

1-1-2011

## State business climate policies and the economic well-being of children

John Stephen McCown

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STATE BUSINESS CLIMATE POLICIES AND  
THE ECONOMIC WELL-BEING  
OF CHILDREN

By

John Stephen McCown

A Thesis  
Submitted to the Faculty of  
Mississippi State University  
in Partial Fulfillment of the Requirements  
for the Degree of Master of Science  
in Sociology  
in the Department of Sociology

Mississippi State, Mississippi

December 2011

STATE BUSINESS CLIMATE POLICIES AND  
THE ECONOMIC WELL-BEING  
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By

John Stephen McCown

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Pages in Study: 65

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This study examines the economic indicator known as business climate in relation to the state level rates of child poverty. A theoretical framework is constructed which presents arguments that are opposed to and in favor of a robust business climate. Those in favor would contend that business climate is not associated with the variation in child poverty, whereas those opposed would claim that it has a negative association with the economic well-being of children. This research is cross-sectional (year 2000) and relies upon variables at the state level. Bivariate analysis indicates that there is a significant positive correlation between business climate and child poverty. However, when other factors are taken into account, such as family structure and geographic location, this relationship disappears. Therefore, the study concludes that there is not a negative association between promoting the business climate of a state and the economic well-being of children.

## DEDICATION

This project is dedicated to my parents, John and Rebecca McCown, and my wife, Lacy McCown. Without their love, determination, and unconditional support, this author would not have been able to complete a project of this magnitude.

## ACKNOWLEDGEMENTS

The author is sincerely thankful to all the faculty members who have offered help and guidance in shaping this thesis. Above all, there is Dr. Boyd who has devoted a considerable amount of time and effort throughout this process. Beyond the scope of this research, he has been a supportive mentor for nearly seven years. The author would also like to thank Dr. Guangqing Chi and Dr. Sarah Brauner-Otto for their time and participation on the committee. They have provided valuable comments and suggestions to make this thesis a better project. Finally, this author would like to express his gratitude to the Sociology Department as a whole for giving him the opportunity and support as a graduate student during the past two years.

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## CHAPTER 1

### INTRODUCTION

#### *Statement of Problem*

The business climate, as stated by Kasarda and Irwin (1991: 738), is an "often cited but seldom crisply defined concept [that] refers to local growth advantages produced primarily by coalitions of actors." It is a critical aspect of economic development policy for local and state governments. Most areas, in some form or another, strive to bring new businesses and markets to their communities. Finkle (1999) refers to these policies as *economic development targeting*. These policies of attracting new businesses with targeted incentives can take the form of land grants, free resources, employee training and education, lower regulations (with regard to wages, working conditions and the environment), and right-to-work laws (which prevent compulsory union membership). Supporters cite examples of how state and local government policies can stimulate economic development. However, there are strong arguments against this so-called "corporate welfare" from both Marxist and Libertarian theorists. The purpose of this research is to examine these two competing perspectives and determine if efforts to create a favorable business climate have any unintended impact on social well-being, specifically, the social well-being of children. Children are analyzed

because of their status as a dependent group. Economic conditions of the parents are associated with the well-being of their children (Duncan, Yeung et al., 1998). Other researchers (Harknett et al., 2005) have demonstrated a strong association between state public expenditures and the collective well-being of children. These include various outcomes such as a positive relationship with educational performance and a negative relationship with child mortality.

### *Contribution to Knowledge*

This research is grounded in the literature of two areas of study. The first, as described in the introduction, is the sociological and economic literature that seeks to understand the opponents and supporters of creating a positive business climate. The second area of study is the social well-being of children. This literature has traditionally focused on how children can be adversely effected by various governmental policies. Preston (1984) examined the sources of declining public support for government policies that are intended to enhance the well-being of children. "[S]ince 1979 there has been a break with this pattern as many public programs benefiting children have been rolled back while programs targeted to the elderly have been maintained or expanded" (Preston 1984: 437). This is but one example of government policy in relation to the social well-being of children. The contribution of this research would be to expand the literature on children and public policy by investigating the relationship between state business climate and the social well-being of children across the fifty states.

### *Overview of the Research*

In the following chapter, an in-depth review of the sociological and economic literature will be presented. This will include defining the business climate and presenting the perspectives of both the opponents and proponents. Then the concept of child-well being will be defined along with an exploration of influential factors. The primary focus of this section will be on the demographic, economic, and geographic issues associated with child poverty. Chapter 3 will offer an overview of the data, variables, and methods which will be used for this thesis. It will describe the data sources, the independent and dependent variables, the methods of analysis, and all diagnostic procedures. Chapter 4 will present the results of this research, including descriptive statistics, a correlation matrix (Pearson's  $r$ ), bivariate results, multivariate results, and a sensitivity analysis of these results. Finally, in Chapter 5, the findings will be summarized with regard to the hypotheses, and possible directions for future research will be discussed.

## CHAPTER 2

### REVIEW OF LITERATURE

#### *The Business Climate: Definition and Measurement*

The concept of the business climate has been discussed and measured for over two decades in the fields of economics and sociology. In practice, a favorable business climate can be created by state governments in order to stimulate economic growth and development. Kasarda and Irwin (1991) characterize business climate as the efforts of state and local governments to entice private sector industries to their respective domain. Such efforts can involve the modification of "taxes, unionization, wage structure, labor force skills, capital availability, and policies affecting new business initiatives" (1991: 738). However, such efforts can result in fierce competition among various localities. Rubin and Zorn (1985: 333) contend that "[c]ompetition [between states] is keen and the stakes are high because officials and the electorate view a 'successful' economic development policy as being essential." One prominent example featured in their article was the 1982 bidding war between Ohio and Indiana in order to attract the International Harvester Corporation. In other cases, states will offer businesses, usually large corporations, an "incentive package" to build a factory or plant within their jurisdiction. Rubin and Zorn cite a 1984 case in which the city of Fort Wayne, Indiana offered a \$26.4

million package to General Motors "that included interstate highway construction and renovation, sewer and water service to the plant site, and renovation and improvement to nearby roads and railroad lines" (1985: 333), along with an exemption from property taxes.

Beyond such "direct" methods, state governments can establish a positive business climate through the legislative process. This may involve alteration of legal statutes, such as: right-to-work laws, tax incentives, wage standards, access to free resources or improved infrastructure, and environmental regulations (Witko and Newmark 2005). Witko and Newmark created their business climate measurement based on nine key policy indicators: "(1) the corporate alternative minimum tax, (2) the top corporate tax rate, (3) the percentage of revenue from corporate taxation, (4) the state's tax limitation status, (5) the number of pro-business legal reforms statutes, (6) the prevailing wage in the state, (7) the state's minimum wage, (8) new-source pollution regulations, and (9) air-quality regulations" (Witko and Newmark 2005: 361).

These authors note that some of the indicators are applicable to specific industries. Additionally, the measurement of business climate takes into account a state's overall "approach to taxation and regulation, whereby states that heavily regulate labor and environmental practices are more likely to regulate other business activities" (Witko and Newmark 2005: 361). The complex index of business climate has a range of -10.64 to 11.96, a mean of 0.0, and a standard deviation of 4.62. A higher score represents a more favorable business climate. Furthermore, this index, measured in the year 2000, includes all fifty American states (Table 2.1).

Table 2.1 State Business Climate Rankings and Scores (2000)

| Rank | State | Score    | Rank | State | Score     |
|------|-------|----------|------|-------|-----------|
| 1    | MS    | 11.95748 | 26   | PA    | 0.165084  |
| 2    | NV    | 7.378955 | 27   | MD    | 0.149995  |
| 3    | SD    | 6.809994 | 28   | NM    | - 0.50712 |
| 4    | LA    | 6.803687 | 29   | NH    | - 0.92906 |
| 5    | AZ    | 6.510223 | 30   | WI    | - 0.97284 |
| 6    | CO    | 6.462776 | 31   | KY    | - 1.05656 |
| 7    | OK    | 6.378913 | 32   | DE    | - 1.45441 |
| 8    | SC    | 4.771355 | 33   | IL    | - 1.61219 |
| 9    | AL    | 4.704113 | 34   | NJ    | - 1.67785 |
| 10   | VA    | 3.032539 | 35   | OR    | - 1.85299 |
| 11   | TX    | 2.718071 | 36   | WA    | - 2.24678 |
| 12   | UT    | 2.681212 | 37   | MA    | - 2.46548 |
| 13   | KS    | 2.306902 | 38   | ND    | - 2.60898 |
| 14   | MO    | 2.301748 | 39   | HI    | - 2.95108 |
| 15   | FL    | 2.155178 | 40   | MT    | - 2.96248 |
| 16   | GA    | 1.726579 | 41   | IA    | - 3.00357 |
| 17   | ID    | 1.540534 | 42   | NE    | - 3.13098 |
| 18   | TN    | 1.533165 | 43   | RI    | - 4.37246 |
| 19   | AR    | 1.511891 | 44   | CT    | - 4.39796 |
| 20   | OH    | 0.866924 | 45   | VT    | - 4.73919 |
| 21   | MI    | 0.748625 | 46   | CA    | - 5.20599 |
| 22   | NC    | 0.584312 | 47   | NY    | - 7.85591 |
| 23   | WV    | 0.362521 | 48   | MN    | - 10.0226 |
| 24   | WY    | 0.328311 | 49   | ME    | - 10.0769 |
| 25   | IN    | 0.247492 | 50   | AK    | - 10.6353 |

Source: Witko and Newmark 2005: 362.

