

# All Employment Is Local: Examining the Impact of the American Recovery and Revitalization (ARRA) Act on Two Missouri Counties (as Well as an Analysis of Missouri Tax Credit Programs)

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## Introduction

Recessions have consequences well after they end; the most recent recession, which officially ended in June 2009, is no different. Putting this most recent recession in perspective with the ten previous recessions which the country has had since the late 1940s helps to get a sense of what the country and Missouri, in particular, are in for over the next several years.<sup>1</sup>

In relation to the ten previous recessions, the most recent recession was the longest, lasting eighteen months. Two previous recessions (1973–1975, 1981–1982) lasted sixteen months each. The duration of a recession can give some insight into the frustrations that accompany the recovery afterwards. The 1973–1975 recession, for example, started with unemployment at 4.8%. By the time it ended in March 1975, the unemployment rate had climbed to 8.6%. Three more recessions would occur before the unemployment rate returned within the 4% range. The 1981–1982 recession started with an unemployment rate of 7.2%. By the time it ended in November 1982, the unemployment rate had climbed to 10.8%. It would take fifteen months for the unemployment rate to return within the 7% range. Even a seemingly mild

recession in 1980 that lasted six months began with an unemployment rate of 6.3% in January and ended with a 7.8% unemployment rate in July, and maybe was not that mild; it took five years to see the unemployment rate return within the 6% range.

Another way of looking at recessions is wondering after they end what will be the new acceptable level of unemployment. The 1953–1954 recession, for example, began with an unemployment rate of 2.6%; the country has never seen that level of unemployment again. The 1969–1970 recession started with a 3.5% unemployment rate; again, the country has never returned within the 3% range. Various economists are suggesting or predicting (depending on which word seems appropriate) that an unemployment rate in the mid 6% range would be the best we might hope for several years down the road—how many years down the road is an open question. When I started driving I was paying 21 cents for a gallon for gas; times changed and what you get used to becomes the new “acceptable.” It is as if the line of scrimmage keeps changing.

In the case of Missouri, FOCUS St. Louis (which studies a variety of policy issues affecting the St. Louis Metropolitan Statistical Area), released a study in 1987 which addressed the impact of the 1981–1982 recession four years after it ended. One of its conclusions was, “Employment in [some] types of manufacturing in the St. Louis area has not recovered despite improved economic conditions.”<sup>2</sup> Some of

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<sup>1</sup> My thanks to State Representative Anne Zerr (R-District 18), chair of the Economic Development Committee in the Missouri General Assembly, for having read an earlier version of this article. I eliminated some four pages and added six more based on her comments. Although she probably will not agree with some of what I have written, I appreciated her feedback.

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<sup>2</sup> “Structural Unemployment: A Report on Structural Unemployment in the St. Louis Metropolitan Area,” Final Report of a St. Louis Task Force, May 20, 1987, accessed December 3, 2013, [http://www.focus-stl.org/Portals/0/FOCUS%20files/Reports/Task%20Force%20Reports/Old%20Policy%20Reports/Structural%20Unemployment%20in%20the%20St.%20Louis%20Region%20\(1987\).pdf](http://www.focus-stl.org/Portals/0/FOCUS%20files/Reports/Task%20Force%20Reports/Old%20Policy%20Reports/Structural%20Unemployment%20in%20the%20St.%20Louis%20Region%20(1987).pdf). FOCUS/Confluence Task Force Reports can be found here

reasons for the decline in manufacturing sector employment were not specifically as a result of the recession that ended in 1982. The report noted that the manufacturing sector of the American economy had declined over many years; it was 30% of the economy (Gross National Product) in 1953 but was down to 21% by 1985. The report further noted that unemployment was unevenly distributed throughout the St. Louis area: While the area's unemployment rate was 7% at the end of 1986, that is not saying much when the unemployment rate was a comfortable 4.7% in St. Louis County but a very uncomfortable 10.2% in Clinton County. The long shadow of this particular recession saw automobile employment in the St. Louis area drop from 30,000 to 10,000.

Federal government efforts aimed at alleviating persistent unemployment are not new, although the attention focused on the American Recovery and Revitalization Act (ARRA), commonly referred to as the economic stimulus effort of the Obama administration, might have created the impression that something new was being tried. The Comprehensive Employment and Training Act (CETA) was created in 1973 to promote training and education for low-income people. The recession of 1973–1975, however, had an impact on this program and a public service employment component was added. Public subsidized jobs rose from 100,000 in 1973 to a peak of 720,000 jobs by 1978, taking 1% off the national unemployment rate, but many of these were temporary jobs. CETA workers, however, with their paychecks helped the economy. CETA was eventually replaced by the Job Training Partnership Act (JTPA), an effort of the Reagan administration to focus only on training. Louis Uchitelle, a *New York Times* reporter who covers labor and business issues, questioned the impact of JTPA and of many training programs in general.<sup>3</sup> A Princeton University study reached the conclusion that training received through CETA had a small to moderate impact on employment—it helped somewhat when it came to getting a job.<sup>4</sup> In other

words, both CETA and JTPA, with the goals of training leading to employment, were seen as having limited effect. The impact of ARRA has been equally questioned, although Jean Feld Rissover, former managing editor of *The Ste. Genevieve Herald*, said, “This program has helped Ste. Genevieve County.”<sup>5</sup> ARRA can be seen helping the county in the short term through job creation, although most were temporary jobs, but, perhaps more importantly, in the long term through infrastructure developments.

States do not necessarily sit on the sidelines and wait for the federal government to take action. Gov. Jay Nixon created the Strategic Initiative for Economic Growth, which is still in its early stages and may take a while to see its impact, although an initial report by a steering committee was submitted to the governor in early December 2010. The broad aim is to revitalize Missouri's economy over a five-year period.

Evaluating the impact of public policy programs is, admittedly, difficult when political efforts to influence voters affect the determination of whether government spending was efficient or wasteful. It helps to bear in mind a quote from James Madison when he wrote, “A popular Government, without popular information, or the means of acquiring it, is but a Prologue to a Farce or a Tragedy.”<sup>6</sup> Trying to take a step back and look at a public policy program without a particular political agenda is difficult, and even when the best efforts of ethical and detached evaluation are applied, that does not mean that that effort will be universally cheered.

There are 115 counties in Missouri (the City of St. Louis is counted as both a city and a county). One way of understanding the impact of this most recent recession on Missouri is to look at several different counties, which is what this article does. While national trends can be useful, local economic conditions matter more to someone seeing their unemployment benefits run out. An analyst on housing noted the impact of building, for example, on a local economy, stating, “New jobs will require that houses

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(accessed December 3, 2013): <http://www.focus-stl.org/Reports.aspx>.

<sup>3</sup> Louis Uchitelle, *The Disposable American: Layoffs and Their Consequences* (New York, Vintage Books, 2006).

<sup>4</sup> David Card and Daniel Sullivan, “Measuring the Effect of CETA Participation on Movements In and Out of Employment,” *Econometrica*, Vol. 56 (May 1988), accessed

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[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=346980](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=346980).

<sup>5</sup> Jean Feld Rissover, telephone interview, December 27, 2010.

<sup>6</sup> Quoted in Walter Williams, *Honest Numbers & Democracy: Social Policy Analysis in the White House, Congress, and Federal Agencies* (Washington, D.C., Georgetown University Press, 1988), p. ix.

be built nearby.”<sup>7</sup> Local economies begin to display their uniqueness, which can affect the fortunes of those employed and those hoping to become employed. Furthermore, what becomes clear is that the issues of employment, unemployment, and job creation are about lots of little pieces of a pie that collectively fit together, or hopefully fit together. A state tax credit program that is seen as creating, on average, 270 jobs a year, or even a seemingly larger state government program preventing or saving about 1,300 auto plant jobs from moving to another state, are small parts of a larger picture where state government programs can help to create jobs or keep jobs in Missouri. The state’s use of ARRA funds can be seen the same way.<sup>8</sup> There is a constant dynamic at work as jobs are created and lost, and, hopefully, government programs, whether federal, state, or local, can help to tip the tide in favor of keeping more jobs that otherwise might disappear.

Determining whether government programs help or not is somewhat dependent on a subjective evaluation of public policy programs. There are different ways that programs can be evaluated, not one method which satisfies everyone. A Missouri state audit report, for example, from 2001 showed some of the problems involved in determining if a program works or not. This particular audit report noted that Missouri had been cited as “an innovative leader” in the use of tax credits. The report, however, also stated, “Missouri is not that much different than most states in its inability to analyze the cost-benefit of its state tax credit

programs.”<sup>9</sup> Trying to evaluate the impact of government programs is a very imprecise science. Constantly trying to be aware of what information is not available, or how to determine success or failure, is very difficult to fully achieve. Furthermore, there is the issue of whether to evaluate a program in terms of short-term goals or longer term ones. There may be assumptions or beliefs that some specific business model can be applied to evaluating the impact or effectiveness of government programs, but that is probably not true. There has been a long history, dating back to the Progressive Era in America history in the 1890s, where different business models have been used to inspire or serve as a guideline to either evaluate government programs or reform government at the local, state, or federal level. The Taft Commission on Economy and Efficiency in 1911 used business thinking to address government reform. Matthew Stewart, a former management consultant, stated, regarding “management gurus,” that, “the modern idea of management is right enough to be dangerously wrong and it has led us seriously astray. It has sent us on a mistaken quest to seek scientific answers to unscientific questions. It offers pretended technological solutions to what are, at bottom, moral and political problems. . . . [I]t contributes to a misunderstanding about the source of our prosperity, leading us to neglect the social, moral, and political infrastructure on which our well-being depends.”<sup>10</sup>

### **State Unemployment Trends: Small Things Matter**

Missouri’s unemployment rate tends not to vary significantly from the national average and has, under certain circumstances, been lower than the national average. The circumstances can be seen when looking at a four-year period between 2007 and 2010. In 2007, for example, when the national unemployment rate was in the 4% range, Missouri’s rate was higher than

<sup>7</sup> Patrick Newport of IHS Global Insight Inc. quoted in Alan Heavens, “Housing Starts Up; Building Permits Down,” Philly.com, December 10, 2010, accessed December 3, 2013, [http://articles.philly.com/2010-12-17/business/25293426\\_1\\_single-family-market-single-family-homes-total-housing](http://articles.philly.com/2010-12-17/business/25293426_1_single-family-market-single-family-homes-total-housing).

