

May 2011

## Where Will the Jobs Come From? Signs of Life From the Cemetery!

Louis J. Pantuosco  
*Winthrop University*

Laura Ullrich  
*Winthrop University*

Follow this and additional works at: <https://digitalcommons.coastal.edu/cbj>



Part of the Advertising and Promotion Management Commons, Curriculum and Instruction Commons, E-Commerce Commons, Economics Commons, Higher Education Commons, Hospitality Administration and Management Commons, Marketing Commons, Real Estate Commons, Recreation Business Commons, and the Tourism and Travel Commons

---

### Recommended Citation

Pantuosco, Louis J. and Ullrich, Laura (2011) "Where Will the Jobs Come From? Signs of Life From the Cemetery!," *The Coastal Business Journal*: Vol. 10 : No. 1 , Article 5.  
Available at: <https://digitalcommons.coastal.edu/cbj/vol10/iss1/5>

This Article is brought to you for free and open access by the Journals and Peer-Reviewed Series at CCU Digital Commons. It has been accepted for inclusion in The Coastal Business Journal by an authorized editor of CCU Digital Commons. For more information, please contact [commons@coastal.edu](mailto:commons@coastal.edu).

# WHERE WILL THE JOBS COME FROM? SIGNS OF LIFE COMING FROM THE CEMETERY!

Louis J. Pantuosco, Winthrop University  
Laura Ullrich, Winthrop University

## ABSTRACT

*The US economy has a history of slow adjustment in the labor market. The question on the minds of many constituents is “where will the jobs come from?” In this paper we discuss the societal options for new employment in the United States and, in particular, South Carolina. We conclude that SC’s manufacturing sector is in an ideal position to recapture some of the ground it has lost over the past decade. It is important to note, however, that the actions of the SC legislators will determine the fate of the recovery as well as the sustainability of future manufacturing employment.*

## INTRODUCTION

In February 2001, after nine years of growth, US non-farm employment grew to 132.5 million workers. Then the economy began to cool down; seven months later the September 11th attack created enough uncertainty to ignite a short-term deceleration of the labor market and the coinciding fall in US Gross Domestic Product (GDP). As a result the economy fell into a recession for about one year. Even though that downturn was brief, it took four years for employment levels to recover the 2.7 million lost jobs from the February peak.

Over that four year period, when other industries were growing, the manufacturing sector continued to slide, losing an additional 3 million jobs. These jobs were never recovered. The negative trend continued as the manufacturing sector lost an additional 3 million jobs since 2005, which includes 2.5 million in the most recent recession. In total, according to the Bureau of Labor Statistics (BLS), 5.5 million manufacturing jobs were lost between February 2001 and February 2010.

In spite of the fall in manufacturing, non-farm employment gained over 7 million jobs between February 2002 (the start of the recovery) and January 2008 (the start of the most recent recession). There are analysts who believe the majority of the increased employment came from the construction sector. This statement, however, is not exactly accurate, as only 11 percent of the new jobs were created by construction. Others believe the growth came from government, but once again the BLS data reveals otherwise; the new employment was not generated by the Federal government. The employment growth came from a smattering of service oriented sectors. Health care services generated 1.8 million, administrative and support services, as well as food and accommodations, accounted for about 1.5 million each. Professional, scientific and tech support added another 1.1 million jobs during this period, while real estate accounted for about .6 million.

The question that lingers today is, if it took four years to recover from a loss of 2.7 million jobs how long will it take to recover the 8 million jobs that were lost in the most recent recession? Furthermore, economists are concerned about what sectors the new jobs will come from? In this paper we consider the prospects of job growth in the US by viewing sectors and methods that are typically cited in economic literature as stimulants for labor demand. These employment engines include the construction sector, fiscal policy, monetary policy, small business growth, services, and wealth effects. After a brief review of each option's potential to stimulate employment growth we will analyze the role of state government in creating jobs. After the government options are reviewed, we provide suggestions of how a particular state, South Carolina, can rise from the rubble and establish themselves as a viable home for domestic and multinational manufacturing firms.

### **POTENTIAL EMPLOYMENT ENGINES**

There are many constituents who claim that the US cannot recover lost employment unless multinational firms stop exporting manufacturing jobs (Brainard and Ricker, 1997). While the loss of manufacturing jobs is a significant problem, the last decade has provided evidence that the US can create jobs in industries other than manufacturing. In fact, during the last expansion, ten million jobs were created outside of manufacturing. We begin our analysis by removing manufacturing as an option for job creation, given its history of employment declines since the 1970s. So the question remains: if not from manufacturing, where will job growth originate?

