

Executive Summary

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An Economic Development
Benchmarking System for
Rural Michigan

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George A. Erickcek
Brad R. Watts

W.E. Upjohn Institute
for Employment Research
300 S. Westnedge Avenue
Kalamazoo, MI 49007

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In this study the economic performance and conditions of Michigan's rural regions are compared and contrasted to a comparison group of similar rural regions in neighboring states, as well as to urban areas. For these purposes, we grouped Michigan's rural counties into three distinct regions based on shared attributes.

- Urban-influenced rural counties which are experiencing major “spin-off” effects from neighboring metropolitan core counties.¹
- Agricultural-focused counties which have a sizable farming sector.
- Mixed-use rural counties which lack significant agricultural operations or “spin-off” effects from urban areas.

In addition, counties with a strong tourism presence are examined within their own grouping; however, these counties are all also included in their respective categories mentioned above.

The major findings of this analysis are:

- During the 1990s, population in the state's rural regions grew faster than both similar areas in neighboring states and Michigan's metropolitan areas. Not surprisingly, the urban-influenced rural regions experienced the most rapid population growth in terms of percent change. From 1997 to 2001, the urban-influenced rural counties experienced an average net in-migration of 288 new resident households (2,685 persons) bringing with them an average of \$55.2 million in new net income in total over the five-year period.
- The rural regions' population gains pushed up their private non-manufacturing employment during the 1990s. The greatest gains were seen in the state's urban-influenced rural areas, where private non-manufacturing employment shot up 43.7 percent, well above the 30.1 percent increase reported in the comparison group of urban-influenced rural counties in surrounding states. Private non-manufacturing employment gains in the state's agricultural-focused and mixed-use regions also bettered their comparison regions.
- Nationwide, the number of working-age adults between the ages of 25 and 34 declined by 7.6 percent during the 1990s. Unfortunately, Michigan's rural areas fared even worse, particularly the mixed-use rural counties where the declines were most severe, dropping 17.9 percent. Not surprisingly, since adults between 25 and 34 years of age are at the height of their childrearing years, their declining

¹ Urban-influenced rural counties can be within U.S. Census defined Metropolitan Statistical Areas (MSAs), but cannot contain the core cities of the MSAs.

presence also adversely impacted the number of young children in these communities. For example, the number of children under five years of age dropped by 10.8 percent in the state's mixed-use rural counties compared to a 5.3 percent drop in the comparison group, and both were in stark contrast to the 4.5 percent increase in this age category, nationwide.

- Rural regions are still competing successfully for manufacturing jobs, primarily by offering low-cost production sites. Manufacturing employment rose by 29 percent in the state's agricultural-focused counties during the 1990s. In the agricultural-focused comparison group, manufacturing employment rose by 26 percent. Overall, manufacturing employment in the state's rural regions out-paced their comparison groups across the board. However, manufacturing employment growth was at a standstill in the state's urban counties during the period.
- A major reason for rural Michigan's success in attracting manufacturing growth could be competitive wages. Earnings per worker in the state's agricultural-focused and mixed-use regions were only 59.0 percent and 60.1 percent of the state's metro core counties, respectively. On the other hand, earnings per worker in the state's rural regions were on par with those in the similar regions in the surrounding states.
- Despite strong employment gains, adults in agricultural-focused and mixed-use rural regions face higher unemployment rates and are less attached to the workforce than adults living in metro areas or in the faster-growing urban-influenced rural regions. The labor participation rates of working-age adults in the state's agricultural-focused and mixed-use rural areas are well below those in the more urban or urban-influenced areas of the state, as well as those in similar rural regions in surrounding states.
- The rural regions' high unemployment rates and low labor participation rates have pushed the poverty rate above 10 percent in many rural counties. Moreover, a greater percentage of students in Michigan's agricultural-focused and mixed-use regions receive free or reduced-price lunch than in the urban core counties.
- Michigan's rural agricultural sector generates lower farm receipts per acre than similar regions in the surrounding states. While climate, crop and livestock selection or soil types may explain these differences, the bottom line is that the state's agricultural base provides significantly less income than similar areas in the surrounding states.
- Tourism, while providing some seasonal employment opportunities, is not strongly associated with improving the quality of life for rural residents. The counties which have been identified as tourist-influenced (higher-than-average earnings being generated in eating and drinking places) face an unemployment rate of 7.1 percent in the Michigan grouping, compared to 5.9 percent in the surrounding states. Moreover, the average per capita income for these counties is the lowest of

the Michigan groupings at \$16,600, which compares poorly with the per capita income generated in the comparison tourist counties, \$18,484.