<sup>8</sup> Missouri state-administered ARRA grants at Transform Missouri present somewhat confusing data. Totaling what is titled “Job Totals by Quarter,” which could mean jobs created or jobs retained or a combination of the two from Jobs Quarter 3 2009-Jobs Quarter 3 2013, the total is 118,167.70. Again, it is unclear what that means exactly. Furthermore, the .70 might imply some type of part-time job. In looking at the different quarters, one can see figures such as .42, .60, .43, .72, .53. While the word “transparency” is used on this page that may not be the same as “clarity.” Accessed December 3, 2013, <http://transform.mo.gov/transparency/>.

<sup>9</sup> Missouri State Auditor, *Review of the State Tax Credits Administered by the Department of Economic Development*, performance audit, report no. 2001-03 (February 23, 2001), accessed December 3, 2013, <http://auditor.mo.gov/press/2001-13.pdf>.

<sup>10</sup> Matthew Stewart, *The Management Myth: Debunking Modern Business Philosophy* (New York: W.W. Norton & Company, 2009), 12.

the national average in ten out of the twelve months and the other two months was equal to the national average. In 2008, when the national average was mostly in the 5% and 6% range, Missouri's rate was, again, higher than the national average in ten out of twelve months. A shift could be seen in 2009 where the national monthly unemployment rates were in the 8%, 9%, and 10% range; in only three months was Missouri's monthly unemployment rate greater than the national average. The year 2010 further showed this shift, where in no month was Missouri's monthly unemployment rate higher than the national average; we seem to perform better than the national monthly unemployment rate in high national unemployment rate times and slightly worse in low national unemployment rate times. For example, the national unemployment rate average was 8.1% in August 2012, while Missouri was more than a full 1% lower at 7%. In fact, through much of 2012, Missouri averaged more than 1% below the national average. Through 2013 (up to August), Missouri was still below the national average but by less than a 1% average. Despite this odd development, even when we exceed the national average, we are not significantly far off. For example, in July 2007, while Missouri's unemployment rate was above the national average, it was only by .6%.

Expectations are that by the end of 2014, the national employment rate might (just might) stay comfortably before 7% range, which if the pattern raised above is followed, Missouri's unemployment might be in the mid 6% range by the end of 2014. One forecast, noted that time was needed to shift resources related to employment. As one analyst put it, "Prior to the recession we had too many resources in the housing, finance, and auto industries, and it will take time to move the people and resources who used to work in these industries into areas of the economy where they can be employed productively."<sup>11</sup>

One way of looking at the difficulty of expecting any sudden drop in Missouri's unemployment rate can be seen by looking at job growth in Natural Resources and Mining. One projection has job growth for

Missouri in this category leading the nation (expected to be 18.5% over the next year, well ahead of Delaware's 15.1%). But with Missouri hoping to reach around 2.5-2.6 million jobs by the end of 2014 or midway through 2015 (private and public sector), job growth in Natural Resources and Mining would represent less than 1% of total state jobs; significant job growth in this category would hardly affect overall state unemployment numbers.<sup>12</sup> Three categories of job growth (Education and Health Services, Government, and Leisure and Hospitality, no doubt, due to the impact of tourism) will account for about one third of all jobs in Missouri by 2014.

Regarding government employment in Missouri, both state and local, this might be a category to watch. Mark Zandi, chief economist for Moody's Analytics, is expecting up to 400,000 state and local government jobs to be lost nationally.<sup>13</sup> The Center for Budget and Policy Priorities (CBPP) in Washington, on the other hand, is projecting the possibility of as many 900,000 jobs affected.<sup>14</sup> In the case of both Zandi and the CBPP, they are looking at unemployment after the recession officially ended in June 2009: A recovery with state and local government unemployment acting as a drag on the recovery, although how much of a drag is unclear. Some of the reason for this discrepancy is attributed to trying to figure out how many private sector jobs might be lost if there are significant cuts in state government, and even local government, spending. It may be nice to say that the

<sup>12</sup> "Jobs Rebound Will be Slow," and "How Jobs Growth Forecast was Done," *USA Today*, September 19, 2012, accessed December 3, 2013, <http://usatoday30.usatoday.com/money/economy/story/Jobs-Forecast-2011/34083932/1>.

<sup>13</sup> Paul Davidson, "Expect lots of government layoffs at state, local level," *USA Today*, July 6, 2010, accessed December 3, 2013, [http://www.usatoday.com/money/economy/employment/2010-07-06-jobs06\\_ST\\_N.htm](http://www.usatoday.com/money/economy/employment/2010-07-06-jobs06_ST_N.htm).

<sup>14</sup> Nicholas Johnson, Erica Williams and Phil Oliff, "Governors' New Budgets Indicate Loss of Many Jobs If Federal Aid Expires," Center on Budget and Policy Priorities, last modified March 8, 2010, accessed December 3, 2013, <http://www.cbpp.org/cms/?fa=view&id=3076>. A *New York Times* editorial ("A Growing Gloom for States and Cities," August 13, 2011), accessed December 3, 2013, [http://www.nytimes.com/2011/08/14/opinion/sunday/a-growing-gloom-for-states-and-cities.html?\\_r=0](http://www.nytimes.com/2011/08/14/opinion/sunday/a-growing-gloom-for-states-and-cities.html?_r=0). This editorial placed the number of layoffs at the state and local government levels at 577,000 since 2008.

<sup>11</sup> Mark Thoma, "Why Employment Might Not Recover Until 2013," *CBS Money Watch*, November 10, 2009, accessed December 3, 2013, [http://www.cbsnews.com/8301-505123\\_162-39740120/why-employment-might-not-fully-recover-until-2013/](http://www.cbsnews.com/8301-505123_162-39740120/why-employment-might-not-fully-recover-until-2013/).

private sector creates jobs, but a number of those businesses have local and state agencies that are their primary customers, and cutbacks in local or state government spending will also mean less government orders for private businesses. Between 22–27% of state government contracts go to small businesses, so significant cuts in state and local government spending can be seen as adversely affecting many small businesses.

Regarding the possibility of state and local job losses increasing—particularly local government jobs—we may have to wait a few more years to see the impact of falling house prices on property taxes. As a Congressional Budget Office (CBO) report stated, “. . . the decline in house prices implies that [property tax] collections will probably fall in the coming years as local governments gradually update property tax assessments to reflect lower market values.”<sup>15</sup> Overall, property taxes account for about 26% of total revenues for local governments (36% of revenues from their own sources) and anticipating that a drop in revenues from property taxes lags about three years behind any change in home values, we would not begin to see any serious adverse effects until after 2013. Since approximately 30% of overall local revenues come from state governments, and anticipating that Missouri (as with many other states), will still be struggling to balance its budget looking at Fiscal Year 2014, and that one way to do that will be to reduce state support to local governments, hiring freezes for many local governments (at best) may not help toward reducing the unemployment rate significantly.

In the case of Missouri, government employment at both the state and local level accounts for about 295,000 jobs (full-time), about 11% of the total state workforce. Of those 295,000 jobs, about 157,000 are in education (both in K-12 and higher education). Assuming 5% across-the-board cuts (probably unlikely), that means almost 15,000 jobs lost which

would add to the unemployment rolls or have to be absorbed into the private sector workforce.

In the case of Missouri, estimating the number of jobs saved (or “retained,” a word more likely to be used) during 2009 and 2010 when Missouri, as with all other states, was spending its share of ARRA funds is difficult to do. That said, there is no doubt that job cuts were prevented (or maybe just delayed). That’s not to say that job losses at the state and local level can’t or won’t still happen. In other words, it might take a few years to put the use of ARRA funds by the states into perspective since there may be a before and after approach to evaluating the impact these funds had on states. Think of the Fiscal Year 2012 state budgets as the first year where ARRA funds did not have any real impact (some residual funds may still be around)—then the loss of ARRA funds might be seen more clearly around Fiscal Year 2015.

Some of the problem in “guesstimating” what will happen with state and local government employees is directly related to the ARRA funds. Missouri, for example, spent a large share of its ARRA funds to offset the state’s budget deficits in Fiscal Years 2009, 2010, and 2011. Again, the Fiscal Year 2012 state budget was the first in several years without a significant portion of funds from ARRA filling the deficit gap so the state needed to address a budget without support from ARRA. In fact, for Fiscal Year 2012, the state faced a budget deficit that was projected to be as high as \$1 billion. Cuts were made—particularly in education—and the Fiscal Year 2012 budget was about the size of the previous year’s budget.

A Government Accountability Office (GAO) report stated, “States reported using Recovery Act funds to stabilize state budgets and cope with fiscal stress. The funds helped them maintain staffing for existing programs and minimized or avoided tax increases as well as reductions in services.”<sup>16</sup> Furthermore, this

<sup>15</sup> Congressional Budget Office, *Fiscal Stress Faced by Local Governments* (December 9, 2010): 2. Accessed December 9, 2013, <http://www.cbo.gov/publication/21966>.

<sup>16</sup> Government Accountability Office, *Recovery Act: States’ and Localities’ Current and Planned Use of Funds While Facing Fiscal Stress*, GAO-09-908T (September 10, 2009): 2. Accessed December 9, 2013, <http://www.gao.gov/products/GAO-09-908T>.

report pointed out one very disturbing potential problem for states, regarding recovery after a recession: “State officials have also reported that state fiscal conditions historically lag behind any national economic recovery.” How will a private sector economy in the United States absorb those that leave state and local government employment? If the private sector cannot absorb potential government employment losses, then expecting to see Missouri’s unemployment rate return to 6%, for example, could take a few years.

In looking at how the Bureau of Labor Statistics (BLS) in the Department of Labor breaks down employment categories, they have eleven broad categories for non-farm employment. In the case of Missouri, taking just one month (October 2010), Trade, Transportation, and Utilities accounted for 19% of total non-farm employment for that month. This was Missouri’s employment category with the largest percentage of jobs.<sup>17</sup> Job growth for Missouri in this broad category is not expected to significantly take off in the near future.

