



PUBLIC ISSUES EDUCATION

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Legislative Lead Time

Believe it or not, the Legislature meets in February. There will be a new Republican governor and a new Speaker of the House in the Democrat-controlled Legislature. This should make for an interesting year. But with planning, it will not be difficult to keep track of what is happening.

If your client groups need to get an issue before legislators, **now is the time** to do so as committees are organized legislative agendas are being set. To stay informed and knowledgeable about issues, here are some things to remember:

- Attend community meetings of legislators.
- Read what is being said and debated.
- Use the Legislative Hotline: 800-642-8650.
- Contact a legislator to get on mailing lists.

Finally, since public officials, to quote Pogo, “are us” and spend time on the things everyone does, lobbying may simply be a matter of putting needs into their context. To a decision-maker, what is important is what helps the constituent. Thus here are some guides to help your client groups to lobby effectively (from the pamphlet *Lobby? You?*).

- Know your legislators.
- Have conviction (believe what you say).
- Concentrate efforts (one cause at a time).
- Use common sense.
- Always be brief (in person and in writing).
- Understand aids are influential.
- Always report back (to people concerned).

Michael Dougherty
Extension Specialist

Economic Outlook: 1997

By Michael Dougherty
Extension Specialist

The economic outlook for 1997 should look familiar. It looks a lot like 1996: Slow expansion with the potential for the economy to begin an inevitable slow down. In West Virginia, economic growth will continue to mirror national trends.

Those two points were stressed during the Regional West Virginia Outlook Conferences presented by the Bureau of Business Research of the College of Business and Economics at West Virginia University. The national economic outlook was presented by James W. Coons, chief economist for Huntington Banks. The state outlook was presented by George W. Hammond, forecaster for the Bureau of Business Research.

Coons calls for moderately slow growth in the economy next year. He estimated the economy will grow at about a 2 percent annual rate in 1997, slightly less than 1996 but about the same level of growth as experienced in 1995.

Coons expects the unemployment rate to increase slightly to about 6 percent nationally. This is the result of tightening monetary policy in 1994-95 as well as the recent increase in the minimum wage.

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Also, inflation and interest rates are expected to remain low. Inflation should once again be less than 3 percent, making it the seventh consecutive year the inflation rate has been below 3.5 percent. This is reflected in commodity prices which have continued to trend downward since their peak in mid-1994. Interest rates are expected to remain about the same or fall slightly.

However, the national economy is starting to display some stress which indicates the expansion may be nearing its end. Bankruptcies are increasing and access to credit is decreasing. Monetary policy is being tightened. Economies in other nations are weak. And the current expansion has already lasted about a year longer than expected, according to a regression formula that predicts the length of economic booms. *This led Coons to conclude that there is a 67 percent chance of an economic downturn by June 1997 and a 95 percent chance of recession by June 1998.*

Coons said that despite the probability of a downturn that businesses should continue to take normal risks -- but that they should not take any undue risks.

Continued moderate growth is the picture for West Virginia in 1997. Assuming a 2.0 to 2.3 percent annual growth in the gross domestic product between 1996 and 1999, Hammond estimates the non-farm employment in the state will grow at an annual rate of 1.3 percent over the next few years (compared to 1.6 percent for the nation). However, per capita income in the state in constant (1982-84) dollars is expected to grow faster than the national as a whole with an average increase of 1.6 percent per year. This compares favorably to a 1.1 percent annual growth in real per capita income expected nationally.

During the next few years, jobs in the goods-producing sectors of the state economy are expected to remain stable, after having declined from 1990-96. Meanwhile jobs in the service-producing areas are expected to grow, though more slowly than they did from 1990-96. Among specific sectors, the most promising outlook is in manufacturing. Job loss from 1990-96 is expected to turn into job increases in durable goods manufacturing and job stabilization in non-durable goods manufacturing. Job growth is expected to continue at slower rates in construction, transportation/utilities, trade, finance/real estate/insurance, services, and government. And job loss is expected to maintain its current pace in mining.

Overall, this leads to a strong employment picture for the state. The gap between the state and national unemployment rates is expected to continue to fall, averaging just 1.5 percentage points from 1996-99. That compares to a 3.2 point gap in 1990-96 and a 4.9 point gap in 1981-1990. The state unemployment rate has been higher than the national rate since 1978.

Among the potential events that could have a negative impact on the state are near-term tightening of the money supply by the Federal Reserve Board, a recession in 1998 (or sooner), and entitlement and medical spending reductions, which could cause greater than expected cuts in the health care job growth.

Finally, it should be noted that these forecasts are **not** going to be right -- forecasts never are. They do represent the most probable course of events for the future given the current situation. This should be kept in mind while preparing for the future.

