Introduction by the Editor for this Issue

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Missouri, not unlike other states, is characterized by large swaths of rural countryside with its attendant businesses and culture. The state's urban areas, in contrast, are disproportionately large in terms of population and more important economically: The majority of Missouri's income is generated in its urban areas, not its rural ones. The question is whether this disparity helps explain Missouri's lackluster economic development of the past several decades. Does this urban-rural divide help explain the state's economic lethargy? Does it help explain the state's almost non-existent growth in population? The authors of the papers in this installment of the Missouri Growth Project deal with such questions.

William H. Rogers puts such questions into a broader perspective in his study "Attracting People and Potential to Missouri and the Region by Metro Status." Compared to the national average, Missouri's economic performance ranks as less than stellar. Instead of making this comparison, Rogers asks whether the state is doing that poorly when compared with other states in the region, the so-called Heartland states. Comprised of Missouri, Kansas, Nebraska, Iowa, North Dakota, South Dakota, Minnesota, Wisconsin, Illinois, Indiana, Michigan, and Ohio, the Heartland as a whole has turned in a rather dismal economic performance over the past couple of decades, especially when compared to states in the Pacific Coast and the Southwest. Thus the question: Is Missouri just an adult economy being compared with still growing youngsters? Compared to its neighbors, maybe Missouri's performance isn't so bad after all.

Rogers focuses on two economic indicators: population change and net migration, the latter measure based on earning capacity instead of the more common population-based metric.

Rogers finds that the metropolitan areas in the Heartland, on average, lag the rest of the country in the growth in both of his preferred measures. The evidence for the Heartland's non-metropolitan areas, in contrast, shows that they are in *absolute* decline. The gist is that the Heartland states simply are not "magnet" states that attract people from other states. To illustrate this, only 35 percent of Missouri residents were born in another state.

When considering the urban-rural divide, Rogers finds that counties with relatively larger populations today are those that were large in the past, and that the fastest growing counties usually are close to those metro areas that were fairly large in the past. Rural counties, on the other hand, have about 25 percent fewer residents that would be expected from their populations in the 1970s. While metro areas have increased in population, and in economic importance, rural areas have declined on both dimensions.

One positive is that Missouri's rural areas are performing slightly better than the region and most neighboring states.

Rogers' analysis leads him to conclude that past attempts to improve economic outcomes on a sector-by-sector basis, especially in rural areas, have not been successful. "While policymakers may prefer to focus attention on only a few industries," Rogers notes, "rural economies with a few concentrated industries grow more slowly and rural areas with greater public services show no increase in population growth." As for policies aimed at improving the economies of the metro areas, Rogers suggests that "productive metropolitan economic development strategies are likely to be counterproductive for non-metropolitan areas."

With Rogers' study as a backdrop, the other studies in this issue focus more on Missouri. Sarah A. Low, Austin Sanders, and Mark C. White come at the problem by considering differences in rural and urban entrepreneurship. In their paper "The Future of Work in Missouri: Rural-Urban Differences in Entrepreneurship," they recognize that one aspect of dealing with policies to promote entrepreneurship is that it differs between urban and rural areas. The Low, et al. paper uses three popular proxies for entrepreneurship. Two are employment-based measures: Self-employment (proprietorships) and nonemployers (businesses with no paid employees and receipts greater than $1,000 per year). The third measure is dynamic, the birth and death rates for businesses with paid employees. Each provides a hint as to the entrepreneurial environment in Missouri. To understand the urban-rural differences, the authors break down the state's counties into three categories: Metropolitan, nonmetro but metro-adjacent (i.e., nonmetropolitan and adjacent to a metropolitan county), and remote rural counties (i.e., nonmetro and not adjacent to a metro). Interestingly, the state's 114 counties are fairly evenly divided amongst these three categories: Metro at 29 percent; nonmetro at 36 percent, and remote rural counties at 35 percent.

Their analysis across these measures and geographical divisions shows that entrepreneurship across Missouri is quite diverse. The so-called "gig" economy is almost non-existent in rural areas, but accounts for a significant increase in entrepreneurial activity—and in income opportunities—in the state's metro areas over the past decade. They also report that the categories of entrepreneurship have experienced different trends. For example, nonfarm proprietorships increased faster in Missouri's metro counties relative to the rural areas. Unfortunately, they also find that real incomes of these proprietorships have increased little and that these incomes tend to be lower in rural areas.

When it comes to the record for business birth and death rates, Missouri tends to have a higher "churn" rate—the entry and exit of firms—than the national average, and that churn rate varies across the state. One explanation offered is the concentration of specific industries. The southern half of Missouri contains many businesses in the mining and wood extraction industries, whose success is often driven by cyclical demand. In the northern half of the state are firms that rely less on natural resources and more on low input costs (land and labor), taking advantage of transportation grids that connect these rural manufacturers to large markets.

With diversity in entrepreneurial activity, both in type and geographical dispersion, what policy implications arise from their analysis? The authors suggest that policymakers should work to develop the “entrepreneurial ecosystem” within which these firms operate. Such improvements include efforts to provide business assistance, and better access to financial capital. In other words, policies that builds a culture supportive of entrepreneurship.

