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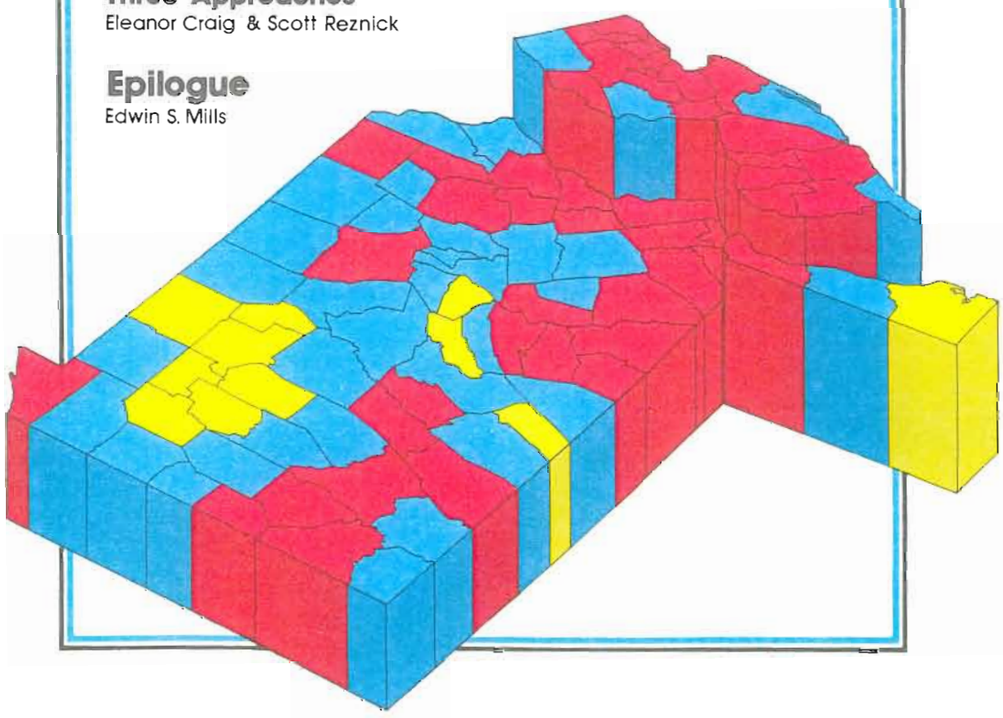

This special *Business Review* is a part of the Federal Reserve Bank of Philadelphia's continuing commitment to explore the issues affecting economic development in the Third District and the fiscal health of its states and localities. This commitment goes beyond the Regional and Urban Section of the Research Department, which produced this volume. Our involvement as an organization and as individuals in the critical issues of our region is strong and steadfast. We hope that you find this special publication informative and useful.

Edward G. Boehne
President

Introduction

*John M. L. Gruenstein**

The articles in this special issue analyze some changing trends and their effects on the states and localities in the Third Federal Reserve District. The issues explored at the metropolitan, city, and state levels resonate through all regions of the country. Shifts of employment and people to new areas, the impact of these shifts on local governments' fiscal capacities, and the economic development efforts of state governments are the prime concerns of the authors.

The first article, by *Gerald Carlino,* notes that employment growth in nonmetropolitan areas has outstripped metropolitan employment growth over the last twenty years. This striking but often overlooked reversal of a centuries-long trend pervades all regions of the country. Carlino presents evidence that *employment* deconcentration, especially in manufacturing, has *preceded* population deconcentration. He argues that such a sequence cannot be explained simply by people's preferences for rural living; it hinges, instead, on the dramatic changes in production, transportation and communications technology that have made it feasible to do business in nonmetropolitan locales.

The growth of jobs outside of metropolitan areas has combined with other movements of jobs

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and people—from cities to suburbs, from the Northeast and Midwest to the South and West—to cause fiscal problems for large cities in older areas of the country. *Robert Inman's* article dissects the fiscal crises of the 1970s that afflicted three large cities: New York, Cleveland, and Philadelphia. He argues that while the particular sequence of events leading to a crisis varies from city to city, the root causes are similar. As the number of jobs and people in a city declines, the tax base drops, but public service demands often rise. Budgets become increasingly hard to balance, and the painful remedies of raising taxes and reducing spending are supplemented or supplanted by a third strategy—putting the problem off into the future. Deficits accumulate, pension liabilities are underfunded, and maintenance expenditures are cut back. Inman argues that, because voters and politicians are short-sighted and because pension underfunding and infrastructure undermaintenance are hard to detect, the fiscal house of cards rises higher and higher until a relatively small sneeze sends it tumbling.