Mud Puddles and Multipliers

by Scott Loveridge
Extension Division Director

Economic multipliers are often used to bolster an argument for public support of one kind of activity or another. This article explains economic multipliers, and provides some information about common misuses of the notion. Most pieces on multipliers are chock full of math. In this piece, I'm going to use mud instead of math.

If you drop a rock into a mud puddle, how many gallons of water will be moved when the rock hits the water? One? Five? Ten? A little? A lot? It's pretty hard to say, isn't it? What would we have to know before we could begin to answer the question? The weight of the rock. The height from which the rock was dropped. The shape of the rock. The size of the puddle. The depth of the puddle. Whether the edges of the puddle are horizontal or vertical -- think about it, if a wave of water hits a wall, some of the water will bounce back and keep moving. Whether the puddle is mostly mud or mostly water. Then we would have to have some complicated mathematical formula to pull all the information together.

It's starting to sound pretty tricky. Yet the physical principles of rocks hitting water are constant. It is even more tricky when you start talking about economic multipliers. But let's start with some analogies between the mud puddle question and economic multipliers.

- The number of jobs directly gained or lost is like the size of the rock.
- The type of business directly affected is like where the rock will hit.

- The size of the local economy is like the size of the puddle.
- The trade between the local economy and other regions is like the shape of the edges of the puddle.

So you can see why most articles on multipliers are full of math. A lot of relationships must be captured to accurately measure the impact of a change in the local economy. Unfortunately, there is one big difference between measuring water movement in mud puddles and measuring economic multipliers. Physical relationships are constant; economic relationships are not constant. Government policies (taxes, regulations, etc.) and technical progress (such as the World Wide Web) change economic relationships. Most serious estimates of multipliers use past relationships to measure how the local economy will be affected by some future change. A classic example is the story of coal and steel.

Say a new machine shops opens in the area. It will require steel to make the tools. So the steel industry produces more steel. But making steel requires coal. So more coal is mined. Mining coal requires steel for mining equipment. So more steel is produced, requiring still more coal. Clearly this is a story that could go on for some time tracing out the effects of steel on coal and vice versa. To go back to the mud puddle story, these rounds of additional spending on coal and steel are like the waves bouncing off the edges of the puddle. The multiplier attempts to measure all the indirect spending set in motion by an initial change -- in this case the opening of the machine shop.

When estimated correctly, a multiplier can help clarify issues of interest to the public. Unfortunately, two misuses of the multiplier are
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common. The first is called pyramiding. This happens when someone counts the same things twice. The most common form of this problem is when someone multiplies the initial change by the multiplier, and then adds that result to the initial change. (The mistake lies in doing the addition.) The second misuse is a habit of assuming that the multiplier will be some constant number. As we saw with the mud puddle example, the size of the multiplier depends on a lot of things. This misuse is often compounded by assuming the multiplier will be 7 while many studies estimate it to be between 1.5 and 2.0. The "magic number" 7 appears to have originated with a study published by Carl Wilkins in 1945, based on data from the 1920s and 1930s. Economists have consistently rejected Wilkins' conclusions because of the assumptions of his study. Yet using 7 as the common multiplier survives as a rule of thumb, probably because it is what people want to hear.

Two methods are currently accepted for estimating multipliers for local economies: **input-output models** and **computable general equilibrium models**. Input-output models are relatively inexpensive and reasonably accurate for estimating the total effects of small changes in the local economy.

The WVU Bureau of Business Research (304- 293-5837) can provide assistance in estimating multipliers with an input-output model. Computable general equilibrium models are best for estimating overall impacts of very large changes in the local economy (for example, something like the Saturn plant in Tennessee). Computable general equilibrium models are expensive to produce, and must be tailored to individual questions, so none are currently available for West Virginia.

NEPPC Overview

By Michael Dougherty
Extension Specialist

The 1996 National Public Policy Education Conference took place in September in Providence, R.I. I attended the conference as the state representative from West Virginia. Included is a brief summary of some of the main subjects discussed at the conference, adapted from the "Executive Summary" of the conference. *See the Farm Foundation's World Wide Web site -- <http://www.farmfoundation.org> -- for more details.*

Changing Federalism

The opening session featured three speakers: **Tim Penny**, a former congressman and co-director of the Humphrey Institute Policy Forum at the University of Minnesota; **Barbara Sheen Todd**, a veteran County Commissioner from Florida and a past president of the National Association of Counties, and **Tom Stinson**, the Minnesota state economist.

Penny opened by noting that when President Clinton boldly announced the era of big government was over, he acknowledged a reality demonstrated in citizens' recent anti-government, anti-*status quo* voting patterns. Thirty years ago, nearly 80 percent of the voters were confident government would do the right thing most of the time. Now, fewer than 20 percent have that trust.

