Welcome

This is the inaugural issue of the Missouri Policy Journal. In the “Guidelines for Authors” are the words “detached” and “analytical,” which we will strive to achieve. In a political environment where there is a popular belief—no doubt perpetuated by a 24-hour news cycle dominated by cable television news shows—that everything needs to fit comfortably into an artificial existence of liberal versus conservative, with the Grand Canyon separating the two, it is difficult to take a step back and look at issues realizing that simple political labels often do not help in understanding. We seem to be living through a period where life is imitating art—television news needs to simplify the complex and, in the process, distortion seems to have replaced solid thought. (Continue Reading)

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Purpose

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Missouri Policy Journal

Number 1 - Fall/Winter 2013-14

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Time and Money: An Examination of Crime, Sentencing, and Corrections Budgeting Issues

Jeanie Thies

Abstract | Full Article

The Missouri Quality Jobs Program: Rearranging the Deckchairs (and Throwing Some Overboard)

Howard J. Wall

Abstract | Full Article

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

Joseph A. Cernik
public interested with the complexities associated with policy making. The journal strives to present articles in a detached and analytical manner but written so they can be read by the educated adult reader.

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Health Care in Missouri: Navigating Implementation of the Federal Affordable Care Act and Medicaid Expansion in a Pushback Environment

Suzanne Discenza

Abstract | Full Article
America continues to recover from its most recent recession, and the impact on social problems will reverberate for years. In one respect, though, it appears we can breathe easier: the crime wave that many thought to be inevitable did not occur. Crime has remained fairly stable and, in many states, has even declined since the start of the recession, a fact not entirely surprising among criminologists. While many people assume it is inevitable that crime rises when the economy is suffering, an examination of historical trends reveals this is not the case. While violent and property crime did increase during the Great Depression, throughout the remainder of the 20th century and into the 21st, the relationship between crime and the economy has been inconsistent. Deeper analysis reveals a complex relationship in which community-level variables may trump macro-level conditions, and different social policies may either push the crime rate up or help constrain it. Yet the criminal justice system suffered repercussions from the recession. The immediate future regarding how the current economic climate may affect correctional policy and practice is discussed in this article. These projections are discussed within the context of what history has revealed regarding crime rates, sentencing practices, and recidivism. Finally, some strategies for long-term investments to reduce crime are presented.

Over half of U.S. states had their corrections budgets reduced as a result of the fiscal crisis. While it is fortunate we did not experience a jump in criminal activity that would have placed greater demands on the system, we are in hardly in a position in which we can ignore the problem. We cannot simply cap crime until the coffers are replenished. Correctional agencies strapped for cash are not able to turn away newly sentenced offenders. With little control over crime rates and sentencing practices, correctional systems must continue to accommodate new offenders, while simultaneously meeting the needs of existing populations in ways that do not compromise public safety.

States have coped with a variety of adaptations. These include layoffs, hiring and wage freezes, cutting programs, eliminating or limiting non-essential services, and—either through consolidating populations or early release mechanisms—closing institutions. The impact of these actions is diverse, diffuse, and not easily measured. A state-by-state comparison of corrections budget appropriations for the 2009-2010 fiscal year, determined when the recession was still underway, reflected some of the uncertainty regarding the immediate economic future. Missouri saw just a 1.48 percent reduction in its corrections budget during that fiscal period. Seven of the states for which fiscal data were available that year experienced cuts in excess of 10 percent, although the budgets in eleven states actually grew or remained stable.

Missouri has adapted to these cuts while continuing to make significant investments in a platform of programs and partnerships designed to ensure successful reintegration of offenders. The 2010 fiscal year budget included an additional $3 million to be allocated towards a major reentry initiative.
supplementing grant funding the state had received. This initiative is still underway, with the sixth round of funding, exceeding $1.8 million, awarded to selected community agencies in 2013. Increased program spending in the midst of a fiscal crisis is not as counter-intuitive as it may seem. Indeed, such initiatives, that have been termed “reinvestments of justice,” hold considerable promise for long-term cost-efficient measures to lessen crime.

Factors influencing corrections growth and spending

Predicting the future of corrections and project spending needs is fraught with challenges. Certainly, the demand for prison beds is largely impervious to the availability of funds. Corrections expansion and spending are inextricably tied to sentencing practice. Sentencing changes that result from legislation mandating prison terms have fairly predictable impacts. For example, the three-strikes-you’re-out and truth-in-sentencing statutes that became popular in the late 1980s and 1990s fueled the prison boom and resulting expenditures. (However, increasing the capacity to lock up criminals for longer periods has had mixed results, as discussed later in this article.) But broad trends are largely a product of discretionary practices, and these are notoriously difficult to predict. Sentencing has a great deal to do with how individual actors in the system behave. Prosecutors and judges are politically motivated and responsive to a variety of factors, both at the local level and in regard to individual cases. It can be argued that their behavior is, in large part, swayed by public perceptions about crime control. In light of the unpredictability of sentencing practices, projection of prison populations and budgetary needs is quite complicated.

Of course, crime rates affect sentencing trends, and therefore should be predictive of corrections spending. But they are no longer as important as they once were. For most of the 20th century, sentencing trends were a proximate reflection of changing crime rates; that is, we tended to incarcerate more offenders as crime rose and fewer when crime fell. But things changed when a crime wave broke out in the 1960s, gaining momentum in the late 1970s, continuing through the 1980s and early ’90s. In 1960, the violent crime rate in America was 160.9, by 1991 it peaked at 758.1 (the rate is computed per 100,000 people). It has further been observed that the “punishment index,” which is the probability an offender will be arrested combined with the length of time he will serve, declined in the late 1960s and '70s. This suggests that crime was a consequence of a lax criminal justice system that was soft on crime. While criminologists do not discount this, they also offer a plethora of other explanations for the change in the rate. These include baby boom-induced changes in the age structure of the population, crumbling urban cores, and the illicit drug trade (particularly crack cocaine), among others.

The precipitous increase in the crime rate led to a series of sentencing reforms designed to keep certain groups of offenders behind bars for longer periods. Prison populations skyrocketed in the 1980s and 1990s, slowly stabilizing in the 2000s. From 1990-2000, this country experienced an 81 percent increase in its incarceration capacity in state prisons, with the construction of 351 new adult facilities, an expansion reaching to over half a million new prison beds. Prior to the crime wave, the U.S. imprisonment rate had held steady for nearly a century. From 1880 to 1970, it hovered around 100-200 persons per 100,000. The rate began to

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4 Ibid.
accelerate quite dramatically by the 1980s, and the nationwide decline did not begin until 2009. On the face of it, then, the burgeoning prison populations of the late 20th century reflected nothing more than a rational response to the climbing crime rates. Yet in the last decade and a half, the two trends began to diverge. The crime rate began to decline in the mid-1990s, with the violent crime rate peaking at 758.1 in 1991, and has more or less leveled off in the 21st century, with some minor year-to-year fluctuations. By the close of 2012, the violent crime rate was 386.9.

