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ECONOMIC DEVELOPMENT

OF RURAL OHIO

By

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ECONOMIC DEVELOPMENT OF RURAL OHIO*

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Few rural communities can remain economically viable solely as service centers for agriculture. Modern commercial agriculture requires fewer and larger service centers than were required 30 years ago. The large rural to urban population migration which occurred during the 1950's and 1960's left many rural communities in decline, but few have died. The reversal of population migration trends which began about 1970 (Beale) has led to renewed analysis of policies to centralize people and employment in urban centers. Dillon and Dobash found that many people would prefer to live in less populated places if given the opportunity. The population reversal and the increased dispersion of manufacturing has led to increased efforts in many rural communities to increase their non-agricultural employment base.

As shown in Table 1, population in Ohio has increased by only one percent between 1970 and 1975. However, there has been a shift in the location of population from central SMSA (Standard Metropolitan Statistical Area) counties to non-central SMSA and non-SMSA counties. Four entirely rural counties, without a population center of at least 2500 population, experienced the greatest increase in population.

Information on covered employment in Table 2 shows that non-central SMSA and non-SMSA counties had similar percentage increases in jobs and higher percentage increases than central SMSA counties from 1973 to 1976. All types of counties are undergoing serious adjustment problems from the decline in manufacturing employment. Ohio ranks sixth in population, but third in manufacturing employment (Widner).

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Table 1. Population Change by Metropolitan Status.

	No. of Counties	Percent Change	
		1970-1975	1960-1970
Ohio	88	1.0	9.8
SMSA ^{a/}	39	0.1	11.0
Central	16	-1.4	9.4
Non-Central	23	7.2	19.1
Non SMSA	49	4.4	5.1
Entirely Rural ^{b/}	4	12.2	-5.2

^{a/}Standard Metropolitan Statistical Area; Central counties are SMSA counties of core urban cities and Non-Central counties are all other SMSA counties.

^{b/}Counties with no urban place of 2500 population.

Source: (Thomas, p. 6)

Table 2. Covered Employment Change by Metropolitan Status, 1973-1976

	No. of Counties	Percent Change, 1973-1976		
		Total	Manufacturing	Services
Ohio	88	8	-9	10
SMSA ^{a/}	39	7	-10	10
Central	15	6	-10	9
Non-Central	24	13	-7	13
Non-SMSA	49	11	-6	12

^{a/}Standard Metropolitan Statistical Area; Central counties are SMSA counties of core urban cities and Non-Central counties are all other SMSA counties.

Source: (Ohio Bureau of Employment Services)

Title V Research

Recent research under Title V of the Rural Development Act of 1972 has increased understanding of the development potential of five counties in Southeast Ohio: Athens, Gallia, Jackson, Meigs and Vinton. The area was selected because of the Gavin electric power plant and four deep-shaft coal mines for which construction began about 1970.

A land market study showed that the land market in the region behaved similarly to the land markets in the Columbus and Dayton, Ohio areas, two other land markets which have been analyzed (Hushak and Sadr). Land prices respond to locational attractions such as nearness to urban areas and transportation routes (railroads, major highways, and the Ohio River) similar to the way they respond in Columbus and Dayton.

Land prices increased significantly from 1970 to 1974, the period of the study. The land market is a leading indicator of future activity through the purchase of land for future uses. These results suggest the region is viewed as a relatively attractive location by those purchasing land.

A study of labor force behavior in the manufacturing sector showed employment of primarily semi-skilled and unskilled labor (Acquah and Hushak). Those workers classified as skilled by plant managers showed productivity similar to the lower skilled classes. The mean hourly wage rate reported by a sample of 49 plants in 1974 was \$3.74 for skilled and \$2.69 for semi- and unskilled workers. An analysis of quit and layoff rates showed that older and more educated workers quit or were laid off from jobs as frequently as younger and less educated workers. This indicates that workers acquired relatively little on-the-job training from employment by manufacturing firms, which implies little growth in labor skills and wage rates over time.

