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ARKANSAS BUSINESS STATUS AND FUTURE UNDER THE TRUMP ERA ECONOMY

ARKANSAS COLLEGE TEACHERS
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CONFERENCE PANEL TRANSCRIPT
UNIVERSITY OF ARKANSAS AT PINE BLUFF

ARKANSAS BUSINESS STATUS AND FUTURE UNDER THE TRUMP ERA ECONOMY

CONFERENCE PANEL

DR. TOM SNYDER

[00:00] I'm Tom Snyder. I am with the University of Central Arkansas. Last year, our panel, if you remember Dr. Horton, who is on actually the program here, I don't know why, it's just a tradition, but next year you get to be on the panel again. But if I remember last year, I think the panel had kind of a not so rosy picture of the future, but there was a lot of uncertainty. We didn't know who would win the election, and that kind of thing. There was a lot of uncertainty there. I'm not saying that if we knew who would have won, we would change our expectations. But maybe this year we will have a rosy picture of the future, who knows?

[00:40] We have a great panel, a large panel, great panel, I'll introduce them. Starting on your right, we have Mr. Caleb McMahon, he is the director of economic development for the economic development alliance for Jefferson County, so he will give us the local flavor here, but he has also worked in China for quite some time, so maybe he can give an international perspective as well. Then we have Dr. Michael Pakko. He is the chief economist and state economic forecaster at the Arkansas Economic Development Institute (AEDI), located at the University of Arkansas Little Rock. Then you know Mr. Tom Chilton from the AEDC. Then we have Dr. Jeremy Horpedahl, an economics professor at the University of Central Arkansas. He does a lot of the work for the Arkansas Center for Research in Economics (ACRE). Then we have someone, maybe we'll say with a real job, I'm just kidding. Mr. Shelton Harrison, vice president and chief portfolio strategist at Simmon's Bank in Conway. I appreciate the panel for volunteering their time.

[02:01] So we will get started with a very easy question, but I think Dr. Pakko, may take the lead on this one. It's kind of your job I suppose. Before we talk about the future, how is the Arkansas economy doing right now? What is a strength and what is a weakness in the economy?

DR. MICHAEL PAKKO

[02:20] I was at the National Association of Business Economics earlier this week, and a similar question was posed to Austin Goolsbee, and his answer was two and a quarter percent. That's the answer. I think that is the national economic outlook, and that is pretty much what we are seeing in Arkansas as well. Our economic growth is proceeding commensurate with the national average. Whether you look at employment or income, things are pretty much on an even keel, slow and steady growth. We never experienced a V-shape recovery after the financial crisis and recession, but we simply dropped a level and proceeded with growth along a path. I'd say there are a couple of imbalances in our economic growth pattern in Arkansas in particular.

[03:20] One is that, although we are seeing income growth at about the same pace as the nation as a whole, more of it is concentrated in the category of dividends, interest, and rent, and a much smaller component on wages and salaries. For those who are concerned about income inequality, I think that is an indication that the recent trends, at least since 2010, have been skewed more toward the incomes of higher income households than say the working class, middle class households.

[03:55] Probably even a more stark difference, or imbalance, is the distribution of growth around the state geographically. While on average as a state we are growing at the same pace as the nation, most of that growth is concentrated in a couple of areas, northwest Arkansas, a perennial growth magnet, but we are also seeing very strong advances in Jonesboro, and being the diversified, political-based capital city, Little Rock is growing at about the state-wide average. If you look around the rest of the state, there is population growth, job growth is negative in two thirds of the counties in Arkansas. We are only seeing both population and job growth in the metropolitan areas, the metropolitan counties, about one third of the state's counties. But that is how I would kind of summarize things right now.

DR. TOM SNYDER

[04:55] Is there anything anyone would like to add to that? Then we agree, two and a quarter percent. So I guess the next question is what does the future look like for Arkansas? You're the forecaster. This time someone will follow you up.

DR. MICHAEL PAKKO

[05:18] Well, okay. Forecasting a recession is almost an impossible job I guess, and that's what most people think about when they think about what the forecast of the future holds. I think we are right now on a fairly non-descript trend path of growth. Absent any surprises, I would expect more of the same. So other than the unconditional probability of a downturn that always exists when you're looking at the future, I don't think there are any danger signs or anything like that on the horizon.

[5:52] In terms of opportunities, I guess we are seeing a lot of activity with small firms, international investment in particular, coming to the state. I think those are the promising opportunities of the future. Nothing really earth shattering. Let's just put it this way, I don't expect Amazon's new headquarters to be in Arkansas.

DR. TOM CHILTON

[6:20] That's a safe bet.

DR. TOM SNYDER

[06:20] Mr. McMahan.

