Growth and Change:
Employment Growth, Future Prospects, and Change at the Ohio Rural-Urban Interface

Swank Program in Rural-Urban Policy and
The Exurban Change Project
Summary Report
September 2007

Mark D. Partridge, *Swank Professor of Rural-Urban Policy*
Department of Agricultural, Environmental and Development Economics

Jill K. Clark, Program Manager
Department of Agricultural, Environmental and Development Economics

Ayesha Enver
Department of Agricultural, Environmental and Development Economics

THE OHIO STATE UNIVERSITY
DEPARTMENT OF
AGRICULTURAL, ENVIRONMENTAL,
AND DEVELOPMENT ECONOMICS

EXTENSION
OARDC

Growth and Change:

Employment Growth, Future Prospects, and Change at the Ohio Rural-Urban Interface

http://aede.osu.edu/programs/Swank/
http://exurban.osu.edu/

The Ohio State University

October 2007

Executive Summary

This report is the second in a series of reports highlighting recent and historical trends in Ohio's relative performance vis-à-vis other states in attracting and retaining population, enhancing quality of life, and providing economic opportunities. It is well known that Ohio has lagged the nation in most economic indicators. But why should we care? For one, lagging economic growth has a corrosive impact that generates self-fulfilling expectations of a vicious downward cycle. Ask yourself, do businesses invest in locations with weaker prospects? Other regions compete throughout the world, meaning that there are high costs to the people of Ohio if it chooses to retreat.

Such reforms could potentially have large payoffs. For example, if Ohio were to return to the national average in per-capita income, that would increase each Ohioan's average annual income by about $3,000 (2006$), or $12,000 for a family of four. Likewise, if Ohio's employment would have grown by the national average between 2000 and 2005, that would have meant 307,059 more jobs in Ohio.

Our motivating belief is that only with a clear understanding of how the State is performing compared to its peers can we make informed judgments. There have been many explanations for Ohio's struggles, so we need to know which explanations are relevant in designing ways to move Ohio forward.

Section 1 of the report compares recent Ohio trends to the national average, and more importantly, compares our performance to our neighboring states in the Great Lakes region. Like Ohio, the entire Great Lakes region has been saddled with a historically large manufacturing sector pressed by global competition, a similar history, and a comparable climate. Thus, these neighbors provide a fair benchmark to assess Ohio's economic performance.

We find that dating back to the early 1970s, Ohio has generally underperformed in the region in terms of job creation and per-capita income. Even in terms of manufacturing, Ohio has underperformed its neighbors. This persistently weak performance indicates that the State needs to move beyond simple or popular explanations for underperformance and begin to consider systemic problems. Yet, one piece of good news is that by definition, the wholesale restructuring in manufacturing that has hampered Ohioans is mostly complete. The sector is much smaller than in the 1960s and no longer has such a large footprint. Adding grounds for further optimism, the State's remaining manufacturers have proven to be quite resilient.

Section 2 of the report discusses the changing landscape of Ohio's economy. We find that Ohio's lagging performance is concentrated in its metropolitan areas. Nonmetropolitan Ohio is faring relatively well under the circumstances. Ohio's economy continues to move south towards Columbus and Cincinnati, while the highest intensities of manufacturing are pulling back to Northwestern Ohio. Regardless of whether they are urban or rural, we find that Ohioans have similar employment patterns by industry. One implication is that it is fruitless for policy to try to divide the State into rural and urban or into cities vs. (say) townships because our economy is so interdependent.

Based on the findings of our past policy brief (Partridge, Sharp, and Clark, 2007) and the first two sections of this brief, we provide some policy recommendations for rural Ohio. Most of the emphasis of the media and popular discussion has been on urban Ohio, which motivates the need for more rural focus. Though we realize some of the suggestions are controversial, we believe that these recommendations can help begin a discussion regarding the future of rural Ohio. Foremost, we argue that the State needs to enable its regions, including their component cities, villages and townships to work more cohesively in conducting economic development and planning. This will require fundamental tax reform that removes the incentives for nearby jurisdictions to compete and will require tax sharing arrangements to ensure rural and urban areas have adequate resources for service provision. At the local level, rural Ohio communities should strive to maintain their quality of life, that may entail, for example, a pleasant natural environment and high quality government services that are efficiently provided. Yet, a nagging feature that needs to be addressed is workforce quality.

In the next two subsections, we describe the report's highlights from Sections 1 and 2 and then summarize the policy recommendations, followed by the main body of the report.

Report Highlights

- Ohio's lagging performance is often attributed to many factors including high taxes; an over reliance on a declining manufacturing base; the decline of the domestic auto sector; poor schools; weak local and regional governance arrangements; and a poor climate for attracting and retaining potential residents. However, the evidence does not support many of these reasons as being primary explanations for the States' woes.

- Ohio is lagging both the nation and the Great Lakes region in employment growth. Like Ohio, the Great Lakes region struggles with its manufacturing base and similar climate.

- Ohio's manufacturers have lagged their Great Lakes neighbors in terms of employment growth. The loss of manufacturing employment has been more concentrated in Northern Ohio.

- The share of the Ohio workforce employed in the auto industry only fell about 0.5 percentage points between 1999 and 2005—suggesting that it is not a prime reason for the State's recent struggles—it is simply too small.

- Within Ohio, the geography of employment has shifted south to metropolitan Columbus and Cincinnati. Between 1969 and 2005, their joint share of employment has increased from about one-fourth of the State's jobs to about one-third. This has primarily come at the expense of metropolitan Cleveland and the State's mid-size metropolitan areas, such as Akron.

- Rural Ohio has fared remarkably well in terms of maintaining employment despite a very challenging environment.

- Per-capita income has fallen across the State. Falling employment combined with declining incomes suggest that Ohio's businesses lag in productivity and profits.

- It is possible that the decline in per-capita income in some rural Ohio counties is suggestive of rural Ohioans trading off a little less income in order to achieve a higher quality of life.

- The industry mix across Ohio has changed. Since 1969, agriculture and manufacturing have declined, while services and finance are on the rise. Agriculture and manufacturing jobs are concentrating in Northwest Ohio, while services and finance jobs have spread from the largest cities to a more uniform distribution across the State.

- The industries that employ rural and urban Ohioans are actually quite similar. One notable exception is that rural Ohioans are much more likely to be employed in manufacturing.

- The evidence shows that it is more important whether a worker resides in a suburban, exurban, or rural setting in determining their industry of employment than whether they, in turn, live in a city, village, or township. Therefore, communities with vastly different governance structures have common needs in terms of economic development. Economic growth and development does not respect jurisdictional boundaries, illustrating the need for cooperation across these different jurisdictions.

- Many Ohio workers and communities have struggled with the widespread loss of manufacturing jobs. The "good" news is that most of this restructuring is complete as manufacturing employs just a fraction of the workforce that it once did. Going forward, any manufacturing restructuring will be less of a drag on Ohio's economy. Ohio's remaining manufacturers have proven quite resilient and the falling value of the U.S. dollar may even give them a little bounce.

Highlights of Policy Recommendations for Rural Ohio

- The State needs to facilitate better cooperation of local municipalities. 21st Century problems do not respect 19th Century jurisdictional boundaries. Ohio needs to be more innovative in providing basic services, governance, and policy.

- Wasteful tax poaching needs to be curtailed by State efforts to remove incentives for local communities to compete with one another and instead collaborate to build wealth.

- Rural Ohio benefits when urban Ohio is strong. An effective rural development strategy should include ways to revitalize our cities.

- Rural Ohio's strength is its quality of life. Maintaining a clean natural environment with high quality government services will ensure that rural Ohio will be competitive.

- Beautiful natural rural places have prospered across the United States since the 1970s. This persistent trend underlies why Appalachian Ohio could be on the verge of a turnaround in its fortunes.

- A diverse economy is one way to ensure that rural Ohio will ensure its prosperity. Though rural policies should be broad based across all sectors, the underlying fundamentals are the strongest they have been in decades for a prosperous agriculture sector to support rural growth.

Overview

It is well known that Ohio has lagged the nation in most economic indicators. But why should we care? For one, lagging economic growth has a corrosive impact that generates self-fulfilling expectations of a vicious downward cycle. Do businesses invest in locations with weaker prospects? Poor economic growth traps more Ohio families with fewer opportunities, except to move elsewhere. And exacerbating matters, the most able and innovative are the people who are likely to move. Indeed, illustrating the costs of a weak economy, despite not experiencing the run-up in housing prices seen elsewhere, Ohio has still been victim to some of the sharpest rises in foreclosure rates. Weaker conditions mean that Ohio's governments are forced to choose between higher taxes or fewer services—both further pressing Ohioans to look elsewhere to live. With more Ohioans moving elsewhere, that leaves fewer left to pay to maintain our infrastructure and government services. Other regions compete, meaning that there are high costs if Ohio chooses to pull back.

This main body of the report is divided into three sections. First, is an overview of Ohio's historic employment situation to help us understand the underlying drivers of the economy. Second, we provide an overview of the geographical distribution of Ohio's jobs and how this distribution has evolved over time. Together, these two sections will provide the needed context to describe ways to move rural Ohio forward. Third and finally, we discuss rural Ohio's employment situation. Policies should be based on reality, not myth. Yet, one of our chief findings is that many of the popular explanations for Ohio's struggles are not consistent with reality. We provide 10 possible recommendations to help enhance the livelihood and quality of life of Ohio's rural residents. These recommendations are divided into those that could be implemented at the state level and those can be done at the community level.

I. Trends in Ohio's Employment Growth : Setting the Stage

Ohio has long lagged the U.S. average in terms of employment and income growth. The public, politicians and pundits have all offered numerous explanations for this predicament. Some widely circulated (good or bad) explanations include high taxes; an over reliance on a declining manufacturing base; the decline of the domestic auto sector; poor schools; bad local and regional governance arrangements; and poor weather for attracting and retaining potential residents. Of course, Ohio can't control its weather. Yet, it can fundamentally change its policies to produce an efficient public sector and a good foundation to encourage particular sectors to thrive. This section will explore the underlying trends in more detail before further examining the geographic shifts taking place within the State.

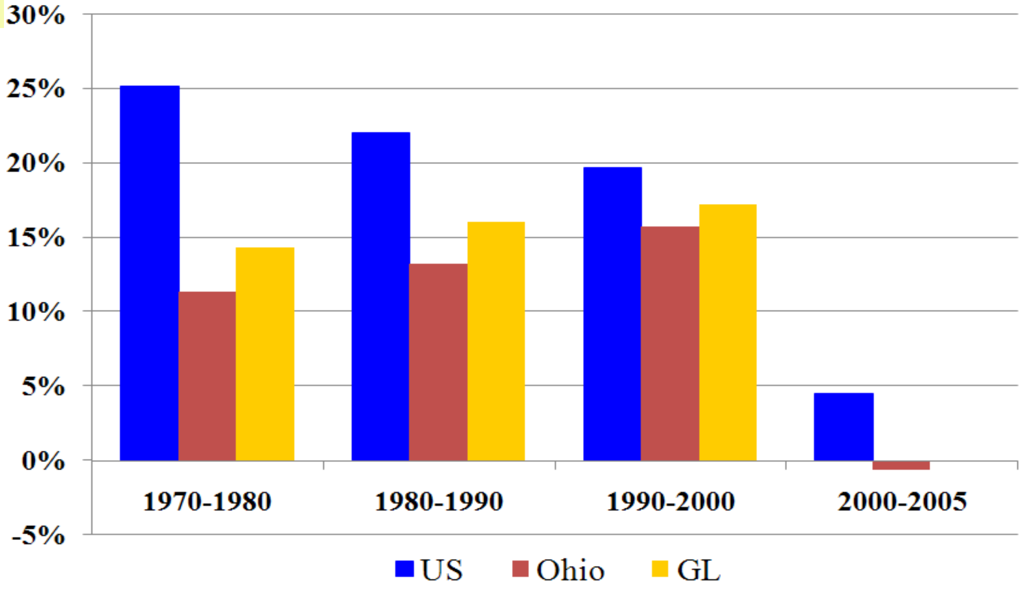
Figure 1a. shows employment growth over various periods dating back to 1970 for Ohio; the Great Lakes States of Wisconsin, Illinois, Indiana, and Michigan summed together; and the United States. The other Great Lakes States are Ohio's closest peers in terms of traditions, climate, and historic industry base. The Great Lakes region has been the country's manufacturing center, in which historically, close proximity to a significant share of the U.S. population as well as access to the Great Lakes for transportation gave it a great advantage over other regions. Yet, the entire Great Lakes region has struggled with the large-scale household migration to the Sunbelt that began in earnest in the 1960s. Besides the direct effects of losing population, this geographic shift in the country's center of gravity undermined the Great Lakes region's advantage of being near the nation's customer base. These problems have been further exacerbated by the globalization of manufacturing that has also pressured the region's manufacturers.