Another issue to keep an eye on is construction and manufacturing: It is not expected that job levels will return in these categories to where they were in 2008. In 2008, construction and manufacturing were approximately 16% of jobs in Missouri, but by 2014 they may represent only around 12% of total state jobs (give or take a percent). In 2008, the drop in residential construction took an entire point off the country’s economic growth rate. At the time, residential construction accounted for just 2% of total employment, but made up 13.5% of total jobs lost that year.<sup>18</sup> The construction industry (all categories) in Missouri is roughly 6% of the state’s total workforce. The loss of jobs in this industry was significant through 2008, 2009, and part of 2010. While the industry started to show signs of recovery through the latter half of 2010, projections are that by 2014

employment will still be well below where construction jobs were at a highpoint in 2007.<sup>19</sup> With almost 17,000 construction businesses in Missouri in 2007, on average each of those businesses employed 8–9 employees; most, therefore, are seen as small businesses with less than 20 employees.

A Federal Reserve Bank of Cleveland study of small business financing, completed at the end of 2010, leaves one with concerns about small business being the possible engine that might revitalize either Missouri’s or the national employment picture. This particular study noted that a number of small businesses use their home equity line of credit to finance their businesses. In 2007, for example, 20.4% of households headed by a self-employed individual had an equity line of credit, which contrasted with 12.6% of all households. In that same study 11% of those self-employed had used their credit lines, which contrasted with 8.5% of all households having used their lines of credit. As this study put it, “If small businesses received about 25.1 percent of new home equity borrowing, the slower growth in home equity borrowing would imply a reduction in new small business credit of more than \$16.5 billion. Together with the decline in home equity lending, small business credit is \$24.5 billion below where it would have been had the trend in home equity lending continued.”<sup>20</sup> In 2009, 35% of small businesses saw their lines of credit or credit cards decline.<sup>21</sup> This issue of credit cards might be something to follow. The annual Small Business Economy report states, “Credit card usage by small firms increased, and small businesses were relatively more successful in obtaining credit cards than other forms of credit in 2009.” Some 50% of small businesses used credit

<sup>17</sup> “Economy at a Glance,” United States Department of Labor, Bureau of Labor Statistics, accessed December 3, 2013, <http://www.bls.gov/eag/eag.mo.htm>.

<sup>18</sup> “The State of the Nation’s Housing, 2009,” Joint Center for Housing Studies, Harvard University (June 22, 2009). Accessed December 9, 2013, <http://www.jchs.harvard.edu/research/publications/state-nations-housing-2009>.

<sup>19</sup> Pamela Prah, “5 years after crash, states still picking up pieces,” *USA Today*, September 10, 2013, accessed December 3, 2013, <http://www.usatoday.com/story/money/business/2013/09/10/state-nations-economies-five-years-after-crash/2795815/>.

<sup>20</sup> Mark Schweitzer And Scott Shane, “The Effect of Falling Home Prices on Small Business Borrowing,” *Economic Commentary*, Number 2010-18 (December 20, 2010), accessed December 3, 2013, <http://www.clevelandfed.org/research/commentary/2010/2010-18.cfm>.

<sup>21</sup> Small Business Administration, Office of Advocacy, *The Small Business Economy, 2010: A Report to the President*, accessed December 10, 2013, <http://www.sba.gov/advocacy/849/6282>.

cards to meet some of their capital needs in 2009, and while credit card debt remains a small percentage of overall small business debt, any rise in that percentage of debt associated with credit cards, since the interest payments on credit cards are higher than other ways to access funds, might create problems for many small businesses. A report by the National Federation of Independent Business found that 24% of small businesses rely solely on credit cards.<sup>22</sup> While the percentage of small businesses applying for credit cards fell (55% in 2009, 48% in 2010), the percentage approved for credit cards increased slightly from 2009 to 2010, so the overall number of small businesses accessing credit this way remained about the same. Some 72% of small businesses using a personal credit card paid it off fully at the end of the month, while 77% of small businesses using a business credit card paid it off at the end of the month. Since businesses with 1–9 employees accounted for more than half of jobs lost in the first three months of 2010, then tracking what happens to many small businesses and their use of credit cards might give us some insight into how we track the economy's recovery out of the latest recession.

In the case of small business credit, only about 20% of short-term credit comes from banks; suppliers make up the rest. A construction company reflected broader problems for many small businesses when the company it gets concrete, lumber and other materials from, cut its credit line from \$200,000 to \$20,000.<sup>23</sup> Lyle Wallis, vice president of the Credit Research Foundation, said, "Small businesses have been forced to reach out to trade creditors and begin to utilize them as bankers." Difficulty in obtaining credit from a bank may only be part of the problem for small businesses. Furthermore, state budget gaps are affecting many small businesses when they fail to be paid in a timely

fashion or see their revenues decline because credit lines go down. Delays in paying contractors are rising as a problem. An official with the Associated General Contractors of New York State said, "If [contractors] are used to being paid in two or three weeks, it's probably six or seven weeks now."<sup>24</sup>

Although, as pointed out, that the most recent recession officially ended in June 2009, the annual Small Business Economy survey for 2012 noted that many of these businesses were still struggling. That report stated, "While the small business economy is growing, the effects of the most recent downturn are still being felt. The number of business births and their associated employment remain below pre-downturn levels and employment gains have been muted compared with previous downturns."<sup>25</sup> This report noted that borrowing in the credit market was "uneven," pointing out that what looked like a growth in borrowing in 2009 and 2010 led to a slight decline in 2011. Through 2012, the number of loans to small businesses looked to be up, but the total value of those loans was down, indicating that those loans were of a smaller average size.

Tami Martens, who started Techsmart Environments in St. Louis, with herself as the sole employee, sold stock she held in a previous company that she started with a partner to pay for her new start-up. Her new business is attempting to sell lighting and fixture technology to warehouses and factories. Newer lighting technology has occupancy sensors that allow lights to go on and off when people are present or away from an area, thereby reducing energy costs. In her previous business, in the twenty-five years she helped to build up the company, the core employee base grew from five to seventy-five employees. Not included in that seventy-five were the, sometimes, up to sixty electricians, carpet layers, or audio technicians that

<sup>22</sup> New NFIB Study on Credit Access: "Small Business Won't Recover Fully Until Real Estate Recovers," *The Secured Lender* (April 2012), accessed December 3, 2013, <http://www.docstoc.com/docs/120038752/New-NFIB-Study-on-Credit-Access-Small-Business-Wont-Recover-Fully-Until-Real-Estate-Recovers>.

<sup>23</sup> Nick Leiber, "Yet Another Blow to Small Business Credit," *Bloomberg BusinessWeek*, June 24, 2010, accessed December 3, 2013, <http://www.businessweek.com/stories/2010-06-24/yet-another-blow-to-small-business-creditbusinessweek-business-news-stock-market-and-financial-advice>.

<sup>24</sup> John Tozzi, "Small contractors Suffer from State Budget Gaps," *Bloomberg BusinessWeek*, June 24, 2010, accessed December 3, 2013, <http://www.businessweek.com/stories/2010-06-24/small-contractors-suffer-from-state-budget-gapsbusinessweek-business-news-stock-market-and-financial-advice>.

<sup>25</sup> Small Business Administration, Office of Advocacy, *Small Business Economy 2012*, accessed December 3, 2013, <http://www.sba.gov/advocacy/849/6282>.

were hired. In her new business she hopes to eventually build up to a five-employee base. Some of that will depend on the type of contracts she receives. For example, if she receives a \$500,000 contract, between 30–50% of that amount will be paid in advance by the client; the rest would probably come from a line of credit worked out with a bank, which may be lending out money from the Small Business Administration (SBA). The SBA loans money to banks to make it available to small businesses. Since her line of credit will be based on her assets, included in that would be the value of her home.<sup>26</sup>

The role of the SBA in the most recent recession is important, however, as the chief executive officer of Mercantile Commercial Capital, which specializes in lending related to small business real estate and equipment loans, pointed out, “SBA loans normally take off in a recession, but this time around lending has not taken off.”<sup>27</sup> The impact of the recession on many small businesses could be seen by the increase in the default rate on SBA loans: While the default rate was 2.4% in 2004, it rose to 11.9% in 2009. Under the SBA program, the SBA pays the bank back a portion of the loan it guaranteed. Usually, the SBA guaranteed the portion of the loan in the 75–85% range. In the case of the Houston (Texas) District Office of the SBA, a portion of ARRA funds were used to increase the loan guarantee from 75% to 90% and waived all borrow fees as a way to stimulate economic growth in their region of the country; however, while it was noted that banks had more of a “comfort level” with a 90% guarantee, the program had little, if any, impact. A vice president of a Houston area bank said, “We knew the [guarantee] increase was temporary, so we didn’t become overly aggressive [regarding new small business loans].”<sup>28</sup>

<sup>26</sup> Tami Martens, personal interview, February 13, 2011.

<sup>27</sup> Don Sniogowski, “Fewer SBA Loans Stifling Small Business,” *NuWire Investor*, February 9, 2009, <http://www.nuwireinvestor.com/articles/fewer-sba-loans-stifling-small-business-52548.aspx>.

<sup>28</sup> Kimberly Stauffer, “SBA loans spur Houston economy,” *Community Impact Newspaper* (March 19, 2010). Accessed Dec. 9, 2013, <http://impactnews.com/houston-metro/cy-fair/sba-loans-spur-houston-economy/>.

One study noted that SBA loans that defaulted cost \$1.3 billion between 2000 and 2013.<sup>29</sup> The director of the Ohio Small Business Development Center stated, “There were an awful lot of people who got small business loans during this period 2004 to 2007 that shouldn’t have gotten them. They were a bad loan when they were made. They just got worse.” However, higher risk seems to be associated with some SBA loan programs, such as the SBA 7(a) program which provides funds to women and minorities who cannot get conventional loans.

In order to facilitate lending to small businesses, Congress authorized the SBA to implement eight administrative changes to speed up getting money to these businesses—for instance, by eliminating certain fees on the two basic SBA lending programs, the 7(a) and 504 programs. A GAO report, however, noted that the SBA was slow to implement these changes.<sup>30</sup> How much these slowed the impact of the SBA’s use of ARRA funds to help stimulate the economy is unclear. What this report did point out, however, was that it was difficult to determine the impact that the SBA’s use of ARRA funds would have on overall economic activity because two other federal government programs, the Term Asset-Backed Securities Loan Facility (TALF) and Troubled Asset Relief Program (TARP) were also involved in purchasing SBA-backed securities. As the GAO report concluded: “It may be very difficult to determine the extent that any pick up in small business lending activity may be attributable solely to the SBA ARRA initiatives.”