It is striking that many of the states which received the highest scores were southern states such as Mississippi, Louisiana, Oklahoma, South Carolina, and Alabama (all of which were in the top ten ranking). At the other end of the business climate spectrum (i.e., in the bottom ten ranking) were California, New York, Minnesota, and Maine. While it may appear that the business climate is indicative of liberalism<sup>1</sup> within a

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<sup>1</sup> In terms of political policy that relates to issues such as welfare eligibility (Witko and Newmark 2005: 359).



given state's legislative process, such a conclusion, according to Witko and Newmark, would be hasty since their measurement was created on the basis of very specific policy indicators. As they explain, "some relatively conservative states, such as Nebraska, Iowa, and Montana, appear relatively unfavorable to business interests" (2005: 363). In a similar fashion, some may be surprised that New York and California received such low scores given their central role in the American (and to an extent, global) economy. The reader should keep in mind that this business climate index is specifically related to policies of corporate taxes, regulatory guidelines, and wage laws. As Witko and Newmark note, there are numerous "factors [which] influence state business climate, including historical development and settlement patterns... New York's important role in business and finance is driven, in part, by the decisions of many firms to locate in and around Wall Street over the past century or more" (2005: 363).

#### *Justification for State Level Analysis*

There are many benefits associated with using business climate data from the state level. With regard to business climate, studying the states is perhaps the most ideal option. Typically, state legislatures have a tremendous amount of resources and authority for attracting potential businesses. Local governments, such as the city or county municipalities, usually work in conjunction with their respective state governments (as noted by Rubin and Zorn 1985). Furthermore, the state governments have direct control over many crucial factors such as tax rates, the minimum wage, environmental policy, and corporate regulation (Witko and Newmark 2005). Local governments have very little

authority over such matters. Another issue to consider is that business climate data for smaller units of analysis, such as the county-level, do not provide the same depth that Witko and Newmark measure. The variables of county level business climate are limited to basic data such as average wages, tax rates, and labor force education (Kasarda and Irwin 1991).

With regard to the outcome variables for this research, child well-being has been studied by many scholars at the state level. For instance, Harknett et al. (2005) discuss the importance of studying state variation in expenditures. Beginning in the mid 1990's, the states were granted a higher degree of autonomy on issues such as welfare reform. However, many states are facing severe budget deficits which have the potential to reduce spending on social programs (Lav and Johnson 2003). Given these factors, exploring the relationship between state policies and child well-being indicators is a worthy endeavor. These issues will be discussed in greater detail in the section on the economic well-being of children.

For these reasons, a state level analysis would be the most effective way to study business climate and its possible association with children's well-being. A common criticism of a state level study, however, is the limited number of cases. Within the United States, there are only fifty possible cases. This limited number of cases will restrict the number of explanatory variables to a maximum of five or six in the regression analysis. Other statistical issues including outliers and influential cases, as well as multicollinearity, are almost certain to arise given the units of analysis.<sup>2</sup> Graham states

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<sup>2</sup> Multicollinearity is a statistical issue when two or more explanatory variables are correlated with one another (Agresti and Finlay 2009). There are a variety of methods to address the effects of multicollinearity.

that a multiple regression model "can be hindered by the complex nature of ecological data" because the explanatory variables "are often correlated among each other" (2003: 2809). These issues will be addressed in the analyses to follow.

### *Theoretical Foundation: Two Competing Perspectives*

With regard to the economic policies of government entities, there are both supporters and critics. The business climate is certainly no exception to such ideological discord.

Theorists may argue against the policies of a robust business climate from a variety of perspectives. The two most common are grounded in either Libertarian economic theory or Marxist conflict theory. A Libertarian economist might claim that free markets work most efficiently with a minimal amount of government intervention. Any government action that favors one business (or industry) over another might create an imbalance in the market. The Marxist theorist would also contend that a favorable business climate is harmful, albeit, from a different perspective. A Marxist would claim that there is an inherent conflict of interest between the ruling class (i.e., the state) and the capitalist *bourgeoisie*. According to their perspective, capitalists can use their financial influence to achieve more favorable conditions such as subsidies provided at the expense of the *proletariat*. Such a climate could, in theory, reduce the amount of social welfare expenditures available for the general populace.

Notwithstanding, supporters maintain that promoting a state's business climate can have long term benefits for the general public and the overall economy. They claim

that government incentives are a legitimate way to bring new businesses and industries, and subsequently new jobs, into less economically viable states. For example, in 2000 and 2002, Governor Ronnie Musgrove and the Mississippi legislature offered Nissan over \$364 million worth of incentives to build an automotive plant north of the state capital of Jackson (Wagster 2002). The following three sections of this chapter will expand on these competing perspectives in greater detail.

The Libertarian criticism against government involvement is traditionally rooted in Austrian economics. One prominent Austrian theorist of the 20th century, Murray Rothbard, argued that free market capitalism is the most desirable way to allocate resources and create a prosperous economy. According to the Austrian perspective, every act of government will ultimately favor one group at the expense of another. Rothbard states that, "the workings of the voluntary principle and of the free market lead inexorably to freedom, prosperity, harmony, efficiency, and order; while coercion and government intervention lead inexorably to hegemony, conflict, exploitation of man by man, in-efficiency, poverty, and chaos" (Rothbard 2004: 1024). He also concludes that the free markets naturally arise in a way "to reduce error to a minimum" (Rothbard 2004: 885). Government involvement, including supposedly "favorable coercion" (such as tax breaks and free natural resources), distorts this economic mechanism by allowing businesses to have an artificial advantage in a presumed neutral, free market. Such a system is inherently dangerous to the free market since entrepreneurs cannot truly gauge the accuracy of their business decisions through profits and losses.

The Austrian theoretical tradition includes economist Henry Hazlitt, who in the 1940's, wrote a groundbreaking book entitled, *Economics in One Lesson*. He too focused on the dangers of government involvement in industry, as the following brief paragraph from one chapter indicates:

The lobbies of Congress are crowded with representatives of the X industry. The X industry is dying. It must be saved. It can be saved only by a tariff, by higher prices, or by a subsidy. If it is allowed to die, workers will be thrown on the streets. Their landlords, grovers, butchers, clothing stores and local motion picture theaters will lose business, and depression will spread in ever-widening circles. But if the X industry, by prompt action of Congress, is saved- ah then! it will buy equipment from other industries; more men will be employed; they will give more business to the butchers, bakers and neon-light makers, and then it is prosperity that will spread in ever-widening circles.

(Hazlitt 1946: 86)

Throughout the chapter, Hazlitt cites multiple examples of government involvement (such as in the coal and silver industries) that actually led to adverse, rather than desirable, consequences. He acknowledges that there may be a plethora of reasons to preserve a particular industry (e.g., through the use of subsidies). However, his central argument is not whether each and every case has proper justification, but rather, if the "X industry" itself is allowed to diminish, will it truly harm the economy (as those who favor the use of government subsidies assert)?

With regard to subsidies, Hazlitt contends that "taxpayers would lose precisely as much as the people in the X industry gained" (Hazlitt 1946: 90). Thus, consumers (e.g.,

citizens of the state) will have less purchasing power due to the extra collection of revenue; alternative industries will also be reduced in size so that "industry X" may become larger. However, Hazlitt does not view this redistribution as merely a coercive transfer of wealth. A secondary result that he describes is that "capital and labor are driven out" (1946: 90) of other industries. Those who would have been employed in a more efficient manner, are now caught up in a faltering industry, which can be allowed to operate less efficiently (in part due to the monetary subsidies). Ultimately, Hazlitt concludes, the overall standard of living is diminished for consumers and, by the actions of government, the markets are coerced by a less efficient means of resource allocation.

Immanuel Wallerstein, a Marxist theorist, notes that most people tend to look only at the personal effects of endless wealth accumulation (Allan 2007). However, a more important question would be to ask, what effect does this accumulation have on society as a whole? Wallerstein posits that "we need to think about the role of government in the endless pursuit of the accumulation of capital" (Allan 2007: 439). In order for capitalism to work, it must have a robust state system. The state is quite influential in this process of accumulating capital because it controls the supply of money, enforces the legal system, and regulates the national (or state) borders, trade and property rights.

Nonetheless, most observers do not realize that the state goes even further in its support of capitalistic policies. Wallerstein claims that the state subsidizes three important factors known as externalized costs. These are: the transportation of resources, the toxicity of production, and the exhaustion of raw materials (Allan 2007: 439). For instance, most businesses are not required to pay the actual costs associated with the

transportation of goods and resources. The internal transportation infrastructure, such as the highway system, is maintained almost exclusively by the state. With regard to toxicity, many corporations produce hazardous waste, gases, and other byproducts common to industrial production. However, any damage to the surrounding environment is the responsibility of the state. And finally, "capitalist production also uses up raw materials, but again firms rarely pay these costs" (Allan 2007: 439).

Wallerstein also suggests that a truly free market, one without state subsidies, would limit the profit of the capitalists because the means of production would be open to all firms. In addition, there would be no restriction or regulation of the flow of goods and services. "In such a perfect market, it would always be possible for the buyers to bargain down the sellers to an absolutely minuscule level of profit" (Wallerstein 2004: 25-26).

To understand this theoretical relationship between the ruling class and the capitalists, we must examine the so called, "division of labor between... [the] capitalists and those who manage the state apparatus" (Block 1977: 10). According to Block, Marx (in *The German Ideology*) characterized the ruling class (e.g., those in charge of the "state apparatus") as being preoccupied with petty political struggles. Furthermore, Marx describes the capitalists as being a non-class-conscious entity. If neither the capitalists or the political rulers are fully aware of the means to continue this system of wealth accumulation, a question arises as to why the state acts in this very manner. Block concludes that this process is created through the "structural relationships among state managers, capitalists, and workers" (1977: 12).

Barrow (1998) has also commented on this state-capitalist relationship. He observed that the dependency principle is used by some political scientists and sociologists to understand the "symbiotic relationship" between the state elites (i.e., the ruling class) and the capitalists. According to the dependency principle, the decisions and policies of the state (under a capitalist system) are "dependent upon the success and continuity of the capital accumulation process" (Barrow 1998: 107). This principle asserts that the state elites must create a favorable business climate over the long run and thus, there is an inherent relationship between state elites and the capitalist class wherein the state generates favorable policies for capitalists. In turn, the principle further implies that the state will be rewarded by "private investment, economic growth, and employment stability" (Barrow 1998: 107). Thus, according to state theorists, capitalists are directly responsible for the decisions regarding "investment, job creation, and wages" (Barrow 1998: 107).