Figure 1a confirms that Ohio's job growth greatly lagged the nation's in the 1970s, 1980s, and 1990s, and so far this decade. Only in the 1990s was the State's relative performance not as weak. More concerning is that the State has also lagged its peer Great Lakes States. This particularly weak performance cannot be solely attributed to industry composition or weather, because those problems have also hindered performance in other Great Lakes States.

Ohio's weak job creation would not be as concerning if it was accompanied by rising per-capita incomes—i.e., at least the newly created jobs would have been tilted to being high paying. However, Figure 2 shows that this is not the case. Specifically, the figure shows per-capita income in the Great Lakes States relative to the U.S. average, which is benchmarked to 1.0. In 1955, Ohio was about 10% above the national average, with Illinois being about 20% above the national average, and Indiana and Wisconsin being just above the national average. By contrast,

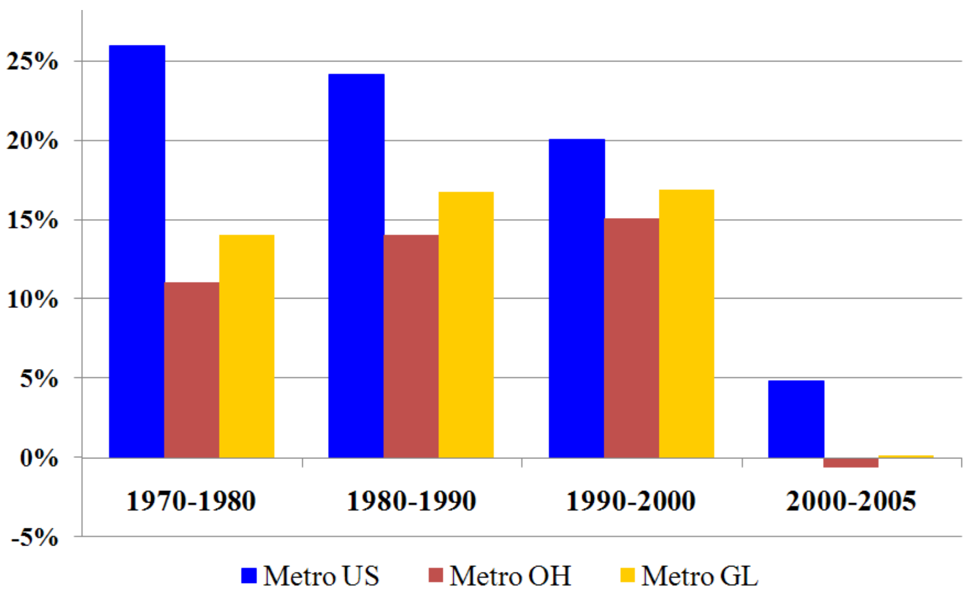
Percentage Change in Total Employment in the United States, Ohio and the Great Lakes (Less OH)

Figure 1a.



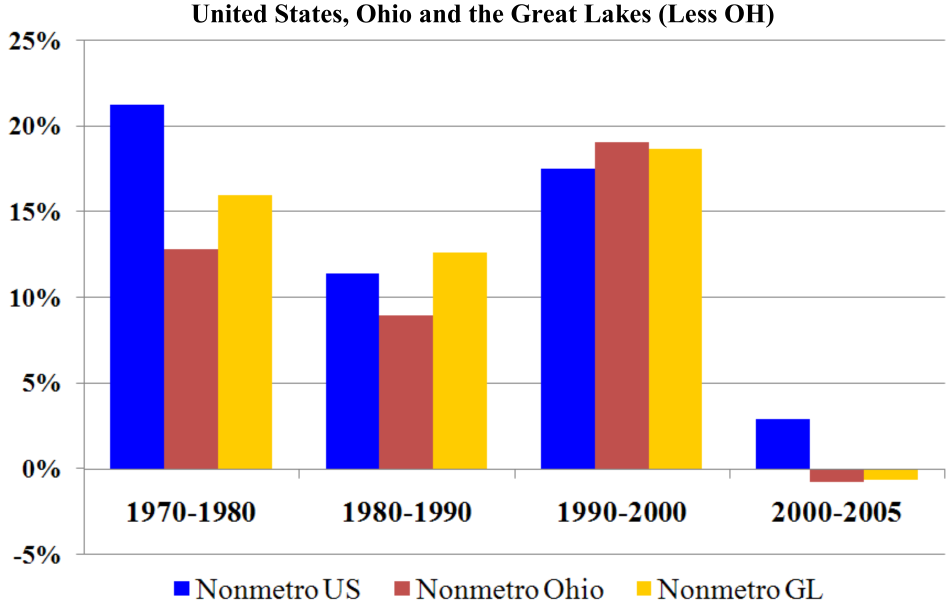
Percentage Change in Total Employment in Metropolitan United States, Ohio and the Great Lakes (Less OH)

Figure 1b.



Percentage Change in Total Employment in Nonmetropolitan United States, Ohio and the Great Lakes (Less OH)

Figure 1c.



Per-capita Income Ratios in the Great Lakes States: 1955-2006

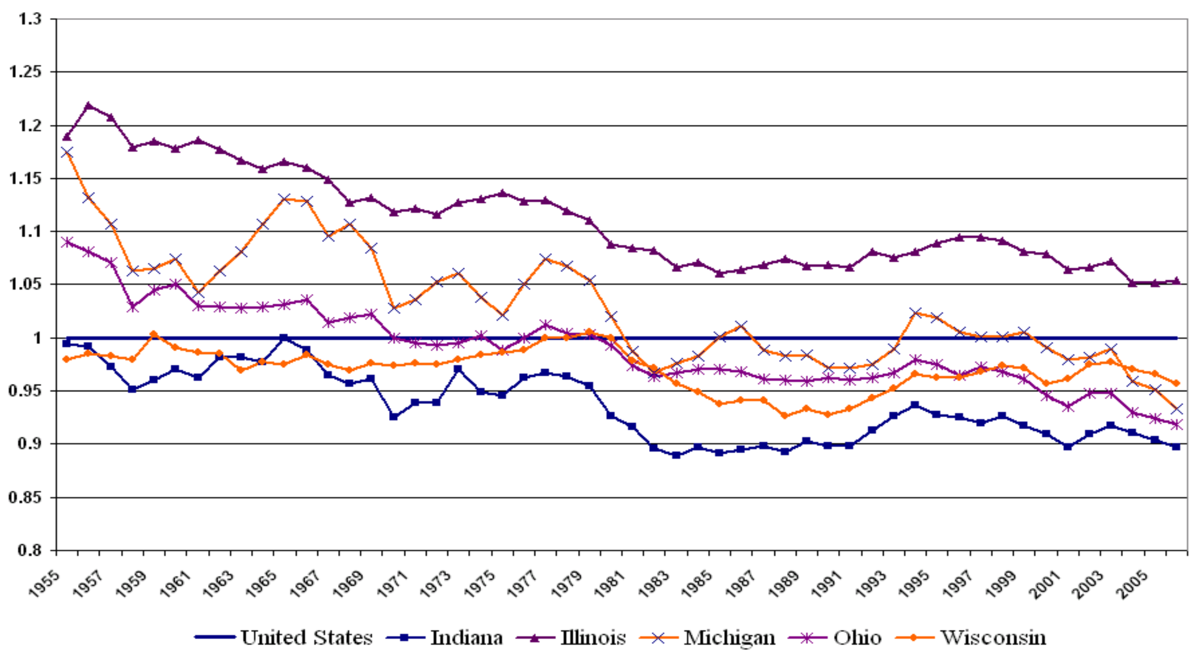


Figure 2

Texas and Florida—two populous Sunbelt States—were about 11 to 13% below the national average (not shown). This pattern underscores the observation that the Great Lakes region was one of the more prosperous parts of the nation in the mid 20th Century.

Over the subsequent 50 years, relative per-capita income in the Great Lakes region declined. By 2006, only Illinois had above average per-capita income. Ohio's per-capita income had fallen to about 8% below the national average. Only Indiana had lower per-capita income than Ohio in the Great Lakes region. Now, Florida and Texas have modestly higher per-capita income than Ohio.[1] Overall, Ohio has not only lagged the national average, but it has lost ground in terms of per-capita income and job growth among its Great Lakes competitors and its competitors in other regions.

Figure 3 illustrates manufacturing employment growth in the U.S., Ohio, and the other four Great Lakes (summed together) over the 1970s, 1980s, 1990s, and the 2000-2005 period.[2] In all four periods, not only has Ohio significantly lagged the U.S., but it has also lagged its Great Lakes peer states. In terms of annual manufacturing job growth (not shown), in only four years over the 36 year span did Ohio's growth rate exceed the Great Lakes average. While manufacturing has struggled across much of the U.S. and in the Great Lakes region, it has particularly suffered in Ohio.

Many experts point to the large shocks that have hit the domestic auto industry as being particularly difficult on the State. Figure 4 shows the share of employment in motor vehicle production (as well as food processing). Nonetheless, the figure shows that the share of Ohioans employed by motor vehicle assembly and supply totaled about 2.5% in 1999, which is not remarkably different than the share in early 1970s. However, the share began to steadily fall after 1999. Even so, it is important to note that this share only fell by about 0.5 percentage points, clearly illustrating that the relative impact of auto manufacturing has been over estimated by some observers. Though many families and communities have been hard hit, it is hard to argue that Ohio's overall long-term sluggish performance can be attributed to this restructuring.

Percentage Change in Manufacturing Jobs in the United States, Ohio and the Great Lakes (less OH)

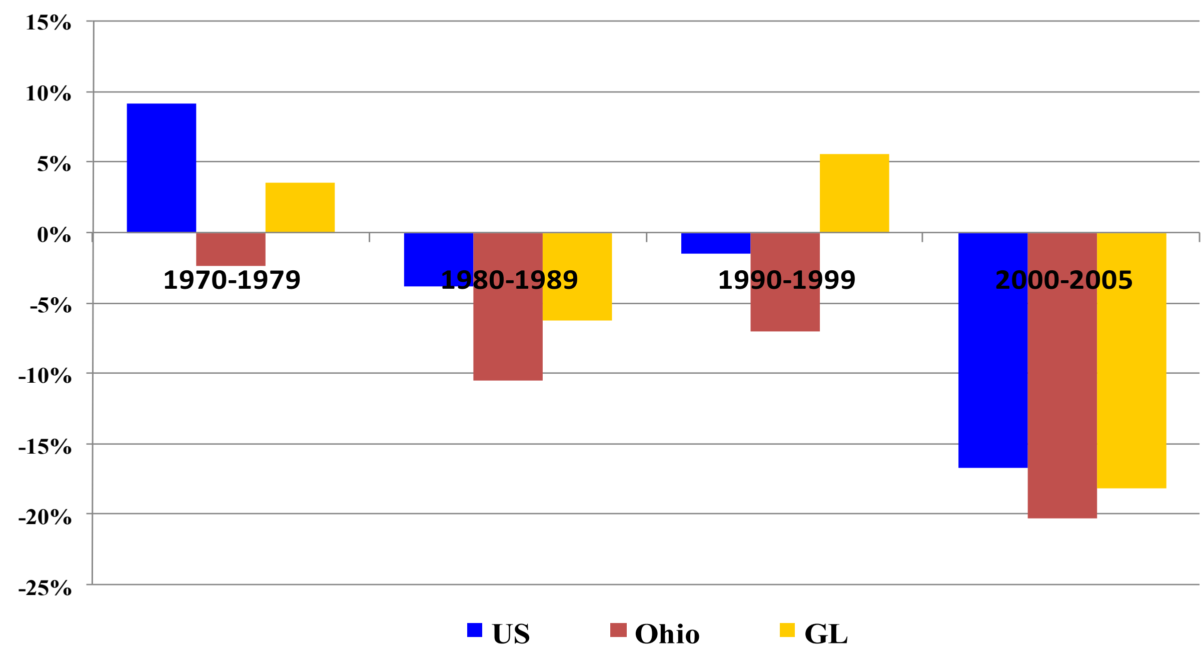


Figure 3

It is worthwhile to point out that other States have been able to withstand major restructuring such as the post Cold War downsizing in defense industries in California. The question is why has Ohio been unable to 'reinvent' itself in response to the normal 'creative destruction' that occurs in market economies, whereas other states have proven more dynamic.

