

New Shops on Main Street: A Growth Industry?



NEW SHOPS ON MAIN STREET:

A GROWTH INDUSTRY?

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ABSTRACT

It usually has been thought that the supply of job opportunities in non-metro areas of Oregon is limited by their export base, which is primarily timber, agriculture, and recreation. This research considers the possibility that self-employment by recent in-migrants may have expanded the net export base in Jackson County. Only about 15 percent of the new in-migrant firms exported (outside the county) more than they imported; these firms combined fabrication of a product with wholesaling and/or retailing functions. The remainder of the firms compete with existing firms for existing markets and for the anticipated growth of these markets. Although these firms may benefit local consumers by providing price and service competition, they operate within rather than expanding the net export base of the community. In general, "New Shops on Main Street" are not a growth industry.

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INTRODUCTION

Many small towns and cities in the United States are facing a different situation than 20 years ago; they are now "importing" rather than "exporting" people. During and after World War II, many rural areas lost population to the large cities where jobs were abundant and wages higher. Mechanization in agriculture contributed to this trend by reducing the need for farm labor, and hence, prompting many farm youths to migrate to the cities. (Adoption of mechanization, it might be noted, was often based on the view that labor either was or would be scarce.) In any event, the large central cities and suburbs grew rapidly at the expense of small towns. As recently as the 1960-70 decade, total metro^{1/} population was growing at 1.6 percent yearly, compared to only 0.4 percent yearly for non-metro counties, half of which lost population during that decade.

The decade of the 1970s, however, saw a marked reversal in this trend. For the first time in this century, more people moved away from metro areas than moved to them. In other words, the balance of net migration shifted to favor non-metro areas as gainers rather than losers, a phenomenon often referred to as the "population turnaround." Non-metro population increased by 1.54 percent yearly between 1970 and 1980, compared to only 0.91 percent for metro areas. Put another way, the non-metro growth rate quadrupled between 1960-70 and 1970-80, while the metro growth rate was cut in half. About one-sixth of the nation's SMSA's declined in population during the 1970s, particularly the older and larger ones in the East and Midwest, while three-fourths of all non-metro counties grew in population (DeJong and Keppel, 1979).

^{1/} Metro areas (Standard Metropolitan Statistical Areas, or SMSA's) are counties or closely related groups of counties which have one or more central cities with a population exceeding 50,000 people.

The demographic change within Oregon has resembled the national trend (Table 1 and Figure 1). In particular, the annual non-metro growth rate has been considerably greater than the metro rate (2.96 versus 2.23 percent between 1970 and 1980). The rate of net migration into non-metro Oregon over this same period was 2.21 percent yearly; several counties had annual rates above 5 percent. Three differences from the national trend, however, can be noted. One is that the overall population growth rate in Oregon has been two and one-half times higher than the national rate. Second, the two smaller SMSA's in Oregon (Eugene and Salem) have grown at a rate which is even slightly greater than the non-metro average. Third, SMSA's in Oregon, even Portland, are continuing to have positive net migration; people are continuing to move into these areas rather than away from them, in contrast to the general trend elsewhere.

Once it has been established that non-SMSA population growth is not just "spillover" from existing urban areas, as Table 1 suggests for Oregon and Beale (1975) has shown for the U.S. generally, other reasons for the rural renewal remain to be discussed. Researchers have identified a variety of plausible explanations, including the following:^{2/}

- (1) decentralization of manufacturing
- (2) earlier retirements, coupled with higher retirement incomes
- (3) increased per capita income
- (4) increased pursuit of leisure activities
- (5) growth of state governments

^{2/} Dillman (1979) has recently summarized and critiqued some of these explanations.

Table 1. Population change in Oregon, 1970 to 1980

| | Natural increase ^{a/} | Net migration ^{a/} | Total change ^{b/} |
|--|-----------------------------------|--------------------------------|-------------------------------|
| Portland SMSA (Clackamas, Multnomah, and Washington Counties; excludes Clark Co., Washington) | 6.67% | 12.10% | 18.77% |
| Eugene SMSA (Lane County) | 8.91 | 17.95 | 26.86 |
| Salem SMSA (Marion and Polk Counties) | 8.05 | 25.70 | 33.75 |
| All metro | 7.26 | 15.05 | 22.31 |
| All non-metro (rest of State) | 7.48 | 22.14 | 29.62 |
| State, excluding Portland SMSA | 7.84 | 21.93 | 29.77 |
| State | 7.30 | 17.84 | 25.14 |
| Selected non-metro counties | | | |
| Deschutes | 11.44 | 92.12 | 103.56 |
| Morrow | 8.22 | 60.31 | 68.53 |
| Josephine | 5.95 | 50.76 | 56.71 |
| Jackson | 6.46 | 32.90 | 39.36 |
| United States ^{c/} | ----- | ----- | 10.8 |
| Metro counties | ----- | ----- | 9.1 |
| Non-metro counties | ----- | ----- | 15.4 |

^{a/} 1970-79 data from Center for Population Research and Census, Portland State University, adjusted upward to fit 1980 Census totals. Data not yet available for the United States.

^{b/} Census of Population, 1980 (except U.S. data).

^{c/} Beale, Calvin L., Rural and Small Town Population Change, 1970-80, ESS-5, Econ. & Stat. Service, USDA, Washington, D.C., Feb., 1981.

