Section: Community Economic Development

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How Rural Counties Can Generate Jobs

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ABSTRACT

The findings are presented from a study of the job generating activities of fifteen rural counties in southern Maryland and the Delaware Peninsula. Nine specified informants, who were knowledgeable about economic developments, were interviewed in each county to learn what actions their counties are taking to develop economically and how much each activity contributes to jobs. The activities that impacted the most on jobs were industrial parks, economic developments units, and tourism promotion. Other major job generators were a county group for recruiting businesses, special capital arrangements, development bonds, location in county of state or federal government activities, and commercial sites. An analysis of county characteristics and activities related to job generating success is provided.

In relation to sociological practice, community development as defined by Napier and Carter (1986:26, 27) is “. . . planned change for collective problem solving” involving “local groups in the determination of change priorities” (1986:26). (See also Chekki, 1979; Christenson and Robinson, 1980; Voth, 1979; and for an alternative point of view, though not necessarily an incompatible one, see Hobbs, 1980.) One of the major problems in rural America today is economic decline, high unemployment, and out migration of young people to seek greater opportunities elsewhere. Rural areas, through municipal and county governments and business associations, are taking collective actions to address these problems, and these actions are the focus of this paper. We

This paper is based on a study funded by the Northeast Regional Center for Rural Development and reported in Finsterbusch, et al. (1989). Support from the Computer Science Center of the University of Maryland also is acknowledged.
present findings from a study of what fifteen rural counties are doing to generate jobs and how successful these actions are judged to be. We also identify some of the factors that help explain why the activities succeed in some rural counties and fail in others.

Our study is guided by two literatures. First is the community literature which equates community development with capacity building (Lackey, Burke, and Peterson, 1987; Wilkinson, 1988). The policy implication of this perspective is that communities should be more self-reliant and self-directed. Current trends, however, are moving in the opposite direction. Wilkinson, for one, states that "... local well-being depends to a great extent on systems and actions in a much larger arena—in state, regional national and world systems" (1988:81). Nevertheless, he does argue that community action can make a difference in economic development despite constraints by larger forces. Although the self-reliant thesis has been challenged by Scott, Cochran, and Voth (1988), it is the basic premise guiding our study.

Second is the rural economic development literature from which we derive a list of workable actions that communities can take to develop economically. Our list builds on those of Pulver (1979) and Malizia (1985) (see also Tweeten, 1974). Their lists include recruiting industries and other businesses, aiding the expansion (or preventing the decline) of existing firms, and aiding the development of new enterprises. Pulver also discusses capturing consumer expenditures and increasing aid from broader governments. Both Pulver and Malizia identify many specific actions for each of these categories that communities can adopt. Because of their inclusiveness we used a compilation of their lists to guide our inquiries about job generating activities in the fifteen study counties. Another advantage of their lists is that they incorporate factors from both the leading community economic development policy which is the business recruitment strategy and from its principal challenger which is the self-development strategy (Reid, 1987; Fitzgerald and Meyer, 1986).

In summary, the objectives of our study are threefold: to determine if both extra-local and community actions are necessary for rural development; to identify the specific actions communities can implement for successful development; and to identify the factors which explain why various development activities succeed in some counties but not in others. To achieve these objectives, the following methodology was used.

Methodology

The project team interviewed face-to-face the occupants of nine key positions in each of 15 rural counties (11 in Maryland, 2 in Virginia, and 2 in Delaware). The informants were selected for their knowledge of the economic activities in the county. Three high-ranking county officials (county)
administered, director of planning, and the economic development director) were interviewed using the long format of the questionnaire. The six other informants were interviewed by a shorter questionnaire. These informants were (1) the county director of the State Employment Office, (2) head of the main Chamber of Commerce, (3) a leading real estate broker, (4) the president or vice president of the largest bank in the county, (5) the editor of the major newspaper, and 6) a reporter on that paper. These nine informants not only discussed development issues but also registered their judgments about county characteristics. The study counties are all rural counties (as designated by the Census Bureau) in Southern Maryland and on the Delmarva Peninsula. These counties were not randomly selected but cluster in two areas because the research team is using the findings to help these counties in their efforts to generate jobs in ways that are compatible with local values.

The project also used some county statistics, obtained from state agency data bases. Most of the data were dated around 1980, thus describing the conditions of a decade ago. The study attempts to monitor the changes of the past decade and relate them to the initial conditions. With only fifteen cases, the analysis must be limited to frequencies, means, and zero-order correlations. Caution must be practiced, therefore, in generalizing the findings beyond these cases. The sample of rural counties has several special features that should be kept in mind. They are rich in water resources. Thirteen of the counties have many miles of shoreline on the ocean, Chesapeake Bay, or the wide parts of the Potomac or Delaware rivers. All are in states that are growing faster than the national average in population and employment. Finally, they are located fairly close to metropolitan regions. The borders of all but three are within 100 miles of Baltimore, Washington, or Wilmington, and the three closest are experiencing booms.

**Employment of Economic Development Activities**

The first concern of this study was to determine the actions counties are taking to generate jobs. Pulver (1979; 1986) suggests there are five strategies available to local leaders to generate jobs: (1) recruiting businesses; (2) helping existing businesses; (3) encouraging business formation; (4) increasing local expenditures; and (5) increasing income from broader governments. The discussion which follows is a brief overview of the specific activities which were employed by county leaders to implement these strategies.

According to Pulver (1979:109) business recruitment is the most frequently employed strategy for generating jobs, and this study supports his claim. County officials were asked to elaborate the actions they had used to recruit businesses over the past ten years. The major actions taken involved having sites available for recruited businesses to occupy quickly. Fourteen counties were recruiting...
businesses by developing industrial sites while twelve counties had built new office sites. Finally, new commercial sites were being constructed in all fifteen counties as another means for recruiting businesses and a means for retaining more consumer dollars in county.

The next line of business recruitment activities was directed at making capital more available to businesses. Ten counties have made special capital arrangements for starting new business and twelve have floated bonds for development projects. These activities were frequently mentioned as being extremely important for successful business recruitment as well as for developing local businesses.

Another type of recruitment activity is to lobby for governments to locate their programs, projects, offices, facilities, and services in the county. During the past decade, seven of the counties have formed a county group to lobby for government activity to locate there, and some type of state or federal government activity has moved to nine of the study counties. For one county, this has been its major development activity as leaders were able to successfully lobby for a state prison to be located there. It has subsequently become the largest employer in the county and pays the highest wages for entry level jobs.

In addition, Pulver (1979) states that facilitating the start-up process through upgrading the infrastructure and conducting labor force surveys to obtain information on the county’s available labor force are two other activities that can be used to recruit businesses. Infrastructure in twelve counties has been upgraded while nine counties have conducted labor force surveys.

Two other ways in which counties can attract businesses are to improve local services and to “form organizations such as industrial development corporations” (Pulver, 1986:14). Pulver suggests a variety of ways to improve local services, two of which we included in our study: improving schools to attract businesses and upgrading community services. Twelve counties stated that they have taken actions to improve their schools while nine counties have upgraded their community services. Only six counties have formed industrial development corporations to date, but these were generally perceived as being fairly successful in generating jobs.

For business recruitment activities that were not on Pulver’s list, we found that eleven counties have formed a county information office for potential businesses; twelve have county officials who were involved in actively seeking businesses to locate there; eleven have formed a group (such as municipal leaders, a business association, or a regional economic development unit) that searched for businesses to locate in the county; eight have given tax advantages to attract businesses; and nine have changed zoning requirements to accommodate businesses or tourists. In summary, many of the fifteen study counties acted in a variety of ways to recruit businesses.

A second strategy, as suggested by Pulver (1979) for local leaders to improve the job outlook is to aid existing businesses. The success or failure of an existing
business can have major impacts on the economic health of a rural county. For example, two counties cited the expansion of a prominent business as the major source of new jobs over the past decade, while several other counties stated that they had been economically devastated by the failure or exodus of a major business.

Pulver (1986:11-12) recommends five aid activities. First, education programs can be organized to strengthen management to assist existing business capabilities. These types of programs have been utilized by ten counties. The second aid activity is a regular visitation program in which county leaders visit business executives to discover and solve problems. Only six counties had such a program but they were seen as very valuable. A third way to assist existing business is to encourage growth by identifying available capital sources for business. Twelve counties cited this as an action they have put into practice. A final method of assisting existing businesses as proposed by Pulver is to provide vocational and technical education programs aimed at improving the quality of the work force. Fourteen counties have these programs available for workers.

A third way local leaders can improve the job outlook is to encourage the formation of businesses. Pulver recommends three types of actions to accomplish this. First, local leaders should form “capital groups to invest private funds locally . . . such as a community development corporation” (Pulver, 1986:14). Four counties have formed these types of corporations. Second, counties can provide counseling and education programs for individuals interested in starting new businesses. These programs were available for citizens in nine counties, but were generally limited to informal advice. Finally, Pulver (1986:14-15) suggests studying the “market potential for new retail, wholesale, service and industrial input-providing businesses.” Ten counties have conducted such studies.

