lower administrative costs. It is estimated that with the introduction of individual accounts administrative costs would rise $25 to $50 per person per year; the current system costs about $16 per person (Hill (2000). Another possibility would be to increase the number and size of state retirement and social insurance systems and divert some of the payroll tax to these systems (Lips (1999).

Are any other reforms on the table?

Medicare and Medicaid, taken together, account for about 4% of GDP, as does



Social Security. These health care programs will soon become larger than Social Security and their solvency problem is already more severe. The problem of funding such major programs, then, can only be adequately tackled in the context of the overall system of federal revenues and expenditures; all major taxes and expenditures are under scrutiny. The equity of the Social Security system is also being re-assessed. Since Social Security payments are based on a person=s work history, payments may be inadequate to meet the needs of those elderly persons who have had low earnings or a relatively short period in the workforce. For example, women who have worked part-time or taken time out of the workforce to care for children or elderly relatives receive lower payments as a result. One proposal would introduce a Afamily service credit@.

Modifications to the basic benefit formula that would bring low-wage earners closer to the poverty line are being considered. There is also dis- cussion of eliminating spousal benefits and going instead to a formula that would base benefits on the combined earnings of husband and wife.

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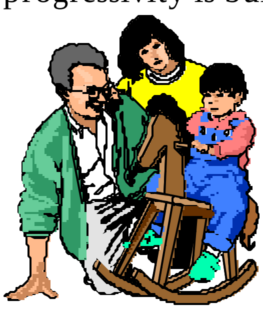
Social Security Basics

Social Security is financed by a payroll tax of 12.4%, half paid by employee and half paid by employer. This tax is levied on earnings up to $72,600, although this ceiling is periodically raised.

Current Social Security benefits are paid out of current payroll taxes, with any excess deposited in the Social Security Trust Fund, which now stands at $896 billion.

Social Security also provides disability and life insurance to all covered workers, aiding also dependent children and the spouse caring for those children.

Social Security benefits are indexed to adjust for inflation and some progressivity is built into the system.



Under Social Security, a married person is eligible for the larger of either 100% of his or her own retired worker benefit or 50% of his or her spouse's retired worker benefit.

Widow(er)s after the age of 60 are entitled to 100% of the deceased spouse's retirement benefit, if she prefers that to her own retired worker benefit.

A divorced person who was married for at least 10 years, who is not married at 62 and whose former spouse is still living is entitled to spousal benefits equal to 50% of the former spouse's retired worker benefit (if it is greater than 100% of her or his own retired worker benefit).

MISSISSIPPI COUNTIES IN PERSPECTIVE: PERFORMANCE IN THE 1990s

Christian Pruett

Counties across the state enjoyed gains from the economic boom of the 1990s, but some counties were not as fortunate as others. Table 1 shows each county=s rank in per capita income compared to the rest of the state in 1990 and 1998, along with each county=s change in rank from 1990 to 1998[1]. As expected, many counties remained within a few spots of their 1990 ranking; however, some counties moved up dramatically in the rankings while others suffered sharp declines. Table 2 provides a listing of the ten counties with the greatest upward or downward movement in rank across the state. Figure 1 is a map showing all counties and Figure 2 exhibits those counties with the greatest upward and downward movement.

Per capita income is calculated by dividing total personal income by total population. This measure is often used as a gauge of economic growth within a county, and is often associated with the quality of life. However, caution must be used when interpreting changes in per capita income within a county.

Per capita income can increase if incomes remain the same while some of the population leaves. It can decrease if many new low-income jobs are created, attracting an inBmigration of low-skilled workers. It can decrease when earnings fall due to low farm prices or to the loss of a manufacturing plant. It can decrease if low-income, but high-asset, persons such as retirees move into the county. It may increase because more higher-paying jobs are being created and filled by residents. Case studies of individual counties given below provide examples of varying causes of per capita income changes.

Overview

Tunica County had the greatest improvement in ranking in per capita income, followed by Neshoba County. Hinds County, the state=s largest population center, fell three spots in the rankings, while this decline benefitted Madison and Rankin Counties. Sharkey County suffered the greatest drop in ranking, and many of the Delta counties witnessed strong declines as well. While Stone and Panola Counties witnessed strong growth in economic indicators such as employment and population, they each experienced a steep decline in rank.

Tunica and Neshoba Counties

Tunica County had the greatest improvement in ranking in per capita income. It led the state, moving up 43 spots in rank from 69th place in 1990 to 26th place in 1998. The introduction of gaming to Tunica County sparked this growth, and remains the primary driver behind the improvement in per capita income for the county. In many ways, Tunica County has benefitted from the introduction of gaming. This begs the question: Is the quality of life in Tunica County better as a result of gaming? While income increased dramatically within Tunica County from 1990 to 1998,

total population decreased. The distri- bution of income should also be analyzed as much of this new income may have gone to only a few residents within the county or largely to new residents. In addition to the population decrease, Tunica County witnessed dramatic growth in

Gaming had a similar impact on Neshoba County, which moved up 27 spots in rank as a result of the Silver Star casino in Philadelphia. While Neshoba County witnessed above average growth in total population (10.0 percent) from 1990 to 1998, total personal income in the county increased by 92.0 percent, thus leading to a strong increase in per capita income.

