


Chapter 10

Does Regional Variation in Startup Concentration Predict Employment Growth in Rural Areas of Ohio, Pennsylvania, and West Virginia?

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ABSTRACT

Measures of entrepreneurship, such as average establishment size and the prevalence of start-ups, correlate strongly with employment growth across and within urban areas. Is it possible for entrepreneurship to occur outside of urban areas and be active in rural areas such as Ohio, Pennsylvania, and West Virginia? There are causal links of entrepreneurial finance to industry or city growth but little link of the evidence of entrepreneurship outside of urban areas overall. This chapter examines the regional variation in startup concentration used to predict employment in the rural areas of Pennsylvania, Ohio, and West Virginia by metropolitan statistical area (MSA)/micropolitan areas for the year 2017. The authors find significant differences in new firm formation rates from industrial regions to technologically progressive regions using the generalized linear models (GLM). Variations in firm birth rates are explained by industrial size, population growth, the number of startups, human capital variables, and establishments.

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INTRODUCTION

As the authors have driven through the rural areas of Ohio, Pennsylvania, and West Virginia, we often drive through areas that do not appear to be economically vibrant with limited employment opportunities and other limitations in economic opportunities. Anecdotally, there could be limited economic vibrancy, but is this true? Is it possible for entrepreneurship to occur outside of urban areas and be active in rural areas such as Ohio, Pennsylvania, and West Virginia? These three states share borders and have some similarities. We provide tables in the Appendix supporting the choice of the three states outlined in this chapter for population density. The tables include the following data in these three states: population repartition, per capita income, earnings per job, the poverty rates, educational achievement, and the unemployment and employment rates.

Can growth be predicted by industry sector, entrepreneurial behavior, regional resource munificence, or any other characteristic? In fact, the neoclassical growth theory did not explain either technological change or entrepreneurial activity because scale economies operate at the plant level, and in the traditional Solow model, economic growth relied on capital investment in larger plants (Solow, 1956). Despite these investments in capital investment in large plans, this capital accumulation can only explain a small amount of the variation in economic growth across regions (Ciccone & Hall, 1996). Since the advent of the Solow growth model, recent theories of economic growth have espoused the role of externalities in generating regional economic growth. There are causal links of entrepreneurial finance to industry or city growth (e.g., Samila and Sorenson, (2011)) but little link of the evidence of entrepreneurship outside of urban areas overall.

Using data from the Quarterly Workforce Indicators (QWI) from the Longitudinal Employer Household Data (LEHD) from the Census Bureau that tracks all employers in the whole U.S. private sector economy, we examine the impact of these externalities, as measured by entrepreneurial activity, on employment growth. We examine the relationship between startup concentration of firms and overall employment growth in Pennsylvania, Ohio, and West Virginia for the year 2017 and determine if entrepreneurship occurs in these rural areas of Ohio, Pennsylvania, and West Virginia. These states were selected for the analysis because of the rural nature of these states and to determine what level of economic activity occurs to promote economic development.

The remainder of this chapter is organized into four main sections. In the next section, we explore the relationships between regional economic growth and entrepreneurship. Section 3 discusses the data sources used in this empirical analysis and the methodology of the generalized linear model (GLM) to examine the relationships between employment and other variables in each of these areas

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