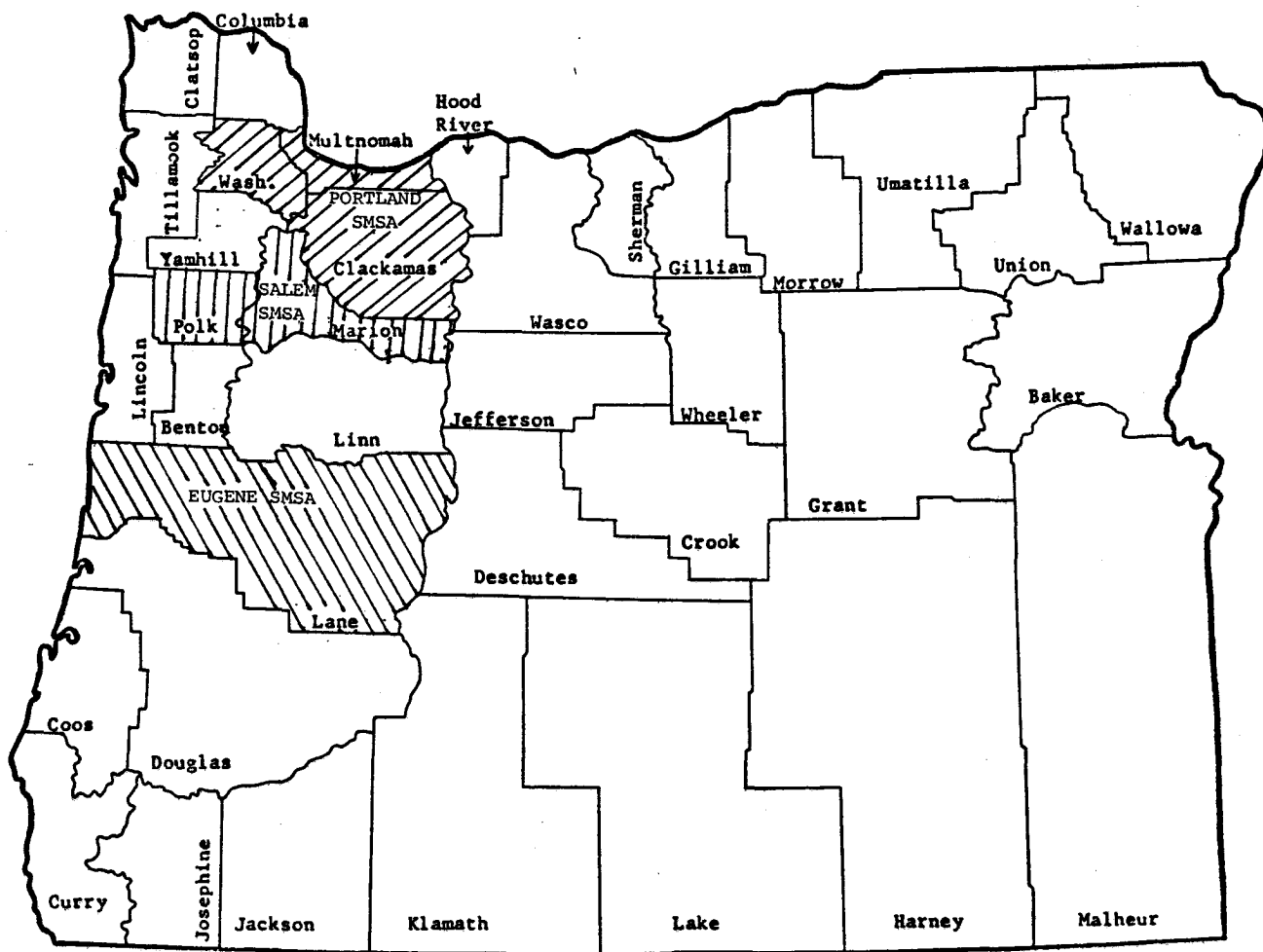


Figure 1. Oregon's SMSA's.

- (6) reduction in the rate of decline of farm population
- (7) narrowing of the historical gap between urban and rural lifestyles
- (8) increased long distance commuting
- (9) energy developments
- (10) completion of the interstate highway system
- (11) agricultural developments
- (12) lower living costs in rural areas
- (13) differences in amenities and access to outdoor recreation
- (14) increased concern with urban disamenities (crime, congestion, and pollution).

Again, in Oregon, some of these reasons seem plausible indeed. Popular opinion has it that recreation is responsible for the growth of Deschutes County (Bend), retirement for Josephine County (Grants Pass), and agriculture for Morrow County (Boardman). Although there is probably a great deal of truth to these particular explanations, the reasons for the population turnaround are not understood to the extent that accurate population projections can be made for state and sub-state areas. Old and new Oregonians alike are quick to point out that the state has something that many other states do not have (Vermonters probably feel the same way), yet disagree on what it is. Whatever "it" is, three-fourths of a sample of recent in-migrants from out-of-state to Josephine and Jackson Counties had sacrificed, through reduced

earnings, an average of \$11,108 in yearly family income to move to those counties (Stevens, 1980). In addition, these areas were chosen for retirement living by a number of other out-of-staters in the study.

As a matter of background, the economic literature on migration has gone through several phases, starting first with a wage or income explanation. The idea that the reason most people move is to enhance their income has dominated the economic literature for years and has had strong supporting evidence (e.g., Lansing and Mueller, 1967). The recent "population turn-around" casts doubt on this traditional explanation, however, especially when reinforced by income sacrifices of the extent cited above. What is emerging, then, is an alternative explanation for migration, one which emphasizes consumption, and more particularly, consumption of "public goods" which cannot be obtained via markets and which vary over space. Air quality, personal safety, and reduced congestion are examples of this type of consumption goods. At the heart of this explanation is the idea that people value both private (market) and public (non-market) goods, but that migration to non-metro areas may be about the only way in which demands for the latter can be effectively met by the individual.

There is, then, an increasing demand for the opportunity to live in an environmentally attractive state such as Oregon. This demand has to be reconciled, however, with the supply of such opportunities. Or, in the words of one old-timer, "How can all these people make a living here?" The Constitution guarantees free mobility of people but there is no assurance of a job. Some people (e.g., retirees on public or private retirement programs) avoid this problem by essentially bringing their own financial support with them. A few others are able to rely on property incomes. Most in-migrants, however, must reckon with the reality of the local economy. The conventional

view in regional economic analysis has been that the export base of the local economy must expand if additional labor is to be absorbed at existing wage rates.^{3/} That is, additional goods and/or services must either be physically exported (e.g., lumber) or produced and sold usually within the community to an external demander (e.g., lodging to recreationists, employment by state government, commuting to work outside the area). If either of these happens, new workers can be absorbed either directly by the exporter (which may be a firm, a unit of government, or even a household) or indirectly through multiplier effects.

However, this explanation holds only in a collective or community sense; an individual in-migrant may be able to find employment by essentially displacing an existing worker. Historically, migrant populations have been disproportionately young and well educated, thus there is a real likelihood that in-migration could occur without changes in the export base. Costs obviously would be imposed on local workers; the extent to which this is actually happening in Oregon or elsewhere is not known.

One other option for a potential in-migrant, and the one explored in this study, is that of becoming self-employed to facilitate migration to an environmentally attractive area. People become self-employed for a variety of reasons. To do so to gain spatial mobility, however, is an option which has received little if any research attention. In one sense, this option would avoid the constraints imposed on migrants by the lack of job

^{3/} A newer formulation is that migration is a cause as well as a result of employment change (Borts and Stein, 1964). Muth (1971) found, in fact, that the effect of in-migration on employment growth was greater than the effect of employment growth on in-migration to large SMSA's. While recognizing the validity of a two-way relationship, Stevens and Owen (1980) found support for the export base model in their study of timber-dependent counties in western Oregon and Washington. In that study, the effect of employment change on in-migration was much larger than the reverse effect.

vacancies in the area of destination. It is not a total escape from the realities of the local economy, of course, in that the business must be economically viable to survive.

The self-employment option is particularly interesting in that it may or may not expand the total set of economic opportunities within the community. That is, new businesses by in-migrants may simply compete with existing businesses or they may add to the export base of the community. A new business which sells only to outside demanders (without competition from existing local businesses) and buys inputs only from local suppliers in effect would be adding a new export dimension to the community's economy. Whether this happens is an empirical question to be addressed in this study.