The fourth strategy for generating jobs is to capture a greater percentage of consumer expenditures locally. Pulver (1986:12-13) recommends six practices to increase local purchases and four were tried by a majority of the study counties. Ten counties have surveyed consumer needs and buying habits to identify the market potential of retail and service outlets. Twelve counties have renewed their downtown areas. All fifteen counties have generated more purchases by nonlocal people (tourists, citizens of neighboring communities) through appropriate promotion and advertising. Ten counties have formed chambers of commerce, business clubs, and downtown associations to revitalize the business communities. Only five counties, however, have encouraged local citizens and businesses to buy locally through information programs, and only seven have provided free entertainments and other attractions to bring retailing centers alive. In addition to this list, we found that nine counties had beautification programs to attract businesses or tourists. We also found that tourism promotion is the only activity on this list that was rated, on average, by informants as having a substantial impact on the number of jobs.

The final way to generate jobs, according to Pulver, is to obtain aid from state and federal governments and foundations. All fifteen counties actively
pursued grant money from these sources. Pulver recommends two other actions to obtain more government money but very few counties pursued them. Only two counties have had programs or campaigns to retain or gain elderly residents and the government payments they receive, and only three counties have created community action associations.

In summary, Table 1 presents the “most frequently cited development activities” by informants from a list of 38 researched activities and identifies their level of importance for job generation in the counties that use them. These activities have been grouped into three levels of contribution to job generation for counties that employ them: major, secondary, and minor. The six major and the eight secondary development activities were (a) major: a county group for recruiting businesses, special capital arrangements, development bonds, industrial parks, in county location of state or federal government activities, and commercial sites: and (b) secondary: office sites, industrial development corporations, infrastructure upgrading, business visitation programs, lobbying for in-county location of government activities, upgrading schools, upgrading other services, and tourism promotion. All other development activities that we inquired about generally were perceived as having only minor impacts on jobs on average.

Table 1
MOST FREQUENTLY CITED DEVELOPMENT ACTIVITIES AND THEIR CONTRIBUTION TO JOBS IN THE COUNTIES THAT EMPLOYED THEM

<table>
<thead>
<tr>
<th>Development Activities</th>
<th>Number of Counties Implementing</th>
<th>Average Contribution to Jobs When Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Commercial sites</td>
<td>15</td>
<td>Major</td>
</tr>
<tr>
<td>2 Tourism promotion</td>
<td>15</td>
<td>Secondary</td>
</tr>
<tr>
<td>3 Application for grants</td>
<td>15</td>
<td>Minor</td>
</tr>
<tr>
<td>4 Industrial park</td>
<td>14</td>
<td>Major</td>
</tr>
<tr>
<td>5 Vocational/technical educational program</td>
<td>14</td>
<td>Minor</td>
</tr>
<tr>
<td>6 Office sites</td>
<td>12</td>
<td>Secondary</td>
</tr>
<tr>
<td>7 County officials or group that recruits businesses</td>
<td>12</td>
<td>Major</td>
</tr>
<tr>
<td>8 Downtown renewal</td>
<td>12</td>
<td>Minor</td>
</tr>
<tr>
<td>9 Infrastructure upgrade</td>
<td>12</td>
<td>Secondary</td>
</tr>
<tr>
<td>10 Schools improved</td>
<td>12</td>
<td>Secondary</td>
</tr>
<tr>
<td>11 Development bonds</td>
<td>12</td>
<td>Major</td>
</tr>
</tbody>
</table>
Key Economic Development Activities

In this section, the activities or events that were selected as the key actions for generating jobs and for pursuing the five strategies proposed by Pulver are discussed. While a few activities emerge as dominant, it is also clear that a wide range of actions are important to successful economic development.

All nine informants were asked to identify and rank the top five events or activities for generating jobs in the county in the past decade. Their scores were summed to create a list of the top five activities for each county, and then the rankings (scored 5 for first rank down to 1 for fifth rank) were summed for the fifteen counties. The resulting ranking is dominated by three activities: industrial park (score: 56), economic development unit (26), and tourism promotion (25). Four other activities had ten or more points: a large firm locating in county or significantly growing (16), siting of state/federal facility/park (14), grants, loans or development bonds (12), and school improvement (11).

From these results, we conclude that economic development in the selected counties is dominated by two distinct approaches: the combination of industrial parks and economic development units on the one hand, and tourism promotions on the other. While the focus of these activities differs, both have been met with success. Other activities of importance include the location or growth of a large company as well as that of a major state or federal facility in the county. While these events do not occur frequently, when present, they tend to dominate the economy of the county. While capital arrangements were not ranked first or second by informants, they were almost always viewed as contributing a great deal to development. Finally, improving schools was perceived by informants as a major factor in economic development in that schools, depending on their condition, were either an asset or a liability in business recruitment and/or the retention of enterprising citizens.

The key activity for each of the five strategies, posited by Pulver, was also examined. Due to their direct involvement in county development issues, the three major informants (county administrator, director of planning, and economic development director) were asked to identify the major development activity for each strategy. These activities are listed in Table 2 along with the number of counties selecting each activity as their first choice.

Only eight different activities are cited in Table 2. All other activities in each strategy were chosen as the major activity by two or less counties. Economic development units and arranging financing lead the list with eleven citations, followed by grant applications with eight, and industrial parks with six.
Table 2
MAJOR ECONOMIC DEVELOPMENT ACTIVITIES
FOR THE FIVE STRATEGIES

<table>
<thead>
<tr>
<th>Strategy and Major Activites</th>
<th>Number of Counties Implementing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Recruit Businesses:</td>
<td></td>
</tr>
<tr>
<td>industrial park</td>
<td>6</td>
</tr>
<tr>
<td>economic development unit</td>
<td>5</td>
</tr>
<tr>
<td>advertising the county</td>
<td>3</td>
</tr>
<tr>
<td>2. Help Existing Businesses:</td>
<td>7</td>
</tr>
<tr>
<td>arrange financing:</td>
<td></td>
</tr>
<tr>
<td>3. Encourage the Start of New Businesses:</td>
<td></td>
</tr>
<tr>
<td>economic development unit</td>
<td>6</td>
</tr>
<tr>
<td>arrange financing</td>
<td>4</td>
</tr>
<tr>
<td>gift package such as tax abatement</td>
<td>4</td>
</tr>
<tr>
<td>4. Encourage Consumption in County:</td>
<td></td>
</tr>
<tr>
<td>new shopping centers</td>
<td>4</td>
</tr>
<tr>
<td>buy-local campaigns</td>
<td>4</td>
</tr>
<tr>
<td>5. Acquire State and Federal Dollars</td>
<td></td>
</tr>
<tr>
<td>apply for grants</td>
<td>8</td>
</tr>
</tbody>
</table>

Factors Contributing to the Success of Job Generating Activities

Little research concerning the characteristics of counties that lead to successful economic development is available. As a working hypothesis we posit that the factors which are favorable to economic development will facilitate the successful implementation of development activities. The major factors that affect relocation decisions by management are proximity to markets and inputs, available quality workers, low wage scales, sufficient infrastructure, good living conditions and quality of life, low taxes, and a positive government attitude toward business (Tweeten and Brinkmen, 1976; Tweeten, 1974; Grant Thorton International, 1988; Corporation for Enterprise Development, 1988). Most of these factors also benefit or hinder current businesses and the start of new businesses. They play a smaller role in capturing consumer dollars for which important conditioning factors are: wealth, population size, population growth, and attractive environments (for
tourists, recreational communities and retirees). Finally, the level of effort by the county to generate jobs and the quality of county leadership should have an effect (Lloyd and Wilkinson, 1985; McGranahan, 1984). In sum, we hypothesize that job generating activities will be more successful in counties that have locations close to metropolitan areas, large populations, high incomes, high prior unemployment (available labor), high prior population growth, large economic development (ED) units, successful ED units, pro-growth government and citizen attitudes, quality labor, quality government and community leadership, high quality of life, and quality schools.

Table 3 begins to test our hypotheses. Indicators for the above variables are correlated with the ratings by our principal informants on how much impact various job generating activities had on jobs in each county. We include in Table 3 only the job generating activities that were practiced in eight or more counties and were considered, on average, to be relatively important job generators as indicated in the previous two sections. It goes without saying that correlations based on such small numbers must be interpreted with extreme caution, and that all conclusions must be tested further before general conclusions are made.

Furthermore, there are a few problems with the data set. First, the job generating activities were for the past decade so the county characteristics should be for 1980. While five variables are for 1980, nine are for 1988. All measures that are based on informants’ judgments were obtained in 1988. The subjective indicators, therefore, post-date the activities with which they are correlated. These current judgments, however, are based on the past record so the ordering of observations may be less a problem than it seems at first, but a problem, nevertheless. Secondly, another problem is the use of the size of the ED unit as a measure of its level of effort. One ED unit with a part-time person was far more active than some ED units with one or more full-time persons. A final problem is concerned with the fact that the small number of cases does not allow for multivariate analysis, thus the effects of each variable, independent of the other variables, can not be determined. While zero order correlations might be largely spurious, the correlations presented in Table 3 do provide an initial estimation of the relative influence of a number of county characteristics on the success or failure of important job generating activities.

