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Slip Sliding Away:

The Weak Relative Growth of the Missouri Economy

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The purpose of this essay is to examine the *relative* economic performance of Missouri with two comparisons. Our first benchmark is the overall U.S. economy, where we find that output and job growth in our state has consistently lagged behind that of the nation as a whole. For example, if Missouri economic performance had simply paced that of the nation since 1997, state output would be $285 billion higher than it is today. We draw out the consequences of this stagnation in terms of lost tax revenues, jobs, and charitable contributions. A second benchmark is our neighbors: Missouri's economic performance was dead last or second to last when compared to our neighboring states. In short, Missouri's relative performance over the last decade and a half has been dreadful.

Now let's fill in the details.

NATIONAL COMPARISONS

Three measures typically are used as indicators of economic performance: real GDP, real GDP per capita, and total non-farm employment. Real GDP is the market value of all final goods and services produced *within* Missouri each year after adjusting for inflation. Dividing real GDP by population gives us per capita GDP. Output per person is viewed as a measure of overall economic well-being. Finally, employment growth is viewed as another indicator of an economy's health. We report the state GDP measures from the first year they became available (1997) up to the most recent available year (2010). For comparability, we report employment from the same 1997 starting point to the most recent available year (2011).

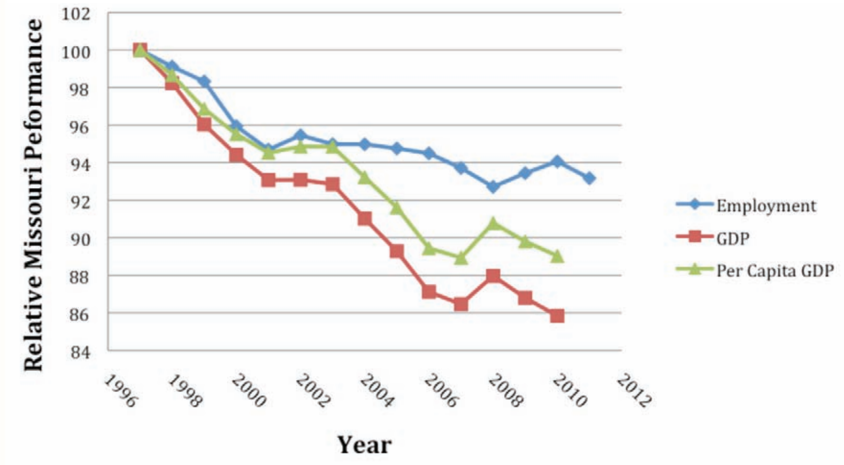
Real GDP for Missouri, on average, grew at a 1.03 percent annual rate between 1997 and 2010. Over the same period, the U.S. annual average growth was 2.22 percent. Note that this 14-year period covered two separate recessions, including the Great Recession. Missouri grew at less than one-half the rate of the nation as a whole.

In order to see the cumulative effect of Missouri's sluggish growth, we construct a graph of Missouri's real GDP divided by the United States' real GDP and set this equal to 100 in 1997. If Missouri had grown faster than the nation as a whole, this ratio would rise over time. However, the fact that Missouri usually grew slower than the nation produces a downward trend seen in the red line in Figure 1.

In 2010, the GDP index value stood at 85.8. In other words, compared to its relative position in 1997, Missouri had shrunk by 14 percent. The downward trend reflects the fact that the Missouri economy accounted for 1.9 percent of the national economy in 1997, but only 1.66 percent by 2010. Missouri's share of U.S. output is shrinking.

Real GDP is not the only way to assess an economy's health. Alternatively, we can compare Missouri total production divided by its population with the national value. Indeed, if Missouri were seeing its real GDP per capita rising relative to the nation, then it could be argued that the economic well-being of Missouri residents was improving, even if our share of total output was shrinking. Accordingly, the green line

Figure 1: Missouri Stagnation: Missouri Economic Performance Relative to U.S.



If Missouri economic performance had simply paced that of the nation since 1997, state output would be $285 billion higher than it is today.

in Figure 1 shows Missouri's real GDP per capita relative to U.S. real GDP per capita over the same period. In terms of growth rates, U.S. real GDP per capita increased at a 1.2 percent annual average rate while Missouri's real GDP per capita increased at a 0.3 percent annual average rate. Thus, compared to 1997, the relative per capita real GDP in Missouri was only 89 percent of the U.S. value in 2010. Our relative output per capita fell 11 percentage points from its 1997 level. We are shrinking on a per capita basis as well.

Finally, we compare non-farm payroll employment in Missouri's economy relative to the national economy. This is shown by the blue line in Figure 1. The employment index falls from its 1997 level of 100 to its 2011 level of 93, reflecting the fact that Missouri accounted for 2.2 percent of U.S. employment in 1997 but only 2 percent in 2011. Missouri's share of total employment is shrinking as well.