The Fiscal Year 2011 federal budget included funds for “direct micro-loans” and “un-bankable” entrepreneurs. In addition, tax credits and relaxed bank lending standards to small businesses who hired new employees were introduced. Furthermore, one SBA loan program, the 504 program (aimed at long-term commercial and real estate purchasing) lowered

<sup>29</sup> Lynn Hulsey and Ken McCall, “Taxpayers paid \$1.3B to cover bad business loans,” *Dayton Daily News*, April 6, 2013, accessed December 3, 2013, <http://www.mydaytondailynews.com/news/news/national-govt-politics/taxpayers-paid-13b-to-cover-bad-business-loans/nXC8j/>.

<sup>30</sup> Government Accountability Office, *Small Business Administration’s Implementation of Administrative Provisions in the American Recovery and Reinvestment Act of 2009*, (April 16, 2009), accessed December 3, 2013, <http://www.gao.gov/new.items/d09507r.pdf>.



interest rates. The new rates were among the lowest since this program began in 1986.<sup>31</sup>

The SBA accounts for more than 40% of all long-term loans to small businesses. A typical 7(a) loan has an average maturity of twelve years compared with a conventional small business loan of three years. Despite the significant impact that SBA-backed loans can have on helping to reduce unemployment, 30% of small businesses had trouble accessing credit, which was an improvement in 2010 over 2009, but was two to three times more difficult than was the case in the 2006–2007 period.<sup>32</sup>

It has been noted that small businesses account for a significant portion of new jobs created. As one study put it, “Firms with less than 20 employees (small firms) contributed 69 percent of net new jobs over the 1990–2001 period, despite accounting for less than 18 percent of total employment in 2001.”<sup>33</sup> Two things to point out about this quote: (1) “net” refers to what is really added to overall employment since the labor market is always creating and eliminating jobs, and what’s left after the dust settles is net, and (2) the reason that small businesses only made up 18% of total employment in 2001, despite contributing significantly to job growth over the eleven years looked at, is because a number of small businesses grew in size over time, adding more than twenty employees, so were no longer considered small

businesses (or at least not quite as small). Studies that examine small businesses and their growth or failure break these businesses down into categories depending on the number of employees they have: 1–4, 5–9, 10–19, 20–49, 50+.

While some high degree of job creation can be tied to small businesses, job loss was also high compared to businesses with 100 employees; the effect of this most recent recession can be seen on businesses of all sizes. In the recession of the early 1990s, more net job loss took place in small rather than larger businesses. In the 2001 recession, larger businesses saw more net job losses. The most recent recession affected everyone. In addition, pay is likely to be lower among small firms than larger ones, which can affect consumer spending power and taxes collected by local and state governments. Furthermore, fringe benefits are less likely to exist for employees of small firms compared with employees at larger firms. At some point in the future these workers will retire, and without adequate retirement funds or a long-term care insurance policy, they have the potential to become a financial burden on a state government’s financing of nursing homes. In addition, unions are less likely to exist among small firms. Some in Missouri, particularly in the state legislature, for example, may hope that the state will become a right-to-work state and cite studies supporting the claim that going this route will help our state’s economy to grow; however, the issue of “union” or “no union” appears not to be an issue for many small firms. The right-to-work issue is probably more related to the size of a business. How many large businesses, concerned about their workforce making an attempt to unionize, use that as the criteria to pick Missouri as the state to relocate to is debatable and will be addressed later.

### **A Tale of Two Counties: Ste. Genevieve and Perry Counties**

Head south on I-55 out of St. Louis and in about 40 minutes you’ll enter Ste. Genevieve County. Just before getting to Bloomsdale, the first exit off I-55 in the county, there was a rest stop which now is a truck weigh station. This change in function may not get

<sup>31</sup> “Why You Can’t Get an SBA Loan,” *Just Elementary, Inc.* (Jan. 17, 2011). Accessed December 9, 2013, <http://www.justelementary.com/why-you-cant-get-an-sba-loan/>.

<sup>32</sup> House Committee on Small Business, *Access to Capital: Can Small Business Access The Credit Necessary To Grow And Create Jobs?* (June 1, 2011). Accessed December 9, 2013, <http://smallbusiness.house.gov/calendar/eventsingle.aspx?EventID=243073>.

<sup>33</sup> Kelly Edmiston, “The Role of Small and Large Businesses in Economic Development,” *Economic Review* (Second Quarter 2007), Federal Reserve Bank of Kansas City, accessed December 9, 2013, <http://www.kc.frb.org/PUBLICAT/ECONREV/PDF/2q07edmi.pdf>.

much attention elsewhere but it may impact significantly Ste. Genevieve, a town heavily dependent on tourism, which proudly publicizes its French colonial roots. Ste. Genevieve was the first European settlement west of the Mississippi River, founded in 1735. That truck weigh station, which previously was a rest stop, had as many as 50,000–100,000 car drivers and passengers stop there each year. Information about what Ste. Genevieve had to offer was made available and it is certain that some unknown percentage of those drivers and passengers decided to visit a winery or take in the colonial buildings. As the former managing editor of the Ste. Genevieve Herald put it, “Very small changes can have meaning to a smaller community.”

Ste. Genevieve has a population of around 17,500, with less than 5,000 living within the city limits of Ste. Genevieve. The population of the county has, more or less, held its own since the 2000 Census. In that sense, it has something in common with Perry County, its neighbor to the immediate south, also accessible by continuing on I-55. Perry County has a population of about 1,000 more than Ste. Genevieve, at about 18,500. As with Ste. Genevieve, the population of Perry County has held, more or less, steady since the 2000 Census. The stability of the populations of both counties provide an important insight into looking at the dynamics of business changes within both counties.

In looking at the ten-year period between 1998 and 2008, there are some interesting differences regarding business development patterns between the two counties. In 1998, Ste. Genevieve had 293 business establishments; by 2008 it had 308, an increase of only about .5%. Perry County, on the other hand, had 417 business establishments in 1998; by 2008 it had 465, an increase of approximately 11.5%, significantly greater than Ste. Genevieve. In neither county was business growth a steady increase upward—both had years that saw increases, leveling offs, and decreases (business growth and destruction is not a smooth and steady process). In looking at both counties, another interesting feature of business establishment changes stands out: the growth rate of small businesses with 10–19 employees. Assuming that many small businesses do not necessarily start off with 10–19 employees, but may begin with a sole individual or simply a handful of employees, with time and a

combination of success and luck, some of these smaller businesses will add employees. In the case of Ste. Genevieve in 1998, the number of business establishments with 10–19 employees stood at 49, growing to 60 a decade later in 2008, just under a 22.4% growth rate. In the case of Perry County, there were 38 business establishments with 10–19 employees in 1998, while by 2008 there were 66, close to a 74% increase.<sup>34</sup> In the case of Perry County, of the 67 counties (out of 115) with a minimum of 35 businesses with 10–19 employees in 1998, Perry County’s 74% increase over ten years was the highest percentage increase (ahead of Lafayette County at 67.4%). One way to look at the importance of this growth in businesses with 10–19 employees is that fourteen of the top twenty-five Missouri counties in growth rate in this category had unemployment rates below the state average in 2010.

Perry County, and even Ste. Genevieve, are more unusual when compared to what developed statewide and in the St. Louis Metropolitan Statistical Area (which includes three counties in Illinois). In the case of Missouri, in 1998, there were 18,164 businesses with 10–19 employees; ten years later in 2008, there were 20,214, an 11% increase. In the case of the St. Louis Metropolitan Area, there were 8,747 businesses with 10–19 employees; ten years later in 2008, there were 9,820, a 12.3% increase. Within the St. Louis Metropolitan Statistical Area during this ten-year span, the City of St. Louis saw a 16.2% drop in these businesses, St. Louis County saw a 12.3% increase, St. Charles County saw a 38.9% increase, Jefferson County saw a 10.8% increase, and Clinton County saw a 28.6% increase. Both Ste. Genevieve and Perry Counties stand in contrast to statewide and St. Louis Metropolitan Statistical Area developments. Populations for both the state and the St. Louis Metropolitan Statistical Area remained relatively flat, with some fluctuations, but not anything different than the lack of population growth in either Ste. Genevieve or Perry Counties.

We might assume that new businesses with between 1–4 employees stand a greater risk of not surviving to

<sup>34</sup> U.S. Census Bureau, *County Business Patterns*, drawn from studies covering the years from 1998–2008 to gauge business growth and cover the period at the beginning of the last recession. The home page is here accessed December 10, 2013: <http://www.census.gov/econ/cbp/index.html>.

the next year or making it several years down the road. The growth rate of small businesses with 10-19 employees, seen over the course of a decade, might give us an indication of the greater probability that businesses at Year One stand a better chance of surviving longer and present the greater possibility of growing. One study that examined business survival rates between 1976 and 1986 concluded: “The more employees a business has, the more likely it will be to survive over some finite time interval. This is also true for older businesses and businesses that operate out of more than one establishment. [This] study found no other clear factor underlying business survival rates.”<sup>35</sup> Businesses with 1–4 employees saw a decline in their survival rates, over the ten years covered in this study. Furthermore, businesses with 5–9, 10–19, 20–49, 50+ employees saw their survival rates decline, if they remained in their employee range category. In the case of businesses with 20–49 employees it was noted that their survival rate after ten years was almost twice that of businesses with 1–4 employees.

This contrast between Ste. Genevieve and Perry counties is not an indication that Ste. Genevieve is somehow more deficient in how it approaches economic development policies than its neighboring county, Perry. Visiting both counties indicates that different patterns of business activity have developed and will affect the development of other businesses. In the case of Ste. Genevieve, it borders to its north Jefferson County, which is located within the St. Louis Metropolitan Statistical Area. Fully 26% or so of those employed in Ste. Genevieve commute to work within the St. Louis Metropolitan Statistical Area. Kate Martin, editor of *The Republic-Monitor* in Perryville, pointed out that, at one time, there was a group that carpooled from Perryville to auto plant jobs in the St. Louis area, so Perry County has had some connection to the St. Louis area as well. The question is whether Perry County, being at least an additional forty minutes of driving time to the St. Louis area, is removed somewhat from having as strong a connection

to the St. Louis Metropolitan Statistical Area as Ste. Genevieve County, which borders a metropolitan area. Studies show that about half of those that commute to work travel less than thirty-one minutes. There have been several studies that noted that Midwesterners, as contrasted with those that live on the East or West Coasts, are more likely to travel farther in search of employment. Rissover felt this was attributed to the geographical location of the Midwest, in the middle of the country, unlike the two coasts where you had to travel East or West.

