

Mississippi: A Dual Economy

Aruna Srinivasan

During the past two decades, the economic performance of the Southeast as a whole has been superior to the nation's. Most of the region grew rapidly during the 1970s and did not suffer as much as the rest of the country in the early 1980s recession. Not all states and areas in the region, however, have benefited from this expansion. Explosive urban growth has masked the encroaching difficulties of the rural South, which has been burdened by the simultaneous decline of its mainstays, agriculture and manufacturing. When the southeastern economy began to recover from the 1982 recession, it soon became apparent that the rural sector was not reviving in step. Indeed, the doldrums of the rural South point to some severe negative trends with long-term implications. For Mississippi, these assertions have particular significance: the state, with nearly 72 percent of its population living in non-metropolitan areas, is the most rural in the Southeast.

The trend of Mississippi's economy over the past ten years from rapid toward much slower growth can be attributed primarily to the nature and pattern of structural evolution and to the impact of national and international events. Specifically, falling energy and agricultural prices, the shift of economic strength back to urban areas, and deterioration in the foreign trade balance have stunted Mississippi's economic expansion during most of the 1980s.

The author is an assistant economist in the regional section of the Atlanta Fed's Research Department.

More recent developments, though, particularly the lower dollar and the upturn in energy and farm prices, should nudge the state's economy slightly ahead in 1988 and 1989. On the other hand, the probable winding down of growth in national defense spending may partly offset this positive trend, at least in the Gulf Coast area, where defense-related industries are concentrated. A more threatening cloud on Mississippi's horizon is the likelihood of continued out-migration from the state's rural areas.

Beyond these short-run influences, however, are several factors that will color Mississippi's longer term economic prospects. These elements indicate that the state's economy is developing a dual nature along rural-urban lines. One illustration of this duality appears in Mississippi's demographic trends, which contrast markedly to those elsewhere in the United States. Mississippi was one of only a few states where rural population growth lagged behind urban increases in the 1970s. Indeed, counties in the Mississippi Delta typically have lost between 5 and 20 percent of their population since 1970.¹ Between 1979 and 1983 the state's metropolitan areas grew at four times the rate of its non-metropolitan areas. This disparity is also evidenced in income. Per capita income growth rates for Mississippi's metropolitan and non-metropolitan areas were about the same in the seventies, but from 1979 to 1983, urban counties grew 15 percent faster in this regard than did rural counties.

The author contends that Mississippi's economy has been fundamentally restructured during the 1980s. While metropolitan areas have benefited from a shift toward service employment, non-metropolitan areas have remained stagnant because of their heavy dependence on low-wage, low-skill manufacturing. Mississippi's urban areas should remain healthy, but to brighten its long-run prospects the state must develop strategies to reduce its dependence on now shrinking federal revenues and enhance the education of its labor force.

A second factor affecting Mississippi's long-term outlook is its industrial growth pattern. The state's success in attracting manufacturing branch plants has created a heavily industrialized economic base, especially in rural areas.² Because so many of these industries are labor-intensive and have low skill requirements, they are particularly vulnerable to increased competition from developing countries, where labor is cheaper and more abundant. This vulnerability is demonstrated by the fact that, in 1984, rural unemployment rates were 28 percent higher than metropolitan rates.

The waning strength of Mississippi's agricultural sector is another trend that bodes ill for the state's economic future. Agriculture and manufacturing are unusually interdependent in Mississippi, where many farms are small and farmers often rely on off-farm income. In 1982, nearly one-half of Mississippi's farmers worked off the farm for more than 100 days, and the percentage of farms with sales of over \$40,000 was only 64 percent of the national average. When manufacturing industries were thriving, this link decreased farm families' financial risk as their income did not depend exclusively on farm production.³ As manufacturing industries have ebbed, some farmers who had come to rely on this supplemental income have lost their farms.