Beyond the theoretical concepts of Marxism, there is some empirical evidence to indicate that business tax incentives can create economic disparity. Goss and Phillips (1999) demonstrate that Nebraska's economic development program encouraged growth in counties that already had relatively low unemployment rates. In contrast, counties with an above average unemployment rate experienced no significant economic growth. Goss and Phillips also found that "an apparent urban bias in qualifying investment activity was more likely the result of firms undertaking investment in areas with low rates of unemployment and higher levels of past manufacturing investment. That is, qualifying



investment was drawn to areas with better economic prospects and away from counties that were either contracting or growing more slowly" (Goss and Phillips 1999: 226).

In contrast to those who raise ideological objections against government promotion of the business climate, there are staunch supporters of economic development policies. Two particularly strong supporters in the socio-economic literature are Jeffrey Finkle (1999) and Wim Wiewel (1999). They each provide several points refuting the opposition (specifically, from Buss 1999) to economic targeting and development (i.e., creating a favorable business climate). Finkle disagrees with the claim by Buss that targeting is somehow "anti-market." Finkle argues that the markets are not a "natural process" capable of being contaminated by government intervention. "Markets are man-made creatures... it is difficult to support the notion that buyers and sellers can meddle in the market-place but communities cannot. The market works, in fact, because everyone can jump in" (Finkle 1999: 362).

One of the chief criticisms that Buss (1999) raises concerns the economic theory behind targeting and development. His article proposes that targeting is simply a façade for central planning and "micromanagement" of the economy. Notwithstanding, Finkle strongly contests this allegation. He claims that economic development in the United States is the antithesis of central planning. True central planning, according to Finkle, amounts to nothing more than direct government control of the economy (e.g., forcing companies to hire more people or deciding which industry will prevail). "Communities that target properly are... simply applying for the 'jobs' for which their qualifications best suit them" (Finkle 1999: 363).

Wiewel (1999) also rejected this criticism with regard to central planning. In his response, he claims that Buss has difficulty in "draw[ing] the line on legitimate public interventions" (Wiewel 1999: 358). For instance, Wiewel asks, what makes public education acceptable, whereas an educational program for worker training is unacceptable? Why are public highways and harbors a proper form of investment, but a new industrial park is considered an unwanted intrusion? Wiewel concludes that intervention in the market should be determined by its projected outcome and benefits for the economy and not be regarded as an abstract, philosophical concept (i.e., a truly "free," free market).

Viewed from the Libertarian perspective, there are criticisms that government subsidies are dangerous to the market because such subsidies have a potentially negative influence on business decisions. However, Finkle defends the idea of the government investment in declining areas (such as the rust belt, i.e., the traditional manufacturing states of the Northeast and upper Midwest) because, as he says, "saving existing jobs can be both easier and less costly than shopping around for new ones--just as, in business, it is easier and cheaper to keep existing customers than to bring in new accounts" (Finkle 1999: 363). One positive example Finkle cites is Lee Iacocca and the 1979 Chrysler bailout. Through the use of government loans, Chrysler was able remain in business and gradually recover, thus saving tens of thousands of jobs.

Another brief criticism that Finkle rebuts is related to opportunity costs. Buss states that targeting should "be evaluated as opportunity costs: alternative, competing uses of public monies" (1999: 348). Buss argues that subsidies should be measured in

relation to alternative projects and expenses such as hiring schoolteachers or replacing a public utility (e.g., a new water system). One specific example he cites is Cleveland, Ohio. "Consider Cleveland's pursuit of a new stadium to attract an NFL football team to replace the departed Cleveland Browns" (Buss 1999: 348). Both the Mayor of Cleveland and the Governor of Ohio invested \$400 million for this new stadium, yet, as Buss notes, the educational system of Cleveland is ranked surprisingly low.

In response to this point, Finkle acknowledges that such a decision may indeed be "unassailable;" however, these actions cannot be blamed on proponents of economic targeting. Furthermore, there are additional factors which should be considered. Hiring additional teachers, according to Finkle, may provide a more educated workforce in a decade or two, but how does that help the state if you need more jobs in the local economy at the present?

One final point relates directly to the business climate, specifically, the use of incentives. Buss (1999) claims that even if a business is successfully brought into the state, the incentives may not provide an adequate return on investment. However, Finkle defends the use of incentives. Even though, in some cases, an investment may not generate the full return, there are other issues to consider such as market perception. One example he cites is Alabama's enticement for Mercedes to locate in their state. "The advertising value of the extensive press publicity given the deal may have been only the first installment of a massive payoff on the Alabama investment" (Finkle 1999: 362). He also notes that corporations, like state governments, are themselves not immune to making improper investments. To conclude this point, Finkle contends that the use of

targeting is simply a natural attribute of market forces. Not engaging in this practice would be analogous to a company starting up without taking an active role in marketing. Finkle states that this concept is also applicable to communities and states. To remain idle and wait for prospective business development "is [certainly] no more desirable" (1999: 362) than a company which makes no effort in attracting new customers.

The previous sections described the theoretical perspectives that are in favor of and opposed to government involvement in the economy. Their conclusions, regarding incentives and business targeting, are based on social and economic theories about the nature of government-business interaction. However, as stated in chapter 1, this research is primarily concerned with the impact of business climate policies on children's economic well-being.

A libertarian economic philosophy claims that truly free markets are the most efficient means of resource management within the greater economy. According to its proponents, a laissez-faire doctrine creates the most prosperity in society. If the overall economic well-being of the population is favorable, then it stands to reason that children will also enjoy the same benefits. However, Marxists, using a class-based approach, would advocate that there is a conflict of interest between the social needs of children and the benefits of a pro-business environment. Marxists assume that the overwhelming power of the business class (i.e., the capitalists) can divert resources away from children's social welfare. For instance, a favorable business climate could allow the *bourgeoisie* to keep wages artificially low; or, perhaps a state will invest money in subsidies for a new

industrial plant at the expense of a new school. Such actions, in theory, would reduce the overall well-being of children.

The proponents of economic development and targeting disagree with these criticisms. They might agree with the Libertarian philosophy of "free markets;" however, they do not view the government as a coercive actor but rather as a crucial tool in the allocation of resources and market stability. With regard to the Marxist perspective, these proponents dismiss any such conflict of interest within the nexus of government and business. They might counter that the inaction of government to create a positive business climate is likely to be more harmful to the overall economy. For instance, an argument might be made that creating a new job for a child's parents is more beneficial than having new computers in the school or a lower student-to-teacher ratio.

Therefore, the central question that this research seeks to address is: How are the efforts of state governments, in creating a favorable business climate, associated with the economic well-being of children?

### *An Overview of Poverty*

Prior to addressing poverty and the economic well-being of children, it is useful to first examine the general concept of poverty (child poverty is the dependent variable in this research). Poverty is often defined as a condition in which an individual does not have a normal level of income or material possessions (relative to society) (Merriam-Webster 2010). This topic is extensively studied in social science. In fact, it is one of a handful of societal issues on which the federal government of the United States has

"declared war." Interestingly, since the Johnson administration's aggressive legislation and policies against poverty began in the mid 1960's, the lowest poverty rate achieved has been a mere 11.1 percent (Jorgenson 1998). Nearly five decades later, in the wake of the 2008 - 2009 economic recession, the rise in poverty is still a very real issue for many Americans (Reuters 2010). According to the 2009 American Community Survey (ACS), the latest poverty rate is 14.3 percent. Furthermore, between 2008 and 2009, thirty-one states experienced an increase in poverty rates (Bishaw and Macartney 2010).

Measuring poverty involves a rigorous methodology. The official measure, known as the Orshansky Index, was formulated in 1965 by the Social Security Administration. However, the origin of this index can be found in a 1955 Department of Agriculture survey which reported food costs as being one-third of a family's budget (Sawhill 1988; Lichter and Crowley 2002). Therefore, the original poverty threshold was based on a multiplier of three. According to Lichter and Crowley (2002), this measure has experienced relatively little modification over the last several decades. During the 1990's, there were several recommendations to increase the reliability of poverty measurements (e.g., geographic variation and the rising cost of medical care). Other challenges include household diversity that features "increasing rates of single parenthood, childlessness, and cohabitation, as well as the aging of society and the presence of grandparents in the home" (Lichter and Crowley 2002: 7). Despite these concerns, the official measure remains difficult to change. Lichter and Crowley contend that the poverty measure has been "institutionalized" and "entrenched in federal funding formulas" (2002: 7). Thus, the adoption of new recommendations is a slow process.

Today, poverty status for families is based on the level of annual income with several key demographic characteristics. These variables, such as "family size, number of children, and age of householder" (Bishaw and Macartney 2010: 1), create a categorical threshold. Thus, a family is deemed to be living in poverty if its total, yearly (pre-tax) income falls below this threshold. It is also important to note that each individual within the family structure is considered to be in poverty (Sawhill 1988; Lichter and Crowley 2002). To ensure accurate statistics, these thresholds are updated annually to account for changes in the cost of living (Lichter and Crowley 2002; Bishaw and Macartney 2010). For example, in 1990 a family unit of four would be living in poverty if their income fell below \$13,359; in 2000 this threshold was raised to \$17,604; and in 2007 the threshold was \$21,203 (U.S. Census Bureau 2010: Table 694). Poverty status of individuals who are not in a family unit is determined simply by their income relative to their specific threshold. In 2007, the poverty threshold for an individual under 65 years of age was \$10,787 (U.S. Census Bureau 2010: Table 694).

As of 2008, the poverty rate in the United States was 12.5 percent (U.S. Census Bureau 2010: Table 697). With regard to gender, men had a slightly lower poverty rate than women (11.1 percent compared to 13.8 percent). However, there was a significant disparity among major racial groups. Whites who are not Hispanic (10.5 percent) and Asian-Americans (10.2 percent) exhibit relatively low rates of poverty (U.S. Census Bureau 2010: Table 697). In contrast, African-Americans experienced a much higher rate of 24.5 percent. The reported poverty rate of Hispanics was 21.5 percent (U.S. Census Bureau 2010: Table 697). Other populations, such as Mexican immigrants, Puerto

Ricans, and Native Americans, have even higher rates of poverty. For instance, Camarota (2001) found that the poverty rate for Mexican immigrants was 28.7 percent.