DR. CALEB MCMAHON

[06:23] I would add to that. He did touch on something where I think we will see some significant growth, and we have seen some so far, is with international investment. Actually, Arkansas had the largest growth percentage-wise in international investment of any other state last year I believe. Now, that can be misleading to a degree because if you only have very little international economic investment, and it doubles the percentage, it can be misleading. That being said, we have seen a large influx of international groups coming into Arkansas from China.

I believe we are dealing with probably four or five different groups just this last year or so. I am currently working with a group out of Sujo that has just recently located here in Pine Bluff, and we have been targeting some of our efforts in that area. If there is any outlier and kind of some silver lining, I think that the land cost here lends itself to international investment.

DR. TOM SNYDER

[07:22] Let's hear from Mr. Harrison this time. From a Simmon's Bank perspective, how do you see the future?

MR. SHELTON HARRISON

[07:28] Well, thank you Professor Snyder and thank you for having me here. I'm not an economist like my esteemed panelist colleagues here, but from the bank's perspective it largely depends on what's going on. I spoke with several of our bank community presidents around the states as well as our regional chairman for overall state. Our regional chairman has a lot of experience in the southeastern part of our state. He said that there is quite a bit of concern about our farmers. He had expressed concern about the price of various commodity products in the farming sector not being all that great. But this particular year, yield increasing and therefore giving the farmers another year to sweep by. That's always been a concern in the delta area of our economy.

[08:12] Other areas of the economy that was mentioned already, of course northwest Arkansas is growing rather strongly. One thing that we have noticed, of course, is that as more people have been moving into the area, single family homes have been built, but the supply is dwindling relative to the demand. There is also a lot of multifamily housing being built. There was some concern about is it going to be overbuilt in northwest Arkansas? Of course there is many things that are going on in northwest Arkansas. One thing that was pointed out in particular is entertainment and arts and culture being emphasized, more of that coming in, and as incomes increase in that area of the state, there will be more demand for that type of service for the local community.

[09:00] I did also hear from some of our folks in the Fort Smith area. Fort Smith has been challenged for some time. It, of course, is still the second largest city in the state, but the growth there has not been quite as good. Some peripheral areas, such as Greenwood and Van Buren, have seen year over year, quite a bit more growth in their housing as people have moved to these areas. One dynamic that is interesting in the Fort Smith area is the school district of Greenwood comes into and takes up part of Fort Smith, so people who live in Fort Smith may actually be in the Greenwood school district. It's an odd thing that the local governments, of course, don't have control over where those boundaries are set. That's influencing where people are moving.

[09:45] In the little Rock area, some of the concerns from the bankers there. There are positive things going on, of course, in the Little Rock area. Central Arkansas is still the largest MSA in the state, so there are many opportunities. One of the bankers I spoke to mentioned what many bankers might say, that this area is overbanked, there is too much competition. Well, that might be expected from a banker, but on the other hand if you don't have the economic growth that you are experiencing in say northwest Arkansas, there is just more competition for fewer loans out there. Another concern is found in maintaining deposits. One of our bankers up in northeast Arkansas has expressed concern about maintaining and growing our deposits to meet loan demand as bank customers have shifted some of their deposits to other areas, whether they be equity securities, broker securities that are debt-based. And so that's a concern. The bank itself has been, as you all are probably aware, has been, through the last several years, has been growing rapidly. Our chairman and CEO George Makris, you might say, has taken on a more aggressive viewpoint toward growing the bank as we have expanded outside of Arkansas.

DR. TOM SNYDER

[11:07] Mr. Chilton, so you talked a lot about what the government is trying to do to help stimulate jobs and economic growth. I'll ask Dr. Horpedahl, what are the pros and cons of the policy that is being promoted by the AEDC?

DR. JEREMY HORPEDAHL

[11:30] Well, that's a good question. Econ development is a very hard thing to do, as I'm sure these two gentlemen could tell you. It's very hard to even know if what the research says works. I study economic history, and for those who don't study it, you may not know, there is a very contentious debate about actually what caused the industrial revolution, which is the first economic development. If we can't explain that, can we really understand how we can make jobs grow in Arkansas over the next year? I see there's kind of two strategies of economic development.

[12:00] They're not necessarily mutually exclusive, but two different policies you could follow. One is kind of targeting economic development where you are trying to directly attract firms to come here, trying to provide incentives for firms to do certain things - job creation, capital investment. The other strategy to provide a kind of system where entrepreneurs are free to make investments where they see opportunities, but there is no kind of central direction to it.

[12:30] Of course, you can pursue both of these at the same time, and I think we have done a lot of the first, of trying to attract firms, whether they are international firms or firms just from other states, trying to locate facilities here. But I think we have been lagging on the second one, which is to have a general climate of low taxes, tolerable regulations, and that sort. I know that there is a lot of work in the legislature right now trying to move that direction. If we look at things such as our corporate tax rates, it's the second highest in the south. If we look at something like occupational licensing, we have the second highest occupational licensing burden in the country by some measures. I think these are some things which, along with other economic development policies, we really need to look at pursuing. I think there is some taste for that right now among policymakers but it's turning out to be actually very hard to do for some reason.