A further consideration that will shape Mississippi's economy in the years ahead will be the presence (or absence) of incentives to attract new growth industries to the state. Emerging industries that are choosing location

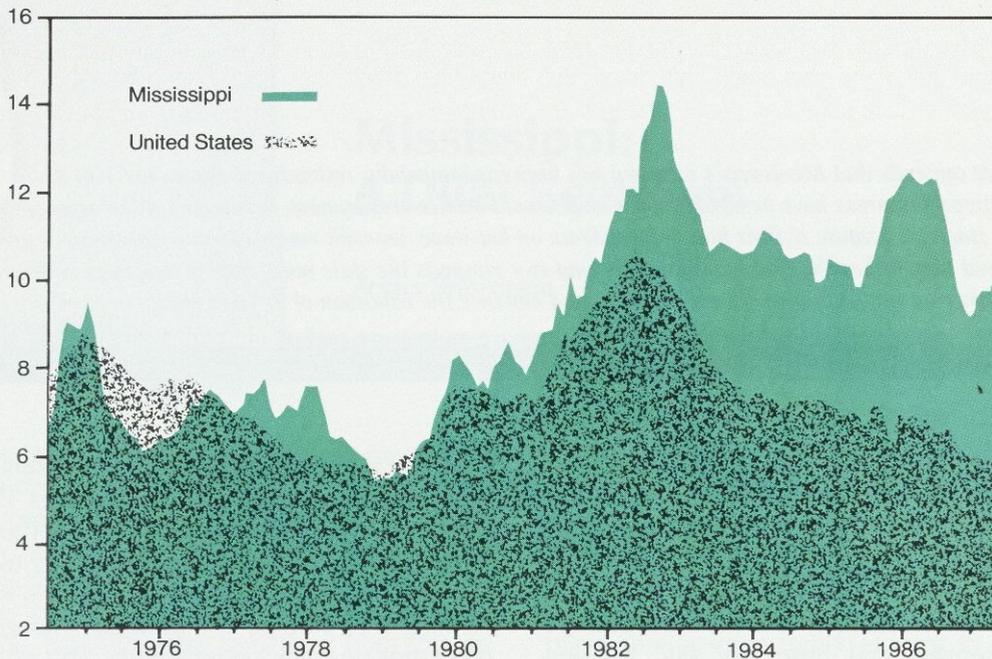
sites will look for highly educated workers and good schools and transportation systems. These factors will become increasingly important to Mississippi's more traditional industries, too, as they are pushed to modernize to remain in the running with foreign competition. Though its cities provide many such amenities, Mississippi's rural areas are still sorely deficient on these counts.

Finally, the shrinking role of federal government has implications for rural Mississippi over the long run. Federal antipoverty and economic development programs, which once helped prepare rural workers for traditional industries, have been cut back and are not likely to be restored to provide the same level of assistance for new growth industries.

In sum, while long-term trends suggest Mississippi's urban economies will remain stable and probably show moderate growth, the state's rural areas—where primary industries and manufacturing dominate—will remain in the doldrums. Nonetheless, in 1988 Mississippi's economy should grow faster than it has in the past six years.

This article's assessment of the Mississippi economy is framed around two major questions: (1) Is long-term restructuring of the state's economy actually occurring, or are observed changes merely the short-term consequences of the 1982 recession and the subsequent recovery? (2) How do conditions in urban Mississippi differ from those in its rural areas, and how will these conditions shape future growth?

Chart 1.
Unemployment Rate, Mississippi vs. the United States
 (Monthly data, January 1975-November 1987)



Sources: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, various issues, and Mississippi Labor Market Information Department, Employment Security Commission.

The Mississippi Economy in Perspective

A decade ago Mississippi's economy was quite vigorous, but since 1980 it has consistently underperformed the U.S. economy. This turnaround over the past ten years points to fundamental changes in the state's economic foundations.

Between 1975 and 1980, paced by an expanding manufacturing sector, increasing agricultural prices, and a booming oil and gas industry, personal income in the Magnolia State, adjusted for inflation, rose at a 2.6 percent annual rate. This rate, though below the robust southeastern average, surpassed the nation's 2.3 percent annual increase. During the same period, Mississippi's per capita income edged closer to the national average, from 68 percent of the U.S. average in 1975 to 70 percent in 1980.