The contrast between the counties can be seen regarding construction jobs: In 2008, 13.7% of the total workforce in Ste. Genevieve was employed in construction, while in Perry only 4.4% was in construction. As Rissover pointed out, “There are a lot of construction people here.” And she added, “The laying off of 25 people affects our [unemployment] percentage.”<sup>36</sup> As noted earlier, construction has been severely affected by the most recent recession with little sign that it will recover in the near future. Construction tends to be seen as a small business operation with approximately 9–11 employees per business, on average, statewide. This contrasts with manufacturing, where, on average, there are 43–53 employees per business in Missouri. Missouri percentages, by the way, for employment in construction and manufacturing, at least in 2008 in the midst of the last recession, were not that much different than national averages; in fact, they were fairly close. Missouri’s workforce in construction was 5.8% of the state’s total workforce, the same as the national percentage, and in manufacturing, the state’s workforce was 11.8% of total workers, only 1% higher than the national average. This might suggest that what happens nationally regarding construction and manufacturing employment will be reflected in Missouri.

In the case of Ste. Genevieve, its geographical relationship to the St. Louis Metropolitan Statistical Area may account for part of the reason why Ste. Genevieve has seen higher unemployment rates than Perry County. For example, in August 2013 while the unemployment rate in Perry County was 4.9%, in Ste.

<sup>35</sup> Joel Popkin and Company, *Business Survival Rates by Age Cohort of Business*, Small Business Administration, RS Number 122 (1992), accessed December 9, 2013, <http://archive.sba.gov/advo/research/rs122.html>.

<sup>36</sup> Jean Feld Rissover, telephone interview, February 13, 2011.

Genevieve it was almost 2% higher at 6.8%. In looking at the two counties in the four August months between 2010 and 2013, Ste. Genevieve's average unemployment rate was more than 2% higher than Perry County. Larry Tucker, Perry County Economic Development Authority executive director, stated toward the end of 2010, "It's been a good year for economic development in Perry County,"<sup>37</sup> which is no doubt a sentiment that many counties across the country wish they could hear. Tucker pointed out that four local businesses had announced expansion plans, creating 600 new jobs. Perry County had an employment base of about 10,000 jobs and a 6% unemployment rate—a 6% unemployment rate equals 600 jobs. Tucker's observation was that, "So we're bringing 600 jobs to the county so we can theoretically say we . . . now have a 0 unemployment rate, right?" Martin describes Perry County as a "Bubble of Blessing."<sup>38</sup> Another way of looking at unemployment in the two counties is that Ste. Genevieve County's average unemployment rate in the eight years between 2002 and 2009, which covers the period before and during the most recent recession, was .5% above the state unemployment rate average for the same period (5.2%), while Perry County's unemployment rate for the same period averaged .8% below the state average. In other words, there appear to be some longer-term issues that transcend the most recent recession. Looking at data regarding employment, unemployment, income, mortgages, mortgage defaults, age cohorts, and bankruptcies, various ways of looking at income provide insight into tendencies and generalizations, but absolute statements need to be avoided. For example, we can assume that Missouri counties with median household income below that state average (\$45,149 in 2009) are more likely to have higher unemployment rates (say, above the state average of 9.3% in 2009). In fact, in 2009, there were 55 counties with unemployment rates above the state average; however, ten of those 55 counties (18.2%) had median household incomes above the state average. More or less we can say that higher unemployment rates and lower median household income go together, but not always. Perry County, with a 2009 unemployment rate below the state

average, also had a median household income below the state average. Ste. Genevieve, in the same year, with an unemployment rate above the state average, had a median household income above the state average.

Collectively, the working population of both counties is a very small fraction of the almost 2.4 million workers in Missouri. Yet, as pointed out throughout this article, issues of employment, unemployment, and job creation involve looking at lots of small pieces that collectively add up. The amount of attention that was devoted to preventing approximately 1,300 auto plant jobs from leaving the Kansas City area demonstrates how pieces of different sizes collectively fit together. Governor Nixon pushed for a tax credit to save those jobs; the argument was that not only would those auto plant jobs be saved, but that almost every county in the state was, in some way, connected to that particular Ford auto plant. As with the 20,000 employed from Ste. Genevieve and Perry counties, adding in the 1,300 auto plant jobs and however many jobs statewide are tied to that auto plant, certainly still make up only a small percentage of the almost 2.4 million total state workforce.

Regarding the federal government's economic stimulus program, ARRA, the White House did something which cannot be called anything but foolish when it released a report estimating the employment impact of this program. For Missouri, a February 2009 report estimated that 69,000 jobs would be created or retained in Missouri. The report further broke down the state into the nine congressional districts with the range of jobs created or retained going from a low of 6,800 (First Congressional District) to a high of 7,900 (Second Congressional District); the other seven districts fell between these numbers.<sup>39</sup> Following the 2010 Census, Missouri lost one Congressional seat and now has eight. Trying to predict, however, jobs retained or created down to the level of specific congressional districts, each with distinct economic characteristics, would appear to be foolhardy. As just this brief discussion of two Missouri counties shows, local conditions and business developments can

<sup>37</sup> Kate Martin, "Tucker highlights year of job growth at Chamber dinner," *The Republic-Monitor* (Perryville), October 26, 2010.

<sup>38</sup> Kate Martin, personal interview, January 14, 2011.

<sup>39</sup> "American Recovery and Reinvestment Act: Jobs Impact By Congressional District," Updated, The White House (February 17, 2009), accessed December 9, 2013, [http://www.whitehouse.gov/assets/documents/Recovery\\_Act\\_congressional\\_district\\_jobs\\_2-17.pdf](http://www.whitehouse.gov/assets/documents/Recovery_Act_congressional_district_jobs_2-17.pdf).

matter. While there was obviously political pressure placed on the Obama Administration to come up with something that justified or explained the use of funds related to ARRA, that is not the same as saying that these funds had no effect; in fact, what is apparent from discussions in just these two counties is that these funds were important. The problem with ARRA funds is distinguishing between immediate impact and long-term impact.

The short-term impact and the long-term impact tend to focus on different ways of examining the impact of ARRA; the short-term is seen in jobs created or retained, while the long-term is seen in infrastructure that has the potential to help generate future employment. ARRA's impact in the short term did contribute to lowering the unemployment rate. ARRA saved or created more than two million jobs in its first year (ending February 2010). As one study put it, "[There was] a relatively large employment impact in the short-run but a small and insignificant impact after the first year of the ARRA spending."<sup>40</sup> It should be noted that since one-third of ARRA funds consisted of tax cuts, that spending alone did not just contribute to job growth, if only in the short term. ARRA's impact on construction jobs was seen as significant, with a 19% increase in construction employment through October 2010.

In the case of Ste. Genevieve and Perry counties, the short-term impact of ARRA could be seen in temporary employment; the more lasting impact will depend on how much infrastructure development contributes to future economic growth—which may take until after 2020 to visibly see.

One infrastructure project that is expected to see an impact on the economies of both counties is the New Bourbon Port, located in Ste. Genevieve County on the Mississippi River, but headquartered in Perry County. The New Bourbon Port Authority was created in 1982, although neither state funds nor federal funds were

ever available to develop this facility—money came from ARRA. This particular project was one of approximately seventy statewide that used \$546 million funneled through the Missouri Department of Transportation.<sup>41</sup> At the time these projects were beginning in late February 2009, it was estimated they would have a \$2.4 billion impact on the state's economy. In other words, by putting people to work and buying whatever was needed for projects, money would go into the Missouri economy; in essence, spending money generates more money, which economists call "the multiplier effect." There may be disagreements over whether \$1.00 spent generates \$1.25 or \$2.00, but it would appear to have some effect beyond that initial \$1.00. At the New Bourbon Port site, ARRA funds go toward a load-out conveyor improving the capability to unload and load barges. When the Mississippi River floods it affects local businesses and they might be forced to limit their operations, sending home workers. Now when the river is high, local businesses will still have a shipping terminal. In 2008, several businesses were forced to temporarily shut down operations when the Mississippi rose, closing down dock operations. Besides the conveyor, a dock and harbor will be built. Governor Nixon's statement about this project indicated the future-tense way of looking at the use of ARRA funds, a long-term view as opposed to a more short-term one. While the term "shovel-ready" was often used when the ARRA funding was getting off the ground in February 2009, it's difficult to precisely say this project is just that and nothing more. Part of the image associated with "shovel-ready" is that it failed to convey some of the potential long-term gains expected from some projects funded. Nixon's statement about the New Bourbon Port illustrates a less shovel-ready, more long-term impact view, "This project will not only preserve existing jobs, but will also offer opportunities to new businesses to locate and utilize the new facilities for river transport."<sup>42</sup> Martin

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<sup>41</sup> "MO's shovel-ready stimulus projects," *St. Louis Business Journal* (February 20, 2009). Accessed December 9, 2013, <http://www.bizjournals.com/stlouis/stories/2009/02/16/daily72.html>.

<sup>42</sup> "Gov. Nixon Announces \$2.2 million in funding to renovate key port in Ste. Genevieve," *Missouri Governor Jay Nixon News Release*, March 4, 2010, accessed December 4, 2013,

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<sup>40</sup> Daniel Wilson, "Fiscal Spending Jobs Multipliers: Evidence from the 2009 American Recovery and Reinvestment Act," Federal Reserve Bank of San Francisco, working paper 2010-17 (February 2011). Accessed December 9, 2013: <http://www.frbsf.org/economic-research/files/wp10-17bk.pdf>.

wondered whether this project might lead to one or more trucking operations setting up shop in Perry County.