[13:32] I think I can identify what some of those reasons are, but I think that's the kind of the challenge is to, in addition to all the other things we are doing, try and identify what strategies have worked in the past and what others haven't as far as targeting economic development to have a more broad strategy that doesn't try to target anything specifically, but creates the environment where entrepreneurs can thrive and businesses will come here, not because they were necessarily targeted, but just because it looks attractive in general. I think that's where Arkansas needs to get moving because lots of other states are moving on these things. Cutting both corporate and individual tax rates, reforming various regulations, not just occupational regulations but others as well. I hope that that's something that in the very near future that we start moving on.

DR. TOM SNYDER

[14:30] Mr. Chilton, I don't know if you want to add to that or not, but you mentioned taxes at the end of your talk. Do you have in mind what kind of tax reform that you were referring to?

DR. TOM CHILTON

[14:45] One of the things that is currently underway is the governor's initiative, led by the legislature, to reevaluate our tax structure. As Dr. Pakko will tell you, taxation is kind of an evil force, it works for good and bad all at the same time. One thing that tends to be forgotten is you have to look at the totality of taxing when you're talking about taxing. And yes, we do have high corporate tax that I comfortably feel will be addressed. We have allowed that to get out of control. We do still, however, have a demand for providing capital to the public sector and with all of the requirements that we have there.

[15:31] So again, I feel confident that we are looking at those kind of things. The issue is how do you politically provide reduction of taxes to corporations, but then not to the individual as well, and then vice versa. It's a real tightrope to have to walk. I'm thankful he didn't ask me to sit on that particular committee. Bottom line is, there are some very diligent people working on that, and hopefully soon we will have answers. We can't do anything about it until the next time that the full legislative session is in panel. I do believe that you will see some things come from that.

DR. TOM SNYDER

[16:15] Dr. Horpedahl, I believe that according to your research, you have some ideas about taxes, right? What, in general, was the summary of tax reform that you wrote about in your book.

DR. JEREMY HORPEDAHL

[16:30] Oh yes, I forgot that I wrote a book. There's copies out along with some Economists of the Tax Foundation out of Washington D.C. We wrote this book, about 100 pages of just an overview of Arkansas's economy and tax system. A look at each of the tax types, as well as having recommendations for reform. We put together a variety of different plans, some require a lot more political lifting than others.

[17:00] Basically, the plans are designed to get the top tax rate down to 5 or 6%, back where it was before 1971, and doing that, for the most part, by eliminating various exemptions and credits that may be targeted in some way in the tax code. We really just put together a few different ideas as to how that might be done. As far as this task force, which is going to be ongoing for, well, they have a year left now. They have been meeting for 6 months, but they finally have chosen a consultant after 6 months, so hopefully now they will start doing the work.

[17:40] But yeah, we have some input, as lots of groups have put input into that, and as well as not just academic input, but from the public as well and in the private sector. We hope that whatever comes out of it, lowering top rates, that is kind of a headline thing that is done as well, but also cleaning up and simplifying the code, making it conform more to the federal tax code, especially with corporate. That is probably more important than getting the rate down is conforming with the federal code in a lot of ways that we don't do now. We've got 108 pages of ideas there. So, if you want to read it, we can talk later. But that's what the basic plans look at, trying to get Arkansas to that place where getting down to 5%, both on the corporate and individual side would get us so we are either even with or below all our neighbors, other than the two that have no income tax, so that's kind of the broad outline.

AUDIENCE MEMBER

[18:40] Are you taking questions from the audience?

DR. TOM SNYDER

[18:45] It will be about 15 minutes, but if you want to ask a question now, go ahead.

AUDIENCE MEMBER 1

No, go ahead.

DR. TOM SNYDER

[18:50] I have kind of an open question to anyone. Besides taxes, is there any other, if you were in charge of the Arkansas state government, what policies would you change or consider changing that you think may be affecting the economy.

DR. MICHAEL PAKKO

[19:10] I'm not sure this is a change, but an additional emphasis that I think is important for economic development is making sure that we have a workforce that is prepared for the jobs that are hopefully on the horizon. This issue of the Amazon headquarters has made big splash and headlines all over the country, and I think the mayor of Little Rock has said he'd like to put in a bid. That's ambitious and great, but I think there are a couple of aspects of the competition that goes for those kind of big development projects. One is, I think it is bad if we end up with communities competing against one another down to the lowest common denominator, how much can we pay them to come to our community.

