Measuring the Impact of Agriculture and Community Development Policies on Selected counties in Mississippi

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Abstract

Economic developers and government officials must understand the importance of agriculture and incorporate it into a comprehensive economic development plan for rural areas. Agriculture adds ambience to the local area making it attractive for farm-related tourism development.

JEL classification:

Keywords: Economic developers; economic policies; employment; output; value added income; tax revenues, 21 counties.
Introduction

While some view "rural and agriculture as the same, many wonder is there a better way
to meet rural America’s challenges than farm policy. Even after 70 plus years of federal effort to
address the imbalance, rural America remains significantly less prosperous than urban America,
causing some to rethink strategies to stem its decline (Barton, 2006). As a result, economic
developers, local government officials, and policy experts are raising questions about farm policy
and the need for a set of rural development policies (Gundersen, Morehart, et al, 2005).

As production agriculture continues to change and become smaller with fewer but larger
farms, many rural communities, in which some of these farms exist, will decline as farms
continue to consolidate. This will further stress local businesses and governments in
employment, output, and incomes. Rural, isolated communities will likely continue to decline,
losing tax dollars and population to competing towns.

Many policy makers fail to make the connection between agriculture and its role in the
local economy until retail and service sales start to decline. This is especially true in farm-
dependent counties. A check of local tax collections may reveal the importance of sales and
employment by farm implement dealers, agricultural cooperatives, farm loans, farm vehicle
purchases, and other farm expenses to the overall economy in the area.

Agriculture adds ambience to the local area making it attractive for farm-related tourism
development. Every year, more urbanites and suburbanites flock to the rural countryside to
experience the farm life and even retire. Thus, investing in agriculture may contribute to retail,
service, and other tourism development in the area.
This is the second paper that is part of a five-states (Figure 1) regional National Research Initiative (NRI) designed to tease out some of the agriculture and community development linkages in employment, output, value added income, and taxes in 21 selected counties in Mississippi.

Description of Study Region

The study region comprised 21 counties (Figure 1) with varying levels of agricultural and economic development in Mississippi. The following discussions highlight the agricultural, economic, and demographic landscapes of the region (Table 1).

According to the U.S. Census, the population of the region totaled 641,329 people in 2000. This was 22.37 percent of the state’s total population of almost 2.9 million people during this period. The average population among counties in the region was 30,540 during this time.

The total number of households equaled 272,165 families. The average household size was 2.36 in the region. Employment in the region was good and suggested that every household who wanted to work could work during this period. For example, total employment in the region was 288,877 jobs or about 20 percent of the state’s total employment.

The region’s 288,877 jobs created almost $13.8 billion in total personal income during this period. This was 21.35 percent of the state’s total personal income of more than $64.6 billion. The average household income in the region was $50,348, $3,746 less than the statewide average of $54,094 during this period.

The region contained almost 8.2 million acres or 12,809 square miles of land in the 21 counties. This was 27.3 percent of all land in the state. Of this, almost 1.9 million acres were in farmlands in the region. This was 16.71 percent of all farmland in Mississippi.
In 2002, the region had 12,070 farms with the average size being 154 acres. The total value of agricultural production was $1.02 billion for an average per farm of $85,576. To produce this output, about 14 percent of these farms relied on more than $5.6 million in government assistance for an average per farm of $270,009.

Four classifications comprised the land in the region. About 32.10 percent of the region’s farmland was in cropland, 43.85 percent woodland, 17.36 percent pasture, and 6.67 percent classified as other uses during the study. These compared with 52.47, 29.41, 12.65, and 5.47 percent respectively for cropland, woodland, pasture, and other uses in the state (Census of Agriculture, 2002).

Purpose

The purpose of this and the first paper was twofold. First, to evaluate the impact of selected agricultural and economic development policies designed to support farming, attract new industry, or expand existing industry in the region. The, second objective was to describe how agriculture and community development policies may impact other sectors in the local community.

Methods and Procedures

The analysis was conducted using the IMPLAN Input-Output Model and information from the IMPLAN data set for Mississippi counties in 2002. Results from the input-output model showed the potential direct, indirect, and induced effects on a 21-county region in Mississippi.

