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Some Economic Development Priorities for the New Administration

Introduction

The economic development direction of Ohio is a timely topic with the advent of the DeWine Administration. Some of these topics have been explored in previous issues of *On the Money* over the past six years. All draw from the author's nearly 25 years of experience in economic and workforce development in central Ohio and elsewhere in the state.

This article first sets the stage by discussing briefly the long-term trend of Ohio's production and employment in economic expansions and contractions. It then offers proposals in five areas:

1. The Ohio workforce, probably the state's single most important economic development priority.
2. The importance of focusing economic development resources on business retention.
3. Recognizing and leveraging the diversity of Ohio's local economies.
4. Increasing cooperation among regions.
5. Supporting small business and entrepreneurship in all areas, including locally-owned, locally serving retail and restaurants.

This survey of economic development priorities is in no way meant to be comprehensive, and does not discuss several vitally important topics. For example, transit, transportation, and infrastructure development links people to jobs, enables the state's key logistics and distribution industry, and helps to ensure the safety of the traveling public. These issues are capably addressed in the public policy agendas of the state's regional and metropolitan planning organizations.

Many of Ohio's small and medium-size cities have been struggling for decades with the loss of businesses, jobs, and population. The Greater Ohio Policy Center (GOPC) has done extensive work on these "legacy cities" and recommends actions to facilitate their regrowth.¹ A related GOPC focus is the remediation of brownfields to address environmental hazards and allow the return of these sites to productive use.² The strategies outlined in this article do not address these issues directly, but are certainly complementary to them.

As will be discussed, the Ohio economy is highly diverse. For this reason, the analysis is localized whenever possible. This localization uses the 13 regions employed throughout these

¹ This work is collected at the GOPC webpage, "Legacy City Regrowth: Reviving Ohio's Most Important Assets," <https://www.greaterohio.org/legacy-city-regrowth/>.

² See GOPC's webpage, "Redeveloping Brownfields: Increasing Opportunities for Job Growth and Economic Development," <https://www.greaterohio.org/redeveloping-brownfields/>.

articles: the six largest Metropolitan Statistical Areas (MSAs) and seven other regions which include smaller MSAs and rural areas. These are grouped on the basis of roughly similar employment concentrations of farming and manufacturing. The regions are mapped in Figure 1.

**Figure 4
Ohio Regions**



Northwest Toledo MSA West North Central Cleveland MSA Akron MSA
 Northeast West Columbus MSA East North Central Dayton MSA
 Cincinnati MSA South Southeast

Production and Employment Trends

Figure 2 compares the growth of Ohio Gross Domestic Product (GDP – the total value of all goods and services produced in the state) to U.S. GDP growth. GDP is charted on an index basis, so it compares cumulative percentage GDP growth. The chart begins in 2007, just before the recession, and continues through 2017. The recession dealt a much harsher-than-average blow to Ohio: annual average GDP declined 5.9 percent between 2007 and 2009, more than twice the 2.7 percent national average decline. Although this is the primary reason why Ohio’s net gain for the overall period is only 9.1 percent versus the 15.5 percent national growth, the

state's growth during the expansion also lagged the national average: 16 percent versus 18.7 percent.

Figure 2
Gross Domestic Product Growth, Ohio and U.S., 2007-2017



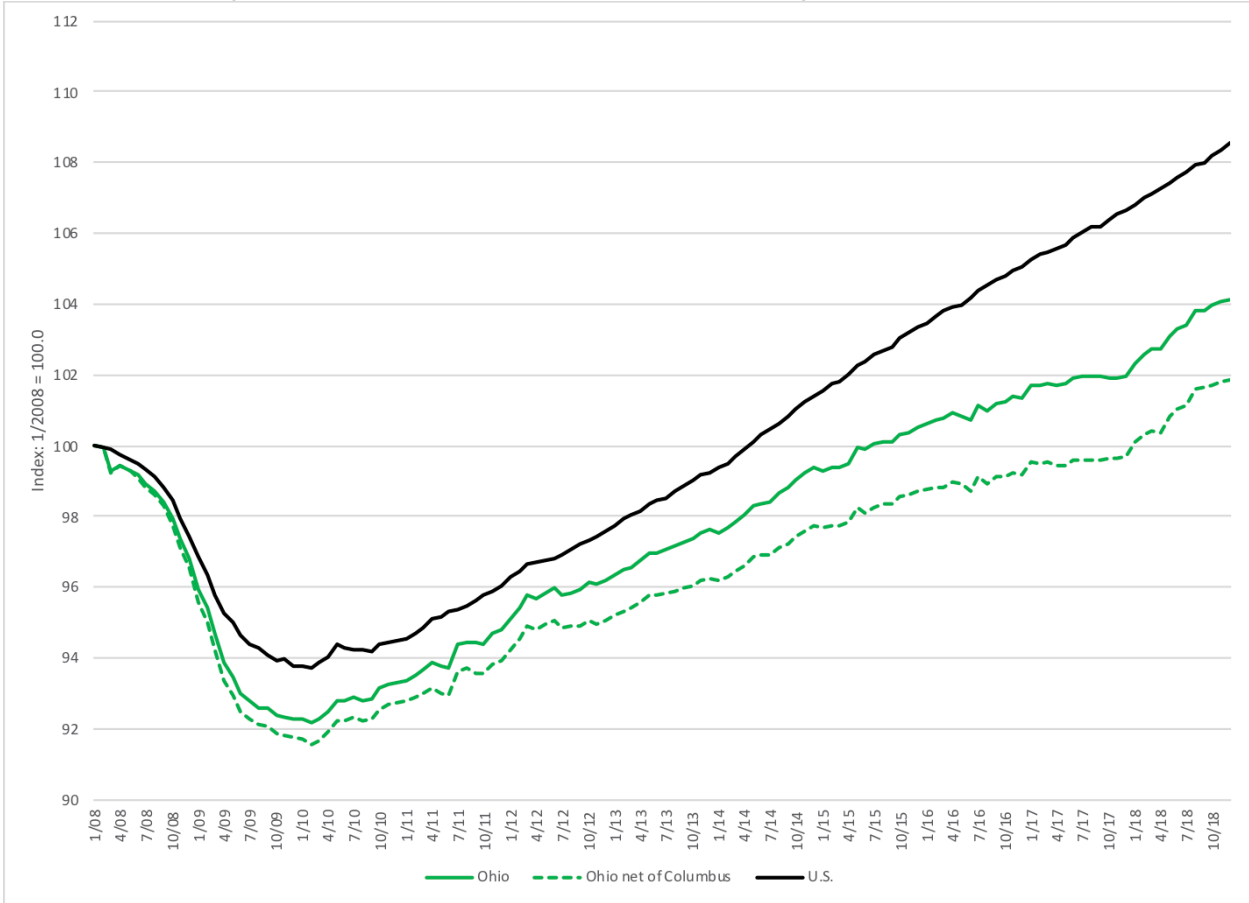
Source: U.S. Bureau of Economic Analysis.

