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**ECONOMIC DEVELOPMENT IN SOUTH CAROLINA:
AN OVERVIEW OF RECENT TRENDS AND
FUTURE PROSPECTS**

by

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I. Introduction

From 1990-1999, the United States economy experienced a period of sustained growth in employment and earnings. Workers in South Carolina benefitted from this ~~Arising tide~~ of economic activity, with jobs and wages growing at approximately the same rate as the nation during the 1990s. During this period, employment in South Carolina increased by approximately 345,000 jobs (17.9 percent) and average nominal wages per worker increased from \$19,406 to \$26,520 (36.7 percent). For the nation as a whole, employment increased by 17.5 percent, and average wages per job rose by 40.2 percent over the same period.

But aggregate employment and earnings trends disguise much variability that exists within South Carolina among industries and counties. In general, employment growth in the state was more rapid in metropolitan counties than in nonmetropolitan areas. And job generation was significantly greater in the service-producing sectors of the economy industries than in goods-producing sectors. These differences among industries and counties within the state mean that workers in select industries and residents of specific locations were better positioned to take advantage of and benefit from recent economic growth.

This paper summarizes recent employment and earnings trends in South Carolina and reviews changes in the competitive environment that may impact future employment opportunities and earnings for the state's workers. The new competitive environment is characterized by greater global competition, a continuing shift from goods-producing to service-producing industries, new production organizations and technologies, and industrial restructuring. The implications of these structural changes for the state's businesses and workers are discussed, and public policy initiatives to prepare for these changes are suggested.

II. Employment Trends by Industry and Location

Major Industry Divisions. South Carolina employment change by industry from 1990 to 1999 parallels that of the nation (Table 1). Employment in farming, mining, manufacturing, federal civilian government, and the military declined in South Carolina as elsewhere in the United States. South Carolina employment losses, in percentage terms, exceeded the rates of employment loss for the nation as a whole for the above five industry divisions. The most significant net job losses occurred in the manufacturing (-37,754), the military (-26,864), and federal civilian employment sectors (-11,382).

Table 1. Employment Change by Major Industry Division, South Carolina, 1990-1999

Industry Division	1990 Employment	1999 Employment	Employment Change, South Carolina	Percentage Change, South Carolina	Percentage Change, United States
Farm	36,846	33,090	-3,756	-10.2%	.6%
Agr. Services	15,831	25,384	9,553	60.3	41.0
Mining	2,639	2,555	-84	-3.2	-25.1
Construction	133,808	154,408	20,600	15.4	27.4
Manufacturing	389,514	351,760	-37,754	-9.7	-2.3
Trans. & P.U.	73,858	102,034	28,176	38.1	21.4
Wholesale Trade	66,371	85,824	19,453	29.3	11.3
Retail Trade	332,240	413,824	81,584	24.6	17.4
F.I. & R. E.	109,145	144,113	34,968	32.0	21.2
Services	405,071	587,060	181,989	44.9	33.5
Fed., Civilian	40,065	28,683	-11,382	-28.4	-13.9
Military	84,762	57,898	-26,864	-31.7	-23.7
State & Local Govt.	236,225	285,429	49,204	20.8	14.1
Total	1,926,375	2,272,062	345,687	17.9%	17.5%

Source: BEA, U.S. Department of Commerce.

The largest net employment gains for South Carolina were in services (181,989), retail trade (81,584), state and local government (49,204), and finance, insurance, and real estate (34,968). South Carolina employment growth rates in these four industry divisions exceeded the sectors' growth rates reported for the nation. In addition, among industry divisions with growing employment, all sectors except construction experienced more rapid employment growth rates for South Carolina than for the United States as a whole.