What can be done? Inman maintains that the solution lies in better monitoring of budgets, pensions, and infrastructure, and sound fiscal management. Strengthening local programs for economic development is just as important.

Similar themes are sounded by *Eleanor Craig* and *Scott Reznick*. The three states of the Third Federal Reserve District have also experienced adverse employment and population shifts and fiscal strains. The authors compare and contrast the current thrust of economic development efforts in response to these trends.

The economic development packages offered by the Third District states include common elements, like Industrial Development Bonds and local property tax abatement, but the recent thrusts of their overall strategies have varied. Delaware has stressed fiscal issues, and has focused on deregulation, particularly in the area of banking. New Jersey has concentrated on improving the administration of its economic development programs and tax reform. Pennsylvania has moved toward sharper targeting of programs to areas of greatest potential or need.

Building on the themes raised in the three previous papers, *Ed Mills* regards the future of central cities of large metropolitan areas in Northeastern states with tempered optimism. Past employment and population shifts have worked particularly hard against these areas. But Mills argues that these shifts have been due partly to differences in wage costs and population densities, and therefore self-correcting forces will come into play as wages and densities become increasingly similar across different sections of the country. State and local government can also affect the pace of employment and population shifts to some degree. Mills agrees with the view that policy efforts should be directed at creating a better business climate for *all* industries, not just narrowly targeted ones. The basic steps toward that goal involve reducing red tape, managing fiscal policy with a firm hand, and giving the public a clear view of the fiscal realities. In sum, facing the future with a strong sense of realism—both about what goals are possible and how to achieve them—will prepare policymakers to lead the way to economic growth.

New Employment Growth Trends:
The U.S. and the Third District

*Gerald Carlino**

In the not so distant past, urban economists predicted the continued concentration of people and jobs in comparatively few metropolitan places. They based this view on the economic advantages associated with spatial concentrations. Indeed, the ultimate vision was the development of "megalopoles," more or less continuous stretches of urban and suburban areas, encompassing a number of metropolitan places, such as BOS-WASH or CHI-PITTS.

Even while the predictions of a magnetizing megalopolis were being championed, other forces were at work, and a new trend toward deconcentration of population and employment was well under way. During the past 160 years more people moved from nonmetropolitan to metropolitan places than vice versa; but this migration pattern turned around dramatically during the 1970s in many parts of the country. Now many nonmetropolitan places are among the nation's fastest growing places. Moreover, statistics show that the smaller the nonmetropolitan place, the faster its population growth is likely to be. The same pattern holds for metropolitan size as well: the smaller the metropolitan place, the faster its population growth rate is likely to be.

Some observers explain this reversal by pointing to upsurges in the mining and recreation industries in rural places. Others focus on the increase

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in the number of retirees who can live where they want, suggesting they prefer rural living. New evidence shows, however, that basic industrial growth in the countryside appears to have *led* this rural renaissance. As early as the 1950s, manufacturing employment was growing faster in many nonmetropolitan places. This shift of manufacturing to nonmetropolitan places has attracted other sectors as well as people.

AGGLOMERATION ECONOMIES LEAD TO CONCENTRATION . . .

Manufacturing activity historically has tended to concentrate geographically as a means to hold down costs. Other nonmanufacturing activities (such as banking, wholesale and retail trade, services) have found it advantageous to join the cluster, supplying business services to firms or consumer services to residents. Consequently, people and jobs became concentrated in comparatively few places known as metropolitan areas. Analysts saw these economies of concentration as the main reason for the existence of large metropolitan places; indeed, many extrapolated the gains from spatial concentration to argue for the coming of megalopoles.

This tendency for economic activity to concentrate can be explained in terms of so-called agglomeration economies. Agglomeration economies can be defined as scale economies *external* to individual firms. In other words, a firm's cost per unit of output falls because of factors outside the firm. These agglomeration economies are of two types: localization and urbanization economies.

Localization economies are external to any one firm but internal to its *industry*. For example, the spatial concentration of an industry permits the development of "common pools" of highly specialized factors of production which are shared by all firms in the industry. The development of these "common pools" enables any one firm to reduce its level of inventories of these factors, and thereby lowers the average cost of production. Localization economies depend on the size of an industry, given its location. The larger the industry, the greater the scope for such economies.