As indicated previously, industrial parks were selected as the most important job generating activity. They were the most successful in generating jobs in counties with high quality labor, low unemployment, high incomes, quality county and community leadership, and proximity to Washington, Baltimore, or Wilmington. These findings generally conform to our hypotheses with the exception of unemployment which is negatively related to the success of industrial parks. Since unemployment is strongly associated with low incomes, poor housing and other negative social indicators, it is an indicator of adverse social conditions. We assume that the adversity aspect of unemployment was more salient than the surplus
Table 3
PEARSON CORRELATIONS OF COUNTY CHARACTERISTICS
WITH THE DEGREE OF IMPACT OF SELECTED ACTIVITIES ON JOBS
FOR FIFTEEN RURAL COUNTIES IN THE DELMARVA PENINSULA AND SOUTHERN MARYLAND

<table>
<thead>
<tr>
<th>Dependent Variables:</th>
<th>Pro-growth Attitudes</th>
<th>Quality of Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of success in</td>
<td>Miles to Metro</td>
<td>Pop. 1980</td>
</tr>
<tr>
<td>n</td>
<td></td>
<td>Pop. 1980</td>
</tr>
<tr>
<td>14 Industrial park</td>
<td>-.58</td>
<td>.20</td>
</tr>
<tr>
<td>12 Office site</td>
<td>-.80</td>
<td>.39</td>
</tr>
<tr>
<td>15 Commercial site</td>
<td>-.65</td>
<td>.65</td>
</tr>
<tr>
<td>9 S/F gov. activity</td>
<td>-.10</td>
<td>.17</td>
</tr>
<tr>
<td>12 County recruiter</td>
<td>-.55</td>
<td>.42</td>
</tr>
<tr>
<td>11 Group recruiter</td>
<td>-.72</td>
<td>.46</td>
</tr>
<tr>
<td>10 Capital arrange.</td>
<td>-.06</td>
<td>.14</td>
</tr>
<tr>
<td>12 Development bonds</td>
<td>-.69</td>
<td>.43</td>
</tr>
<tr>
<td>8 Tax breaks</td>
<td>-.33</td>
<td>-.01</td>
</tr>
<tr>
<td>12 Infrastructure</td>
<td>-.37</td>
<td>.41</td>
</tr>
<tr>
<td>12 School improvement</td>
<td>-.28</td>
<td>.40</td>
</tr>
<tr>
<td>14 Technical ed.</td>
<td>-.22</td>
<td>.08</td>
</tr>
<tr>
<td>15 Tourist promotion</td>
<td>.41</td>
<td>-.20</td>
</tr>
<tr>
<td>15 Grant applications</td>
<td>-.46</td>
<td>.40</td>
</tr>
</tbody>
</table>
labor aspect when associated with the success of industrial parks. Furthermore, the quality of labor is viewed as more important than a surplus of labor to the success of industrial parks.

It is important to note that the success of industrial parks, contrary to expectations, does not appear to be heavily dependent on the size and effectiveness of the ED unit or on pro-growth attitudes. Nevertheless, ED units were perceived as important contributors to job generation, while many of our informants discussed how anti-development attitudes have hindered development, and pro-development attitudes have helped business recruitment. Furthermore, the findings of our study indicate that the two major activities of ED units are recruiting businesses and helping establish industrial parks (Finsterbusch et al., 1989). We explain these seemingly inconsistent findings in two ways. First, other factors overshadow the effect of the ED units and pro-growth attitudes. Humphrey, Erickson and Ottensmeyer's (1988:1) conclusion for their study of industrial development groups may explain our findings:

While growth promotion groups are judged to be effective in terms of the number of jobs that are created or preserved relative to their direct expenditures of resources, neither their presence nor the levels of their organizational resources are significantly related to service area net employment change. The effort of growth promotion groups are simply overwhelmed in importance by factors such as population size, metropolitan accessibility, location in a growth region, and manufacturing wage rates that characterize the respective service areas.

The second explanation relates to the fact that some of the counties where industrial parks are succeeding can be described as boom counties. This has led to many of the problems associated with rapid growth which has, in turn, resulted in the development of anti-growth attitudes by county residents. Therefore, county leaders have not seen any need to actively encourage growth efforts in these counties.

Another lesson about industrial parks as illustrated in Table 3 is that they may not be successful in remote, disadvantaged counties. In fact, all industrial parks that have been empty, or nearly empty, for a number of years are located in these depressed counties. As suggested by many commentators, the rate of business relocation to rural areas has begun to decline. Therefore, with competition intensifying and the potential for success decreasing (Ford Foundation, 1986), disadvantaged counties have an even more difficult time attracting tenants to industrial parks.

The second most important job generating activity to consider is the ED unit which is represented in Table 3 by two activities: county recruiter and group
recruiters. The success of the two recruiter variables has a pattern of correlations that is very similar to that of industrial parks.

A third activity to consider is tourism promotion which has correlation patterns quite different from those of industrial parks and ED units. Tourism promotion is more successful in counties located farther away from the metropolitan centers and is not significantly influenced by variables in Table 3. It should be noted that some of the most remote counties did not attract many tourists, so the distance factor has only a moderate correlation with success in tourism promotion. In addition, tourism promotion by the counties has greatly increased in the past decade. In 1980 many counties had left this function up to the state. Now more counties believe a county tourism office more than pays for itself.

Of the remaining ten activities listed in Table 3, three (degree of success of office sites, commercial sites, and development bonds) have patterns of correlations with explanatory factors that are similar to the patterns for industrial parks and recruiters. This suggests that they may be sustained by many of the same forces. It should be noted, however, that the success of office sites in generating jobs is benefitted more by location near urban areas than is the success of industrial parks. Five additional activities (tax breaks, infrastructure development, school improvement, special capital arrangements, and technical education programs) have patterns of correlation that are similar to, but weaker than, industrial parks.

The success of grant applications has very weak correlations with most county characteristics suggesting favorable results can be obtained under a variety of conditions. Thus, it can be argued that disadvantaged counties should consider this as a development activity in the future.

The last activity to be discussed is the location of state or federal facilities or activities in the county. This activity is correlated only with pro-growth attitudes and quality of life. It is important to note that a federal or state facility was present in only nine counties and their degree of impact on jobs is not associated with the factors which lead to a successful industrial park. This suggests that counties that are disadvantaged in regard to industrial development might consider this an avenue for development.

The above discussion has examined Table 3 row by row. In this section it will be examined column by column. Location is clearly a dominant explanatory factor for successful job generation in relation to most activities, in particular, for the industrial park and recruiter cluster of variables. As stated earlier, only one activity, tourism promotion, was significantly more successful farther away from metropolitan centers. Three other activities have insignificant correlations, but the remaining fifteen activities were more successful closer to metropolitan centers.

Population size of a county is not related to the success of most activities. The counties with the largest populations were those with the largest cities, a suburban fringe boom, or a resort boom. Each of these counties features
retailing with commercial sites significantly impacting the number of jobs. For most other activities, population size has only slight or moderate correlation with success in generating jobs.

Income per household is indicative of the prosperity of a county. It is negatively related to distance to metropolitan center and unemployment, and positively related to quality of the labor force and quality of community leadership. These five explanatory factors tend to work in tandem and are strongly related to the success of the industrial park/recruiters activity syndrome.

It was expected that the quality of schools would have the same pattern of correlations as does per household income and the above four associated explanatory factors. However, this does not appear to be the case. The quality of the schools has a low correlation with income per household \((r = .28)\). A possible explanation for this unusually low correlation is that some counties have high average incomes because they have many wealthy retirees and resort-related residents who are not concerned about good schools and many wealthy farmers who are often interested in keeping school budgets low. As a result, the normal dependence of the quality of schools on income levels is greatly reduced. In general, quality schools are not an important explanatory factor for the activity list though it is strongly related to job generating Chambers of Commerce and successful tax break policies. This is most likely due to the fact that these last two activities and good schools depend upon the same type of county make up.

The unemployment rate can be used as an indicator of where job generating activities are most needed. Unfortunately, high unemployment counties are not the ones which engage in the most job generating activities. These counties are also relatively unsuccessful in attempts at job generating activities, especially the industrial park/recruiters syndrome of activities. High unemployment counties, however, have fair success with in-county location of state/federal facilities or activities and counselling programs for new businesses.

The impact of population growth on the success of subsequent job generating activities is unclear, because it is highly correlated with other explanatory factors. It is correlated with average income at \(r = .77\) and with distance to metropolitan centers at \(r = -.63\). Population growth is less important than income and location to the effectiveness of the industrial park/recruiters syndrome of activities and does not clearly make a unique contribution to the success of any activity except infrastructure upgrading.

**Conclusion**

From our analysis, it can be concluded that in order for the fifteen rural counties of the Delmarva Peninsula and Southern Maryland to generate jobs, leaders should be involved in creating industrial parks and economic development
units for recruiting businesses and in promoting tourism. These activities were judged by informants as contributing the most new jobs. While many commentators state that industrial parks and industrial recruitment are overemphasized as rural economic development strategies, our results suggest otherwise. In addition, after completing our field work in 1988, we have found that the rate of leasing sites in industrial parks has increased, not declined. Thus, current trends in these counties support rather than contradict our findings for the past decade.