Ohio Employment Shares of Motor Vehicle and Food Processing Jobs: 1969-2005

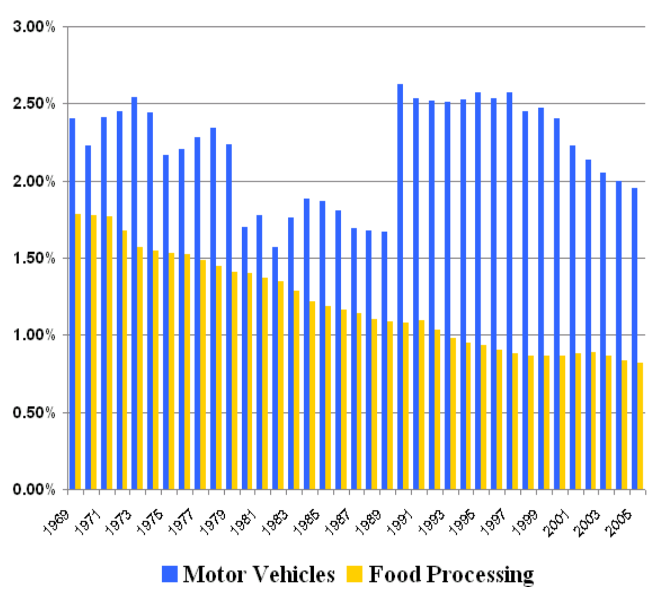


Figure 4

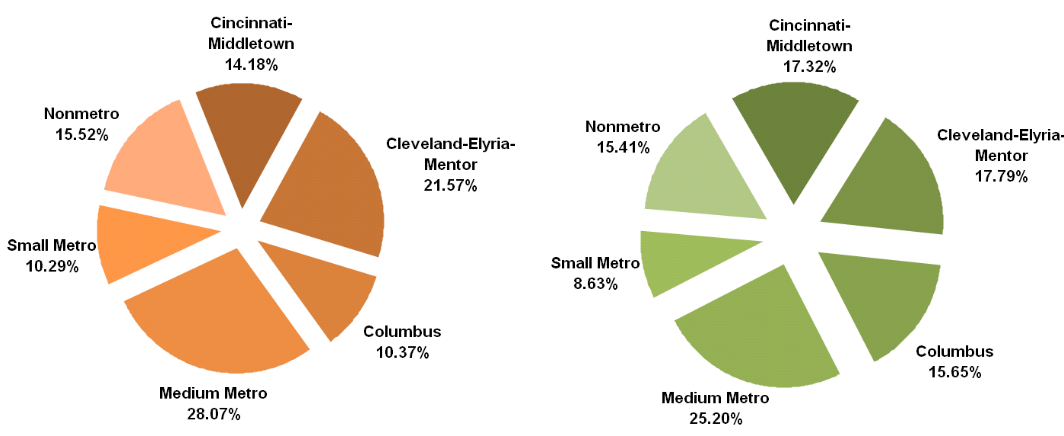
The point of this discussion has been to help dispel some of the myths that surround Ohio's struggles. Simple explanations are either found lacking, outright incorrect, or better apply to a past era. Our attention should focus elsewhere. One upshot is that the State should consider some fundamental reforms if it is to substantially change this direction. Such reforms could potentially have large payoffs. For example, if Ohio were to return to the national average in per-capita income, that would increase each Ohioan's average annual income by about $3,000 (2006$), or $12,000 for a family of four. Likewise, if Ohio's employment would have grown by the national average between 2000 and 2005, that would have meant 307,059 more jobs in Ohio.

This brief will not be able to entirely assess the reasons for Ohio's underperformance, though our last policy brief noted that Ohio's high tax structure puts it at a disadvantage with other states (Partridge, Sharp and Clark, 2007). Nonetheless, the evidence does provide some simple explanations from basic economics using supply and demand curves. Specifically, relatively slow employment and income growth is most consistent with relatively larger problems for Ohio's businesses as opposed to quality-of-life deficiencies for Ohio's households (including out-migration due to climate).[3] To rephrase, the largest problem is a relative decline in the productivity and profitability of its businesses. Finding ways to increase the productivity of Ohio's workers and profitability of its businesses would likely be a key feature of a successful policy to move Ohio forward.

II. The Shifting Geography of Ohio's Jobs

The last forty years have brought a remarkable realignment of Ohio's economic geography. For 1969 and 2005, Figure 5 shows the distribution of Ohio's jobs for each of the three C's (Cincinnati, Cleveland, and Columbus), Ohio's five medium-sized metropolitan areas with a 2000 population greater than 400,000 (Akron, Canton-Massillon, Dayton, Toledo, and Youngstown-Warren-Boardman), Ohio's eight smaller metropolitan areas, and nonmetropolitan Ohio. The main winner over the period has been metropolitan Columbus, with its share of employment rising from about 1 in 10 jobs in 1969 to approaching 1 in 6 jobs in 2005. Metropolitan Cincinnati has also gained, from about 1 out of every 7 Ohio jobs in 1969 to over 1 in 6 in 2005. Nonmetropolitan Ohio has held its own during this period, which is particularly impressive given that "successful" nonmetropolitan areas are typically reclassified as metropolitan.[4]

The Distribution of Total Employment in Metropolitan and Nonmetrolpolitan Ohio



1969 Figure 5 **2005**

The southward shift of the State's jobs to Cincinnati and Columbus has mostly come at the expense of Northern Ohio's urban areas. In 1969, metropolitan Cleveland was home to over 1 out of every 5 of the State's jobs, but this fell to just over 1 in 6 by 2005. The share of jobs in medium sized metropolitan areas also fell by 3 percentage points over the period, with four of these metropolitan areas being in Northern Ohio.

Finally, Ohio's small metropolitan areas were home to over one-tenth of the States jobs in 1969, but today the ratio has fallen to about one-twelfth.

One implication is that Ohio has relatively few engines of growth. The two "strong" performers—metropolitan Cincinnati and Columbus—still only account for about one-third of the State's jobs (and Cincinnati's growth has recently slowed). Almost all of the State's metropolitan areas have been struggling over the course of the last few decades.

This raises obvious issues of targeting resources. Should Ohio focus its efforts in alleviating the blows that have hit the State's struggling metropolitan areas or should it target its resources to areas that have shown the most promise? A mantra of economists is the need to target resources at their highest-valued use because otherwise, not only does one see weaker results, but one also runs the risk of spreading resources too thin to be effective anywhere. That means Ohio faces difficult choices if it wants to reverse its current pattern.

Metropolitan and nonmetropolitan per-capita income both generally follow the State trends though with slightly different implications described below. Figure 6 shows per-capita income in metropolitan Ohio relative to the U.S. metropolitan average and the metropolitan average in the other four Great Lakes States. In 1969, metropolitan Ohio's per-capita income was about at the national metropolitan average, while it was about 5% above the national average in 1969 in the other four Great Lakes States. These figures respectively fell to about 8% and 2% below the national average in 2005.

Both metropolitan Cincinnati and Columbus per-capita income remained at about the national average throughout the period (not shown). However, metropolitan Cleveland's per-capita income fell from about 16% above the national average in 1969 to about 3% above the national average in 2005. Smaller Ohio metropolitan areas have experienced even sharper relative declines—e.g., Lima and Youngstown-Warren both fell almost 20 percentage points relative to the national average. The relative weak performance in most of the State's metropolitan areas in terms of job and income growth is most consistent with weak productivity and weak profitability of their businesses.

Figure 7 shows that in 1969 average per-capita income in nonmetropolitan Ohio and in the other four

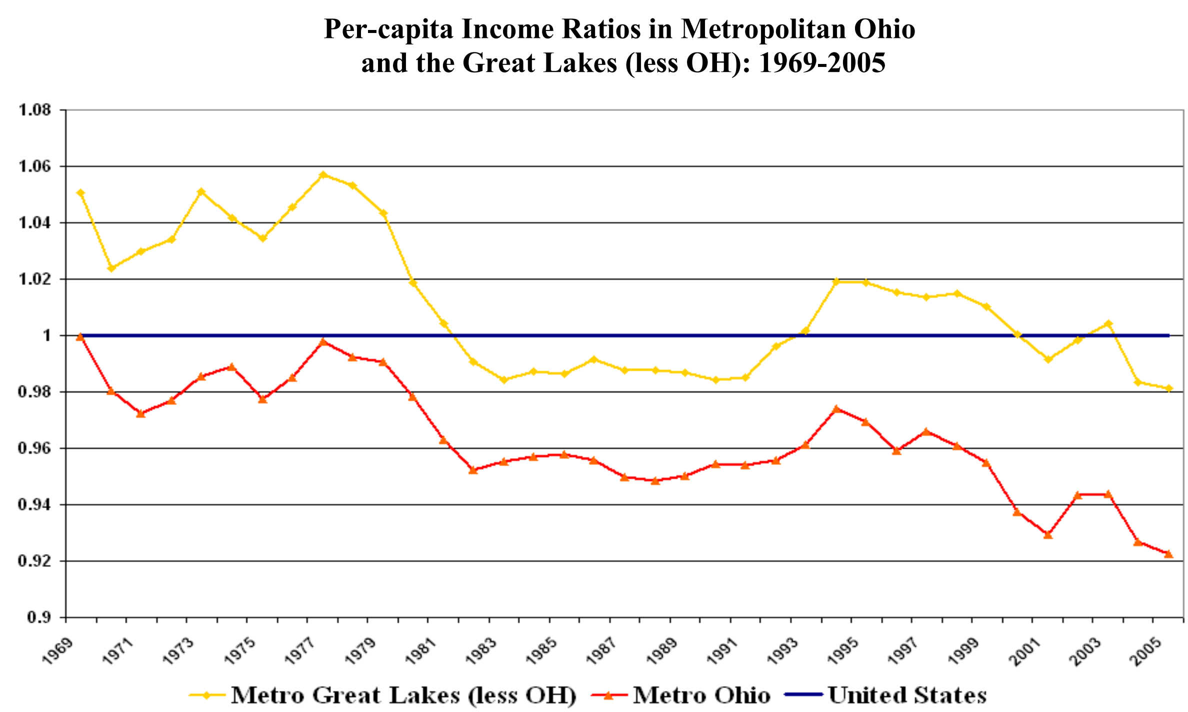


Figure 6

Per-capita Income Ratios in Nonmetropolitan Ohio and the Great Lakes (less OH): 1969-2005