Dramatically different national and international economic forces have forged Mississippi's economy in the 1980s. Worldwide ag-

riculture and energy market surpluses have caused prices to fall, and a deteriorating foreign trade balance has severely retarded growth in manufacturing industries. Adjusting to the resulting lower inflation environment has proven difficult for the Mississippi economy. The adverse effects of this transition are reflected in Mississippians' lagging personal incomes, which from 1980 to 1986 grew at a 1.4 percent annual rate, compared with 3.1 percent for the Southeast and 2.5 percent for the nation. What's more, the state's per capita income slipped from 70 percent of the national average in 1980 to 66 percent in 1986.

Employment growth in Mississippi has endured similar setbacks. Total employment in the state rose 12.6 percent from 1975 to 1980, compared with 15.7 percent for the nation. The recession of the early 1980s brought national job growth down to 7.9 percent in 1980-86, but Mississippi's total employment gains in 1986 were a mere 2.3 percent above their 1980 level.

This decade's slower job growth, coupled with an expanding labor force, elevated Mis-

Mississippi's unemployment rate above the national average (see Chart 1). Following the 1973-75 recession the state unemployment rate stood at 6.6 percent, 1.1 percent below the national average. The recession of 1981-82, however, had a greater impact on the Mississippi economy, forcing the state's jobless rate above that of the nation. Since 1982, in fact, Mississippi's average annual unemployment rate has remained above 10 percent; only recently (since April 1987) has it crept down to 9.5 percent. On balance, despite national and international trends that appear to augur more favorably for Mississippi's economy, its structural problems remain. Increasing structural unemployment, with less clear-cut solutions than short-run joblessness, has become a new concern for state policymakers.

The evidence suggests that long-term restructuring of the state's economy, both industrial and geographical, is indeed occurring. Jobs are shifting not only from manufacturing to services, but also from non-metropolitan to metropolitan areas. The structural relations involved in this development process can be identified and studied by examining the dualistic nature of Mississippi's economy—that is, a thriving urban Mississippi that is creating new jobs and a depressed rural Mississippi that is losing jobs and people.

The state's current economic organization, relying strongly on primary industries, is the logical descendant of its agrarian past. In its formative years, Mississippi's industrial sector was heavily influenced by the economic legacy of the plantation, whose cornerstone was an abundant, low-skilled labor supply.⁴ After World War II, Mississippi marketed its plentiful labor, low operating costs, and favorable business climate to capture an increasing share of the nation's manufacturing jobs. Thus, with help from federal and state governments, rural Mississippi was transformed from an agriculture-based to a manufacturing-based economy.⁵

The economic cyclicity inherent in Mississippi's reliance on manufacturing can be explained by the structure of employment in the state over the past dozen years. In 1976, the shares of Mississippi's work force—both for metropolitan areas and the state as a whole—engaged in agriculture, manufacturing, and construction were larger than those for the

