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Sent: Saturday, February 17, 2018 10:29 AM
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Subject: Fwd: Non-labor income represents 43% of all income in Montana

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WSA

Sent from my iPhone

Don't open WSAs to development when the economy is moving in a non-extractive direction.

Subject: Non-labor income represents 43% of all income in Montana

Montana's changing economic geography

• By Mark Haggerty, guest columnist

Changes in the U.S. and Montana's economy have been good for Bozeman—maybe too good as we deal with increasing traffic, real estate prices, and changing neighborhoods. Montana is a large state, however, and what has been good for Bozeman has not benefited all of Montana's communities. The good news-bad news stories create a variety of challenges for local and state leaders, including how we approach tax policy and economic development.

Since 2001, Montana added more than 100,000 new jobs and, on average, we're better off. Montanans' wages (or earnings per job) increased more than four times as fast as the nation. Most new jobs in Montana and nationally are being created in service-related industries such as health care, real estate, tourism, and professional and technical services.

Many of the new jobs are what economists are calling "innovation" jobs, including software, research, and technology. This high-wage employment plays the same role in Montana's economy as a traditional mining or manufacturing job—exporting ideas and services to clients

across the U.S. and the world while returning income to the state, which in turn generates additional economic activity in other sectors.

Innovation jobs are redrawing the state's economic geography. Just five counties that host the state's largest universities, cities, and airports—Flathead, Gallatin, Lewis and Clark, Missoula, and Yellowstone—account for three-quarters of employment growth. Gallatin County alone created 25 percent of the state's new jobs since 2001.

By comparison, the state's rural counties that have relatively poor access to finance and global markets and fewer educated workers are not competing as well for these new jobs. At the same time, rural areas also are disproportionately affected by restructuring in goods-producing sectors—such as mining, agriculture, and manufacturing—which are experiencing drops in total employment even while their contribution to gross state product (GSP) remains relatively steady.

Productivity gains and automation that historically resulted in new jobs and higher wages as workers and industries became more efficient, today often no longer result in more middle-income jobs or higher family incomes. For example, Montana lost 500 manufacturing jobs between 2001 and 2016 even as the value of manufacturing products nearly doubled during the same period.

Another striking change in Montana's economy is the increasing importance of non-labor income which is growing faster than labor earnings and now represents 43 percent of total personal income earned in the state (and four times the value of labor income earned in agriculture, mining, timber, and manufacturing combined).

Non-labor income is important because, like innovation, manufacturing, and mining jobs, income earned from investments (e.g., stocks and real estate), age-related payments (e.g., Social Security and Medicare), and hardship-related payments (e.g., Medicaid and unemployment) stimulates growth in other sectors, such as construction, health care, and retail trade.

Montana's changing economic geography is only beginning to penetrate the state's policy discussions. For example, the state traditionally utilizes

revenue from resource extraction to fund its budget and lower taxes on other sectors. A decline in oil tax revenue of 62 percent from 2013 to 2016 demonstrates how over-reliance on natural resource revenue can lead to budget gaps and spending cuts.

Alternatively, the state could invest more, particularly during booms in commodity prices, in long-term infrastructure, education, and environmental restoration that boost the state's comparative advantages, updating fiscal policy to link taxation and spending more closely with today's economic opportunities in innovation and services sectors.

Policy reform is difficult by design. Beginning with a better understanding of Montana's changing economic geography and the implications for Montana's diverse communities would be good news for all Montanans.