Of particular interest to this research are regional and age related outcomes. The four primary geographic regions in the United States, the South had the highest poverty rate at 14.2 percent.<sup>3</sup> With respect to age, those under 18 years of age had the highest poverty rate when compared to the other age-related categories (U.S. Census Bureau 2010: Table 697). There is also a clear distinction among the various types of family units. For instance, families in which both parents are married experience a substantially lower rate of poverty than do their single-parent (female or male-headed) counterparts (Table 2.2). Furthermore, single-parent, male-headed families experience an even higher poverty level than do single-parent female-headed families.

Table 2.2 Poverty and Demographic Characteristics by Family Type (2007)

| Percent in poverty       | <i>All Races</i> | <i>White</i> | <i>Black</i> | <i>Asian</i> | <i>Hispanic</i> |
|--------------------------|------------------|--------------|--------------|--------------|-----------------|
| <i>Family Type</i>       |                  |              |              |              |                 |
| Married couple           | 4.9              | 4.5          | 6.8          | 6.6          | 13.4            |
| Male parent, no spouse   | 28.3             | 24.7         | 37.3         | 16.1         | 38.4            |
| Female parent, no spouse | 13.6             | 11.6         | 25.7         | 7.6          | 15.3            |

Source: U.S. Census Bureau 2010: Table 700.

The poverty rate alone does not accurately describe the living conditions of the poor. Lichter and Crowley (2002) report that those in poverty suffer from reduced health care, food insecurity, housing uncertainty, and fewer amenities (this includes tangible items such as a computer, a washing machine, or an air conditioner). In terms of health

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<sup>3</sup> The four regions defined by the Census Bureau are South, West, Midwest, and Northeast. Please refer to Appendix A for more information.



care, the poor are three times more likely to avoid medical treatment than Americans not living in poverty (Lichter and Crowley 2002). Food issues are another concern. Thirteen percent of families earning less than \$10,000 per year experienced food insecurity. Lichter and Crowley note that "poor families also have limited access to high-quality food, in part because grocery stores in low-income neighborhoods charge higher prices and carry lower-quality produce than grocers in more prosperous neighborhoods" (2002: 16). During the 1990's, the average cost of housing increased at a higher rate than average family income. This increase had the greatest impact on those living in poverty as it required an even larger percentage of total income for housing. The poor are also more likely to suffer from a variety of peripheral issues such as a lack of housing maintenance and reduced neighborhood quality (Lichter and Crowley 2002).

### *Poverty and the Well-Being of Children*

One crucial element regarding poverty is the economic well-being of children. While poverty is a serious issue for adults, the consequences for children are more severe. Children, due to their dependent status, are a vulnerable group in society. The bulk of this section will explore the relationship between the economic success of parents and child poverty. Demographic and geographic factors will also be examined.

Eggebeen and Lichter (1991) discuss three topics to demonstrate that poverty and economic hardship are fundamental concerns for those who study the social well-being of children. First, they cite how the economic conditions of children worsened during the 1980's with one in five American children living in poverty during this time. Ten years

later, circa 2000, this figure remained relatively unchanged with seventeen percent of American children still living in poverty (Kids Count 2010). Second, Eggebeen and Lichter state that "children are especially vulnerable economically because they depend on their parents to meet basic human needs... [and] by virtue of their dependent status, children clearly are among the 'deserving poor,' yet public support for families of poor children remains weak" (Eggebeen and Lichter 1991: 802). The final point Eggebeen and Lichter emphasize is that childhood poverty is negatively associated with children's future socio-economic status and educational attainment.

Other researchers have examined the economic conditions of the family. According to Duncan et al. (1998), "an important 'stylized fact' [i.e., observations accepted as empirical facts (Business Dictionary 2010)] in the recent literature is that family income has much stronger associations with achievement and ability-related outcomes for children than with measures of health and behavior" (420). They note that the financial condition of the family is most crucial during the early stages of childhood. A second association Duncan et al. discuss is family income and educational attainment. They found that parental income has a strong association with the total years of schooling that children complete.

A central issue in the present research is the association of business climate and employment with child poverty. Wilson (1996) discusses the implications of severe unemployment, arguing that high levels of neighborhood joblessness are more destructive than simply living in poverty. "A neighborhood in which people are poor but employed is different from a neighborhood in which people are poor *and jobless*" [emphasis added]

(1996: 567). He states that family dissolution, crime, and limited social involvement (within the community), are directly related to the dearth of available jobs. In his conclusion, Wilson links the issue of joblessness to the economic well-being of families. Failure to address this issue, according to Wilson, could drastically reduce the welfare of poor families (1996: 593).

    Eggebeen and Lichter also conclude that structural issues of the family are associated with the economic well-being of children. With regard to demographic factors, they claim that the family unit itself has a profound impact on the welfare of children (in addition to other factors such as racial inequality). Eggebeen and Lichter contend that "a significant share of the increase in child poverty in the 1980's can be traced directly to the changing family structure" (1991: 814). This transformation in family structure can be characterized as the increase in single-parent families which are predominately female-headed. In their conclusion, Eggebeen and Lichter estimate that the rate of child poverty (circa 1988) would have been significantly lower if family structure had remained static between 1960 and the present (1991: 814).

    McLanahan (1985) also discusses the issue of single-parent families. She found that children (at the age of 17) who are living in a single-parent family are less likely to be in high school than are children who are living with both parents. However, according to her analysis, this is not due to the absence of a male figure, but rather to the economic difference (or deprivation) between one-parent and two-parent households (1985: 897). White and Rogers (2000) reaffirm this assertion, stating that: "[t]he link between family structure and family income grew during the 1990's... the median income of married

couples continued to be higher than that for families with one parent, regardless of the gender of the parent" (2000: 1038). White and Rogers conclude that the changing demographics of household composition (i.e., the rise of dual-income households and single-parent households) is an important factor in studying the economic well-being of families (White and Rogers 2000).

The macro-geographic divisions of the United States are important units of analysis in this research because, according to Witko and Newmark (2005), the southern states have, on average, relatively better business climates than do other states. In contrast, the rate of children's poverty is higher in the southern states, reflecting relatively worse economic conditions for children (Kids Count 2010). As of 2007, the average rate of child poverty in the South was seven to eight percentage points higher than the average rates of other regions in the United States (Table 2.3). Four of the five highest state level child poverty rates are in the southern states of Mississippi (29 percent), Louisiana (27 percent), Arkansas (26 percent), and Kentucky (24 percent). New Mexico (25 percent) is the non-southern state listed in the top five ranking.

Table 2.3 Child Poverty by Geographic Region (2007)

| <i>Region</i> | <i>Percent in poverty</i> |
|---------------|---------------------------|
| South         | 21.1                      |
| Midwest       | 15.8                      |
| West          | 15.6                      |
| Northeast     | 13.8                      |

Source: Kids Count 2010, see Appendix A for regional definitions.

An additional aspect regarding geographic variation is "social capital." Putnam (2001) demonstrates that the amount of social capital (i.e., the trust and bonds within a community) is positively associated with children's economic well-being. Specifically, social capital has thirteen measurements (at the state level), which include, "the fraction of people in the state who had in the previous year served on a committee of some local organization or as an officer of a local organization, the number of club meetings attended, the number of club memberships, the turnout at the presidential election, [and] the number of public meetings attended" (2001: 10). In short, social capital can be conceptualized as the collective level of social involvement within the community. There is a strong correlation between social capital and educational outcomes at the state level (Putnam 2001: 11-12). This association persists even when controlling for common predictors such as school expenditures and teacher-to-pupil ratio. In fact, many indicators of children's well-being appear to be associated with social capital. As Putnam summarizes, "the welfare of children is higher where social capital is higher" (2001: 12). With regard to geographic location, Putnam's analysis reveals that states closer to the Canadian border (i.e., the northern states) have higher levels of social capital than those further South. For instance, states with high to very high levels of social capital include Ohio, Vermont, Montana, and Washington. Conversely, states with very low levels are overwhelmingly southern, such as Mississippi, Louisiana, Alabama, and Georgia (Putnam 2001: 21, Figure 6).

It was discussed earlier that child well-being has been studied with great detail at the state level. There are many reasons for studying the economic well-being of children

in relation to business climate policies among the fifty states. For instance, Harknett et al. (2005) examined the variation among the states in relation to public expenditures and their association with child outcomes (such as educational test scores and child mortality rates). According to their research, the combined state and federal yearly government expenditures amount to an average of \$6,000 per child (2005: 104). The majority of this spending is related to education, parental tax credits, and various social programs (Harknett et al. 2005). Of particular interest to their study is spending at the state level. Harknett et al. note that two-thirds of expenditures are administered directly at the state and local levels, and therefore "expenditures on children could vary widely across the 50 states" (2005: 104). Subsequently, they did find a significant amount of state level variation. In fact, many of the expenditures in the highest spending states were, on average, two to three times higher than those of the lowest spending states (2005: 121). Their cross-sectional data analysis illustrates the relationship between state expenditures and improved outcomes, such as higher standardized test scores and lower child mortality rates. Harknett et al. do remain open to the possibility of alternative explanations. However, they strongly contend that at the state level an increase in spending will benefit children (2005: 122).

From this review of literature, it is possible to identify several factors that are associated with the economic well-being of children. One crucial factor in understanding child poverty is the economic success of the parents. With a state level analysis, measures of employment and family income provide adequate indicators for this concept. The demographic issues regarding family structure also need to be taken into account. In

this analysis, a key indicator of family structure is the percentage of children living in single-parent families for each state. An additional demographic factor to be controlled is the racial composition of each state. Both Eggebeen and Lichter (1991: 814-15) and Wilson (1996: 567-68) placed a strong emphasis on the racial differences in family structure and economic well-being. Finally, the macro-geographic divisions of the United States allow an examination of regional variation. The variable of social capital, which is indirectly related to geographic variation, may ultimately prove to be redundant in the statistical models. However, social capital is still an important concept that justifies the analysis of regional differences, such as child poverty, within the United States. All of these key variables and their measurement will be discussed in the following chapter.