To model the impacts, the paper chose four agricultural and rural economic development policies to examine the effects of $5.7 million in farm assistance in the 21-county region. They include: 1) complete elimination of agricultural subsidies in the region and redirecting subsidies
to support, 2) service development, 3) manufacturing development, and 4) enhancing access to capital.

Each scenario assumed most of the development impacts would remain in the region. These impacts include: output, employment, value added income, and taxes. The model assumed that most goods and services existed in the region (Myles and Allen, 2005).

**Policy Criteria and Evaluation**

Local officials typically choose development policies that they believe will create the largest direct and secondary benefits in the area. These benefits include employment; value added income, sales, and taxes.

However, agriculture and economic development policy makers should look beyond the obvious benefits and focus on the quality of jobs produced. Not all industries and jobs are the same. Some industries may create more jobs but pay lower wages; others may create fewer jobs but pay significantly higher wages. A broader strategy should also examine the average earnings per worker in formulating economic development policy. The results in this paper clearly show the importance of this and other concepts.

It is also important that local officials evaluate each economic development option before committing public funds to a particular policy. Rural communities cannot afford the inefficient use of financial resources or poor policies, especially when state and federal resources are shrinking and becoming more competitive every day (Myles and Allen, 2005).

**Policy Description**

The study analyzed the impact of using farm assistance to support other economic development strategies in the 21-county region of Mississippi. A description of each policy follows.
Policy 1 focused on eliminating $5.7 million in farm subsidies in the 21 counties and using those funds to support new development strategies. Groups such as the Rural Policy Research Institute and the Center for Rural Affairs contend at least some of the $15 billion to $20 billion the federal government spends annually on crop subsidies be reallocated to other parts of the U.S. rural economy, especially to “micro-businesses,” firms of five or fewer employees. Other argue the future of the rural economies is not farming driven by subsidies. Still others say sooner or later world trade disputes, where subsidies are taking center stage, will force a reduction in the federal payments to American farmers (Barton, 2006). To adequately evaluate the importance of these subsidies to agriculture and other industries, the authors redirected farm subsidies to other industries in the region and analyzed the results.

Specifically, policy 2 used the farm subsidies to attract a major service-sector industry to the region. The industry was “business support services”, a growing area that has steadily outgrown agriculture and a key to survival and growth in rural areas.

Policy 4 addressed a common problem many entrepreneurs face in rural areas, which is access to capital. Limited sources of capital cause problems in creating jobs in rural areas, unlike agriculture that has a long history of subsidies to support the industry.

A new business in urban American may obtain capital from the local bank, the regional bank, the national bank, the finance company, or the venture capital firm if necessary. Rural entrepreneurs, on the other hand generally have only one source of capital: the community bank. Ironically, even local farmers have more capital choices: the farm credit System, insurance companies, the farm Service Agency, and some foreign banks (Drabenstott, 2006).
The study made the $5.9 million investment independently for each policy options. This allowed us to show the results of each policy as they occurred by first impacting the initial sector and then impacting related sectors in the regional economy.

Finally, since manufacturing and services, rather than farming, now characterize the economies of rural America and provide the most growth in income, Policy 3 focused on stimulating manufacturing jobs by attracting a computer electronics plant to the region (Gale, 2006).

Results

This section of the paper presents the results of the analysis. The first part of this section presents the base model. The second section of this analysis compares the base model with the selected policies for the analysis “or something similar to this as an introduction type statement.”

Base Model

Before estimating the impacts of the four different policy options, a model was run to derive the current direct, indirect, and induced effects in the regional economy. The impacts were categorized as: total output, employment, and value added income, taxes, and. The base model (BM) impacts and the four policy scenarios are contained in the Appendix section of the paper. The base model results suggested that total output was $24.74 billion, employment was 288,877, and value added income was $12.56 billion in the region. The average earnings per worker in the base model were $43,434. These results allowed the authors to make comparison and descriptive analysis of information in the study and predict the impacts on targeted variables from the four policy changes.