- A major concern revealed in this analysis is that the state's rural counties are very dependent upon unearned income and governmental earnings. A full one-third of the total 2000 personal income in the state's mixed-use rural areas is derived from either transfer payments (e.g. social security, private pensions, and public assistance) or government employee paychecks. This compares to 29.7 percent in similar regions in surrounding states. These sources account for slightly more than 30 percent of the total personal income in the state's agricultural-focused counties compared to 26.3 percent in similar counties in the surrounding states.
- Looking toward the future, workers in the state's rural areas and in the rural regions in neighboring states are ill-equipped to compete in the more advanced manufacturing, research, and professional services activities. Only 12.3 percent of adults, 25 years or older and living in agricultural-focused regions, have achieved four or more years of college, which is nearly identical to those in the comparison grouping, but is well below the average of 23 percent in metro areas.

The intent of this analysis was to present a detailed statement regarding the present economic conditions and performance of the state's rural regions relative to similar regions in surrounding states. Still, this analysis suggests several conclusions and policy recommendations:

- Rural counties should work to defend their competitiveness in attracting and maintaining their manufacturing base. Michigan's non-metropolitan counties maintained their competitiveness during the 1990s. While the state's metropolitan areas lost \$675 million in earnings during the 1990s due to lack of competitiveness, the state's non-metropolitan areas gained \$654.5 million due to their firms out-performing their national rivals.

While many rural areas have impressive physical attributes to encourage manufacturing growth including plenty of developable land and highway accessibility, it will be the quality of its labor force that will be key to its future success. According to a recent study, high-performance manufacturing firms favor rural areas.² However, they look favorably upon rural regions not because they are seeking out a low-cost site, but rather rural workers are perceived to be more flexible and hold stronger work ethics. Moreover, these companies are more likely to pay good wages as a further incentive to encourage a productive management/labor environment.

Michigan's numerous rural community colleges will only play a more vital role in attracting quality manufacturing jobs into the state's rural regions. Moreover,

² Doeringer, Evans-Klock, and Terkla *Start-up Factories: High Performance Management, Job Quality and Regional Advantage* (Oxford University Press and the W.E. Upjohn Institute for Employment Research, 2002.)

many of its Intermediate School Districts also work hard to customize their training programs to meet the needs of area businesses. Rural counties should strive to compete on the quality of their workforce; they cannot compete on price alone.

- The role of farming and tourism, while still a part of the economic base of many rural counties, is not expected to be a source of major economic growth in the short-term. Many rural economic activities such as camping, daytrips to festivals, and summer vacation homes have a low impact on the surrounding economy.
- Quality of life factors may not be as important or as advantageous to rural areas as many people believe. Housing cost as a share of median household income varies little between rural and urban areas. Civic involvement, as measured by voter participation, is similar to that found in urban areas. While rural schools offer better teacher-to-student ratios than in urbanized areas, their MEAP scores are only slightly higher, or in some cases slightly lower. Finally, for many young families and professional workers rural areas simply cannot offer the variety of activities, lifestyle, or environment of diversity found in the urbanized areas.
- Geographic location appears to be *the* major component of success. In terms of overall performance, the urban-influenced rural county group far outperformed all other rural categories—agricultural-focused, mixed-use and tourist. These rapidly-suburbanizing counties (i.e. Allegan, Livingston, Lenawee, and Van Buren) provide a low-cost housing location with reasonable proximity to urban employment opportunities, educational facilities, and amenities. However, apart from these urban spillover effects, the data do not suggest any significant competitive advantage that would allow them to outperform more isolated agricultural-focused and mixed-use communities.

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