Four other factors emerge as important to improving the state of rural economies. First, available financing was cited over and over again as being very important, as state and federal financial programs have made major contributions to rural economic development. Second, quality schools were identified as being very important to business recruiting and, in general, to economic development. Third, quality of life factors also were viewed as significant factors to economic development and especially to business recruitment. Finally, the location of a state or federal activity, facility or park in the county has major impacts on the local economy where they occur.

The factors that were strongly associated with the success of these activities for generating jobs were: favorable location, high incomes, quality labor, quality leadership, and low unemployment. These factors were highly or moderately correlated with the success of industrial parks, recruiters, office sites, commercial sites, and development bonds. In sum, most development activities were more successful in favorably located and advantaged counties.

Three activities, however, were exceptions to this pattern: the success of tourism promotion, location of state and federal activities or facilities in the county, and grant applications. Tourism promotion was the only factor which was more successful farther away from the metropolitan areas. The success of a state or federal facility was not correlated with most county characteristics but was highly associated with pro-growth attitudes. The success of grant applications has very low correlations with most county characteristics suggesting grantsmanship can succeed almost anywhere. In sum, industrial parks and many associated activities are most successful in favorably located and advantaged counties, but tourism promotion, location of state/federal activities/facilities in the county and grantsmanship seem to succeed equally well in disadvantaged counties.

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Coal Severance Taxes:
A New Social Justice and
Community/ Economic Development
Tool for Coal-Producing Areas

Raymond C. Lenzi

ABSTRACT

One hundred eight-eight coal-producing counties in fifteen states were examined to
determine the relationship of coal severance tax allocations to community economic
development and change in socio-economic conditions. The one hundred counties
receiving coal severance taxes were identified as an "experimental group" and the
eighty-eight counties not receiving these funds were used as a "control group" in a
quasi-experimental model. The five key socio-economic variables examined were (1)
per capita income, (2) poverty rate, (3) employment growth, (4) unemployment rate,
and (5) bank deposits. Coal counties which received coal severance tax allocations
and community economic development programs improved all five socio-economic
conditions at a significantly higher rate than counties not benefitting from these dollars
and programs. Policy implications are discussed including the need to further
examine/refine coal and other resource taxation and reallocation programs of support-
ing rural community economic development.

Scarcely had the coal trade of Great Britain begun (than) it became subjected
to a system of heavy taxation (becoming) . . . a prolific source of revenue to the
Crown (Galloway, 1969).

. . . the argument has been advanced that a (severance) tax on Kentucky's
(coal) would promote the development of the Commonwealth by permitting the
financing of necessary development projects (Curtis and Karst, 1972).
From the seventeenth-century England to the modern American coalfields, coal mining and coal severance taxes have been important social and economic issues. The legends and music of America have recorded the poverty and suffering of the miners and other residents of the nation’s coal country. The songs and images are numerous including Pete Seeger’s “Which Side Are You On,” Loretta Lynn’s “Coalminer’s Daughter,” and the movie *Harlan County, USA*. Some of these songs poetically address major social issues (such as exploitation) related to coal production. One of the most famous, “Sixteen Tons,” was number one on the pop charts for more than two months in the 1950s:

You load 16 tons and what do you get  
Another day older and deeper in debt  
St. Peter don’t you call me cause I can’t go  
I owe my soul to the company store  
(“Sixteen Tons,” Tennessee Ernie Ford, 1956)

Others, like “Muhlenberg County,” (Kentucky) directly address issues of coal mining’s environmental damage:

O’Daddy won’t you take me down to Muhlenberg County  
Down by the Green River where the water did flow  
I’m sorry my son but you’re too late in askin’  
Mr. Peabody’s coal train has done hauled it away  
(“Muhlenberg County,” popular folk song, anonymous)

Television documentaries depicting strip mine land damage, tar paper shacks, “busted” Appalachian “company” towns, coal county illiteracy, “black lung,” mine disasters, and other social and economic travesties of America’s coal fields have graphically brought these social issues to the national conscience. The negative economic and social externalities associated with coal mining are all too numerous in the history of coal mining. There is also a strong empirical correlation between coal mining areas and poverty and economic underdevelopment (U.S. Census, 1982). In the late 1960s and 1970s numerous states began adopting coal severance tax policies to gain revenue to cope with the problems of local impact and community economic development needs in their coal-producing communities.

**Coal Severance Taxes**

Coal severance taxes are based on a simple concept and procedure. For various reasons states impose a tax per ton or, as now more common, a percent of sale price (also called *ad valorem*) for each ton of coal removed or “severed”
from the ground. These revenues are then used to address "externalities" and provide for programs the state might otherwise be unable to fund. The rate of taxation and the patterns and purposes of allocation of these revenues varies greatly by state.

Coal severance tax allocations have become a significant community and economic development tool and social justice policy instrument. Coal severance tax dollars have become a large share of state revenue in a number of states (notably Kentucky and Wyoming) and a major source of revenue for community development projects at the city and county levels. From the western coal states of Montana, Wyoming, Colorado, and North Dakota (where severance allocations are used to build schools, roads, and water systems to accommodate the "boom" style growth of their rapidly expanding coal fields) to Kentucky (where coal severance dollars are used for the state’s general education and highway funds and to fight historic and endemic poverty), coal severance tax allocations are making a difference in the lives of the people and communities of America’s coal fields.

Coal tax rates vary from Montana’s 30% gross value rate to approximately 1% in Alabama. In Colorado and Wyoming most dollars are returned directly to coal communities in grants and loans for economic development ventures and community infrastructure and amenities (e.g., community centers, schools, public swimming pools and parks). While these funding programs are not inherently tied to the community development process, they finance enormous numbers of community development projects and are thus worthy of attention by community developers and sociological practitioners.

**Methodology**

This research examines U.S. coal county socio-economic conditions and documents the change in these conditions over one decade (1971-1980). It then assesses the impact on these conditions of state coal severance tax allocations to community economic development programs and projects in these historically poor rural areas. One hundred eighty-eight coal counties were examined in the study and were divided in a quasi-experimental model into (1) a control group with no coal severance tax allocations for community and economic development programs (88 counties) and (2) an experimental group with substantial coal severance tax allocations for community and economic development programs (100 counties).

The 188 counties represent a total enumeration of "significant" coal producing counties (defined as having an average production of 100,000 tons per year for 1871-1980). The 100 counties receiving direct coal severance tax allocations were in eight states: Alabama, Colorado, Kentucky, Montana, North Dakota, Tennessee, Utah, and Wyoming. The 88 counties not recipients of coal
severance funded community and economic development programs were in 
seven states: Illinois, Indiana, Ohio, Pennsylvania, Texas, Virginia, and West 
Virginia. (Note: West Virginia is not regarded as returning dollars to the local 
level because the combination of level of taxation and amount returned to the 
local level make the dollars returned insignificant.) The 1971-1980 period was 
studied because it is the last period for which accurate data on key 
socioeconomic variables are available (many are from the 1980 U.S. census) 
and because it allowed a decade-long study, something which will not be pos-
sible again until the early 1990s. The author acknowledges that the “boom” of 
the coal economy in the 1970s due to the energy crisis may have affected data in 
some counties, but any period will reflect some abnormalities. Five key 
socioeconomic variables (job growth, unemployment, income, poverty, and 
bank deposits) were measured with U.S. Census and other data for the period. 
Coal severance tax allocations for local community and economic development 
projects and programs in the experimental counties were quantified in dollar 
terms by collecting actual dollar figures from the various states. Changes in the 
five socio-economic variables were then analyzed with a simple comparative 
analysis given the total enumeration for the control and experimental groups. 
The results of this analysis are reported along with some discussion of coal 
severance tax policies and the implications for rural community and economic 
development policies in general.

Coal County Conditions

The communities of America’s coal counties are among the most economi-
cally impoverished and underdeveloped in the country. The problems of 
economic welfare of coal miners and coal mining areas have been an important 
issue and source of conflict since coal production began. The most violent labor 
struggles in U.S. history have taken place in the American coal fields. The 
names Joe Hill and Mother Jones are part of this legacy. So also is the stern face 
of John L. Lewis and his role in the evolution of the United Mine Workers of 
America and the AFL-CIO. The Cripple Creek Coal Rebellion and the 1936 
Herrin, Illinois mine riot which partly inspired the book Bloody Williamson 
(Angle, 1952) demonstrate the historic sentiment of exploitation and inequality 
held by coal miners and coal area residents toward the coal industry.

The theme of exploitation of depressed rural coal-producing areas by “big” 
national and multinational corporations is common in the literature. Regan and 
Walsh (1977) used Ireland’s coal-producing areas as an example to argue that 
mineral extraction areas remained “dependent and under-developed.” Gills 
(1982) documents the relationship of this Third World feeling of exploitation to 
the emergence of mineral taxes in these countries. The issue of economic justice
is echoed by Sherafat, who concluded that maintenance of a relatively monolithic coal economy invited continued underdevelopment and exploitation of eastern Kentucky. According to Sherafat (1979):

... the economy of the area was heavily dependent on the coal industry. Some 56 percent of GRP (gross regional product) is generated by the coal industry and 25 percent of the ... labor force is employed by this industry ... most of the contribution of the coal industry to GRP was in the form of rents, profits, and interest; however, due to the absentee ownership ... most of this capital leaves the area. Thus, the primary contribution of the coal industry ... is in the form of wages and salaries ... the coal industry cannot serve as a long-run source of economic growth for the region ... to promote economic growth ... the coal counties’ economy needs to be diversified (emphasis added).