Policy Scenarios
This section describes the impact of four potential policy changes on the resource base of 21 Mississippi counties (Tables 2 and 3). The impact information for each policy scenario is presented as changes in employment, output, and value added income, taxes, and earnings per worker. The following sections provide a discussion on these results.

**Policy 1: Eliminate $5.7 Million in Farm Subsidies**

The results show the overall impacts on the regional economy of eliminating a $5.7 million in farm subsidies were significant. The results suggested that output would decline more than $3 million, employment 72, value added income more than $1.3 million, and taxes $603,286. Not all the tax revenues would stay in Mississippi. Of these, more than $374,104 would go the federal government, and $200,125 would go to the state. From the state’s portion, the study calculated that $56,057 would go to regional governments for an average of $2,669 per county.

However, the earnings potential of workers in agriculture was low; the average was only $16,678. This was not surprising since agriculture is a labor-intensive industry that pays low wages to its workers-many of whom are increasingly becoming migrant and seasonal workers. This further suggested that many of the workers in agriculture supplemented their earnings with non-farm employment. One caution from this policy scenario is that any investments in agriculture would be seasonal and benefit more migrant workers as oppose to workers who live in the region.

While changes in the agriculture sector would generate only small changes in the state’s overall economy, policies that increase support to this industry would have a major impact on the economy in the 21-county region of Mississippi. Specific sectors that were positively impacted
by this policy included: agriculture, real estate, wholesale trade, petroleum refineries, wholesale trade, oil and gas extraction, power generation and supply, warehousing and storage, monetary authorities and depository credit, other state and local government enterprises.

Employment, income, output, and taxes would rise over their base model levels if this policy were implemented.

**Policy 2: Redirect $5.7 Million in Farm Subsidies to the Service Sector**

The impact of redirecting $5.7 million in subsidies received by farmers in the region to the service sector was also significant. The results suggested that output from this policy would increase by almost $2.7 million, employment 224, value added income almost $3.4 million, and taxes $1.5 million. However, not all the tax revenues would stay in Mississippi. Of these, more than $779,166 would go the federal government, and $292,755 would go to the state of Mississippi. The study estimated that $80,288 would go to regional governments for an average of $3,823 per county.

Unlike the farm subsidy scenario, the earnings per worker in the service sector were substantially lower. The average worker in this industry earned $12,620 compared with $16,768 for agriculture. A study of the region’s economy revealed that retail, tourism, and services are major industries in the area. In several counties, these industries are the primary source of income.

Several important observations from these two policies can be noted in the analysis. First, while agriculture created only one third the number of jobs (many seasonal in nature) than services, the average earnings per worker in agriculture was significantly higher. Second, more of the jobs created in the services sector would likely go to local citizens in the region versus seasonal farm workers who come from outside the region. Third, tax revenues from investing in
services would rise by more than $522,000. The region’s taxes of $80,288 were $24,231 higher than those derived under the agricultural policy scenario, an increase of roughly $1,154 per county from.

Specific sectors that were positively impacted by the service sector policy included: business support services, owner-occupied dwellings, food services and drinking places, real estate, maintenance and repair of nonresidential buildings, power generation and supply, offices of physicians, petroleum refineries, telecommunications, monetary authorities and depository credit, wholesale trade, and other key sectors in the region.

In the grand scheme, changes in the service industry would generate only small changes in the state’s total economy. Economic development policies that stimulate regional services, however, would have a major impact on the regional economy in employment; value added income, output, and taxes.

**Policy 3: Improve Access to Capital by Providing $5.7 Million for Regional Development**

It is well documented that a lack of capital is one of the most important constraints confronting entrepreneurs and economic developers today. A stronger capital market may simultaneously strengthen agriculture, manufacturing, services, and other development efforts; thus, creating a vibrant economy for consumers and investors in the region.

Since capital is a major driver in the region, an investment in this sector would reverberate throughout the entire economy. While the impact of injecting $5.7 million into the region’s capital markets would create fewer sales, it would produce more tax revenues for local governments than any of the three previous development policies. The results suggested that output from this policy would only increase $943,380, employment 55, value added income more than $4.2 million, and taxes $752,645. As before, not all the tax revenues would stay in
Mississippi. Of these, more than $504,599 would go to the federal government and $193,353 would go to the state of Mississippi. The study calculated from the state’s portion that $54,693 would go to local governments in the region for an average of $2,604 per county. The rather anemic increase in tax revenues was not surprising, since improving access to capital is not a taxable service.