The difference between short-term visible outcomes and long-term impact could also be seen in how Chauncy Buchheit, executive director of the Southeast Missouri Regional Planning and Economic Development Commission, described this project. Buchheit compared it to the SEMO port in Scott City, which began operation in 1981 and attracted new industries to the area. His vision is that within ten years, the area around the New Bourbon Port will be “unrecognizable.”<sup>43</sup> The issue of whether ARRA funds actually create jobs or just retain existing ones gets complicated with this particular project, and, obviously, many other ones around the state. A study conducted by the Southeast Missouri Regional Planning and Economic Development Commission estimated that thirty-five jobs directly related to the New Bourbon Port will be created, at least initially. This report estimates that up to 400 jobs could come with development and growth as a result of this port. Here is that multiplier effect, where determining how many indirectly related jobs are created as a result of direct investment in this port becomes a guessing game. Even if 400 jobs are eventually realized, as a percentage of total Missouri jobs, where the hope is to see a state workforce approaching around 2.5-2.6 million workers in a few years, that 400 is an insignificant number; but again, small parts add to the whole.

The New Bourbon Port project received part of more than \$4 million in ARRA funds that went to five port-related projects. The other four include: improving a dock at St. Louis City Port, construction of a high-water rail line at Southwest Missouri Regional Port in Cape Girardeau County, construction of a rail extension at New Madrid County Port, and construction of a truck staging area at St. Joseph Regional Port. Again, the distinction between immediate impact and long-term goals blurs the use of

the term “shovel-ready projects”—which at the time that ARRA was getting off the ground was touted as what the money should be used on.

If the only way to evaluate the economic impact of the New Bourbon Port project is to say that we need to see a direct relationship between money spent and an immediate lower unemployment rate in Ste. Genevieve County, then there are problems. Bear in mind that ARRA funds went to a number of projects within the county, totaling some \$10 million (Perry County received approximately \$17 million). The Congressional Budget Office (CBO) issues a report covering three-month periods examining the impact of ARRA funds and, essentially, reached the conclusion that as a result of these funds, unemployment was lowered nationally by between .7–1.8%.<sup>44</sup> That’s a broad range, with 1.1% difference between the low-end projection and high-end (think in terms of a national unemployment rate of 8.9% or 10%). It is very difficult to be more precise since there are different ways to evaluate the impact of any public program, but that is not the same as saying that there was no positive impact; ARRA’s impact on short-term construction employment and the program’s impact on infrastructure such as the New Bourbon port illustrate two different ways of assessing ARRA. The short-term employment benefits of ARRA led to half-hearted praise for the program at best; the long-term infrastructure benefits led to a wait-and-see attitude. Martin seemed to express frustration with some politicians when she said, “they take [government] funds with one hand and slap the government with the other.” Some criticism of ARRA funds may come down to how the funds were allocated. Approximately 59% of total ARRA funds in Missouri have gone to Education, Health and Human Services, and Agriculture, while only approximately 5% of these funds have gone to the SBA for distribution.

Former Sen. Scott Brown (R-MA) made a statement in which selected words received a great deal of attention, but other comments in that statement

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[http://governor.mo.gov/newsroom/2010/Port\\_of\\_New\\_Bourbon](http://governor.mo.gov/newsroom/2010/Port_of_New_Bourbon).

<sup>43</sup> Brian Blackwell, “New Bourbon Port expected to stimulate economy of Perry, Ste. Genevieve counties,” *Southwest Missourian* (Aug. 27, 2009). Accessed December 9, 2013, <http://www.semissourian.com/story/1565420.html>.

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<sup>44</sup> Congressional Budget Office, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From April 2010 Through June 2010* (Aug. 2010), accessed December 9, 2013, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/117xx/doc11706/08-24-arr.pdf>.

indicated the complexities of evaluating the impact of ARRA. Brown said in a February 2010 news conference, “In Massachusetts [ARRA] hasn’t created one new job and throughout the country as well.” Yet, Brown also added, “It may have retained some, but it hasn’t created any new jobs.” As noted earlier, that distinction between retaining jobs and creating jobs is a big sticking point about how to evaluate ARRA. Depending on which source you rely upon, estimating the impact of ARRA jobs includes merging job retention with job creation. The CBO estimated the two merged together led to 800,000 to 2.4 million jobs retained or created; Moody’s economy.com estimated 1.59 million jobs, while Macroeconomic Advisers placed the figure at 1.06 million. President Obama added his own confusion to the mix when in February 2010 he said, “So far the Recovery Act is responsible for the jobs of about 2 million Americans who would otherwise be unemployed. These aren’t just our numbers; these are the estimates of independent, nonpartisan economists across the spectrum. . . . [And] the Recovery Act is on track to save or create another 1.5 million jobs in 2010.” In his case, he emphasized the high-end estimates, making no mention of the wide range that the CBO had estimated was involved in their calculations.<sup>45</sup>

Again, some of the differences in estimating what impact ARRA has on jobs comes down to the multiplier effect. A more conservative view is that money spent on one part of the economy amounts to money taken from another part of the economy, so any positive effect from ARRA needs to take into account the loss in spending elsewhere. Even in the case of a conservative view, however, the assumption that money spent here is neutralized by money taken from there resulting in an effect that is essentially zero (no impact) is not really emphasized—some impact takes place. Certainly by looking at the low- and high-end estimates for the CBO, the no-impact-whatsoever argument is not considered, although it may not be comforting to see such a wide range for estimating the impact of ARRA—such are the frustrations of

accurately measuring the effects of any public program.

In June 2009, soon after ARRA was off the ground and running, in a press conference involving Jared Bernstein, then chief economist to Vice President Joe Biden, a reporter asked a question: “When are you going to be able to go beyond saying there’s a mathematical formula or a tested methodology that [backs up the projected 3.5 million jobs created or retained] and [you] actually go back and look and say, we were right, it was that number of jobs; or, we were grossly wrong?” Bernstein’s response was not particularly comforting when he responded, “. . . let me refer you to two papers that I think, I believe—I hope—take you through this kind of methodology, this sort of estimate in what’s supposed to be reader-friendly language.”<sup>46</sup> Despite this rather poor response to an insightful question, Bernstein did make one relevant point when he pointed out that without ARRA, the unemployment rate might have been 1.5% to 2% higher in 2010—which means that getting down to an unemployment rate in the 7% range, which is where it has been through 2013, would probably have been almost impossible. Some uncertainty is quite understandable about what impact ARRA exactly would have on the American economy, given that, at the time, Bernstein and Christina Romer, then chair-nominee of the Council of Economic Advisors, were putting together projections about jobs created and retained while the recession was still fully underway. As they put it in a January 2009 paper on the impact of ARRA, “. . . uncertainty is surely higher than normal now because the current recession is unusual both in its fundamental causes and severity.”<sup>47</sup> Their projection that at least three million jobs would be

<sup>46</sup> The White House, Office of the Press Secretary, *Press Briefing By Press Secretary Robert Gibbs and the Vice President’s Chief Economist, Jared Bernstein* (June 8, 2009). Accessed December 9, 2013: [http://www.whitehouse.gov/the\\_press\\_office/Briefing-by-Press-Secretary-Robert-Gibbs-with-Jared-Bernstein-the-Vice-Presidents-Chief-Economist-6-8-09/](http://www.whitehouse.gov/the_press_office/Briefing-by-Press-Secretary-Robert-Gibbs-with-Jared-Bernstein-the-Vice-Presidents-Chief-Economist-6-8-09/).

<sup>47</sup> Christina Romer and Jared Bernstein, “The Job Impact of the American Recovery and Reinvestment Plan,” The White House (January 9, 2009), accessed December 9, 2013, [http://otrans.3cdn.net/45593e8ecbd339d074\\_13m6bt1te.pdf](http://otrans.3cdn.net/45593e8ecbd339d074_13m6bt1te.pdf).

<sup>45</sup> “Obama says stimulus is responsible for 2 million jobs saved or created,” *Politifact.com* (February 17, 2010), accessed December 3, 2013, <http://www.politifact.com/truth-o-meter/statements/2010/feb/17/barack-obama/obama-says-stimulus-responsible-millions-jobs-save/>.

saved or created by the end of 2010 was made five months before the recession ended, so anything that looked like good, solid numbers regarding jobs to be saved or created has to be taken with a grain of salt.

Because ARRA was going to be spending at the rate of about \$1 billion a day, pressure inevitability builds to say something to justify that amount of spending, regardless of how questionable that something ends up sounding. But then those initial, somewhat questionable estimates end up being used to judge the impact of ARRA. This becomes like the start of baseball season, where expectations run high that the New York Yankees will make the playoffs, and if they don't, they had a bad year; meanwhile, if the Chicago Cubs look like they have a chance of making the playoffs as we enter the period after Labor Day, they had a good year (no need to jinx the St. Louis Cardinals or Kansas City Royals with future predictions). Expectations are set early because of what an administration says about its own program, and once those expectations inevitably cannot be lived up to, then, unfortunately, it is difficult to step back and see the impact that a program had in spite of falling short of aspirations, expectations, and projections that were somewhat questionable in the first place.

## Prognosis

Moody's Analytics, in its assessment about Missouri's economy and recovery out of the most recent recession, noted that while Cape Girardeau and Joplin appeared to be struggling as they relied too heavily on manufacturing and had low-paying service sector jobs that were not going to help overall income growth, Columbia had a solid student consumer market that would help that local economy. Jefferson City's strong, stable employment tied to state government helped that economy, while St. Joseph lacked strong drivers of its local economy. Overall, Moody's saw Missouri as among the 35 states or so that were recovering out of the recession, while that is not the same that they could report about Illinois (no doubt a reason why some in Missouri hope to attract some businesses in Illinois).<sup>48</sup> In the case of Illinois, recent

tax increases are seen as wetting the appetite of some Missouri legislators that businesses in Illinois might either flee the state or be attracted through tax breaks; in either case, this appears to be wishful thinking that our state economy can grow jobs through business flight from other states, particularly Illinois.

As this article has pointed out, job growth comes in bits and pieces, and small developments here and there add to the total. Go through state audit reports on the effects of tax credits, often seen as a way to help businesses grow, and bits and pieces appear to be the best that can be stated. For example, a state audit report on the Enterprise Zone Tax Credits and Enhanced Enterprise Zone Tax Credits noted that, "businesses receiving credits from either program, and the economic benefits of both programs, reported to the legislature are overstated."<sup>49</sup> The Enterprise Zone Tax Credit program begun in 1982 is being phased out with the state audit report concluding, "it is difficult to determine whether the programs are effective use of state resources." Yet, despite such seemingly negative comments about the merits of both programs, the report cataloged both programs as "provid[ing] a positive economic benefit."