Missouri’s incarceration trend has followed the national trend of lagging behind the crime trend. As crime slowed, we continued to lock up offenders in greater numbers, gradually stabilizing over a decade after crime began to fall. The state’s index crime rate fell 26 percent between 1992-2012, yet the prison population nearly doubled during this same timeframe, expanding from 16,181 state prisoners in 1992 to 31,517 in 2012. Missouri was hardly unusual in this regard. While crime rates fell in 48 states between 1998 and 2012, only nine of these experienced a decline in incarceration rates.

Fear equates to continued support for expansive use of incarceration. Fear of crime, which is largely attributable to excessive media attention to violent crimes, has not fallen commensurate with actual crime. Thus, while sentencing does not appear to be entirely independent of crime rates, the trend is not wholly rational and is a function of not simply actual crime rates, but perceptions of these.

The high price of the incarceration boom is reflected in the quadrupling of state corrections budgets in a 20-year period. Though inflation plays a role, the significance of this increase is evident when we compare it to other forms of public spending. Only Medicaid grew more during this period. While approximately 30 percent of states’ correctional population is locked up, prisons consume 88 percent of the budgets. Thus, for over a quarter of century, America sent more people to prison in the face of falling crime rates, at greater cost. Only recently, in perhaps the last five years, has the tide begun to turn.

Punishment and Politics

In mid-2010, Missouri’s Sentencing Commission made headlines around the state with the release of a matrix that provides criminal court judges information regarding the relative costs of sentencing options. The matrix offers straightforward cost comparisons between prison and probation sentences. The media coverage and accompanying rhetoric suggested that judges were being encouraged to save money by unleashing dangerous offenders into the community. While a purely dollars-driven approach to justice is unsettling, the guidelines are considerably more sophisticated. Judges are also given risk prediction information based on an actuarial method of determining who is likely to re-offend, a practice that some prominent criminologists consider a promising means of reducing crime. Reactions from the criminal justice community have been


Ibid.

mixed, with some lawyers pointing out the merits of a risk-based decision tool, while others have decried it as an attempt to put a “price tag on justice.” Yet the reality is that criminal justice system resources are finite, and there are opportunity costs associated with every decision to confine a low-risk offender. Cost alone should not drive sentencing, but cost does still matter, both in the sense of good fiscal policy and public safety.

Given their politically sensitive positions, judges and prosecutors who perceive that the public prefers tougher sentences may opt to ignore data suggesting that low-risk offenders could be safely supervised in the community. They also have power to adjust sentencing decisions downwards, despite guidelines created by sentencing commissions and legislative mandates.

These kinds of guidelines have constrained discretion but have not been completely taken discretion out of the equation. For example, sentencing reforms introduced in the 1990s were designed to limit discretion, and increase the time certain offenders would spend behind bars. However, these laws did not consistently produce that effect. In some jurisdictions, judges and prosecutors simply altered practices (for instance, through plea bargaining) so as to reduce the number of offenders subject to these laws. Such adjustments are not inherently negative and represent an attempt to allocate correctional resources more efficiently or a response to perception that strict application of the law results in some unjust sentences. Presumably, too, these reflect recognition that individual-level factors may be more useful in determining an optimal sentence than the nature of the offense. The combination of discretionary practices and political pressures make it difficult to make accurate predictions regarding how changing crime rates will influence corrections growth.

Superficial analysis of these trends suggests this is a cause-and-effect relationship, and that the incarceration experiment succeeded and did in fact, deter. However, a state-by-state analysis carried out by the Sentencing Project shows it is not this simple. Between 1991 and 1998, those states that had a slower growth in incarceration saw greater declines in crime rates than states that had higher than average growth rates. From 1998 through 2004, twelve states whose imprisonment rates either held steady or declined experienced a crime rate decline equivalent to the national rate.

Perhaps the most important fact about sentencing and corrections that is overlooked by the American public concerns the transitory nature of incarceration. Missouri reports that, on average, 97 percent of imprisoned offenders will return to society at some point. A review of release data nationwide from 1980-2002 revealed a community reentry rate of 95 percent. This is a sobering reality that seems lost on those who stubbornly cling to the belief that we can incarcerate our way out of the crime problem. Every corrections dollar is spent not to just to contain criminals, but rather to contain criminals who in all likelihood will re-enter society.

Just how punishment affects recidivism is largely misunderstood by system outsiders. Support for spare and harsh conditions of confinement is concomitant with the “get tough” and “lock ’em and throw away the key” perspective. The notion that

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19 Ratcliffe, “Missouri judges get penalty cost before sentencing.”
tough punishment serves as a deterrent derives from rational choice theory, which holds that crime is controlled through fear of punishment. This is often confused with the idea that harsher punishments equate to less crime. In fact, Cesare Beccaria, whose classical criminology theory was the forerunner for modern rational choice theory, did support uniformly harsh penalties, but rather that the punishment fit the crime. Excessive punishment, Beccaria maintained, is unnecessary and inefficient.

While there is evidence that some crime can be deterred with appropriate application of penalties, criminal behavior is far too complex a phenomenon to be encompassed with this single theory. The fact that brutal penalties do little to deter has long been accepted as conventional wisdom by criminologists and seasoned correctional practitioners. History abounds with examples of the failure of even the most horrific punishment to deter. The Ancient Romans bundled up parricidal offenders into a bag with a serpent, a dog, rooster, and primate and tossed the lot into the sea. Despite seeing their countrymen come to this painful end, Romans continued to murder family members. Nor did other forms of torture and execution that were common to ancient societies, such as impalement, mutilation or the Athenians’ method of slowly roasting criminals inside a bronze bull (known as a “brazen bull”), take an appreciable bite out of crime.

Though more recent endeavors to scare offenders away from crime have also not proven effective, many Americans still embrace this idea. Such support can be evidenced in the popularity of the six-term sheriff of Arizona’s Maricopa County, Joe Arpaio. Arpaio, who oversees the county’s jail, has been widely praised for his use of tents to house offenders in desert conditions exceeding 100 degrees, distribution of pink underwear, and chain gangs. Yet despite Arpaio’s campaign claims, these harsh conditions and attempts to deme offenders have not been shown to affect recidivism. A study comparing offenders released from the Maricopa County Jail under Arpaio’s administration with those released under the previous administration found no significant differences in the recidivism rates.

