

Market Towns

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Case study 2: MARKETOWNS

Context

Rural Europe has to find and promote appropriate forms of economic development to maintain and improve the vitality of rural areas as they adjust to the changing demands of society and the market economy. Small and medium-sized towns could be important to Europe's rural regeneration as they potentially enable the concentration of support initiatives that can take advantage of economies of agglomeration while allowing income and employment benefits to spread out into the surrounding countryside. They may also contain concentrations of human and institutional capacity required for 'bottom-up' initiatives.

Project aims and objectives

This project focused on the role of small and medium-sized towns in rural development by measuring the economic linkages between such towns and the surrounding countryside. More specifically, it attempted to measure the flows of goods, services and labour between firms and households in a sample of small and medium-sized rural towns and their surrounding countryside in order to establish the extent and nature of local economic integration, and to compare the degree of local economic integration of different types and size of town, firms and households found in the selected areas. It was hoped that by doing so, vital information would be provided to guide policy formation, implementation and evaluation at regional, national and EU levels. In particular, such information would be useful to those seeking to stimulate more diversified economic activities and employment opportunities in rural areas, and to provide an accessible source of spatially referenced micro-economic data to those interested in modelling the future impact of EU.

Research methods and methodologies

Small and medium-sized towns within three types of rural area (agricultural, tourism and tourism), in five different countries (UK, France, Poland, the Netherlands and Portugal) were chosen to mirror the differing range of circumstances and contexts across rural Europe. Three questionnaires were designed to collect the required information, one for farm businesses, one for non-farm businesses, and one for households. The structure of all three questionnaires was similar. The first set of questions gathered information on the characteristics of the entity in question - the farm, firm or household. A second set of questions sought to identify the location and value of particular types of economic transaction. The final set of questions gathered information on the workforce and their salaries for the firms and farm businesses and on the employment and income levels for the households.

Response rates varied between countries and study areas but target response rates were achieved in most cases. Whilst the questionnaires were intended for self-completion, for logistical reasons, the Polish and Portuguese teams undertook the questionnaires on a face-to-face personal interview basis hence achieving a 100% response. Analysis for non-response bias was carried out for the UK, French and Dutch data sets. On the whole, this

proved satisfactory given that secondary data were used to weight data sets for the multivariate analysis. A variety of analysis were designed to measure the flows of goods, services and labour between the case study towns and the surrounding local, regional, national and international economies. This aimed to map the spatial patterns of firm, farm and household transactions, identify the key characteristics of firm, farm and household and town that are associated with strong (or weak) local economic integration and estimate subsequent income and employment effects in the local economy. This was achieved using four main methods:

- (i) construction of economic and employment ‘footprints’;
- (ii) bivariate analyses of local economic integration;
- (iii) multivariate analysis of local economic integration and spatial economic behaviours; and,
- (iv) construction of local Social Accounting Matrices (SAMs) for each town.

Following completion of the individual country reports, all initial findings, and possible implications, were presented at workshops for practitioners involved in fostering local economic development. These practitioners were mainly drawn from local government, councils, municipalities and other related community organisations.

These workshops had two overarching aims: to allow research teams to identify the differences between the practitioners’ pre-conceptions about the local integration of the various types of firm, household and town (their working assumptions) and the survey findings; and to help the research team identify any policy implications that might be of relevance, whether directly or indirectly, for EU policy implementation at ‘grassroots’ level.

Results

(i) Construction of economic footprints

The data collected from the questionnaires provided the research teams with a clear insight into the first round direct transactions taking place within each town and its hinterland and enabled the researchers to make some generalisations about the economic functioning of these towns. First, it could be seen that for local businesses, the purchasing tends to be far less local than the sales. The reverse is true for the agricultural businesses, and may well relate to the establishment of local cooperatives who provide outlets for purchases locally. Second, most consumers spent very locally, particularly on low order goods. High order goods, however, were purchased further afield. Third, a very high percentage of labour employed was locally based emphasising the importance of local labour markets to the small and medium-sized towns and hinterland firms.

(ii) Bivariate analyses of local economic integration

The results from some bivariate analyses undertaken indicated that the level of local economic integration appeared to be readily influenced by the economic and demographic structure of case study towns, as well as by systematic differences in the behaviour of firms, farms and households by virtue of their geographic location. For example, firm size and sector was found to influence the degree of local sales integration and, in the case of

household expenditure, the most common factors influencing levels of local integration were social class and income level. The results of these preliminary analyses proved useful in devising variables for the multivariate analysis, where the relative significance of local integration predictors was subsequently examined.

