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Rural Employment Growth: Who Gets the Jobs?

Mitch Renkow, *Associate Professor and Extension Economist*

Local economic development policies are often oriented toward stimulating employment growth. The measuring stick most commonly used for gauging the success of a particular municipal or county development effort – as well as the individuals charged with formulating and implementing it – is the number of new jobs it creates. Widespread appreciation for beneficial "multiplier" effects of bringing in new firms or promoting expansion of existing firms reinforces the competition among jurisdictions of all sizes for attracting new firms and industries.

Often overlooked in the race for employment creation is the fundamental question of just who gets the newly created jobs. Because workers are mobile – increasingly so over time – it turns out that not all jobs are taken by local residents. Instead, any employment growth in a given community will actually be partitioned between current residents of that community, new residents (in-migrants), and non-resident commuters. This issue of the *NC State Economist* summarizes recent evidence on this allocation of new jobs in North Carolina and traces out some implications of these findings for rural counties.

Job Growth in Rural Communities

The emphasis on job creation is particularly strong in rural communities. Especially where significant declines have occurred in historically important rural industries (such as agriculture and textiles), industrial recruitment is almost universally viewed as a central element in revitalizing the local economy. In large measure, this results from the perception that new firms are required to compensate for the reduction in the earnings of local citizens and businesses that follow on the heels of job losses in traditional industries.

Public finance considerations are also important. Declines in the local tax base that occur when a major plant closes can be devastating, particularly in an era in which an ever-greater share of the overall burden of providing infrastructure and other public goods is falling on local governments. Recruiting new businesses to replace old ones facilitates provision of the same level of publicly financed services without significant – and politically unpopular – changes in property tax rates.

The mobility of laborers – that is, their ability to live in one community and work in another – has a direct bearing on how these income and public finance effects are transmitted throughout the local economy.

Worker Mobility and Income

Much of the emphasis that is placed on promoting job creation by local government officials stems from a desire to enhance the incomes of their constituents, both through provision of jobs to unemployed individuals and through the stimulus to existing businesses that increased purchasing power brings. The extent to which new jobs are in fact taken by individuals other than current residents will have a direct impact on the degree to which this goal is met.

Consider, for example, the case of a new firm locating in a rural county and bringing with it 100 new jobs each paying $20,000 per year. Were all of these jobs taken exclusively by previously unemployed local residents, this would amount to an direct infusion of $2,000,000 per year worth of salaries into the local economy plus indirect (multiplier) effects induced by the spending of that "new" money. If, on the other hand, half of the new jobs were taken by residents of neighboring counties, then the local income effects would be only half as large.

On the opposite side of the coin, the fact that workers are mobile means that the successful economic development efforts of a particular community may produce significant benefits to nearby communities – in the form of greater incomes for *their* residents. Thus, purely from the standpoint of income generation, it may make little difference where a new firm locates as long as it is within the range of feasible commuting distances.

Public Finance Implications

A second important reason for understanding the allocation of new jobs between local residents and non-residents relates to local public finance considerations. When job creation leads to substantial in-migration of new residents, then the demands on local governments to provide public services increase correspondingly.

On the other hand, if a significant share of new employment opportunities are taken by non-residents who commute into the community from elsewhere, then employment growth in one location may give rise to substantial spillovers of fiscal impacts to other communities. For example, employment growth in one location that leads to significant residential development in a nearby "bedroom" community can give rise to considerable strains on the fiscal resources of the latter community.

In North Carolina, this latter phenomenon – called *exurbanization* by regional planners – is especially important to rural communities located in fairly close proximity to rapidly growing urban areas. Approximately 20% of workers residing in rural counties located adjacent to metropolitan counties hold jobs in those metropolitan counties, and considerable evidence suggests that many of those commuters are fairly recent migrants (Renkow and Hoover). Local public expenditures in North Carolina's rural counties currently average around $3,600 per household per year, about 44% of which is funded by residential property taxes. In other words, 56¢ of every dollar spent on residential land uses comes from non-residential sectors such as local industries and farms. Thus, a very rough measure of the fiscal spillovers of exurbanization associated with urban employment growth would be $2,000 (= $3,600 × .56) times the number of new workers choosing to reside in nearby rural counties.

The Allocation of New Jobs in North Carolina

A recent study analyzed employment, commuting, and migration data for North Carolina's 100 counties (Renkow). That research concluded that the great bulk of labor market adjustment to new employment opportunities is accounted for by changes in commuting patterns. Only between twenty and thirty percent of new jobs within a given county are filled by newcomers to the county, and only a very small fraction of new jobs (less than 2 percent) are taken by previously unemployed people (Table 1).

Significant rural-urban differences in the allocation of new jobs exist as well, particularly in regards to commuting flows. A relatively greater fraction of new jobs in metropolitan counties are

Table 1. Allocation of New Jobs in North Carolina among Different Groups

Activity	Jobs in Rural Counties	Jobs in Metro Counties
New in-commuters	**32.4%**	**51.5%**
Previous out-commuters	**37.3%**	**28.4%**
Formerly unemployed	**1.7%**	**1.7%**
New residents	**28.7%**	**18.5%**

filled by (non-resident) in-commuters than is the case for rural counties, while employment growth in rural counties appears to be accommodated to a relatively greater degree by reductions in out-commuting. In other words, urban employers appear to draw their workers from a wider geographic area (that includes nearby rural counties) than do rural businesses. In addition, analysis of migration patterns confirms that population growth in rural counties is significantly more sensitive to changes in employment opportunities in nearby counties than is population growth in other counties.

Implications

These findings have a number of important implications for local officials and others concerned with economic development in rural North Carolina. Given recent declines in historically important rural industries (such as textiles), industrial recruitment is almost universally viewed as key element in replacing the lost sources of income for current county residents. That less than half of new jobs actually go to those residents means that this goal is not being fully met.

On the brighter side, the fact that workers are so mobile means that the residents of a given community will benefit from the success of nearby communities in attracting new jobs and industries. In other words, some communities may be able to "free ride" on the success of others. This is particularly applicable to rural communities located near fast growing urban counties.

But in addition to the issue of jobs, these findings also carry an important message for county governments worried about providing – and paying for – public services for local residents. The fact that a significant amount of urban economic growth translates into substantial residential development in a nearby rural communities poses a difficult fiscal challenge to local officials in those "bedroom" communities. Finding solutions to those challenges will require that creative strategies emerge from on-going debates over regional economic development strategies and land use planning.

References

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