### *Hypotheses*

This research will conduct cross-sectional analyses that test propositions from the two competing perspectives discussed in this literature review.

(1) The first perspective (Libertarian and Marxist) suggests that the efforts of a state to promote a favorable business climate will be negatively associated with indicators of children's economic well-being.

(2) The second perspective (proponents of economic development and targeting) suggests that there is no relationship, or perhaps even a positive association, between a state's business climate and indicators of children's economic well-being.

## CHAPTER 3

### DATA, VARIABLES, AND METHODS

#### *Description of Data Sources*

All data analyzed in this research are secondary data from multiple sources including government institutions and private organizations. Measurements that relate to child poverty are derived from the Kids Count Data Center, which is supported by the Annie E. Casey Foundation. For the past six decades, this foundation has raised considerable awareness of the disadvantaged children living in the United States (AECF.org 2010). One of the most prominent initiatives of this foundation is the data collection for Kids Count, which provides a multitude of statistics for social scientists who study the well-being of children in America. The state level data from Kids Count cover a variety of indicators that include demography, education, health, and economic well-being.

The business climate indicator for the year 2000 is taken directly from Witko and Newmark's scale (2005: 362). These data were presented in Table 2.1. Other explanatory variables measure state level characteristics that relate to demographic and economic indicators. These include racial composition, the unemployment rate, per capita spending on education, and the percentage of children living in single-parent households. The



unemployment rate is calculated by the U.S. Labor Department's Bureau of Labor Statistics. Racial composition is based on data from the U.S. Census Bureau. The percentage of children living in single-parent households is derived from the Kids Count collection of data. Education expenditures are based on statistics from *The World Almanac and Book of Facts* (McGeeveran 2003). Finally, the geographic variable for Southern states is formulated with regard to regional divisions defined by the U.S. Census Bureau (see discussion on page 33). All variables, unless otherwise noted, are measured during the year 2000. For a complete list of data sources, citations, and regional categories please refer to Appendix A.

#### *Dependent Variables*

The dependent variable in this study is child poverty. This indicator measures the percentage of children living in poverty for all fifty states (N = 50). Child poverty is arguably one of the best measures of children's well-being. For decades child poverty has been a significant topic of interest in sociology (McLanahan 1985; Sawhill 1988; Eggebeen and Lichter 1991; Duncan et al. 1998). Lichter and Crowley describe poverty as reducing the well-being of children by undermining cognitive development, general health, educational outcomes, and future socio-economic success (2002: 24). Based on the literature review in chapter 2, this variable is associated with family structure (such as single-parent households), geographic variation (especially in the southern states), and the economic circumstances of parents (the unemployment rate). Since children are a

vulnerable segment of society, given their dependent status, the efforts of the state can influence outcomes of child well-being (Harknett et al. 2005).

### *Independent Variables*

The majority of explanatory variables are continuous. However, the geographic region for Southern states is a binary categorical variable.

The primary explanatory variable is the measurement of business climate. This index, created by Witko and Newmark (2005), is designed to rank all fifty states based on their tax incentives and regulatory statutes that affect business. By using this indicator, we can see if the efforts of a state, in creating a more favorable business climate, have any association with children's well-being. Those who are in favor of a strong business climate would contend that there is no relationship or perhaps even a positive relationship of business climate with indicators of child well-being. Conversely, other theories (such as a Libertarian or Marxist perspective) would expect there to be a negative relationship between these two variables.

The unemployment rate is a standard indicator of the percentage of working adults unable to find employment. Unemployment is a crucial variable in the statistical model due to its association with the well-being of both children and adults. According to Wilson (1996), living in a poor region with high unemployment is drastically different than living in a poor region where people can find work. Furthermore, Eggebeen and Lichter (1991) emphasize the dependent status of children. With children being a

vulnerable group in society, their well-being is directly related to the employment status of their parents.

The control variable for racial composition is percent non-white, a basic demographic variable which measures the relative size of the non-white populations for each state. These non-white populations, as defined by the 2000 census data, include: African American, Hispanic/Latino, American Indian, Asian, Native Hawaiian, other race, and two or more races. Controlling for race is important in this analysis due to the racial disparity that exists in both economic well-being and family structure (Eggebeen and Lichter 1991; Wilson 1996).

Per pupil spending on education is a financial indicator which directly measures the resources each state allocates for children. This control variable is justified by the relationship between expenditures and improved educational outcomes (Harknett et al. 2005). Additional variables, such as expenditures on child health, could be used. However, for this analysis, educational spending is an adequate indicator of the resources each state invests in child well-being. First, educational spending accounts for nearly two-thirds of all public expenditures that are allocated for children (Harknett et al. 2005: 112). Second, when the amount allocated for education is removed from expenditures (at the state level), the variation among the states persists. As Harknett et al. explain: "the highest state still spends about twice as much as the lowest state and Utah and New York remain the lowest and highest spenders, respectively" (2005: 112).

Percentage of children living in single-parent families is a crucial variable in this research. The type of household is highly relevant to research on child poverty.

McLanahan (1985) found that single-parent families experience a higher degree of economic deprivation. Eggebeen and Lichter (1991) also cite family structure as an important factor with regard to child welfare. More recent literature, such as White and Rogers (2000), reaffirms the importance of family structure, revealing that the 1990's experienced a great increase in the economic disparity between single-parent and two-parent families.

In order to control for geographic variation, a categorical variable for the Southern states will be created (i.e., a dummy variable). The states included in this category will differ slightly from the Census Bureau. For this analysis, it will be composed of the eleven states which formed the Confederate States of America during the Civil War. This definition excludes Delaware and Maryland from the South. However, the states of Kentucky, Oklahoma, and West Virginia have been added to this category. While the issue of "where is the South?" can vary with interpretation, this research is drawing upon the definition in John Shelton Reed's *The Enduring South* (1972: 14). The only difference in this research is the inclusion of West Virginia. Not only was West Virginia a state created as a direct result of the Civil War, the Confederacy controlled a significant portion of the state during the conflict (see references, Library of Congress). For a specific list, please refer to Appendix A.

As described in chapter 2, social capital is a comprehensive variable which measures the collective level of social involvement within the community. Even though, according to Putnam's research, this variable is associated with children's economic well-being, preliminary analysis suggests that it is strongly correlated with many of the control

variables in this thesis. The inclusion of social capital may increase the likelihood of multicollinearity (see discussion on next page). Furthermore, social capital would bring the total number of independent variables to seven. With the number of cases being fifty, this would exceed the recommended threshold of six explanatory variables (see chapter 2, page 8). For these reasons, social capital will not be used in the multivariate analysis conducted in chapter 4.

### *Method of Analysis*

The baseline analysis will examine the bivariate relationship between the primary independent variable (business climate) with the primary dependent variable (child poverty). Since both the explanatory variable and the outcome variable are continuous, a linear bivariate regression model will be estimated. Scatterplots will present a visual overview of the linear relationship between these two variables. The Pearson correlation coefficient will measure the strength of the linear association between business climate and child poverty, and the estimated slope coefficient will measure the change in child poverty associated with each one-unit increase in business climate. The second phase of the analysis will add the control variables. To perform this analysis, Ordinary Least Squares (OLS) multivariate regression will be used. This method is preferable because the majority of explanatory variables (and the dependent variable) are also continuous. A multivariate analysis will allow the study to determine if the association between child poverty and business climate is independent from the influence of the other explanatory variables in this model.

### *Diagnostic Procedures*

When conducting a multivariate regression analysis of ecological data, it is important to test for multicollinearity. The explanatory variables in multivariate analyses of ecological data tend to be correlated with one another (Graham 2003). From a statistical perspective, multicollinearity can inflate the "standard errors for estimates of regression parameters" (Agresti and Finlay 2009: 456). It should be noted, however, that multicollinearity does not detract from the outcome or validity of a given multivariate regression model. Rather, the presence of multicollinearity is relevant to specific predictors in the model. With inflated standard errors, the regression coefficients are less reliable in describing the relationship between an explanatory variable and the outcome variable (Agresti and Finlay 2009: 456). Furthermore, the test statistic for independence (i.e., between business climate and child poverty),  $t = \beta_i / se$ , could be skewed by an inflated standard error (se). Such an outcome would make it more difficult to accept or reject the null hypothesis regarding  $\beta_i = 0$  (which will be of importance in the following chapter).

To address this issue, the regression analyses presented in chapter 4 will include variance inflation factor (VIF) analysis. The best way to test for multicollinearity is to use the diagnostic procedures provided in statistical software packages such as SPSS. Upon conducting a multivariate regression, "collinearity statistics" can list the VIF value for the standard error of each slope coefficient in the OLS model. A VIF value greater than 10 is a strong indicator of multicollinearity (Agresti and Finlay 2009: 456). The tolerance level (which is also included in collinearity statistics) can be used as an

adequate test for multicollinearity. Any variable with a tolerance level lower than .10 would require further investigation. The most practical remedy in such a scenario would be to exclude any variable with an abnormally high VIF (or abnormally low tolerance) value. Agresti and Finlay (2009: 457) suggest this option. For instance, if two explanatory variables are highly correlated, it would be prudent to remove one from the model. Agresti and Finlay (2009) note that an additional sign of multicollinearity would be an  $R^2$  value greater than .90 while none of the predictor variables is significant.

A second diagnostic procedure is to examine the possibility of outliers and influential cases. Agresti and Finlay (2009) define a regression outlier as an observation that "falls quite far from the trend that the rest of the data follow" and "seems to have a substantial effect [on the prediction line equation]" (262). To identify the presence of outliers in the data, the leverage of each observation will be checked. According to Agresti and Finlay (2009), any leverage statistic that is three times larger than the average leverage statistic would be a strong indicator of the undue influence of an observation.