A third study examined the benefits and costs to community residents of eleven manufacturing plants which began or expanded operations after January, 1970 (Hushak and Osman). Benefits are the increased income of plant workers, the increased income of other community residents resulting from increased consumption expenditures of plant workers, and new public revenues. Costs are the new investment for expansion of community service facilities and the expenses of providing services to new residents and the manufacturing plant.

Net benefits (benefits minus costs) were computed at three levels: local (municipality or township), county, and 5-county region. The average annual net benefits in the region were \$3,943 per worker. Only 50.7 percent of these benefits accrued at the local level (municipality or township). An additional 34.6 percent of the benefits occurred within the county but outside the local area. However, the percentage of net benefits occurring at the local level has wide variation, from 1 to 66 percent. The local level receives only about one-half of the net benefits because many employees commute from outside the local area and employees do not spend all of their increased income locally. However, most of the costs are incurred at the local level. Projects may be feasible at the county or regional levels which are not feasible at the local or county levels.

Net benefits were positive for all plants at all levels in this study because no community had to expand service facilities (schools, water, and sewer systems, etc.) for these eleven plants. However, continued expansion of industrial activity will eventually require public capital expenditures for expanded service facilities, at which point a critical evaluation of investment costs as compared to net benefits is needed.

A fourth study is an input-output analysis of the economy of the 5-county region (Husain). This study shows that the regional economy has relatively low secondary income multipliers because of a high dependence on imported intermediate inputs. For example, the manufacturing sector imports most of its intermediate inputs (74 percent for the firms in the labor force study sample) and sells most of its output outside of the region. The typical value of general multipliers for the region is about 1.45; for example, the addition of one dollar of income from direct employment generates an additional 45 cents of income through secondary effects. From the benefit-cost study, the average income multipliers (estimated by a different technique) were 1.15 at the local level, 1.55 at the county level, and 1.75 for the region.

A fifth study showed that rural residents are interested in expanding employment opportunities (Napier, Pierce and Bachtel). Over 46 percent of 1,474 respondents in a 1975 study cited "stimulation of economic development" as the most important perceived need, with another 27 percent indicating it as the second or third most pressing need. But rural residents are concerned about the impact of local policies to attract new jobs. They have questions about the impacts of different types of firms on the cost of providing public services, the environment, and the economic welfare of the community. Over half were undecided about or opposed to the use of tax revenues to support industrial development efforts.

Implications and Problems for Rural Economic Development

Since 1970, rural communities in Ohio have experienced increased population and increased job opportunities. The major advantage of rural areas is a low skilled labor force willing to work at low wage rates. At the same time, employment opportunities in rural areas are predominantly low skilled with little

on-the-job training to raise skill levels over time. A second advantage of many rural communities is excess capacity for water, sewer and other community services. Even where excess capacity does not exist, the estimated benefits of manufacturing plants suggest that substantial investments to expand service facilities can be made in many cases if community residents are willing to increase public expenditures. Based on these results and the results of other research, there appear to be three major areas where rural communities need assistance to evaluate and enhance economic development potential: 1) human and financial resources, 2) large scale developments, and 3) non-manufacturing alternatives.

Human and financial resource constraints impose limitations which are unique to rural communities. Many rural communities cannot economically justify professional planning staffs to perform functions such as economic base studies and seeking grant money from state and federal programs. In addition, local decisionmakers are often volunteer or part-time, and do not devote full time to determining and assessing feasibility of alternatives and community priorities. While more rural communities can probably justify hiring professional staffs than currently have them, the staffs will be more limited in expertise than professional staffs in urban areas. The availability of outside expertise in specific areas is critical to rural communities.