As with GDP, Ohio's employment growth has lagged the national average. This has been the topic of numerous issues of *On the Money* over the years – most recently, the August 10, 2018, issue (Vol. 132, No. 39). Figure 3 graphs the Ohio and U.S. employment trends monthly since January 2008, when employment peaked at the beginning of the recession. The pattern is similar to the GDP trend in Figure 2. Between January 2008 and February 2010, Ohio lost 7.8 percent of its employment base, or more than 425,000 jobs. The U.S. lost 6.3 percent over the same period. Growth has been weaker than average in the recovery, despite a strong showing in 2018. Ohio's gain between February 2010 and December 2018 was 648,000 jobs, or 13 percent, compared to the national average of 15.8 percent.

The much higher growth rate of the Columbus MSA measurably affects the reported employment growth of the state. For this reason, Figure 3 also includes statewide employment excluding Columbus. This is graphed as the dashed line. This area lost as much as 8.3 percent in the recession and has gained only 11.2 percent in the expansion. The 11-year net gain was 1.8 percent versus the 4.1 percent net gain for the total state. However, preliminary employment estimates suggest that the Columbus MSA's employment growth failed to exceed the national average in 2018 for the first time in a decade and matched the statewide average. This was

likely due to workforce availability problems. The 2019 Regionomics Columbus Economic Forecast predicts that growth will weaken further this year. Without the strength of central Ohio, the implication is that measured statewide employment growth will also be diminished in 2019.

Figure 3
Employment Growth, Ohio and the U.S., January 2008-December 2018



Source: Current Employment Statistics, U.S. Bureau of Labor Statistics.

Analysis of monthly Ohio and U.S. employment data beginning in January 1939 reveals that Ohio’s greater losses in recessions and smaller gains in expansions is nothing new. In each of the 12 recessions since 1945, Ohio’s employment losses were greater than the national average. In fact, the disparity between Ohio and U.S. losses was often much greater than that of the 2007-2009 recession. Prior to the mid-1950s, this weakness was offset by greater-than-average gains in expansions, so Ohio’s employment tracked the national average, although with greater volatility. Since then, however, growth in each expansion has been less than average. The relative weakness in both expansions and contractions has resulted in cumulative Ohio employment growth since 1939 one-third less than the national average.

The likely reason for this pattern is Ohio’s continued focus on manufacturing. This concentration has actually increased on a relative basis over time even as total manufacturing employment has declined fairly steadily since peaking in the late 1960s. The share of total employment in manufacturing remained around 30 percent greater than average from the 1950s through the mid-1990s, when it began to increase. It is currently nearly 50 percent greater than average. The cyclical nature of manufacturing explains Ohio’s more severe recession employment

declines. The long trend of substitution of machinery and more recently robotics for labor – and to a lesser extent offshoring – is behind the weaker-than-average employment growth in expansions.

The slow growth of manufacturing employment is also a key reason for the plight of Ohio's legacy cities. These cities often had one or several large manufacturing employers that either reduced employment over the years or closed altogether. These local economies and physical assets were built up to accommodate the activity of a much larger economic base and are struggling to cope with the loss of that base. The planned closure of General Motors' Lordstown plant is just the latest example of this trend, and is discussed in the December 7, 2018, issue of *On the Money* (Vol. 132, No. 47). This same argument applies to the rural towns that grew up as centers serving the needs of farms and farming households. As with the manufacturing-based legacy cities, these towns now serve a much smaller population than in the past.

Manufacturing will continue to dominate the Ohio economy, as it definitely should. But the proposals below may mitigate the impacts of manufacturing's cyclical and slow employment growth.