Is it feasible for the US to expect another construction boom to resuscitate the country's employment market? No. Unfortunately, construction is not likely to resurge any time soon. The Case-Schiller Composite Index reveals that national housing prices have fallen by 37 percent from their peak in 2006. National Association of Realtors adds that there are currently over 4 million houses on the market nationally and a 10.7 month supply of inventory. Both measures are near historical peaks. In some areas there is a 14 month inventory of homes on the market. The Piedmont Realtors Association reports that there is an estimated six year supply of prepared sites for new home construction. This glut of existing homes indicates that new home construction is not likely to ignite any time soon. The commercial real estate market is equally depressed and unlikely to generate an increase in employment in the near future. One analyst projects a \$67 billion loss in the refinancing market of commercial real estate from 2010 through 2013 (Crudele, 2009).

There are many citizens who are inclined to hold the Federal government responsible for stimulating job growth, taking a page out of Keynes' (1936) book. The government's effectiveness in the recent recession, however, provides evidence against the 'employer of last resort' solution. There is some evidence that the stimulus package did temporarily create some jobs; there are about 40,000 more Federal employees since January 2009. But, the BLS employment report on October 8, 2010 showed a decline of 159,000 Federal employees. In spite of their hopeful expectations, the Federal Government has had difficulty sustaining direct government jobs or private sector jobs, unless the funded project creates new revenue (Romer

and Bernstein, 2009). In essence, the government will need to fund any non-revenue producing project on a continuous basis.

The only means the Federal government has to pay for its projects is to borrow or raise taxes. Borrowing is becoming more difficult. China has reduced its holdings of US debt by \$68 billion over the last year. They now hold about 6.5 percent of the US debt. Fortunately for the US Treasury Department other countries have increased their holdings of US debt. The US Treasury and Federal Reserve Bank (FRB) report that the UK bought over \$300 billion in US bonds over the last year and other countries combined to purchase the same amount. Currently about 31 percent of the US debt is held by foreign entities. It is hard to imagine that percentage increasing in the near future, given the low interest rates and decreasing value of the US dollar, unless competing currencies devalue even further.

Another option for employment growth is expansionary monetary policy. While the Federal Reserve Bank has performed admirably in its war on inflation in the post-Volker era, their impact on job growth has been indirect by creating a low-inflation environment that fosters growth and spending (Clarida, Gali, and Gertler, 1999). In spite of the current low inflation/ low interest rate environment, recent government regulations from the FDIC, Frannie Mae, and Freddie Mac are stifling banks' ability to lend. In short, the government is sending mixed signals. The Federal Reserve Bank has pumped money into the banking system in hopes of growing the economy. They began their expansionary policy (QE1) in August 2008, when they purchased \$1.2 trillion in mortgage backed securities, which directly increased bank reserves. But the agencies of the Federal government are wrapping their arms around the commercial banks with regulation for fear of another financial meltdown (Mazumder and Ahmad, 2010). Thus the reduction in interest rates and injection of reserves has done little to stimulate lending and jumpstart the economy.

Lowering taxes will further increase the budget deficit and national debt; both results would be politically unpopular, particularly with the Tea Party's contemporary influence over economic thought. The government's only proposal to stimulate growth is for the Federal Reserve Bank to purchase the US Treasury's debt in what has been labeled "quantitative easing 2." In this effort the Federal Reserve Bank will bypass the banking system and directly buy US Treasuries Securities. The newly created money will finance government spending on all budget items. The money will enter the economy directly, as opposed to the traditional route via the banking system. The negative repercussion of this policy tool is inflation and further devaluation of the US dollar. Nonetheless, this \$600 billion attempt to create jobs by purchasing Treasury Securities will occur between winter 2010 and summer 2011.

With construction and government stimulus lacking the teeth to make a significant impact on growth, where will the jobs come from? Some economists have cited small business as the potential engine for employment growth (Dennis, Phillips and Starr, 1994). From 2002 through 2007, small businesses created 3.5 million of the 8.2 million new jobs nationally, about 75,000 in South Carolina. These numbers are fairly consistent with the literature that states job growth in small businesses expands in proportion to the percentage of the labor force (Davis, et. al, 1996).

