Small Business Creation and Economic Well-being of Nonmetropolitan Counties: The Case of Georgia

Summary

Are rural economies better off developing small, locally-owned businesses or attracting externally-owned firms? While most communities realize that they should not take a strictly “either/or” approach, the debate still rages. At stake: how best to allocate scarce resources in order to maximize community benefits. A recent study by University of Georgia researcher Rebecca Winders examines the effects the two strategies have on the economic performance of rural counties in Georgia. Winders’ conclusions:

- Small business development significantly increased employment and the property tax base, while recruitment did not. This finding is consistent with the fact that small independent firms are more likely to buy local inputs and keep the profits in the community, thus creating multiple “indirect effects.” The lack of such positive impacts due to recruited firms suggests that they are displacing existing firms.

- Both types of firms increased sales within the counties. In fact, sales growth was the only positive effect of recruited firms on the variables tested and the effect was smaller than that of small start-ups. That recruited firms increase sales without adding significantly to employment or property values suggests that these businesses are more efficient and perhaps better able to serve local consumers than the firms they replace.

- Wage levels and employment stability were not affected significantly by either type of firm and may be determined more by the counties’ demographic characteristics and job opportunities in neighboring counties.

In summary, the report finds reason to support rural development policies that encourage entrepreneurship and small business development and to exercise caution when offering incentives to affiliates of externally-owned companies.