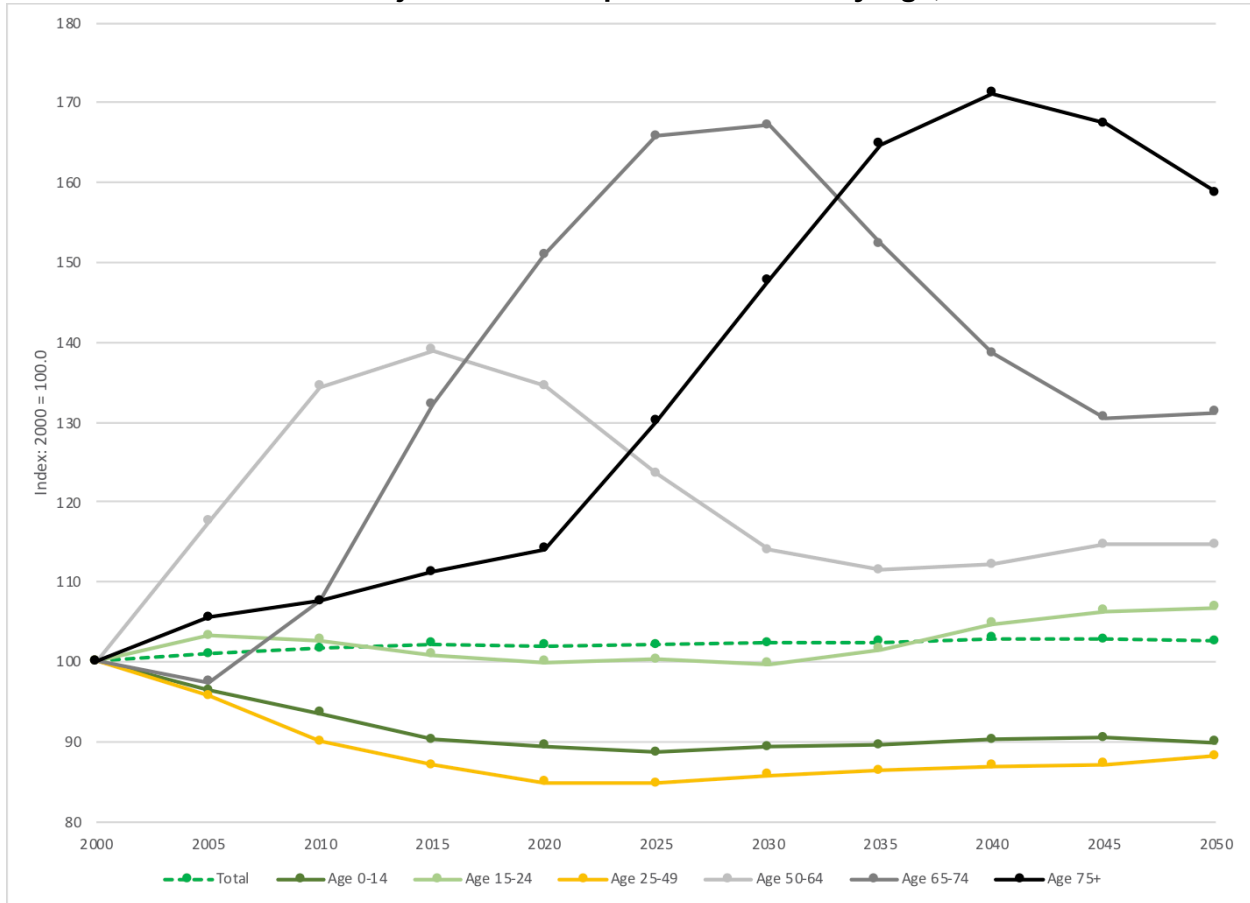
Proposal 1: Enhance the Ohio Workforce

Two concerns related to Ohio's workforce are its overall growth potential and the educational attainment of workers. Workforce growth has for decades been impacted by the very slow population growth of the state outside of Columbus. Population trends were most recently discussed in the April 13, 2018, issue of *On the Money* (Vol. 132, No. 31). But current and future demographic shifts will pose additional significant challenges for workforce availability and hence the state's economy.

Figure 4 presents historical indexed population changes for selected age groups between 2000 and 2015, and projected changes to 2050 from the Ohio Development Services Agency (ODSA). The groups include children to age 14, youth ages 15 to 24 who are beginning to enter the workforce, and several adult groups. Those aged 25 to 49 and 50 to 64 are in their prime working years. Ages 65 to 74 are traditionally in their retirement years, but are increasingly working at least part-time. Those 75 and older are mostly out of the workforce, though.

Figure 4 reveals that the 25 to 49 group will have declined 15 percent by 2020, but will then stabilize with approximately as many aging into the group as aging out. Workforce growth over the past two decades has been driven by the Baby Boom-fueled growth of the 50 to 64 age group. Figure 4 shows that that cohort's growth peaked in 2015, though, as members of the Baby Boom began to be replaced by the much smaller Generation X. The result will be a substantial decline in the size of the traditional labor force continuing through 2035. This decline in the prime working-age population amounts to approximately 510,000 by 2035, according to the ODSA projections. Meanwhile, growth is already shifting to the age 65 to 74 cohort, whose rapid growth will continue through 2025.

Figure 4
Historic and Projected Ohio Population Growth by Age, 2000-2050



Source: Population Estimates, U.S. Census Bureau, and Ohio Population Projections, 2018, Ohio Development Services Agency.

There are differences in these trends among Ohio regions. Table A-1 at the end of the report provides numerical and percentage age-specific changes from 2017 to 2025 and 2030. To save space, only the three key working-age groups, age 25-49, age 50-64, and age 65-74, are reported. The general pattern is declines in each of the younger age groups and an increase in the 65-74 group that only partly offsets the younger groups' losses. The smaller net declines in the 25-49 group in many of the regions indicate a slight increase in this group between 2025 and 2030.

The 65-74 age group offers a partial solution to the problem, as increasing numbers in this group are continuing to work, whether out of choice or necessity. Only 19 percent of this group in Ohio was in the labor force in 2000, according to the 2000 Census. By 2017, their labor force participation had increased to 25 percent, according to the American Community Survey. This represents an increase of 131,700, or 88 percent, in the number of 65 to 74-year-olds in Ohio's labor force over that 17-year period.

This age group offers a wealth of skills and experience. More needs to be done to engage them and increase their participation further, however. Subtle age-based discrimination is much more common than it should be. A recent study by ProPublica and the Urban Institute found that 56 percent of workers nationwide older than 50 are laid off at least once, many are laid off multiple

times, and 90 percent of those laid off never recover their lost earnings.³ Older workers may need some training on new technologies. They may also need exposure to the wealth of online job search resources and understand how to apply for jobs online. This is currently the standard method for submitting a job application. These tools and techniques will be new to someone who has not had to apply for a job for 20 years.