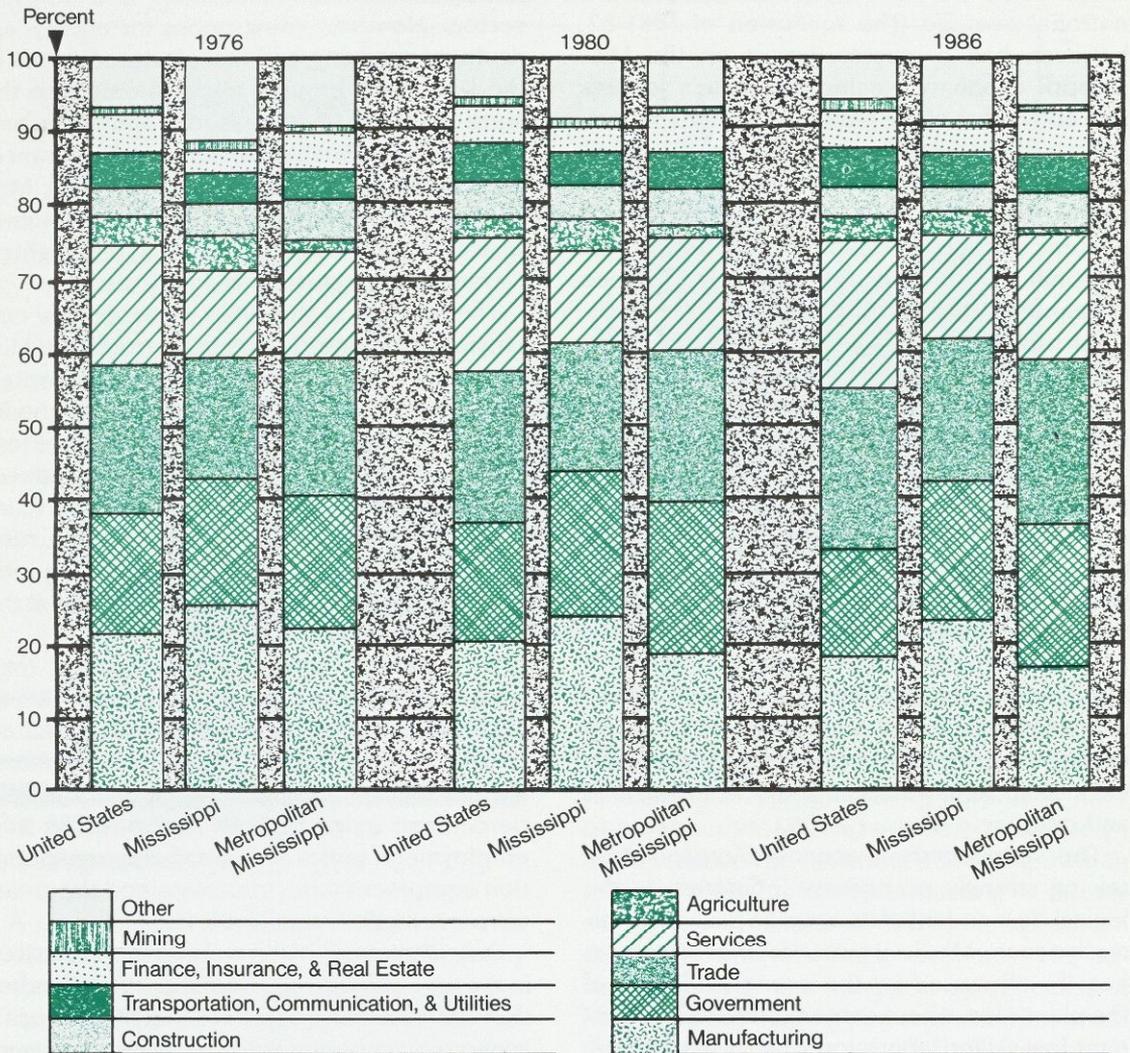
United States (see Chart 2). Conversely, the state's labor force included a smaller proportion in the service, trade, finance, and regulated (transportation, communication, and utilities) sectors. However, rising prices for energy, agricultural products, and manufactured goods in the late 1970s brought more income into the state and led to increased population and employment in the service, trade, finance, government, and utility sectors. By 1980, Mississippi's employment mix had moved somewhat closer to the nation's but was still weighted toward manufacturing and agriculture.

The first half of the 1980s, however, saw employment nationwide and in metropolitan Mississippi becoming considerably more oriented toward services and less dependent on goods-producing jobs. Unfortunately, this shift was less pronounced in the state's rural areas. Indeed, despite the slump in many of the state's manufacturing industries during these years, rural Mississippi's reliance on manufacturing jobs remained nearly as strong in 1986 as it was at the start of the decade.

Even though manufacturing's share of total state employment changed little from 1976 to 1986, within the sector several industries shifted in relative importance. The metals, furniture, and machinery industries chalked up the largest percentage gains in both real earnings and employment, while the apparel and transportation equipment industries sustained the greatest percentage losses (Table 1).⁶

Only when many of its rural areas failed to join in the national recovery from the 1981-82 recession did it become apparent that Mississippi's economic problems were not the temporary effects of a business cycle but rather the signs of major structural changes. The state's economic restructuring is pointed out by several important trends. First, traditional manufacturing industries have lost employment, while services and certain emerging manufacturing industries have gained workers. Additionally, employment in virtually all industry sectors grew faster in metropolitan areas than in rural areas between 1970 and 1986. In fact, employment in some of Mississippi's key industries, such as electrical machinery and apparel, climbed in urban counties, even as it declined in non-metropolitan counties. On balance, Mississippi's urban, rather than rural, areas will be the centers of future

Chart 2.
United States, Mississippi, and Metropolitan Mississippi
Employment by Sector



* Other refers to non-payroll, non-agricultural workers.