Many physical capital investments, such as expanded water and school capacity, which may often be financed out of on-going budgets in urban centers, represent major public investments in rural communities. Conventional wisdom suggests that any rural community which wants industry should at minimum have an industrial site with utilities available at the site. To a rural community, such an industrial site can be a major and high risk investment. Analysis of investment alternatives which rural communities can use to

enhance their employment development potential including alternatives for industrial site development is a major need. In addition, analytical tools need to be developed which allow local decision makers to estimate the impacts of alternative growth policies on income, employment, and public sector revenues and expenditures. These tools need to be designed to allow local leaders to participate in the estimation procedures so that the results are understandable to them and are used in local decision making.

Acquiring capital to make public or private investments in rural communities also presents unique problems. The quantity of capital needed frequently lies in the range of being too great to finance from on-going budgets, but too small to justify a bond issue. Improved state policy to assist rural communities in raising public investment capital needs to be developed. A policy might involve state assistance in combining bond issues from rural communities and absorbing some of the risk of the individual issues.

The potential roles of venture capital, and the roles of banks, Small Business Administration (SBA), Farmers Home Administration (FHA), and other financial institutions in rural communities appear similar to urban centers. The major difference is probably greater variability across rural than urban communities. Since most rural communities have few financial institutions, they are more subject to the views of a few individuals. An aggressive local bank can provide considerable assistance in helping a rural community raise investment capital (public or private), while a conservative bank can in many cases prevent any kind of development.

Large scale developments in rural communities can potentially induce major investments and changes in community infrastructure. The Gavin electric power plant and deep-shaft coal mines, the Piketon Nuclear Enrichment facility, the Honda plant in Union county, the Ford plant in Clermont county, and the

U.S. Steel plant in Ashtabula county are recent prominent examples. The current Ohio strategy of attracting branch manufacturing plants and the coal deposits in Southeastern Ohio are likely to result in more of these developments in the future. Large scale developments pose problems for rural human and financial resources somewhat different from the problems discussed above. First, rural decision makers often have little input in the decision to locate a large scale development. Their major role is helping the community adjust to the development.

Second, the immediate need in such communities is to make the necessary investments in housing, community services and facilities, and other infrastructure needed to support the plant and new residents. Few rural communities have the human resources necessary to evaluate the demand for new housing, community service and facility, and other infrastructure investments, nor the financial resources to make substantial investments. Considerable outside assistance can be obtained for this phase of a large scale development. However, local leaders must become involved to assure that assistance is received and that community interests are protected.

Finally, a long run need in such communities is to further expand and diversify the employment base. Large scale developments will likely dominate the employment base, creating "boom or bust" economies similar to those of many mining communities of the past. An expanded and diversified employment base is needed to increase the ability of the employment base to absorb changes in employment activities, and in particular to absorb enough of the labor employed at the large scale development to prevent destruction of the economic viability of the community.

Non-manufacturing alternatives is an issue about which little has been done in Ohio. The issue is probably more important to urban than to rural

communities, but rural communities have an important stake in what happens in this area. Many rural communities in Ohio are more dependent on manufacturing than are the state and urban communities. With the high dependence of Ohio on manufacturing and the stable to declining nature of manufacturing employment nationally (and in Ohio where manufacturing employment peaked in 1969), considerable emphasis needs to be given to the development of policy to encourage expansion of fast growth sectors.

In rural communities, many components of tertiary or service industries can provide "basic" employment. Computer software, communications, insurance, and some financial activities are basic employment activities to rural communities. (Whether these activities are basic or supporting at the national level also needs re-examination). These activities would increase the demand for skilled labor in rural communities because they employ more skilled people than does manufacturing, and they would help rural communities participate in national economic growth because they are fast-growth industries. At the same time, they are less location specific and can change location without difficulty.

Conclusion

In conclusion, it appears that the population turnaround and industrial dispersion will continue. If true, the development potential of rural communities is considerably more optimistic than that of urban communities, particularly urban cores. To acquire and accommodate increased employment, rural communities need better access to the human and financial capital needed to evaluate alternative employment activities and to invest in the infrastructure needed to implement or acquire priority activities.

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