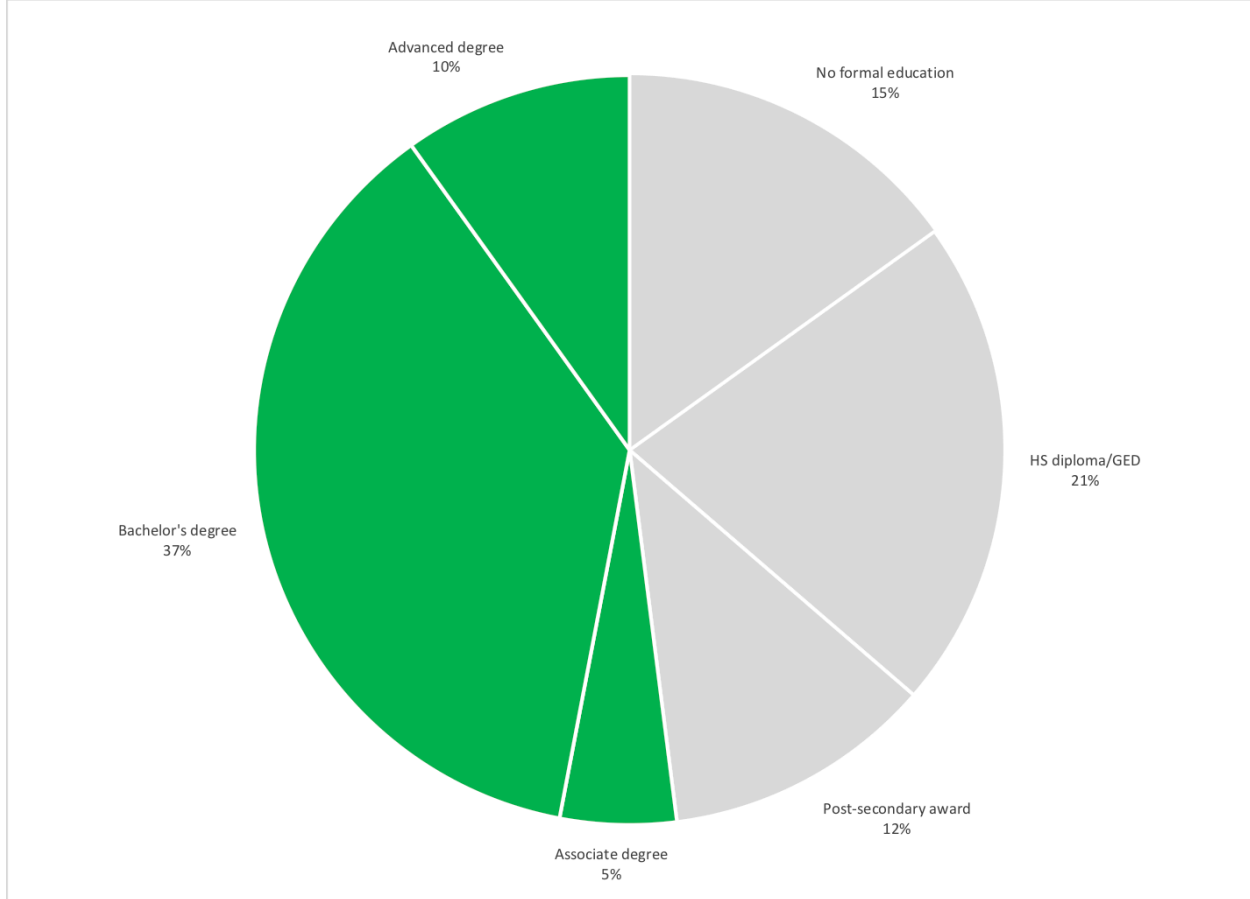
Employers may need to adapt to the needs of these older workers as well. The ProPublica study suggests that employers may need to be educated regarding the benefits of older workers, many of whom offer technical skills, soft skills, and a work ethic that are not present in many younger workers. Because of personal or family needs that would otherwise keep them out of the labor force, they may require flexible scheduling or to work from home for at least part of their time. The discussion above suggests that employers may soon have no choice but to make these accommodations. Coincidentally, these adaptations are the same ones that make jobs attractive to a large number of Millennials.

A separate workforce issue is educational attainment. The share of Ohio adults without a college degree is below average in most regions. This will become an increasingly serious problem as jobs get more technical. The Ohio Labor Market Information Bureau (Ohio LMI) projects that half of all net job growth in the state between 2016 and 2026 will be in occupations requiring a college degree. In Figure 6, the share of net job growth not requiring a degree is in grey, while the share requiring a degree is in green.

Note, however, that this net growth accounts for only 4 percent of all job openings over this ten-year span. The remaining openings are due to existing workers vacating their positions and requiring replacement. These replacement openings may have lower educational requirements than those due to growth. However, it is the net growth that is responsible for the expansion of the Ohio economy.

³ See Peter Gosselin, “If You’re Over 50, Chances Are the Decision to Leave a Job Won’t be Yours.” *ProPublica*, December 28, 2018. <https://www.propublica.org/article/older-workers-united-states-pushed-out-of-work-forced-retirement>.

Figure 6
Education/Training Requirements of Net Ohio Job Growth, 2006-2016



Source: *2026 Ohio Job Outlook*, Ohio Labor Market Information Bureau, p. 17.

While the educational attainment of Ohio adults is somewhat greater than average among residents of the six largest MSAs (especially Cincinnati and Columbus) it is significantly less than average outside of those areas. This is shown in Table 1. The implication is that smaller MSAs and rural areas are in a far less favorable position to capture the net job growth projected by Ohio LMI. One positive feature of nearly all regions is that the share of adults without high school diplomas is less than average. These individuals are at a severe disadvantage: only 52 percent of Ohioans without diplomas were in the labor force in 2017 and the unemployment rate for those who were in the labor force was 14.1 percent. In contrast, the unemployment rate of those with high school diplomas was 6.6 percent. For those with bachelor's, graduate, or professional degrees, the unemployment rate was 2.4 percent.

Table 1
Educational Attainment of Adults 25 and Older, 2013-2017 Average

Region	No diploma	HS diploma*/ Some college	Associate degree	Bachelor's degree	Grad./prof. degree
U.S.	12.7%	48.1%	8.3%	19.1%	11.8%
Ohio	10.2%	54.0%	8.5%	17.0%	10.2%
MSA total	9.5%	50.3%	8.4%	19.8%	12.1%
Non-MSA total	11.7%	61.7%	8.9%	11.3%	6.4%
Northeast	10.8%	61.8%	8.2%	12.5%	6.7%
Southeast	11.7%	60.6%	10.2%	10.4%	7.2%
South	15.5%	61.1%	8.6%	9.2%	5.5%
West	10.1%	62.2%	9.6%	11.2%	6.9%
Northwest	8.8%	64.4%	10.5%	10.5%	5.8%
W.North Central	10.9%	62.9%	9.4%	11.0%	5.8%
E.North Central	16.2%	58.2%	7.0%	12.1%	6.4%
Akron MSA	8.6%	52.3%	8.4%	19.6%	11.2%
Cincinnati MSA**	9.4%	48.2%	8.4%	21.2%	12.7%
Cleveland MSA	10.0%	51.5%	8.3%	18.3%	11.8%
Columbus MSA	9.1%	48.2%	7.4%	22.6%	12.7%
Dayton MSA	9.6%	52.2%	9.8%	16.5%	11.9%
Toledo MSA	10.1%	53.6%	9.9%	16.0%	10.4%

*Includes equivalency (GED). **Ohio counties only.