New jobs in the service-producing sectors (services; trade; government; transportation and public utilities; and finance, insurance, and real estate) produced most of the net employment growth in South Carolina from 1990 to 1999. Services (narrowly defined) and retail trade alone provided 263,573, or 76 percent of the 345,687 net new jobs in the state. On the other hand, the goods-producing sectors (agriculture, forestry, fishing, mining, construction, and manufacturing) saw employment decline by 11,441 jobs from 1990 to 1999. The dominance of the service-producing industries in job creation in South Carolina is a continuation of the long-term structural change from the agricultural and manufacturing sectors to service and trade activities. As a result of this structural change, the South Carolina economy more closely resembles the national economy in terms of shares of jobs attributable to different industry sectors.

Trends Across South Carolina Counties. The state's aggregate employment and earnings growth disguises much variability that exists among counties, especially those in metropolitan versus nonmetropolitan areas of the state. In terms of employment growth, the state's nonmetropolitan counties have not fared as well as the metropolitan areas. For example, only 13 of the state's 46 counties had 1990 to 1999 employment growth rates that exceeded or equaled the national average of 17.5 percent (Table 2). Eight of these 17 counties are metropolitan areas and three are coastal counties. Alternatively, among the 20 counties with the slowest employment rates, 18 of these counties are classified as nonmetropolitan areas.

An alternative perspective of recent economic growth in South Carolina is provided by changes in average wages per job (Table 3). Sixteen of the state's 46 counties exhibited 1990 to 1999 growth in average wages at a rate exceeding the national average of 39.6 percent, and 13 of these counties are nonmetro counties. The relatively high growth rates in wages in nonmetro counties is partly the result of the low beginning year (1990) wage rates in those counties. However, the above findings still indicate a slight closing of the metro-nonmetro wage differential in the state. In 1990, average wages in nonmetro counties were 88.4 percent of those in metro areas (\$17,669 vs. \$19,986), and by 1999, average nonmetro wages were only 90.3 percent of the average wages paid in metro areas of the state (\$24,525 vs. \$27,149).

Improvements in the economic environments of nonmetro areas relative to the state's metro counties are less obvious in terms of other economic indicators such as unemployment, income, and poverty. Nineteen of the state's counties reported 1998

Table 2. Percentage Change in Wage and Salary Employment, S.C. Counties, 1990 to 1999

<u>County</u>	<u>1990</u>	<u>1999</u>	<u>% Change</u>		
Horry¹	75,063	108,877	45.0%		
Lexington	63,122	88,912	40.9		
Beaufort	49,669	68,770	38.5		
Edgefield	5,332	7,188	34.8		
Berkeley	27,850	35,310	26.8		
Dorchester	22,776	28,830	26.6		
York	53,383	67,283	26.0		
Jasper	4,114	5,081	23.5		
Greenville	205,601	252,509	22.8		
Barnwell	7,935	9,731	22.6		
Georgetown	19,096	22,796	19.4		
Anderson	58,677	68,938	17.5		
Saluda	4,418	5,189	17.5	US	17.5
Hampton	6,132	7,186	17.2		
Florence	60,314	70,265	16.5		
Cherokee	19,661	22,692	15.4		
Richland	207,391	238,906	15.2		
Newberry	12,701	14,565	14.7		
Sumter	43,576	49,918	14.6		
Calhoun	3,989	4,566	14.5		
Spartanburg	115,262	131,563	14.1		
Greenwood	31,802	36,024	13.3		
Pickens	36,385	40,909	12.4		
Dillon	10,156	11,286	11.1		
Allendale	4,127	4,571	10.8		
Bamberg	4,995	5,437	8.8		
Lancaster	19,598	21,264	8.5		
Clarendon	8,252	8,940	8.3		
Chesterfield	15,723	16,971	7.9		
Kershaw	18,244	19,667	7.8		
Abbeville	7,609	8,196	7.7		
Orangeburg	34,935	37,563	7.5		
Darlington	23,787	25,353	6.6		
Union	10,951	11,576	5.7		
Chester	12,842	13,571	5.7		
Marlboro	13,316	14,010	5.2		
Oconee	26,799	27,883	4.0		
Colleton	11,670	12,076	3.5		
Charleston	206,453	213,350	3.3		
Fairfield	8,001	8,183	2.3		
Laurens	22,218	22,242	0.1		
Marion	2,588	2,496	-3.6		
Lee	4,615	4,427	-4.1		
Aiken	65,833	62,157	-5.6		
Williamsburg	12,415	11,164	-10.1		
McCormick	10,263	9,102	-11.3		

¹ Metropolitan Counties are denoted in bold print.