These social costs taken together have provided the impetus for coal severance tax legislation. While some would question the mixing of labor and “externality” issues in discussing the coal severance tax, it is justified on two important grounds: (a) the political impetus for coal severance tax legislation and return of dollars to local levels has often come from a coalition of environmental, labor, and civic groups and (b) the academic rational cited in the literature tends to overlap the twin concerns of negative environmental impact and economic distributional fairness. The rationale for coal severance taxes is a fundamental issue which provides a point of departure to begin to look at coal severance taxes.

Many of the more commonly cited rationales for coal severance taxes overlap. “Exportability” of the tax to consumers in other states is frequently mentioned. So is compensation for coal production related costs (Conrad and Hoole, 1980; Verrecchia, 1981)—also called “socioeconomic impacts” by Ervin, Desai, and Foster (1981). The use of the tax to replace part of the lost mineral “value” (Conrad and Hoole, 1980) or “irretrievable loss” (Ervin, Desai, and Foster, 1981) or loss of “natural heritage” (Verrecchia, 1981) is also mentioned quite often. This is also related to the economic development incentive mentioned by Curtis and Karst (1972). The various rationales and their proponents are summarized in Table 1.

Income and Income Changes

Per capita income in all coal counties in 1980 was $5,934—only 58.6 percent of the national average. Severance coal counties were in even worse shape...
Table 1
Coal Severance Tax Rationale

<table>
<thead>
<tr>
<th>Rationale:</th>
<th>Cited by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replaces Partial Mineral Value,</td>
<td>Conrad and Hoole</td>
</tr>
<tr>
<td>Natural Heritage or State Wealth</td>
<td>Ervin, Desai, and Foster Verrecchia</td>
</tr>
<tr>
<td>Tax Mineral Wealth for Economic Development</td>
<td>University of Kentucky Research Team</td>
</tr>
<tr>
<td></td>
<td>Kentucky Fair Share Coalition</td>
</tr>
<tr>
<td></td>
<td>Pittman, Illinois South</td>
</tr>
<tr>
<td></td>
<td>Hawkins, UMWA</td>
</tr>
<tr>
<td>Compensation for Socially Negative Mining</td>
<td>Conrad and Hoole</td>
</tr>
<tr>
<td></td>
<td>Ervin, Desai and Foster Verrecchia</td>
</tr>
<tr>
<td></td>
<td>Kentucky Fair Share Coalition</td>
</tr>
<tr>
<td></td>
<td>Illinois South</td>
</tr>
<tr>
<td>Tax is Exportable to Consumers in Other States</td>
<td>Conrad and Hoole</td>
</tr>
<tr>
<td></td>
<td>Ervin, Desai and Foster Verrecchia</td>
</tr>
<tr>
<td>Public Compensation for Hight Coal Profits</td>
<td>Smith, Ostendorf and Schectman</td>
</tr>
<tr>
<td>Relationship between supply-demand (i.e., tax</td>
<td>Ervin, Desai and Foster</td>
</tr>
<tr>
<td>can be &quot;gotten away with&quot;)</td>
<td></td>
</tr>
<tr>
<td>Compensation for coal industry's</td>
<td></td>
</tr>
<tr>
<td>&quot;preferential&quot; tax treatment (underassessment</td>
<td></td>
</tr>
<tr>
<td>and loopholes)</td>
<td></td>
</tr>
</tbody>
</table>
than coal counties in general with per capita incomes of $5,691 or just 56.2 percent of the national scale. This illustrates the poverty of America’s coal communities relative to the rest of the nation. As Table 2 indicates, western coal counties have per capita incomes 24.4 percent higher than eastern coal counties, although western coal counties at $6,891 are still only 68.0 percent of the national average. Eastern severance counties are the poorest of the four groups (eastern sev., eastern non-sev., western sev., and western non-sev.) with a per capita income of only $5,277 of 52.1 percent of the national average. Western severance counties are the highest income group with income of $7,148 which equals 70.6 percent of the national average.

Table 2

COAL COUNTY PER CAPITA INCOME (PCI) CHANGES

<table>
<thead>
<tr>
<th>County Group</th>
<th>PCI 1 (1970)</th>
<th>PCI 2 (1980)</th>
<th>Real Increase*</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALL</td>
<td>$2221</td>
<td>$5934</td>
<td>26%</td>
</tr>
<tr>
<td>SEV</td>
<td>2038</td>
<td>5691</td>
<td>32%</td>
</tr>
<tr>
<td>NONSEV</td>
<td>2447</td>
<td>6235</td>
<td>20%</td>
</tr>
<tr>
<td>EAST</td>
<td>2056</td>
<td>6891</td>
<td>28%</td>
</tr>
<tr>
<td>WEST</td>
<td>2534</td>
<td>6891</td>
<td>28%</td>
</tr>
<tr>
<td>SEV EAST</td>
<td>1874</td>
<td>5277</td>
<td>33%</td>
</tr>
<tr>
<td>SEV WEST</td>
<td>2616</td>
<td>7148</td>
<td>29%</td>
</tr>
<tr>
<td>National Average (All Counties–Coal &amp; Noncoal)</td>
<td>$10,129</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Adjusted For Inflation Using Consumer Price Index

More important to this study is the fact that the coal counties receiving coal severance tax allocations for community economic development projects showed greater increases in income during the decade 1971-1980 than those coal counties without coal severance tax allocations. The magnitude of these differences is striking. Nonseverance counties showed an increase in “real” income of 20 percent (adjusted for inflation), severance counties income increased 32 percent (a full 60 percent faster). The eastern severance counties showed the fastest increase of all groups (33 percent). The magnitude of coal
severance tax grants, loans, and transfers help to explain these differences and will be detailed later in this paper.

Poverty

Poverty data show similar trends. Coal counties have higher poverty rates than the national average but coal severance counties reduced their poverty rates at a much sharper rate than coal counties lacking the benefit of coal severance programs and dollars. In 1970 all coal counties had over one-fifth of their residents (20.3 percent) below the poverty line, almost twice the national average. Coal severance counties were among the poorest with a collective average of 25.6 percent below poverty. Coal severance counties saw a reduction in their poverty rates by 20 percent while counties not receiving coal severance tax allocations saw only a 4 percent reduction.

Total Employment Growth

Total employment also showed faster growth in counties receiving coal severance tax dollars than in counties not receiving coal severance tax reimbursements, further evidence of the economic impact of coal severance taxes on coal communities. While all coal counties had a 33 percent average growth rate in total employment, severance counties had a 45 percent growth rate in jobs compared to only 19 percent for the nonseverance cousins. The faster economic growth rate held for severance counties in both east and west although the west in general had higher employment growth rates.

Unemployment Changes

Unemployment grew throughout the U.S. in the decade of the 1970s because of rising oil prices, foreign competition, and the resulting structural unemployment. Unemployment in all coal counties increased 65 percent during this period. Unemployment in severance counties, however rose "only" 56 percent compared to a 76 percent rise in nonseverance counties.

Bank Deposit Growth

Bank deposits are yet another measure of socio-economic change and well-being. Bank deposits from 1970 to 1980 in severance counties grew at 55 percent (real increase; i.e., adjusted for inflation) while nonseverance counties grew at a real rate of only 15 percent. Western counties grew much faster (74 percent) than eastern (24 percent). Clearly increases in bank deposits are associated with severance tax allocations and severance taxes would appear to have a positive impact on social and economic conditions in coal counties.
A summary of the conditions shows that severance tax counties are better (and improving faster) by all five measures (per capita income, poverty rate of change, total employment growth, unemployment percent change, and bank deposit growth). Related changes show that severance counties are also more likely: (1) to have experienced faster increases in coal production (493 percent to 163 percent), (2) to have less costly coal and more moderate coal price and increases, (3) to have coal with lower sulfur content, and (4) to have lower population densities but more rapidly rising populations. While some might question the relationship of coal severance tax allocations to the positive economic trends, a separate factor analysis (not included here due to space limitations) also found coal severance allocations to be strongly “loaded” on the economic growth factor when controlling for other independent variables such as coal production.

Coal Severance Tax Allocations Quantified

In order to understand more fully the magnitude of the coal severance tax allocations to coal areas, the actual allocations to each county over the study period were analyzed and quantified. The comparison of severance tax allocations in annual dollars per capita is shown in Table 3:

<table>
<thead>
<tr>
<th>Region</th>
<th>STAPC</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Severance</td>
<td>$72.70</td>
</tr>
<tr>
<td>Severance East</td>
<td>10.19</td>
</tr>
<tr>
<td>Severance West</td>
<td>292.85</td>
</tr>
<tr>
<td>East:</td>
<td></td>
</tr>
<tr>
<td>Alabama</td>
<td>$ 5.68</td>
</tr>
<tr>
<td>E. Kentucky</td>
<td>9.60</td>
</tr>
<tr>
<td>Tennessee</td>
<td>11.27</td>
</tr>
<tr>
<td>W. Virginia</td>
<td>10.61</td>
</tr>
<tr>
<td>W. Kentucky</td>
<td>15.11</td>
</tr>
<tr>
<td>West:</td>
<td></td>
</tr>
<tr>
<td>Colorado</td>
<td>$ 624.75</td>
</tr>
<tr>
<td>Montana</td>
<td>184.61</td>
</tr>
<tr>
<td>North Dakota</td>
<td>87.07</td>
</tr>
<tr>
<td>Wyoming</td>
<td>109.27</td>
</tr>
</tbody>
</table>

STAPC = Total Local Severance Tax Allocations Per Capita (1980 dollars) 1971-80/number of years allocations actually received.