Source: American Community Survey, U.S. Census Bureau.

One unfortunate omission from these educational attainment statistics is non-degree credentials: certifications, licenses, and educational certificates. Unlike diplomas and degrees, these are not tracked by the Census Bureau. However, the Bureau has done some limited work on the impact of these credentials nationally. Because obtaining these certificates gives workers additional skills and thus makes them more productive, there is an earnings premium. According to the Census Bureau analysis, a credential increases the earnings of those without a high school diploma 26 percent. For those with a high school diploma or GED, the premium is 22 percent.⁴

These credentials are in particular demand in manufacturing and construction. For years the message has been that a four-year degree is the only pathway to a successful, secure career. Manufacturing jobs in particular are often seen as dirty, dangerous, and dead-end. These messages have done the state's economy a grave disservice: as a result, an insufficient number of young people are entering the trades. While Figure 6 shows that only 12 percent of net growth will be in occupations requiring a post-secondary credential, there is a huge need for replacement workers as older workers retire. But workers in the skilled trades, including electricians, carpenters, boilermakers, and plumbers, can generally earn an above-average \$50,000 to \$80,000 annually.

Making these credentials widely accessible is a relatively low-cost way to improve earnings, ease poverty, increase the productivity of the workforce, and assist manufacturing's growth. Access requires providing both the training and the supportive structures that allow individuals to complete the training. These structures may include pre-training classes, transportation, and day care assistance. Franklin County is ending the first year of a program called Building

⁴ Stephanie Ewart and Robert Kominski, *Measuring Alternative Educational Credentials: 2012*, U.S. Census Bureau, January 2014, p. 9.

Futures that addresses these barriers for minimally-skilled individuals and sets them on the road to careers in the trades.

At the same time, it is important to maintain and improve the affordability of higher education. Data from the College Board indicate that Ohio’s public college and university affordability has improved markedly compared to other states, but more progress needs to be made. As shown in Table 2, Ohio’s 2004-2005 tuition ranked near the bottom in affordability, with two-year tuition 54 percent higher than the U.S. average, and four-year tuition 60 percent higher. Both two-year and four-year rankings have steadily improved as tuition increases remained below average. Five-year inflation-adjusted increases over the past five years were lower than Ohio in only six states. Four-year universities’ tuition is only 5.5 percent higher than average.

Cost containment must focus on community colleges in particular, however. Two-year tuition remains 29 percent above average. Community colleges are the front door to higher education. Their degrees and certificate programs can on their own significantly improve the career prospects of graduates. Further, the articulation agreements between these institutions and public and private universities make a four-year degree considerably more affordable. In a two-plus-two program, a student obtains an associate degree and transfers to a university for the third and fourth years. The averages below suggest that this program would save a student more than \$12,000, or 28 percent, compared to completing all four years at the university.

**Table 2
Published in-District and in-State Tuition and Fees at
Public Two-Year and Four-Year Institutions**

	Tuition/percent*	Rank**	U.S. average
Two-year institutions***			
2004-05 tuition	\$4,259	44	\$2,770
2013-14 tuition	\$4,718	39	\$3,500
2018-19 tuition	\$4,720	33	\$3,660
Five-year change	0.0%	6	4.6%
Four-year institutions			
2004-05 tuition	\$10,959	50	\$6,830
2013-14 tuition	\$10,725	37	\$9,590
2018-19 tuition	\$10,790	35	\$10,230
Five-year change	0.6%	6	6.7%

*In constant (2018) dollars.

**Lowest to highest among the 50 states, District of Columbia, and Puerto Rico.

***There are no two-year colleges in Alaska, the District of Columbia, or Puerto Rico.

Source: The College Board.

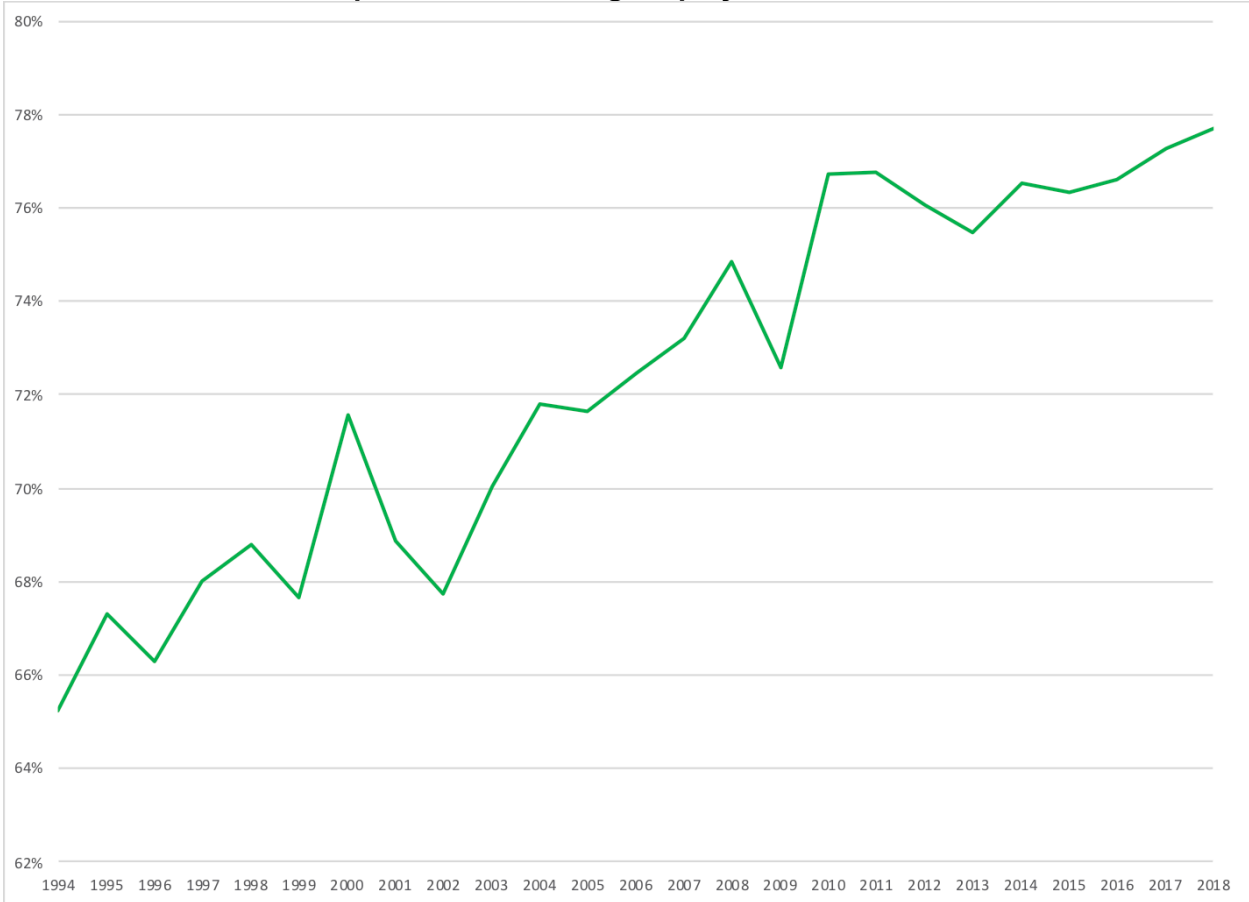
A final workforce concern is the opioid crisis, which is probably Ohio’s largest social and public health problem. But because of its impact on the working-age population, it is also a workforce problem. One southeastern Ohio manufacturing executive told this author that he could hire 10 people that day if he could find 10 people who could pass a drug test. But because of the drug problem, those positions remained unfilled and the efficiency and profitability of the company was weakened.

