

LOUISIANA'S ECONOMY IN TRANSITION

Louisiana's economy has serious problems. By most indicators of unemployment, poverty, income, education, crime, and health problems, the state ranks at or near the bottom. These problems have many, complex roots and their persistence is proof that the theories, models, and policies of the past for correcting them have not been up to the task. As Louisianians consider where to go from here, it is important to understand the structural changes taking place not just in Louisiana but throughout the nation.

Insight into the general character of these changes is provided by a recent analysis of shifts in jobs and population among the states for 1983–95, a period with prolonged national economic expansion punctuated by a brief recession during 1990–91. During this period, if Louisiana's economy had grown at

High school graduates	50th
Pollutants discharged to surface waters	49th
Heart disease	47th
Adult illiteracy	47th
Generation of hazardous waste	46th
Teen pregnancy	46th
Long-term unemployment	45th
Health-care coverage	45th
Businesses owned by minorities or women	44th
Crime rate	43rd
Tax fairness	43rd
Areas with a shortage of health-care professionals	42nd
Bridge deficiencies	41st

the national average, it would have seen the addition of 459,980 jobs. In fact, however, employment in the state grew by 209,300 jobs, or less than half as much. The difference, 250,680 jobs, indicates the extent to which the state's economy has underperformed relative to other states, and can be attributed to two sources: Louisiana had a higher concentration of industries that grew more slowly than the national average, and the overall state economy was less vibrant. The industrial component largely reflects Louisiana's concentration in the oil/gas industry, which endured a marked contraction during 1983–1990. This component, however, accounted for the loss of 20,000 jobs, relative

to the national average, or less than 8 percent of the state's total underperformance. The remainder—more than 230,000 jobs—failed to materialize because industries throughout Louisiana's economy failed to perform as well as their counterparts elsewhere in the nation. In economics parlance, these numbers reveal that, across all industrial sectors, firms in Louisiana are at a comparative disadvantage relative to their external competitors.

Why has Louisiana's economy performed so poorly? To answer this question one must look at the major factors influencing job development and income growth. Four of these factors seem especially important.

A. Employment is Stagnant or Declining in Resource-Intensive Industries. Once large sources of income and wealth in the U.S. and Louisiana, the resource-intensive industries—mining, timber, and agriculture—now make much smaller contributions to both the nation’s economy and Louisiana’s economy. These industries generally exhibit a stagnant or even declining ability to generate new jobs and higher incomes.

- Between 1969 and 1994 total direct employment in mining, timber, and agriculture declined from about 7 percent of total U.S. employment to about 5 percent.
- Between 1979 and 1989 the oil/gas and petrochemical industries in Louisiana lost more than 23,000 jobs.
- Between 1989 and 1994 the oil/gas industry in Louisiana lost nearly 10,000 jobs.
- During the early 1980s, the oil/gas industry provided more than 6 percent of total income in Louisiana, but this percentage has since been halved.
- In 1994, the oil/gas and petrochemical industries represented 5 percent of total employment and 7 percent of total income in Louisiana.³

Although the traditional resource-intensive industries will continue to be important elements of the nation’s economy and Louisiana’s economy, they probably will not be the source of new jobs and higher incomes. With few exceptions, communities and states with high concentrations of extractive industries must expect economic decline or, at best, stagnation.