Source: U.S. Department of Commerce, Economics Statistics Division, Bureau of Economic Analysis

Table 3. Percentage Change in Average Wage and Salary Disbursements, S.C. Counties, 1990 to 1999

<u>County</u>	<u>1990</u>	<u>1999</u>	<u>% Change</u>		
Barnwell	19,247	38,625	100.7%		
Edgefield¹	14,641	21,627	47.7		
Jasper	13,614	19,780	45.3		
Allendale	16,624	24,039	44.6		
Fairfield	22,360	32,279	44.4		
Beaufort	17,676	25,345	43.4		
Chester	17,316	24,781	43.1		
Newberry	15,589	22,284	42.9		
Chesterfield	17,182	24,519	42.7		
Hampton	16,556	23,624	42.7		
Spartanburg	20,353	28,893	42.0		
Williamsburg	14,964	21,141	41.3		
Saluda	13,687	19,295	41.0		
Orangeburg	16,639	23,312	40.1		
Florence	18,638	26,045	39.7		
Bamberg	14,532	20,297	39.7	US	39.6
Lancaster	18,158	25,326	39.5		
Horry	15,575	21,704	39.4		
Marion	15,355	21,300	38.7		
Greenwood	18,814	26,082	38.6		
Dorchester	17,038	23,608	38.6		
Berkeley	19,541	27,059	38.5		
Cherokee	18,544	25,557	37.8		
Anderson	18,091	24,909	37.7		
Richland	20,472	28,176	37.6		
Colleton	15,733	21,632	37.5		
McCormick	16,736	23,007	37.5		
York	20,101	27,631	37.5		
Clarendon	13,730	18,873	37.5		
Greenville	21,777	29,904	37.3		
Laurens	17,449	23,923	37.1		
Marlboro	15,299	20,946	36.9		
Lexington	19,267	26,298	36.5		
Darlington	20,279	27,464	35.4		
Union	16,765	22,691	35.3		
Oconee	20,687	27,650	33.7		
Charleston	19,881	26,466	33.1		
Pickens	17,589	23,377	32.9		
Sumter	17,840	23,484	31.6		
Kershaw	19,668	25,064	27.4		
Aiken	25,907	32,958	27.2		
Georgetown	18,243	23,194	27.1		
Dillon	15,286	19,119	25.1		
Lee	15,918	19,693	23.7		
Abbeville	18,561	22,864	23.2		
Calhoun	23,926	27,051	13.1		

¹ Metropolitan Counties are denoted in bold print.

Source: U.S. Department of Commerce, Economics Statistics Division, Bureau of Economic Analysis

unemployment rates less than the U.S. average (Table 4). Thirteen of these 19 counties are in metropolitan areas. Alternatively, only three metro counties were among the 27 South Carolina counties with unemployment rates in excess of the national rate. In addition, eleven counties had 1998 unemployment rates equal to or exceeding 7.0 percent, and all of these counties are classified as nonmetropolitan.

South Carolina is a relatively low income state with the households with higher incomes concentrated in the state's metropolitan areas (Table 5). Only five counties had median incomes in excess of the national median (\$35,492), and four of these five are metropolitan counties. Sixteen counties had median household incomes greater than the state median of \$30,060, and eleven of these counties are in metropolitan areas. Conversely, among the 20 counties with the lowest median household incomes, nineteen of those counties are nonmetropolitan.