## CHAPTER 4

### ANALYSIS AND RESULTS

#### *Descriptive Statistics*

The descriptive statistics are presented in Table 4.1. Rates of child poverty varied significantly within the United States in 2000. The lowest rate of 6 percent was in the state of New Hampshire, whereas the highest rate, at 27 percent, was in Louisiana. In 2000, the average rate was 16.1 percent (SD = 4.9). In a pattern similar to the 2007 data (see Table 2.3, chapter 2), Arkansas, West Virginia, Mississippi, and Louisiana had four of the five highest child poverty rates.

As discussed in chapter 2, the business climate index can take on positive or negative values. Positive values indicate a more favorable business climate, while negative values indicate a less favorable business climate (Witko and Newmark 2005). This variable has a range between -10.64 and 11.96, with a mean of 0.0 (SD = 4.62). Mississippi had the highest business climate index, whereas Alaska had the lowest.

The average unemployment rate among the fifty states in 2000 was 3.84 percent (SD = 0.91). The lowest rate was 2.3 percent in Connecticut and the highest was 6.2 percent in Alaska. However, three of the five highest unemployment rates in 2000 were



found in the southern states of Mississippi (5.7 percent), West Virginia (5.5 percent), and Louisiana (5 percent).

Racial composition (percent non-white) in 2000 ranged from 3.5 percent in Maine to 77 percent in Hawaii. Among the fifty states, it had an average value of 24.2 percent (SD = 14.9). Given the broad definition of this variable, many southern and western states have relatively high percentages of non-whites.

The average state expenditure on education was \$7,277 per student in 2000 (SD = \$1,451). Utah spent the lowest amount (\$4,692), whereas New York had the highest level of educational spending (\$10,975). Mississippi and Arkansas were among the lowest five states in educational spending (\$5,356 and \$5,628 per pupil respectively).

The percentage of children living in single-parent families had an average of 29.6 percent (SD = 4.83) in 2000. The lowest value was found in Minnesota at 21 percent and the highest value was in Mississippi at 43 percent. Mississippi was followed closely by Louisiana (40 percent), Georgia (36 percent) and Florida (36 percent).

Table 4.1 Summary of Descriptive Statistics

| <i>Variable</i>                                      | <i>N</i> | <i>Range</i> | <i>Minimum</i> | <i>Maximum</i> | <i>Mean</i> | <i>Std. Deviation</i> |
|--|----------|--------------|----------------|----------------|-------------|-----------------------|
| Child Poverty Rate                                   | 50       | 21.0%        | 6.0%           | 27.0%          | 16.1%       | 4.9%                  |
| Business Climate Index                               | 50       | 22.59        | -10.64         | 11.96          | .00         | 4.62                  |
| Unemployment Rate                                    | 50       | 3.9%         | 2.3%           | 6.2%           | 3.8%        | 0.9%                  |
| Percent non-white                                    | 50       | 73.6%        | 3.5%           | 77.1%          | 24.2%       | 14.9%                 |
| Educational Expenditures                             | 50       | \$6,283      | \$4,692        | \$10,975       | \$7,277     | \$1,450.92            |
| Percent of children living in single-parent families | 50       | 22.0%        | 21.0%          | 43.0%          | 29.6%       | 4.8%                  |
| Southern states                                      | 50       | --           | 0 (no)         | 1 (yes)        | --          | --                    |

*Bivariate Results*

The following equation will be used to represent the statistical relationship between business climate and the rate of child poverty for the fifty states:

$$Y = \alpha + \beta_1 X \quad (4.1)$$

In this equation, child poverty is Y and business climate is X. The Greek letters *alpha* and *beta* represent the y-intercept and slope respectively.

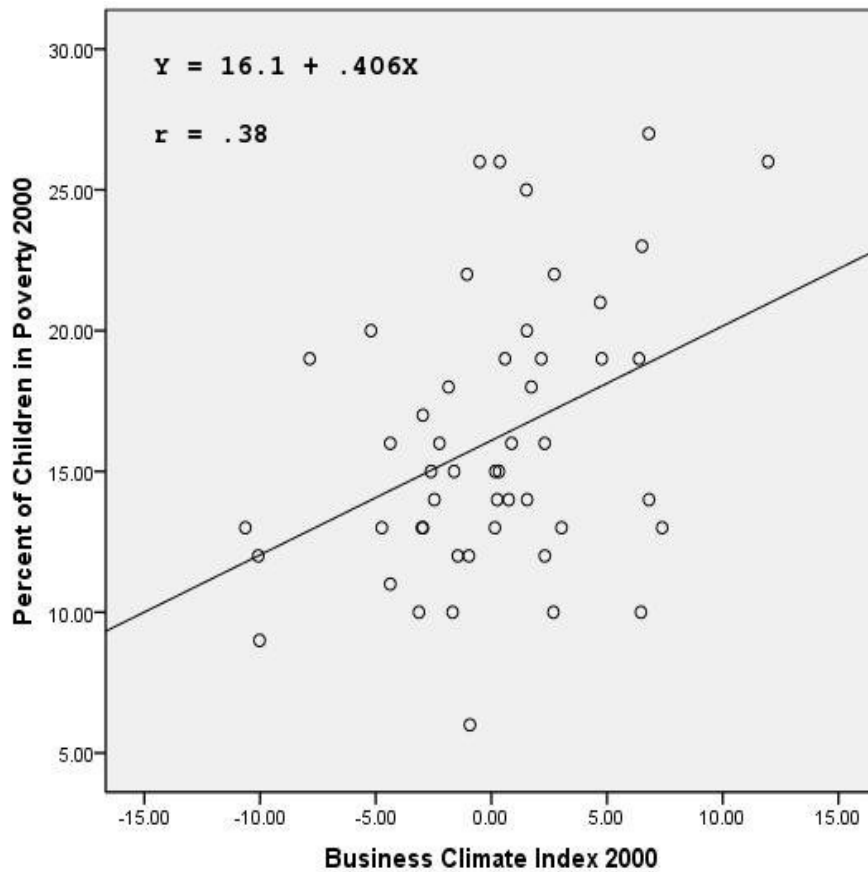


Figure 4.1 Business Climate and Child Poverty

The bivariate analysis reveals that the strength of the linear association between X and Y, measured by the Pearson correlation coefficient, is  $r = .379$ . The significance is very strong at the .01 level ( $p = .007$ ). Further analysis reveals that the y-intercept is 16.1 with a slope of .406 (the unstandardized metric coefficient). Thus, for every one-unit increase in the business climate index, the percentage of children living in poverty increases by four-tenths of one percentage point, on the average. Figure 4.1 (above) provides a visual illustration of this relationship.

To conclude the bivariate results, a sensitivity analysis was conducted to check for any possible outliers or influential cases. The leverage statistic was calculated for each state in this model. The mean leverage statistic for all fifty observations was .04 (SD = 0.03); therefore, any state that exceeded a leverage statistic of .12 (three times the average) was excluded. Only two states fell into this category, Alaska and Mississippi, which have lowest and highest business climate indexes respectively. However, even when these influential cases are excluded, the correlation between business climate and child poverty persists, albeit with only moderate significance at the .05 level ( $p = .043$ ). The Pearson correlation coefficient in this model is  $r = .294$ . The slope is only slightly lower with a value of .346. This indicates that a one-unit increase in business climate will correspond to a three-tenth of one percentage point increase in the percentage of children living in poverty, on the average. Figure 4.2 (next page) illustrates this relationship with Alaska and Mississippi excluded.

These bivariate findings provide modest support for the Marxist perspective discussed in chapter 2. Marxists would contend that the efforts of a state to improve its

business climate and attract new industry would come at the cost of reducing children's economic well-being. The bivariate relationship indicates that as a state increases its business climate index, the rate of child poverty also increases. A Marxist theorist might interpret this finding as the result of more resources being diverted away from social welfare programs for children and families to benefit the capitalist *bourgeoisie*. Such a conclusion would be consistent with the discussions of Block (1977) and Barrow (1998) who describe a conflict of interest between the capitalists and political elites.

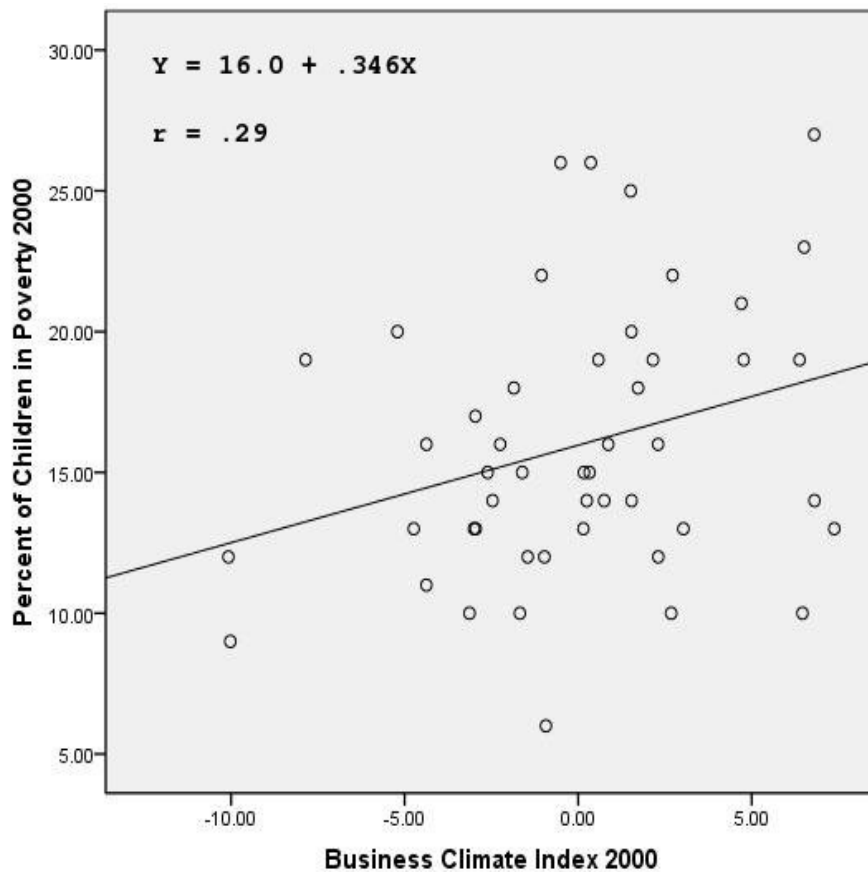


Figure 4.2 Business Climate and Child Poverty (without Alaska and Mississippi)

*Correlation Matrix*

An additional consideration is the bivariate relationships among the key explanatory variables. For this analysis (N = 50), a simple correlation matrix (see Table 4.2, following page) was constructed.