Proposal 2: Focus on the Growth of Existing Employers

Economic development organizations nationwide spend considerable time and resources attracting large development projects, and local governments abet their efforts by offering large

tax incentives. These efforts are not inappropriate,⁵ but existing employers are deserving of at least as much attention, if not more. As shown in Figure 5, the share of Ohio's gross private-sector job gains due to expansions of existing employers has steadily increased over the past 24 years and now stands at nearly 78 percent. Truly, existing employers are the engines of Ohio's economic growth. It is essential that their growth be supported and any barriers to growth be addressed to the extent possible.

Figure 5
Percentage of Ohio Gross Private-Sector Job Gains Due to Expansion of Existing Employers, 1994-2018



Source: Business Employment Dynamics, U.S. Bureau of Labor Statistics.

In contrast to the single focus of a major business attraction effort, business retention programs are dispersed and granular. These efforts involve ongoing conversations with employers focusing on their plans for growth and any physical, regulatory, or workforce barriers to that growth. If the company is planning to expand, is the current facility sufficient? If not, are there available properties that are suitable? Are workers, suppliers, and customers able to access the site without effort? What are the company's workforce challenges? Are local education and training providers able to assist? Are regulations or government processes standing in the way of growth?

⁵ Economic development incentives are controversial and there are strong economic arguments against them, but they are common and expected. It would be unwise for Ohio to disarm unilaterally.

The entities probably best equipped to undertake these discussions are the economic development departments which exist in most or all of Ohio's cities, in many villages, and in some townships. The results can be aggregated by the regional economic development organization in the JobsOhio network so that overall regional patterns can be detected. Large employers and those in key industries are obvious candidates for these discussions. For reasons discussed below, however, spot checks should also be conducted on locally-owned small businesses, including retailers and restaurants.

Employers facing growth challenges and contemplating a relocation often do not share those deliberations with the local economic development organization. The organization often does not learn of the company's challenges until it is too late. Awareness of those challenges – real or perceived – can prevent significant losses. Some years ago, a major employer had all but finalized a decision to relocate its operations outside of Ohio, but fortunately did share its decision with local economic developers. Company executives had been given a study by a consultant showing that the local workforce was inadequate to meet the company's needs, and that weakness would worsen significantly in coming years. However, the approach taken in the study was fatally flawed and its conclusions were incorrect. This fact was successfully demonstrated to the company and a correct analysis was prepared. Moreover, local colleges tailored programs to meet the company's needs and the local workforce development agency also offered its services. As a result, the relocation was prevented and the employer remains an Ohio-based company to this day.

Proposal 3: Recognize and Leverage the Diversity of Ohio's Local Economies

A recurring theme of these bimonthly *On the Money* articles over the past six years has been the diversity of the Ohio economy. The common belief is that central Ohio has its own economy and the balance of the state is much the same from one region to the next. But the analysis shows that the 13 regions mapped in Figure 1 have their own unique set of key industries and perform very differently over time. This finding is especially evident in the industry-focused articles that appear two to three times per year and document the differing concentrations within major industries.

This is true even in manufacturing, which has been the focus of five *On the Money* articles so far. The most recent comprehensive survey was in the October 13, 2017, issue (Vol. 132, No. 19), and the December 7, 2018, issue (Vol. 132, No. 47) focused on the motor vehicle and parts industry in the context of the planned General Motors layoffs at Lordstown. These articles have concluded that while the concentration of manufacturing employment is far greater than average in all regions except the Columbus MSA and the Southeast, the industries that dominate each region differ. Further, manufacturing concentrations are substantially higher in the small MSAs and rural counties than they are in the large MSAs (except for Toledo).

Ohio's economic diversity was revealed as early as 2005 in a study for the Ohio Department of Development by Deloitte Consulting and Professor Ned Hill, then of Cleveland State University, now of The Ohio State University's John Glenn College of Public Affairs.⁶ This study partitioned Ohio into six regions that are quite similar to the six JobsOhio regions. The study identified "driver industries," those with above-average output that is growing faster than average. Each of the six regions had 14 to more than 30 driver industries, but because many of these industries

⁶ Deloitte Consulting and Cleveland State University, *Industry-Based Competitive Strategies for Ohio: Managing Three Portfolios*. Ohio Department of Development and Techsolve, May 2005.

were focused in only one or two regions, the state as a whole had only seven drivers. The authors conclude:

Ohio is a portfolio economy. No one industry, or handful of industries, dominates the state's varied economic landscape. That diversity of industries is good for economic stability but makes crafting public policies and development strategies a challenge.⁷

In other words, because of the local nature of Ohio economies, the economic and workforce development needs of individual regions are unique. No one answer is right for all of them. The six regions in this study showed considerable economic diversity, but the ongoing analysis of 13 regions in these articles suggests that basing the analysis on these larger regions may have papered over additional local differences.