The poverty rates of South Carolina counties exhibit a pattern similar to that of unemployment rates and median household income (Table 6). Only ten South Carolina counties had 1997 poverty rates below the national average of 13.3 percent, and seven of these counties are in metropolitan areas. On the other hand, fourteen of the state's counties had 20 percent or more of their residents in households with incomes below the poverty level, and all of these counties are in nonmetropolitan areas.

Clearly, the nonmetro areas of the state have not benefitted from the nation's recent economic prosperity to the same extent as the state's metropolitan areas. Nonmetro counties in the state continue to be disproportionately represented among the counties with below average employment growth rates, low household incomes, and above average unemployment and poverty rates. These findings offer little indication of a significant *spillover* of economic development (jobs and income) from the state's metropolitan counties to their surrounding nonmetro areas.

III. Future Prospects for South Carolina Economic Development

The diversity of growth experiences across South Carolina indicates significant differences among counties in adaptability to the past economic environment. However, ongoing changes in the national and global economies may result in new winners and losers among the state's communities. The *new economy* is characterized by enhanced competition resulting from the globalization of markets, continued growth in service-related activities as sources of employment, the rapid adoption of new technologies and production organizations, and corporate restructuring and industry clustering. These changes are now shaping the economic environment in South Carolina communities.

Table 4. 1998 Unemployment Rate of Civilian Labor Force (%), S.C. Counties

<u>County</u>	<u>Percent</u>		
Marlboro	12.4%		
Williamsburg	11.3		
Marion	9.5		
Chester	9.0		
Lee	8.6		
McCormick	8.5		
Fairfield	8.1		
Chesterfield	7.8		
Georgetown	7.7		
Orangeburg	7.2		
Dillon	7.0		
Barnwell	6.6		
Union	6.6		
Bamberg	6.5		
Clarendon	6.5		
Darlington	6.3		
Allendale	6.0		
Hampton	5.2		
Newberry	5.2		
Greenwood	5.1		
Calhoun	5.0		
Abbeville	4.9		
Kershaw	4.7		
Lancaster	4.7		
Sumter¹	4.7		
Aiken	4.6		
Edgefield	4.5	US	4.5
Florence	4.5		
Colleton	4.4		
Saluda	4.3		
Cherokee	3.8	SC	3.8
Horry	3.7		
York	3.7		
Oconee	3.6		
Jasper	3.3		
Spartanburg	3.3		
Charleston	3.1		
Laurens	3.1		
Anderson	3.0		
Dorchester	2.9		
Pickens	2.8		
Berkeley	2.7		
Richland	2.2		
Beaufort	2.1		
Greenville	2.0		
Lexington	1.8		

¹ Metropolitan Counties are denoted in bold print.

Source: SC Employment Security Commission, South Carolina Labor Force and Industry

Table 5. 1997 Median Household Income (\$), S.C. Counties

<u>County</u>	<u>Income</u>		
Lexington¹	\$42,697		
York	39,728		
Beaufort	38,867		
Greenville	38,807		
Aiken	38,084	US	37,005
Dorchester	36,590		
Berkeley	36,249		
Richland	35,903		
Pickens	35,825		
Spartanburg	35,713		
Charleston	35,150		
Anderson	34,662		
Oconee	34,286		
Kershaw	34,077	SC	33,325
Greenwood	32,937		
Lancaster	32,656		
Cherokee	31,489		
Horry	31,312		
Abbeville	31,037		
Georgetown	30,915		
Newberry	30,637		
Florence	30,557		
Laurens	30,159		
Calhoun	29,479		
Chester	29,110		
Barnwell	29,085		
Edgefield	29,031		
Saluda	29,005		
Sumter	29,005		
Union	28,716		
Darlington	28,644		
Chesterfield	28,422		
Fairfield	27,752		
McCormick	27,056		
Orangeburg	26,554		
Colleton	25,682		
Jasper	25,154		
Hampton	25,108		
Clarendon	23,906		
Bamberg	23,858		
Dillon	23,572		
Marlboro	23,539		
Marion	23,302		
Lee	23,160		
Williamsburg	22,448		
Allendale	20,942		

^a Metropolitan Counties denoted in bold print.