Localization economies also arise when firms which specialize narrowly in the making of important intermediate inputs locate in an industry's concentration area. A classic example of vertical complexes of this sort is the garment industry in New York.[1] The concentration of the garment industry permitted the specialization of firms within the industry, such as buttonhole and zipper manufacturers. If each firm in the industry produced its own buttonholes and zippers, production costs would increase, since no single firm could generate enough output to develop scale economies in making these inputs. A firm specializing in producing these inputs for a larger number of firms can achieve economies of scale.

The other types of agglomeration economies are urbanization economies. Urbanization economies are scale economies which are external to any one firm and external to any one industry, but are internal to the aggregate of *economic activity* in an urban area. The benefits of urbanization economies include the development of large and varied labor pools, the existence of entrepreneurial talent, and the presence of wholesaling facilities in urban areas which allow firms to economize on inventories. In addition, some firms can achieve economies of scale by specializing in intermediate inputs used by other firms in many industries, for instance, commercial, financial and banking services, and specialized business services (such as computer services, advertising agencies, accounting and legal facilities, and research and development agencies).

. . . BUT TECHNOLOGY PAVES THE WAY FOR DECONCENTRATION

Agglomeration economies provide a powerful incentive for economic activity to concentrate. Indeed, the nineteenth and early twentieth century cities tended to be highly concentrated, with as much as 90 percent of total employment contained within a one-mile to three-mile radius of their central business districts.[2] The technology of the time placed certain limits on a firm's prosperity that could be overcome only by locating near other firms. But recently, these agglomeration economies appear to have declined. In research conducted at

[1] Robert M. Lichtenberg, *One-tenth of a Nation*, (Cambridge, Mass: Harvard University Press, 1960) pp. 79-84.

[2] Alex Anas and Leon Moses, "Transportation and Land Use in the Mature Metropolis," in C. L. Leven (ed.), *The Mature Metropolis*, (Lexington Mass.: Lexington Books, 1978) pp. 149-168.

the Philadelphia Fed, data were analyzed for 80 standard metropolitan statistical areas (SMSAS) for the 20-year period 1957-1977.[3] The results indicated that the extra productivity associated with agglomeration economies in manufacturing has declined. This may be the result of progress in production, transportation and communications technologies that have reduced the need for economic activity to concentrate spatially.

Changing Production Technology. The development of the assembly line, for example, revolutionized not only how products were manufactured, but also where. Because assembly lines require a horizontal flow of goods, the vertical spaces available in city factories were unsuitable. Moreover, with the price of land less expensive outside the city, those large open spaces provided relatively cheap sites for constructing assembly-line plants.

More recent developments also have aided both suburbanization and deconcentration.[4] Miniaturization and the development of lightweight materials have reduced incentives to locate in a metropolitan area to lower transportation costs. In addition, the substitution of electronic for labor-intensive mechanical processes makes it less necessary for firms to locate in metropolitan places to take advantage of their large skilled labor pools.

Changing Transportation and Communications Technologies. Innovations in transportation technology also have helped to spawn first suburbanization and more recently deconcentration. Prior to the motor truck, rail transport was one of the most rapid and efficient ways of transporting products to and from a plant. Plant location, therefore, was largely restricted to railroad siding locations. The increase in the use of trucks, together with improvements in the urban road network after World War II, cut transportation costs sharply and attracted firms to the less congested suburbs. At the same time, rising automobile ownership opened up the suburbs for people as well as jobs.

Improvements in transportation technology have continued to encourage deconcentration. Technical improvements in trucks have increased both their size and efficiency, and the interstate highway network has expanded to connect many previously remote rural counties with metropolitan areas and with one another.

In addition, just as the introduction of the telephone aided suburbanization, continued improvements in long-distance communications now contribute to deconcentration. Low-cost long-distance WATS lines, improved information storage and retrieval systems, and the use of document-transmission equipment allow branch plants to be located in rural areas while maintaining good communications with the corporate office and other plants.

EMPLOYMENT FOLLOWS A DECONCENTRATION PATTERN NATIONALLY . . .

During the past two decades, economic activity has tended to deconcentrate spatially. There are several aspects to this deconcentration pattern. Not only is employment in nonmetropolitan places growing faster than in metropolitan ones, but the smaller nonmetropolitan places tend to be growing fastest. This relation between smaller size and faster growth holds for metropolitan places, too: the smaller the metropolitan place, the faster its employment growth is likely to be.