Therefore, it is unlikely that small businesses will generate enough employment to revitalize the labor market.

Many analysts wonder if the service sector industries might be able to drive another recovery. Clearly, with people living longer and thus spending more time in that critical stage of life, old age, health care as a percent of GDP will continue to grow (Poissal et. al, 2007). The inclusion of many un-insured will raise demand for health services, push health care prices up, and increase the number of people receiving care. But the uncertainty of how the plan will be funded hinders the decision of health care providers to hire an excess of new workers.

Food and accommodations are not likely to increase quickly. Typically these sectors perform well when income and wealth are strong (McCellan et. al, 1991). With the reductions in employment, falling home values, stabilization of the stock market and uncertain labor market conditions it is likely that people will continue to be frugal with their disposable income. This thriftiness does not bode well for restaurants and hotels. As consumer confidence climbs up, which it will slowly do, food and accommodations will slowly recover.

The last two expansions were supported by increases in personal wealth. During the 1990s' expansion, the Dow Jones Industrial Average more than tripled and the NASDAQ Composite soared from 696 to over 5000! After a brief correction from the dot com craze and the US's first major terrorist attack, investors dumped their money into real estate. The Case-Schiller Index affirms that between January 2003 and July 2006, the average home owner witnessed a 51 percent increase in the value of his home, which translated to about \$75,000 in equity. Displayed by the lack of savings and rise in credit card debt during that era, it is evident that consumers spent this equity, coining the phrase "using home equity as an ATM" (Muir and Adhikari, 2008)

It is unquestionable that the wealth effects witnessed over the past two decades stimulated spending on a variety of goods and services (Modigliani, 1971). We would suspect that the spending binge and subsequent housing and stock market declines will inspire consumers to be more cautious going forward, leaving them in a better position to withstand future financial shocks. On a positive note, the stock market has regained its losses since the March 2009 lows. However, home values have not recovered. The uncertainty that lingers with employment has caused consumers to be more conservative with their income and wealth, reducing the link between spending and wealth (Lettau and Ludvigson, 2004). Yet, since this generation is known for a spend-now pay-later mentality, it is possible that new wealth, be it from stock increases or eventual home appreciation, will lead to future spending on luxury items. That demand for luxury items could result in job creation across sectors.

### **TAKING ADVANTAGE OF THE OPPORTUNITY**

With the prospects of growth from traditional employment engines appearing bleak, the burden of job creation is falling on state governments. States are comfortable with this role. For decades they have competed for multinational firms with tax incentives and property deals in an attempt to attract jobs (Hood, 1994). Recently, the means necessary to recruit have contracted.

The Center on Budget and Policy Priorities estimates that 46 states have experienced budget shortfalls due to the recent reduction in tax revenue. In fact, legislation is currently being discussed in the House of Representatives that will ease the bankruptcy process as state budget shortfalls mount to \$125 billion nationally (Lambert, 2011).

The conditions for state fiscal stimulus are difficult. Formerly, infrastructure projects were encouraged as an approach to spur employment and trigger the multiplier (Eberts and Stone, 1991). But now with states struggling to fund basics like education and health care it is unlikely that states will be capable of growing employment through traditional demand side policies.

On the supply side, over the past 40 years, investment tax credits and other tax incentives have stimulated competition between states to attract businesses. While some economists conclude that supply side incentives can influence firm location and expansion decisions (Fisher and Peters, 1998), others such as Wasylenko (1997) suggest the impact of tax policies on economic activity is inconclusive. A recent study by Chirinko and Wilson (2008) reveals that tax credits do matter. If for no other reason states need to offset the attempts by neighboring states to attract capital investment.

While we are cautious about making specific predictions, the current economic conditions appear to be favorable for South Carolina's legislatures to aggressively recruit new manufacturing firms and grow existing ones through supply side policies.

### **THEORETICAL CONSIDERATIONS**

The manufacturing component of state output can be viewed using a society level Cobb-Douglas production function:

$$Q_m = AK_m^\alpha L_m^\lambda$$

where  $K_m$  is capital investment for manufacturing within state  $i$ ,  $L_m$  is number of employees in the state's manufacturing sector or number of production workers. At the state level:

$$\Delta Q_m = \delta K_m + \frac{\partial Q_m}{\partial K_m} + \delta L_m + \frac{\partial Q_m}{\partial L_m}$$

Along an isoquant, the marginal rate of technical substitution  $\delta K_m / \delta L_m$  is equal to the absolute value of the ratio  $MPP_L$  to  $MPP_K$ . This ratio is equivalent to the price of labor,  $P_L$ , over the price of capital,  $P_K$  ratio. The price of capital is impacted by the level of subsidies provided by the state government. A corporate subsidy, such as an investment tax credit would reduce the price of capital which would stimulate an increase in capital investment. While South Carolina's capital investment has kept pace with the US (see Table 1), government-induced reductions in capital costs would spur a capital investment necessary for output growth.