The former Ohio Department of Development, and now JobsOhio, has appropriately organized its activity by region and has relied on local partners for its front-line work. Although this at times leads to problems (see the next section), it does allow for an approach that recognizes these individual needs.

However, it may be possible to use this diversity to the advantage of the overall state economy. Industries become drivers because the firms in that industry enjoy higher growth than their competitors elsewhere. That implies that the local area probably offers some unique set of economic and environmental characteristics that create operating advantages for the firms in that location. On the other hand, these local characteristics may not create advantages – or may create outright disadvantages – for other industries. Firms locating in these disadvantaging regions will lag their competitors. Every region has strengths and weaknesses. No region is good at everything.

It follows that the Dayton MSA, for example, may have strength in some industries that are gaps in the Columbus MSA. To the extent that the strong industries in Dayton provide goods and services that Columbus companies need and that are not easily available in Columbus, matchmaking could introduce the Columbus companies to the potential Dayton suppliers. This may result in more contracts and dollars flowing from Columbus to Dayton rather than to Denver or Dallas. The Ohio economy and those of its regions will be the beneficiaries of this strategy.

Proposal 4: Increase Cooperation Among Regions

The company matchmaking point in the previous section is only one example of possibilities for cooperation among Ohio's diverse regions. Cooperation within and among regions is essential: labor markets are regional, transportation networks are regional, and markets for goods and services are at least regional. But the environment for economic development in Ohio in some ways actively discourages regional cooperation. A major factor is the municipal income tax, which is collected from workers primarily in the municipality where they work. Because income taxes are usually municipalities' largest revenue source, they have a powerful incentive to entice companies possibly located elsewhere in the region to relocate and to bid against their neighbors for these relocations. This could potentially create an unproductive game of musical suburbs, in which companies relocate to seek ever larger incentives. Because of the regional leadership in Ohio's six economic development regions and because of regional anti-poaching agreements, this activity is lessened.

⁷ Deloitte Consulting and Cleveland State University, *op. cit.*, p. 11.

However, the same is not necessarily true between the regions. Requests for Information (RFIs) from companies considering relocating or expanding in Ohio flow into JobsOhio and are doled out to the six regional economic development organizations. These to some extent compete for these relocations, and have as their primary concern what is best for their region rather than for the state as a whole. This could potentially lead to a company locating in an area that is not as favorable for their operations and growth as another region would have been. This focus also fails to appreciate the fact that a large expansion or relocation will benefit areas beyond the immediate region. Even regions that “lose” are likely in the long run to win. More active coordination among regional economic development organizations could lead to more holistic economic development strategizing and a greater emphasis on the overall needs of and opportunities for the state. Ohio would be better off as a result.

Proposal 5: Support All Entrepreneurship

Entrepreneurship is viewed by economic developers as a good thing, but often only to the extent that the new business is in a “scalable” industry. Firms in scalable industries have at least the potential of attracting substantial non-local business and expanding at an above-average rate. An example would be a company that has patented a new technological innovation. Conventional economic development theory holds that these are worthy efforts for economic development support, but businesses such as locally-owned retail and restaurants are not. The argument runs that these businesses do not generate new wealth, but merely circulate wealth that is already present in the local economy.

The fallacy in this argument comes from the fact that locally-owned, locally-serving retailers and restaurant owners usually form relationships with local suppliers and do the bulk of their purchasing locally. These purchases represent additional economic activity within the local economy, as does the spending on household goods and services by the owners of the business and its suppliers from their net income and by the employees from their wages. Thus, a dollar of spending at the retailer results in more than a dollar of economic activity, generating earnings and employment beyond that of the business itself. Economists call this a multiplier effect.

In contrast, a typical chain establishment does far less local purchasing. In order to promote uniformity and maximize efficiency, chains usually centralize their suppliers, marketing, accounting, and other business functions. The payments for these goods and services leave the local economy immediately and their multiplier impact is zero. Profits and executive wages also flow out to the remote headquarters; if the firm is publicly held, profits go to shareholders throughout the country or around the world.

The impact of this difference is substantial. The consultancy Civic Economics has found that on average, sales at locally-owned, locally-serving retail stores nationwide trap and recirculate 48 cents of every sales dollar in their local economy, while national retail chain sales recirculate less than 14 cents. Meanwhile, local restaurant sales recirculate 65 cents, compared to national chain restaurants’ 30 cents.⁸ Independent businesses’ trapped dollars represent a greater multiplier effect. Trapping dollars in the local economy that would otherwise leave has the same economic result as bringing dollars in. This implies that economic developers should care far more about these locally-owned, locally-serving businesses than they often do.

⁸ “Indie Impact Study Series,” Civic Economics. <http://www.civiceconomics.com/indie-impact.html>.

Entrepreneurship in Ohio was discussed in detail in “The Entrepreneurship Problem” (*On the Money*, June 13, 2014, Vol. 130, No. 35). The key message of that article was that Ohio communities seriously lag the nation in small business development. Unfortunately, the message has not changed in the intervening years. Table 3 considers one measure of business ownership: the percentage of workers who are self-employed statewide and regionally. The share of Ohio workers who are self-employed is far below average. An average share would mean 106,000 more self-employed business owners in Ohio than there actually were. There is a similar share in all regions except the East North Central region (Amish Country) which is the one region that exceeds the national average. This region’s high concentration is the primary reason why the collective percentage outside the large MSAs is higher than the MSA total.

Table 3
Self-Employed Workers, Ohio Regions, 2013-2017 Average

Region	Total employment	Self-employed workers	Percentage
U.S.	150,599,165	14,284,475	9.5%
Ohio	5,488,180	415,233	7.6%
MSA total	3,807,923	281,655	7.4%
Non-MSA total	1,680,257	133,578	7.9%
Northeast	545,005	43,551	8.0%
Southeast	153,397	10,790	7.0%
South	192,577	15,222	7.9%
West	312,688	23,995	7.7%
Northwest	89,708	6,756	7.5%
West North Central	242,089	18,077	7.5%
East North Central	144,793	15,187	10.5%
Akron MSA	346,052	26,594	7.7%
Cincinnati MSA*	803,837	59,413	7.4%
Cleveland MSA	985,055	75,354	7.6%
Columbus MSA	1,018,414	75,140	7.4%
Dayton MSA	368,355	25,744	7.0%
Toledo MSA	286,210	19,410	6.8%

Source: American Community Survey, U.S. Census Bureau.