According to Table 1, total employment in-

NONMETRO COUNTIES SHOW LARGEST EMPLOYMENT GROWTH

TABLE 1

Percent Change of Employment Growth

	1951-1959	1959-1969	1969-1979
U.S. TOTAL	14.3	35.7	34.4
Metropolitan	16.5	35.1	31.3
Nonmetropolitan	9.5	36.9	41.0
Adjacent	9.7	37.4	38.2
Nonadjacent	9.4	36.3	44.5

SOURCE: Compiled from County Business Patterns.

[3] See Gerald A. Carlino, "Declining City Productivity and the Growth of Rural Regions," forthcoming, *Journal of Urban Economics.*

[4] D. Garnich and J. Renshaw, "Competing Hypotheses on the Outlook for Cities and Regions: What the Data Reveal and Conceal," *Papers, Regional Science Association,* 45, (1980) pp. 105-124.

creased in metropolitan areas by over 16 percent, while employment elsewhere increased by less than 10 percent during the 1950s.[5] In the 1960s, employment growth rates accelerated in both metropolitan and nonmetropolitan communities. At the same time, the growth of jobs became more balanced between metropolitan and nonmetropolitan places. In fact, nonmetropolitan employment growth slightly exceeded that of metropolitan regions. During the past decade, however, the growth rate of metropolitan employment fell, while the nonmetropolitan rate continued its increasing trend to 41 percent.

The view of steadily increasing urban concentration is so entrenched in urban economics that the usual response to finding faster nonmetropolitan growth is to attribute it to nothing more than metropolitan spillover. But while counties contiguous to metropolitan ones did grow more rapidly than metropolitan ones, other nonmetropolitan counties experienced even more rapid employment growth. Nonmetropolitan counties adjacent to metropolitan areas saw rapid growth (38.2 percent) during the 1970s, but nonmetropolitan counties which are not adjacent to metropolitan ones showed the fastest growth of all (44.5 percent).

This tendency toward growth in small places shows up even when the focus is on "all rural places," that is, counties that do not contain an urbanized place (of at least 2,500 people). Table 2 indicates that employment in all rural counties grew by 48.1 percent, which is about one-third faster, for example, than the 36.5 percent rate in the largest category of nonmetropolitan counties, those containing between 25,000 and 49,999 people. In general, overall employment growth falls as the size of the nonmetropolitan place goes up. This relationship of small size and high growth holds for all subcategories of employment, except for the traditionally rural agriculture industry.[6]

Table 2 also shows that, in general, the smaller the SMSA, the faster its overall employment growth rate. During the 1970s, SMSAs with fewer than 250,000 people showed the fastest total employment growth, 42.3 percent. Employment growth, then, generally declines as SMSA population size

SMALLER PLACES GROW FASTER

TABLE 2
Percent Change in Employment Growth by Size of Place: 1969-1979

Nonmetropolitan[a]	
TOTAL	40.9
ALL RURAL	48.1
2,500 to 9,999	44.0
10,000 to 24,999	38.6
25,000 to 49,999	36.5
Metropolitan	
TOTAL	31.3
Under 250,000	42.3
250,000 to 500.000	41.6
500,000 to 1,000,000	33.1
1,000,000 to 2,000,000	41.9
Over 3,000,000	14.7

[a]Size classification provided by the U.S. Department of Agriculture.

SOURCE: Compiled from County Business Patterns.

[5]Using County Business Patterns, employment data were collected by major one-digit SIC industrial codes by county type for three independent time periods, 1951-1959, 1959-1969, and 1969-1979, for some 3,000 counties. Counties were identified as metropolitan or nonmetropolitan, based on the 1979 definition of an SMSA. In general, SMSAs are statistical constructs used to represent integrated labor market areas that consist of the counties containing a central city of at least 50,000 people along with any contiguous counties, if such counties meet certain economic considerations. From these data it is possible to compute percentage changes in the various employment categories for the 1950s, 1960s and 1970s. One problem with this data set is that County Business Patterns coverage is restricted to employees covered by the FICA act. Thus, those not covered by Social Security (largely government, railroad, agriculture and domestic services) fall outside of County Business Patterns scope. Outside of the growth in government employment, this reduced coverage should not impart much bias.