**TABLE 1**Manufacturing  
1997-2009

United States	36.82	South Carolina	35.18	Indiana	57.85
South Carolina	35.18	Iowa	39.54	Missouri	59.47
Vermont	43.29	Wisconsin	39.75	Rhode Island	59.67
Arizona	17.61	Delaware	40.31	Hawaii	60.78
Connecticut	7.68	Washington	41.54	Alabama	67.08
Minnesota	10.91	New York	45.72	Maryland	70.06
Kentucky	13.69	Nevada	47.11	Oklahoma	74.24
Idaho	19.26	New Jersey	48.46	Tennessee	80.18
Michigan	25.2	Illinois	50.22	Maine	84.32
Ohio	26.44	North Carolina	50.48	Nebraska	84.67
New Hampshire	26.91	West Virginia	50.76	South Dakota	94.4
Pennsylvania	27.1	California	52.73	Louisiana	101.18
Georgia	27.63	Florida	53.53	New Mexico	158.75
Colorado	28.2	Texas	55.03	Utah	197.68
North Dakota	29.04	Kansas	55.7	Mississippi	212.97
Virginia	29.31	Arkansas	56.63	Montana	218.17
Massachusetts	30.84	Oregon	57.23	Wyoming	688.18

\*Data from Census of Manufacturers

A reduction in payroll tax rates or implementation of technical training programs would ignite an expansion in manufacturing employment,  $L_m$ . In South Carolina manufacturing wages have grown more than the national average and the percentage of production employees have fallen by more than the national average (see Table 2). State induced incentives can lower the costs of hiring and motivate manufacturing firms to either relocate to South Carolina or increase hiring within the state. In either case, government support would stimulate a change in the above mentioned trend and improve the employment situation.

**TABLE 2**

Manufacturing Percent wage growth				Manufacturing Production % change in employees			
1983 - 2009				1997 -2009			
United States	1.06	Alabama	1.04	United States	-37.25	Maryland	-37.67
South Carolina	1.32	South Dakota	1.04	South Carolina	-44.62	Arizona	-37.52
Alaska	0.41	Rhode Island	1.04	Alaska	-91.21	Arkansas	-36.86
Oklahoma	0.6	Washington	1.05	Rhode Island	-54.44	Montana	-36.51
Montana	0.62	Kansas	1.06	Michigan	-51.11	Indiana	-36.05
Iowa	0.66	Kentucky	1.06	North Carolina	-49.26	Missouri	-34.86
Illinois	0.71	Missouri	1.08	New York	-45.84	Connecticut	-34.83
Texas	0.72	Maryland	1.08	South Carolina	-44.62	West Va	-32.99
Oregon	0.73	Louisiana	1.09	Tennessee	-43.53	Kentucky	-32.15
Nevada	0.73	New York	1.1	Mississippi	-42.87	Colorado	-31.33
Ohio	0.76	Utah	1.1	Vermont	-42.55	Hawaii	-29.51
Pennsylvania	0.82	Vermont	1.14	Ohio	-42.49	Washington	-29.21
Nebraska	0.84	Georgia	1.16	Massachusetts	-41.05	Wisconsin	-28.72
Wisconsin	0.85	Mississippi	1.19	Illinois	-40.95	Iowa	-26.85
Michigan	0.86	Hawaii	1.32	Oregon	-40.82	Kansas	-26.73
California	0.87	South Carolina	1.32	Maine	-40.57	Minnesota	-26.61
Indiana	0.88	N Hampshire	1.35	New Jersey	-40.49	Louisiana	-25.61
Arizona	0.91	Colorado	1.37	Florida	-40.03	Texas	-25.36
New Mexico	0.91	Wyoming	1.37	Delaware	-39.97	Oklahoma	-25.3
West Va	0.92	North Carolina	1.38	Georgia	-39.71	Idaho	-21.64
Delaware	0.94	Idaho	1.39	New Mexico	-39.34	Utah	-21.34
Minnesota	0.95	Virginia	1.4	California	-38.61	Nebraska	-20.85
Tennessee	0.97	Massachusetts	1.57	Virginia	-38.27	S Dakota	-17.97
Arkansas	1	Maine	1.62	Alabama	-38.17	Wyoming	-14.88
New Jersey	1.01	Connecticut	1.63	Pennsylvania	-37.82	N Dakota	-4.86
N Dakota	1.01	Florida	1.67	New Hampshire	-37.77	Nevada	-2.55