These data indicate that local coal severance tax allocations averaged roughly $73 (1980 dollars) per capita in all coal severance counties for the decade. Allocations varied from state to state by a ratio of 100:1, however, with Colorado’s $625 per capita versus Alabama’s $6. The relative importance of these expenditures can be seen more clearly when we compare them to other sources of revenue and expenditures by county.
Revenue Sources Compared

As a source of community economic development revenue compared to local government revenue (including county and local school operations), coal severance tax dollars equalled more than one-third of all property tax revenues for all coal severance counties. (See Table 4.) Table 4 also shows that while coal severance revenues equalled only 4 percent of state/federal revenues in eastern severance counties, they equalled 86 percent in the west. By any measure these are very important revenues to local governments in the coal severance tax states and make possible the funding of many community development, infrastructure, and economic development activities and projects. In addition, Table 4 shows that coal severance tax revenues average 8 percent of total expenditures, 18 percent of educational spending, 140 percent of highway spending and 711 percent of service expenditures.

Table 4:
Severance Tax Revenue as a Percentage of Other Sources of Revenue and Expenditure

<table>
<thead>
<tr>
<th>Region</th>
<th>Prop Tax</th>
<th>State-Fed</th>
<th>Expen</th>
<th>Ed</th>
<th>Hi</th>
<th>Serv</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Sev.</td>
<td>34%</td>
<td>22%</td>
<td>8%</td>
<td>18%</td>
<td>140%</td>
<td>711%</td>
</tr>
<tr>
<td>Sev. East</td>
<td>33%</td>
<td>4%</td>
<td>3%</td>
<td>4%</td>
<td>131%</td>
<td>348%</td>
</tr>
<tr>
<td>Sev. West</td>
<td>75%</td>
<td>86%</td>
<td>25%</td>
<td>62%</td>
<td>171%</td>
<td>1966%</td>
</tr>
</tbody>
</table>

PropTax = Property tax per capita
State-Fed = State and Federal expenditures per capita
Expen = Total expenditures
Ed = Educational expenditures
Hi = Highway expenditures
Serv = Service expenditures

Policy Analysis Discussion

Based on this study, it is possible to discuss coal severance tax policy and its relationship to community and economic development on a number of different levels. Conclusions and speculations are presented relative to coal county conditions, severance tax allocation effects, and implications for future coal severance tax policy development.

Coal County Conditions

*Coal mining counties differ greatly in population and population density, socio-economic vitality, coal mining conditions and stages of coal and general economy.*
This study has already established the clear difference in "coal places." Appalachian coal places are typified by poverty, unemployment, low per capita income, and deep mining. New western coal areas stand in contrast with their low population densities, high population and economic growth rates, and strip-mining land damage. Midwest coal areas such as southern Illinois and western Kentucky are typified by flat population and economic growth, mixed mining patterns, and problems with high sulfur coal. Community economic development strategies and use of coal severance tax allocations to alter or improve socio-economic conditions must take these factors into account.

Economic/Population Growth “Stages” and Implications

Coal county economics can be understood in terms of stages and these stages imply distinct community and economic development strategies.

The data revealed distinct patterns in growth and decline in coal production in many coal producing communities. This suggests "stages" of economic/population growth which have clear relevance to coal severance tax policy development in relation to allocation to coal localities. Based on the previous policy discussion and the research data, one can identify three stages of economic/population development (1) "boom," (2) "plateau," and (3) "decline."

Each stage is characterized by quite different problems which have and rightly should evoke quite different responses in coal severance tax allocation policies. Those in the "boom" stage need assistance in the planning and funding for coping with growth-related problems such as population growth, planning and zoning, infrastructure requirements, extension of road, water, and sewer lines, and the provision of local services and social programs to meet the needs of a growing population. Assistance in projecting local government budgets also is needed. Those in the "plateau" stage will also be concerned with population and infrastructure assessments and sound planning and funding to meet these needs.

Additionally, however, they will be concerned with efforts to provide industrial parks, tourism strategies, and business and labor training and opportunities to diversify the economy in anticipation of future decline of their coal-based economy. Those in the decline stage will need assistance in increasing certain retraining and relocation programs to assist displaced coal labor, assistance in planning for consolidation and downsizing of key social and government services and economic transition teams to act quickly to develop strategies to support an alternative economic base.

While this model somewhat oversimplifies, it roughly describes patterns of coal production and economic growth in coal counties. Clearly, western coal counties are more in the "boom" stage with rapidly expanding coal production and growing populations. There are also numerous boom counties in the east, especially in eastern Kentucky. Many eastern and midwestern counties have
already experienced their boom and have seen their coal economies reach the plateau stage. Jackson and Jefferson Counties in Alabama, Saline and Williamson Counties in Illinois, and Davies County in western Kentucky are examples of plateau counties. Decline counties have begun to appear in both the east and the midwest: the Illinois counties of Peoria, Fulton, and Knox; the Ohio counties of Belmont and Jefferson, and Luzerne County of Pennsylvania are presently in the decline stage.

Severance Tax Formulas

*Taxation levels and distributional formulas are critical to the community development impact of coal severance tax programs in the various states.*

Generally, the higher the level of taxation the better it will be for the local community because the state will have larger revenues to “share” with the locales. Market conditions for the coal must be considered, however, and taxes set too high can actually dampen demand for the coal to the point where revenues (and community development impact) are actually decreased. Montana’s 30 percent tax is a case in point. On the other hand, many states with little or no tax (Illinois is the foremost example) are clearly missing an opportunity to support community and economic development in their coal county communities by not enacting or raising taxes.

If the level of taxation and total revenues represent the economic “pie,” then the severance tax distributional formula represents the “slice.” It is clearly in the interest of the local community to fight for the highest percentage of the pie to go back to the local community. Many states have very low percentages returned to the local level and community developers in those areas should be vigilant in fighting for a higher return to their communities. West Virginia comes to mind as a case in point. Some states may want to consider formulas of distribution based upon need rather than the more common production-based formulas.

Severance Programs and Community Development Policies

*Coal communities should fight for continued and expanded coal severance tax funding for community economic development projects and programs.*

These programs have made a measurable difference in the quality of life in traditionally impoverished coal communities. New money has been provided for infrastructure development, industrial park development and business loans and grants. New schools, parks, and community centers have been built. Incomes and bank deposits have been improved, jobs increased, and poverty and unemployment rates reduced. Coal counties with coal severance tax community economic development programs have seen their position improve relative to coal counties not benefitting from these programs.
Implications for Practitioners

Rural America cries out for more funding support for basic community development and infrastructure programs. More attention needs to be given to how to replicate this resource taxation and reallocation program to benefit other sectors of rural America. Identifying “exports” from the state and reasonable levels of taxation and allocation is the first step. Once this is done, the next step is to meet with local leaders and legislators to prepare draft programs as policy or law. A good example is the work of Kentucky’s Fair Share Coalition in developing and shaping favorable legislation. The evidence here argues that community practitioners must not be solely fixated on working with the individual communities but also must consider involvement in state policy and legislation. These larger level actions may have greater impact on social and economic conditions in the community than all of the good intentions and results of “grass roots” work. Community developers must consider these potential larger resources and tie grass roots efforts to state and federal policy initiatives that will benefit local communities. A University of Wisconsin economist argues in his new book that capturing higher government level revenues is one of the five basic strategies for communities to increase jobs and income (Shaffer, 1989).

Conclusion

When states have allocated coal severance tax revenues in coal-producing counties there has been a major impact on socio-economic conditions. These dollars compare significantly with other forms of revenue for local government use in community development and economic and infrastructure development. Thus, they are quite useful in efforts at economic diversification. Analysis is needed to measure ongoing impact of coal severance tax allocations on local social and economic conditions. Nevertheless, it would seem safe to say that those states which can effectively levy a coal severance tax (without significantly and adversely affecting their coal sales) should do so and return significant portions of the revenue to coal-producing areas for community and economic development projects. That is, if they share the desire to improve social and economic conditions and diversify coal community economies.

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ABSTRACT

Rural communities in the United States have diversified and their dependence on agriculture has decreased substantially. In the 1980s, rural deindustrialization occurred and rural areas continued to become more service oriented; employment opportunities declined because of shifts in the world and U.S. economies, and anti-rural public policies. In response, some rural communities have become entrepreneurial communities, whose characteristics include: healthy acceptance of controversy; a degree of economic surplus to allow for risk-taking; willingness of community to tax itself to maintain infrastructure and schools; the ability to define community broadly and to network both vertically and horizontally to obtain resources; and dispersed community leadership. Entrepreneurial behavior in the context of more favorable state and federal policies could help stabilize many rural communities.