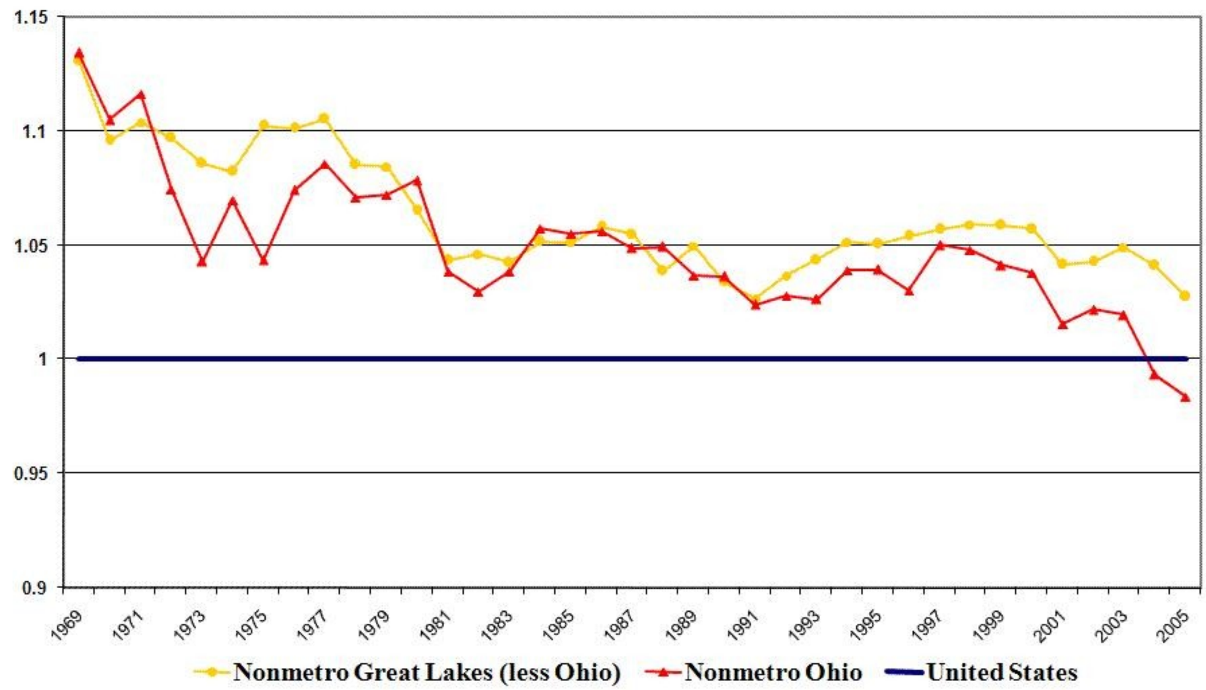


Figure 7

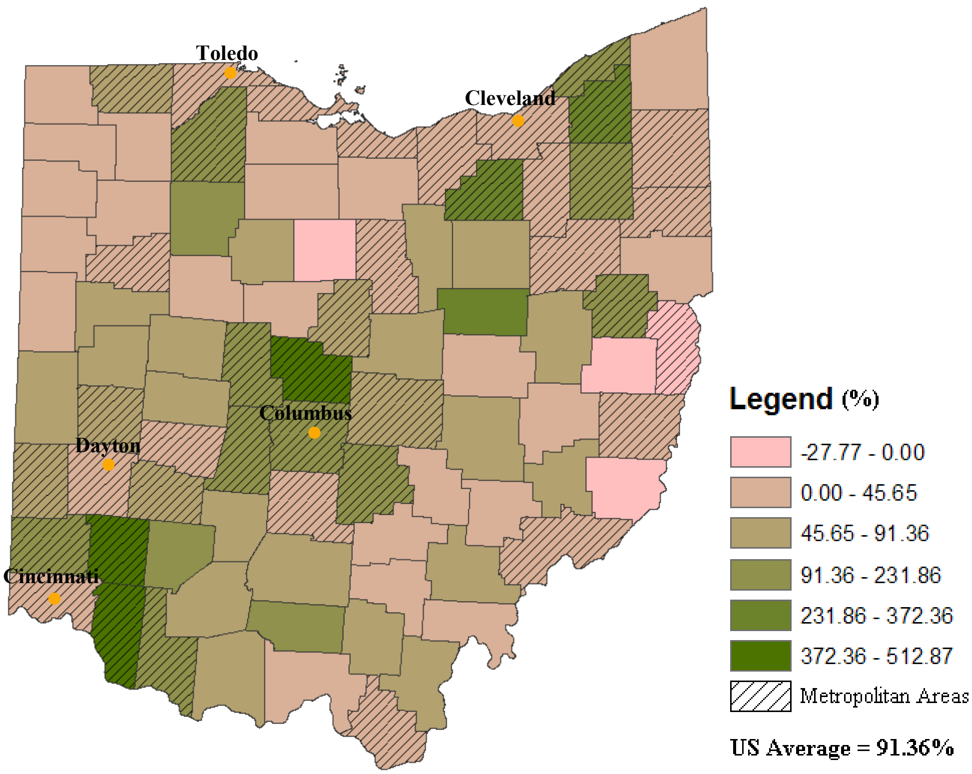
Great Lakes States' nonmetropolitan areas were both about 13% above the U.S. nonmetropolitan average. In the other Great Lakes States, this sharply fell to about 3% above the nation in 2005. Yet, the decline was more precipitous in nonmetropolitan Ohio, where it is now about two percentage points below the national average.

The relative decline in nonmetropolitan Ohio's per-capita income may not be as harmful as might be interpreted. Indeed, relative to nonmetropolitan America, Ohio's nonmetropolitan areas have not fared so badly in terms of job growth. In fact nonmetropolitan Ohio job growth actually exceeded the U.S average in the 1990s which was a situation that has not applied to metropolitan Ohio (see Figure 1b).

Together, this suggests that nonmetropolitan Ohioans are willing to tradeoff a little higher quality of life for lower incomes, which is by no means a negative outcome. That is, on the whole, if rural Ohioans were *not* making such a tradeoff, they would migrate to places with higher incomes, which would have produced more sluggish job growth. One example appears to be Wayne County, which has experienced relatively robust population growth even as relative per-capita incomes have been declining. Something must be attracting new residents to Wayne County that is offsetting its lower per-capita income.

As reflected by the Wayne County example, there is tremendous diversity across Ohio that is not captured in aggregate data. Even within metropolitan Cleveland, Medina County has exploded with rapid growth while its neighbors have lagged. To illustrate this diversity, Figure 8 shows county employment growth over the 1969-2005 period and the more recent 1991-2005 period. Over the longer period, growth has been particularly fast in the fringe exurban counties of metropolitan Cincinnati, Cleveland, Columbus, and Toledo—despite general sluggishness in their respective metropolitan areas (with the exception of Columbus). However, except for Franklin County (Columbus), the four metropolitan core counties have grown much more sluggishly. Some other metropolitan counties have

Percentage Change in Total Employment in Ohio from 1969 to 2005



Percentage Change in Total Employment in Ohio from 1991 to 2005

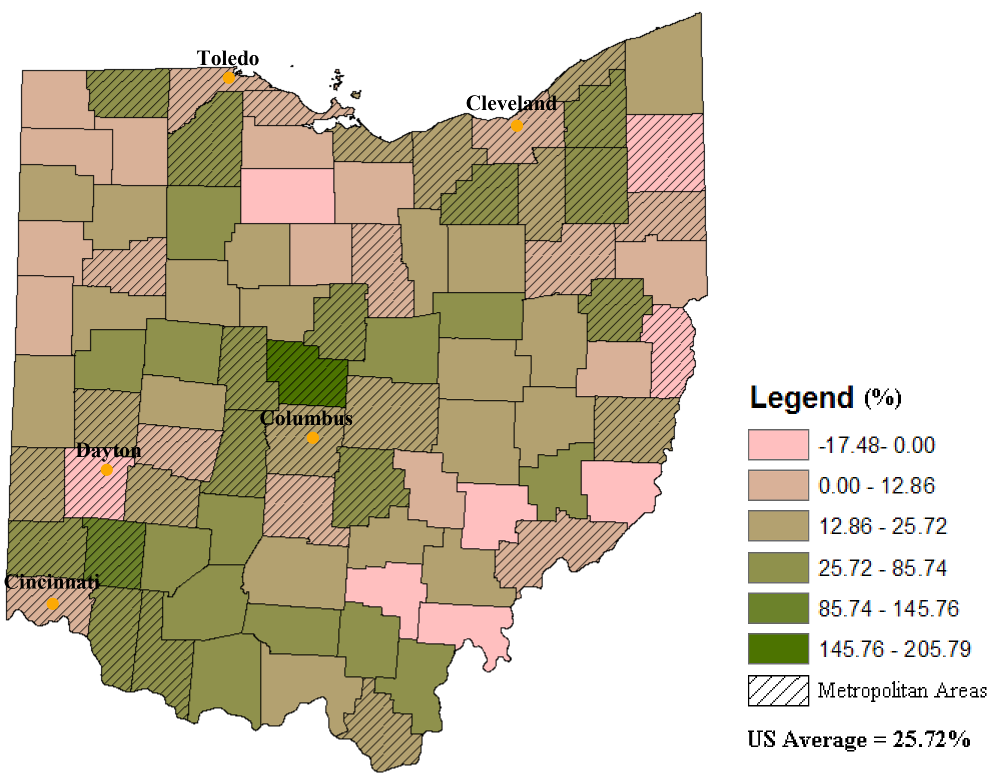


Figure 8

really lagged in terms of job growth—Dayton, Youngstown, and Steubenville are prominent examples.

There are also pockets of faster growth outside of the core of metropolitan areas. For example, Hancock and Holmes Counties fared quite well, while exurban Carroll County has also fared well. By contrast, in North Central Ohio, there is a cluster of slower growing counties centered around Crawford County, which historically has had a high concentration in manufacturing.

Though a clear pattern is the persistence across both periods, there are signs of particular regions that are emerging engines of growth. For example, nonmetropolitan counties in between Cincinnati and Columbus fared much better during the later 1991-2005 period, which also applied to rural counties to the immediate northwest of Columbus. Job growth has been uneven across Appalachian Ohio. For example, in the far southeast, Jackson County has turned in strong job growth performances, but Meigs and Monroe Counties fared relatively poorly during the period.

Not only has Ohio's employment shifted geographically since the late 1960s, but industry composition has also changed. Figure 9 is a set of maps that shows the share of total county income from all sectors generated by the agricultural industry in 1969, 1991, and 2005, with the same legend in all three periods to better illustrate the evolution over time (also see endnote 2). The maps show the critical role agriculture played across the State in 1969, with high shares being exhibited in all counties with the exception of the core metropolitan counties and Appalachian Ohio. This pattern has evolved, where the highest income shares in agriculture have pulled back mainly to the northwest part of the State by 2005.

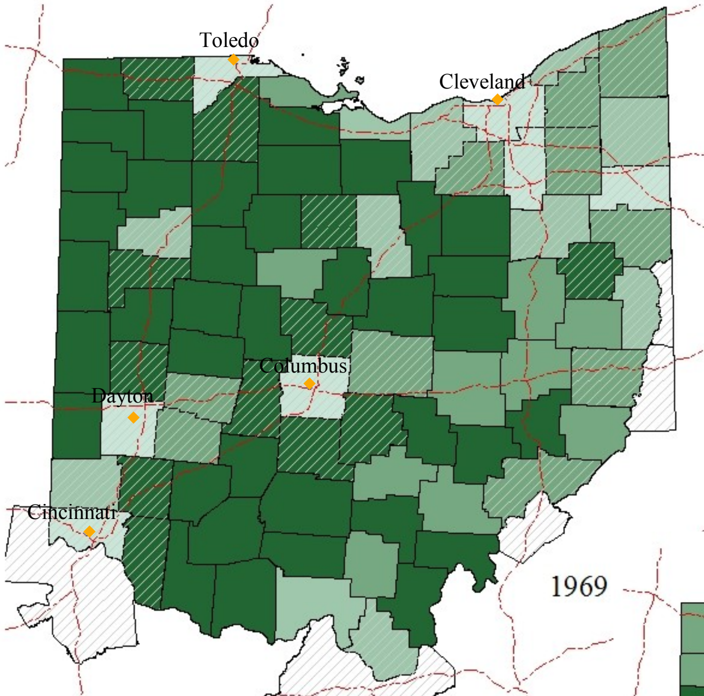
Figure 10 shows a similar set of maps for manufacturing. Foremost, the figure shows that most of Ohio is much less reliant on manufacturing than forty years ago. In addition, it is not surprising that in 1969, manufacturing was most important in Northern Ohio. Over time, like agriculture, higher intensities of manufacturing have pulled back to Northwestern Ohio. Nevertheless, ongoing softness in the value of the U.S. dollar will provide welcome relief for Ohio's manufacturers that have faced intense global pressures.

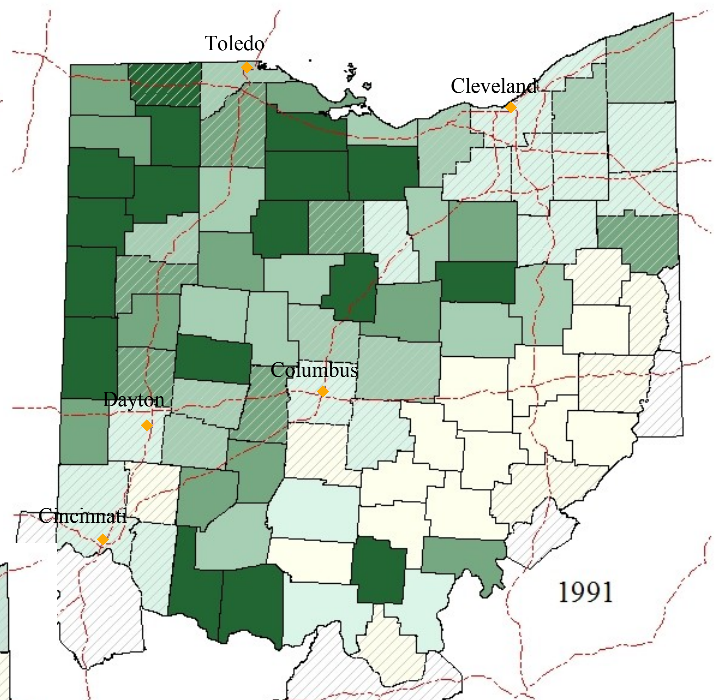
Though manufacturing's restructuring has been painful for many of Ohio's communities, the good news is that this restructuring is mostly complete. In 1969, 31.6% of Ohio's jobs were in manufacturing compared to 22.6% in the U.S. By 2005, these shares had respectively fallen to 12.3% and 8.5%. For one, this illustrates that Ohio's exposure is not that much different than the national average. Likewise, even if Ohio lost all of its remaining manufacturing jobs (*which it will not*), the corresponding 12.3% employment share loss would represent a much smaller decline than the almost 20 percentage point decline between 1969 and 2005 (31.6%-12.3%). Thus, going forward, any future restructuring in manufacturing will be much less painful for Ohioans than it was in the past. Indeed, Ohio's remaining manufacturers have proven to be quite resilient and are candidates to surprise many observers in the future.