[6]Gerald A. Carlino, "Declining City Productivity and the Growth of Rural Regions." The reason for the more rapid growth of agriculture in metropolitan counties appears to be the result of the fast employment growth in nurseries.

increases; it averaged only 14.7 percent for SMSAs with over 3,000,000 people. Thus rather than observing faster employment growth in the nation's largest SMSAs (as the proponents of the megalopolis predicted), places such as the Philadelphia SMSA are growing much less rapidly than SMSAs such as New Brunswick, York or Wilmington.

. . . AND IN THE THIRD DISTRICT

Employment grew faster in the nonmetropolitan counties of the states of the Third District, emulating the national pattern.[7] As Table 3 shows, during the 1970s, the tri-state area's nonmetropolitan counties experienced a 23.4 percent increase in employment, while its metropolitan ones gained jobs at a 15.8 percent rate. Faster nonmetropolitan employment growth was experienced by all three states.

Nationally, the nonadjacent nonmetropolitan counties grew faster than the adjacent ones during the 1970s. In the tri-state area, however, nonadjacent counties showed only a 16.7 percent increase in total employment, while adjacent counties grew at a 24 percent clip.

The forces of continued suburbanization as well as deconcentration are at work in the tri-state region, as can be seen in the map (pp. 10-11). The lined areas represent counties that experienced employment growth in excess of the 34.3 percent average rate for counties nationally.

Most of the lined areas in the southwest corner represent the continuation of suburbanization out of Philadelphia County. The growth of Ocean County and Cape May County in New Jersey is related to the growth of the retirement population.

The lined counties in the northeast end represent suburbanization and spillover from New York City, Patterson, Jersey City, Newark, etc. The shaded area in central Pennsylvania represents a pocket of deconcentration. If we include Snyder County, which grew just below the national average, this eight-county region accounted for about 10 percent of the employment growth in Pennsylvania during the 1970s.[8]

[7]The three states constitute a larger area than the Third Federal Reserve District, which includes roughly two thirds of Pennsylvania, half of New Jersey and all of Delaware.

[8]The eight counties are: Clarion, Jefferson, Indiana, Clearfield, Centre, Union, Snyder and Juniata. We have not included Butler County since its growth may be due to spillover from Pittsburgh. In the same sense we do include some adjacent nonmetropolitan counties because they are not appreciably influenced by their proximity to major metropolitan centers.

EMPLOYMENT GROWTH IN THE STATES OF THE THIRD FEDERAL RESERVE DISTRICT

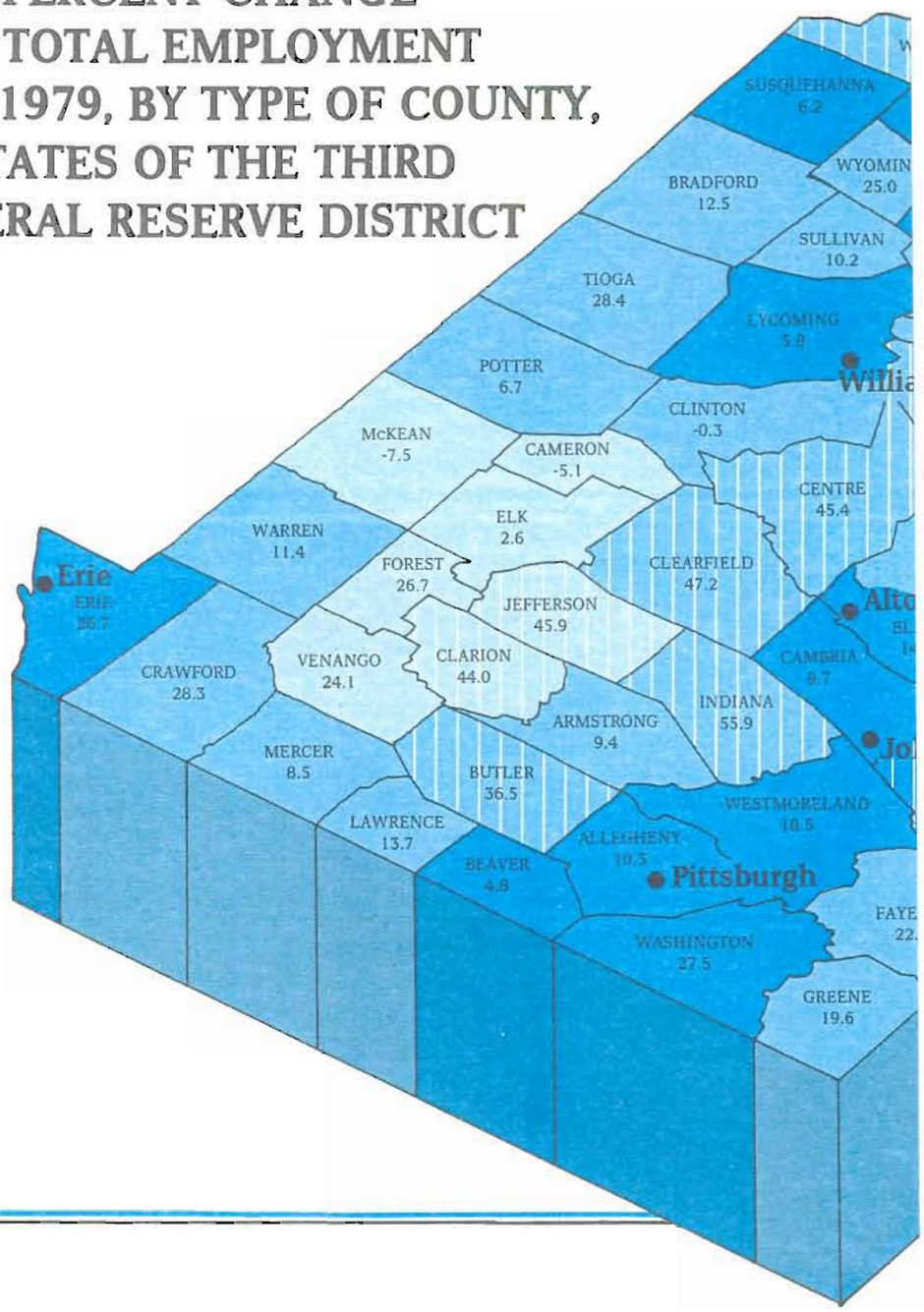
TABLE 3
Percent Change of Total Employment: 1969-1979