Public support for hard time is also reflected in the rise of super-max facilities, which house unruly offenders who fail to conform to rules at other prisons. Typically, offenders in these facilities are confined to their cells twenty-three hours a day. Examination of recidivism rates for these facilities offers further support that hard time does not deter criminal behavior. A study of inmates released form Washington state’s super-max facility found that those released directly from super-max confinement actually returned to prison at a faster rate than a comparable group that had served time in traditional facilities. When researchers examined recidivism of the comparison group and that of super-max offenders who were sent to a lower security facility after leaving super-max pre-release, they found that recidivism rates between the two groups did not differ. A Florida study reached similar conclusions. Inmates released from super-max confinement had higher rates of violent recidivism than did a comparable group of inmates who had served time at lower security facilities, though there was no relationship between timing of the super-max experience, release, and recidivism. Nor are offenders deterred by the experience of lengthy incarceration. In fact, a meta-analysis of studies that had tested the relationship between sentence length and recidivism revealed a small positive correlation. In other words, the longer the sentence, the higher the recidivism rate. A comprehensive review of the

26 Historical records vary as to the precise mix of animal companions, with some accounts suggesting the doomed offender was accompanied by a dog or rooster, but not both.
But imprisonment has other goals. One could argue that the function our corrections system most effectively achieves is incapacitation. It is nearly impossible to refute that by removing offenders from the community we constrain their illegal activity, if only temporarily. If the period of incarceration corresponds to the peak years of adult criminal activity (late teens through late 20s), the impact on crime can be substantial. Empirical evidence does indicate that meaningful benefits accrue if we can contain the most prolific career criminals for relatively long periods of time. Economists Stephen Levitt examined how mandated caps on prison overcrowding affected the crime rate, and concluded that for every person incarcerated, there were 15 fewer crimes. This finding would support prison expansion. Levitt has tempered these findings by noting it is primarily property crimes, not violent ones, that were averted. An estimated 25 percent drop in violent crime has been attributed to the 1990s incarceration boom. While not the impact hoped for from sentencing reforms, when one considers the impact in raw numbers, 25 percent less violent crimes is meaningful. However, it is not clear that indiscriminately sentencing all violent offenders to lengthy sentences, which was the intent of truth-in-sentencing (TIS) legislation, is a smart, cost-efficient policy.

One problem with long mandatory is that we limit our ability to lock up the next generation of offenders who are at large in the community. This returns us to the earlier point about opportunity costs. There is a tipping point at which resources are over-allocated into imprisonment, and we sacrifice opportunities to address the newly emerging generation of offenders. Under the TIS laws in many states, violent offenders must serve 85 percent of their sentence. Prisons are now home to a larger proportion of offenders who are past middle age (and well past their peak offending years) than has been the case in the past. This situation will clearly worsen over time. The Missouri Department of Corrections’ percentage of incarcerated offenders over the age of 50 doubled between 2000-2010.

These older offenders require more costly medical services in an era in which medical costs are rising — in fact, it is estimated that elderly offenders’ healthcare costs are three times that of younger offenders. Many aging offenders are serving lengthy sentences for drug crimes, a consequence of America’s “war on drugs” that resulted in lengthier sentences. This crusade had its most profound impact on federal prison populations, although state prisons have been affected as well.

In the two decades since the sentencing reforms were ushered in, we have seen both intended positive consequences and unintended impacts, including the cost of prison expansion. Imprisonment was among the factors augmenting the decline of crime in the late 20th and early 21st century, though processes beyond tough sentencing and expanded capacity also played an important role. Collectively, the evidence found that, in general, offender behavior is not deterred through use of harsh penalties.

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points to the value of allocating prison space selectively. In order to advance this goal, states need to revisit legislation that requires lengthy mandatory sentences and consider mechanisms for releasing offenders previously sentenced under these laws. Indeed, many states have already begun this process and have repealed mandatory sentencing statutes. Also, sentencing commissions should promote more consistent use of actuarial tools for determining which offenders present the greatest risk to re-offend. These should allow for more precise targeting than did the typical sentencing reforms of the late 1980s and ’90s, which were directed at broad categories of offense types.

It would be remiss to discuss the functions of our corrections system without noting that for many Americans, sentencing is seen as a means for achieving retribution. None of the above discussion should be construed to diminish the right of citizens in a democratic society to demand retribution if that is what they deem important. Retribution is an abstract, emotionally-laden concept and does not fit neatly into a treatise on cost-efficiency and other pragmatic concerns. In this sense, justice is not about reducing future crime, and operates independently of deterrence. Justice is compromised if we structure sentences so that the risk of recidivism outweighs the nature of the act. Thus, the model of selective incapacitation should be applied not only to the group at high-risk for violent and chronic offending. It may also be used to achieve retribution for those cases in which the crimes are most egregious and damaging, regardless of risk propensity.

Because states have begun backing away from mandatory sentencing laws, discretion has been returned to judges in recent years. If judges increase their reliance on statistically-derived risk assessment tools we can achieve a balance between excessive use of discretion and tight mandates. These assessment tools, like the aforementioned Missouri matrix, can be quite valuable in the sentencing process. Judges are not adverse to making risk-driven decisions, and often make subjective risk assessments which play a substantial role in how they sentence offenders. Yet such subjective assessments have found to be only modestly valid. Repeatedly, actuarial risk tools have been found to have superior predictive ability to the subjective prediction of even seasoned criminal justice practitioners.

Maximizing long-term outcomes

If we do begin investing a lesser share of public expenditures in our nation’s prison systems, we need to “reinvest” in measures that can successfully reduce crime. The body of literature that addresses “smart on crime” policies calls for a three-pronged approach: selective incapacitation of high-risk violent offenders, rehabilitation and reintegration of lower risk non-violent offenders, and primary prevention initiatives.

The day-to-day of prison operations is largely out of public view, and as a result, taxpayers are not familiar with the needs of a typical prison community and the issues administrators face in managing budgets. The importance of daily prison life to rehabilitation and re-entry is misunderstood and under-appreciated by the public. Even if we endeavor to focus on incarcerating only the most violence-prone offenders, we cannot abandon the practice of operating prisons as full communities. The experience of incarceration and therefore how corrections dollars are allocated is critical to public safety. In recent decades, Americans have been supportive of correctional expenditures related to expansion but little else.


Media coverage on the costs of corrections tends to focus on two dimensions of corrections spending: the construction costs, and amenities such as exercise equipment and cable television. Yet corrections is far more than bricks and mortar. A functional prison requires the typical costs of any residential community, such as utilities, healthcare, food, and maintenance. Staffing needs go well beyond custodial positions ("guards," more commonly referred to today as correctional officers), and includes food service, maintenance and clerical personnel, administrators, medical and mental health professionals, teachers, and staff trainers. Labor costs can be offset with the much cheaper inmate labor, but nevertheless, a typical 1,000 bed facility may have 200-300 paid employees.

Furthermore, the perceived “frills” found in American prisons have minimal impact on budgets. The media accounts of these luxuries often infuriate the public and feed hyperbolic political rhetoric, which in turn fuels support for harsher conditions. Yet most of these costs are not borne by the taxpayer. In Missouri, for example, inmates pay a mark-up on items purchased in prison commissaries, and this overage is diverted into a fund from which inmates may purchase cable packages, or new weight machines.44 Those recreational and vocational activities that are supported by tax dollars are generally not costly and have little impact on the overall budget. When corrections budgets are cut, administrators cannot solve the problem simply by scaling back the amenities. Furthermore, long-term correctional employees realize the value in keeping inmates occupied and can leverage amenities to minimize disruptions. This results in a safer environment for staff and prisoners while minimizing opportunities for criminal activity.