(iii) Multivariate analyses of local economic integration and economic behaviour

The level of economic integration of the firms was explained first using local context variables (town type and size, town or hinterland location of firm). The second set of variables describes characteristics of the firm and owner/manager (e.g. firm size, age, ownership and indigeneity) and the third set describes firm environment variables (including indices of local competition and market size). Chow tests determined that separate country OLS regressions would give more reliable parameters, so it is the results of these that are summarised here. The results show that downstream integration is more influenced by location in the study area than by town type although, in Portugal and Poland, medium-sized agricultural towns tend to have more self-contained markets. Firms in the town, as opposed to the hinterland, show greater levels of local integration. Sector, firm, age, workforce size and indigeneity are also all significant predictors of the strength of downstream integration. Manufacturing and producer services have a relatively strong export base in all countries apart from Poland and the UK, where consumer services show a relatively strong degree of integration in the local economy. Older, and smaller, firms also exhibit stronger local downstream linkages, as do firms run by an owner/manager who has lived locally for at least ten years. The technological characteristics of the firm show that traditional firms (with lower labour productivity) are more likely to be locally integrated.

Local upstream integration is stronger in, and around, larger towns of high agricultural employment in Poland, Portugal and the UK. The other, very significant, indicator of strong upstream integration is the indigeneity of the owner/manager. Examining individual sectors, the construction sector seems to source more locally than other sectors. Amongst the farms, size is the most consistent predictor of local integration, where smaller farms (in terms of workforce) tend to serve local agricultural markets. In Portugal and Poland, small farms (in terms of land area) tend to purchase more locally and those less reliant on agricultural income sources tend to sell and purchase more locally. In all countries those residents living in the town are more locally integrated in terms of low order shopping than those living in the hinterland. There is also a strong negative correlation between household income and propensity to purchase low order goods and services locally. Workplace is also highly influential, whereby those commuting outside the area to work spend proportionally less on low order goods and services in the local economy. Local integration in terms of high order expenditure is also associated with lower incomes and lower occupational groups. Indigeneity is also influential, whereby households who have recently moved in to the study area tend to spend proportionally less on high order goods and services in the local economy.

(iv) Results from the construction of local Social Accounting Matrices

Output, employment and income multipliers were calculated for each of the 30 case-study town SAMs. The majority of multipliers from the Portuguese and Polish towns are much

larger than those from the other countries. This implies that any injection into those local economies will have a larger local impact than on local economies in the other countries. The output and employment multipliers tend to be larger from the hinterland firms than from the town firms. However, the household income and wage income multipliers are larger in the towns. This means that stimulation to the businesses in the hinterland will have a greater local impact than stimulation to businesses in the towns, yet stimulation to wages and income will have a bigger impact when focused on the town locations.

The key sectors vary a great deal from one country to another. However, services especially banking and financial services, other 'knowledge-intensive' industries (e.g. chemicals and computing), food and drink, and construction appear important sectors for both output and employment. When the impact is decomposed into impact on town location and that on hinterland location, the results show very consistently (although to a greater extent in Portugal, Poland and the Netherlands) that stimulation to a firm in a town has far less impact on the hinterland, than equivalent stimulation to a firm in the hinterland which will impact upon businesses and households in the town to a far greater extent. This shows that even when the multipliers are larger from town businesses this is often from intra-town linkages, rather than town-hinterland linkages. This is an important result when we are considering the use of small and medium-sized towns as a generator for rural development within its local economy.

Conclusions

As a way of drawing out implications from this large research project that might be of benefit and relevance to European rural policy-making, the research team framed their conclusions around eight broad questions deemed relevant to local economic development policy:

- (i) *The service sector was most likely to establish local linkages and to help generate local growth.* Banking and financial services and other 'knowledge-intensive' industries were especially important although, perhaps surprisingly, agriculture generated large output multipliers in the Dutch and Polish towns.
- (ii) *In the UK and France, the sectors that best support local employment were found to be the banking and financial services sector, machinery, metals and computing and the food and drink industries;* the latter were also important for the Netherlands, Portugal and Poland. Transport services were important in France and Portugal.
- (iii) A key research question was '*what is the most appropriate spatial distribution of development in rural areas?*' Output and employment multipliers are usually greatest in the hinterlands. Household income and wage income multipliers are greater in the town locations. However, where development is within the town, relatively little of such development impacts on the hinterlands whereas, conversely, development within the hinterland is likely to have a relatively much greater impact on the town. Thus, in order to maximize potential economic development, a balance needs to be struck between town and hinterland

development and between providing local services and generating income through exporting goods and services.