Table 4.2 Bivariate (Pearson) Correlation Matrix

| Variables   | (1)     | (2)    | (3)    | (4)    | (5)    | (6) |
|---|---------|--------|--------|--------|--------|-----|
| (1) Business Climate                              | 1       |        |        |        |        |     |
| (2) Percent non-white                             | .182    | 1      |        |        |        |     |
| (3) Unemployment Rate                             | .018    | .345*  | 1      |        |        |     |
| (4) Educational Expenditures                      | -.624** | -.087  | -.048  | 1      |        |     |
| (5) Percent of Children in Single-parent families | .433**  | .450** | .451** | -.092  | 1      |     |
| (6) Southern States                               | .430**  | .238   | .119   | -.320* | .613** | 1   |

*Note:* p-values are two-tailed.

\* p < .05    \*\* p < .01

In this matrix there are several noteworthy correlations. There is an inverse association between business climate and educational expenditures. The percent of children living in single-parent families is strongly associated with three other variables: business climate, percent non-white, and the unemployment rate. This is not a surprising outcome based on the literature review in chapter 2. For instance, Wilson (1996: 567-68) discusses the positive association between single-parenthood and economic deprivation. Table 2.2 illustrates the racial and family characteristics of poverty. The correlations with

the regional variable for Southern states are also consistent with the literature review in chapter 2. The dummy variable for the Southern states has a positive association with business climate and the percentage of children living in single-parent households (i.e., Southern states are more likely to have a stronger business climate than are non-Southern states).

### *Multivariate Results*

The next step in this analysis is to test the central hypotheses presented at the end of chapter 2. Perspective 1 (Marxist and Libertarian) suggests that the business climate index will be positively associated with child poverty. Perspective 2 (proponents of economic development and targeting) suggests that there is no relationship between business climate index and child poverty or that the association will be negative. Thus, with respect to the multivariate model:

Perspective 1 predicts that  $\beta_1 > 0$

Perspective 2 predicts that  $\beta_1 = 0$  or  $\beta_1 < 0$

In order to test these two predictions, OLS linear multiple regression analysis will be conducted. Control variables include: unemployment rate, racial composition, education expenditures, the percentage of children in single-parent families, and a dummy variable for the Southern states. With a total of fifty cases, the maximum number of explanatory variables is limited to six (as discussed in chapter 2).

The OLS estimates are presented at the end of this chapter in Table 4.3. This model explains 73.5 percent of the linear variation (i.e., the R-Squared) in state level rates

of child poverty. The first value is the unstandardized slope coefficient (b) for each independent variable. The standard error is included in parentheses, and the significance levels are represented by asterisks.

The most noteworthy result is the association of business climate with child poverty. The control variables in this regression analysis effectively eliminate the earlier significant bivariate correlation. This finding is consistent with the second perspective, representing the views of the proponents of economic development. In this model, there is no statistically significant association between the business climate index and the rate of child poverty across the fifty states. These results will be discussed with greater detail in the next chapter.

For the most part, the control variables in this analysis had the expected associations with child poverty. There is a positive relationship between the percentage of children living in single-parent families and the rate of child poverty. According to this model, a one percentage point increase of children living in single-parent families corresponds to a .37 percentage point increase in the percentage of children living in poverty, on the average. The level of unemployment also has a positive relationship with child poverty. A one percentage point increase in unemployment corresponds to a 2.08 percentage point increase in the percentage of children living in poverty, on the average. Given the literature review in chapter 2, these outcomes are not surprising. Both variables are strongly associated with the economic deprivation of children. Living in a single-parent family or a two-parent family where one (or both) parents are unemployed increase the likelihood of child poverty (i.e., McLanahan 1985; Wilson 1996).

Furthermore, there appears to be a significant regional variation with regard to the Southern states (i.e., the Old South). The difference in the percentage of children living in poverty between Southern states and non-Southern states is nearly 3.5 percentage points, on the average. This finding is consistent with the regional variation presented in Table 2.3 (chapter 2).

The final variable in the model, educational expenditures, has a moderate association with child poverty. For every \$1,000 increase in educational expenditures there is one percentage point decrease in the percentage of children living in poverty, on the average. This outcome comports the position of Harknett et al. (2005: 122) who claim that spending for social programs, such as education, will benefit children.

With the absence of a significant association between business climate and child poverty, it may be helpful to see which variables are responsible for this outcome. To this end, a brief series of simple regression models were created with business climate and one other control variable. This analysis shows that the two variables which remove the positive association (between business climate and child poverty) are the percent of children living in single-parent families and the Southern states. The other control variables do not alter the association between business climate and child poverty. One possible interpretation of this finding is that strong regional differences between the Southern and non-Southern states can moderate the bivariate association. For instance, in the correlation matrix (see Table 4.2) there is a lack of association between Southern states and the variables for unemployment rate and racial demographics, whereas a strong



association exists between Southern states and the percent of children living in single-parent families.

### *Sensitivity Analysis*

The final step in this chapter is to ensure that the results are not influenced by outliers or multicollinearity.

Influential cases and outliers can drastically alter the results of a multivariate analysis. To test for this possibility, the leverage statistic was calculated for all fifty cases. The mean leverage statistic was .14 (SD = 0.08); thus, any case with a leverage statistic exceeding .42 (three times the average) was excluded for this analysis. Only one observation, the state of Hawaii, fell into this category. A new multivariate regression analysis was conducted with this state excluded (see Table 4.4). By comparing the estimates with those in Table 4.3 we can conclude that the removal of Hawaii did not have any noteworthy effect on the overall model outcome ( $R^2 = .733$ ), nor did it significantly alter the values of the unstandardized slope coefficients.

As discussed earlier, multicollinearity can pose a serious problem for analyses of ecological data with highly correlated predictor variables (Graham 2003; Agresti and Finlay 2009). With the possible influence multicollinearity can yield on the standard errors of independent variables, it is crucial that this analysis include a variance inflation factor (VIF) analysis. To examine this possibility, "collinearity statistics" were calculated for the model. Tables 4.3 and 4.4 include the VIF value for each standard error. These VIF values show that multicollinearity is not a serious issue in the analyses. All VIF

values are well below the serious threshold of 10. The tolerance level also confirms this conclusion. A tolerance value lower than .10 would be a strong indicator of multicollinearity. However, these values in Tables 4.3 and 4.4 are within normal parameters (Agresti and Finlay 2009: 456-457).

In conclusion, the sensitivity analysis demonstrates that the original results (Table 4.3) are statistically robust with respect to outliers and the possibility of multicollinearity.

Table 4.3 Summary of OLS Regression Analysis

R<sup>2</sup> value .735  
 F-statistic 19.857

| <i>Variable</i>            | <i>Coefficient</i> | <i>VIF value</i> | <i>Tolerance</i> |
|----------------------------|--------------------|------------------|------------------|
| Business Climate Index     | -.082<br>(.129)    | 2.345            | .427             |
| Unemployment Rate          | 2.077***<br>(.515) | 1.435            | .697             |
| Percent non-white          | -.008<br>(.030)    | 1.308            | .764             |
| Educational Expenditures   | -.001*<br>(.000)   | 2.104            | .475             |
| Single-parent families (%) | .374**<br>(.132)   | 2.675            | .374             |
| Southern States (1 = yes)  | 3.486**<br>(1.160) | 1.829            | .547             |
| Intercept                  | 2.123<br>(3.424)   |                  |                  |

*Note:* Numbers in parentheses are standard errors. p-values are two-tailed.

\* p < .05    \*\* p < .01    \*\*\* p < .001

Table 4.4 Summary of OLS Regression Analysis (without Hawaii)

R<sup>2</sup> value .733  
 F-statistic 19.199

| <i>Variable</i>            | <i>Coefficient</i> | <i>VIF value</i> | <i>Tolerance</i> |
|----------------------------|--------------------|------------------|------------------|
| Business Climate Index     | -.083<br>(.131)    | 2.326            | .430             |
| Unemployment Rate          | 2.077***<br>(.521) | 1.434            | .697             |
| Percent non-white          | -.003<br>(.040)    | 1.725            | .580             |
| Educational Expenditures   | -.001*<br>(.000)   | 2.103            | .475             |
| Single-parent families (%) | .364**<br>(.146)   | 3.114            | .321             |
| Southern States (1 = yes)  | 3.502**<br>(1.177) | 1.826            | .548             |
| Intercept                  | 2.318<br>(3.640)   |                  |                  |

*Note:* Numbers in parentheses are standard errors. p-values are two-tailed.

\* p < .05    \*\* p < .01    \*\*\* p < .001

## CHAPTER 5

### CONCLUSION AND FUTURE RESEARCH

#### *Summary*

This thesis began with a discussion of the concept of the business climate. The purpose of economic development policies is to attract new businesses to a given region (such as a state). With this premise in focus, this research sought to determine if the variation in child poverty was associated with the promotion of a positive business climate. In chapter 2 a theoretical framework was introduced which presented the perspectives for both the opponents and the proponents of state policies to develop a favorable business climate.

Those who are strongly opposed to promoting a favorable business climate can approach this issue from either a Marxist or Libertarian perspective. The Marxist would contend that a positive business climate is harmful to children because of an inherent conflict of interest between the state apparatus and bourgeoisie. This relationship could reduce the economic well-being of children by diverting resources away from social programs in order to attract new business. On the other side of the theoretical spectrum, a Libertarian might interpret a positive business climate as harmful because the state is subverting the free market. Such actions could diminish the economic well-being of

children by reducing the efficiency of the market which in turn would decrease the level of employment.

