South Carolina’s economy is getting in gear…, finally.

Good news on the economy is about as hard to find as an ivory-billed woodpecker. So when there is a sighting, it needs to be shared. Here’s the good news. South Carolina’s economy has turned some important corners. State GDP growth, a fundamental measure of economic health, has turned positive. The left-most map below shows average state GDP growth for the years 2005 through 2010. South Carolina’s growth is negative for that five-year period. The happier right-hand map shows GDP growth for the most recent year, 2009-2010.

Celebrate! The state has finally moved into positive growth territory. It was a long trip.
The good news doesn’t end there. The state’s unemployment rate, which rode in at 9.8% in April, is converging on the U.S. rate, which was 9.0% that month. (So as not to get carried away with good news, recall that the U.S. rate rose to 9.1% in May. S.C. may see a higher rate next time.) For more than three years, there was a wide gap between the state and national rates. The gap is narrowing.

What does it mean? Several important things. First, South Carolina’s high unemployment transition from old-line textile and apparel manufacturing to higher tech textiles and durable goods production seems to be passing. No, it is not past, but it is passing. Second, employment is expanding in higher growth sectors, such as Professional Business Services and Healthcare. Third, the state economy is becoming more like the national economy.

**But the gears aren’t quite meshing everywhere.**

Of course, not every county and metro area is receiving the same share of economic sunshine. But a lot of them are. The most recent Bureau of Labor Statistics data for county employment growth, reported next, shows a rich array of counties with positive employment growth. These are colored blue. Fortunately, there are more blue counties than brown.

And that’s good news.
What’s hot and what’s not so hot.

The relative fortunes of state regions are determined partly by the location of firms that are in stronger economic growth sectors. Employment growth in key U.S. and S.C. sectors is reported in the adjacent chart. Manufacturing is the locomotive pulling U.S. GDP growth. Notice that the state has experienced more rapid manufacturing employment growth than has the nation. Professional Business Services is the nation’s strongest economic employment growth sector. South Carolina’s growth in that sector outstrips the nation’s growth. There are also weaknesses that pull the other way. Construction employment is in that category. The state has experienced a more serious decline than the nation. There is one major reason for this: There was greater construction growth in the state than in the nation before the collapse.

What zigs high will zag low.

State metro employment growth is a mixed bag.

The Bureau of Labor Statistics maintains employment data for South Carolina metro regions that reflect private, nonagricultural, employment. I report the charts for each metro area, including the two shared with other states. The charts contain data for January 2001 through
April 2011. They are arrayed to show higher to lower recovery. There is a gray bar in the chart marking the most recent recessionary period.

The first four are for Anderson, Charleston, Greenville, and Spartanburg. I call attention to the decline from 2007 peak employment and the strength of the recovery. The Anderson metro area is leading the pack on recovery pace. Charleston is strongest in terms of smallest decline from the peak.
The next charts are for Charlotte, Florence, and Myrtle Beach. Notice the difference in decline from the peak for Charlotte and Florence. The two regions show a similar recovery pattern. I call attention to the strong seasonal pattern in the Myrtle Beach chart and the fact that employment growth is basically flat.

The last two charts are for Columbia and Aiken-Augusta. Declining public sector employment and spending are apparently affecting both regions. But the Aiken region displays a much stronger growth dynamic than Columbia.
Some final thoughts.

In recent sessions on the economy, I have been asked what state government might do to strengthen the state economic outlook. I have also been asked about the Amazon decision. The first question raises the lid on a deep well of thought. The second is more narrowly focused.

On strengthening the state’s future progress, I suggest that state government should assign a high priority to fulfilling the basic purpose of government, which is to protect life and property. South Carolina is second to the District of Columbia in the rate of violent crimes and holds the same position with respect to crimes against property. The state ties with West Virginia for third highest highway fatality rate. This is based on 2008 data. Going beyond protecting life and property, governments are organized to provide infrastructure and capital improvements that are often beyond the ability of private parties to undertake. Highways. Harbors. Wideband coverage.

My point. Before taking on new activities, government should first take care of the basics.

And now the matter of Amazon. In a pragmatic sense, the Amazon deal offered the prospects of 1,200 new jobs and no sales tax revenues if the state’ original promise was kept. If not kept, there
would be no sales tax revenues and no jobs. The difference? 1,200 jobs. Pragmatism says keep the deal. In that sense, the General Assembly did the right thing.

But there is more to the issue. Far more. The Amazon deal represented a promise made by the people of South Carolina through their elected governor to a private party. The private party acted on the promise with major investments. A promise keeper sometimes has to break a promise, but when doing so, the promise keeper concerned about reputation pays damages.

Keeping promises matters, even for political bodies.

But then there is a matter of horizontal equity. The state should avoid imposing differential burdens on firms that compete in the same markets. Taxes forgiven for one competitor mean that others may face even higher future taxes. This violates the horizontal equity principle.

Perhaps there is a connection between making good on the fundamental purpose of government and making gifts to attract new employment to the state. Wouldn’t a safer state with more productive infrastructure be more attractive for economic expansion? If so, we might invest more in our state than in the balance sheet of firms looking for a place to locate. Indeed, it seems possible that a safer more productive state would attract some firms without having to pay large incentives.

Maybe the two actions are substitutes.