- (iv) Whether development agencies *should encourage inward investment into small and medium-sized towns or foster local business start-ups* is a major rural development issue. Although no clear differences emerged from the project as to sourcing patterns, the indigeneity of owners/managers was found to be important in that they tended to source more locally than those who had not lived in the local area all of their lives. This suggests that fostering 'locally grown' business start-ups is likely to be more beneficial to local income generation.
- (v) The project assessed *whether local stakeholders had a good appreciation of the functioning of the rural economies* in their 'own' small and medium sized towns. On the whole, they had a good understanding of the situation and would encourage policies to promote more local working and local facilities being converted from their original use including farm buildings.
- (vi) A further matter assessed was the *relationship between workplace location and household shopping patterns* as a means to identifying the economic impact of commuting. It was found that journey to work was often combined with low order shopping suggesting that, if business and residential development are combined, local income retention will occur and local low order retail services will be supported.
- (vii) Despite the radical nature of the Fischler 2003 reforms, the CAP will still support farmers albeit in a way that is decoupled from production. Thus, it is interesting to ask whether supporting agriculture, will result in society also supporting rural communities. This research shows that in many rural areas, agriculture remains an important sector, with relatively strong links to neighbouring towns. This is especially so in Poland, but applies in all the study countries. We also found that not only do the agricultural sectors have relatively large first round impacts and multipliers, but much of this impact is transferred to the town.
- (viii) The final and perhaps the most important research question the project had to answer was *'are small and medium-sized towns appropriate foci for rural development initiatives and, if so, which types of town and where?'* The results show that, currently stimulation to a small or medium-sized town's economy is unlikely to have a significant impact on its hinterland. However, this research has helped to identify factors which will increase the potential of small and medium-sized towns to generate wealth in their hinterlands. Compared to towns in peri-urban and tourism areas, towns in areas where employment in agriculture is above the national average are more likely to be an appropriate focus for rural development initiatives, because linkages will generate the greatest local trickle-down effects. In addition, larger towns in all areas tend to generate the greatest multiplier effects.

Policy implications

Whilst the objectives have been fully met, inevitably in a project of this size and complexity, large amounts of data have been collected, and further analysis could usefully be carried out. For example, the volume of transactions made by households and firms could be analysed in detail to aid understanding of the local economy. The role of retail services in small and medium-sized towns could also be examined to see if there are any differences between retail establishments that source locally and those that are national/internationally based. It would also be interesting to analyse separately the most important sectors highlighted by the SAM analysis to identify in more detail factors influencing linkage patterns. The potential impact of a variety of changes to the agricultural sector would clearly be worth examining.

In carrying out this project, several new areas of research on small and medium-sized towns will be best served by national and regional policies which:

- (i) focus on larger market towns (a population of 15-20,000), particularly in areas where employment in agriculture is above the national average;
- (ii) foster service industry growth, especially banking and financial services, 'knowledge-intensive' industries, construction and food and drink;
- (iii) promote residential and business development in town locations, whilst facilitating targeted business growth in hinterland locations; and,
- (iv) encourage 'locally-grown' business start-ups.

Possible future work

Whilst the objectives have been fully met, inevitably in a project of this size and complexity, large amounts of data have been collected, and further analysis could usefully be carried out. For example, the volume of transactions made by households and firms could be analysed in detail to aid understanding of the local economy. The role of retail services in small and medium-sized towns could also be examined to see if there are any differences between retail establishments that source locally and those that are national/internationally based. It would also be interesting to analyse separately the most important sectors highlighted by the SAM analysis to identify in more detail factors influencing linkage patterns. The potential impact of a variety of changes to the agricultural sector would clearly be worth examining.

In carrying out this project, several new areas of research on small and medium-sized towns in rural areas have been identified by the research team. These include:

- (i) A further examination of the factors influencing the economic activity of firms, farms and households, e.g. why are older firms more integrated into local economies?

- (ii) Testing the role of linkages in driving economic growth and performance including an examination of non-market linkages.
- (iii) The collection of data to enable assessment of the environmental impacts of various economic transactions.
- (iv) Research to examine local economic growth and social exclusion in tandem, particularly the role of public services on the local economies of small and medium-sized towns.
- (v) An examination of the wider impacts of migration on local economies could usefully include the impact of different types of in-migrants on rural areas, e.g. retired persons.
- (vi) Widening the project's case study approach to include more towns being investigated to enable findings to be generalised to un-surveyed towns.
- (vii) Adopting a longitudinal approach to investigate changes in linkages and activity patterns over time.

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