PURPOSE AND LIMITATIONS OF THE REPORT

In general, the purpose of the report is to explore various dimensions of self-employment among recent interstate in-migrants to Jackson County, Oregon.^{4/} Among these are the following:

- (1) Frequency of occurrence
- (2) Extent of equity capital supplied by self-employed in-migrants
- (3) Previous uses of that capital
- (4) Nature and amount of external financing
- (5) Role of external capital rationing
- (6) Employment levels generated
- (7) Distributional effects.

^{4/} As noted earlier, Jackson is one of the two southern Oregon counties where recent in-migrants have given up considerable family income and where the propensity to seek self-employment might be fairly high (Stevens, 1980). Among 36 Oregon counties, Jackson ranked 6th in population growth rate over the 1970-80 period.

No attempt is made to assess the long-term viability of the business enterprises which have been started by recent in-migrants.^{5/} To do so would have required considerable data (and often sensitive data) on costs, sales, and product lines. Instead, our primary focus is the empirical magnitude of in-migrant self-employment in a county which is popular among new in-migrants. We attempt to find out how these businesses are financed, how many people are employed by them, and whether they supplement or compete with existing business activity within the county. To forewarn the reader, "competing with existing businesses" is not meant to be undesirable; local consumers may benefit from increased competition through lower prices and/or better service. Instead, we are simply trying to get a better understanding of the process by which local economic growth occurs.

SAMPLING FRAME^{6/}

The geographical area for this study was defined as the Bear Creek Valley of Jackson County, Oregon. This area, from just above Gold Hill to Ashland near Interstate Highway I-5, accounts for nearly 83 percent of the total county population and probably an even larger percentage of the business firms (Figure 2). The data base which was utilized was the business license records of the six major towns of the valley (Medford, Ashland, Central Point, Phoenix, Talent, Jacksonville). All firms doing business within these cities must renew their licenses at the beginning of each fis-

^{5/} Phone communications with officials of the Small Business Administration reveal a 50 to 80 percent failure rate among new businesses, nationwide, within the first five years. Realistically, not all of the employment generated by these new businesses in Jackson County is permanent; some businesses -- and jobs -- will fold. In an aggregate sense, however, it is quite likely that these jobs will be provided by other new businesses, some operated by in-migrants.

^{6/} See Appendix A for further details.

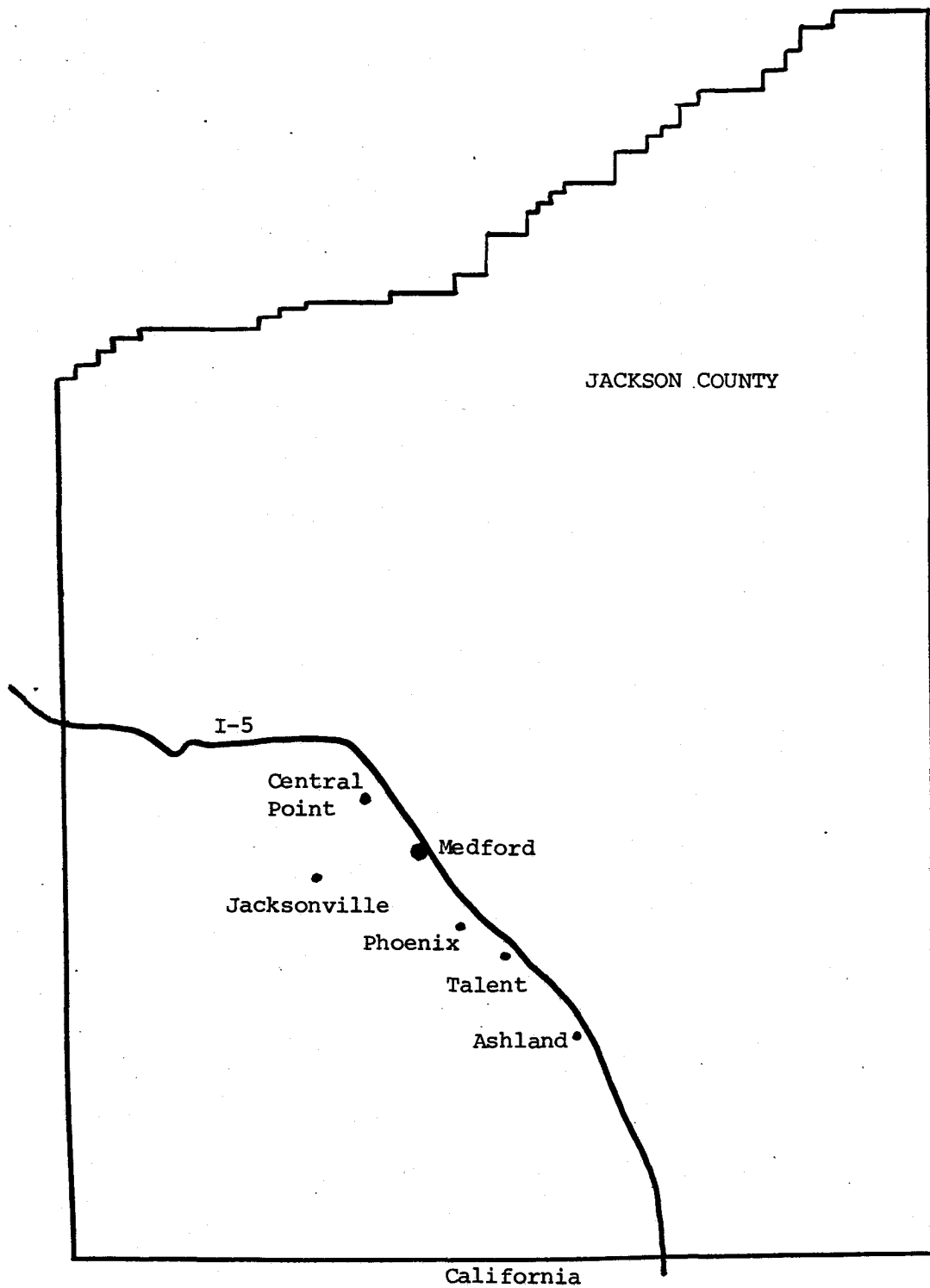


Figure 2. Map of Study Area.

cal year. The format of the business license records allowed for the identification of businesses formed during the period from July 1, 1978, through June 30, 1979 (fiscal year 1979). The sample was drawn in November 1979; thus, the businesses were from 6 to 18 months old at the time of interview.

It was estimated from the business license records that 906 new businesses were formed in the area during fiscal year 1979. From this population, a primary sample of 178 new businesses (allocated among the cities according to their relative populations) was drawn. A secondary (telephone) screening of this sample was then conducted to identify those businesses which belonged to recent in-migrants. Three questions were asked to facilitate this process: (1) Are you self-employed? (2) Are you a long-time resident of Jackson County or did you move here within the last two years? (3) Where did you move from? If the business was not screened out at this point, the owner was asked to verify that the business was his primary source of income.