The third paper explores the issue of income inequality across rural and urban Missouri, with special attention to the period following the Great Recession. In “Lack of Higher Wage Opportunities in Missouri Contributes to Slower Economic Growth,” Mallory Rahe considers whether income inequality helps explain Missouri’s slow growth over time. According to her analysis of several measures of inequality, Rahe finds that rural Missouri residents generally have lower household incomes, less wealth, and as a consequence have limited abilities to consume and invest, which inhibits economic growth. She also argues that low median household incomes and a lack of highly paid jobs are contributing factors that help explain the state’s slow growth in population growth and employment.

This lack of income and its consequent effects is most pressing in rural Missouri. “Rural households have too little income, which restricts their ability to invest in education and training, to consume local goods and services, and to build businesses,” Rahe observes. Improving the economic viability of rural Missouri will, she notes, “be particularly challenging as rural areas of the state continue to lose jobs and struggle to retain working-age people,” a refrain also found in Rogers’ analysis.

What policy options are there to counteract these conditions? Rahe suggests that policies should aim at connecting the state’s rural producers to larger markets, even those outside of Kansas City and St. Louis. She also is realistic enough to realize that such policies, even if enacted, will be difficult to coordinate across the state’s diverse rural landscape. Rahe also argues that policymakers should not ignore the fact that the state’s two economic engines are its metropolitan hubs, Kansas City and St. Louis. Foreshadowing the work in the next two papers, Rahe suggests that “If St. Louis could grow faster, and by that I mean all of St. Louis and not just its expanding periphery, the rest of the state would benefit.” Reviving rural Missouri thus requires as much attention to improving the economies of its metro areas as its rural areas. In the end, Rahe argues that successful policy must adopt a more regional attitude.

The next two papers take a more direct look at the role of Missouri’s metropolitan areas and how their economic success or lack thereof has impacted overall state economic growth. In “How do Cities Matter: A Review of Missouri and its Recent Economic Growth,” authors Joseph H. Haslag and Brookelyn Shaw put it this way: “What happens in a particular urban area disseminates across a region, spreading beyond its own borders to the entire state. The evidence suggests that economic growth at the state level owes disproportionately to economic growth in urban areas."

After an overview of the theory of economic growth and the role of cities, Haslag and Shaw present evidence showing over time more and more of the United States' population has vacated rural America and moved to urban areas. Today almost 80 percent of the US population resides in an urban area, compared with 64 percent in 1950. And as the country's population became increasingly urbanized, so, too, did metro areas' share of economic output. For instance, they report that real GDP, a measure of output adjusted for inflation, increased in metropolitan areas at a faster rate than it increased in rural areas. For Missouri they find that "neither cities nor rural areas increased at a very fast rate" but "the metro portion of the state grew faster than the non-metro part."

Demonstrating that urban economic growth heavily influences state economic growth, it is logical to reason that policies taken by cities that reduce their economic growth might have a negative spill-over effect to the rest of the state. Haslag and Shaw test this by considering the effect of an earnings tax, a tax on employment income earned in a specific city, regardless of one's residence. Using a sample of 382 metro areas across the country, Haslag and Shaw find that, on average, metro areas in which the primary city levies an earnings tax are likely to have a lower level of real GDP than those metro areas without an earnings tax. Because both Kansas City and St. Louis city have an earnings tax, Haslag and Shaw suggest that this may be one partial explanation for the state's lackluster economic performance: If the major metro areas are underperforming because of the earnings tax, and metro areas account for most of a state's economic performance, logic suggests that the earnings taxes are not promoting economic growth in the cities, or in the state. As such, the authors conclude that local policies that retard economic growth, the earnings tax being one example, can have negative statewide effects. Policy actions at the metro level must not, therefore be made in a vacuum that ignores possible statewide consequences.

Howard Wall's paper "The Missouri-Wide Effects of City Earnings Taxes" provides a more direct test of the hypothesis raised in the Haslag and Shaw study. Wall provides estimates of the effects of the Kansas City and St. Louis city earnings taxes on the parts of Missouri outside the two metro areas. Noting that the two metro areas account for more than 60 percent of the state's economy, it is simple arithmetic to argue that any policy that adversely affects the two metro areas also will have a negative effect on the statewide economy. An earlier analysis by Wall suggests that the spillover effect is relatively greater from St. Louis to the rest of the state.

Wall's analysis looks at the effect of the earnings tax on household employment, a direct measure of the number of residents working. Based on a data set that includes 185 cities, 79 of which impose an earnings tax, Wall finds that a 1 percent earnings tax in the central city (i.e., St. Louis city) is associated with a 2.8 percent lower employment growth rate in the remainder of the metro area. In previous work Wall established a link between metro St. Louis and outstate employment growth. That rule-of-thumb is for every one percentage point change in metro St. Louis, employment growth in outstate Missouri changes by 0.3 percent in the same direction. It turns out that no such link between Kansas City and outstate employment was found.

Putting the two pieces of the puzzle together, Wall estimates that the effect of the earnings taxes in St. Louis city and Kansas City resulted in a loss in total employment by 60,500 jobs over the period 2000-2010. Since actual employment in the state fell by about 90,000 over this period, Wall’s estimates suggest that the earnings taxes alone accounted for about two-thirds of the statewide employment loss. The analysis in Wall’s paper thus provides confirmation of the intuition provided by Haslag and Shaw.

The take-away from this set of papers is that Missouri’s economy is diverse. Entrepreneurship varies across the urban-rural divide, as does income inequality. It also is very much interconnected. Policymakers, especially at the state level, must consider how their actions to grant special tax breaks or grants to locate in this town or that will affect the broader community. Equally important, how policy actions in the larger metro areas affect the outstate economy must be recognized.

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