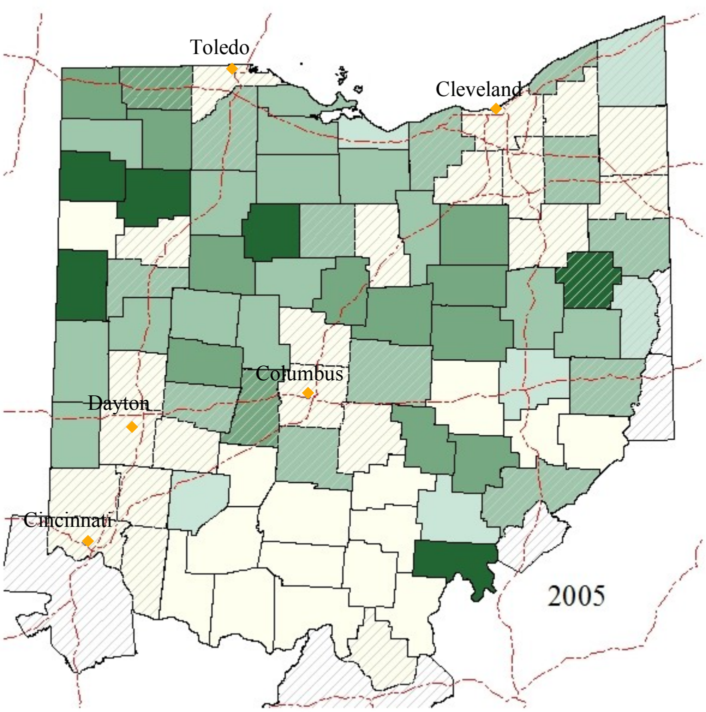
Figures 11 and 12 contain a similar set of maps for the service and finance sectors. In 1969, the existing service and finance jobs were by-far concentrated in the State's most urban regions. In the intervening period, these sectors became more important across both rural and urban counties. One minor exception worth noting is that service employment is slightly less intense in Northwestern Ohio. Finally, Figure 13 shows the same set of maps for government employment. The share of income generated by government employment has increased across the State, with the public sector's share being especially high in Southeastern Ohio.

A clear pattern is the convergence of industry structures across the State—rural Ohio is not so different from urban Ohio. In addition, employment in rural and urban Ohio is more concentrated in the service producing sectors, helping to make the State more diversified against changing national and global pressures than was the case forty years ago. Though many service producing jobs

Figure 9.
Share of Income Generated by Agricultural Sector 1969, 1991, 2005







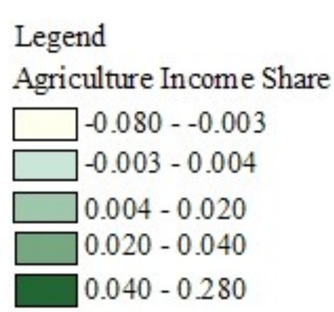
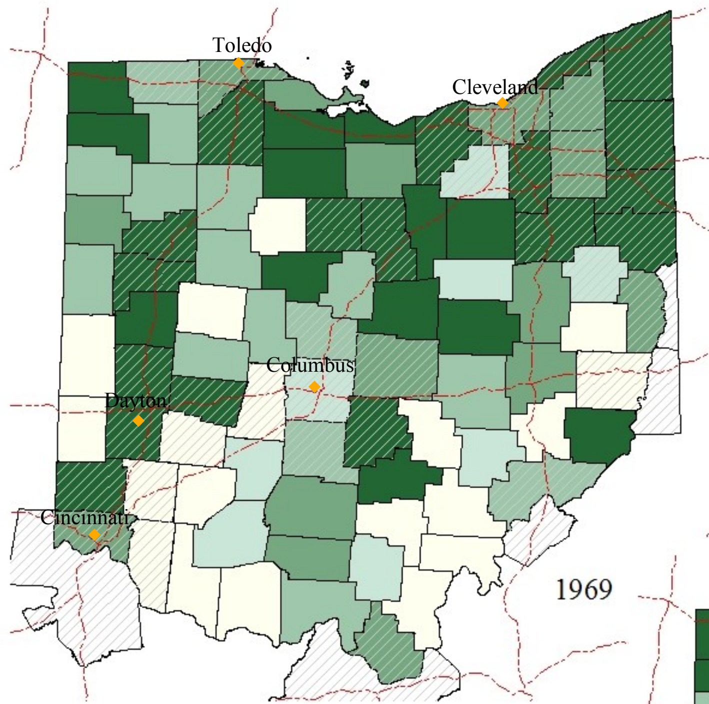
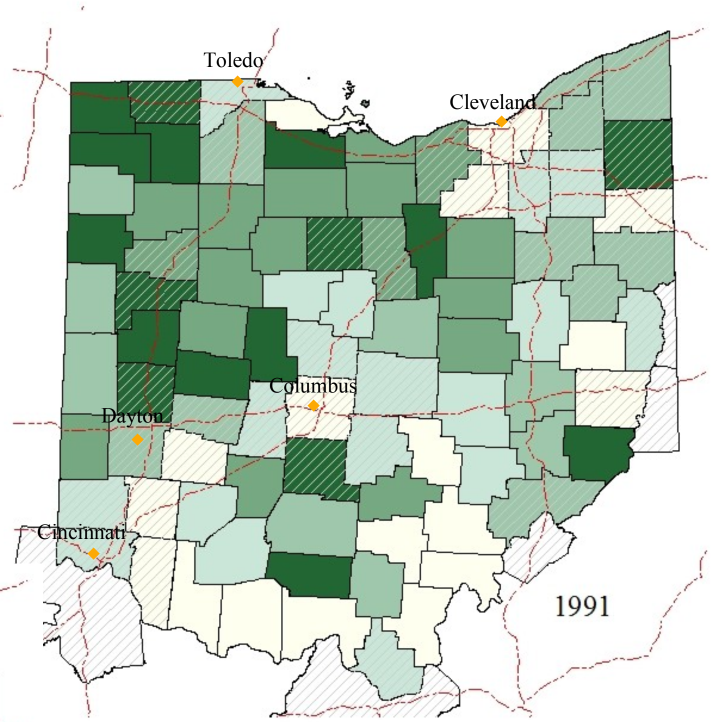


Figure 10.
Share of Income Generated by Manufacturing Sector 1969, 1991, 2005





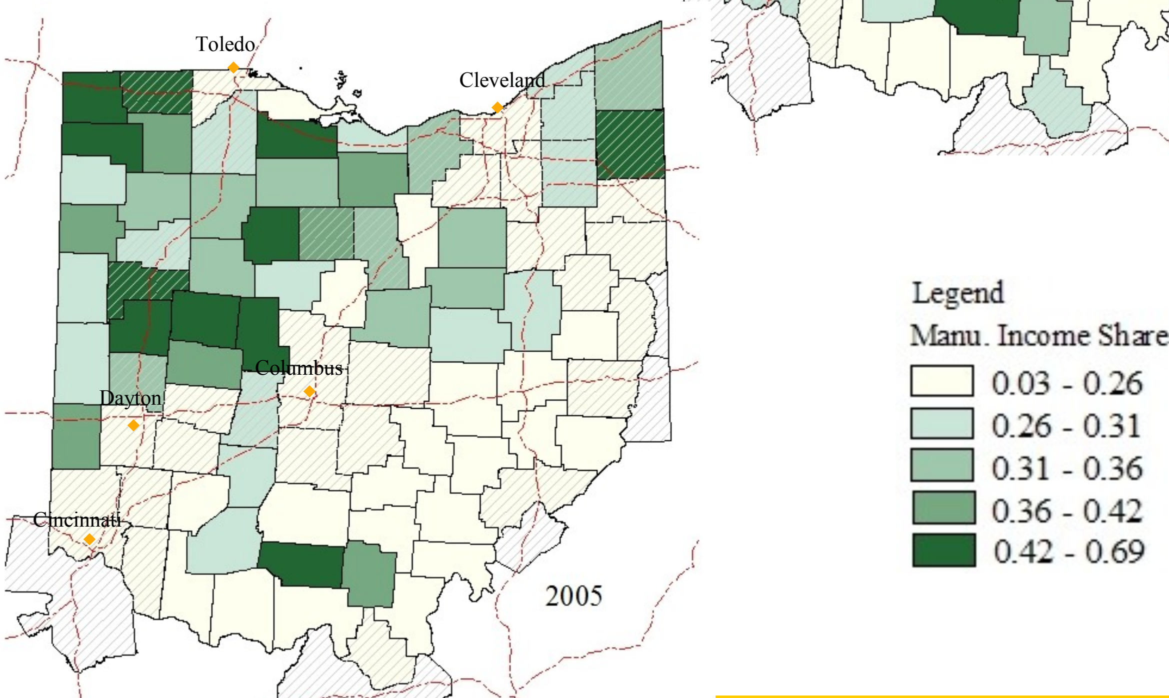
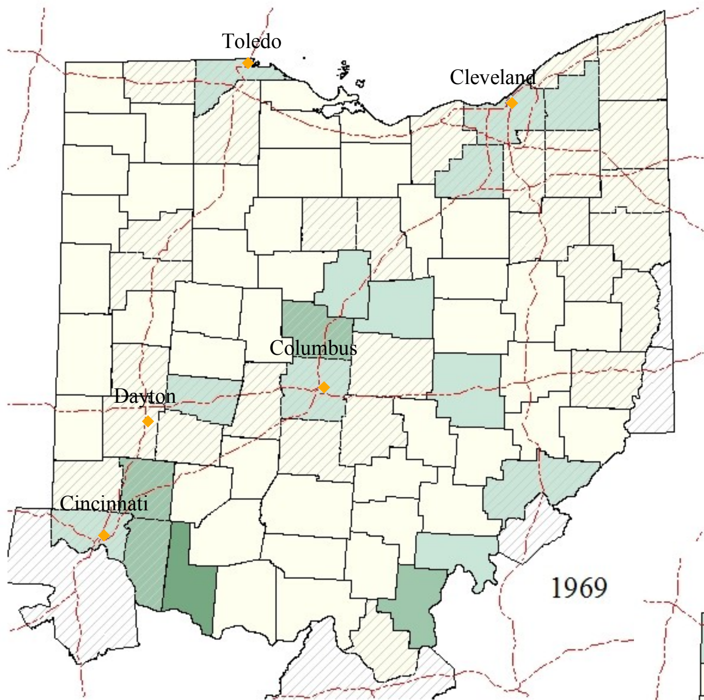
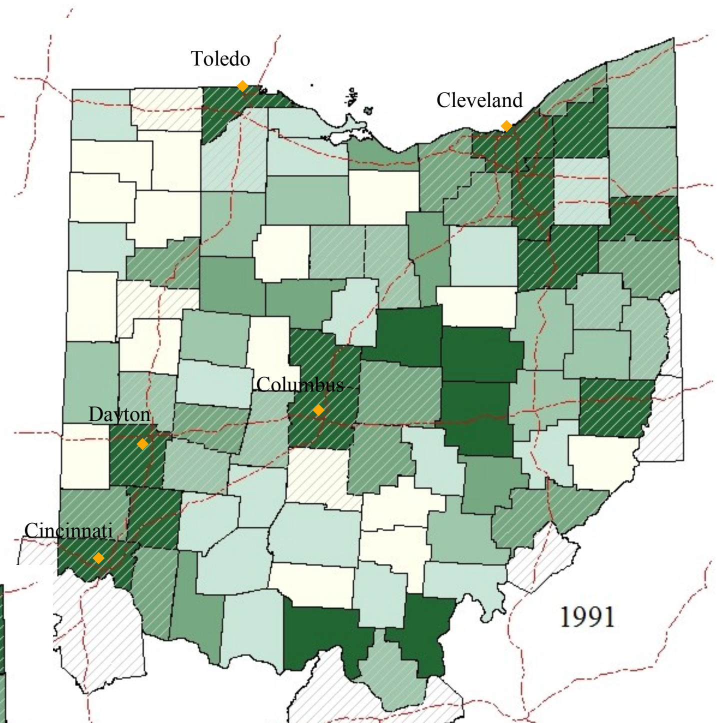
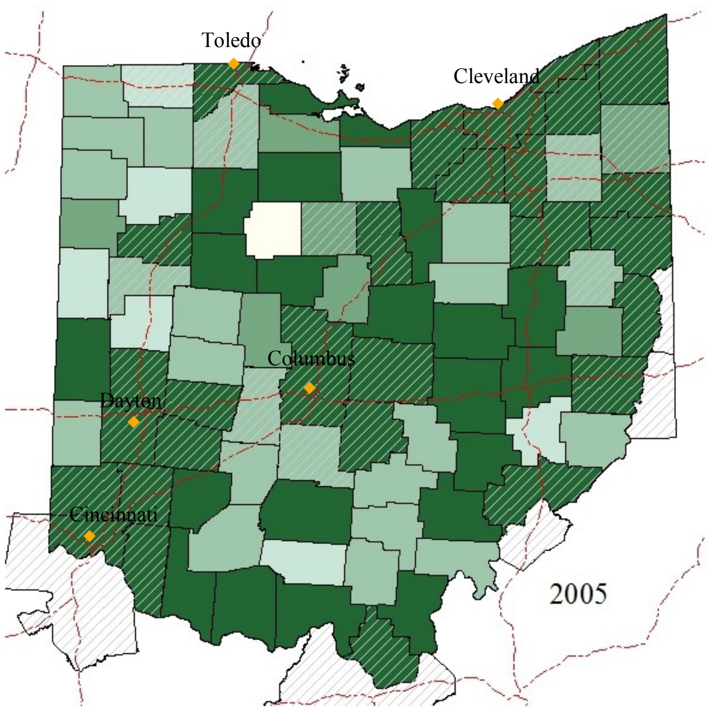