Data from BLS

Holding other factors constant, we expect that corporate cost reduction policies will positively affect labor and capital investment through a substitution effect (relative to other states and countries) and an output effect. Favorable trends, such as the decreased value of the US dollar, can also stimulate an increase in labor and capital investment through an output effect, or an international substitution effect. Decreasing labor and or capital costs will shift financial capital to the US benefiting both factors of production.

State legislators recognize that government subsidies to corporations stimulate investment in capital and subsequently the welfare of their constituents. Yet, the utility derived from government generosity typically comes at the expense of higher tax rates on consumers and/or reduced services. Government officials must weigh these societal costs against the benefits of increased capital investment. The ultimate objective for politicians is to appeal to their constituents, which can generally be achieved by improving constituents' personal and financial standing rather than increasing their tax burden or cutting services that they value.

Following Peltzman (1976), we assume that legislators want to maximize voter support ( $S$ ). We posit that:

$$S = S(W,A)$$

where  $W$  is the wealth of their constituents and  $A$  represents the decision to provide corporate tax subsidies for the purposes of capital investment which in turn will stimulate growth in employment or at least sustain current employment levels through an output effect. In the short run, the subsidies are accompanied by additional taxes and/or cuts in other government services,

$$W = W(A)$$

so that:

$$S = S(W(A), A)$$

We assume that increased wealth raises voter support *ceteris paribus*, but the increased taxes or service reductions are cause for voter concern. If this were not true, legislators would have adopted a "put business first" philosophy long ago. In other words, we assume  $S_{W(A)} > 0$  and  $S_A < 0$ .

In this model, legislators will provide corporate tax subsidies if  $S_{W(A)} > S_A$ , or, if the marginal gain in voter support from wealth-enhancing subsidies exceeds the marginal loss in services or tax increases. These gains should be observable through expansions in employment and capital investment. The objective of improving the economic health of manufacturing plants should be observable through increased manufacturing employment. Otherwise, the state cannot justify their spending from a wealth perspective.

### **FAVORABLE ECONOMIC TRENDS**

Recent trends in market activity should be viewed as an opportunity for state governments to expand their labor force, particularly in the goods producing sector. First, the recent increase in savings, from a historical low of 1.4 percent in 2005 to a seventeen year high of 5.9 percent, has led to a reduction in demand for big ticket items. Rational or not, it is likely that this pent up demand will soon be released and consumers will start spending again. Second, the increase in the money supply will most likely lead to higher stock prices; this wealth bodes well for spending on durable manufactured goods. Third, over the last six months the value of the dollar

has decreased significantly against the US's largest trading partners in Europe, Japan, and China. This decrease in currency value makes importing more expensive and American goods more attractive in the world market. Since oil prices are inversely related to the value of the dollar the decrease in currency value translates into higher shipping costs for US importers. Fourth, over the past year American labor productivity growth outpaced other OECD countries at a rate of 3.3 percent to 2.7 percent. In 2009, the US's labor productivity increased by 3.5 percent while OECD countries fell by 1.5 percent (OECD). Between January 2008 and July 2010, the US lost nearly 8 million workers, but real GDP stayed the same. Clearly the US worker who retained his job improved his performance, causing output per hour in manufacturing to increase by an average of 10.4 percent in the last three quarters of 2009 (BLS). Furthermore, the drug wars and political unrest in Mexico are a cause for concern for American producers who have plants south of the border.

Each of the factors above lends credence to the idea that US manufacturing is in a good position to grow modestly over the next few years, specifically large multi-national firms. Many large manufacturers have production plants located outside the US borders. These operations could be moved to a vacant plant or spec building to bring the products closer to the end user. One of the primary reasons why companies moved some or all of their operations abroad was to reduce costs. It is possible with the reduction in the dollar, improvements in productivity, and uncertainty in Mexico that some of the cost advantages have disappeared. Moving operations back to the US, particularly those that require skilled labor, may improve profits.