Major changes are taking place in rural America in response to the changing structure of agriculture and the restructuring of the national economy. These changes will have enormous impacts on the structure and vitality of rural communities. However, the future of rural communities is not foreordained. If communities and community development professionals can mobilize and modify local organizations and institutions to take advantage of the changing circumstances, rural communities can offer a viable option to Americans in terms of lifestyle and livelihood. But if communities and the individuals within them

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take a passive role or a reactionary stance of denial, rural communities of the future will not only be much smaller and many fewer than in the 1980s, but much poorer as well.

In our ongoing work with communities in the Great Plains and the West,\(^1\) we have identified a number of characteristics of entrepreneurial communities. These are communities that are able to respond to the changing macroeconomic circumstances and cause development to happen.

**The Changing Structure of Agriculture**

Overproduction, a chronic problem of American agriculture since 1880, is now worldwide, foretelling continued low prices and highly competitive world markets (Avery, 1985). Farms will become increasingly vertically integrated as farm operators seek to become part of the modern economy by insuring the predictability of their conditions of production and marketing. The division of labor in our agriculture which led to the demise of the integrated farm unit in favor of specialization in a few crops or animal enterprises will now shift to what Braverman (1974) calls the “task” division of labor, with higher priced management labor making the technical decisions and lower priced manual labor carrying them out. The relative capital intensiveness and long-term capital commitment required in such land-intensive crops as cattle and grains may mean that land ownership remains relatively dispersed. As a result, fewer decisions will be made on the farm and more will be made by specialists, either in farm management firms or in corporate headquarters. Increasingly, different individuals will provide management and labor. Land ownership will become less relevant for capital accumulation or the ability of the farmers to control their own labor processes.

In our study of grain and livestock farming dependent counties in the western United States, we found that an increase in farm size, even with family ownership, was associated over time with indicators of declining community viability (J. Flora and C. Flora 1988). However, it was not because farm population decreased more with growth in farm size. Farm population decreased regardless of change in farm size. As the size of farms increased, so did the number of hired workers per farm. The larger operations were not substituting capital for labor any faster than were moderate-sized farms in the 1970s, the decade under study.

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\(^1\) Our research consists of a series of approximately 60 mini-case studies and three major case studies carried out over an eight-year period. The validity of the characteristics of entrepreneurial communities has been tested in over 25 presentations in Kansas, Nebraska, South Dakota, Texas, Idaho, and Washington. We are more systematically evaluating them in a nation-wide study of self-development rural communities.
Farm labor became differentiated as management decisions were separated from the individuals doing the manual work. More rural communities will be faced with the “deskilling” of the farm population, and decreased community participation and limited social mobility will threaten their solid egalitarian base.

There is a growing separation of rural communities from agriculture in the United States. Fewer U.S. counties are farming dependent, as defined by having an annual average of 20 percent or more of total labor and proprietor income from agriculture (Bender et al., 1985; Henry et al., 1986). The majority of the farm population, even on family-size farms, is dependent on off-farm income for survival, although that income may come from government payments rather than off-farm work. For most of rural America, income must be generated from nonagricultural sources, either through self-employment or wage labor. The diversified farm, in which a number of different agricultural enterprises are interrelated to support the household, is being replaced by the diversified rural household, which may engage in as many as ten different nonagricultural enterprises to survive (J. Flora and C. Flora, 1988a; C. Flora, 1988).

The Changing World Economy: Rural Industrialization in the 1970s

Creation of manufacturing jobs to supplement or replace agriculture is even more difficult than in the past. During the 1970s, world economic conditions included a relatively cheap U.S. dollar reinforced by low or negative interest rates and an expanding world economy fueled by growth in developing areas of the world. This favored not only U.S. agricultural exports, but also expansion of light manufacturing in the rural United States. The continued substitution of capital for labor in U.S. agriculture created a reserve labor force in many rural areas, with a strong work ethic and a weak labor movement. Further, rural communities, anxious for growth, invested considerable public monies and deferred future public income through tax breaks to attract industrial plants.

The rural industrialization option brought with it some disadvantages for rural communities. While private retail revenue increased, so did public expenditures for schools, police services, and fire protection. In our research on rural manufacturing counties we found that while net migration was of little consequence with the introduction of low wage industries, gross migration increased dramatically. Those employed by low-wage manufacturing plants tended to move in and out of the community, leading to a breakdown of the traditional mechanisms of social control (J. Flora and C. Flora, 1978).

The “smokestack chasing” approach to rural economic development is now less viable for rural communities. Indeed, many of the options for creating alternative employment opportunities in rural areas have been reduced as a result of (1) major shifts in the world economy in the 1980s; (2) the resulting
Restructuring of the U.S. economy; and (3) a series of policies intrinsically anti-rural in effect.

**Restructuring of the U.S. Economy: Deindustrialization and the Shift to Services**

There has been a basic restructuring of the U.S. economy from manufacturing to services. Deindustrialization has occurred as capital movement, facilitated by tax laws, encouraged transfer of basic industries to areas of the world where a cheap and docile labor force was available and production could be carried out unencumbered by laws concerned with worker health and safety or environmental protection. Services which facilitate capital movement have replaced manufacturing in economic importance. While rural communities experience some locational disadvantage in manufacturing due to costs of transportation of raw materials and finished goods, their disadvantage in a service economy is even greater. Most services require a high population density to be profitable, and most rural areas, by definition, lack high population density.

Services include both ends of the wage scale. Rural communities could become ghettos of certain undesirable service labor which are location neutral, such as telephone solicitations, or they could provide skilled services oriented to a world market. In order to take advantage of the new economic order, rural communities must carefully identify service industries that are location-neutral, such as utilizing the new telecommunications technology (Dillman, 1985). But the current policy environment may make a shift to such a telecommunications-based service economy difficult for rural communities.

**Restructuring Rural Retail Trade**

Coupled with deindustrialization as a threat to traditional rural development strategies is the restructuring of rural retail trade. The 1950s and 1960s saw the demise of "mom and pop stores" in urban areas as grocery chains, fast food franchises, and shopping malls profited in areas of relatively high population density. During that period, the relative isolation and dispersal of the rural population kept retail trade alive as an option for the rural entrepreneur who tended to use small inventories and little capital investment to offset low profit margins (Vidich and Bensman, 1968). Retail trade centralization spread to rural areas by the 1980s. In the Great Plains, we refer to it as the "Wal-Marting of rural America." Major chains provide goods cheaper and in greater variety than the main street businesses ever could. (Some well-structured cooperatives, such as True Value Hardware stores, may provide a competitive organizational structure.) Further, they are able to use their size to advertise extremely effectively, and use part-time employees and other mechanisms to cut labor costs.
Mainstreet businesses in rural communities have been doubly hit by both failing farms and the structural changes in retail trade. Local entrepreneurs and chambers of commerce must begin to plan to fill the empty storefronts not with new businesses selling goods, but with businesses dispensing services. And those services must be closely linked to the local population and their needs, particularly the unique needs of the elderly population.

The Policy Environment

The policy environment also has proven disadvantageous to rural communities in the 1980s, limiting options that were previously available for community development. Communities seeking to augment declining employment in agricultural production and other natural resource based industries need to be aware of other kinds of employment opportunities and alter their strategies accordingly. We have identified eight such adverse policies (C. Flora and J. Flora, 1989; Schoening, 1986). These are:

1. Deregulation. Deregulation allowed a variety of financial and transportation services to become more efficient in terms of return to investment, but also increased the cost of capital and decreased access to those services in rural communities. Rural communities have long recognized their relative disadvantage vis-à-vis monopoly capital. Farmer movements in this country have consistently sought to mobilize the power of the state to offset the advantages of monopolies which are often, as in the case of railroads and utilities, the result of government-funded investments and franchises. Farmers fought for regulations that insured the availability of transportation, electricity, telephone, and other services necessary to link rural areas with information and markets at reasonable rates with reliable service. Differential long haul versus short haul rates, favoring customers in large cities over those in rural areas, have in the past triggered the political mobilization of rural residents. Deregulation has led to a further deterioration of the quality and availability of such semipublic services in rural areas of the United States (Richards, 1987). For example, new kinds of highly specialized telecommunications equipment—and the basic maintenance of old equipment—may become prohibitively expensive in rural communities. This denies rural agricultural producers the option of controlling their own marketing channels and thus their own production decisions.

2. Relaxation of anti-trust laws. This resulted in the consolidation of competing manufacturing and agricultural processing enterprises. As a result of the relaxation of anti-trust laws in the 1980s, the U.S. economy experienced rapid absorption of small firms by large ones. Such small firms were often in rural areas. Once acquired, these same firms which were profitable when locally owned and operated were merged with other less profitable enterprises of the acquiring firm and often shut down, thereby decreasing national production
capacity and local employment. Multinational firms, led by capital movement rather than trade (Drucker, 1986), took advantage of the strong U.S. dollar during the 1980s to move overseas many of the light industry firms previously in rural areas of the United States. Such absorption of small firms by large ones—and large ones by even larger or more speculative ones—also diverted capital from productive investment to speculative investment, decreasing the options of rural areas in the face of ever—increasing capital costs. There are inefficiencies in such "Pac Man Economics," as the skills required to take over a corporation are quite different from the skills necessary to manage the bloated, indebted conglomerates.