Source: US Bureau of the Census, Housing & Household Economic Statistics Division, Small Area Estimates Branch

Table 6. 1997 Estimates Persons Below Poverty Level (%), S.C. Counties

<u>County</u>	<u>Percent</u>		
Allendale	35.1%		
Lee	28.3		
Williamsburg	28.3		
Clarendon	26.8		
Bamberg	26.4		
Dillon	25.7		
Jasper	25.5		
Marion	24.1		
Hampton	23.9		
Orangeburg	23.3		
Marlboro	23.2		
Colleton	22.6		
Barnwell	21.5		
Darlington	20.2		
Sumter¹	19.7		
McCormick	19.6		
Fairfield	19.5		
Florence	19.4		
Calhoun	19.2		
Chesterfield	18.8		
Edgefield	18.8		
Georgetown	18.6		
Chester	17.2		
Charleston	16.8		
Saluda	16.8	SC	14.9
Lancaster	14.8		
Richland	14.8		
Horry	14.4		
Newberry	14.4		
Laurens	14.3		
Union	14.2		
Abbeville	14.1		
Berkeley	14.1		
Cherokee	14.1		
Greenwood	13.8		
Aiken	13.7	US	13.3
Dorchester	13.1		
Beaufort	13.0		
Kershaw	12.4		
Spartanburg	11.6		
Oconee	11.1		
Pickens	11.1		
York	11.0		
Anderson	10.8		
Greenville	10.5		
Lexington	9.4		

¹ Metropolitan Counties are denoted in bold print.

Internationalization of Competition. The development of global markets for many goods and services is the result of improvements in transportation and communication technologies and reductions in artificial trade barriers through NAFTA and GATT. South Carolina producers now must compete in a global economy and meet world market standards for price, quality, service, and delivery.

The internationalization of markets for goods and services and the intensification of global competition will have both positive and negative impacts on state producers and labor markets. On the positive side, new markets are available to South Carolina firms. Producers that are competitive in these markets may benefit local labor markets in South Carolina through expanded employment opportunities and higher wages.

Research suggests that export growth will be greatest among firms whose production processes are capital intensive and/or skilled-labor intensive.¹ Thus, the liberalization of trade should benefit businesses in the machinery, transportation, electrical equipment, and instruments industries. Alternatively, relatively little impact from freer trade is expected for the food products and lumber and wood products industries. On the negative side, an expansion of international trade will render some state firms susceptible to import penetration from producers in low-wage countries. Industries reliant on unskilled labor, standardized products, and routinized production processes will be most susceptible to imports from low-wage countries.² In South Carolina, such industries include textiles and apparel.

The internalization of competition likely will have greater positive impacts on metropolitan counties than on nonmetropolitan areas. One response to economic globalization is foreign direct investment in the United States in order to provide superior access to domestic product markets or raw materials. South Carolina's metropolitan areas (especially the Greenville-Spartanburg-Anderson MSA) are popular locations for foreign business desiring a production location in the United States (e.g., Michelin, BMW, Hitachi).

The state's nonmetro areas also have benefitted from foreign-owned direct investments (e.g., Fuji in Greenwood), but to a much lesser extent than the metro areas.³ In addition, rural areas now compete with other countries for businesses reliant on low-wage, unskilled labor. Rural areas formerly could rely on product life cycle forces and the filtering down process for a steady source of potential new employers. But firms in the mature phase of their life cycle may now by-pass rural areas for foreign locations where unskilled labor is relatively abundant and cheap. Moreover, relatively rapid improvements in human capital in the rural workforce, which is closing the urban-rural labor quality differential, means that competition with urban areas for businesses requiring skilled labor may be a more promising strategy than competing with other countries for manufacturers using routinized production processes and low-wage labor.⁴