[19:57] But on the other hand, it is positive force if it inspires communities to say well, why can't we get a big employer like that to come to our area. Let's look at the skills that our workforce has, what kind of infrastructure is available. Focus on the real aspects of what can make economic development happen. If you build it, they will come, rather than trying pay them to come and try to build it for themselves. I think that is a much wiser strategy.

[20:30] In addition to the tax reform commission that's going on, there is also a joint committee on the workforce development that is also looking at those kind of issues. I think those are two complementary directions for development that are happening in the government right now in Arkansas.

DR. CALEB MCMAHON

[20:52] I do want to echo what he is saying with regards to workforce development because as we see groups come into this area, the number one problem that we do have is workforce. Speaking of Amazon for example, they need 50,000 highly trained workers. Who is Amazon's biggest competitor? Walmart. Walmart has 45,000 employees in the state. They would be directly competing for those jobs, so that is another reason they are not going to come here.

[21:19] But as well, people are looking to locate into Jefferson County or into Little Rock, if those numbers start to reach those into a very specific skill set in that 20 and 30,000 employee range, some of these big headquarters, or just you've seen like FoxCon and those types of things going to Wisconsin. We do not have the trained workforce. It is something that we are doing in my work, we are about to start pivoting our strategy to start spending money to work with high schools and colleges to start training, working with companies to do specific training because there are a lot of industries here that have an 80 and 90 percent turnover rate, and that is staggering.

DR. TOM SNYDER

[21:58] A follow-up on that. So when you're training, seems to be a long term goal, start in high school, or even before high school. How do we know in the future what jobs are going to be there? Some people say we need to bring our manufacturing back, or that we need app developers. How do we know what we need to be training these young folks on?

DR. CALEB MCMAHON

[22:22] That is an excellent question, and I wish I could answer it. With that being said, me personally and this is my opinion, and I think there are a lot of people out there who probably share this opinion, but I feel like Arkansas has been going after an economic development plan that was put together in the 20th century. We still chase smoke stacks for the most part in this state. I think we really need to look at pivoting and training toward technology and a high skill set because, and this is going to get some groans, but the United States is not a manufacturing economy anymore, it's just not. It is a service economy. And we need to either adapt or learn how to grow our own business. And I think we should be developing entrepreneurs. I think we should be going into high skills trades, research and development, and those types of things. That specific answer of what will that be and what will that look like? If I had that answer, I would have a lot more money.

DR. MICHAEL PAKKO

[23:20] I was just going to add to that, that again about the workforce development, I was looking at some statistics recently about educational attainment in Arkansas, and among Arkansas and our neighboring states, we are number one in achievement of high school graduation, but what I mean by that is we are the highest proportion of those who, that's their terminal point is having reached a high school degree. If you compare us with our neighboring states, and that includes Texas, Louisiana, and Missouri, we are in last place when it comes to bachelor's degrees.

[24:00] An important next step that we need to take is in education. When you look at the skills that are required in today's marketplace and the future, I think it might be a misleading statement to say we are no longer a manufacturing economy because we are still manufacturing goods, we are just not employing people in the manufacturing sector. Automation, robotics has made it so that the jobs in manufacturing are no longer unskilled physical labor, but operating the computers and machines that make the stuff. So those skills are increasingly important and the ones that we should be focusing on when we look at developing for the industries of the future.

DR. TOM CHILTON

[24:46] Clearly there has been criticism relative to the, kind of, smokestack mentality. As Dr. Pakko said, it's not so much that we're not seeing the opportunities in manufacturing, what opportunities look like in manufacturing are a lot different today than they were in 1970. So yes, we are still pursuing those kinds of opportunities because that is more or less, in the economic world, a low hanging fruit. It does not mean, however, we are stuck and focused only on that. I think that the workforce is the number one problem that we have relative to going forward. That's why the governor chose to put an economic developer in charge of the workforce cabinet of which there is a large diversity of group there.

[25:32] At the end of the day, it is going to be about education. We have had a weakness in education for far too long. Although there lots of reforms going on, we still have a long ways to go, and we need to be thinking in terms of the diversity of education, and not just everybody focused on the same things. In order to get those skillsets, as my colleague to my right said, we are going to have to take the focus off only obtaining a high school degree.

[26:00] Used to be in the 50's, you had to have a high school degree to get a job. This is 2017. That has changed remarkably. There is a transition that goes on. From a political standpoint, we have to look toward providing jobs for all Arkansans. We still have too many in the unskilled category, but we are seeing that change. It's transformational, transitional, whatever you want to call it, but it is a struggle that we have mightily each day.

DR. TOM SNYDER

[26:30] A follow up to that. You mentioned in your talk, and other people have mentioned this, that when people do become high skilled, they go somewhere else, like Dallas or some other state. At the same time we hear that these new businesses, the high tech businesses say we don't have the workforce. Is there a solution there? We have folks who are leaving after we train them to stay.