Source: Mississippi Employment Security Commission, *Annual Averages*, various issues.

growth. Statistics indicate that urban areas not only are attracting new jobs, but are also, because of their more developed infrastructures and skilled labor force, luring manufacturing and other jobs away from rural areas.

Sources of Capital Formation: Human and Financial

Mississippi's ability to rebound from structural changes in the economy is hampered by its

shortage of wealth and its underdeveloped human resources. Education, according to the Southern Growth Policies Board, is the most important ingredient influencing the future of southern states.⁷ Mississippi's educational system, deficient in both quantity and quality, has produced a less-educated labor force concentrated in low-wage, low-skill industries. In 1980, the median number of years of school for the state's adults was 12.2 compared with 12.5 years nationally; its graduation rates were also well below the national average. Mississippi's average

Table 1.
Patterns of Manufacturing Employment in Mississippi
 (thousands of employees)

	1976	Share	1986	Share	Absolute Change	Percent Change
Manufacturing	218.9	100.0	222.9	100.0	4.0	1.8
Metals	11.8	5.4	16.0	7.2	4.2	35.6
Transportation Equipment	29.6	13.5	21.4	9.6	-8.2	-27.7
Apparel	41.6	19.0	36.5	16.4	-5.1	-12.3
Chemicals	6.4	2.9	6.5	2.9	0.1	1.6
Electrical & Electronic Equipment	17.9	8.2	21.5	9.6	3.6	20.1
Non-Electrical Machinery	10.3	4.7	12.4	5.6	2.1	20.4
Food	19.6	9.0	22.2	10.0	2.6	13.3
Furniture	16.8	7.7	20.4	9.2	3.6	21.4
Lumber	23.0	10.5	22.6	10.1	-0.4	-1.7
Paper	6.8	3.1	7.8	3.5	1.0	14.7
Other	35.1	16.0	35.6	15.9	0.5	1.4

Source: Mississippi Employment Security Commission, *Annual Averages*, various issues.

score from the American College Testing (ACT) Program indicates that the average high school graduate in the state is not as well-educated as the average U.S. counterpart.

The demographic structure of the state exacerbates its education problems. Of south-eastern states, Mississippi has the lowest percentage of total population in the primary work-age group and the largest percentage in the 0-19 age group; it also has a higher birth rate than its neighboring states. This disproportion of young people in the population puts extra burdens on the educational system and on the relatively smaller labor force that supports it.

The below-average amount and quality of educational training in the state has prepared many of its workers merely for low-skill jobs. The labor-intensive industries that employ such workers have predominated in Mississippi, pulling the state's productivity consistently below the U.S. average. Mississippi's value added per worker reached a peak of 87.7 percent of the national average in 1982, but slid to 79.7 percent in 1984, the year for which the latest data are available.⁸

Efforts to improve Mississippi's educational system have been frustrated by the state's high unemployment and poverty. In 1982, Mississippi's Education Reform Act—mandating public kindergartens, instituting compulsory school attendance, and imposing higher standards throughout the system—was heralded as a

model of progressive legislation. However, continuing sluggish growth since that time has made it difficult for the state to raise enough revenue to fulfill the act's promise. What's more, since fiscal year 1981-82, Mississippi's state universities have experienced five years of budget cuts and restraints. Clearly, the state's attempts to enhance the quality of education will continue to fall short until policymakers begin to treat education development programs as investments rather than expenditures that may be increased or reduced as fiscal conditions dictate.