Service Sector Growth. As noted earlier, most of the recent net job growth in the nation (84 percent) resulted from expansion in the service-related industries (transportation and public utilities; trade; services; government; and finance, insurance, and real estate). This relatively rapid growth in service-related employment is attributed to a number of interrelated factors. Growth in consumer services is explained by three factors: an increase in dual-wage-

earning households, an unprecedented increase in demand for medical services, and rapid growth in spending on tourism- and retirement-related activities. Factors contributing to the growth of employment in business and producer services are: the expansion of foreign trade, increased complexity of corporate activities, proliferation of government regulations, specialization and the resulting out-sourcing of service activities, and rapid technological change in both information and goods processing. And, for many producer and consumer services, employment growth results because there are fewer opportunities to improve productivity through capital intensification of the production process. Yet recent technological innovations in the service sector suggest that this source of employment growth may be declining.

South Carolina metro and nonmetro areas lag the nation in their shares of employment in the four service-producing sectors: transportation and public utilities; wholesale and retail trade; finance, insurance, and real estate; and services (Table 7). In 1999, employment in the service-producing industries was 65.3 percent of total employment for the nation, but only 61.6 percent of the state's metro employment and 48.2 percent of the state's nonmetro employment. These four industry sectors are projected to be the most rapidly growing industries in the nation over the period 1996-2006. Thus, because the state's industry base is disproportionately represented by the relatively slow growth goods-producing sectors (manufacturing, construction, and agriculture), South Carolina and especially the state's nonmetro counties, are at a disadvantage in participating fully in national employment growth.

The expansion of jobs in the service-producing sectors relative to the goods-producing sector raises two concerns relative to the impact on South Carolina labor markets. First, will nonmetro areas in the state be attractive locations for firms in the service sector that sell outside the community (service exporters) as they traditionally have been for manufacturing establishments? Service exporters have not moved to rural areas (in search of lower-cost labor and land) to the extent that manufacturing did. If service-producing firms continue to be reluctant to move to smaller communities, then new jobs will not be available to replace those lost in manufacturing.

Rural areas will become more attractive locations for retailers and service exporters as advanced telecommunications technologies and e-commerce become more available to rural businesses and residents. The availability of advanced information technologies (the internet and related hardware and software providers) can help rural areas overcome the disadvantages of distance and remoteness. However, rural communities probably will lag years behind large urban areas in the acquisition of state-

Table 7. Employment Shares by Major Industry Division, South Carolina, Metropolitan versus Nonmetropolitan, 1999

Industry Division	Metropolitan Employment Shares (S.C.)	Nonmetropolitan Employment Shares (S.C.)	Employment Shares (U.S.)	1996-2006 Annual Growth Rate Projections (U.S.)
Construction	7.0%	6.2%	5.7%	.9%
Manufacturing	13.4	22.0	11.8	-.2
Trans. & P.U.	4.9	3.6	4.9	1.3
Wholesale & Retail Trade	22.7	19.7	21.0	1.0
Fin., Ins., and Real Estate	6.8	4.8	7.9	1.0
Services	27.2	20.1	31.5	2.9
Government	16.0	17.4	13.6	.8

Source: BEA, U.S. Department of Commerce.

of-the-art telecommunication facilities. Rural areas also may not be able to provide a labor force with the skills needed by businesses relying on information technologies or e-commerce.⁵ Moreover, innovations in telecommunications also permit the invasion of rural markets by urban retailers and service providers. Thus, it is not clear that the expanding service sector will create employment opportunities in smaller communities in South Carolina to the extent these jobs are created elsewhere.