The Delta

In the Delta, a large number of counties are heavily reliant upon agriculture as a primary source of income. Growth in farm income is extremely volatile since it is determined by crop prices and weather. When analyzing a county=s

establishment-based employment, while exhibiting only a small increase in residence-based employment. This indi- cates that many of the new jobs created in Tunica County went to persons living in other counties.

progress in raising per capita income, the effects of agriculture should be noted. For example, from 1990 to 1998, a county might have experienced a dramatic change in farm income in either 1990 or 1998, thereby driving down the change in per capita income. The endpoints used are important when analyzing per capita income changes. Sharkey County, a county dependent upon agriculture, fell 27 spots in the rankings from 1990 to 1998. Much of its decline in ranking can be associated with the volatile agricultural sector.

Stone, Hancock, Forrest and Lamar Counties

Stone County fell 27 places to 60th from 1990 to 1998. Stone County represents another interesting case, as income growth within the county outpaced the state. But the rate of growth in population within the county also outpaced that of the state. This influx of population into the county actually lowered the rate of growth in per capita income. Some of this influx was made up of dependent population. Dependent population is composed of children and the elderly (typically on a fixed income). An increase in dependent population lowers per capita income as this population contributes little to total personal income. On the Gulf Coast, Hancock County witnessed a similar story to that of Stone County as much of the population increase did not make strong contributions to total personal income. The same holds true for much of the Hattiesburg area as both Forrest and Lamar Counties lost ground in per capita income. Hattiesburg, a designated retire- ment community, attracted retirees and also new workers, jobseekers, and families as the city continued to grow.

Hinds, Madison and Rankin Counties

Per capita income often increases with gains in population. Two of Mississippi's most populated counties, Madison and Rankin Counties, witnessed a different situation than that of Stone County as much of the in-migration into these two counties had relatively high incomes. Much of the in-migration into these counties were a result of out-migration from Hinds County. Madison and Rankin Counties are perceived to have good quality schools and low crime rates. As people moved into these counties, the increase in population was accompanied by strong growth in total personal income, thus driving up per capita income. Population increases can have positive or negative affects on per capita income and on the quality of life. In many instances, a population increase indicates a good quality of life within an area. For example, many counties with good school districts may exhibit strong population growth. Good housing, access to healthcare, social amenities, scenic beauty, and other variables may also lead to an influx of population.

Yalobusha and Panola Counties

Yalobusha and Panola Counties

also represented interesting cases as each county had an increase in employment. Yalobusha County fell 27 places to a ranking of 47th in the state. Panola County fell 23 places in per capita income. Both counties grew in terms of establishment-based employment, but witnessed a decline in residence-based employment. This means that many of the jobs created in these counties went to persons residing outside of these counties, and the decline in residence-based employment contributed to the low rate of growth in per capita income.

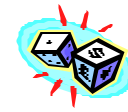
Conclusion

In conclusion, while per capita income increased in all counties from 1990 to 1998, not all counties shared the same success. While per capita income does provide one indicator of economic growth, it is not the end-all variable to use when measuring changes in the quality of life. Each county had a different story to tell as to why per capita income changed as it did. This should be noted by county leaders and policymakers; there is no single solution that applies to all counties.

Note

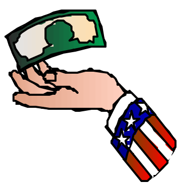
- The 1998 per capita income data was the most recent data available from the Bureau of Economic Analysis.

Gaming in the Mississippi Economy



The complete text of this University of Southern Mississippi report by Denise von Herrmann, Robert Ingram and William Smith is available online at www.cced.usm.edu.

Highlights of Report Findings



Casinos spent a total of close to $4 billion in construction between 1992 and 1999.

Total wages paid casino employees are $800 million annually, and 62% of the 40,059 casino employees (as of 6/30/00) are residents of Mississippi; 22% are from Tennessee, 9% from Arkansas and 6%,from Louisiana.

Over $3.3 billion in direct gaming taxes have been collected in the eight full fiscal years since the arrival of casinos; employee income taxes, room and restaurant taxes, and sales taxes also add to state revenues.

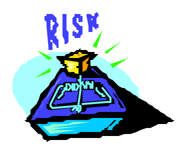
The net profit rate for casinos on the Coast was 3.7% of total annual revenue, after interest, taxes, depreciation and amortization. For the North River region, the net profit rate was 3.8%. For the South River region, the net profit rate was 13.7%. Data was collected from 25 of the 29 casinos.

Housing demand on the Coast has increased. The average price of a home in Gulfport/Biloxi was $105,000 in 1999, a 30.6% increase over 1994.