The earnings per worker in the capital scenario were respectively $16,930 and $21,078 per worker higher than earnings for service and farm workers in the region. This suggests that in comparison to the services scenario, output would decline almost 250 percent, employment would decline 62.86 percent, value added income would decline 57.11 percent, and tax revenues would decline 34.68 percent. Sectors that were greatly impacted by this policy included: monetary authorities and depository creditors, non-depository credit intermediaries, real estate, accounting and banking services, securities, commodity contracts, investments, and food services and drinking places, legal services, and others.

Overall, changes in the capita market would generate only small changes in the total economy of the state. However, a policy that stimulated regional access to capital would have some impact on the 21 counties in employment, income, output, and taxes.

**Policy 4: Invest $5.7 Million to Recruit a Manufacturing Plant**

This policy represented a return to a familiar strategy that most counties and states used to promote economic development, which was “smokestack” chasing. During that time, every economic developer believed that he could land a major 500-employee plant, paying high wages with good benefits for their community. For a while, this was true but not anymore. Although manufacturing still pays good wages and benefits, the jobs are far and in between. Many have left the country for China, Mexico, Taiwan, and other low-wage countries.
What is unique about manufacturing is that it usually leads to increases in spending and tax revenues in the region because of higher than average earnings per worker. This is not always the case with retail trade, services, tourism, or some other sector in the economy. Thus, an investment in manufacturing may eventually mean an investment in the entire economy of the region.

The impact of investing $5.7 million in recruiting an electronic computer manufacturing plant would create more than $1.3 million in output. This was less than the two previous strategies, which was not surprising given the firm’s product is not frequently purchased by consumers. Further, results suggested that only 30 jobs and about $1.5 million in value added income would be created with this policy. Since this is not an item that consumers would routinely purchase, it would not generate significant tax revenues for local governments in the region. The analysis suggested the policy of industrial recruitment would only generate about $420,918 in tax revenues in the area. Again, this was not surprising because local governments typically give many tax incentives to attract major manufacturing firms to their area. It is also not uncommon for these officials to waive tax levies for ten to 15 years to lure a major plant to the area.

Of the $420,918, $271,166 would go to the federal government, and $117,735 would go to the state of Mississippi. From the state’s portion, the study calculated that only $32,017 would go to regional governments for an average of $1,525 per county.

Sectors that were positively impacted by this policy included: electronic computer manufacturing, wholesale trade, owner-occupied dwellings, software publishers, management of companies and enterprises, food services and drinking places, monetary authorities and
depositories, offices of physicians, real estate, other electronic component manufacturing, custom computer programming services, and several other sectors.

The earnings per worker in this scenario were highest, averaging $46,667. This was $12,969 higher than the next highest earnings scenario, which was improving access to capital. Other benefits to having manufacturing jobs, especially high-tech are the gains in personal property taxes, more retail spending on durable goods, and the general rise in wealth associated with skilled people in the community. Also, manufacturing and high-tech jobs are not as footloose to leave the community versus low-wage jobs requiring minimum skills to perform.

Another intangible associated with this policy is the spin-off benefits of having successfully located a major manufacturing firm in the community. Economic development experts are quick to point out that it is much easier to attract future manufacturing plants if there is a similar firm in the community. Today, the “watchwords” are building a critical mass of technical expertise in the area and your economy may avoid losing jobs to foreign competition.

Statewide, the policy of supporting regional manufacturing would have only small changes in the total economy. However, a policy that stimulates regional manufacturing would have a modest impact on employment, income, output, and taxes in the 21 Mississippi counties. While fewer, the earnings per worker would be substantially higher from this policy, exceeding the statewide earnings per worker by $3,188.