A second measure of entrepreneurship is the birthrate of small businesses (fewer than 20 employees) as a share of existing businesses. This measure is available only for MSAs. Because the measure is for MSAs, the birthrate for Cincinnati refers to the entire three-state area. Existing work by Regionomics ranks this birthrate for the 100 largest MSAs. This ranking is shown for the larger MSAs. All are far below average. Columbus is the highest, with 64 births per 1,000 existing establishments, but this is only enough to achieve a rank of 74. Other large MSAs rank generally in the 90s. Youngstown’s 46 is the lowest birthrate of any large MSA in the nation, but Weirton-Steubenville and Lima are even less, with rates of 42 and 40 respectively.

Table 4
Births of Small Establishments (Fewer than 20 Employees)
per 1,000 Existing Establishments, Ohio MSAs, 2014-2015

Metropolitan Statistical Area	Births per 1,000 establishments	Rank among 100 largest MSAs
100 largest MSAs	79.6	---
All MSAs	83.6	---
Akron	53.4	96
Canton	49.7	---
Cincinnati	57.9	89
Cleveland	55.4	93
Columbus	64.3	74
Dayton	53.6	95
Lima	40.3	---
Mansfield	52.9	---
Springfield	45.7	---
Toledo	53.2	97
Weirton-Steubenville	42.2	---
Youngstown	46.4	100

Source: Statistics of U.S. Businesses, U.S. Census Bureau.

The implication of these two entrepreneurship measures is that Ohio communities have fewer small businesses and the retention of sales in the local economy is less than it is elsewhere. This has a negative impact on the Ohio economy as a whole.

Regionomics has searched for causes for this finding. Small business strength has nothing to do with general demographic characteristics, economic structure, or economic growth. The only two characteristics that do have a significant impact are the share of foreign-born individuals in the MSA and the region in which the MSA is located. MSAs with more immigrants tend to have higher-than-average small business values. MSAs in the West also tend to be above average, while those in the Midwest are less than average. Those in the Northeast and South are around average, all else equal. Immigrants have uprooted their lives and moved to a new country, which suggests a relatively high level of risk tolerance, which is favorable for starting a business. There is little explanation for the regional finding. It may be an effect of the traditional (stereotypical) conservatism and risk-aversion of Midwesterners.

If this is true, the problem is one of attitudes, which can be changed. The first barrier that must be addressed is the fear factor. It is important to give prospective business owners as much information and as many resources as possible to help them develop a realistic sense of what it is like to own and operate a business. They will need access to low-cost legal, accounting, marketing, and tax assistance. Many (not all) will need financing. These resources are generally available in the larger cities through the network of Small Business Development Centers (SBDCs), public libraries, and some community colleges. Funding is available statewide from the Economic and Community Development Institute. The real problem is that the existence of these resources is not as widely known as it should be, so a marketing campaign will be needed. (If public awareness is increased, funding will also have to be increased.) Resources are less common in smaller communities. For example, there is no SBDC in Marion. Interested individuals must either travel 40 miles to Mansfield or 50 miles to Columbus. In order to provide necessary resources to prospective entrepreneurs in these communities, the resources must first be developed.

**Table A-1
Working Age Population Changes to 2025 and 2030, Ohio Regions**

	2017-2025			2017-2030		
	Age 25-49	Age 50-64	Age 65-74	Age 25-49	Age 50-64	Age 65-74
Ohio						
Change	-122,283	-236,677	189,879	-82,353	-403,217	200,389
Pct. change	-3.4%	-9.9%	16.9%	-2.3%	-16.9%	17.9%
Northeast						
Change	-14,645	-39,564	16,424	-13,525	-63,524	9,584
Pct. change	-4.2%	-15.0%	12.2%	-3.9%	-24.1%	7.1%
Southeast						
Change	-1,316	-13,339	2,792	-1,576	-19,399	1,102
Pct. change	-1.3%	-17.5%	7.2%	-1.5%	-25.5%	2.9%
South						
Change	-9,700	-11,312	3,285	-8,810	-17,642	2,315
Pct. change	-6.5%	-11.2%	6.7%	-5.9%	-17.4%	4.7%
West						
Change	-5,390	-16,489	9,366	-5,060	-28,529	8,706
Pct. change	-2.8%	-12.1%	14.1%	-2.6%	-20.9%	13.1%
Northwest						
Change	-5,244	-5,408	4,274	-7,144	-8,818	3,804
Pct. change	-9.9%	-13.9%	23.2%	-13.4%	-22.7%	20.7%
West North Central						
Change	-5,289	-11,362	4,247	-9,515	-19,379	4,392
Pct. change	-3.3%	-9.8%	7.2%	-6.0%	-16.8%	7.5%
East North Central						
Change	-941	-6,615	4,519	1,449	-11,155	4,599
Pct. change	-1.1%	-10.8%	14.9%	1.6%	-18.2%	15.2%
Akron MSA						
Change	-34	-18,316	12,199	1,406	-32,126	12,909
Pct. change	0.0%	-12.2%	17.4%	0.7%	-21.4%	18.4%
Cincinnati MSA*						
Change	-18,766	-27,449	33,340	-12,196	-51,279	40,050
Pct. change	-3.5%	-8.2%	22.9%	-2.3%	-15.2%	27.5%
Cleveland MSA						
Change	-23,007	-59,246	37,102	-13,127	-101,806	37,272
Pct. change	-3.6%	-13.4%	17.7%	-2.1%	-23.0%	17.8%
Columbus MSA						
Change	-12,317	13,298	39,580	8,573	16,458	56,320
Pct. change	-1.7%	3.5%	24.3%	1.2%	4.3%	34.6%
Dayton MSA						
Change	-14,991	-23,183	8,546	-13,901	-37,103	8,246
Pct. change	-6.1%	-14.3%	10.7%	-5.6%	-22.8%	10.3%
Toledo MSA						
Change	-7,187	-14,145	11,360	-7,047	-23,695	10,050
Pct. change	-3.8%	-11.8%	20.4%	-3.8%	-19.7%	18.0%

*Ohio counties only.

Source: Calculated from Population Estimates, U.S. Census Bureau, and Ohio Population Projections, 2018, Ohio Development Services Agency.

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