With outside takeovers, ownership moved out of the community to national or international headquarters. Our comparative case studies in Kansas suggest that whether or not a firm is locally owned has an impact on corporate decision making. While a locally owned firm may act somewhat paternalistically toward its employees, that paternalism means involvement and investment in the community, and employment and investment decisions based on a long-term profit perspective, rather than short-term profit maximization.

3. **Federally mandated increases in the cost of labor.** Increased payroll taxes did not accrue directly to rural workers, but hit labor intensive rural manufacturing particularly hard. In contrast, policies which deliver direct and immediate benefits to workers, such as an increase in the minimum wage, do circulate within the community and have a multiplier effect.

4. **Tax laws favoring capital intensive urban development and urban construction.** These actions increased the cost and decreased the availability of capital in rural communities. These tax structures not only channeled capital away from rural areas, they channeled capital away from productive investment into tax sheltered investment.

Financial mechanisms must be developed by residents of rural America to make capital available in rural areas to finance location-neutral service industries and provide the communications technology necessary to make agricultural entrepreneurs viable. Such mechanisms must allow rural entrepreneurs to borrow capital competitively at market rates. They should not, as occurred in the 60s and 70s, artificially cheapen capital in favor of capital-intensive farming practices.

5. **A huge increase in spending for agricultural programs.** Such spending tended to favor large farms and did not result in income being reinvested in the community.

6. **A disproportionate cut in Federal nonmetropolitan discretionary non-military spending.** The programs cut included public works programs, social programs, revenue sharing, rural housing, and other people-oriented programs.

7. **A shift from formula funding to competitive funding.** This shift favored those already privileged nonmetropolitan areas.
Community Response to the Changing Conditions

The degree to which rural communities can capture or generate income in the current macroeconomic climate is one of the major challenges for rural communities. Rural communities traditionally have exported raw materials, including agricultural crops and livestock, timber products, minerals, including oil and natural gas, and educated young people (Flora, 1976). It will take a combination of favorable policies and well-organized state and local initiatives to retain those resources locally long enough to assure that the profit accumulated in production and transformation circulates within rural communities. Entrepreneurial communities must prioritize goals and develop appropriate strategies and tactics. What are the characteristics of communities that are entrepreneurial in the current situation?

Entrepreneurial Rural Communities

Farming-dependent communities in the Great Plains that have displayed local initiative, we hypothesize, share the following attributes:

1. Acceptance of controversy as normal, indicated by a weekly newspaper willing to print controversy;
2. The ability to depersonalize politics;
3. A long-term emphasis on academics (compared to sports) in the schools;
4. Enough surplus, often generated from slightly larger than average family farms, to allow for collective risk-taking;
5. Willingness to invest that surplus in local private initiatives;
6. Willingness to tax themselves to invest in the maintenance of rural infrastructure;
7. The ability to define community broadly, so that consolidation has meant larger boundaries for smaller communities, not a win-lose battle;
8. The ability to network vertically and horizontally to direct resources, particularly information, to the community; and
9. A flexible, dispersed community leadership.

Acceptance of controversy. In rural communities, especially those with high density of acquaintanceship (Freudenberg, 1986), role homogeneity is high. There is a high degree of overlap among the different roles community members perform. Your banker buys at your hardware store, is treasurer of the Rotary Club where
you are president, the coach of your daughter's Little League baseball team, a member of the school board, a deacon in your church, and the parent of your son's date to the junior-senior prom. In such situations, with a high degree of interaction and interdependence, there is a tendency to repress controversy, to insist that "we are all just folks," instead of raising and discussing clear differences of opinion. As a result, when disagreements do surface, they have been harbored so long that they burst into the open as full-fledged conflicts, often deeply splitting a community.

In such communities, the weekly newspaper tends to be long on ads and short on news. There is great emphasis on the biggest zucchini of the season and the scores of the volleyball game. But there is seldom a reporter at the school board meeting, and no hint of any bad news is allowed to appear in print. People generally love this kind of home town paper. But those towns tend to be dying towns. Only in the minority of communities is the editor willing to offend people and print disagreements and potential problems. Here community members are prepared to mobilize to control their own destinies, rather than react, often with great emotion but little concrete action, when they realize the finality of the changes that have taken place. In those communities, citizens lack the basic information and the debate on the information that can foster informed public decision-making (Tichenor et al., 1980).

Depersonalization of politics. If politics is not mentioned in the local paper, it is a constant topic of coffee shop conversation in most rural communities. However, discussion generally does not involve issues, but personalities. Entrepreneurial rural communities are those that deal with honest disagreement and do not turn a public stand on a controversy into a symbol of moral rectitude or moral degeneracy. Policies, not people, are the focus of discussion. As a result, those who disagree on one issue can be allies on another. Furthermore, disagreements can surface early and not be kept undercover until they explode and divide the community.

Emphasis on academics. Schools have traditionally provided the symbolic center for rural communities. They have been the center of social life and an active indicator that the community was alive and functioning. However, that focus on community solidarity has often placed undue emphasis on extracurricular activities. Academic excellence and the provision of courses like foreign languages and laboratory sciences have been neglected. The emphasis on consensus and distaste for controversy often drives out teachers, principals, and school superintendents who raise new ideas or question the sacred nature of the way things always have been done. In these communities, school board elections are seldom contested (it would be bad manners to run against a neighbor). The only school issues debated are the hiring of the football coach or the theme for the homecoming dance.

Presence of surplus. Although there is a widely quoted old saw that states that necessity is the mother of invention, anthropologists persuasively argue that
surplus is the mother of invention. Only when there are enough resources to insure the provision of basic necessities will individuals or communities innovate. Innovation means risk. Only when basic necessities are assured will people risk that which they value, but do not depend on, for survival. Where land or other means of production is highly concentrated, such collective risk taking does not occur.

Willingness to invest private capital locally. We have found that communities that have relative equality and slightly larger than family-sized farms are more likely to pool resources and invest (take risk) in community-based enterprises than similar communities with smaller-sized farms. This is in contrast to communities constantly sending investment capital out of the community either directly or through local financial institutions. In one community of this type we studied, community residents have galvanized local resources to build a home town carnival, a feedlot, a dairy, a movie theater, and most recently, mobilized funds to buy a factory and attempted to buy out the FDIC when a local bank went under. In none of these cases was there any single major investor. Many community residents put up relatively equal amounts that were enough to form a solid investment, but not enough to force any one to leave town broke if the venture did not pay off.

Willingness to support local services through taxes. A low tax ideology generally predominates in rural areas (Vidich and Bensmen, 1968). This is logical, given that rural people, particularly in agriculture, are "land poor." However, as a result, not only do communities delay construction and repair of needed infrastructure, but they depend on state or federal governments to provide the capital. That establishes a dependency in attitude and action that relies on the outside to provide—or not to provide—the basic community needs and to set the agenda, based on national priorities, on what gets done locally. In contrast, communities that are willing to raise necessary local capital through local taxation develop a sense of empowerment that allows them the independence to recognize local needs and act collectively to meet them.

Broad definition of community. The rural community has been a major source of identity and participation for its residents. However, as population declines and services of various sorts are consolidated and shared, those communities that have wide and relatively permeable boundaries not split by school consolidation are more likely to further community development. Such mechanisms as a countywide Chamber of Commerce and the organization of multicommunity events are helpful in bringing about a broad definition of community.

Vertical and horizontal linkages. Although entrepreneurial communities are not dependent on outside agencies to initiate action, they are active in seeking out resources from similar communities and from state and federal entities. They generally participate in regional planning groups, contact the Cooperative Extension agent and specialists, and apply for federal block grants. Further, they engage
in lateral learning from other communities. When a community member visits another community and sees a process of interest, she or he is likely to go back home and organize a group to visit to learn how they can do the same thing. Further, they encourage other communities to learn from them.

Flexible, dispersed community leadership. Networking with the outside and communication within the community are not dependent on a single “broker” with contacts or charisma. Entrepreneurial communities have a rotation in public office and a sharing of informal leadership roles. Because of a favorable attitude toward change, leadership is seen as positive, rather than a way of “putting on airs.” Often newcomers to the community (those of less than twenty years residence) are active in leadership positions, and are welcomed, rather than criticized, by the long term residents. They bring with them a convert’s appreciation of the community and an awareness of outside forces acting upon it.

Conclusions

Unfortunately, communities that share these characteristics are a distinct minority. The more popular stance is to look to the past, often a past that assumes mythical virtues, rather than to seek and apply knowledge about current conditions that affect the community. Lack of awareness of agriculture’s dependency on the greater community economy and of trends in global economy hinder the ability of rural communities to plan actively for the future.

Rural communities will be challenged and transformed by the changes in agriculture and the rest of the economy. Increasingly sophisticated technology can lead to a further marginalization of rural communities as mere providers of raw materials, including human beings, for urban growth. Or that same technology, if coupled with innovations in social organizations and institutions, can lead to the integration of rural communities into a global economy as relatively self-sufficient and equal players. Sociologists and other practitioners of community development can be most effective when they work with communities to understand the current context and form local organizations to decide upon goals and plan strategies congruent with these goals if they are indeed to be entrepreneurial.

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