Through this procedure, 24 of the 178 businesses sampled (13.5 percent) were identified as owned and operated by recent interstate in-migrants. When this ratio is expanded to the total population of new businesses, it is estimated that 122 of the 906 new businesses were formed by recent interstate in-migrants to Bear Creek Valley.

From the secondary sample of 24 businesses, 20 owners agreed to participate in an interview concerning themselves and their businesses. The interviews, approximately one hour long, were conducted in person during January 1980. The final sample size of 20 is 16.4 percent of the population of 122 new in-migrant firms. Conversely, total values (e.g., loans) for the sample can be multiplied by the reciprocal of 16.4 percent, or 6.1, to estimate total values for the population of new firms.

RESULTS

Characteristics of Respondents

The 20 businesses in the sample included 8 product-oriented retail outlets (e.g., food service, auto parts, kitchen supplies, clothing), 6 service operations (e.g., sweeping and cleaning services, tile setting), and 6 firms which generally combined fabrication or manufacturing with a retail and/or wholesale operation (jewelry, dentures, leathercraft). As expected, the businesses were relatively small and specialized and the owners were generally young and well-educated. The average age was 38; 70 percent were between the ages of 30 and 45. About three-fourths of the group had either a college degree or some college background; the remainder all had a high school education. Seventeen of the 20 had moved from California (ten from Southern California); two were from Washington, and another family came from the Midwest.

For most of the new owners and their families, the decision to move to Oregon and become (or remain) self-employed was a "package deal." That is, they were jointly motivated by the desire to live in the area, on one hand, and the desire to be self-employed rather than working for someone else, on the other hand. Half the respondents said the primary reason for their move was the desire to be closer to friends and family (Table 2). Others indicated that dissatisfaction with the quality of life in their previous location was what initially prompted them to consider migration. For the majority of these migrants, self-employment was an option that provided occupational mobility, rather than a response to lack of employment; 80 percent had arranged to begin or take over a business in southern Oregon before their move. Only three looked for employment in

Table 2. Reasons for moving to Jackson County and starting own business.^{a/}

| | <u>Frequency of mention</u> |
|---|---------------------------------|
| Moving to Jackson County: | |
| Closer to family/friends | 10 |
| Business opportunity | 10 |
| Escape from urban areas | 7 |
| Familiar with this area | 5 |
| Lived here before | 5 |
| Climate | 3 |
| Other | 3 |
| Good place to raise children | 2 |
| | <u>45</u> |
| Starting own business: | |
| Desire for independence | 8 |
| Already doing the same thing for someone else | 6 |
| Means for moving to Southern Oregon | 5 |
| Better opportunity than current job | 5 |
| Put experience to better use | 4 |
| Couldn't find another job here | 3 |
| | <u>31</u> |

^{a/} Responses to open-ended questions by 20 new business owners; some gave more than one reason.

southern Oregon and then became self-employed when they couldn't find an acceptable job. One person had a job arranged before his move but instead started his own business.

The type of business was directly related to the owner's previous occupation in ten cases. Six of the owners had a skill or previous managerial experience that allowed an easy transition to self-employment. Businesses in this category included a tile setter, dental lab, furniture manufacturer and an auto parts store. The other four in this group had been self-employed; two of them owned wholesale businesses and transferred their inventory to Jackson County when they moved. Those whose business was not related to their previous occupation either responded to a specific opportunity or were influenced by the success of friends in a particular type of business. In two cases, the owner expanded a hobby into a business enterprise.

Six of the owners purchased their business. In these cases, the previous owners provided them background information about the local economy. In general, the owners appeared to have little reliance on outside information and assistance. Only three owners contacted the Chamber of Commerce before opening their business. Two others sought assistance from the Small Business Administration, and two others did market research on the suitability of their business to the local economy.

Financing

Twelve of the 20 firms were new enterprises; eight others bought existing businesses. In both types, some form of financing, either internal or external, was required to get the business going. There was, to say the least, substantial variation in the size of total investment among the 20 new

businesses. Three firms had capital asset structures of under \$1,000; three others had total investments in the \$100,000 to \$150,000 range. The average investment per new firm was \$37,505, which is not a very meaningful figure in light of the extreme variation.

Seventy percent of the firms had total investments of \$25,000 or less; 40 percent of the sample had an investment of less than \$10,000. Size of investment was directly related to the type of business. All businesses with investments under \$10,000 were either service or wholesale/manufacturing operations. Many of these owners work out of their homes and have low overhead costs. Conversely, all the 11 retail establishments were started with investments of \$12,000 or more; \$60,000 was the average for this group. Some of these businesses required substantial investment in equipment and inventory as well as for purchasing, leasing, or remodeling business space.

During the interviews, the respondents were asked to identify the various sources of funds that comprised their initial investment (Table 3). These were divided into those funds which came from personal sources and those that were borrowed. Ten firms relied on both internal and external financing (divided about equally), with an average total investment of \$58,520. There was considerable variation within this group; total investments ranged from a low of \$300 (financed by cash and charge accounts) to a high of \$151,000 (financed by a variety of sources). Two other firms relied entirely on external financing. These two had an average investment of only \$2,600, supplied primarily by loans from relatives.

Seven other firms financed their business solely from personal funds. These businesses tended to be less capital-intensive, with an average total investment of \$17,457; only one had a total investment of more than \$20,000.

Table 3. Sources of financing for new in-migrant businesses

| | Total | Percent of total | Number of businesses | Average per business ^{a/} |
|---|------------------|------------------------|----------------------------|--|
| Personal Sources | | | | |
| Equity from previous home | \$214,000 | 30.0% | 8 | \$26,750 |
| Savings | 97,100 | 13.6 | 10 | 9,710 |
| Real estate | 35,000 | 4.9 | 1 | 35,000 |
| Retirement fund | 27,000 | 3.8 | 2 | 13,500 |
| Stocks | 26,000 | 3.7 | 2 | 13,000 |
| Equity from previous business | 15,000 | 2.1 | 1 | 15,000 |
| | <u>\$414,100</u> | <u>58.1%</u> | | |
| (average per firm) ^{b/} | (\$21,795) | | | |
| Loans | | | | |
| Local bank | \$ 93,600 | 13.1% | 4 | \$23,400 |
| Franchise (non-local) | 75,000 | 10.6 | 1 | 75,000 |
| Local savings and loan associations | 49,000 | 6.9 | 2 | 24,500 |
| Family | 42,900 | 6.0 | 6 | 7,150 |
| Contract with previous owner | 30,000 | 4.2 | 1 | 30,000 |
| Non-local bank | 7,000 | 1.0 | 1 | 7,000 |
| Charge account | 1,000 | 0.1 | 1 | 1,000 |
| | <u>\$298,500</u> | <u>41.9%</u> | | |
| (average per firm) ^{b/} | (\$15,710) | | | |
| Total investment for sample | \$712,600 | 100.0% | | |
| Average investment per firm ^{b/} | \$ 37,505 | | | |
| Total investment for population of 122 firms | \$4,575,642 | | | |

^{a/} Considers only businesses which used that source.