### **WHY SOUTH CAROLINA?**

South Carolina is in a good position to take advantage of the economic and political trends that prevail in the world. SC manufacturing wages rank among the lowest in the country at about \$16.00 per hour (BLS). SC has the third lowest overall percent of unionization of the employed behind Arkansas and North Carolina. SC has the nation's lowest percentage of unionized workers in private sector manufacturing. SC ranks 9<sup>th</sup> in the percent of employed in manufacturing with 15.5 percent. SC also has the sixth highest unemployment rate in the US, which converts into a large supply of available workers. The unemployment rate for men is 13.4 percent. In other words, South Carolina is an ideal state for a manufacturing plant international or domestic, like Boeing, to reside. The new Boeing plant in Charleston compliments the BMW plant in Spartanburg, attracting aerospace and automobile suppliers to the Palmetto state.

The most recent data available from the SC Department of Commerce reveals that South Carolina has 643 foreign-affiliated firms which employ 7.1 percent of the workforce. Approximately fifty percent of these employees have jobs in the manufacturing sector, making up 22 percent of SC's manufacturing workers. This ratio is the second highest in the US. There are also a host of US-based firms that use international suppliers for either a stage of production or their entire product.

## WHY NOT SOUTH CAROLINA?

While manufacturing conditions have the potential to generate job growth in South Carolina, there are several political and social issues that are discouraging to companies who are actively searching for a place within the United States to locate their business. While it is evident that wages are relatively low in South Carolina compared to other states, businesses factor more than wages into their location decision. Tax and education issues are frequently mentioned by economic development officers and chamber of commerce representatives across the state as hurdles to the business location process in South Carolina.

In 2006 the South Carolina legislature passed Act 388 into law. This sweeping legislation had several significant impacts on the tax code. The elimination of the school property tax on owner-occupied homes was the most significant part of the legislation. Coinciding with the slashed school property taxes, Act 388 increased the state sales tax by one percentage point, from five to six percent. This tax swap, in addition to other provisions of Act 388, has exacerbated many fiscal difficulties in South Carolina since its implementation several years ago. While the volatility of tax revenues has been an issue, the problems Act 388 have caused for businesses may be the most concerning part of the legislation.

Via Act 388, property owned by businesses remains subject to the school property tax. The tax break only applies to owner-occupied homes - businesses received no property tax relief via the legislation. In addition, because of revenue issues at the local level, many school districts across the state have increased the school property tax since the passage of Act 388. This tax change has increased the burden to South Carolina businesses.

Not only was the business community negatively affected by the property tax portion of Act 388, they have also been forced to bear the brunt of the one-percent increase in state sales tax. In South Carolina businesses pay just over 50 percent of all state sales taxes. The one cent increase in the state sales tax was estimated by the Palmetto Institute to have cost South Carolina businesses over \$250 million in 2008 alone.

Indeed, the SC Chamber of Commerce, as well as many local chambers, have been actively fighting Act 388 and site it as one of their primary concerns. The president of the SC Chamber recently commented that "there's only one sector of the economy left to support schools, and that's the business community. That gives us great concern" (Slade, 2010). Until the tax climate in South Carolina is adjusted to become more appealing to the business community, many businesses will choose to locate in nearby states whose taxation is more equally balanced between the residents of the state and the businesses that reside there.

Many, including the newly-elected governor, have chosen to focus on the corporate income tax rather than Act 388. The South Carolina corporate income tax rate, a flat five percent, is relatively low compared to our neighboring states and the national average. Moreover, only a small percentage of the businesses in the state actually pay the tax. A recent study by the *Greenville News* showed that only 11 percent of all businesses in SC pay the corporate income tax. Of those 11 percent, 68 percent were international corporations (Smith, 2010). Focusing on

the corporate income tax is somewhat shortsighted because it will do very little to encourage business location in South Carolina. However, property tax reform could significantly impact business location as well as the profit streams of businesses already located in the state.

Another issue that is commonly discussed when businesses are choosing where to locate their firms is education. While business owners are certainly concerned about the wage they will have to pay an employee, they are generally equally concerned about the type of employee they can attract for that wage. This is especially true in many of the manufacturing sectors in the United States that are growing, namely high technology products. In this regard, South Carolina falls short in the eyes of many companies.

Unfortunately, SC's reputation for a poorly educated workforce precedes them. South Carolina currently ranks 39<sup>th</sup> in the United States for percentage of adults with a bachelor's degree at 23.7 percent. Massachusetts is number one at 38.1 percent. What may be more concerning than SC's current educational attainment ranking is the lack of movement towards improving this statistic. South Carolina currently ranks 45<sup>th</sup> in the nation in higher education appropriations per full-time enrolled student (FTE) at \$5,018. Wyoming is first at \$15,151; more than three times that of South Carolina. Although SC doesn't generally compete against Wyoming for business location, SC's neighbors to the north, south, and west are significantly outperforming SC on higher education as well. North Carolina's appropriation per FTE is \$8,949, while Georgia's is \$8,198 (U.S. Census Bureau). This matters to businesses when they are deciding where to draw their employees from; it also matters from a quality of life perspective when they consider where they desire to live and where they would like to raise a family.

South Carolina fares marginally better in K-12 education. The expenditures for elementary and secondary education per student were \$9,182 during the 2007-2008 school year. That level of spending ranks 33<sup>rd</sup> in the nation and falls far below the number one state with spending in excess of \$16,000 per student: from a per capita spending perspective SC ranks 35<sup>th</sup> in the nation (U.S. Census Bureau).

So, what does a business owner see when he/she looks at the education climate in South Carolina? One can reasonably expect that they see a comparatively undereducated state that is doing very little (on the surface at least) to improve their ranking or educational outcomes. A state ranked in the bottom 25 percent of America in educational attainment needs to be spending *more*, not less, than the U.S. average in order to improve their standing. This does not appeal to many companies who have their choice of Southern states like North Carolina or Georgia, where wages are slightly higher, but the workforce is significantly more educated and the state appears to have a sincere desire to improve the workforce further via education.

## CONCLUSION

The evidence indicates that employment will recover slowly and it is unlikely the manufacturing sector will lead the US economic recovery. It is also evident that SC legislators' efforts to improve the tax code and enhance education will not bring manufacturing back to its heyday. However, there is an opportunity for SC lawmakers to attract manufacturing jobs to the

state from other states and countries. The time may never be better to generate jobs in a sector that many states have written off as dead. Perhaps there *are* signs of life coming from the cemetery.

## REFERENCES

- Bogart, William T., and Anderson, Nathan B., "Business Location and Taxation," in Joseph J. Cordes, Robert D. Ebel, and Jane G. Gravelle (eds.), *The Encyclopedia of Taxation and Tax Policy*, Second Edition (Washington: The Urban Institute Press, 2005), 39-41.
- Bradbury, Katharine, L., Kodrzycki, Yolanda K., and Tannenwald, Robert, "The Effects of State and Local Public Policies on Economic Development: An Overview," *New England Economic Review* (March/April 1997), 1-12.
- Brainard, S. Lael and Riker, David A. "Are U.S. Multinationals Exporting U.S. Jobs?". *NBER Working Paper No. W5958*. Retrieved from: <http://ssrn.com/abstract=225738>.
- Chirinko, Robert S., and Wilson, Daniel J. "State investment tax incentives: A zero-sum game?". *Journal of Public Economics*. Volume 92, Issue 12, December 2008, Pages 2362-2384
- Clarida, Richard, Jordi Galí, and Mark Gertler. "The Science of Monetary Policy: A New Keynesian Perspective". *Journal of Economic Literature*, Vol. 37, No. 4 (Dec., 1999), pp. 1661-1707. Retrieved from: <http://www.jstor.org/stable/2565488>. Accessed: 28/09/2008.
- Crudele, John. "Banks Worry About Next Wave of Loan Defaults". *New York Post*, May 19, 2009.
- Davis, Steven J., Haltiwanger, John, and Schuh, Scott. "Small business and job creation: Dissecting the myth and reassessing the facts". *Small Business Economics*, Volume 8, Number 4 p. 297-315.
- Dennis, William J., Phillips, Bruce, and Starr, Edward. "Small business job creation: the findings and their critics". *Business Economics*. Volume: v29 Source Issue: n3. July, 1994.
- Fisher, Peter S., and Peters, Alan H., *Industrial Incentives: Competition Among American States and Cities* (Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research, 1998).
- Hood, John. "Ante Freeze: Stop the State Bidding Wars for Big Businesses". *Policy Review*, n68, 1994.
- Jared Bernstein, and Romer, Christina. "The Job Impact of the American Recovery and Reinvestment Plan Council of Economic Advisors". *Office of the Vice President Elect*, 2009.
- Keynes, John M. "The General Theory of Employment, Interest, and Money". *New York: Harcourt, Brace*. 1936.
- Lambert, Lisa, and Robinson, Edward. "States of Crisis for 46 Governments Facing Greek-Style Deficits, Bloomberg" *Reuters* (January 2011). Retrieved from: <http://www.reuters.com/article/2011/01/21/us-usa-states-bankruptcyUSTRE70KPI20110121>