If we expect to return offenders to society at lower risk, we would do well to cultivate correctional communities that offer opportunities for self-improvement and foster skills necessary for successful reintegration. Currently, there is a good deal of confusion among not just the general public, but even criminal justice practitioners, regarding the status of research on rehabilitation. In 1974, Robert Martinson published “What Works?”, a famous, oft-quoted and often misrepresented meta-analysis of correctional rehabilitative effort.45 Martinson’s work cast a long shadow on the future of rehabilitation. The popular interpretation was “nothing works,” even though a number of weaknesses in his work have emerged over the years. For one, Martinson defined “rehabilitation” over-broadly, and included studies of programs with very different structures, target clientele, and of widely varying intensity and duration. Many of the studies had no measure of “treatment integrity,” which concerns the duration and intensity of treatment programs, as well as the frequency with which offenders engage in the intervention. Offender participation in a rehabilitative program was operationalized in different ways in the studies he included. In some cases, participation meant some contact with program staff. In other words, in some cases, the offenders did not need to meet any criteria for program completion in order to be included in one of the studies in the analysis. In the years since “What Works?” was published, researchers challenged Martinson’s conclusions, reanalyzed his data and carried out further analysis of rehabilitative efforts. The efforts resulted in identification of many types of treatment interventions that do work, and that can significantly reduce re-offense and re-incarceration rates. This body of literature is perhaps best summarized in Paul Gendreau and Robert Ross’s survey of over 200 studies. They concluded:

“Our reviews of the research literature demonstrated that successful rehabilitation of offenders had been accomplished, and continued to be accomplished quite well . . . reductions in recidivism, sometimes as substantial as 80 percent, had been achieved

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44 Missouri Revised Statutes: Section 217.195

in a considerable number of well-controlled studies.” 46

While rehabilitative efforts occurring in prison settings had lower success rates than those in the community, these nevertheless have had positive impacts. Gendreau and Ross also noted that these results were not short-lived, as many studies had two years of follow-up, with some exceeding even this standard.

Yet empirical evidence often takes a backseat to perceptions, and fear of crime translates into reduced support for rehabilitation. As fear builds, rehabilitative efforts are framed as sympathetic to offenders and anti-public safety, a political strategy popular after the Martinson study was published. Support for rehabilitation has never returned to pre-Martinson levels. Certainly, the crime surge of the late 20th century did not help matters. It is perhaps surprising, then, to find that rehabilitation efforts are underway in most of America’s prisons. Substance abuse treatment and vocational training/educational activities are most prevalent. Most facilities also offer facilitated self-help programs, and therapy directed at special groups of offenders. The intensity and quality of these efforts varies greatly, though. Many do not adequately match the criteria laid out in the literature that are critical in order to produce positive results. When these programs fail, they erode support even further.

A full agenda for change, while ambitious, requires an investment in high-quality, rigorous, evidence-based programs that carefully target offenders and match treatment to offender needs. Ideally, this involves replicating programs with proven track records. While limited grant funding is available to launch such programs, states need to commit to long-term funding to not only maintain treatment, but to periodically engage in outcome evaluations of these efforts.

If we are to reap the benefits of rehabilitation that begins behind bars, we must continue strengthening practices for managing offenders post-release. In the long run, releasing offenders into society without a safety net only serves to maintain the status quo, with the tradeoff of high recidivism rates or costly incapacitation. And, as noted earlier, for most offenders, the crime reduction achieved by incapacitation is only temporary. Successful reintegration strategies hold promise for reducing future offending, which means not only cost benefits but even greater benefits in reduced victimization. Moreover, these strategies can realize cost savings through more efficient means for handling parole violations. Violations may signify offenders falling into criminal patterns again, but also may reflect inadequate support systems, lack of job skills, and other adjustment difficulties. With supervision and support, many of these offenders can remain safely in the community and not burden taxpayers.

Community support for parole and reintegration programs has waxed and waned throughout corrections history. Public discomfort with parole in part comes from failure to recognize that in the vast majority of cases denial of parole delays release, but does not prevent it. In the vast majority of cases, offenders denied parole do not spend the rest of their lives behind bars. Media coverage regarding new crimes by paroled offenders often suggests that the crime would not have occurred had the offender not been paroled. While it is indisputable that any one particular crime that happens when an offender is on parole could have been avoided, delaying release may not decrease the overall likelihood that an offender will eventually return to crime.

Yet, today, and in the past, measures that result in offenders serving less time are often misrepresented as liberal, naïve approaches to pamper criminals and reduce accountability. But those who have worked in the trenches of corrections historically have been among the staunchest supporters of minimizing use of imprisonment and more expansive and creative use of community supervision, and have long struggled to counter public perceptions. Indeed, some of the most revered figures in corrections history have championed early release. Lewis Lawes, the renowned penologist who helmed the New York state penitentiary, Sing Sing, from 1919-1942 crusaded zealously for greater use of

indeterminate sentencing.\textsuperscript{47} In a piece for Harper’s Monthly Magazine written in 1938, Lawes refuted the then-popular view that supervised release coddles prisoners and argued strenuously for its value in promoting public safety.\textsuperscript{48} The situation Lawes encountered is quite similar to that nearly a full century later, with criminal justice scholars and system professionals advocating policy responses that are rejected by the public.

An unexpected upside of budget shortfalls is a willingness to consider new directions, or expand into directions that may not be politically popular, but that can have positive fiscal impacts. In 2003, the Vera Institute and National Conference of State Legislatures convened a roundtable discussion with legislators from nine states to address the budget crisis they were facing. Among the practices that were reported to be underway were the repeal of mandatory minimum laws, adjusting release mechanisms to spur earlier release, and expanded use of diversionary programs, probation, and treatment for drug offenders.\textsuperscript{49} The discussion was tempered with the recognition that the public may not embrace such changes, and that politicians themselves had often played to public fear by promulgating the get-tough approaches. As Sen. Don Redfern (R-Iowa) noted:

“We’re going to have to convince them that the kinds of things we’re doing are not going to jeopardize public safety, but make cost-effective sense — plus prepare someone, because most of our prisoners eventually get out.”\textsuperscript{50}

In the past decade, the Council of State Governments has been vigorously extolling the benefits of re-entry programs, cataloging and evaluating state initiatives.\textsuperscript{51} The catchphrase “reinvestment in justice” is gaining increasing popularity with the judiciary and correctional administrators, as well as elected officials. States are exploring crime reduction through use of evidence-based practices to strengthen community supervision, which includes providing access to services to assist offenders reentering the community. The array of services extends to securing stable housing, mental health and drug and alcohol treatment, job training and placement, and parenting classes. Collectively, these approaches are intended to aid offenders in establishing a stake in the community and building support systems.

States are faced with the choice of trying to forge ahead under fiscal pressure or cutting programs to achieve short-term gains, and many are moving forward. In 2002, Missouri’s Department of Corrections (MDOC) began implementation of a massive initiative to reduce crime through more effectively transitioning offenders back into society. The Missouri Reentry Process is working to leverage costs through engaging other state agencies in the initiative, along with non-profit service providers, higher education institutions, churches, and other faith-based groups. Even Texas, legendary for its tough-on-crime stance, has bowed to pragmatism in recent years. The Lone Star State began exploring alternatives to long-term incarceration and refined its core mission. A pivotal point was when the legislature faced a projected $2 billion in construction costs over a five-year period if they were to keep up the pace of incarceration.\textsuperscript{52} In 2007, the state instead opted to sink $241 million on diversion sentencing and other treatment programs.