^{b/} n=19 (data not available for one of the firms).

Savings and equities from previous homes and/or businesses were the principal sources of funds for these internally financed businesses.

Overall, equity from a previous home was the largest single source of financial capital for these self-employed in-migrants. Nearly half the sample indicated that without the equity from the sale of their previous home, they would have been unable to open a business. All the firms with investments of more than \$50,000 included substantial funds from the sale of a home or homes, and half of those who used home equities in their new business also purchased homes in Jackson County.

Personal savings were also an important source of internal financing. Half the sample drew on their savings to open their business, with an average of \$9,710. Other sources of personal funds included real estate (excluding owner-occupied homes), sale of stocks, retirement funds, and equities from previous businesses.

Overall, personal funds accounted for 58.1 percent of the total value of the entire sample of new in-migrant firms. The average level of personal financing was \$21,795 per firm. Applying this figure to the total in-migrant population of 122 firms, this would be a capital inflow for business purposes of more than \$2.6 million per year into Jackson County. Almost all the previous owners of the eight existing businesses (those which were purchased) remained in the county; several re-invested in another business. In a real sense, then, much of this \$2.6 million is probably a net addition to the private capital stock of Jackson County.

Business loans accounted for the remaining 41.9 percent of the total investment by self-employed in-migrants. These loans came from a variety of sources, with loans from family members and local banks and savings and loan associations the most common. Family loans generally were not large,

but five of the six local commercial loans were for \$10,000 or more. Most of the loan sources appeared to be local (including some family members who were living in the community); the one large loan by a non-local franchise was the only real exception.

The respondents also were asked to identify what loan sources they had considered, whether they applied for a loan, and whether a loan was made. In general, all those who attempted to obtain external financing from commercial sources were successful. Some use was made of the Small Business Administration, which assisted one new owner in getting a loan from a local bank. Other sources of government loan funds, including the Farmers Home Administration, were mentioned to the respondents, but none had considered or applied for this type of financing.

Employment

By definition, self-employment provides a job for an individual and perhaps some family members, but with no guarantee of a positive wage. Within our sample, ten of the firms relied solely on the owner's labor, and in six of these cases, the labor of additional family members. The average labor input within this group of ten firms was 72.4 hours, or a little less than two full-time equivalents (Table 4).

The other ten firms hired full- or part-time workers in addition to family members and averaged 157 labor hours per week or about four full-time equivalents. Sixty percent of this labor was supplied by family members. This group hired a total of nine full-time workers, six full-time workers on a seasonal basis (summer), and 14 part-time workers. Wages paid to the workers averaged \$3.77 per hour, with only one worker paid at a fairly high wage (\$12 per hour).

Table 4. Employment and investment by two types of in-migrant businesses

| | Type of business | | |
|----------------------------|-----------------------------------|---|-----------------------------|
| | Family labor only (n=10) | Family labor plus hired labor ^{a/} (n=10) | All (n=20) ^{b/} |
| Average hours per week | | | |
| By family members | 72.4 | 95.2 (60.6%) | 83.8 (73.1%) |
| By others | 0 | 61.8 (39.4%) | 30.9 (26.9%) |
| Total | 72.4 | 157.0 (100.0%) | 114.7 (100.0%) |
| Average wage | | | |
| | | \$3.77 | |
| Average capital investment | | | |
| Personal | \$13,980 | \$30,478 | \$21,795 |
| Loans | 6,390 | 26,066 | 15,710 |
| Total | \$20,370 | \$56,544 | \$37,505 |

^{a/} Investment data available for only 9 firms.

^{b/} Investment data available for only 19 firms.

Those firms which employ only family members also are smaller in terms of total capital investment and personal capital committed to the business (Table 4). Among the eight individuals who started their business strictly on internal or personal financing, six employ only family labor. The average capital investment by this group of ten smaller firms is \$20,370; only two firms exceed this value. The larger firms which employ paid workers average \$56,544 in capital investment, including an average loan balance of \$26,066.

The aggregate employment impact of in-migrant firms on the local economy can be approximated with these data. For example, multiplying the 122 firms in the population by .75 full-time equivalents (i.e., the average of 30.9 hours per week of paid labor) equals about 92 full-time workers hired by new in-migrant firms. With respect to the owners and their families who averaged 83.8 hours per week or about 2.1 forty-hour weeks, this amounts to 256 full-time equivalents. If one assumed that (1) none of these people otherwise would have been employed in Jackson County, and (2) these businesses all produce for "export" markets, the total employment generated would be about 348 new jobs. To put this into perspective, total employment in Jackson County in the fourth quarter of 1978 was 52,130, an increase of 3,470 workers over the fourth quarter, 1977. Given the above assumptions, the upper limit to the potential for job generation by self-employed in-migrants is about ten percent of the growth increment for that year. (A more realistic estimate will be generated later in the paper.)

One other value of particular interest to the firms themselves is the net return level which would be needed to keep the firm economically viable. Consider, for example, that after all other expenses are paid, a firm should be able to (a) earn 10 percent interest on any personal capital committed to

the business, and (b) pay an hourly wage to family members equivalent to that which employees are paid, or \$3.77 per hour. If the firm can do this, it is viable in the sense that all resources are paid what they could earn in other endeavors. For firms which use only family labor, this value is \$15,591 per year (after all other expenses are paid); for those which hire additional labor, the value is \$21,711 per year.^{7/} As stated earlier, we did not attempt to assess whether these firms are actually viable. These figures, however, might aid these and other firms in assessing their own viability.

Distributional Characteristics

In addition to identifying the levels of investment and employment associated with new in-migrant businesses, our study is concerned with the distributional effects of this capital inflow. That is, do these firms largely compete with existing firms or do they constitute a new source of export growth for the region?^{8/} To augment the local economy, rather than compete with existing firms, they would have to purchase inputs locally and sell to customers outside the region. The method of assessing the distributional effects of these businesses involved asking each owner to estimate the share of his or her customers who are located outside Jackson County and the share of non-labor inputs that is purchased locally. In addition, the owners were asked about their various product lines and where their customers would buy those products if their firm did not exist.

^{7/} For those firms with family labor only, this would be \$1,398 in interest on personal capital (Table 4) plus \$14,193 in returns to labor (72.4 hours per week times 52 weeks times \$3.77 per hour). Some people, of course, might be willing to settle for less than this to be their own boss.

^{8/} Again, the intent is not to condemn new firms for "competing," but rather to understand the nature of local economic growth.