DR. TOM CHILTON

[27:00] It's one of those things that works best when it simultaneously happens. It's not a chicken and egg kind of thing. But again, it is limited to our largest MSA areas. But we are starting to see the entrepreneurs pick up, and they are finding the smaller numbers that they need to see their business grow. The difficulty is when you start getting into the level of a PrivacyStar, or even to a mega requirement like Acxiom has, to how do you find all of those people.

[27:35] The reality is, part of it has to be organic – we have to grow those. The other part is we have got to create this quality of life that gets communicated. And that's one of the things that I didn't go into. We have this massive push now within the economic development commission. We doubled the marketing budget. One of the things that we have got to do is improve our messaging, and also take more advantage of the new methodology for sending your message, which is the digital world. We are working on those things that will hopefully attract a larger capacity of workforce, especially in the high skilled areas, and especially in those we are trying to target that we feel like we have some competitive advantages on.

DR. TOM SNYDER

[28:21] Somewhat follow up. Does anyone have any ideas for education reform K-12?

DR. TOM CHILTON

[28:27] How long do we have? There's no way of getting around it. That's one of the black eyes in Arkansas. It has been for some time. We are seeing improvement. I think across the landscape within our universities, we are hearing that test scores are up, not so much in the math area. The bottom line is we are at least seeing an upward trend. The chancellor who was here earlier, we were talking about, you know, we are seeing some interesting things. We are seeing more students coming back into the system, and staying to termination, but we are seeing fewer students start the system. Those are trends we are going to have to evaluate and understand a little better. I'll put it to you this way. You can't hardly be a great state if you don't have a great city, or at least a great geographical area. When you look at the largest MSA that

we've got, the school system is under either federal control or state control off and on. That's a problem. You add to that crime.

[29:35] Crime is a huge economic negative. And part of the thing is, we haven't managed our message outward about our crime problems because they are actually more or less depending on where you are in the United States. It goes back to economic development. It's a complicated study. It is part dazzling brilliance, but mostly voodoo. We do the best that we can do with that voodoo. We do so well I guess, but the bottom line is, those would be the things I would think on the education side is we are going to have to take some hard, realistic looks at what is going to talk to change the dialogue there.

AUDIENCE MEMBER 1

[30:19] Let me raise a question. When you mention crime, would you also suggest that many people in the Trump administration are criminals?

DR. TOM CHILTON

[30:28] I'm not competent to respond to that, I think. The bottom line is that crime is a problem in our state, and it is one we are going to have to deal with.

AUDIENCE MEMBER 1

[30:40] I think you are concentrating on intercity crime, I think is a code word. Whereas we understand that crime goes all the way up. What took place 2008, 2009 is very big and nobody went to jail, unless it was the guy who was over (inaudible). But basically the Wall Street criminals got away clean, and they knew they were breaking the law when they did it. When people talk about crime in the US, they are mainly focusing on black folks and what is going on in the city and ignoring all the white collar crime that is taking place all over the country. I actually have some other concerns.

[31:23] You mentioned that the inner city was overbanked. Is there a difference in overbanked and redlining? Redlining is when they draw a red line around a certain area, just to make it clear, where black folks are, and they say they don't want to lend over there. The banks really don't want to lend there. I'll give you some examples. I own some properties in Little Rock, around UALR. One went up to 87,000, came back down to 50 something, and now it's at 61 something. The other, which is just a great house, but it's also two blocks away, price just keeps going up, up, up. There are properties all over the city that have gone up to 85,000, 80,000, but if you look at Zillow, they are back down to 31,000. So there is something going on there in terms of maybe the banks are looking out and saying times are hard. In other words, this economy is overdue for a recession. So maybe they are saying well, we can essentially buy these properties at a very low price, but we aren't going to make loans on them at those higher prices. My question is what is the difference between redlining and overbanking?

WHAT IS THE DIFFERENCE BETWEEN OVERBANKING AND REDLINING?

MR. SHELTON HARRISON

[32:58] I don't have any specific information on that. As far as the overbanked in the inner cities. The person who mentioned overbanking was not referring to the inner city or one particular area. His concern is that from the bank's perspective, or the business perspective, is that economic forces take opportunities lower, yet the number of competitors going after those opportunities goes up. That is the feeling of being overbanked. Some of that is, of course, just personal feeling. Is there a definition for overbanked or not? No, not that I know of. And you would expect anyone in a competitive business environment would want to obviously seek less competition. They want to bring in more deposits; they want to make more loans. As far as redlining, I'm sorry, I can't answer that question.

AUDIENCE MEMBER 2

[34:00] I'd like to answer that question. I think the definition of overbank is more than one bank on a corner. As a former banker, that's how I felt. I am interested in Simmon's and the other gentleman's take on the financial sector in Arkansas. This is about economic status in future, in the Trump era, and the Dodd Frank potential repeal, increasing interest rates going to increase the margin. We have several public institutions that are just growing wildly in Arkansas. How do you see that impacting our state more broadly because these public institutions, Arvest, for example, are growing wildly. I was just wondering what impact that might have on the state.