Primary prevention falls outside the scope of corrections spending, but an argument can be made that in the long run, we can reduce the toll of crime if we invest in programs that start long before

\textsuperscript{47} Ralph Blumenthal, Miracle at Sing Sing: How One Man Transformed the Lives of America’s Most Dangerous Prisoners, New York: St. Martin’s Press (2004): 96-98.

\textsuperscript{48} Ibid, p. 247.


\textsuperscript{50} Ibid, p. 13.

\textsuperscript{51} “Report of the Re-Entry Policy Council: Charting the Safe and Successful Return of Prisoners to the Community,”

criminal behavior emerges. The reward and cost savings, of course, will not be reaped for several years. Evidence-based practices include early interventions designed to produce changes in participants’ lives throughout their life spans. One example is Michigan’s famed High/Scope Perry Preschool Project, an intervention stunning in its simplicity. The program consisted of a high-quality preschool program for at-risk African-American children living in an impoverished community. Program staff offered 2.5 hours daily of educational activities and weekly home visits to encourage healthy development in participants for up to three years. In addition to myriad other social benefits, subjects randomly assigned to the project were significantly less likely to be arrested for violent, property and drug crimes from various life stages beginning in adolescence up to age 40. They were also less likely to spend time incarcerated, with 28 percent of the preschool group and 52 percent of the controls being sentenced to jail or prison. Results of a cost-benefit analysis suggest savings of $68,584 to the potential victims of crimes never committed, and $15,240 in savings from costs of dispensing justice. Other programs described in the “what works” literature take a similar approach in targeting established risk factors and helping those at-risk to develop protective factors and competencies to improve a range of life outcomes.

Organizations representing front-line crime fighters increasingly are realizing the value of preventing crime in the early years. The International Association of Chiefs of Police, the National Sheriffs’ Association, and the National District Attorneys Association, have all put forth official resolutions supporting the efforts of Fight Crime: Invest in Kids. This national, non-profit group promotes awareness of the tremendous cost savings and public safety benefits that can be reaped through enhanced investment in programs such as preschools, after-school programs — in short, programs that can be implemented at relatively low cost to taxpayers yet have far-reaching impacts on community safety and the cost of fighting crime.

**Prognosis**

Clearly, crime is a complex, multi-causal phenomenon to which there are no simple solutions, and no single method for reducing it. As stated in the introduction, the direction of corrections and the impact on state budgets is never easy to predict. Judging from how prison populations grew in the last part of the 20th and early 21st century, it is not likely that corrections costs will drop significantly in the near future. In fact, as the demographic shifts so that a larger percentage of the population is between the ages of 15-30, we may experience another crime surge in the next decade.

The optimal balance of fiscal responsibility and public safety may best be achieved though (a) abolishing most mandatory sentences, and supporting legislation that allows states to release offenders committed under these laws who present as low-risk; (b) expanded use of empirically-generated, risk-based sentencing tools to capture the benefits of selective incapacitation; and (c) investment in evidence-based practices in the areas of prevention, rehabilitation and re-entry.

Our communities will to continue to struggle to dole out penalties in a manner that is both just and cost-effective. At this juncture, the national trend towards “smart sentencing” and reinvestments in long-term gains can be seen as promising, though how long these efforts are sustained remains to be seen.

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This article examines the effectiveness of the Missouri Quality Jobs Program (MQJP), the declared purpose of which is to “(f)acilitate the creation of quality jobs by targeted business projects” by awarding tax credits in support of qualifying projects.¹ Tax credit programs such as the MQJP are quite common around the country and are touted by state economic development agencies as important components of their development efforts. Nonetheless, there is little evidence that targeted tax credits and similar policies are effective in spurring economic development and employment.² In fact, one recent study of employment tax credits in Michigan found that the state’s MEGA tax credits were sometimes responsible for losses in overall employment.³

For development tax credits to work there must be some market failures, such as imperfect capital markets or agglomeration economies, that create a gap between the actual and efficient levels of local employment. If there are such market failures, the argument goes, then there might be room for a properly structured program that would use state money to direct resources to close the employment gaps. Broadly speaking, therefore, if a tax credit program fails to deliver on promised jobs, it was either because market failures were not significant drags on employment or because the program was not structured properly. On the heels of the aforementioned history of failure of these programs, significant improvements have been made in how they are administered.⁴ Most notably, recent incarnations of state tax credit programs are designed with much greater accountability to ensure a closer link between promised and realized new jobs at firms receiving the tax credits.

In many respects, the MQJP has been ahead of the curve in terms of accountability in that it includes provisions for cancelling tax credits in the event that job-creation thresholds are not met, which it did for 33 projects in 2012.⁵ In addition, despite the extremely weak national economy following the launch of the MQJP, Missouri has so far maintained program accountability, thereby bucking the tendency for governments to erode accountability.

¹ This paper is an abridged version of a working paper: Howard J. Wall, “Robbing Peter to Pay Paul: The Employment Effects of the Missouri Quality Jobs Program,” (2013), Munich Personal RePEc Archive, paper no. 50605, http://mpra.ub.uni-muenchen.de/50605/1/MPRA_paper_50605.pdf. The working paper contains the technical details of the econometric estimation summarized here.


during difficult economic times. Given its relatively sound structure, therefore, the success or failure of the MQJP in delivering on employment creation is likely attributable to the extent to which it is based on solid economic efficiency grounds rather than on the soundness of its administration.

The Program and its Promises

Tax credits have been awarded under the MQJP since 2006 and are distributed under three business sub-categories—small/expanding, technology, and high-impact—each with its own set of eligibility criteria and program benefits. By 2012, the number and total value of tax-credit authorizations were both more than double their 2006 levels, although this trend was interrupted a great deal by the national recession of 2008-09 (Figure 1).

The increase in the anticipated number of new jobs at recipient firms roughly doubled between 2006 and 2012, although, as shown in Figure 2, the number of actual new jobs is, so far, well short of what had been anticipated when the credits were authorized.

Obviously, the lag between the date of authorization and the actualization of new jobs accounts for most of the shortfall for 2010-12, but even credits authorized in 2006-08 have fallen well short of their promise. Perhaps the credits from those years would look more successful if it weren’t for the recession of 2008-09.

The most recent claims made by the Missouri Department of Economic Development (DED) about the direct effects (new jobs at firms that were awarded tax credits) and indirect effects (spinoff and multiplier effects) of the MQJP are contained in the program’s 2012 annual report. At the end of 2012, there were 220 active supported projects, 73 of which were newly authorized in 2012. The DED claims that projects authorized through 2011 were directly responsible for 10,137 actual new jobs by the end of 2012—with more to come as the projects progress—and that the 73 new projects are anticipated to directly generate another 7,054 new jobs in five years time. After plugging their estimates of direct job growth into their forecasting model, DED arrives at the claim that the tax credits awarded through 2012 will have created 50,096 jobs (directly and indirectly) by 2020, or 118 jobs for each million dollars in tax credits.