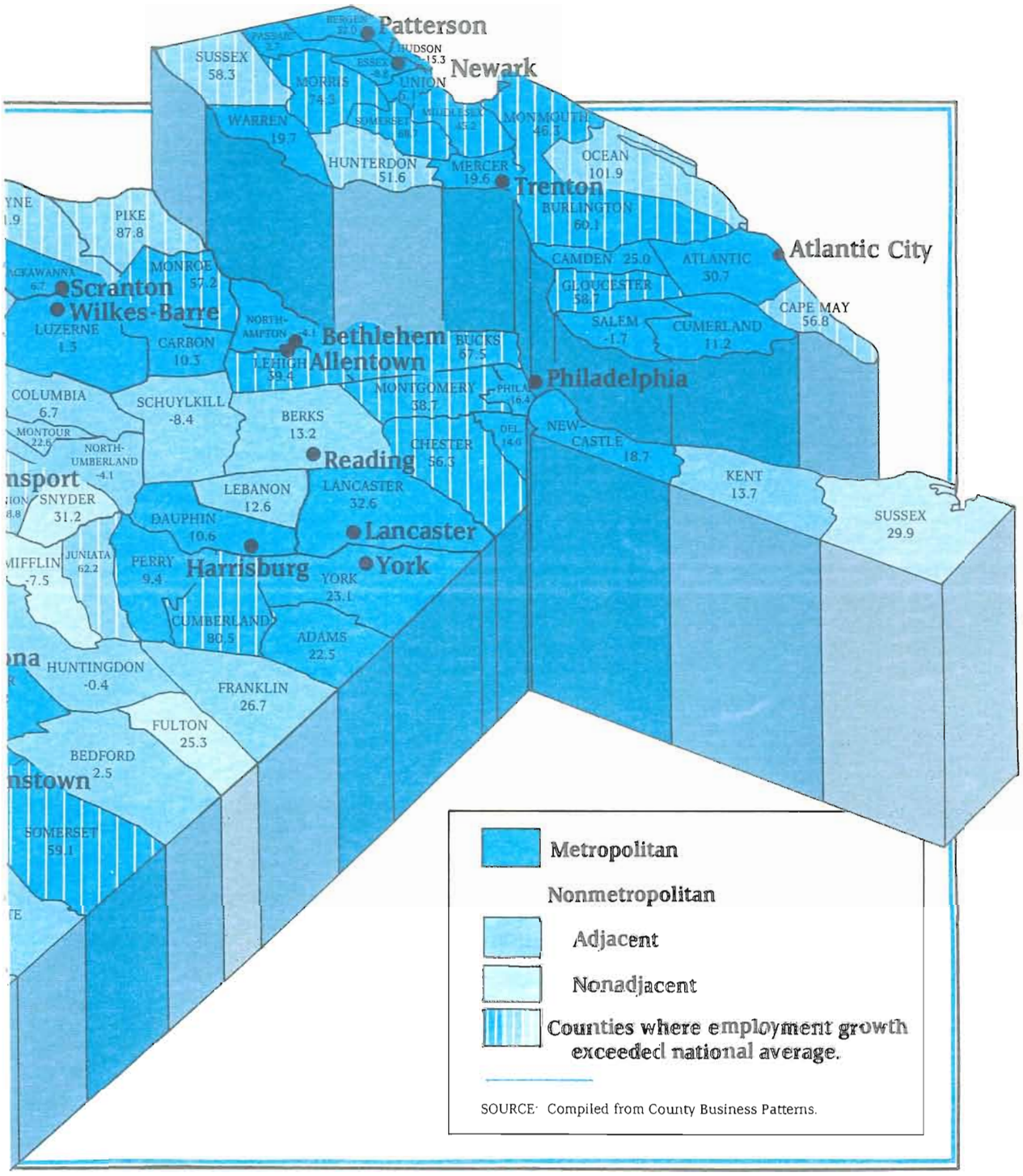
	TOTAL	Metro	Nonmetro	Adjacent	Nonadjacent
Tri-State[a]	16.4	15.8	23.4	24.0	16.7
Delaware	18.8	18.4	22.0	13.7	29.9
New Jersey	19.2	18.5	76.6	76.6	None
Pennsylvania	12.8	12.0	17.5	18.2	13.7