WHAT IMPACT WILL THE GROWTH IN PUBLIC INSTITUTIONS HAVE ON ARKANSAS?

MR. SHELTON HARRISON

[34:50] Well, as far as what Simmon's has experienced, a lot of our growth has been outside of Arkansas, going over in Tennessee and Missouri, and we have announced potential acquisitions in Oklahoma, Texas, and Colorado, branches that could go into these areas. The lowering of regulations on any industry, including the financial services industry, would tend to increase the activity in that industry because it takes away some of the expense of doing your job. As a side effect, however, everything has consequences, lower regulations give opportunities for rule breakers to maybe get away with some things. A very disturbing thing that we have seen in recent months is what has happened at Wells Fargo, and that was a crisis, that was going on for some time. No one wants to see that. At Simmon's, we took a proactive step to back off of our incentive program when that came out. We want to make sure that we do the right thing. Part of our culture is do the right thing.

[36:00] A lot of it has to do with individual companies and individual cultures. But I think if we do have any kind of reduction in the regulatory environment, it will help the banks. As far as interest rates go, that's a very interesting question. We have seen recently a slight uptick in rates per the federal reserve, the overnight lending rate for banks. We have, though, for some time seen a pronounced increase in the two year treasury rate. However, on the other hand we have not seen that in the thirty year treasury, the long bond.

[36:33] There are competing forces at work here. One of the big forces that have contributed, in my opinion, to lower interest rates, which we have seen coming on since 1981, we have had lower rates, and lower rates, and this has been going on for a huge bond bull market, lower rates and higher bond prices, is increase in debt. There are some folks out there who have talked about the debt burden, not only in this country, but world-wide contributing to a compression in interest rates.

[37:03] Now in my job, what we are doing in Simmon's wealth management, of course we are managing money for folks, so we are having to watch shorter term trends. We can see sometimes when the interest rate on a certain, say the 10 year, just a few days ago started spiking back up, when it failed to go down to a certain level, 2%, we were looking at 2%. During some of those time periods, you have movement, but the long term trend is still lower rates, generally speaking. Can it go lower? It can. I wouldn't expect us to see rates to go lower, lower, lower. What are we going to have? 5 basis points on a 30 year treasury bond? No, I don't think so. It is possible that we could have a long period of slowly rising rates. The last time that rates were this low was around 1941. It took 40 years for rates to peak out in the early 80's.

[38:00] 40 years. But that has, again, there are always consequences. for savers, it has an impact on the amount of interest they get from their savings vehicles. As more people retire, Jim who is with me today from the bank, he mentioned that the demographic of those turning 65 will increase 10,000 people per day in this country turning 65. Generally speaking, those who are retired want to have their money in safer, interest yielding, dividend yielding investments. If the rates aren't there to support an income coming from those investments, where are they going to turn? It will have an impacts on risk taking and capital markets as more money goes into riskier assets. It's a very complicated issue. I'm not sure if I fully addressed your question.

AUDIENCE MEMBER 2

[39:00] I appreciate those comments. That's good, but I really want to ask you or the other fellas to address the impact to the state of this boom that we have really seen in the last few years in the financial sector.

MR. SHELTON HARRISON

[39:15] Good, I'll let some of the other panelist have a chance to answer that question.

DR. JEREMY HORPEDAHL

[39:20] I don't have anything to say, but I did want to address the crime question, so if anyone wants to take this one. No, I think this is a real concern, and I think there's a lot of ways this intersects with some of the economic issues that we have talked about. Dr. Snyder actually just had an op-ed in the Democrat Gazette on the relationship between occupational licensing and how that prevents people who have been in the criminal justice system in some way in many cases from ever getting a job again, how that leads to increases in property crime rates. So we look at how these economic regulations, which, oh regulation good or bad or whatever you think, it actually has real social consequences.

[40:00] We are starting to see some emerging research showing the real effects of economic regulation on these social factors like crime. We can really look at how that affects different groups. We have research going on that both by Dr. Snyder as well as outside experts that we have hired in our research center. Other things like civil asset forfeiture, which we don't normally think of as an economic issue, does really have a disparate effect on minorities. It connects with that. Once you are in the criminal justice system, it is often very hard once you come out to get a job because a lot of times occupational regulations prevent you if you have a felony on your record from even entering certain occupations, which are occupations which people without much skills would enter. I think we do need to think about how all these things relate to each other and how that might be holding the state as a whole back, especially certain groups, so I think it's a really good concern.

DR. TOM SNYDER

[40:55] We are officially open to questions by the way.

