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# Economics Newsletter

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## MANUFACTURING PLANT LOCATION AND EXPANSION DECISIONS

by

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Many rural areas of the nation are currently experiencing economic and population growth. This is a turn-around for many areas which had experienced employment loss and population migration to metropolitan areas for decades. The reversal is apparently due to a number of factors. One factor is a continued shift in the nation's manufacturing activities from metropolitan to non-metropolitan areas.

This geographic shift in manufacturing activities was well underway in the 1960's and has continued up to the present. The spread of manufacturing development into eastern South Dakota, for example, is quite evident. Nationwide, manufacturing employment grew at an annual rate of only 1.7% during the decade of the 1960's, but it grew at an annual rate of 3.4% in the nation's non-metropolitan areas (counties lacking an urban center of 50,000 or more persons). This occurred during a period when manufacturing employment as a proportion of total national employment was on the decline. Manufacturing provided 29.7% of the total employment in 1965, and only 23.7% in 1978.

South Dakota has benefited from this geographic shift. Wage and salary jobs in manufacturing employment in the state increased by nearly 11,000 between 1965 and 1978--from 13,500 to 24,300. This represents an 80% increase in 13 years. Although this increase only brought manufacturing up to 10.4% of South Dakota's total employment, it helped to offset a loss of around 15,000 agricultural jobs in the state since the mid-1960's.

### What influences plant location and growth?

If continued growth in non-metropolitan area manufacturing employment is desired, what can be done at state and local levels to support and encourage it? This question has been addressed by researchers at a number of Land Grant Universities around the country who are concerned with rural employment issues. There is not space in this newsletter to cite their varied findings, but we can at least mention the key factors considered in many studies.

First, however, we must remind ourselves that growth in manufacturing employment in a particular area can come about by expansion of existing business firms, by creation of new firms, or by relocation of firms from other areas. New or relocated firms may in some cases be branch plants of large firms headquartered elsewhere. Second, it is well to keep in mind that the location decision process for a new or relocating firm is a multi-staged one. The process consists of three stages: (1) selection of a broad area or region (such as eastern South Dakota); (2) identification of potential communities within that region and selection of one of them; and (3) site selection within the community. The last two stages are often closely interrelated.

State policies and programs have potential influence on business location decisions primarily in the first stage, dealing with decisions to locate in a particular region. Certain community

actions can have a bearing on stage two and three decisions.

Location factors affected by state policies which influence these decisions and which have received attention from researchers include: transportation conditions; amounts, skills, and costs of labor; and access to vocational and college education facilities. The community is more likely to be able to affect certain other location factors, including the amount and quality of local services such as fire protection, health care, water and sewer services, and basic education. The availability of good plant sites can also be affected by action at the community level. Access to plant financing, as well as the type and level of taxes firms and their employees must pay, may be affected by both state and community policies. Other factors which influence firm location decisions (such as access to raw materials, to markets, or to the complex of business related services often found only in larger towns and cities) may be beyond the control of either state or community agencies and groups.

### How important are these various factors?

A particular factor may be subject to local influence, yet not be of very much importance relative to other factors in manufacturing firms' decisions. Some insight into factors firms themselves rate important in their decisions to locate in South Dakota is supplied by research by Loren Tauer and Thomas Daves of South Dakota State University's Economics Department. Firms responding to Tauer and Daves' 1974 survey listed the following factors, in order of importance, which influenced their decisions to locate in the state: (1) home community of owner, (2) abundant labor, (3) close to markets, (4) close to raw materials, (5) good transportation, (6) quality of life, (7) favorable tax policy, (8) local funds were available, (9) low labor cost, and (10) low power cost.

Some issues of this newsletter in the future will report findings from various studies which shed further light on the relative importance of these various factors. Additional research is also underway at SDSU on the geographic pattern of manufacturing growth in South Dakota and how this relates to community and local labor force attributes.

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