In the case of another tax credit program, the Missouri Certified Capital Company Tax Credit (CAPCO), a state audit report pointed out that, on average, it was projected to create 293 jobs a year over a 15-year period, at a cost of \$116.4 million in lost state revenue—that comes to approximately \$26,485 the state spends in lost revenue to create a job. In the case of this particular program, the \$116.4 million represents lost funds since the program actually costs \$140 million but generates only \$23.6 million in state revenue (so that leaves \$116.4 million)—this is a program not paying for itself. This same report noted that the New Enterprise Creation Tax Credit program would create, on average, 129 jobs a year spread out

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<sup>49</sup> Missouri State Auditor, *Enterprise Zone and Enhanced Enterprise Zone Tax Credit Programs*, Report No 2010-06 (September 2010): 2. Accessed December 9, 2013, <http://auditor.mo.gov/press/2010-106.pdf>.

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<sup>48</sup> Moody's Analytics, *Economic & Consumer Credit Analytics*, <http://www.economy.com>.



over 15 years; again, however, a program not generating enough in tax revenue to pay for itself.<sup>50</sup>

Earlier it was pointed out that estimates of jobs created or retained related to ARRA included the use of a multiplier effect; well, a state audit report analyzing the New Jobs Training Program Tax Credit noted that 87,110 jobs were projected to be created as a result of this program over 17 years up to 2015. However, this report distinguished between jobs created directly as a result of this program (26,307) and jobs created indirectly as a result of economic growth associated with this program (60,803). So, this program is seen as creating approximately 1,547 jobs directly a year. In essence, the assumption was that for every one job directly created by the New Jobs Training Program, 2.31 jobs were created indirectly.<sup>51</sup> Furthermore, this particular program benefited only 22 of Missouri's 115 counties with Jackson, Clay, Pettis, and St. Louis counties receiving the biggest impact in terms of job growth (Perry County was one of the 22, while Ste. Genevieve was not). The best that one particular project seemed to be able to achieve in terms of job creation was 571 jobs (that comes from dividing the projected 9,143 jobs created from 16 projects in the St. Louis metropolitan area). While this particular program, which began in 1992, authorizes certain community colleges to train employees for selected employers who created jobs, the report noted the lack of detailed information about job creation associated with this program. As the report pointed out, "Discussion with community college representatives indicated little, if anything, is done to verify the number of jobs created."

One study that examined tax credit programs among the states that use them noted that information about the exact impact that these programs have, is not well

documented. As this study put it, "Statistical analysis of state tax incentives to date has been ad hoc in nature and limited to a few states where researchers have either gathered or had access to the appropriate data."<sup>52</sup> Yet read this report and the authors seem to point to the somewhat good use of tax credits. They noted that in an examination of a Georgia state tax credit program, companies that used a particular tax credit were more likely to create 23–28% more jobs than companies that did not use the tax credit. Notice that success is measured in slight degrees, not by an overwhelming bonanza. Yet a study that examined tax incentives used in New York City by former Mayor Michael Bloomberg's administration concluded that, "the evidence on job retention and creation is mixed and mostly ambiguous."<sup>53</sup> Furthermore, this study sounded like many Missouri State Audit reports which examined tax credit programs, when it pointed out that job creation targets by companies receiving tax credits were not being met and much information was lacking. Job growth might not be the primary goal; rather, helping companies to increase their competitiveness by reducing their tax burden could be a goal, which might help to reduce or prevent jobs that might be lost without some government program designed to help increase the ability of companies to compete. That might be seen as different than creating new jobs. Yet, to add confusion to the pile, a study that looked at tax incentives in Kentucky between 1994 and 2004 concluded that the total number of net jobs in the state would have been 2% lower without the \$925 million spent on tax incentives to businesses during that period. Yet this study added the customary note of caution about taking these findings too far when it added, "Addressing the question of whether business incentives affect a firm's location decision requires data on both the incentives offered to the firm by

<sup>50</sup> Missouri State Auditor, *Review of State Tax Credits Administered by the Department of Economic Development*, Report No. 2004-55 (July 2, 2004). Accessed December 9, 2013, [http://archive.org/stream/2004MOAuditorAnnualReport/2004MOAuditorAnnualReport\\_djvu.txt](http://archive.org/stream/2004MOAuditorAnnualReport/2004MOAuditorAnnualReport_djvu.txt).

<sup>51</sup> Missouri State Auditor, *New Jobs Training Program Tax Credit*, Report 2003-32 (April 8, 2003). Accessed December 9, 2013, <http://auditor.mo.gov/press/2003-32.pdf>.

<sup>52</sup> Dagny Faulk and Michael Hicks, *Reflections on State Tax Incentives*, Center for Business and Economic Research, Ball State University (October 10, 2010), accessed December 9, 2013, <https://cms.bsu.edu/-/media/WWW/DepartmentalContent/MillerCollegeofBusiness/BBR/Publications/TaxIncentives.pdf>.

<sup>53</sup> Franz Fuerst and John Mollenkopf, *Are Local Economic Development Incentives Promoting Job Growth? An Empirical Case Study*, Center for Urban Research, City University of New York (September 2005), accessed December 9, 2013, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=854566](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=854566).

Kentucky as well as incentives offered by other states trying to attract the firm. Since it is unlikely that data on other states' incentives will ever be available, we are unable to examine this question."<sup>54</sup>

The point here is not to necessarily focus on the tax credits solely but to point out that they are one of the tools associated with economic development policies and they will not be going away in the states that use them. Sure, there might be changes to how they are administered and there may be issues associated with better bookkeeping, but that is to be expected. Once we add tax credits to the mix of tools used for economic development, though, we develop a picture of economic development that involves a degree of hit-or-miss. Think of the old televisions with transistor tubes where to make the picture come back on, you hit the TV on the side—something happened but you were not always sure why. ARRA, tax credits, the particulars of different local economics, and how those local economies are made up and have developed (as seen here with Ste. Genevieve and Perry Counties) are all part of how we come to understand economic development aimed at creating more jobs in Missouri.

Job creation will be a little bit of this and little bit of that. Some things will work and be seen as successful, in varying degrees, and other things will fall flat on their faces. Just as we can distinguish between the economies of different states, or regional economics within the United States, we need to be aware of the differences that exist within our state. Those local differences cannot be ignored. It behooves the governor as well as state legislators to emphasize the parts that make up the whole. Governor Nixon, as

<sup>54</sup> William Hoyt, Christopher Jepsen, and Kenneth Troske, *An Examination of Incentives to Attract and Retain Businesses in Kentucky*, Center for Business and Economic Research, University of Kentucky (January 18, 2007), accessed December 9, 2013, [http://uknowledge.uky.edu/cgi/viewcontent.cgi?article=1011&context=cber\\_researchreports&sei-redir=1&referer=http%3A%2F%2Fwww.bing.com%2Fsearch%3Fq%3DHoyt%2BJepsen%2BTroske%2BAn%2BExamination%2Bof%2BIncentives%2Bto%2BAttract%2BAnd%2BRetain%2BBusinesses%26src%3DIE-SearchBox%26FORM%3DIE8SRC#search=%22Hoyt%20Jepsen%20Troske%20An%20Examination%20Incentives%20Attract%20Retain%20Businesses%22](http://uknowledge.uky.edu/cgi/viewcontent.cgi?article=1011&context=cber_researchreports&sei-redir=1&referer=http%3A%2F%2Fwww.bing.com%2Fsearch%3Fq%3DHoyt%2BJepsen%2BTroske%2BAn%2BExamination%2Bof%2BIncentives%2Bto%2BAttract%2BAnd%2BRetain%2BBusinesses%26src%3DIE-SearchBox%26FORM%3DIE8SRC#search=%22Hoyt%20Jepsen%20Troske%20An%20Examination%20Incentives%20Attract%20Retain%20Businesses%22).

noted in the introduction to this article, created a program called Strategic Initiative for Economic Growth. From the available information about what can only be called a proposal at this stage, the word “targeted” appears to be what the governor is aiming for. If it develops into a well-designed program with some “teeth,” its impact, as noted by what has been covered in this article, will be limited and be one part of a larger whole. In February 2011, Governor Nixon referred to three job creation tax credit programs as being “disjointed and confusing” and pushed for a consolidation.<sup>55</sup> Consolidation would appear to go along with targeted thinking and something might happen, but don’t expect too much. A study that addressed targeted economic development policies for Michigan in the mid-1990s referred to the “deceptive claim” of creating jobs.<sup>56</sup> Businesses decide to relocate because of a variety of reasons (assuming we want to encourage them to relocate from another state). Factors that go into a business’s decision to relocate can include cost of production, access to markets, labor costs, legal and regulatory issues, transportation costs, infrastructure, taxes, and capital costs, just to name a few considerations that need to be taken into account. Despite a push to make changes, do not expect to see any sudden massive impact in the way of significant job creation from any reforms to tax credit programs (supposedly expected before Governor Nixon’s term of office ends). In the case of the state legislature, several bills have called for the expansion of existing tax credits and the creation of new ones; again, parts that will, hopefully, add to the whole.

There is no magic bullet that will do it all; good economic development will look like puzzle pieces and, hopefully, the pieces will fit together to make the right puzzle. Brien Sterner, president of the Blue Springs Economic Development Corporation (near Kansas City), emphasized the importance of the long-

<sup>55</sup> “Mo. Governor Touts proposed tax incentive changes,” *Bloomberg Businessweek*, February 23, 2011, accessed December 9, 2013, <http://www.businessweek.com/ap/financialnews/D9LILAO80.htm>.

<sup>56</sup> Martin Wing, Joseph Overton, and Robert Fish, “MEGA Industrial Policy: An Analysis of the Proposed Michigan Economic Growth Authority,” Mackinac Center, March 1, 1995, accessed December 9, 2013, <https://www.mackinac.org/243>.

term view that is needed for economic development leading to job creation. Sterner said, “It’s a strategy. It’s not a deal. It’s not ribbon-cutting.” He stressed the need to avoid going after the big retailer or manufacturer, which he called the “original sin” of economic development.<sup>57</sup> Notice that in looking at job creation throughout this article, frustration should arise on the part of the readers as they see little successes, little steps—the here and there, the bits and pieces. It’s not exactly what most people want to hear regarding what makes up good economic development leading to job creation in the not-too-clear future. Yet bits and pieces might be the way to think about economic development leading to job growth within local economies. Robertson County, Tennessee, for example, in a report addressing what might help the county’s economy, focused on attracting seniors, noting, “Senior citizens who are retired have the potential to bring added income and spending into a community through their ‘nest egg’ investments, to include income from dividends and interest. . . . Attracting more seniors to retire [here] may help to benefit the local economy. . . .”<sup>58</sup> Population demographic changes are seen as helping local businesses to grow and create jobs; it is not unusual to think in terms business changes related to population changes. In the case of Missouri, the state’s median age is 36.1 years, with Ste. Genevieve County at 38.3 and Perry County at 36.7 closer to the state average. Boone County, however, has a median resident age of 26.8 years, while St. Louis County is at 42.4, so there can be some significant variation within the state—which can impact job growth.

