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What Influences Rural Manufacturing and Processing Development in South Dakota?

by

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The consequences of declining farm numbers in South Dakota were discussed in a recent issue of this Newsletter (No. 176, Dec. 3, 1981, by M. Edelman). One of the consequences is the "community problem"--the general decline in employment and other economic activity often associated with declines in farm numbers. One way to slow or prevent such declines in rural communities is to create or expand other "basic" sources of employment.

In the 1970's, many South Dakota communities were hard at work expanding a small but increasingly important source of rural jobs. That source is rural manufacturing and processing. South Dakota jobs in this sector increased by 65% during the decade of the 1970's. Although manufacturing and processing jobs still accounted for less than 10% of total South Dakota employment, the gains were impressive and contributed to a drop in the State's net out-migration--from more than 90,000 persons in the 1960's to less than 30,000 in the 1970's. This permitted modest population growth (3.4%) in South Dakota during the 1970's, compared to a decline (-2.1%) in the 1960's.

The rural jobs created by new manufacturing and processing firms can provide a vital source of off-farm income for beginning and small-to-medium-scale farm families. Also, to the extent locally produced agricultural commodities are processed by these firms,

the prices received by South Dakota farmers tend to be strengthened. It is easy to see that rural industrial (manufacturing and processing) development and a strong agricultural economy are closely intertwined in a rural State like South Dakota.

Much has been said and written about why the rate of industrial growth has been faster in South Dakota over the past dozen years than in many of the States to our east. Among the alleged reasons are South Dakota's lower taxes, wage rates, and workman's compensation costs. However, little has been written about why some communities within South Dakota have experienced greater success than others over the past few years in rural industrial development.

A recently completed study by SDSU's Economics Department attempted to determine what caused some South Dakota communities to experience greater growth than others in industrial employment during the 1970's. Data from published sources (covering the period 1970-1977) and from surveys (conducted in 1979) of industrial firms and local development corporations were used in the study. The findings from that study are here briefly summarized.

Influences which are largely beyond the control of local communities

Some of the potential influences on success in industrial development are largely beyond local community control. One such influence, close access to the interstate highway system, was expected (in advance) to be important. However, we found that those counties with somewhat poorer access to the interstate highway system did not seem to be substantially hindered in their industrial development progress during the 1970's. This could change during the 1980's and 1990's, however, depending on the extent to which roads feed-

ing into the interstate system deteriorate and fuel costs rise.

Previously low levels of female labor force participation, absence of poverty, and lack of prior industrialization were the factors which most influenced "percentage" growth in manufacturing employment in South Dakota counties during the 1970's. On the other hand, counties with the largest numbers of people and with post-secondary education facilities present experienced the greatest "absolute" growth in industrial employment during the decade.

Influences over which local communities can exert some control

Overall, the influences on industrial development which are beyond local control are more powerful than those which are under local control. However, the SDSU study does give some important clues concerning which of the influences under local community control may be most worth working on.

For example, assistance to potential new firms by local development groups in identifying and gaining access to industrial sites and buildings can be important. The holding of development sites for potential new firms--through ownership or option arrangements by local development

groups--may be worthwhile in some instances. However, constructing industrial "speculative buildings" does not appear economically justified for many communities.

While low South Dakota taxes may help draw industry into the State, there was little evidence in the SDSU study that South Dakota communities with relatively low local taxes grow faster than communities with higher taxes. To the contrary, there was some evidence that industrial development can be held back by local taxes which are sometimes too low to adequately support community services.

For more information

Evidence from the SDSU study suggests that most local industrial development efforts should build on existing community assets and avoid certain expenditures which are both speculative and costly. Additional details on actions local development groups might consider in promoting manufacturing and processing are found in SDSU Agricultural Experiment Station Bulletin 683 (May 1982), entitled: "Rural Manufacturing Development...What Influences It?". Copies are available from the author of this Newsletter or can be requested through County Cooperative Extension Service Offices in South Dakota.

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