Figure 11.
Share of Income Generated by Service Sector 1969, 1991, 2005



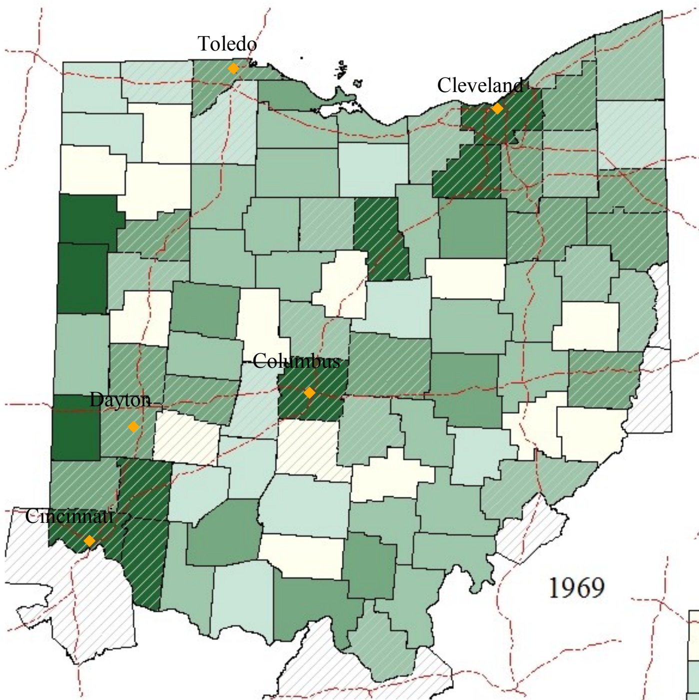


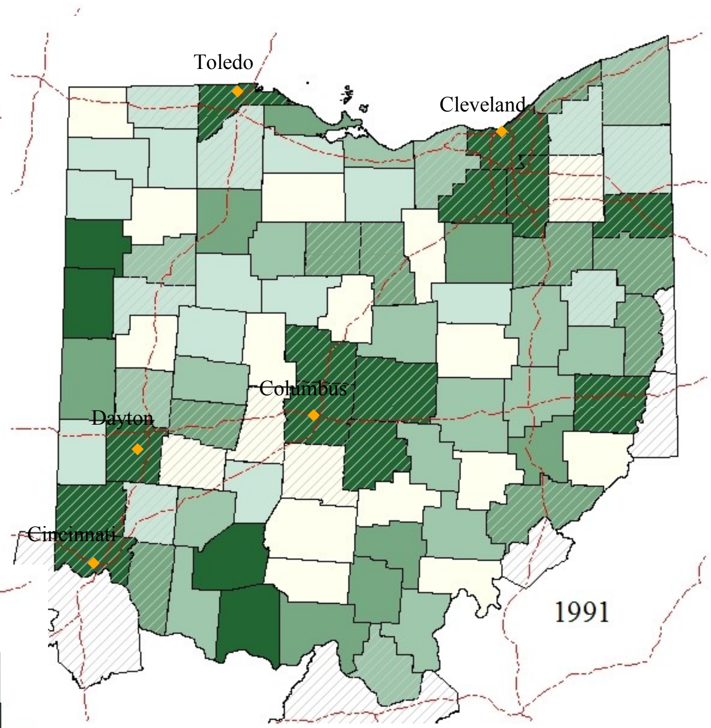


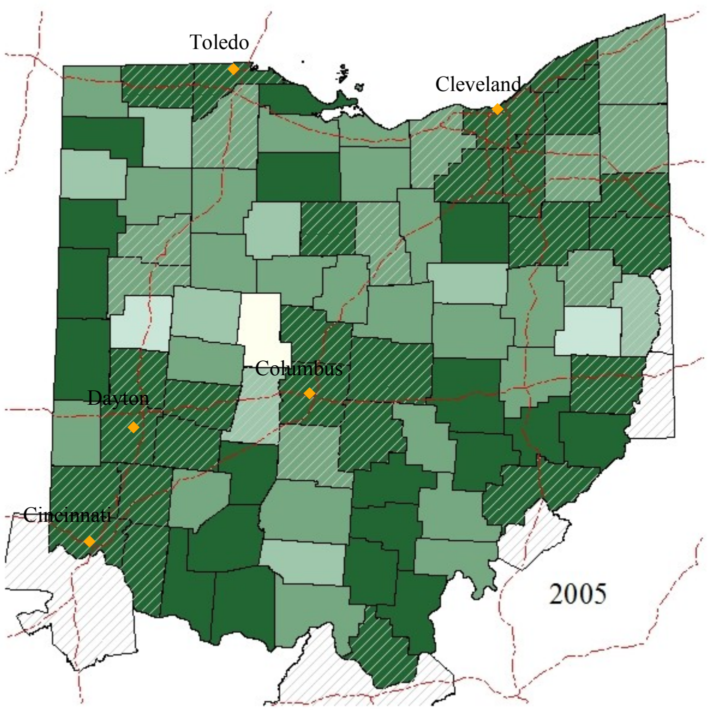
Legend
Service Income Share

- 0.04 - 0.13
- 0.13 - 0.16
- 0.16 - 0.19
- 0.19 - 0.21
- 0.21 - 0.44

Figure 12.
Share of Income Generated by Finance Sector 1969, 1991, 2005







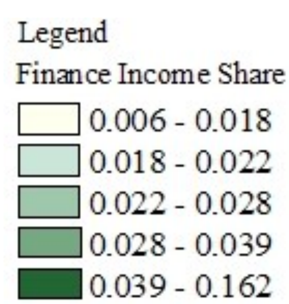
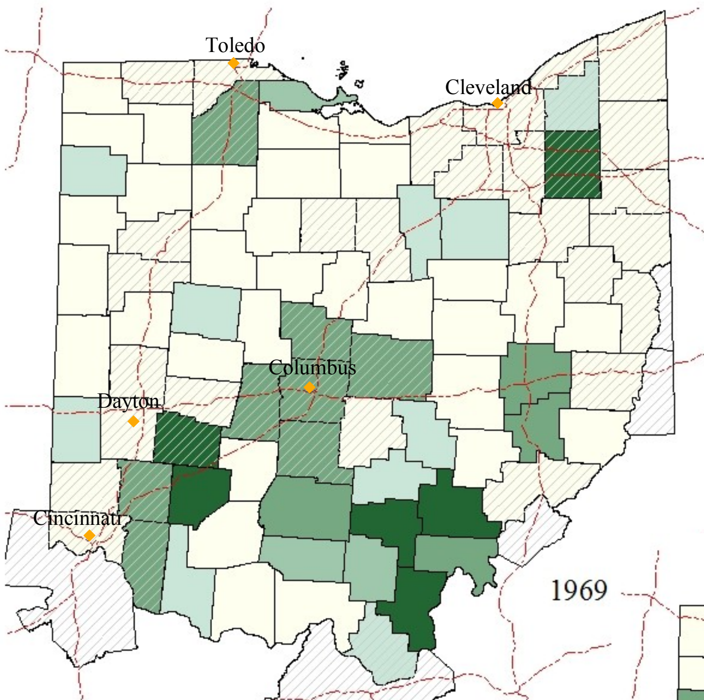
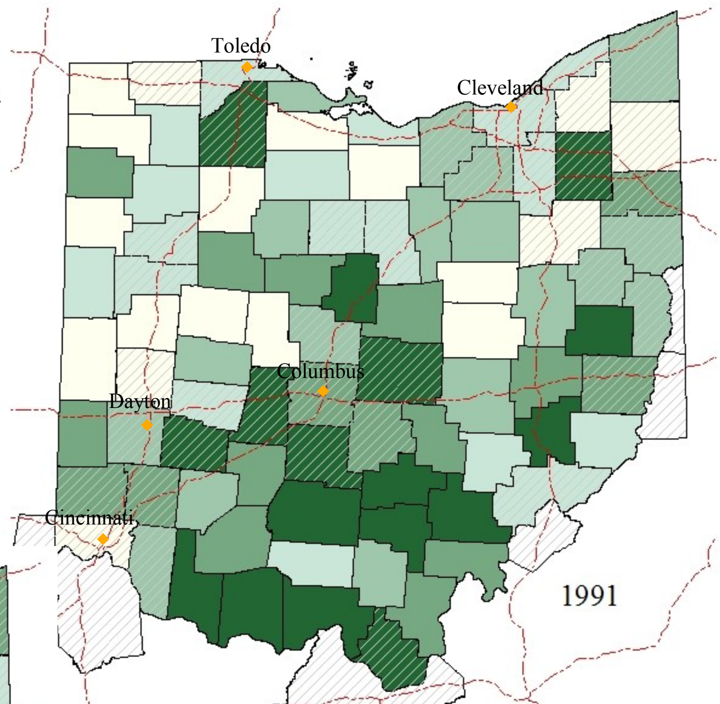
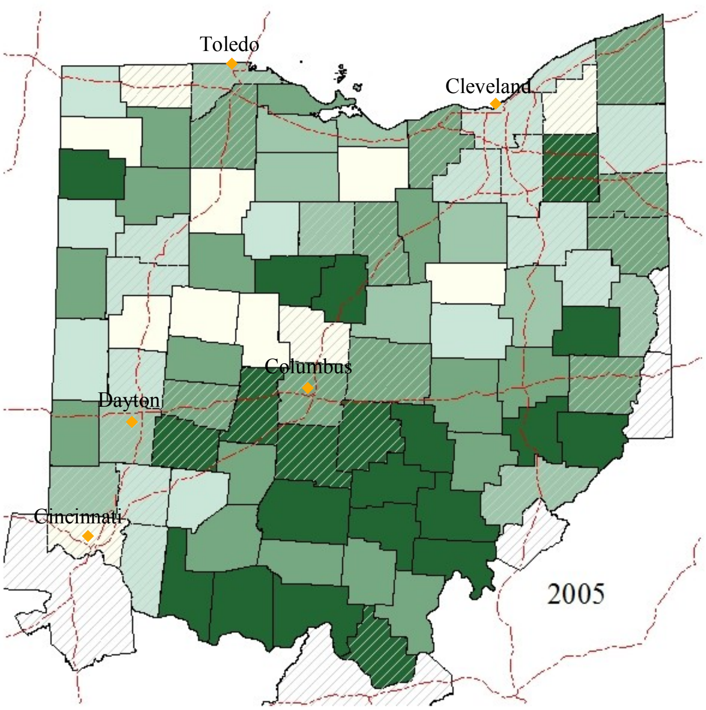
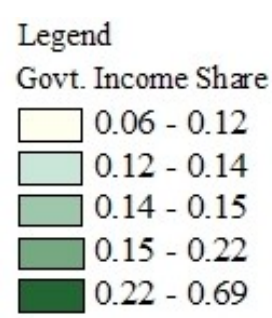


Figure 13. Share of Income Generated by Government Sector 1969, 1991, 2005









Employment Patterns by Place of Residence

	Core	Suburbs	Exurbs	Rural
Construction	5.0%	5.6%	7.6%	6.8%
Manufacturing	15.3%	17.9%	24.9%	28.4%
Wholesale	3.2%	4.0%	3.3%	2.6%
Retail	11.9%	12.3%	11.2%	10.7%
Trans./Warehouse	4.3%	3.8%	4.7%	4.1%
Utilities	0.8%	0.7%	0.9%	1.0%
Arts, Entertainment, Rec and Accomodations	9.3%	7.3%	6.5%	6.6%
FIRE, Professional, Management, Support Services	19.7%	19.5%	11.5%	9.1%
Education, Health and Government	25.7%	24.1%	21.8%	22.4%
Agriculture and Mining	0.2%	0.3%	3.0%	4.0%
Other	4.7%	4.5%	4.4%	4.2%
Total Workers	100.0%	100.0%	100.0%	100.0%

Figure 14

pay less than their manufacturing counterparts—especially in the lower half of the earning distribution—they are less vulnerable to cyclical ups and downs. This restructuring and diversification means that the State's industrial structure is much better aligned than it was in the 20th century to withstand adverse conditions. With the worst of industry restructuring complete, it seems reasonable to argue that at no other time in the last forty years has the State been positioned to gain from structural reforms in government, taxes, and expenditures.

Figure 14 shows that differences across the rural-urban continuum can be further delineated depending on whether the workers live in a central city, suburb, exurban[5] community, or a rural setting.[6] One of the striking patterns in the figure is how in most cases, Ohioans' employment patterns do not differ by place of residence. The exceptions include the expected greater intensities of agriculture employment among rural Ohioans and the greater shares in finance and management occupations among urban and suburban Ohioans. However, it may be surprising that rural and exurban Ohioans are more likely to be employed in manufacturing than their city and suburban counterparts. This illustrates how manufacturing remains important in many rural and exurban communities, even though it has declined in importance in most Ohio communities.

Figure 15 shows the employment patterns by residence, but now differentiated depending on residence in a city, village or township. Though land use and population density often differ between

Employment Patterns by Place of Residence, Municipality Type

	Cities and Village				*Townships*		
	Core	Suburbs	Exurbs	Rural	Suburbs	Exurbs	Rural
Construction	5.0%	5.2%	5.8%	4.9%	6.5%	8.7%	8.4%
Manufacturing	15.3%	17.7%	25.0%	29.1%	18.7%	24.9%	27.8%
Wholesale	3.2%	4.0%	3.1%	2.5%	4.1%	3.3%	2.8%
Retail	11.9%	12.1%	12.1%	11.7%	12.6%	10.7%	10.0%
Trans./Warehouse	4.3%	3.8%	4.0%	3.3%	3.8%	5.1%	4.7%
Utilities	0.8%	0.7%	0.8%	0.8%	0.8%	1.0%	1.2%
Arts, Entertainment, Rec and Accomodations	9.3%	7.5%	8.0%	7.9%	6.8%	5.6%	5.5%
FIRE, Professional, Management, Support Services	19.7%	19.7%	12.3%	10.3%	18.9%	11.1%	8.2%
Education, Health and Government	25.7%	24.6%	23.5%	23.9%	22.9%	20.8%	21.2%
Agriculture and Mining	0.2%	0.2%	0.9%	1.3%	0.4%	4.3%	6.2%
Other	4.7%	4.5%	4.4%	4.3%	4.5%	4.4%	4.0%
Total Workers	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Figure 15

incorporated cities and villages versus unincorporated townships, the employment patterns of their residents do not particularly differ. Specifically, it is more important whether a person resides in a suburban, exurban, or rural setting in determining employment patterns than whether they in turn live in a city, village, or township. One point is that the residents of cities, villages and townships have common needs in terms of economic development—illustrating how economic growth does not respect jurisdictional boundaries. Regarding policy, if the cities, villages and townships are working at cross purposes, their local residents will likely suffer the consequences of fewer economic opportunities.

III. Moving Ohio Forward for a Prosperous 21st century

The striking lesson of this analysis is that Ohio's economy has rich geographic diversity. Relatively prosperous communities and regions lie next to ones that are less prosperous. For non-metropolitan Ohio, much of the evidence superficially suggests some severe problems including below average job and income growth. However, when taking into consideration the massive restructuring that has occurred in rural Ohio's agricultural and manufacturing sectors, it is actually remarkable how well rural Ohio has faired over the last forty years. Even the relative decline in rural Ohio per-capita income appears more consistent with residents trading off a little lower income to achieve a little better quality of life. Thus, an overall picture of rural Ohio's current health should be nuanced, where there are clear problems and concerns, but there are grounds to argue that this part of the State has been surprisingly resilient.

Rural Ohio's relative strong performance is even more striking when considering the particularly weak performance of most of Ohio's metropolitan areas. A key pattern that we documented in our last policy brief is that growth in rural communities is very closely linked to proximity to Ohio's urban centers with at least 50,000 people (Partridge, Sharp, and Clark, 2007). This is a typical pattern for rural areas as better urban access creates opportunities for urban commuting, greater ease for urban consumers to purchase rural products and for rural consumers to purchase urban products, and closer access to urban amenities (Partridge et al., 2007). Thus, the sluggish performance in Ohio's largest urban areas has adverse implications for the State's rural communities. Together, this illustrates that one of the best ways to ensure a prosperous rural Ohio is to find ways to revitalize the State's struggling metropolitan areas.

In order to ensure that rural Ohio's people and communities are able to prosper, there are several possible directions that arise out of this and the last policy brief. In order to start a discussion, we provide a list of recommendations to help enhance the sustainability of rural Ohio. Our belief is that much of the focus of the media and policymakers has been urban Ohio, calling for more discussion of the interests of rural parts of the State. Some of these suggestions can be achieved in the near term, while others would be more realistically accomplished in the long-term. However, we do not view this list as complete, nor do we view that the State of Ohio or every community needs to fully check off each point to be successful. For presentation, we divide them into primarily state-level and community-level initiatives, though there is likely considerable overlap.

State Level

1. Undertake a broad study to assess the reasons for Ohio's underperformance, to untangle the mystery and history of Ohio's economic position so that policy can be developed from a comprehensive understanding of reality, instead of myth. We realize that "one more study" seems to be putting off solving the problem, but current discourse seems more based on beliefs than facts.

2. As noted in the last policy brief, Ohio's nearly 12 million residents are relatively thinly spread out among its numerous urban centers. This low density development may be associated with higher costs in providing local government services. Likewise, fragmented governance with 88 counties and approximately 900 municipalities and 1,300 townships (not to mention scores of other governmental units) is unlikely the most efficient way to provide services (Brookings Institution, 2007). With no one clearly in charge, such fragmentation is also not conducive to having accountable state and local government. Inefficiencies and a lack of accountability further increase the frustration of Ohio's citizens and businesses.

   Consolidation and closer cooperation in the provision of services can provide economies of scale in the provision of services for counties, cities, villages, and townships. Likewise, economic development, service provision, transportation, and land use do not respect jurisdictional boundaries. In cases of severe jurisdictional spillovers, regional multi-jurisdictional efforts are needed. Improving the efficiency of government service provision will likely enhance the quality of life of all Ohioans and help make the State more competitive in the global economy (Brookings Institution, 2007). The accompanying box on Pittsfield township and the City of Oberlin illustrates how such win-wins can be accomplished with innovative government officials.

3. To help end the fruitless tax poaching and competition for jobs among neighboring jurisdictions, the State of Ohio should make it easier for neighboring local governments to develop tax-sharing arrangements. Currently, local earnings' taxes generally follow the jobs and not the residents. If there is significant out-commuting from a local jurisdiction, it may not receive sufficient tax revenue to support basic government services.

New Partnerships: Protecting Agriculture Through Joint Planning

Pittsfield Township, Lorain County, Ohio has created a joint economic development agreement with the neighboring City of Oberlin. While cities and townships sometimes fight each other for development or over annexation, Oberlin and Pittsfield are supporting each other in a plan that designates 20% of Pittsfield Township- outside of Oberlin- as appropriate for development. The township has agreed not to oppose annexation in the "development zone" and will discourage development on farmland outside the zone in exchange for a share of Oberlin's tax receipts. The 50 year agreement will give the township an 18% share of withholding from commercial payrolls and 2.35 mills of property tax on commercial and industrial areas.

This process also engaged the township with the development of a land-use plan that will utilize smart growth principles. The aim is not to halt development as much as it is a plan to shape and direct growth. Perhaps most impressive is the innovative tax sharing elements where both the township and town realized that cooperation would benefit all players, rather than the traditional approach of incorporated cities and villages battling with their townships.

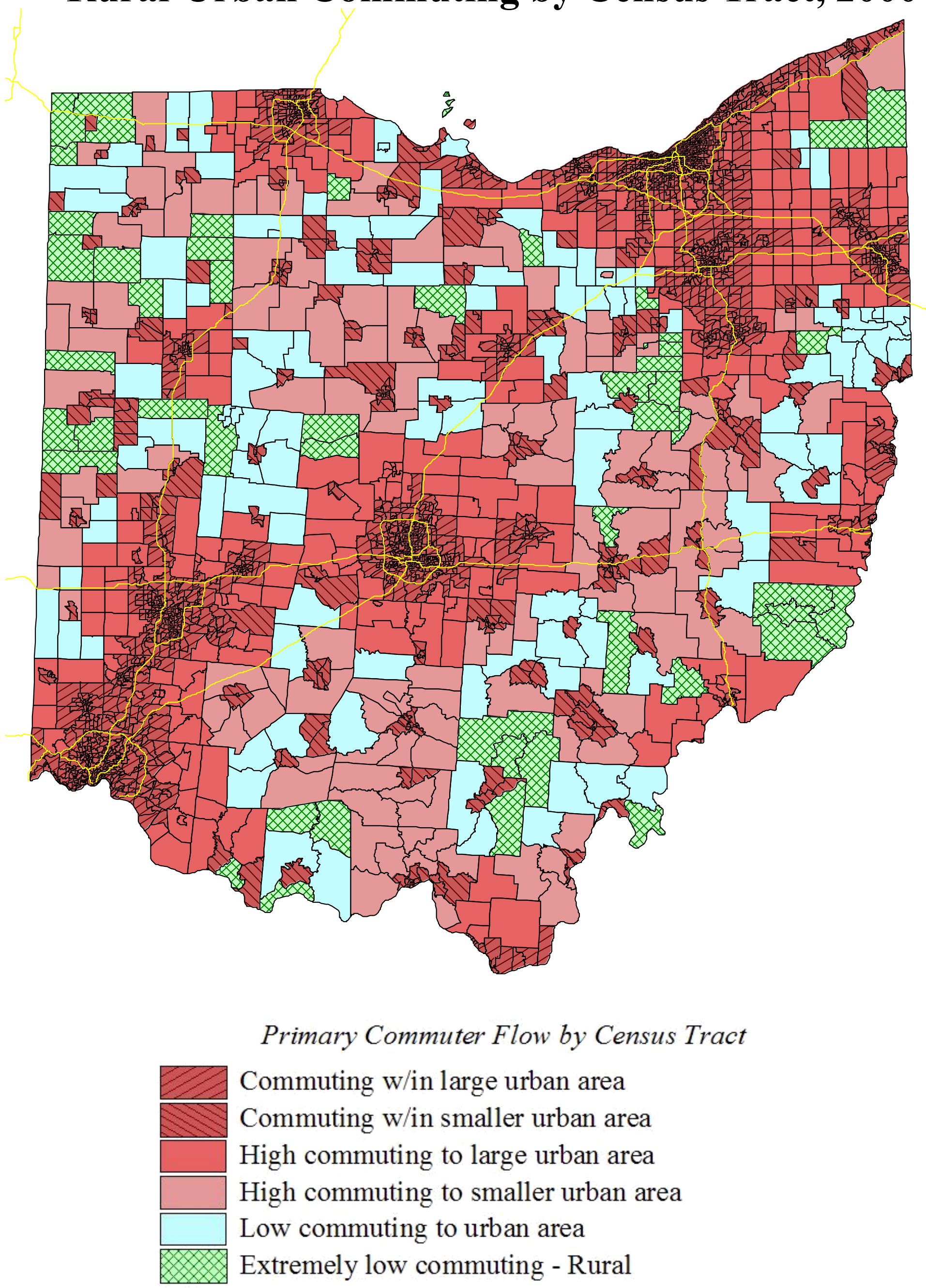
With this incentive structure facing our local government officials, it is no wonder that Ohio local governments often engage in fearsome and destructive competition for development. To counteract wasteful regional competition, the State should provide more incentives for regional efforts by linking additional state funding to more effective collaboration. The State could also facilitate the creation of more effective regional jurisdictions that would have authority over clearly regional matters that often cannot be effectively handled by local jurisdictions—e.g., transportation and planning.

4. Rural Ohio's prosperity is closely linked to prosperity of its urban cousins. Commuting to urban areas remains a key source of rural household income, while stronger growth in urban Ohio creates demands for rural Ohio's products including recreation and tourism. It is often not fully recognized the high share of rural livelihoods that depend on prosperous urban areas (and of course the opposite is true), indicating the need for rural communities and urban communities to cooperate in providing economic opportunities for all Ohioans.

   The extreme interdependence of Ohio's rural, exurban and suburban areas is demonstrated by Figure 16, a pictorial description of the primary movement of Ohioans to their jobs. Using Rural-Urban Commuting Area Codes from the USDA Economic Research Service, census tracts are made to reflect the amount of commuting to urban areas.[7] The overwhelming majority of the State relies on urban areas for personal economic prosperity, defined as having at least 30% of employed residents commuting to an urban area. Only a few places have extremely low or low (under 30%) rates of commuting to urban areas.

   Stronger urban areas also places less pressure on the State's public finances, further improving Ohio's economic competitiveness. Though rural Ohio has fared remarkably well against some strong headwinds, it would have a much easier road in the 21st Century if its urban neighbors also fared well.

Rural-Urban Commuting by Census Tract, 2000



Data Source: Rural-Urban Commuting Area Codes are from the USDA Economic Research Service

Notes

- The above map shows commuter flows to *any* urban area
- Definitions:

  "High" commuting: More than 30% of the residents living in the census tract commute to any urban area for work.
  "Low" commuting: Less than 30% of the residents living in the census tract commute to any urban area for work.
  "Extremely Low" commuting: Less than 10% of the residents living in the census tract commute to any urban area for work.

Figure 16

Local Level

1. A high quality of life is a clear path to promoting the health of rural Ohio in the 21st Century. Economists point out that a large share of the population is footloose and, as illustrated by Sunbelt migration, is attracted by high quality of life. Fortunately, rural Ohio is blessed with a landscape of forests, mountains, prairies, and farmland, as well as its accessibility to lakes and streams such as Lake Erie. Most of rural Ohio has little congestion, lower crime, and affordable housing, while being close to jobs and amenities in urban areas. To be successful, rural Ohio communities should continue to work to provide recreational opportunities, a pleasant landscape, and a clean environment. As recent events have illustrated, a high quality of life is also linked to modern, reliable, and well-maintained infrastructure (roads, water, sewerage, airports) (Dalenberg and Partridge, 2007). Providing a high quality of life requires cooperation from all stakeholders in a region including nonprofits, government, agriculture, and manufactures.

2. Further improvements in the region's workforce quality and education system will enhance the competitiveness of rural Ohio. Whether in our traditional sectors or in emerging information sectors, the key to the State being competitive is a productive and innovative workforce. Besides its role in enhancing the productivity of the workforce, rural Ohio communities must not lose sight of the fact that a strong local education system is often a key feature that enhances quality of life. Good schools helps attract and retain needed professional workers and other families keenly interested in the education of their children.

3. Despite manufacturing's problems, there are certain items where it makes sense to manufacture or assemble the products onshore, to be near domestic R&D facilities, customers, and suppliers. In this vein, manufacturers in rural Ohio have proven quite resilient and are now better poised to take advantage of a lower value of the U.S. dollar. Ohio still has advantages in terms of transportation and access to markets, while rural Ohio also has relatively low labor and land costs. However, a prosperous Ohio manufacturing sector will require more than just aiming to "produce the cheapest sparkplugs" because the Chinas and Indias of the world will win that battle. To be competitive, rural Ohio manufacturers must provide intellectual value added that cannot simply be copied or replicated elsewhere. Continuing attention to education and workforce training would help create this environment, while government policies should also be supportive.

4. Agriculture is not the huge rural employer it was in the first-half of the 20th Century. Yet, there are signs that farming and agro-business will play an increasing role in rural economic development. Foremost, the recent run-up in bio fuels supported by federal and state policy will, at least in the medium term, provide a strong catalyst. Likewise, past downsizing and consolidation in the agriculture sector has helped make it more entrepreneurial and adept at change.

   In addition, as people demand high-quality local food and country experiences, opportunities for Ohio agriculture are increasingly apparent. And with so many urban areas, there consequently is a great demand for these experiences and more urban networks to engage. Localization of agriculture can include outlets such as farmers' markets, local grocery stores or restaurants to develop local branding. Though Figure 4 showed that the share of Ohioans employed in food processing has been declining to less than one percent, fears regarding the quality of foreign imported food and the depreciation of the U.S. dollar should further increase the demand for locally produced and processed food. Moreover, as stewards of the environment and protectors of our landscape, agriculture plays an important role in a region's quality of life. For these reasons, agriculture and its related industries are more poised now than any time in the last two generations to be an engine of growth for many rural Ohio communities.

5. Beginning in the later 20th Century, a key feature of successful local economies has been a diverse economy (Partridge and Rickman, 1997). Diverse economies are more resilient to business cycles. It also implies stronger input-output linkages, in which local businesses can purchase a greater share of their inputs from local suppliers. To achieve greater diversification, local communities need to ensure that they have a vibrant service-sector such as in healthcare, finance, tourism, and accommodations. This goal often requires 'growing from within' by providing a climate that facilitates the creation and expansion of small businesses and a dynamic entrepreneurial climate.

6. Appalachian Ohio has significant upside potential. The long-term downsizing of Appalachian Ohio's natural-resource oriented industries and heavy manufacturers indicates that the region will face less downside risk going forward. Likewise, its natural beauty is an increasingly appealing aspect that could help produce a long-term turnaround in the region's fortunes over the next decade or so as new residents are attracted to its natural beauty. A coherent economic development strategy that includes workforce development would clearly aid the region's revitalization.

Conclusion

Virtually all Ohioans would benefit from a stronger economy and an improved quality of life. A strong economy also allows governments the fiscal flexibility to provide better services without significantly raising taxes. An improved economic climate creates a virtuous circle of rising expectations that will attract more business investment and retain our best and brightest workers.

In trying to raise the visibility of the benefits of economic prosperity, this policy brief is a second in a series of briefs that examine how Ohio has lagged the nation and our peer states. In particular, we document the relative decline of the Ohio economy in terms of job and income growth. We ask why other States that have seemingly faced economic problems have adjusted, but Ohio has seemingly been stuck in place.

We find that many popular explanations for Ohio's lagging performance are insufficient to explain the State's relative performance. In particular, our neighboring Great Lakes States have also faced similar problems in manufacturing and weather, yet they have generally outperformed Ohio. Though we were unable to precisely document the reasons for Ohio's struggles, we did offer the possibility that Ohio's fractured governance structure is producing fruitless battles for economic development, reducing government accountability, and helping to raise Ohio's state and local tax burden to near the highest in the country. On a favorable note, the State's employment share in manufacturing has approached the national average, among other things, meaning that the most of its painful restructuring that have hit Ohio communities is over.

Since the 1970s, the center of gravity of Ohio's economy has shifted south to Cincinnati and Columbus. High intensities of manufacturing and agriculture have pulled back to the northwest part of the State. Indeed, we find that industry employment patterns of rural and urban Ohioans no longer significantly differ—i.e., we are increasingly reliant on the same types of industries. A general conclusion is that Ohio's economy is so interdependent that rural, suburban, and urban Ohio jurisdictions and their residents would greatly benefit from more collaboration. Nevertheless, while it has not been entirely unscathed, nonmetropolitan Ohio has fared relatively well despite the tremendous headwinds it has faced.

Most of the attention of the media and the public has been on the issues facing Ohio's struggling urban areas. Partly in response to this, we put forward ten policy suggestions for *rural* Ohio to help begin a discussion to improve the vitality of our State's rural communities. Though we realize that not all these suggestions will be immediately accomplished, we believe all would help improve the vitality of the State's rural communities.

Highlighting our policy recommendations is the suggestion that the State of Ohio facilitate the formation of more regional arrangements for planning, environmental, transportation, and economic development needs that do not respect local jurisdictional boundaries. Likewise, the State should consider fundamental tax reform for local governments in order to reduce the needless incentives to tax poach without creating new wealth in Ohio.

Rural Ohio communities should continue to strive for a high quality of life that includes a clean environment, efficiently-delivered government services, and continued efforts to enhance the quality of the workforce (including local education). A nagging national concern is workforce quality. Rural Ohio needs to strive to be on the favorable side of this problem to ensure it is competitive. To be sure, rural Ohio doesn't just compete with its rural neighbors or urban Ohio, but it competes against the world. Likewise, a diverse economy is critical to most rural economic development efforts. In this, though manufacturing and agriculture will not (cannot) be the scale they once were, there are many communities where those two sectors can play key supporting roles. Finally, we noted that Appalachian Ohio has many of the underlying fundamentals to produce a revival, though supporting policies need to be implemented.

Endnotes

1. In 2006 the per-capita income in Florida was $35,798, followed by Texas at $34,257, and then Ohio at $33,338.

2. Note that in 1990, there is a reclassification of industries related to the standard industrial code (SIC) to the North American Industry Classification System (NAICS), which led to a discrete jump in 1990 in the share of Ohioans employed in motor vehicle production. However, the long-term trend is apparent despite this reclassification. For our industry-level analysis throughout this report, the change from the SIC to NAICS modestly affects the level of employment at the industry level, but long-running trends are not affected.

3. See Partridge and Rickman (1999) for more details of how labor demand and supply analysis can help identify whether firms or households are primarily behind prevailing wage and employment patterns.

4. The definition of nonmetropolitan areas understates the strength of nonmetropolitan Ohio because a "successful" nonmetropolitan county in 1969 would have been more likely to have grown and reclassified as a new metropolitan area after 1969 (or attached to an otherwise existing metropolitan area). The metropolitan statistical area definitions are the county-based definitions issued by the Office of Management and Budget (OMB) for federal purposes, updated 2006. OMB's general concept of a metropolitan statistical area or a micropolitan statistical area is an area consisting of a recognized population nucleus and adjacent communities that have a high degree of integration with that nucleus.

5. Exurban areas, which are dependent on urban areas for jobs and services, are located within commuting distance of urban areas but outside established suburbs. To approximate for Ohio, exurbs were defined within a commuting distance of 35 miles from the edge of the largest census urbanized areas (one million or more residents); 25 miles from the edge of urbanized areas with a population between 500,000 and one million people; and 15 miles from the edge of urbanized areas of less than 500,000 residents

6. This employment data is based on the primary job of the resident and is from the 2000 Census of Population. It differs from the other employment data presented in this brief, which generally uses U.S. Bureau of Economic Analysis data that counts all jobs including all 'part-time' jobs a worker may have during the course of a year. The latter number is a more comprehensive number regarding employment, but it includes more casual employment relationships.

7. An urbanized area (UA) consists of densely settled territory that contains 50,000 or more people. The U.S. Census Bureau delineates UAs to provide a better separation of urban and rural territory, population, and housing in the vicinity of large places. For Census 2000, the UA criteria were extensively revised and the delineations were performed using a zero-based approach. Because of more stringent density requirements, some territory that was classified as urbanized for the 1990 census has been reclassified as rural. (Area that was part of a 1990 UA has not been automatically grandfathered into the 2000 UA.) In addition, some areas that were identified as UAs for the 1990 census have been reclassified as urban clusters.

An urban cluster (UC) consists of densely settled territory that has at least 2,500 people but fewer than 50,000 people. The U.S. Census Bureau introduced the UC for Census 2000 to provide a more consistent and accurate measure of the population concentration in and around places. UCs are defined using the same criteria that are used to define UAs. UCs replace the provision in the 1990 and previous censuses that defined as urban only those places with 2,500 or more people located outside of urbanized areas.

References

Brookings Institution. *Restoring Prosperity: The State Role in Revitalizing America's Older Industrial Cities.* 2007.

Dalenberg, Douglas and Mark D. Partridge. "Public Infrastructure and Wages: Public Capital's Role as a Productive Input and Household Amenity." *Land Economics* 73 (May 1997): 268-284.

Partridge, Mark D., Ray Bollman, M. Rose Olfert and Alessandro Alasia. "Riding the Wave of Urban Growth in the Countryside: Spread, Backwash, or Stagnation," *Land Economics,* 83 (May 2007, 2): 128-152.

Partridge, Mark D. and Dan S. Rickman. "The Dispersion of U.S. State Unemployment Rates: The Role of Market and Nonmarket Factors." *Regional Studies* 31 (August 1997): 593-606.

Partridge, Mark D. and Dan S. Rickman. "Which Comes First: Jobs or People? An Analysis of Recent Stylized Facts." *Economic Letters* 64 (July 1999): 117-123.

Partridge, Mark D., Jeff Sharp, and Jill Clark. "Growth and Change: Population Change in Ohio and its Rural-Urban Interface" The Exurban Change Project and Swank Program in Rural-Urban Policy Summary Report, Ohio State University (May 2007)

Ohio Reference Map