Second, will the shift to service-related activities negatively impact the earnings potential of South Carolina residents? Anecdotal evidence of displaced factory workers flipping hamburgers suggests that employment in the service sector is often a poor substitute for manufacturing jobs. Recent research on this issue is mixed. A study at the Cleveland Federal Reserve Bank shows that a wide range of high paying jobs are available in the service sector, and, that overall, the wage gap between goods- and service-producing jobs is negligible.⁶ The study notes, however, that the goods-producing industries do offer better earnings prospects for those with a high school degree or less, a segment of the labor force that is disproportionately represented in rural communities. In addition, other research suggests that the relatively high wage, high skill producer services will concentrate in urban areas due to their orientation toward key producer markets and reliance on diverse labor skills.⁷

In sum, service sector growth appears to favor the state's metropolitan areas in terms of attracting the more rapidly growing service industries and higher wage service jobs. However, all nonmetropolitan communities will not be disadvantaged by the shift in jobs from goods-producing to service-producing industries. Employment growth in services is strong in rural areas with high quality of life, proximity to clients and/or metro areas, and attractive transportation and telecommunications infrastructure.⁸

Production Technology and Organizations. Robotics, computer-aided design (CAD), computer-aided manufacturing (CAM), computerized sorting and handling, just-in-time (JIT) inventory replacement, flexible machining cells, and flexible labor cells are examples of innovative cost-reducing technologies and production practices adopted to enhance international competitiveness. The implementation of high performance production systems will negatively impact the demand for labor if: (1) manufacturers are slow to adopt the new technologies, and as a result, become less competitive in the global economy; (2) the adoption of new technologies and organizations by producers eliminates jobs at manufacturing facilities; or (3) increased labor-skill requirements reduce manufacturers' propensities to locate in South Carolina. Research suggests that changes in production technologies and organizations may have a greater negative impact on rural labor markets than urban labor markets.⁹

First, a survey of manufacturers by the Economic Research Service, USDA found that manufacturers in the rural South are less likely to adopt high performance production systems than firms in other rural areas.¹⁰ Lower adoption rates in the rural South may result from the reluctance of manufacturers to introduce new technologies and management practices in areas with lower levels of schooling. Slow adoption rates of high performance production systems also may impede rural Southern firms' abilities to compete in the global economy.¹¹

Second, the adoption of new technologies and management practices may reduce the overall demand for labor. A survey of Midwest manufacturers of nonelectrical machinery finds that the application of flexible machining cells reduced labor needs by 65 percent while flexible labor cells contributed to a 30 percent reduction in labor requirements.¹² The adoption of flexible production systems and practices may impact staffing arrangements as well as number of employees. The use of temporary, part-time, and contract employment is widespread among firms using flexible staffing arrangements.¹³ Workers in these types of jobs have less job security, fewer workplace benefits, and a higher probability of periods of unemployment than other workers.¹⁴

Third, the new production technologies and organizations encourage an upgrading of the education and skill requirements for manufacturing jobs. Production jobs in manufacturing are declining while nonproduction employment is increasing. And among production workers, job skill requirements are increasing with the adoption of computers and TQM programs. The increase in labor skill requirements may place some South Carolina communities at a disadvantage in attracting and retaining manufacturers. The USDA survey found that the quality of local labor, the attractiveness of the area to managers and professionals, and the quality of schools are three of the top five location factors listed by Southern manufacturers as impediments to their establishments' ability to compete with other firms.¹⁵

Industrial Restructuring. The globalization of competition and innovations in production technologies and management practices encourage a restructuring of manufacturing and service activities from large-scale, multi-plant, vertically integrated operations to smaller, more specialized firms.¹⁶ This restructuring to smaller, more specialized firms is attributed to attempts by firms to focus their activities and exploit niche markets, avoid firm-wide union labor contracts through subcontracting, insulate the firm from production irregularities through subcontracting, and acquire specialized inputs and services from external sources at a lower cost than would be available if produced internally.