Sales

Whether a firm augments the local economy depends on the type of business and the uniqueness of its product; a firm can either export a product to customers outside the county or provide a product or service that customers (either local or non-local) otherwise would buy outside the county. Almost none of the retail product or service establishments had a significant amount of export trade, based on the percentages of customers who are local versus non-local. Twelve of the 14 businesses of this type reported that 70 percent or more of their customers were from Jackson County; nine of these reported more than 90 percent local business. The other two firms had a moderate proportion of non-local trade; both were food service establishments which cater to tourists.

The six firms which generally combined manufacturing or fabrication with a retail and/or wholesale operation had somewhat stronger sales links to the outside economy. For five of these firms, the share of non-local customers ranged from 30 to 70 percent and averaged 54 percent. Examples within this group include the fabrication of jewelry, furniture, and leather products. The one other firm was a classic example of a "footloose" activity; this was a mail-order wholesaler for specialized parts who services a national market and sells or buys very little locally.

In addition to allocating their sales to local versus non-local customers, the new owners were asked, "If your business didn't exist, what share of the money now spent for your products (services) would be spent in Jackson County?" This question sought to draw on the owners' knowledge of the location of their competitors; the answers were often quite different from those based only on residence of their customers. One owner who sells specialized household products, for example, said that only ten percent of his customers were non-

local, but that 40 percent of his sales would be spent outside the county if his firm did not exist. In other words, the firm has an export dimension in that it reduces "leakages" to competitors outside the county. Several firms reported all their sales were to local customers and that all these would be diverted to other local merchants if their firm did not exist. Other firms reported that all their sales would go to local merchants even though some of their customers are non-local; examples include an auto parts dealer and a food service establishment. In these cases, there apparently are other local suppliers who sell in a regional market.

Based on this definition of export trade, 13 of the 14 retail or service establishments reported that 70 percent or more of their sales would be diverted to other merchants in Jackson County. On the average, 92 percent of their sales would otherwise be spent within the county. Among the six manufacturing/retail/wholesale operations, the export share was slightly more than half their business, based either on the share of non-local customers or the disposition of their sales to competitors.

Inputs

Although the 14 retail and service firms had more local sales than the other six firms, this same pattern did not exist in their purchases of non-labor inputs. Instead, about two-thirds of each group bought very little (usually, five to 15 percent) from local suppliers and the other one-third bought most of their inputs locally. The nature of the business seems to dictate where supplies are purchased. Those who sell auto parts, clothing, and kitchen supplies, for example, buy most of their inputs from regional or national distributors. Petroleum products, cleaning supplies, wood for fuel or furniture, and restaurant food supplies, on the other hand, are

readily available from local sources. Price is not usually a factor in determining the source of inputs; those firms which purchase inputs outside the region generally do so because they are not available locally.

Net Balance of Trade

It was calculated earlier (page 20) that as much as ten percent of the employment growth in Jackson County in FY 79 might possibly be attributable to self-employed in-migrants. This figure was based, however, on the assumption that all the new businesses produced for export markets. It should now be clear that this assumption is not valid; nearly all the 14 retail or service firms produce for a local market. On the other hand, the assumption is valid for several of the firms; this section attempts to estimate the share of total trade which is expansionary to the local economy rather than competitive.

A thorough analysis of the distributional issue would require detailed data which were not collected in this study. In particular, the sales and purchase patterns between sectors of the local economy as well as the linkages to the external economy need to be known. An "input-output" model of this type often is used for estimating the local impact of a change in export demand, but this particular situation also involves changes in non-export supply, a situation not amenable to analysis by input-output models.

The impact can be approximated, however, by identifying the net balance of trade for each of the sampled firms. That is, are the exports of the firms larger than its imports? If so, a net surplus is created within the local economy which can be used to pay local workers (including the owner) and to purchase local inputs. If imports exceed exports, on the other hand, labor and local inputs essentially are purchased with the surpluses created

by other firms, with displacement of sales the vehicle for transferring the surplus. In other words, a new firm which sells all its product externally and buys all its inputs locally is expanding the export base; one which sells locally and buys externally is competing within that export base. By the nature of free enterprise, firm owners make their decisions on the basis of profitability, not on whether their firm will expand the export base. At the same time, these decisions are based on expectations of future profitability, which depend on both the firm's efficiency and on future expansion of the export base. Jackson County is regarded as a fast-growing area; it is likely that many new owners feel that their firms will fill future needs of the community even though they compete with existing firms.

Since this was an exploratory study, detailed data on dollars of sales and purchases were not collected. Instead, the labor input was used as a measuring rod for comparing exports to imports. If a firm uses 100 man-hours per week and exports 35 percent of its product, for example, 35 man-hours are essentially exported from the community.^{9/} As discussed above, the owners were asked about their percentages of local and non-local customers and about the disposition of their sales if their firms were not in business. The latter seems a more appropriate definition of the export percentage because it reflects a "with and without" situation. Accordingly, the man-hours per week for each firm were allocated between export sales and local sales on this basis (Figure 3). Nearly all the retail or service firms were oriented toward local sales; the total output of the other six firms was about equally divided between local and export sales.

^{9/} To compare these values across firms requires the assumption that the average product of labor is equal, or that there are not great differences in the amounts of capital which are combined with labor. The fairly small dispersion of wage rates (averaging \$3.77 per hour) suggests that at least the marginal products of labor may be about equal.

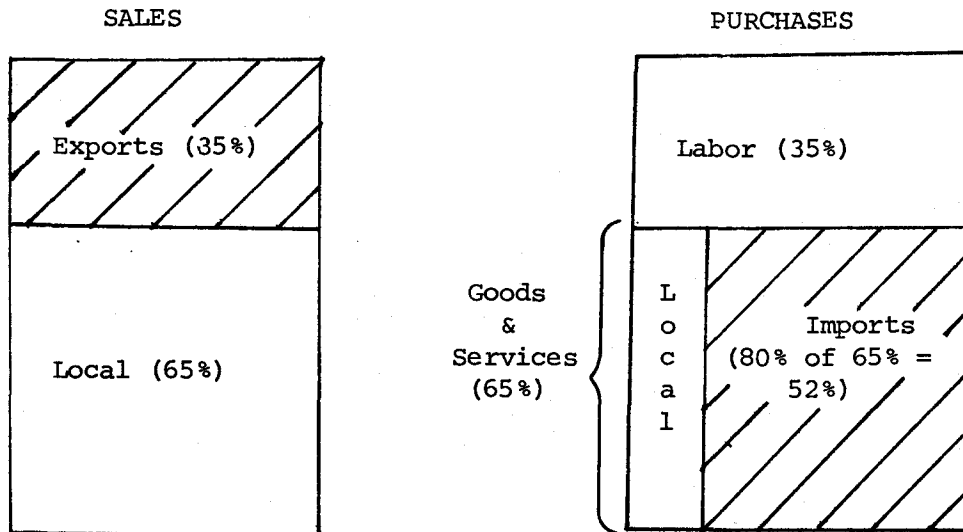


Figure 3. Example of a net importer, with 100 man-hours of labor.