Proponents of economic development would reject these criticisms and claim that a positive business climate is either beneficial to children or simply has no relationship with their economic well-being. They would contend that a favorable business climate increases economic activity which leads to greater employment and more state revenue through taxation. If there is no association, proponents would argue that business climate does not reduce the well-being of children, but rather, other factors are responsible for the state level variation in child poverty.

Chapter 3 built upon this framework by describing the measurement of the primary variables of interest for this thesis. The central explanatory variable is the state level index of business climate. The dependent variable is the state level percentage of children living in poverty. Additional independent variables include the unemployment rate, the percentage of children living in single-parent families, the racial composition for each state (percentage non-white), the average educational expenditures per child in each state, and a dummy variable for the traditional Southern states (i.e., the Old South). All data were for the year 2000.

Chapter 4 presented the descriptive statistics and analysis. The first analysis examined the bivariate relationship between business climate and child poverty. There was strong evidence that business climate had a statistically significant association with the percentage of children living in poverty (see Figure 4.1, chapter 4). As a state improves its business climate, there appears to be an undesirable outcome for the

economic well-being of children. Even when the outliers are removed from this analysis, this relationship continues to persist. This outcome initially gives support to the Marxist position that efforts to improve the business climate will reduce the well-being of children, the most vulnerable members of society.

The second step of the analysis was to estimate a multivariate regression model to control for other factors associated with child poverty (as described in chapter 3). The OLS multiple regression model presented in chapter 4 explained 73.5 percent of the variation in state level rates of child poverty. The four significant predictors are the unemployment rate, the percentage of children living in single-parent families, educational expenditures, and the variable for the Southern states.

The unemployment rate is significantly associated with the rate of child poverty. A one percentage point increase in unemployment corresponds to a 2.08 percentage point increase in the percentage of children living in poverty, on the average. Based on the work of Wilson (1996) this outcome was to be expected. According to his research, high rates of unemployment can reduce the economic well-being of children (1996: 595). The connection between parental employment and child poverty was also observed by Eggebeen and Lichter (1991) who describe the dependent nature of children in relation to the economic success of their parents.

The variable for children living in single-parent families is also significantly related to the rate of child poverty. For every one percentage point increase of the percentage of children living in single-parent families, there is a corresponding .37 percentage point increase in the percentage of children living in poverty, on the average.

As with unemployment, this outcome was also expected. A single-parent family is more likely to suffer from economic deprivation than a two-parent family (McLanahan 1985; White and Rogers 2000). Eggebeen and Lichter (1991: 814) also link family structure (i.e., the increase of single-parent families) with children's economic well-being.

An additional variable with moderate association is educational expenditures. The negative slope coefficient suggests that for every \$1,000 decrease in educational expenditures there is one percentage point increase in the percentage of children living in poverty, on the average. As described in chapter 4, this result is in agreement with the findings of Harknett et al. (2005: 122). They claim that reductions in spending for social programs can have a negative impact on children. However, the relationship between business climate and state level educational resources is unclear.<sup>1</sup>

Southern states, a geographic dummy variable, is the last significant variable in this model. There is an average difference of 3.5 percentage points between Southern states and non-Southern states in the percentage of children living in poverty. Based on the data presented in Table 2.3, a geographic association with child poverty is not surprising due to the concentration of higher child poverty rates in the South.

The most important result is the lack of association with regard to the business climate index. In this model the control variables evidently nullify the initial significant and positive bivariate correlation between business climate and child poverty. The multivariate analysis, however, shows that a positive business climate does not have a statistically significant association with the state level variation in the percentage of

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<sup>1</sup> Table 4.2 seems to indicate that there is a negative correlation between business climate index and educational expenditures. When other factors are controlled for, the significance of this relationship disappears. This could be an additional area for future research.



children living in poverty. These findings might be interpreted as evidence favorable to the proponents of economic development policies. It would appear that other economic, demographic, and geographic factors associated with child poverty are responsible for the variation observed across the fifty states in 2000.

The efforts and policies of a state government to promote its business climate do not conflict with the economic well-being of children, according to these results. Furthermore, sensitivity analyses demonstrated that these findings are statistically robust with respect to multicollinearity and outliers. Based on the theoretical perspectives discussed in chapter 2, the opponents of business climate policies may need to re-evaluate arguments on this particular point due to the absence of a positive association. However, the supporters of these policies should be cautious since a statistically significant negative association is likewise absent. Such an outcome could be problematic for their position.

If business climate policies do not yield positive results for vulnerable segments of society, then additional questions may arise. For instance, while the lack of a positive association is difficult for the Marxist position, a Marxist could still ask: Do business climate policies provide any positive socioeconomic outcomes for the masses? Who actually benefits from them? Block (1977), Barrow (1998), Goss and Phillips (1999) may claim that the capitalists are the only true beneficiaries. According to the dependency principle, Barrow (1998: 107), the state elites must work with the capitalists in order to secure "private investment, economic growth, and employment stability." This relationship creates an environment which directly benefits the capitalists as opposed to less influential groups (such as children).

This is one area of discussion not mentioned by the proponents of business climate policies. In the debate involving Finkle (1999), Wiewel (1999), and Buss (1999), the subject of these policies in relation to the socioeconomic well-being of vulnerable populations was never a point of contention. One could argue that the merits of business climate policies should be examined on how they improve the overall well-being of children living within a given state. Opponents of these policies could point to the lack of a correlation between the business climate index and employment level (see Table 4.2, chapter 4). Therefore, they may argue that states should pursue alternative methods which directly influence job creation and educational expenditures. These are two variables in the regression analysis (Table 4.3) which have a significantly negative association with the state level rates of child poverty.

In response, the proponents of business climate policies might assert that positive results can only be realized over an extended period of time. Thus, a cross-sectional study, such as this research, cannot truly capture the positive benefits of these policies. This issue will be discussed in the concluding paragraph.

Beyond the debate over business climate policies there are practical implications for state governments. The regional variation suggests that Southern states require the most improvement with regard to child poverty rates. It is possible that a portion of this variation is reflective of deep structural differences between the Southern and non-Southern states that this study cannot directly measure. Nevertheless, this study does indicate that the level of unemployment and the percentage of children in single-parent families are strongly associated with child poverty. When states address this pressing

issue, the policies related to these two indicators should be carefully examined. For instance, Wilson (1996: 594-595) has outlined a number of short-term and long-term solutions to address unemployment. In terms of demographics, Eggebeen and Lichter suggest that family structure should be considered. Policies which are designed to strengthen families is one possibility, but they should not detract from the issues of "racial and gender inequality and employment hardship that may undermine family stability and exacerbate the child poverty problem in America" (1991: 815).

### *Limitations of Study*

Even though multicollinearity and influential cases did not affect the results of this research, there are still several limitations to the analysis. First, from a statistical perspective, the number of cases ( $N = 50$ ) limited the number of explanatory variables to six. Given the nature of a state level analysis, this limitation could not be avoided. Smaller units of analysis such as counties might be one alternative. However, as was discussed earlier, the business climate policies of a city or county do not yield the same influence as do those at the state level. A second limitation is related to the cross-sectional approach of this study. Since the business climate index was based on the research of Witko and Newmark (2005), there was only one point of data (for the year 2000). Ideally, a long time series of data would be analyzed, in order to observe any possible long-term association of business climate policies, positive or negative, with the economic well-being of children.

One final limitation is related to the assumptions of ordinary least squares regression. With this type of statistical analysis it is assumed that "the disturbance terms are not correlated across the conditional distributions" (Johnson, Jr. et al. 1987). Therefore, in the regression model presented in chapter 4, the error term should not be correlated with the explanatory variables or the outcome variable. However, given the nature of non-experimental research and ecological data, we must be cautious with regard to this particular assumption. For this reason, the study cannot completely dismiss the possibility of omitted variable bias, that is, that the values or signs of the estimated slope coefficients are biased by the inadvertent omission of an independent variable.

#### *Future Research*

A more extensive study could use the same methods of Witko and Newmark (2005) to create a business climate index for multiple points in time. If such data were created, the long term impact of business climate policies could be more fully explored. With a longitudinal study it would be possible to see if a positive business climate has any association with the economic well-being of children over time. An additional area for investigation might be to expand the indicators of child well-being. For instance, instead of focusing only on child poverty, future research could analyze outcomes such as infant mortality, educational test scores, and high school graduation rates. These health and educational outcomes are also major concerns of scholars who study the well-being of children (Preston 1984; McLanahan 1985; Duncan et al. 1998; Harknett et al. 2005).

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APPENDIX A  
LIST OF DATA SOURCES BY VARIABLE

*Percent of Children in Poverty (Year 2000)*

Source: Kids Count, The Annie E. Casey Foundation

URL: <http://datacenter.kidscount.org>

*Business Climate (Year 2000)*

Source: Witko, Christopher and Adam Newmark. 2005. "Business Mobilization and Public Policy." *Social Science Quarterly*, 86(2): 356 - 67. (Page 362)

*Unemployment Rate (Year 2000)*

Source: U.S. Department of Labor, Bureau of Labor Statistics

URL: <http://www.bls.gov/lau/lastrk00.htm>

*Percent Non-White (Year 2000)*

Source: U.S. Census Bureau, Census 2000 PHC-T-6 (Table 2)

URL: <http://www.census.gov/population/www/cen2000/briefs/phc-t6/tables/tab02.pdf>

*Expenditures per Pupil (Year 2000)*

Source: McGeveran Jr., William A. 2003. *The World Almanac and Book of Facts*. New York, NY: St. Martin's Press.

*Percent of Children Living in Single-parent families (Year 2000)*

Source: Kids Count, The Annie E. Casey Foundation

URL: <http://datacenter.kidscount.org>

*Regional Categories (see following page)*

Source: U.S. Census Bureau, Designated Areas

URL: [http://www.census.gov/geo/www/us\\_regdiv.pdf](http://www.census.gov/geo/www/us_regdiv.pdf)

*Old South* (the original Confederate States and OK, KY, WV) - Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

*South* (as defined by the U.S. Census Bureau) - Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

*West* - Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

*Midwest* - Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

*Northeast* - Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont