6-1-1979

When Will New Industrial Growth Benefit An Indiana Community?

David Darling

http://docs.lib.purdue.edu/agext/703

For current publications, please contact the Education Store: https://mdc.itap.purdue.edu/
This document is provided for historical reference purposes only and should not be considered to be a practical reference or to contain information reflective of current understanding. For additional information, please contact the Department of Agricultural Communication at Purdue University, College of Agriculture: http://www.ag.purdue.edu/agcomm
This document has been made available through Purdue e-Pubs, a service of the Purdue University Libraries. Please contact epubs@purdue.edu for additional information.
Finally, a community whose population is growing because of new job opportunities will have a younger population than a stable or declining community. This means the public and private services demanded will be of a different mix. There may be more demand for outdoor recreation facilities and less demand for ambulance, hospital beds, and nursing homes.

Payoffs
So, when does a new spurt of industrial growth really pay off?
- It pays off when it meets the planned economic goals of the majority of the population.
- It pays off when the chosen plant site fits in with the land use pattern of the community. A desirable location for an industry includes a site that would have good road, rail, electric utility, and water and sewer main capacity and that is accessible to the site at a cost the public sector can afford. Other land uses surrounding the site should complement, not conflict with, the use of the chosen site for industrial use. For example, residential property should not be located near a heavy manufacturing plant.
- It pays off when the local community and county labor force can secure most of the new jobs created. Thus, the skill needs of the new employer should match the skills available in the local work force. If this is not the case, the second best situation would be if the new employer would train "on-the-job," or through a local vocational program, local workers for the new jobs being offered.
- It pays off when the existing businesses can sell goods and services to the new industry and can capture a high percentage of the employees' consumption expenditures. Thus, the new firm's operating costs, both payroll and non-payroll, can add to the total number of dollars circulating in the local economy. The end result will be more profits by local businesses, more job openings in these businesses, and more investments in new and existing retail and service businesses.
- It can pay off if the new industry and the new employees deposit funds in local banks. This leads to more banking business, but more importantly, it leads to the availability of more loanable funds. Mortgage money, commercial, industrial and personal credit all are needed to finance the growth of a community. When commercial banks fail to lend out money to local customers, they rob the economy of investment capital needed to take advantage of profitable business opportunities as well as desired consumer purchases.
- It will pay off if local government facilities and services can accommodate the new demands by the new industry and new residents without making major capital investments. For example, will the roads leading to the plant be able to handle the volume of traffic? And weight of trucks without a major investment? Certainly more maintenance work will be required. Will the sewage produced by the plant require any additional sewage treatment capacity? Is the nearest sewage line big enough to carry the additional effluent? How much will cost to extend the sewer and water lines to the plant site? Who will pay for this investment—the new industry, the community, a private utility, or a grant from the State or Federal Government?

It will pay off more to a community with a high unemployment rate and a low labor participation rate than a community with a low unemployment rate and a high labor participation rate. Assuming that most of the jobs go to local citizens, then a community with a tight labor market will benefit less because the new employees are most likely to come from other local employers. The vacancies may not be refilled and thus the local economy will lose the personal income earned in the old jobs which are not refilled. But in a community with a high unemployment rate, any vacancies created by workers changing jobs are likely to be filled by other unemployed workers. It should be noted that communities with low unemployment rates will attract new in-migration and communities with high unemployment will encourage out-migration.

A Technique to Forecast Industrial Development Impacts
The Community Development group in the Department of Agricultural Economics has developed a partial budgeting model to analyze the economic impact of industrial growth on a county's economy. To use the model, 70 different pieces of data need to be collected. These include local tax rates, plant investment, number of employees, water utility rates, the annual cost of extending sewer lines, number of new students, and the average per capita expenditures made by a city. From these data the model calculates the costs and benefits, during the first full year of plant production, to the private sector, municipal government sector, county government sector, and school district sector. The model is computerized to aid in quickly calculating the results. It will also be published for those who want to be able to hand-calculate industrial impacts. For a copy of the model write to the Publications Library, Department of Agricultural Economics at Purdue University, Station Bulletin No. 229, "An Industrial Impact Model for Indiana Counties."

Recommended Readings
For the interested reader who desires more information on economic development, the following Purdue University Extension publications are recommended.

- "As Your Community Grows: Some Economic Considerations," by John Jordan and Glen Nelson, EC-446.
- "Some Characteristics of an Ideal Industry to Promote Your Community's Economic Growth", by David Darling, EC-466.
- "Choosing Economic Goals for Your Community," by David Darling, EC-471.

A copy of these publications can be ordered directly from the Mailing Room, Agricultural Administration Building, Purdue University, West Lafayette, IN 47907 or through your County Extension Service office.


WHEN WILL NEW INDUSTRIAL GROWTH BENEFIT AN INDIANA COMMUNITY?

Many Indiana communities have a stated or unstated policy of encouraging industrial growth. Will this type of growth benefit everybody in the community or only a select few? Also, are there hidden costs to development; and, if so, who will pay for them?

A recently published book looks at the effects of over 700 manufacturing plants on 245 communities in 34 states. Not all the communities had a net benefit from new manufacturing activity. Often, the local government underestimated the cost of accommodating the plant, and the resulting new tax revenue fell short of covering costs. Other benefits that pro-industry residents expected did not materialize. Many new jobs went to outsiders. The families brought into the community by the manufacturing firm spent their salaries outside the community rather than at local retail establishments. In summary, not all communities benefit from manufacturing growth.
Economic Goals

How will industrial growth affect a specific community? First, let's consider the impact on the local economy. Second, we can examine the effects of industrial growth.

1. Industrial growth will offer new job opportunities. These may be available to the main "breadwinner" of the family, the second adult in the home (housewife), or new entrants into the labor force (high school graduate).

2. Industrial growth can raise per capita incomes in the community either by providing a better paying job to the main "breadwinner" or by providing a job to the housewife or high school graduate who wants to join the work force.

3. Industrial growth can expand the economic base of the community. The economic base is defined as that portion of all economic activity which sells to customers outside the community. Most manufacturing firms, farm operations, mining operations, timber operations and fishing operations are part of the economic base of a community. The sale of products and services from these businesses brings in new dollars which can support non-basic businesses such as grocery stores, medical clinics, and the like.

4. Industrial growth will increase the value of the community's taxable real and personal property.

5. Industrial growth may stimulate population growth or slow population decline. Many branch plants that locate in communities will have training in management and technical personnel to staff key positions. Also, if a large number of new jobs are created, outsiders may move in after securing a job with the new firm. Both these factors will bring about population growth.

6. Industrial growth can insulate the economy from business cycle or seasonal swings which destabilize the economy. For example, tourism businesses have historically been seasonal. If a community relies heavily on the tourist industry as an economic base then the economy probably suffers from seasonal swings in business activity. A new employer which either employs a constant number of people all year round or employs more people in off-season periods will help stabilize the local economy.

7. Industrial growth can expand employment opportunities for the young and low-income workers. Both the new and the low-income need entrance level positions in a firm that will train and upgrade them to higher paying positions. A new or expanding industry may offer young and low-income individuals a good opportunity to begin a satisfying working career.

8. Industrial growth can use existing local resources in a more economically efficient way than they were previously being used. The resources to be considered include land, labor, local human skills, minerals, forestry products, buildings, and the like. Profit is the measure of economic efficiency.

Thus, if a new industry can employ existing resources in a way that generates more profit, it can then afford to pay higher wages, higher rent, more taxes, and more for its raw materials.

Negative Impacts

Now, let's look at some of the negative consequences of industrial growth.

1. Spiraling prices of rental property, houses and land can occur. With industrial growth comes commercial development, increased population, increased demand for residential property and commercial real estate. This demand pushes up the price of property.

2. Overburdening local public services can occur. The demands of new industry alone might be too great for existing sewer treatment facilities, road beds, or water (pressure and volume) capacity. The demands for both industrial and commercial development could be too great for the police department or fire department.

3. The site that the new industry has chosen might have a negative impact on the surrounding property in terms of noise, odor, traffic, aesthetic appearances, litter, and dust from truck traffic.

4. The cost of accommodating the new industrial growth may be higher than the public revenues generated by the new industry. This could result in a tight budget situation and the rest of the taxing public might pay for the deficit created by the demands of the new industry.

5. New people arriving to manage and run new industries may have different values and expectations about what a community should have to offer. For example, they might demand more park and recreation facilities.

6. Wage rates may be forced up as the new firm competes for labor with old firms. This is a cost to existing industry but a benefit to the labor force.

Overview of Major Impacts

A review of the literature documenting the experience of communities feeling the effects of industrial growth helps one develop an overview of the major impacts. Most host communities of new and expanding manufacturing firms have either population growth or population stability where outmigration was previously occurring. The new arrivals, however, have different values, backgrounds and aspirations than the established population. These immigrants add to the working age middle class and usually have more children per family than the average family of the host community.

The new plant will offer new employment opportunities which will benefit the area workforce. Jobs will often go to both the younger educated people and the older skilled workers. This leaves the younger uneducated and the older unskilled workers still unemployed. Also, often the new employment will draw from a region all labor pool for his force rather than just the county and community labor pool. Thus, some new employees will be commuting 20 or more miles to work. Unless the host community also acts as a regional shopping center, the commuters' paychecks will not be spent in the plant community.

Gene Summers, et al., previously cited.

Note: For more information about the County Adjusted Gross Income Tax and ways to estimate the revenue impact on a taxing unit, consult "County Income Tax...An Alternative to Property Taxation," by Patrick D. D'Elorouze, EC 419 (in revision, 1975), Cooperative Extension Service, Purdue University.