- Lettau, Martin, and Ludvigson, Sydney C. "Understanding Trend and Cycle in Asset Values: Reevaluating the Wealth Effect on Consumption". *The American Economic Review*. Vol. 94, No. 1 (Mar., 2004), pp. 276-299.
- Mazumder, M. Imtiaz, Nazneen Ahmad, (2010) "Greed, financial innovation or laxity of regulation? A close look into the 2007-2009 financial crisis and stock market volatility", *Studies in Economics and Finance*, Vol. 27 Iss: 2, pp.110 – 134
- McGuire, Therese J., "Do Taxes Matter? Yes, No, Maybe So," *State Tax Notes* 28 (June 9, 2003).
- McLellan, Robert W., Pyo, Sung-Soo, and Muzaffer Uysal. "A linear expenditure model for tourism". *Annals of Tourism Research*. Volume 18, Issue 3, 1991 pages 443-454
- Modigliani, F. "Monetary Policy and Consumption: Linkages via Interest Rate and Wealth Effects in the FMP Model," in *Consumer Spending and Monetary Policy: The Linkages*, Conference Series No. 5, Federal Reserve Bank of Boston, Boston, 1971.
- Muir, David and Brinda Adhikari. "Americans in Debt: 'Using Home Equity as an ATM Machine,'" ABC News, June 17, 2008.
- Peltzman, Sam, "Toward a More General Theory of Regulation," *The Journal of Law and Economics*, 19, (August, 1976) pp. 211-40.
- Poisal, John A., Christopher Truffer, Sheila Smith, Andrea Sisko, Cathy Cowan, Sean Keehan, Bridget Dickensheets Health Spending Projections Through 2016: Modest Changes Obscure Part D's Impact *Health Affairs*, 26, no. 2 (2007): w242-w253
- Romer, Christina and Jared Bernstein, 2009 The Job Impact of the American Recovery and Reinvestment Plan Council of Economic Advisors, Office of the Vice President Elect
- Slade, David. "S.C. Paying Piper for Act 388 Tax Cuts." *The Post and Courier*. January 14, 2009.
- Smith, Tim. "Haley's tax-cut proposal at issue" *Greenville News*. November 10, 2010
- Wallison, Peter. "Fannie and Freddie by Twilight". *American Enterprise for Public Policy Research*. August 2008
- Wasylenko, Michael, "Taxation and Economic Development: The State of the Economic Literature,". *New England Economic Review*. (March/April 1997), p. 37-52.

## DATA SOURCES

- Bureau of Labor Statistics (BLS); <http://www.bls.gov/>
- Department of the Treasury/Federal Reserve Board; <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt>
- OECD statistics; <http://www.oecd.org/home/>
- Palmetto Institute; <http://www.palmettoinstitute.org/EconDevArchive.aspx>
- Annual Survey of Manufacturers; <http://www.census.gov/manufacturing/asm/index.html>
- Case-Schiller Index; <http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/>

## ABOUT THE AUTHORS

**Lou Pantuosco** is a Professor of Economics at Winthrop University. He holds a Ph.D in Economics from Northeastern University in Boston, MA. Lou has published multiple articles in journals including *Journal of Labor Reseach*, the *Eastern Economic Journal*, *The Journal of Education Finance*, and the *Canadian Public Policy Journal*. Lou has also published a religious book entitled "got questions?" and articles in soccer journals.

**Laura Dawson Ullrich** is an Assistant Professor of Economics at Winthrop University in Rock Hill, South Carolina. She holds a BBA in Economics from the University of Georgia. In addition, she holds a MA and PhD in Economics from The University of Tennessee. Laura's research has been published in journals including *Economic Development Quarterly* and *The Journal of Education Finance*. Her interests include school finance reform, local and state level tax and expenditure analyses, and welfare policy.