The restructuring of industry has encouraged (or reinforced) the Agglomerating or agglomerating of similar firms in a limited number of locations. Industry clustering benefits smaller, more specialized firms because the locations of these clusters provide numerous cost advantages to member firms. For example, industry clusters may provide a greater availability of specialized inputs and services; a larger pool of trained, specialized workers; public infrastructure and services geared to the needs of the industry; and an enhanced opportunity for inter-firm networking to share information on markets, technologies, and production.¹⁷ As a result, communities with a well-developed industry cluster will be attractive locations for the smaller, more specialized firms in the industry. That is, the current locations of industry clusters have a competitive advantage over noncluster locations in attracting new establishments.¹⁸

The restructuring of manufacturing activity may have adverse implications for smaller communities in the state. Industrial restructuring appears to reinforce the spatial division of economic activity, with the rapidly growing, skilled-labor-intensive activities favoring metropolitan locations while rural areas remain attractive to the slower growing, less skill-

intensive businesses.¹⁹ Exceptions to this trend are nonmetropolitan areas with industry clusters, abundant natural amenities, and/or a high quality of life. Rural communities with these attributes may remain competitive locations for the smaller, more specialized firms because professional, technical, and managerial personnel are more easily attracted to such locations.

Summary. The new economy presents many challenges to South Carolina communities. The implications of these challenges for labor demand in different areas will vary markedly depending on local characteristics, history, and responses. For example, greater international trade will benefit areas whose firms are capital or skilled-labor intensive but will likely negatively impact areas whose producers compete with imports from low-wage countries. The growth in service-producing industries will favorably impact communities that are able to attract and support export-oriented services and service industries employing well educated labor. And the adoption of high performance production systems and the restructuring of industry to smaller, more specialized firms are occurring in areas where skilled labor is available and the perceived quality of life is high. On the other hand, areas with a legacy of low-skill, low-wage activities will be at a competitive disadvantage in attracting or developing the more rapidly growing, higher-skilled service and manufacturing activities.

IV. Policy Implications of the New Competitive Environment

Local economic development policy responses to the new competitive environment can be divided into low road versus high road approaches. The low road strategy attempts to enhance the community's competitive advantage in recruiting traditional manufacturing firms by focusing on local production costs. The cost of doing business in a community may be reduced through tax cuts, holidays, or abatements; subsidized labor training programs; or labor, land use, and environmental regulations favorable to prospective firms. This type of industrialization strategy has been used successfully by many South Carolina communities in the past to increase their base of manufacturing firms. However, these policies are less likely to provide significant long-term economic development in the new competitive environment.

First, the low road approach focuses on traditional manufacturing -- a sector of declining importance in terms of providing jobs. Moreover, competition for manufacturing facilities now comes from cities in Mexico and Korea as well as those in Ohio and New Jersey. Matching the costs of foreign locations will be more problematic than undercutting those of Northern cities. Second, the growth sectors of the future (services, trade, small businesses, high tech manufacturing) favor locations with skilled labor, appropriate infrastructure, and high quality of life. Locations offering primarily low wages, rents, and taxes are not necessarily attractive to these sectors. Third, the low road approach may not be sustainable over the long run. Low taxes may result in a decline in the quality of public services and infrastructure over time, and lax environmental and land use regulations may reduce the local quality of life. If so, industrial development efforts in the future will be impaired.

High road development strategies, on the other hand, focus on providing a local environment conducive for nurturing business start-ups and attracting firms in the high growth

sectors of the future. The **Ahigh road@**approach emphasizes policies and programs to provide a long term profit maximizing location for new, expanding, and relocating businesses instead of a short term cost minimizing location for manufacturing recruits. The profit maximizing location is characterized by the high quality of life necessary to attract professionals and entrepreneurs; the educated and skilled labor force desired by high tech and flexible production activities; the public services and infrastructure required for the rapid transfer of goods and information, and the public leadership and institutions that enable communities to evolve successfully as political and economic systems change.

In summary, sustainable community economic development in the new competitive environment requires a balanced, holistic approach. The foundations of this strategy are policies and programs that address five critical areas: education and labor skills, local quality of life, the financing and provision of public goods and services, comprehensive land use planning, and leadership development and institutional support. Communities that successfully address these critical areas will significantly enhance their prospects for growth and development in the new economy.

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