Penny then gave several reasons for that decline: (1) *Hyperpluralism ... interest group politics*; (2) *Congress' promising too much ... essentially and eventually discrediting the government*; and (3) *State and local governments' surprising readiness for the devolution of federal government.*

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Todd noted that all 3,043 counties are evolving to meet the challenges brought by change and growth. They are becoming regional and intergovernmental coordinators, efficiency sources, and problem solvers. As the relationships between federal, state, county, and other local governments change, the responsibilities for service and program development will change too.

Todd indicated that much is still unclear and undefined. Counties are where much of the new federalism can happen. Still, local officials are waiting with a certain sense of trepidation because of several issues that will need to be worked out: (1) Whose priorities will prevail? (2) Shouldn't problems be solved at the level where priorities and extent of local problems are really known? (3) Will mandated programs still be passed down from the federal/state level without accompanying resources? and (4) Is there an equitable way to disperse funds so that those who provided the required services actually get the dollars?

Stinson discussed the impact of federal budget deficit reduction. He said the American public has fully signed on to the idea of reducing the federal deficit. But it is not fully aware of the consequences, the personal sacrifices that will be required. When those consequences become apparent, the move to devolve the federal government may stall. This could leave the federal government and the deficit smaller, but the expenditures still more than revenues. Even so, Stinson continued, for the next six years the impact of shifting programs from the federal to state levels will affect each state's economy, as well as its government.

In West Virginia, the total per capita expenditures by the federal government in 1994 was slightly higher than the national average: \$5,241. That

included \$3,295 in direct payments (\$1,530 for Social Security, \$776 for Medicare), \$432 in wages, \$244 in purchases, and \$1,189 in state and local aid (\$543 for Medicaid).

Other Topics

Three speakers talked about the forces shaping national values. **David Mathews**, chairman and CEO of the Kettering Foundation, discussed how his organization moved from trying to solve technological problems to "public" problems. He also noted that deliberation is both natural and ancient and complemented extension educators for working to put deliberation back into their communities. **Rev. Gary Farley**, director of the Office of Town and Country Missions for the Home Mission Board of the Southern Baptist Convention, discussed Richard Niebuhr's treatise that American history could be understood as driven by a *vision* of the kingdom of God, that *values* cannot be sited without reference to agreed upon vision, without the values of justice, love, and hope, people come to the table incomplete, and that while times have changed, there are new possibilities, such as a *virtual community* of an entire town. **Hasso Hering**, editor of the *Albany (Oregon) Democrat Herald*, asked the rhetorical question "Does the press shape or reflect national values?" and noted that Cooperative Extension Service agents and state universities can use their research and data bases to help keep the press balanced.

Six sessions were held on the 1996 Farm Bill -- three speakers and three discussions. **Daryll Ray**, the founder and director of the Agricultural Policy Analysis Center at the University of Tennessee's Institute of Agriculture, noted the impetus for the new farm bill came from farmers, agribusiness,

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legislators, and the reform movement and that since it gives farmers nearly complete planning flexibility but removes buffer stocks and price supports, it provides an opportunity for agricultural economists to help farmers to learn how to manage risk. **Chuck Hassebrook**, co-director of the Center for Rural Affairs, noted that the new farm bill increases payments to farmers initially and its real test will come when those payments decline, and that farmers, as opposed to commodity groups, need to be more involved in the farm policy process, especially if rural depopulation is going to be stopped. **John M. Schnittker**, a senior economist with Public Voice, said that food security and prices were not among the driving forces in the legislation, representing a break from the traditional concerns of small farms, family farms, and consumers. The concurrent sessions discussed the implications of the farm bill for farmers (new flexibility, risk), consumers (limits on Food Stamps, higher prices), and communities (block grants, fewer safety nets).

Two speakers addressed work and family issues. **Cali Williams**, a senior research associate at the Families and Work Institute, discussed the results of *The National Study of the Changing Workforce*. The study found one worker in five experienced some job vulnerability, that employees reported working very hard and that almost all were committed to doing a good job. Factors such as perceived autonomy on the job, the nature of the job, social support in the work place, perceived opportunities to advance, and working with others like themselves all rated higher than wages as to why employees took their current job. **Patricia Hendel**, vice president of the National Association of Commissions for Women, noted that women are responsible for the burgeoning growth of small businesses. She added that work-life issues are family concerns and not just women's issues.

Three people talked about the allocation and distribution of property rights. **Bonnie McCay**, an anthropologist at Rutgers University, discussed the relatively new paradigm of communal management. It holds that self-governance may not always be possible or wise, given the nature of the resources, and calls for co-governance by the public and the state. **Larry Merculieff**, general manager of the Central Bering Sea Fisherman's Association, discussed the operation of the community development quota organizations which have aided development in areas historically tied to the Bering Sea. He also noted the importance of stewardship and emphasized how everything is connected. **James Wilson**, a resource economist at the University of Maine, talked about the experiment in common property resource management taking place with the Maine fisheries and how this process is more in line with recent ecological theories, more democratic, and more decentralized.

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