Small business start-ups are part of the pieces of the puzzle. Between 1996 and 2006, small businesses with 20 employees or less accounted for 60–80% of net new job creation. That sounds like an area to focus public policy on, and, in fact, Governor Nixon announced a

program titled Missouri’s State Small Business Credit Initiative, which began in April 2011. This program will, supposedly, allow small businesses to gain access to \$26.9 million in federal funds. Yet, a study that examined a number of existing programs aimed at assisting small businesses stated, “the body of research has yet to identify the essential characteristics of effective small business assistance programs such as the optimal services to provide, what works best for whom or in what geographic locale, and how program effects relate to program costs.”<sup>59</sup> As with the tax credit programs, some limited success might eventually develop with the business credit initiative program: Success in small degrees might be the best that can be expected.

The current situation of small business start-ups shows the continuing impact of the most recent recession. By the end of 2010, almost a year and a half after the recession ended, the number of small businesses with at least one employee dropped to 100,000 less than the year before. That drop in new business creation was the second worst in 18 years: The worst was the year before.<sup>60</sup> Carl Schramm, president and CEO of the Kauffman Foundation, a Kansas City based organization that studies entrepreneurship, stated, “Far too many founders are choosing jobless entrepreneurship, preferring to remain self-employed or to avoid assuming the economic responsibility of hiring employees. This trend, if it continues, could have both short- and long-term impacts on economic growth and job creation.”<sup>61</sup> As the study that was

<sup>57</sup> Jeff Fox, “Blue Springs pursues long-term strategy,” *The Examiner*, February 25, 2011, accessed December 9, 2013: <http://www.examiner.net/x1596408876/Blue-Springs-pursues-long-term-strategy>.

<sup>58</sup> Daniel Merchant, “A Comparative Assessment of Robertson County, Tennessee,” *Merchant Community Analysis*, October 1, 2009, accessed December 9, 2013, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1501155](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1501155).

<sup>59</sup> Qian Gu, Lynn Karoly, Julie Zissimopoulos, “Small Business Assistance Programs in the United States: An Analysis of What They Are, How Well They Perform, and How We Can Learn More about Them,” Kauffman-RAND Institute for Entrepreneurship Public Policy, WR-603-EMKF (September 2008), p. 3. Accessed December 9, 2013, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1295625](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1295625).  
<sup>60</sup> Justin Lahart and Mark Whitehouse, “Few Businesses Spout, With Even Fewer Jobs,” *Wall Street Journal*, November 18, 2010, accessed December 9, 2013, <http://online.wsj.com/news/articles/SB10001424052748704648604575621061892216250>.

<sup>61</sup> “Jobless Entrepreneurship Tarnishes Steady Rate of U.S. Startup Activity, Kauffman Study Shows,” Ewing Marion Kauffman Foundation, March 7, 2011, accessed December 9, 2013, <http://www.kauffman.org/newsroom/2012/09/jobless-entrepreneurship-tarnishes-steady-rate-of-us-startup-activity-kauffman-study-shows>.

noted above which examined existing public programs aimed at assisting small businesses pointed out, “few studies are able to identify a causal relationship between small business assistance programs and business creation and subsequent economic performance of assisted small firms.”<sup>62</sup> What has been learned regarding the effectiveness of existing small business programs and how well any changes will be applied to the new Missouri business credit initiative program, will require time to determine.

The issue of making Missouri a right-to-work state is being put forth as an answer to address the state’s unemployment issue. There is no reason to expect this issue to go away. It was introduced in the 2011 term of Missouri’s General Assembly and failed to pass. It, similarly, made no headway in the General Assembly in 2012 and came closer to becoming law in 2013. Driving around the state, one can see many billboards that criticize right to work. If we compare Missouri to the state’s eight adjacent states (Arkansas, Illinois, Iowa, Kansas, Kentucky, Nebraska, Oklahoma, and Tennessee), Missouri’s percentage of the workforce that is unionized ranks second among these nine states (10.7%); only Illinois is higher at 14.5%. However, even with Arkansas (5.4%) and Tennessee (5.3%), which have about half our state percentage in terms of union workers, there is no reason to expect that some change from the current 10.7% to, say, a 6–9% range of total state workers as unionized would significantly contribute to increasing the state’s workforce in the near future. One study estimated that after a state adopts right-to-work laws, union membership could decline between 0–8%—so no effect or some limited effect.<sup>63</sup> Furthermore, both Arkansas and Tennessee have per capita personal incomes and median family incomes below Missouri’s—which might be attributable to a weaker union presence. In addition, back when our unemployment rate was a comfortable 4.8% in 2006, both Arkansas and Tennessee had higher unemployment rates at that time.<sup>64</sup>

<sup>62</sup> Gu, Karoly, Zissimopoulos, *op.cit.*, p. 4.

<sup>63</sup> John Cooper, “Effect of Right to Work Laws on Employees, Union, and Business,” p. 39. A thesis submitted in fulfillment of the requirements of the Senior Seminar, (2004). Accessed December 9, 2013, <http://right-to-work-laws.johnwcooper.com/>.

<sup>64</sup> Figures derived from Missouri Economic Research and Information Center (MERIC),

The current state private employment total (nonfarm employment) is approximately 1.9 million with about 109,000 employed in construction. This assumes that approximately 435,000 are employed in the government sector and another 418,000 in education and health care (where some are public and some private). In 2006, about 2.3 million were working in the private nonfarm employment sector, with about 148,000 in construction. 2006 might be a benchmark year to aim toward, with the monthly average unemployment rate between 4.6–5.0%; adding approximately 250,000–375,000 statewide private nonfarm employees will be a challenge—adding almost 40,000 construction sector works will be an even greater challenge. In 2007, just as an example, average statewide private sector pay was \$36,205, while in construction the average was \$41,643. An increase in state private sector employment totals where pay does not return to higher levels will adversely affect state and local government revenues and purchasing power will stagnate, affecting business growth.<sup>65</sup>

Regarding the issue of reducing government employment, there are sixteen counties out of the state’s 115 counties where a state agency is that county’s largest employer, and only one where the federal government is that county’s largest employer.<sup>66</sup>

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<http://www.missourieconomy.org/indicators/bcc/bccsimple.aspx>.

<sup>65</sup> Just a note about figures and about how precise they might or might not be. I published an article which addressed the number of uninsured in Missouri in 1994, Joseph A. Cernik, “Missouri’s health care reform: The impact of community rating and the cost to consumers,” *St. Louis Journalism Review* (April 1, 1994). In this article I cited the figure of 600,000 uninsured Missourians since that was the figure used at that time. When I discussed this 600,000 number with people in Jefferson City, the general impression that emerged was that it was an “agreed upon” number, which means it was a halfway figure between an estimated low and an estimated high: Could the real number of uninsured have been closer to 500,000 or, say, 700,000, or a range between 450,000 and 750,000, for example? Those of us that use numbers regarding public policy analysis, know that a degree of caution has to be taken and some degree of flexibility needs to be considered. The numbers used in this paragraph were taken from information drawn from the MERIC site, yet I am aware that if I use some other sites, there might be some differences regarding numbers.

<sup>66</sup> Timothy Smith and Paul Reichard, *Vulnerability to Economic Change in Missouri: A County by County Assessment*, Missouri Research & Information Center (No

The issue of government employment as a drag on state employment growth may come down to local government employment; for instance, if there are hiring freezes for some extended period or, worse, layoffs on a significant scale (city and county employees, as well as teachers and other school employees). In addition, if there are local government spending cutbacks, the impact on contracts with local businesses (many small) can have an adverse effect.

Our state tax burden as a percentage of personal income is quite low. In the 2014 Tax Foundation rankings regarding the State Business Tax Climate Index, it showed that compared with our eight adjacent states, Missouri looks quite good, ranking at 16<sup>th</sup>, ahead of seven of our eight adjacent states (Tennessee is ranked 15<sup>th</sup>). As this report puts it, “. . . it is important to remember that . . . states’ stiffest competition often comes from other states.”<sup>67</sup> This report was critical of states creating tax incentives to attract businesses from other states. As the report noted, “A far more effective approach is to systemically improve the business tax climate for the long term so as to improve the state’s competitiveness.” The emphasis on the long term sounded like Governor Nixon discussing the potential for the New Bourbon Port project. As noted throughout this article: We cannot really expect much in the way of employment growth in the near future; most of what has been addressed here focuses on the long term. Changes in our state taxes cannot be seen as anything but tinkering at the edges and, again, will not significantly contribute to increasing state job growth by attracting businesses from other states. In fact, it’s probably a poor strategy to rely on attracting businesses as a way to grow economically as compared to aiding home-grown growth.

Ironically, while this article has pointed to Perry County as a local economy with low unemployment, a 2010 state audit report on the county government

noted financial problems. As this report noted, “General Revenue Fund disbursement exceeded receipts in 4 of the last 5 years,” and added, “It is essential the County Commission address the situation in the immediate and long-term future.” The solution, as provided by the County Commission, was emphasized, “The county is working on increasing economic development . . .”<sup>68</sup>

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date). Accessed December 9, 2013:

[http://www.missourieconomy.org/pdfs/economic\\_exposure.pdf](http://www.missourieconomy.org/pdfs/economic_exposure.pdf)

<sup>67</sup> 2014 State Business Tax Climate, Tax Foundation (October 9, 2013). Accessed December 9, 2013:

<http://taxfoundation.org/article/2014-state-business-tax-climate-index>.

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<sup>68</sup> Perry County,” Missouri State Auditor, Report No. 2010-51 (May 2010). Accessed December 9, 2013  
<http://auditor.mo.gov/press/2010-51.pdf>.