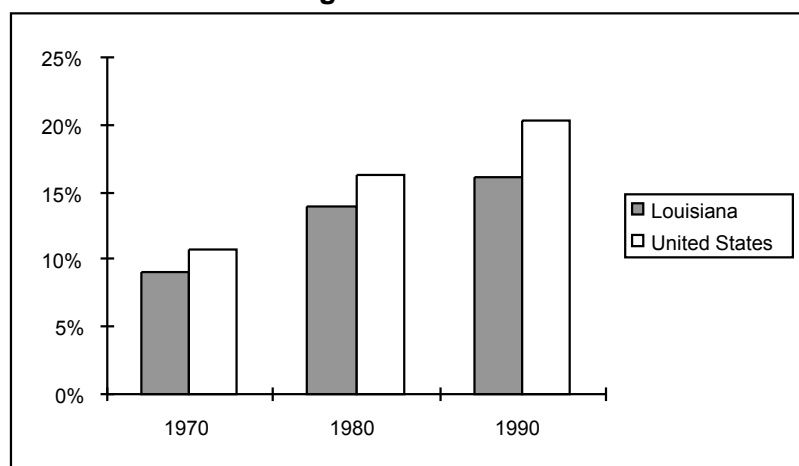
B. The Economies of Metropolitan and Nonmetropolitan Areas are Becoming Increasingly Integrated. Technology and the development of transportation systems have reduced economic barriers between nonmetropolitan and metropolitan communities, resulting in the resurgence of some nonmetropolitan economies that depend more on the educational characteristics of residents and the quality of transportation and telecommunication systems, and far less on access to resource-intensive industries. Advances in telecommunications allow nonmetropolitan and metropolitan residents and firms to have similar opportunities to gain access to educational resources, participate in a variety of markets, and provide services to customers. Transportation systems allow many manufacturing firms to locate outside metropolitan areas, but still have ready access to metropolitan customers and a large labor pool.

The integration of metropolitan and nonmetropolitan areas means that one cannot assess the full economic consequences of events in nonmetropolitan communities by looking solely at the impacts in the community itself. In most cases the majority of the impact on jobs, incomes, taxes, and overall economic performance will materialize in nearby metropolitan centers. This conclusion applies to the opening or closing of a manufacturing plant as well as to the management of rural natural resources.

C. Education is Increasingly Important as a Determinant of Wages. Education has become increasingly important as a determinant of earnings nationally. During the past fifteen years, the structure of wages and earnings throughout the U.S. has undergone pronounced changes. Among the most prominent are (1) a climb in the earnings of more-educated workers relative to the earnings of less-educated workers; and (2) a drop in the wages of younger workers who are not college-educated relative to the wages of older workers with similar education. There are multiple explanations for these phenomena, but the most important appears to be a pervasive shift in the methods of production—coinciding with explosive growth in the use of computers—that increases the demand for workers with “relatively high intellectual as opposed to manual ability.”⁴ The supply of workers with the requisite skills has not grown enough to keep pace with the increase in demand, and this shortage has increased wages for this group. Conversely, the supply of less-skilled workers has grown faster than demand, and wages

for this group have fallen. This shift in production methods has been accompanied by a shift in occupational patterns, with an increase in the number of employment opportunities in managerial, professional, and other high-wage occupations and a decrease in the number of workers in middle-wage occupations, including the blue-collar jobs that until recently have typified many of the older manufacturing industries.⁵

Percent of Population Aged 25 Years and Over With at Least A Bachelor's Degree



Against this backdrop, Louisiana's fortunes appear bleak, insofar as education levels, already below national averages, are falling further behind. In 1990, 32 percent of the Louisiana population aged 25 years or over had not graduated from high school, compared to a

national average of 25 percent. Between 1970 and 1990, the gap between Louisiana and the rest of the nation in the proportion of the population with at least a bachelor's degree has more than doubled from 1.6 to 4.2 percent.⁶

Workers with less education, especially those who did not graduate from high school, generally do not have the requisite skills to compete in the increasingly high tech, global economy and can expect to have relatively fewer, high-paying employment opportunities in the future. Economic-development policies that do not emphasize correcting the state's educational deficiencies cannot be successful. There is little, if anything, that will compensate for the lack of education. In particular, increasing the supply of raw materials consumed by resource-related industries, such as oil/gas producers and manufacturers that consume large amounts of clean air and water, will not arrest the fundamental forces causing all industries to invest in labor-saving technology, eliminate jobs, and reduce the wages of workers lacking a high level of education.

D. Amenities are Increasingly Important in the Locational Decisions of Workers, Households, and Firms. A region perceived as providing an attractive environment in which to live, work, and do business will attract workers, households, and firms. These, in turn, will affect the region's workforce, the buying power of consumer markets, and the competitiveness of firms throughout the economy. Many factors appear to pull workers, households, and firms to a region, including efficient schools and other public services, low crime rates, clean air and water, and the absence of toxic risks. Evidence from various parts of the U.S. and Louisiana indicates that natural-resource amenities appear to be especially important.