On the input side, each firm purchases both labor and goods or services although the returns to labor are often a residual for a self-employed businessman. The relative mix of goods and labor varies, however, depending on the type of business; an auto parts dealer has a smaller percentage of labor costs than a restaurant. This information was not obtained for the sample but can be approximated from input-output studies from three other Oregon counties (Table 5). These studies show that the non-labor input percentage is considerably higher for retail and wholesale businesses (80 to 85 percent) than for service firms (60 percent), restaurants (60 percent) or professional services (33 percent). Although these percentages are reasonably consistent for the three counties, they may over or understate the dependence of our sample firms on non-labor inputs. The division of each firm's non-labor bill between local goods or imported goods, however, was available as an estimate from individual owners.

Going back to the example of the firm with 100 man-hours (35 of them exported), assume that 65 percent of its purchases were for goods and services (as contrasted to wages, taxes, depreciation, and profits by the owner). Assume also that the owner states that 80 percent of the goods and services which he uses are imported rather than bought locally.^{10/} Identities are involved; total sales must equal total purchases. In this case, the equivalent of 52 man-hours are required to pay for imported goods and services. Since only 35 hours were exported in the form of product sales, this firm is a net importer (Figure 3).

Similar computations for each of the firms indicate that only three of 20 firms in the sample were net exporters (Table 6). While this is only 15

^{10/} One limitation of this analysis is that it considers only first-round effects. In other words, a restaurant may buy nearly all its supplies from local wholesalers but the latter is likely to import those supplies from larger trade centers.

Table 5. Non-labor inputs as a percent of total purchases for five sectors in three other Oregon counties ^{a/}

| | Clatsop (31,800) | Tillamook (21,000) | Douglas (89,300) | This study | |
|-------------------------------------|---------------------|-----------------------|---------------------|---------------|-----------------------|
| | | | | Value used | Number of firms |
| Restaurants | 43% | 58% | 61% | 60% | 3 |
| Automotive supplies ^{b/} | 74 | 85 | 86 | 85 | 2 |
| Retail and wholesale | 79 | 79 | 78 | 80 | 4 |
| Services ^{c/} | 28 | 59 | 69 | 60 | 9 |
| Professional services ^{d/} | 34 | 32 | 33 | 33 | 2 |
| | | | | | <hr/> 20 |

^{a/} Remainder consists of labor costs, depreciation, and taxes. Population of counties in 1979 shown in parentheses.

^{b/} Includes one auto parts dealer and one mail order distributor of specialized tools.

^{c/} Includes a jewelry maker, furniture maker, and a leather maker. Although these would seem to involve manufacturing (which averages 75 percent non-labor inputs for these counties), these particular activities are probably more labor-intensive than most manufacturing.

^{d/} Includes two dental labs.

Data Sources: Carroll, Thomas M. and Herbert H. Stoevener. A 1977 Input-Output Model for Clatsop County, Oregon. Special Report 525. Corvallis: Oregon Agricultural Experiment Station, December 1978.

Ives, Edward and Russell Youmans. Business Interrelationships of the Tillamook County Economy: A Study for Analysis of Economic Change. Circular of Information 672. Corvallis: Oregon Agricultural Experiment Station, October 1978.

Youmans, Russell, David Darr, Roger Fight, and Dennis Schweitzer. Douglas County, Oregon: Structure of a Timber County Economy. Circular of Information 645. Corvallis: Oregon Agricultural Experiment Station, December 1973.

Table 6. Types of firms and distribution of labor inputs by type of firm ^{a/}

| Type of firm | Number of firms | (%) | Number of hours/week | (%) |
|---------------------------|-----------------------|--------|----------------------------|----------|
| Net exporter | 3 | (15%) | 546 | (23.8%) |
| Imports \approx exports | 8 | (40%) | 708 | (30.9%) |
| Net importer | 9 | (45%) | 1,040 | (45.3%) |
| | 20 | (100%) | 2,294 | (100.0%) |

^{a/} For firms which are net exporters, man-hour equivalents exported are greater than their imports of goods and services from outside the county.

percent of the sampled firms, they account for about one-fourth of the total man-hours since they tend to employ more paid workers than the average firm. All three firms combined fabrication with wholesaling and/or retailing, and exported 80 percent or more of their product. Also, all three relied heavily on the value added to local inputs by the skill or craftsmanship of the owner. These firms were not large in absolute terms, averaging about only 4.5 full-time workers including the owner and spouse, but they clearly created a net addition to the local export base by exporting more than they imported.

Nine of the 20 firms were clearly net importers; these accounted for about half the total man-hours in the sample. Predominantly, these were retail or service firms which sold in local markets and imported a large percentage of their non-labor inputs. The remaining eight firms, with about 30 percent of total man-hours, basically had a neutral effect on the local economy because they exported little and imported little; that is, they competed with existing businesses on the supply side but bought their inputs from local suppliers.

SUMMARY AND CONCLUSIONS

The purpose of this report has been to explore various dimensions of self-employment by recent in-migrants to Jackson County, Oregon. There is, on one hand, an increasing demand for the opportunity to live in environmentally attractive states such as Oregon. The total supply of such opportunities, on the other hand, is largely limited by the export base of these communities, most of them dependent on timber, agriculture, and tourism. From the viewpoint of an individual, of course, a local niche can be found if he/she is more qualified for a certain job than a local worker. From a collective or community viewpoint, however, expansion in the export base must occur if in-migrants are to be absorbed without displacing local workers.

The central idea in the research was that self-employment by in-migrants may be an alternative to competing for local jobs and also may be a means to expand the net export base of the community. Interviews with 20 random-selected recent in-migrant entrepreneurs provided data for analysis; these included eight retail firms, six service firms, and six firms which combined manufacturing with wholesale and/or retail outlets. A summary of the key findings follows:

1. About 122 new firms in Jackson County were bought or established by recent in-migrants during fiscal year 1979; this made up about one-sixth of all new businesses in the county.
2. The new owners were generally young, well-educated, and had moved from urban areas in California.
3. Occupational and geographic preferences were highly inter-related. Nearly all the new owners had strong desires to live in Oregon and to be self-employed; only 15 percent became self-employed when they couldn't find a local job.
4. Total capital investments ranged from under \$10,000 for service and manufacturing firms to an average of about \$60,000 for retail firms. Personal sources accounted for 58.1 percent of the total capital; loans made up the rest. Among personal sources, savings and equities from previous homes were most important. Loans came from a variety of sources; government assistance or financing rarely was considered as an option by the owners.
5. The new firms had modest manpower needs; half relied solely on owner and family labor. The other half averaged an equivalent of about four full-time workers, including owner and family labor.