[a]The numbers reported are for the total of the three states, a larger area than the Third Federal Reserve District, which includes roughly two thirds of Pennsylvania, half of New Jersey and all of Delaware.

SOURCE: Compiled from County Business Patterns.

PERCENT CHANGE IN TOTAL EMPLOYMENT 1969 to 1979, BY TYPE OF COUNTY, STATES OF THE THIRD FEDERAL RESERVE DISTRICT




Patterson
Newark
Trenton
Atlantic City
Scranton
Wilkes-Barre
Bethlehem
Allentown
Philadelphia
Reading
Lancaster
Harrisburg
York
SUSSEX 58.3
WARREN 19.7
MORRIS 78.3
UNION 6.1
HUNTERDON 51.6
MERCER 19.6
MONMOUTH 46.3
OCEAN 101.9
BURLINGTON 60.1
CAMDEN 25.0
ATLANTIC 30.7
GLOUCESTER 58.7
CAPE MAY 56.8
SALEM -1.7
CUMERLAND 11.2
PIKE 87.8
MONROE 57.2
LUZERNE 1.3
CARBON 10.3
NORTH-AMPTON 4.1
LEHIGH 39.4
BUCKS 67.5
MONTGOMERY 38.7
COLUMBIA 6.7
SCHUYLKILL -8.4
BERKS 13.2
CHESTER 56.5
NEW-CASTLE 18.7
KENT 13.7
SUSSEX 29.9
MONTOUR 22.6
NORTH-UMBERLAND -4.1
SNYDER 31.2
LEBANON 12.6
LANCASTER 32.6
DAUPHIN 10.6
JUNIATA 62.2
PERRY 9.4
YORK 23.1
CUMBERLAND 80.5
ADAMS 22.5
HUNTINGDON -0.4
FRANKLIN 26.7
FULTON 25.3
BEDFORD 2.5
SOMERSET 59.1
Metropolitan
Nonmetropolitan
Adjacent
Nonadjacent
Counties where employment growth exceeded national average.
SOURCE: Compiled from County Business Patterns.

This evidence of deconcentration is so striking that it cannot be explained away as simply a blip in the otherwise more or less uniform history of metropolitan concentration in employment. What causes are at work here? A look at employment growth across industries helps explain the new trend.

MANUFACTURING LEADS THE RURAL RENAISSANCE

Manufacturing was the first industry to suburbanize, and now manufacturing leads the deconcentration pattern, too. But there is one quite important difference. Edwin Mills has shown that the suburbanization of the population *preceded* that of manufacturing.[9] In other words, business followed people to the suburbs. But the picture looks different for the deconcentration scenario. Manufacturing *attracted* population to nonmetropolitan counties rather than the reverse. In fact, manufacturing *employment* growth in nonmetropolitan counties exceeded that in metropolitan ones even as early as the 1950s. But nonmetropolitan *population* growth did not exceed the metropolitan rate until the 1970s.