The development of the Gulf Coast as a

Retail sales in four of the eight casino counties have grown at a rate above the state average.

Demand for workers remains high. During 1999, three Coast casinos asked permission from the federal government to hire foreign workers to staff their hotels, under the H2-B visa program, due to lack of qualified labor (they were denied). In Tunica County, because of gaming, the number employed exceeds the county population.



Nearly 5% of Mississippi residents can be classified as Aproblem@ gamblers, which is in line with national numbers (this figure is from a 1996 study by Mississippi State University and the Mississippi Council for Problem and Compulsive Gambling).

Selected Recommendations from Report

Current restrictions on the teaching of gaming-related content in public post-secondary institutions should be lifted. This would increase the access of Mississippians to middle-to-upper level jobs in accounting, finance, marketing or management.

Designer incentives for the airline industry are desirable, since better, more frequent, reasonably priced air seats will translate directly into increased business.

cruise ship stop is encouraged. The development of a state of the art passenger terminal at the Port of Gulfport should be undertaken if feasible.

Mississippi=s 8% tax on gross gaming revenues, plus the additional 4% which goes to local governments, are not unreasonable. But since the tax is on gross revenues and not on profits, an increase in tax rates of 4% would likely result in the closure of several casinos, given the low profit margins on the Coast and the North River.

Incentive programs should be reviewed distributors of equipment, supplies and services critical to the gaming and tour- ism industries.

The PEER Committee=s 1996 report on the Gaming Commission should be followed up: the Commission still needs to clarify its role as promoter of the industry versus its role as regulator and arbiter of disputes involving casinos.

Providing casino employees with advance notification of dismissal and severance packages or outplacement ser- vices would be beneficial. Also, a tightening of regulations regarding access to cash at casinos is needed.

The recently passed Family Entertainment and Tourism Sales Tax Rebate law should be strengthened to ensure it applies only to facilities attract- ing a significant number of nonresidents.

Where Are They Now?
A Look at Welfare Reform

Marianne Hill

There was a 70% drop in the number of families on welfare Mississippi between November 1994 and November 1999. The corresponding number of cases fell from 53,000 to 15,000. Nationally, welfare rolls also shrank dramatically, and politicians across the country pointed to the huge fall as something positive. But the question being asked with increasing frequency is: how many of these families are better off now than before?

One indicator of well-being is employment, and another, closely associated, is earned income. The chart below provides information on earnings of 405 adults whose welfare cases were closed during the first four months of 1998. The sample from eight Mississippi counties was selected by the Center for Applied Research of Millsaps College to be representative of welfare recipients across the state. The numbers show that most of those in the sample earned less than $2,000 during the year after they left the TANF program. (TANF, Temporary Assistance for Needy Families, is the welfare program put into place after the reforms of 1996.) Thirty-six percent were not employed at all, but among those who did work, median annual earnings were about $10,000. About 46% of the sample worked during any given quarter.

Nationally, based on data from 11 states (*Green Book*, p.1472), these figures appear to be similar to those elsewhere in the U.S., with 50% to 64% of former TANF recipients working during the quarter after exit. For those employed, quarterly earnings were in the $2,000 to $3,000 range, or $8,000 to $12,000 annually, depending on the state.

Incomes Typically Remain Below Poverty Level

While these figures do not directly answer the question of whether the income of these families has improved, they do show that the earnings of most remain far below the poverty line, which was $13,290 for a family of three in 1999. Among those employed, over half earned less than $10,700, the amount paid annually by a fulltime minimum wage job. (Persons earning over $4,416 annually or $368 monthly, excluding certain allowable deductions, are not eligible for TANF.)

Previous to the 1996 welfare reform, welfare payments often acted as a cushion during periods of unemployment: about 30% of welfare recipients in Mississippi were likely to have been employed within the year (based on 1990 Census data--see January 1998 *Review*). After 1996, many low-income mothers leaving employment apparently did not apply for welfare benefits, preferring to seek jobs through their own channels rather than go through TANF. The numbers of women applying for benefits dropped markedly. The five-year limit on lifetime benefits also contributed to the drop in applications.

One group particularly likely to see lower incomes as a result of the 1996 changes are those in the poorest fifth of welfare recipients. National data on the poorest fifth of poor single-mother families shows that while between 1993 and 1995 these families enjoyed a 14% increase in real disposable income, between1995 to 1997, after the 1996 introduction of TANF, the real incomes of the poorest 20% of single-mother families fell by 7%. Presumably some of this drop in income was due to an increase in the number of poor women who left the welfare rolls but did not find employment.

Meeting Basic Needs

How do poor single-parent families manage to survive if they are unemployed and do not receive TANF benefits? Most are apparently relying on friends or relatives, though private charities are also reporting that an increased number of single-mother families are receiving assistance through their programs. However, no comprehensive national study is yet available to provide a satisfactory answer to this question, although data addressing this question is being gathered under programs of the Census Bureau and other agencies within the U.S. Department of Commerce.

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