6. Nearly all the new firms competed with existing firms for existing sales volume; this is particularly true of retail and service firms. Three of the firms (15 percent) do, however, augment the net export base of the community rather than just competing within that base. All three relied on the craftsmanship of the owner in fabricating and distributing a product to markets outside the local community.
7. Those firms which were net exporters accounted for about one-fourth of the labor requirements of the sample. This means that net exporters within the entire population of new in-migrant firms would have created about 80 to 85 full-time jobs (including owner and family) to add to the community's export base during the survey year. This type of business would have accounted for only two to three percent of the total employment growth in Jackson County during the fiscal year 1979.
8. Self-employment by in-migrants does not appear to be an alternative to competing in local labor markets; most of them simply prefer to be self-employed.
9. Self-employment by in-migrants is not a "growth industry" in the sense of expanding the local economic base. While there are types of firms which do so, more generally these new firms compete with existing firms for existing markets and for the anticipated growth of these markets. Although they may benefit local consumers by providing price and service competition, the "New Shops on Main Street" do little to expand the total number of local job opportunities.

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APPENDIX: SURVEY PROCEDURES

DEFINITION OF SELF-EMPLOYMENT

At first thought, the definition of a self-employed person would seem to be very simple: one who is in business for himself,^{11/} manages all facets of his business, does not work for a wage or salary from someone else, and is solely responsible for the product of that business activity. When using a definition of this type, one might think of an individual who paints houses as a subcontractor or who runs the corner grocery store, in other words, a relatively small business arrangement. Several definitions support this image. According to the McGraw-Hill Dictionary of Modern Economics, self-employment is "a state of being grainfully employed on one's own account." The Wage and Hour Division of the Bureau of Labor Statistics defines a self-employed person as "one who is not on salary or commission; one who does not receive a wage or income from someone else." The Internal Revenue Service, in a tax-oriented viewpoint, calls one who is self-employed "an individual who is in business for himself and is subject to the self-employment tax." Finally, the 1970 Census definition states simply that a self-employed person is one who says he is self-employed, with the exception of those individuals working in a corporation.

Operationally, the definition is not as clear; self-employment can exist in many organizational forms. If an individual is the president, treasurer, board, and chief stockholder of a corporation, can he be considered self-employed? If he is doing the same thing that he did before he incorporated his business, must he be excluded from the definition of self-employed merely

^{11/} The masculine gender is used in this Appendix for convenience only; several of the new entrepreneurs were women.

by the fact of incorporation? Must the owner of a franchise also be excluded, even though he put up money to begin operations and personally oversees the activity?

Obviously the form of business organization is not the most important criterion for deciding whether an individual is self-employed. What is important is that (1) he not be receiving a wage or salary from someone else for his work, (2) he have the major voice in making decisions about the business, (3) his contribution to the capital of the business be greater than any other individual (or, in the case of a partnership, that the partner's combined contribution be greater), and following the Census definition, (4) the individual expresses the opinion that he is self-employed. These four points were used to construct a flexible definition of "self-employed." No forms of business organization were automatically excluded.

DEFINITION OF THE SAMPLING FRAME AND ESTIMATION OF THE NUMBER OF NEW BUSINESSES

The geographical area of concern was established as the Bear Creek Valley of Jackson County, Oregon, not so much to conform to political boundaries but to be inclusive of the major area of economic activity in Jackson County. This valley, roughly Gold Hill to Ashland, accounts for nearly 83 percent of the total population of Jackson County.

The six major towns of the valley (Medford, Ashland, Central Point, Talent, Phoenix, and Jacksonville) require that businesses be licensed to conduct their activities within city limits. All businesses must register, regardless of the amount of time actually devoted to the operation. Home operations are registered as such. A standard fee is initially assessed, then modified according to how much time is devoted to the business and the number of employees.

The sampling frame was defined as all businesses formed during the period July 1, 1978, to June 30, 1979, where those businesses could take any organizational form consistent with the above definition of self-employment. "Older" businesses or those not having a local owner were screened out upon examination of the business license records.

The manner in which business license records were kept varied considerable from city to city. The largest city, Medford, had a computer printout of licenses issued during FY 79, with 54 licenses per page. To estimate the total number of new business formations, the number of new licenses per page was counted at random intervals throughout the printout. An average of 11 new licenses per page was computed; with 58 pages of printout, this meant that about 638 new businesses were issued licenses during the period from July 1, 1978, to June 30, 1979.

The cities other than Medford kept their records of business licenses on index cards or in other manual files. Procedures similar to those for Medford were followed in estimating the total number of new businesses. In Ashland, for example, the file of index cards for all licenses was 15 inches long; counting at random intervals revealed an average of 12 new businesses per inch of index cards. In this manner, an estimate of 180 new businesses was made.

PRIMARY SAMPLE

Businesses listed on the sample frame were identified by owner's name, business address, and business telephone. The records did not indicate, however, whether the owner was a recent in-migrant from out of state. Therefore, it was necessary to randomly draw a fairly large primary sample to identify a secondary sample of recent in-migrants.

Because knowledge of the ratio of new business formations by in-migrants to new business formations by others was lacking, a proportion of one to five was assumed. For every business formed in FY 79 by a recent inter-state migrant, we expected that five were formed by individuals previously residing in the county. Because a final sample size of 25 to 30 was desired, a primary sample of 178 new businesses was drawn.

The geographic location of new businesses was not known in advance; thus, it was assumed that they would be located in proportion to the population of the six cities. Medford, with approximately 60 percent of the total population, was allocated 60 percent of the primary sample, or 107 names. These names were randomly selected from the computer printout of business licenses. Similar procedures were followed for the other five cities.

SECONDARY SAMPLE (TELEPHONE SCREENING)

Telephone screening of the sample of 178 new businesses was then conducted to identify recent in-migrants. Three questions were asked: (1) Are you self-employed? (2) Are you a long-time resident of Jackson County, or did you move here within the last two years? (If the answer was "within the last two years," the question "When did you move to Jackson County?" was asked.) (3) Where did you move from? If the business was not screened out at this point, the owner was asked if the business was his major source of income. If it was, the nature of the study was explained and a one-hour interview was arranged.

This procedure yielded 24 recent inter-state migrants who were self-employed. These 24 firms constituted 13.5 percent of the primary sample of 178 firms; applying this 13.5 percent to the total of new business formations (906) results in an estimate of about 122 new businesses in FY 79 by recent in-migrants from out of state.

STATISTICAL ADDENDUM

Medford:

11 licenses per page issued in FY 79 (average)

58 total pages (54 names per page)

Total new business formation FY 79 (58)(11) = 638

Ashland:

12 new index card entries per horizontal inch of cards (average)

15 total horizontal inches of index cards

Total new business formations FY 79 (12)(15) = 180

Central Point:

8 new index card entries per horizontal inch of index cards (average)

3.5 total horizontal inches of index cards

Total new business formations FY 79 (8)(3.5) = 28

Phoenix:

Total new business formation FY 79 = 20

(This was by actual count, not sample estimation)

Talent:

Total new business formations FY 79 = 20 (actual count)

Jacksonville:

Estimated number of new business formations FY 79 = 20