Unfortunately, the "good news" on jobs, in that Missouri did not lose as much ground as it did in the real GDP and real GDP per capita, carries with it more bad news upon closer inspection. Productivity is measured by output divided by labor input. The number of employees is not exactly the same as the quantity of labor input because the quantity of hours worked may vary over time; nonetheless, it is the best measure we have at the state level. The fact that Missouri's relative employment fell slower than output suggests that our productivity (and hence our capacity for paying high wages) fell relative to the U.S. as well.

Thus, by comparison to the U.S. economy as a whole, Missouri's economic performance has been sluggish. Our share of the nation's output and jobs is on a downward trend.

THE NEIGHBORHOOD

Does this stagnation reflect something about Missouri or is it a regional problem as well? The answer appears to be that it is mostly a Missouri problem.

Table 1 reports the 2010 index values for real GDP, real GDP per capita, and employment for Missouri and each of the eight states that are contiguous to Missouri. Table 1 shows that Missouri and each of our eight neighbor states are below the national level of 100 when we look at the index values for real GDP. We see that for real GDP per capita and employment, however, some states are above average with values over 100. Indeed, Iowa, Kansas, Nebraska, and Oklahoma have each performed above the national average in terms of real GDP per capita since 1997. Both Nebraska and Oklahoma report employment index values over 100, indicating that both have gained employment shares relative to the other states.

The main message from Table 1, however, is that Missouri is at the bottom of the group in both real GDP and real GDP per capita and is second-to-last in the employment index. It is clear from Table 1 that Missouri has fared poorly not only nationally but also in comparison to our region.

WHAT STAGNANT GROWTH MEANS

What if Missouri had grown at the national average over the period 1997 through 2010? The consequences of our stagnant growth can be assessed a number of different ways. We concentrate on three. How much bigger would the Missouri economy have been if it were just an "average" state? Second, what would this faster growth have meant for tax revenues that Missouri government collects? Third, what would faster growth have meant for contributions to charitable organizations within Missouri?

It is straightforward to compute the path for the Missouri economy if its index value were fixed at 100 for each period between 1997 through 2010. If Missouri had increased at the same pace as the U.S. economy, real GDP would have been $253.2 billion in 2010 compared with the actual figure of $217.3 billion. Thus, the Missouri economy would be $35.8 billion larger. Based on the 2010 Census, this added output translates into an extra $6,068 in Missouri's per capita income. Moreover, Missouri would have had 220,000 more workers on the job paying taxes.

What about tax revenues? Historically, Missouri collects 3.8 cents per dollar of GDP. If we make a minor adjustment and convert our real to nominal GDP estimates, we estimate that state tax revenues (Net General Revenues) would have been $10.82 billion. In Fiscal Year 2010, which ended June 30, 2010, Missouri's net General Revenues were $6.77 billion. Hence, Missouri would have collected an additional $4.05 billion in revenue. Even if we used a more conservative figure, say 3 cents per dollar of GDP, the expected Missouri net General Revenue would have been $1.76 billion higher. These are revenues that could have been used to pay for schools, health care, roads, and other state services.

Table 1: How Did Our Neighbors Do?

	Real GDP		Real GDP/cap		Employment
NE	99.4	IA	106.8	OK	104.5
IA	99.2	NE	103.9	NE	103.8
OK	99.1	KS	101.2	AR	99.5
AR	96.8	OK	100.9	IA	98.7
KS	96.8	AR	97.8	KY	98.7
TN	94.3	IL	96.4	KS	98.3
IL	89.6	TN	92.6	TN	96.0
KY	88.0	KY	90.8	MO	94.9
MO	85.9	MO	89.0	IL	92.3

What about charitable contributions? In the United States, Giving USA reports that non-profits received $290.9 billion in contributions in 2010.[1] U.S. GDP was $14,775 billion in 2010. Thus, the charitable contribution rate is 1.97 cents per dollar of GDP. Assume that Missourians are just as charitable as other Americans. At the typical giving rate, Missourians would have donated $5.6 billion had we kept pace with the nation, compared with an estimated $4.8 billion given our sluggish growth. Thus, an extra $800 million annually in charitable giving has been lost as a result of Missouri's stagnant economic growth.

CONCLUSION

Missouri's economic growth performance over the last decade and half has been mediocre, even by comparison to weak national and regional benchmarks. The obvious question is: why are we doing so much worse? State and local policies are affecting Missouri economic growth – tax policy and school performance, for example – and these issues are explored in other Show-Me Institute studies. However, a vigorous public discussion of policies to reverse Missouri's economic decline should be right at the top of the list for our citizens and political leaders.

[1] *http://www.nptrends.com/nonprofit-trends/giving-usa-2011-report.htm*

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