- A recent study focusing on counties in the country's rural heartland, twelve states stretching from the Mississippi River to the Rockies and from Canada to Texas, found that the counties with robust economies were in areas that offer scenic and recreational amenities, while their weaker cousins depended heavily on "traditional natural resource industries."⁷

- In the Pacific Northwest, economists routinely acknowledge that the region's natural-resource amenities, by attracting and retaining people who want to live close to these amenities, serve as a major engine of economic growth, enabling the region to outperform the rest of the economy.⁸

The natural environment is important in Louisiana. The coastal wetlands of Louisiana add to the state's attractiveness and serve to retain current residents and attract potential residents. A survey found that 70 percent of all voters in Louisiana, and more than 80 percent of voters in the coastal area, believe that the coastal wetlands are very valuable.⁹ On the negative side, however, air emissions in southern Louisiana have been linked to the death of about 500 persons each year.¹⁰

Pulling It All Together. The four economic factors described above explain much of Louisiana's poor economic performance, relative to other states, since the early 1980s. Since 1983, Louisiana first lost population (50,000 in 1983–90) and then grew slowly (95,000 in 1990–95). During both these periods, the state has underperformed relative to its neighbors and the nation as a whole. Slow growth in population, together with the state's lagging job growth, tend to indicate that some set of factors persistently and pervasively suppresses the competitiveness of firms throughout the economy. Likely candidates are: a failure to wean itself from its heavy reliance on resource-intensive industries (indicated by continuing tax concessions for these industries), inefficient schools and other public services, high crime levels, and a lack of certainty that residents can expect to enjoy a healthy environment.

It should be clear to all that the state cannot reverse its economic declines or fix its economic problems by resource-intensive economic strategies. Louisiana will continue to have an economic comparative disadvantage relative to other states as long as the state is perceived to have a poor economic climate for the firms, production processes, and occupations that are generating jobs and above-average incomes. In this context, a good economic climate does not entail the regulatory concessions and tax subsidies that have been the focus for decades. Instead, a healthy economic climate is one in which the workforce is skilled and productive, education and training programs are effective, public services and utilities are efficient, and quality of life is high.

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² Nauth, Z. 1992. *The Great Louisiana Tax Giveaway*. Louisiana Coalition for Tax Justice.

³ U.S. Department of Commerce, Bureau of Economic Analysis. 1995. *Regional Economic Information System (CD-ROM)*. August.

⁴ Bound, J. and G. Johnson. 1995. "What Are the Causes of Rising Wage Inequality in the United States?" *Federal Reserve Bank of New York Economic Policy Review* 1 (1): 9-17.

⁵ Brauer, D.A. and S. Hickok. 1995. "Explaining the Growing Inequality in Wages Across Skill Levels." *Federal Reserve Bank of New York Economic Policy Review* 1 (1): 61-75. Kutscher, R.E. 1993. "Historical Trends, 1950-92, and Current Uncertainties." *U.S. Department of Labor Monthly Labor Review*. November: 3-10.

⁶ U.S. Department of Commerce, Bureau of the Census. *1990 Census of Population (1990 CP-2-1), 1980 Census of Population (PC80-1-C1), and 1970 Census of Population (PC70-1-C1)*. <<http://www.census.gov/population/socdemo/education/ext-table17.txt>>.

⁷ Drabenstott, M. and T.R. Smith. 1996. *The Changing Economy of the Rural Heartland*. In: *Economic Forces Shaping the Rural Heartland*. Federal Reserve Bank of Kansas City. 1-11.

⁸ Power, T.M. et al. 1995. *Economic Well-Being and Environmental Protection in the Pacific Northwest: A Consensus Report by Pacific Northwest Economists*. December.

⁹ Louisiana Department of Natural Resources. 1995. *Louisiana's Voters' Viewpoints on Coastal Wetlands, Other Natural Resources and Coastal Restoration Efforts: Executive Report*. August.

¹⁰ Shprentz, D.S., G.C. Bryner, and J.S. Shprentz. 1996. *Breath-Taking: Premature Mortality Due to Particulate Air Pollution in 239 American Cities*. Natural Resources Defense Council. May.

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