There are a number of reasons to doubt the DED’s claims about the effects of the MQJP. With regard to direct job creation, the DED is being naïve, or perhaps narcissistic, in assuming that every new job supported by the program exists only because of the

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7 I should note that the Missouri state auditor issued a report chastising the state’s Department of Economic Development over its administration of the MQJP (http://www.auditor.mo.gov/Press/2012-65.pdf). Most of the report had to do with the methods used to calculate job gains at recipient firms, which is largely beside the point in determining the actual effectiveness of the program.

8 These numbers are summed across the three sub-programs and include all authorizations that were not disqualified.

program and that the eventual number of direct jobs created is the same as the number claimed when the tax credits were authorized. These assumptions fly in the face of logic and the evidence for similar programs.  

Perhaps even more absurd is how the DED presumes that none of the new jobs are filled by workers who were already employed elsewhere in Missouri.  

As for the broader indirect effects, the DED relies on the belief that the reshuffling of employment that occurs between subsidized and unsubsidized firms must be greatly outweighed by large spinoff and multiplier effects. This belief is embedded into the DED’s Regional Economic Models, Inc. (REMI) forecasting model which, despite a veneer of quantitative detachment, is simply a mathematical specification of the DED’s prior beliefs about how the economy works. More precisely, the primary sources of the indirect gains predicted by the REMI forecasting model are illusive multiplier effects that are believed to dominate the substitution effects across firms and communities. This notion is, to say the least, extremely controversial among economists in that regional forecasting models are afflicted with many of the same problems as the outdated national forecasting models from the 1960s and 1970s they are based on.  

To illustrate the difficulty, if not the impossibility, of modeling the indirect effects of tax credits, consider a firm that receives a $1 million credit to support a new factory that will eventually employ 50 workers. Even if we accept that all 50 of the jobs at the recipient firm would not have existed without the tax credit, it’s not possible say anything useful without knowing where the workers came from to fill the new jobs. Unless they all came from the ranks of the nonemployed or from out of state, some of the 50 new jobs are simply substitutes for jobs that already existed. If the jobs were simply shifted from other Missouri employers, then it is necessary to know what happened to those firms. Because the subsidy to one employer makes it difficult for unsubsidized employers to compete for local workers, these unsubsidized firms might downsize, shut down, or relocate, thereby further eroding the alleged direct job gains.  

These substitution effects are not captured very well, if at all, by the DED’s forecasting model. According to the DED’s model, however, these unknown and unaccounted for substitution effects will be more than offset by spinoff and multiplier effects. Fortunately, it is no longer necessary to rely on the DED’s claims about the current and future effects of the program because the MQJP has been in place for several years. It is, therefore, possible to compare actual employment outcomes in Missouri against those promised by the MQJP.  

Empirical Estimates  

As a practical matter, it is not possible to trace the various employment effects of a tax credit authorization back their source, so it is necessary to instead look at aggregate employment. Therefore, I used data on private employment for Missouri counties for 1998-2011, with the objective of identifying statistical patterns between levels of employment and the amount of tax credits received.
by firms in the counties.\textsuperscript{15} To detect these patterns, I estimated baseline levels of employment, controlling for the business cycle and county-level trends. Any deviations from these baselines that are related to the receipt of MQJP tax credits might then be attributed to the program. County economies do not operate in isolation, so I also looked for the effects that a county might experience because firms in neighboring counties received tax credits, and whether a county is in a broader metropolitan area. Note that my estimates are of the net effects of tax credits and do not distinguish between direct, indirect, spinoff, or multiplier effects.

My estimation results indicate that tax credits had positive and statistically significant effects on employment in counties whose firms received tax credits under the MQJP. These effects were significant only through the third year after the tax credits were authorized, however, and were typically offset by negative and statistically significant effects on neighboring counties. The picture is complicated somewhat when looking at counties within metro areas because these counties’ labor markets are closely integrated. As a result of this integration, the short-run employment gains from tax credits can also be felt by neighboring counties, although the negative longer-run effects on neighbors are amplified.

Figure 3 illustrates the average five-year effects of tax credits under the MQJP. These effects were obtained by applying the estimated effects described above to the actual allocation of tax credits across Missouri counties.\textsuperscript{16} In the figure, the solid bars are the employment effects on the county whose firms received the credits, the dashed bars are the effects on the receiving counties’ neighbors, and the solid line is the net effect. Each of these is measured in terms of the average effect of $1 million dollars in tax credits. According to Figure 3, tax credits led to a net increase in state employment only during the year of authorization and the following year. Specifically, in the year of authorization, tax credits led to 128 more jobs per $1 million in the recipient counties, but a loss of 110 jobs per $1 million in neighboring counties. In the year following authorization, recipient counties and their neighbors both tended to see increased employment: 249 and 82 jobs per $1 million, respectively. Beyond this initial start-up period, however, average job gains in receiving counties were more than offset by job losses in neighboring counties; the net effects were losses of 42 and 50 jobs per $1 million in tax credits during the second and third years after authorization. By the fourth year after authorization, there were no statistically significant effects on the recipient counties’ employment, but neighbors tended to have lost 85 jobs per $1 million in tax credits.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure3}
\caption{The Effect of Tax Credits by Authorization Year}
\end{figure}

\textbf{Conclusions}

The MQJP has been in place long enough to obtain statistical evidence of its effects on the communities with firms receiving tax credits under the program. In the short run—the first two years—tax credits are associated with job gains in the recipient county and its neighbors. Over the medium run (the next two years), however, the recipient county gains employment only at the expense of its neighbors, and there is a net loss of jobs. At the beginning of the long run—the fourth year after authorization—there are no longer any significant job gains in the recipient county, but the market distortions created by the tax credits mean that there are still significant job losses in neighboring counties.

It’s not possible given the data available to estimate what happens beyond this early stage of the long

\textsuperscript{15} For details and complete estimation results, see Wall, “Robbing Peter to Pay Paul,” MPRA paper.
\textsuperscript{16} Note that only statistically significant effects were used to construct Figure 3.
run, but it is difficult to imagine that the trend reverses itself to result in anything close to the DED’s projection of 118 new jobs per million dollars of tax credits. The more likely best-case scenario is that the employment distortions eventually work themselves out and the net effect of the tax credits approximates zero.
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.¹

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.”² Some of

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¹ 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.

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.3 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.4 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.”5 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.”6 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

5 Jean Feld Rissover, telephone interview, December 27, 2010.
be built nearby.”

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.

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.”

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.”

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

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8 Missouri state-administered ARRA grants at Transform Missouri present somewhat confusing data. Totalizing 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/.


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.”

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. 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. 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. 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

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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.” 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.” Furthermore, this

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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. 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. 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. 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.” In 2009, 35% of small businesses saw their lines of credit or credit cards decline. 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

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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. 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. 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.

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.” 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

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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.

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.” 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].”

One study noted that SBA loans that defaulted cost $1.3 billion between 2000 and 2013. 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. 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

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26 Tami Martens, personal interview, February 13, 2011.
interest rates. The new rates were among the lowest since this program began in 1986.  

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.

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.”

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


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 deceases (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.34 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

34 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.”

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 car pooled 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.” 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.