AUDIENCE MEMBER 3

[41:00] I'd like to take the conversation back to job creation. Over the last 34 years, Arkansas lost a lot of apparel manufacturing to outsourcing. As wages increase in some of these countries where this took place, I believe that there will be some insourcing, in the areas of consumer goods that need to be manufactured somewhere, like flatware or apparel. I guess, Mr. Chilton, have we thought about any strategy to be ready to take on this transformation if, in fact, it were to happen?

DR. TOM CHILTON

[41:50] Point of fact, we are seeing that happen. The question that concerns us, that concerns me in particular, is that something that will be sustainable or will we see what happened to the growth in the 70's only to be lost by the early 90's as we made certain investments in that area. We don't try to pick favorites because we found over time when we do that, we generally come up with a lost cause. We are seeing some apparel.

[42:25] There has been an announcement that in eastern Arkansas, there is an apparel company working in conjunction with Nike and others to reintroduce some apparel manufacturing back to the state. We are seeing the use of our commodities in particular. Some of the potential for the cotton to be utilized in some of that manufacturing.

[42:50] The issue really comes down to this, as we move into this world where more and more things will be machine driven by artificial intelligence, how much can we put an emphasis on the development of jobs in an area that we know will ultimately be abandoned. How we keep the skills fresh, how we keep the people aligned with those jobs, how we deal with the federal government, and how they deal with immigration – which is a huge thing to our manufacturing as well as our agriculture. Those are all things that we are having to weigh every day even as we are trying not to pick favorites, and utilize only incentives when they are appropriate and create the best opportunity for the rate of return to the Arkansas tax payer. I probably jumped around your question there, but we are seeing the trend of some of that come back. We have embraced some of it, some of it is a concern of how long it will be sustainable.

AUDIENCE MEMBER 1

[44:00] Thomas Piketty wrote a book called Capital in the 21st Century. I only have the 2010 edition, I had to wait because I can't read French, I had to wait for the translation to English. In it, he deals with the idea of capital income ratio. Just based on the numbers, if you assume that there is a 5% return on capital and 2% return to the economy as a whole, then in about 45 years, just plugging the numbers in, you are going to end up with those who own capital basically owning and eating everything that is produced, and everyone else gets nothing. So number one, we know that is not going to happen. People will tear up the earth first, which is what we begin to see basically in other countries.

[44:50] Some of the leaders of the tech companies, the CEO's of Facebook, Tesla, Richard Branson, Space Act, have suggested a guaranteed basic income. Because they're looking out and saying we have these 6 million jobs that are unfilled. But when you stop to think about it, they are saying we need people who score on an IQ test of 135 and above. Then when you stop and say what proportion of the population is that? You realize that most people can't do those kinds of jobs no matter what. So the idea of guaranteed basic income is what all three of them have suggested. Have any of you done any work looking at that? Because we are going about it as if we assume we can bring in those jobs. Just looking at difference curves and looking at budget constraints, UAPB trying to keep up with Harvard. Move the budget constraint out and then we are forever just chasing Harvard. But the capital income ratio is steadily moving along in terms of those for those who have assets, who have capital will get an even larger piece of the pie as time goes on?

WHAT DO YOU THINK ABOUT GUARANTEED BASIC INCOME AND THE INCREASING WAGE GAP BETWEEN THOSE WHO OWN CAPITAL AND THE WORKING CLASS?

DR. MICHAEL PAKKO

[46:20] There's a lot of content in your question there. I think one of the things that you said at the outset about if you look at some of the ratios that Piketty and the coauthors have, and that will ultimately lead to of complete conglomeration of wealth. I think the point is that you made, that won't happen. Those are, what economists call, heterogeneous variables, they are things that are determined within the system. I think it can be misleading to think about those as the driving forces that are leading us directly toward disaster. When a process is unsustainable, it will cease as some point.

[47:00] As far as the outlook for jobs, what we are seeing in income inequality right now has been, there are examples of it throughout history. That whenever new technologies become available, there are opportunities to get rich, and some people are going to take those. I don't think we should begrudge people who are making innovations that are improving our lives, improving the applications of technology to consumer goods. At the same time, we need to be careful that we aren't also rewarding

rent seekers, those who would exploit government programs or other loopholes in our social system to benefit at the expense of everyone else rather than innovators and bringing something of value to us.

[47:50] On the guaranteed basic income, that has been proposed as a solution to a world in which there are no jobs left. We need a better way to share in the profits of our industry. I don't think we are there yet. I think it is premature to consider that as a realistic option. Although, I do think if we were to replace a large range of patchwork of social safety net programs with something more comprehensive like that, we might gain in some sense an economic efficiency. I guess those are some of my thoughts on that topic.