Summary

As production agriculture continues to become smaller but larger, rural communities, in which some of the farms exist, will decline. Many policy makers do not understand the linkages between agriculture and its role in the local economy until retail and service sales start to decline.
Local developers and officials must understand the importance of farming to the local economy and incorporate it into a comprehensive economic development plan for the area. Agriculture adds ambience to the local area making it attractive for farm-related tourism development. Thus, investing in agriculture may contribute to retail, services, and other tourism development efforts in the area.

The study used Input-Output analysis to compare the benefits associated with different policies and other changes in a local economy. The IMPLAN model suggested that implementing any of the four policies would have a range of direct, indirect, and induced effects in the region.

Specific findings drawn from the study are as follows:

- Employment varied from a net reduction of 42 jobs in the manufacturing scenario to a net gain of 152 jobs in the service sector scenario.
- Output from farming declined a net average of $1.4 million under the other three scenarios, the largest decline being $2.11 million in the access to capital scenario.
- Valued added income varied from a net reduction of $1.9 million in manufacturing to a net increase of $803,130 in the access to capital scenario.
- Tax revenues varied from a net reduction of $209,368 in the manufacturing scenario to a net gain of $521,923 in the service sector scenario.
- Revenues from agriculture exceeded those from the other policy options by an average of $1.4 million. In terms of the service scenario, agricultural revenues only exceeded this sector’s revenue by $350,712. However, services significantly exceeded agriculture in employment, taxes, and value added income because this is a major industry in the region.
The results show there was considerable variation in earnings per worker among the four policy scenarios in the region. Thus, each policy or “economic shock” will impact the economy differently and suggests to decision makers different courses of action. Overall, the economic impact of a development policy would largely depend on the investments and tax abatements given to attract a firm to the region. Any employment by a new firm will boost total employment by creating more jobs in the regional economy. Salaries and wages paid by new workers would produce secondary spending, income, and employment for area residents. In the short-run, economic conditions should improve in local the community.
References


Table 1. Selected Agricultural Data for 21 Counties in Mississippi

<table>
<thead>
<tr>
<th>Number of Farms</th>
<th>Land In Farms</th>
<th>Average Farm Size</th>
<th>Value of Agriculture Production</th>
<th>Average Value of Agriculture Production Per Farm</th>
<th>Government Payments by Selected Farms</th>
<th>Average Amount of Government Payments Received by Selected Farms</th>
<th>Land In Farm by Type</th>
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**Summary Statistics**

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<th>Number of Farms</th>
<th>Land In Farms</th>
<th>Average Farm Size</th>
<th>Value of Agriculture Production</th>
<th>Average Value of Agriculture Production Per Farm</th>
<th>Government Payments by Selected Farms</th>
<th>Average Amount of Government Payments Received by Selected Farms</th>
<th>Land In Farm by Type</th>
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Source: Census of Agriculture for Mississippi in 2002
Table 2. Indirect and Induced Impacts Associated With Selected Agricultural and Rural Economic Development Policies in 21-County Region.

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<th>Impact Variable</th>
<th>Base Model</th>
<th>Policy Scenario</th>
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<td>Regional</td>
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<td></td>
</tr>
</tbody>
</table>

Table 3. Major Sources of Revenue for Selected Agricultural and Rural Economic Development Policies in 21-County Region.

<table>
<thead>
<tr>
<th>Major Revenue Source</th>
<th>Policy Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Farm Assistance ($)</td>
</tr>
<tr>
<td>Corporate Profits Tax</td>
<td>$4,435</td>
</tr>
<tr>
<td>Dividends</td>
<td>17,107</td>
</tr>
<tr>
<td>Indirect Business Tax: Other Taxes</td>
<td>1,284</td>
</tr>
<tr>
<td>Indirect Business Tax: Property</td>
<td>7,977</td>
</tr>
<tr>
<td>Indirect Business Tax: Sales</td>
<td>17,796</td>
</tr>
<tr>
<td>Personal Tax: Income</td>
<td>3,565</td>
</tr>
<tr>
<td>Social Security Tax: Employer Contribution</td>
<td>2,584</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td><strong>$47,729</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$56,057</strong></td>
</tr>
</tbody>
</table>
Figure 1. Study Region for Mississippi Counties in Three States NRI Project