36 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,” 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.” 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. 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

38 Kate Martin, personal interview, January 14, 2011.
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.”\(^\text{40}\) 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.\(^\text{41}\) 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.”\(^\text{42}\)


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.” 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%. 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

http://governor.mo.gov/newsroom/2010/Port_of_New_Bourbon


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. 45

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-whatever 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.”46 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.”47 Their projection that at least three million jobs would be


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 inevitably 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). 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.” 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


over 15 years; again, however, a program not generating enough in tax revenue to pay for itself.\(^5\)

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.\(^5\) 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.”\(^5\) 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.”\(^5\) 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 examined 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


\(^{52}\) Dagney 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.

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."

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 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. 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. 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-

54 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%2BJepsen%2BTroske%2BAn%2BExamination%2Bto%2BAttract%2Band%2BRetain%2BBusinesses%22.


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.\(^\text{57}\) 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. . . .”\(^\text{58}\) 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.”\(^\text{59}\) 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.\(^\text{60}\) 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.”\(^\text{61}\) As the study that was


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.” 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. 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.

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.

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.

http://www.missourieconomy.org/indicators/bcc/bccsimple.asp

62 Gu, Karoly, Zissimopoulos, op.cit., p. 4.
64 Figures derived from Missouri Economic Research and Information Center (MERIC), St. Louis Journalism Review, “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.
65 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.
66 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 16th, ahead of seven of our eight adjacent states (Tennessee is ranked 15th). As this report puts it, “... it is important to remember that ... states’ stiffest competition often comes from other states.” 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

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With a looming deadline of January 1, 2014, for implementation of the largest number of health care reform policies under the federal Patient Protection and Affordable Care Act (PPACA), uncertainty and apprehension remain almost palpable as Missouri policymakers, health care providers, health insurers, government agencies, and consumers alike enter previously un-charted and often still unsettled waters. While some policy changes have been received with relative indifference or at least absence of noteworthy opposition, others have drawn more concentrated scrutiny and pushback by diametrically opposed lawmakers and special interest groups. This paper will address two of the most contentious federal health care reform policies for Missouri legislators and the potential economic and population health impacts of their adoption or rejection for the state of Missouri.

Medicaid Expansion

Perhaps the most contentious healthcare policy change in the Missouri Legislature since passage of the PPACA in 2010 has revolved around the issue of Medicaid Expansion. Although this issue was intricately interwoven into the fabric of the law to assure that all individuals living below 138 percent of the federal poverty level (FPL) were provided health insurance, the U.S. Supreme Court in June 2012 ruled this portion of the PPACA to be at the discretion of the individual states. The Missouri Legislature quickly aligned with legislatures of approximately half of its sister states to reject its passage, although the debate has continued and proponents on both sides of the political aisle have indicated increasing support for its approval.

It is important to note that Missouri has historically funded Medicaid for its citizens among the lowest levels as compared with other states. Despite the federal government paying 62.03 percent of Missouri’s Medicaid budget, leaving the state to pay less than 38 percent, the Medicaid eligibility level in Missouri is currently only 19 percent of the federal poverty level (FPL), or an annual income of approximately $4,475 for a family of four. Increasing Medicaid coverage to 138 percent of the FPL would increase eligibility to those with an annual income of $31,322 for a family of four and $15,282 for one person.

Those who favor Medicaid expansion for Missouri, including Governor Jay Nixon and more recently state Rep. Jay Barnes, R-Jefferson City, point not only to increased access to health insurance and related health services for an estimated 267,000 currently uninsured Missouri citizens but also to the significant economic gains the state would realize. Representative Barnes, for example, “estimates that even after the state is picking up its 10 percent share of the cost [starting in

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3 Ibid.
4 Ibid.
2017], the state’s budget will still be $42 million better off than if it did nothing at all.”

Joel Ferber, in a paper funded by a grant from the Missouri Foundation for Health, reported that the State “estimates that the Medicaid expansion would bring in approximately $15.7 billion in federal matching funds to Missouri from 2014 through 2021 and [only] cost the State $806 million in state match.”

He and others consider this a small price to pay for a “32% reduction in Missouri’s rate of uninsured,” especially when 95 percent of it would be paid for by federal funds during that time period.

A report issued by the Missouri Hospital Association in March 2013 highlighted the unintended consequences of not expanding Medicaid in Missouri, including:

- Costing Missouri more than 9,000 jobs, including over 5,000 hospital jobs over the next six years
- Reduction of $1.9 billion in reduced capital investment (these potential tax dollars would instead be sent to other states to help with their Medicaid expansions)
- A cost of $1.1 billion in cost shifting for uninsured care to [businesses and] the insured population (also deemed “the hidden health care tax”)
- Reduction of hospital reimbursements (including Disproportionate Share payments) by $4 billion between 2013 and 2019, with some rural hospitals predicting closure if Medicaid expansion does not happen
- Leaving uninsured Missourians earning more than 19 percent FPL but less than 100 percent FPL with NO access to health insurance options

Still other reasons touted by proponents for Medicaid expansion in Missouri include the creation of over 24,000 jobs in 2014 in the healthcare industry in the state, “with 22,175 of them sustained through 2020,” and “a labor income (employee compensation) impact of approximately $977 million in 2014 and continu[ing] to produce approximately $992 million in 2020.”

A study published by the Missouri Medicaid Coalition in January 2013 asserted that “the expansion would have the most dramatic impact in rural Missouri, reducing the uninsured by up to 31 percent” in Southeast Missouri alone.

Opponents of Medicaid expansion in Missouri, however, continue to voice arguments that it will be “financially unsustainable” for Missouri to take on the heavy additional expense of adding a large number of uninsured citizens to Missouri’s Medicaid rolls and warn that this in turn might cause the state to pull funding from other parts of the state budget, including education.

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7 Ibid.
10 Ibid.
13 Ibid.
would be nothing to stop the federal government in future years from dropping or reducing their contribution to state Medicaid programs, leaving the state of Missouri stuck with providing health care services to individuals without the funding to pay for it. Still another worry is that with more individuals receiving Medicaid, the already strained number of primary care providers available and willing (related to reduced reimbursements for Medicaid patients) to treat this population would reach the breaking point. And finally, policymakers, health care providers, insurers, and government agencies alike are well aware of the basic philosophical argument employed by conservatives, such as Missouri House Speaker Tim Jones, R-Eureka, who fundamentally “oppose government getting more involved in health care.” The latter argument disdains the “slippery slope” of continuing to expand government involvement in the health care decisions of American citizens.

Interestingly, with the exception of the latter argument, each of the above points of opposition was countered in a report issued by the Center for Health Law Studies at the Saint Louis University School of Law titled “Medicaid Expansion FAQs.” For example, to counter the claim that Medicaid expansion will be too costly for Missouri, the report noted “it will cost Missouri more not to expand Medicaid . . . In fact, in the first year alone the Medicaid expansion saves at least $47 million and over ten years will save the state $348 million in state tax dollars. Each year, the federal money from the Medicaid expansion will also bring in about $2 billion to the state.” Similarly, in response to the fear that the federal government might subsequently reduce its contribution, the report countered, “This increased Medicaid coverage opportunity is voluntary, which Missouri can drop at any time. The federal commitment is written into the law as additional security to ensure Medicaid expansion funding. Congress would have to pass another bill to reduce the federal contribution.”