Mississippi is held back not only by its paucity of well-educated workers but also by its dearth of financial capital. The economic problems of rural Mississippi have reduced the local tax base, so the state has had to seek funds elsewhere. Mississippi ranks second in the nation in dependence upon transfer payments, which have provided an average of 20 percent of the state's income during the past decade. Government transfer payments come to the state primarily in the form of old-age pensions, poverty programs, and farm price subsidies. Though beneficial to the state's economy, these income sources give fewer lasting benefits than do such economic spurs as job creation in the private sector. Moreover, transfer payments are also somewhat vulnerable to budget-reduction programs and recession-induced declines in government revenue.

Prospects for the Future

Historically, the dependence of Mississippi's largely rural economy on traditional, labor-intensive manufacturing has dampened the state's economic performance. Over the long run, it probably will continue to keep the state's growth below the U.S. average. Several factors, however, should boost Mississippi's economic performance above that recorded over the past six years. The lower dollar is expected to stimulate manufacturing by reducing import competition and spurring export growth. Higher prices for the state's commodities, especially oil and cotton, will provide additional income to their producers and to the supporting service industries.

After wide swings for the past two years, the state's unemployment rate is projected to edge down in 1988. Net job growth should take place primarily in manufacturing, trade, finance, and services, and mining employment is expected to rebound modestly from a 1986-87 slump. In general, the state's employment situation should stabilize somewhat, aided by such events as rising commodity prices, which will stimulate agriculture and mining. However, continued high unemployment in the rural areas, owing to such factors as weakness in nondurable manufacturing, will contribute to Mississippi's long-run, but shrinking, labor surplus.

Despite the expected upturn in Mississippi's long-term growth rate, its unemployment rate is likely to remain above the national average. One major reason for this anticipated differential is the mismatch that will occur between the rising number of service sector job openings in cities and the availability of low-skilled labor in rural areas. Another reason that Mississippi's employment gains are expected to be below-average is that the state's large manufacturing sector has undergone fundamental change. Although manufacturing output will likely rebound from the difficulties of recent years, job openings in the sector may dwindle as sophisticated equipment is substituted for labor in order to reduce costs and thereby maintain competitiveness in international markets.

Establishing an economic development strategy is crucial for Mississippi's economic health

in the years ahead. The state's past cost-minimization tactics—for example, property tax abatements, business tax rate reductions, recruiting businesses that use low-wage labor, and attempts to discourage unionization—have attracted nondurable manufacturing and other industries that have suffered most in recent years.⁹ An alternative, human capital strategy that focuses on the quality of a local economy's labor pool, could help push Mississippi's economy closer to the regional and national averages. Mississippi Research and Development Center studies have shown that the policies associated with the human capital strategy were more influential than cost-minimization measures in encouraging economic growth from 1977 to 1984.¹⁰ By improving the quality of its public infrastructure, particularly education, and tapping the wealth of natural and human resources in its rural areas, Mississippi could attract new industries and enhance its citizens' quality of life.

Conclusion

The key argument of this article is that the economic changes observed in Mississippi are affecting urban and rural locations differently. Metropolitan areas have grown much faster and sustained healthier economies than non-metropolitan areas, and this trend will probably continue. However, evidence suggests that long-term restructuring of the Mississippi economy is indeed occurring as jobs shift from non-metropolitan to metropolitan areas, from manufacturing to services, and, within manufacturing, from traditional to emerging industries. Rural Mississippi's lack of wealth and its low levels of educational attainment will continue to tie it to traditional, low-skill manufacturing industries.

For the near future, the state's thriving metropolitan areas should keep the overall economy on a fairly even keel. To boost the state's economy over the longer term, though, state policymakers must implement and support programs, such as education enhancement, that will foster the development of Mississippi's abundant human resources.

Notes

- ¹Wilson and Sullivan (1986): 69-77.
²Lyson and Falk (1986): 158-65.
³For further discussion see Rosenfeld, Bergman, and Rubin (1985).
⁴Winter (1986): 1-5.
⁵Williams (1987): 20-21.
⁶Warner (1987): 6-7.
⁷Rosenfeld, Bergman, and Rubin (1985).
⁸Warner (1987): 6-7.
⁹Gilmer and Pulsipher (1986): 110-18.
¹⁰Deposit Guaranty National Bank (1987).

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