AUDIENCE MEMBER 1

[48:30] They try to justify it on the basis people are free to do the entrepreneurship, and their full time at it. I guess what I'm saying is I think there are some problems that we overlook when we just paint the big picture, but there is something going on. When you look at congress and see what is congress doing. The idea in his book, he suggests tax policies, but when you look at what congress is doing, congress is saying, well, basically we are going to have some tax cuts, but we are doing to do it at the expense of those who are already in the deep mess.

DR. MICHAEL PAKKO

[49:15] Well, when you talk about taxes, I think that really gets to the issue of rent seeking behavior. We want to make sure that, I think some of the principles in Dr. Horpedahl's book on tax reform are relevant both on the state and the national level. We want a tax system that efficiently raises revenue for the government. One that has a broad base, low rates, one that doesn't distort economic decision making in unproductive ways. Whenever we look to the tax system or government action in general to solve some social problems, there is always the danger of unintended consequences, and encouraging those kind of unproductive activities that we don't want to have emerge.

AUDIENCE MEMBER 1

[50:04] Just one comment. I'm in agreement with almost everything you said except that sometimes there's a different we. You kept saying "we" "we this" "we that". There's a different we. That's partly what the congressional struggle is about. There are two different ideas about who 'we' are. Okay I'm done.

AUDIENCE MEMBER 4

[50:28] My question involves a statement that was made earlier relative to workforce development and skill sets. We often discuss Arkansas workforce and skillsets to indicate that as a state, obviously we are not prepared as we should be. However, my question is when did this hypothesis about the workforce skillset really become an excuse not to do anything? I have been back in Arkansas again now for 10 years at this point.

[51:15] In government and in academics, it's always the same statement that is made. Prior to returning to Arkansas, I recall that was a proposed automobile plant that was to be built some place north of Memphis, between Memphis and Blytheville I believe. We were reviewing some of those things and reviewing that proposal. Ultimately the plant was moved to Mississippi . . . Ultimately, the plant was moved to Mississippi. I don't see a real, and I know where those plants are located, difference between skillsets in that particular demographic that I find in Arkansas. What makes the difference?

WHY MIGHT A COMPANY CHOOSE TO BUILD A
PLANT IN ANOTHER STATE THAT IS JUST AS
LACKING IN WORKFORCE AND SKILL SET AS
ARKANSAS IS?

MR. CALEB MCMAHON

[52:20] I can actually speak specifically to that project. So that project, actually, in that specific instance, Arkansas was being used as leverage. That plant was always going to Mississippi. Mississippi had the land that they were going to give to them. And actually, that same company had a JB location in northeast Arkansas. If that company had gone there, they would have been taking away from their own workforce. Their JV partner would have lost the employment because those people would have been going for jobs at the other JV partner. They would have inadvertently become competitors for their own workforce.

[52:57] You see this a lot in the south. We see a lot of shopping around. A lot of times we have to realize sometimes we are just being used as leverage because that is where they are going to go anyway. When you are talking about a really large workforce, you have to look at what is already in that location. For example, we had a company come here six months ago, and they were going to build another plant, it was a joint venture. Exact same story. They already had a plant here. They did a very similar thing. They would not build here because they didn't want to compete against themselves for that workforce.

[53:35] A lot of times it is sheer numbers. You have to look at the population of an area, and how many people are there and how many employees do you need. As you talked about workforce, I really see this as an opportunity, and I think that it is something that the state of Arkansas is taking it very seriously. I know that we are taking very seriously. If we can jump out ahead of this.

[53:55] The thing about workforce is, this is not an Arkansas problem. This is not a delta problem. This is an America problem. It's not even an America problem. I was in Shang Hai two months ago and the number one conversation was about workforce. This is an international issue, and the skills gap that is there. I think Arkansas is a very good opportunity right now to spend the money, to figure out where we want to get in and work at a very young age, middle schools, junior highs, high schools, and come back in toward more skills training and vocational training. Follow the lead of Germany. In Germany, people who work in factories are more respected from a very early age. Those people are looking at those jobs as higher paying. So if we can rebrand this, spend some money, I think we could do a good job there.

DR. TOM SNYDER

[54:45] I hate to shut the conversation off, but we are at our time limit, so I would like to thank the panel very much for volunteering their time.

ABOUT ACRE

The Arkansas Center for Research in Economics (ACRE) is an Arkansas focused research center housed in the College of Business at the University of Central Arkansas. ACRE is dedicated to understanding, teaching, and advancing the principles that support prosperity that can be applied to improve the lives of all Arkansans. ACRE is committed to personal and economic freedom - principles proven to lead to improvements in human well-being. Learn more about ACRE and its activities at <http://uca.edu/acre>.

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**ARKANSAS CENTER FOR
RESEARCH IN ECONOMICS**

UNIVERSITY OF CENTRAL ARKANSAS

211 College of Business
201 Donaghey Avenue
Conway, Arkansas 72035

501.852.0665

<http://uca.edu/acre/>