In enlisting the viewpoints of all major stakeholders in any policy debate in a democracy, many would assert that consideration should necessarily be given to citizen participation. In the case of Medicaid expansion in Missouri, a 52-member task force, called House Citizens and Legislators Working Group on Medicaid Eligibility and Reform and chaired by state Rep. Noel Torpey, R-Independence, concluded in a seven-page draft report that Missourians “favor both Medicaid expansion and reform.” The question is whether these findings will ultimately provide the impetus for adoption of Medicaid expansion by the state of Missouri.

As a final note regarding Medicaid expansion and as a natural segue to the second topic of this paper (the state health insurance exchanges and federal government subsidies discounting the costs of health insurance), an article from the St. Louis Beacon provides one more unfortunate consequence that will result should Medicaid expansion continue to be denied by the state of Missouri:

By Missouri's refusal to expand its Medicaid program, more than 193,000 adults in the state will find themselves stuck in a coverage gap, come Jan. 1. These are uninsured adults who make too much money to qualify for Medicaid but too little to be eligible for the government

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15 Ibid.
18 Ibid.
19 Ibid.
subsidies that discount the price of private health insurance.\textsuperscript{21}

State Health Insurance Exchanges, or Marketplaces

Perhaps previously less contentious but equally uncertain, enrollment of individuals and families in the new state health insurance exchanges has more recently received its fair share of political pushback related to the rocky rollout of the federal HealthCare.gov website on October 1, 2013. The stated purpose of these exchanges, or marketplaces, was to give individuals, families, and small businesses the opportunity to “find quality health coverage”\textsuperscript{22} and to potentially “get lower costs on monthly premiums for private insurance plans”\textsuperscript{23} in their states without fear of being denied coverage or incurring higher costs for pre-existing conditions. In Missouri alone, a large number of the state’s 877,000 uninsured citizens (those above 100 percent of the Federal Poverty Level), are expected to receive health care insurance through the state health insurance marketplace.\textsuperscript{24}

Given the opportunity to create Missouri’s own state health insurance marketplace after passage of the PPACA in 2010, Missouri lawmakers early on rejected this option, or even consideration of the state’s own plan management, currently becoming one of approximately 20 states to receive full designation as a “federally facilitated marketplace.”\textsuperscript{25} In fact, according to the National Conference of State Legislatures (NCSL), Missouri has been at the forefront of state legislation and actions challenging the enactment of various reforms. For example, Missouri is currently one of six states requiring (through state law) legislative approval on further compliance with the PPACA,\textsuperscript{26} is one of 18 states “providing that state government will not implement or enforce mandates requiring the purchase of insurance by individuals or payments by employers,”\textsuperscript{27} and one of seven states to “have recently enacted laws intended to create Interstate Health Compacts—these take a first step toward allowing a group of states to join together to establish broad health care programs that operate outside of the PPACA or other federal law.”\textsuperscript{28} The latter is considered by some health care analysts to be a step in the right direction toward health care coverage for all Missourians.

With enrollment starting October 1, 2013, and coverage starting as early as January 1, 2014, however, increasing numbers of Missourians have begun seeking enrollment in the plan in compliance with the mandate to purchase health insurance or receive a tax penalty for non-compliance. Because the U.S. Supreme Court upheld the individual mandate on June 28, 2012, the only effect of legislation in Missouri to restrict the federally facilitated state marketplace or ban the health insurance mandate is to “bar state agencies and employees from enforcing it as of 2014.”\textsuperscript{29}

Should Missouri create its own health insurance exchange? The question still begs to be fully answered. Proponents point to the ability to provide significantly more Missourians with health insurance coverage, with no pre-existing conditions, no lifetime caps on coverage, and with access to at least ten essential health benefits.\textsuperscript{30} They further point out that, as with other health insurance risk pools, it is imperative that all individuals, including younger, healthier citizens, must enroll in the plans and share


\textsuperscript{23} Ibid.


\textsuperscript{27} Ibid.

\textsuperscript{28} Ibid.

\textsuperscript{29} Ibid.

\textsuperscript{30} “Find Health Coverage That Works for You.”
the costs of health insurance in order that all individuals will receive more affordable health care options and that the spiraling costs of health care options will be contained. A final major argument of proponents of the exchanges is that creating an exchange would give Missourians more control over Missouri’s own health insurance market rather than allowing federal control of its marketplace.

However, unlike passage of Medicaid expansion, Missouri legislators have been far less divided on their rejection of the state health insurance exchanges. As a primary support for this stance was the testimony of Michael F. Cannon, Director of Health Policy Studies at the Cato Institute, a conservative think tank in Washington, D.C. Addressing the Interim Committee on Health Insurance Exchanges for the Missouri Senate on September 15, 2011, Cannon provided a laundry list of reasons why the exchanges were a bad idea and should not be adopted by the states. These included increased premium costs to individuals, especially “healthy purchasers,” “by as much as 30 percent [currently] in some cases, and will cause even greater increases in premiums in the years to come” with the inundation of high-cost patients.

He also warned about the increased costs to states, asserting, “Every dollar that Missouri spends on an Exchange is a dollar it cannot spend on roads, education, or police—or more important, a missed opportunity to spur economic recovery by reducing the tax burden.”

An interesting caveat in recent months was the admission by the Department of Health and Human Services (HHS) and by President Barack Obama himself in November 2013 that the previous promise that “all individuals would be able to keep their health insurance plans” even after the state exchanges were implemented was not, in fact, true for many individuals. Although the president has since promised that he will do everything he can to insure more individuals will be able to keep their plans after all, the jury is still out regarding the eventual evidence and impacts of implementation of this portion of the PPACA on Missouri and on the nation.

Conclusion

While Missouri legislators, policymakers, health care providers, health insurance agencies, citizens, and other stakeholders will continue for some time into the future to debate the merits of two of the most controversial portions of the Patient Protection and Affordable Care Act (PPACA), namely Medicaid expansion and the state health insurance exchanges under the health insurance mandate, it has been predicted that most provisions of the law will remain intact. Citing the U.S. Supreme Court’s decision in June 2012 to uphold the PPACA (with the exception of Medicaid Expansion as a state option), these forecasters also point to historical evidence that other major changes to U.S. health law, including the initial enactment of Medicare and Medicaid in 1965 and the Prescription Drug Act as part of the Medicare Modernization Act of 2003, were significantly challenged after enactment but remained essentially intact.

While what this means for Missouri also remains essentially unclear at this point, adoption or reasoned modification of the positive pieces of this legislation to benefit Missouri and its citizens may well be in order, as well as ongoing attention to reduction of any harmful consequences that may result to Missourians related to their implementation. After all, related to the above-referenced findings of the House Citizens and Legislators Working Group on Medicaid Eligibility and Reform, thoughtful bipartisan effort on the part of

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33 Ibid.
the Missouri Legislature to respond to citizen support for Medicaid expansion and health care reform would seem a fairly strong mandate for change from the status quo.