In each of the past three decades, the growth of manufacturing employment in nonmetropolitan counties has exceeded that in metropolitan ones. As Table 4 illustrates, during the 1950s when the growth of manufacturing jobs in metropolitan counties was about nil, nonmetropolitan counties experienced a 3.1 percent increase. The growth in manufacturing employment accelerated during the 1960s in both metropolitan and nonmetropolitan counties, but this growth was much larger for the latter. Finally, during the 1970s, the growth of manufacturing jobs in nonmetropolitan counties stood at 21.0 percent, vastly exceeding the growth rate in metropolitan places, which was only 2.6 percent.

In fact, by the decade of the 1970s employment in other major sectors —mining, construction, transportation, wholesale trade, retail trade, finance and services—was also growing more rapidly in nonmetropolitan areas. (See NONMETROPOLITAN PLACES GAIN A LARGER SHARE OF EMPLOYMENT.)[10]

These statistics undermine many popular conceptions about the causes of growth in nonmetropolitan areas. The media, for example, tend to

[9] E. S. Mills, *Studies in the Structure of the Urban Economy.* (Baltimore: The Johns Hopkins University Press 1972), p. 47.

[10] The surge in mining during the energy crises of the 1970s has been cited as a prime factor in employment growth in nonmetropolitan areas. While mining activity clearly has been on the increase, it can be an explanatory factor only for isolated instances. For data and details on employment growth for mining and the other industries mentioned, see Gerald A. Carlino, "Declining City Productivity and the Growth of Rural Regions."

NONMETRO COUNTIES SHOW FASTER MANUFACTURING EMPLOYMENT GROWTH

TABLE 4
Percent Change of Manufacturing Employment

	1951-1959	1959-1969	1969-1979
U.S. TOTAL	1.0	26.4	8.8
Metropolitan	0.1	21.4	2.6
Nonmetropolitan	3.1	37.5	21.0
Adjacent	2.0	36.3	18.3
Nonadjacent	4.9	39.4	25.0

SOURCE: Compiled from County Business Patterns.

NONMETROPOLITAN PLACES GAIN A LARGER SHARE OF EMPLOYMENT

The correlation between fast employment growth and small size is not simply the result of starting with a small base, and, by adding a few jobs, coming up with relatively larger growth rates. The following table considers the changing *share* of employment accounted for by metropolitan and nonmetropolitan places, and illustrates the strength of growth in smaller places. For example, over the period 1951-1979, the share of manufacturing employment accounted for by nonmetropolitan places increased from 18 percent to about 23 percent. A similar increase was registered in construction, wholesale trade and finance.

Percent Distribution of Employment by Metropolitan and Nonmetropolitan Place

	Agriculture	Mining	Construction	Manufacturing	Transportation	Wholesale Trade	Retail Trade	Finance	Services	Total
1951										
Metropolitan	71.0	44.9	83.9	82.0	84.8	86.8	77.7	89.5	83.7	80.9
Nonmetropolitan	29.0	55.1	16.1	18.0	15.2	13.2	22.3	10.5	16.3	19.1
Adjacent	54.8	46.0	51.7	60.8	51.5	48.0	53.2	52.9	53.2	55.6
Nonadjacent	45.2	54.0	48.3	39.2	48.5	52.0	46.8	47.1	46.8	44.4
1959										
Metropolitan	70.5	43.5	81.7	81.6	84.2	86.4	78.2	88.9	85.0	81.8
Nonmetropolitan	29.5	56.5	18.3	18.4	15.8	13.6	21.8	11.1	15.0	18.2
Adjacent	52.6	48.2	52.2	60.2	52.6	48.3	53.6	53.7	53.9	55.6
Nonadjacent	47.4	51.8	47.8	39.8	47.4	51.7	46.4	46.3	46.1	44.4
1969										
Metropolitan	71.9	46.8	82.4	79.7	85.2	87.3	79.5	88.4	84.8	81.5
Nonmetropolitan	28.1	53.2	17.6	20.3	14.8	12.7	20.5	11.6	15.2	18.5
Adjacent	57.8	51.1	55.2	59.8	52.2	49.8	54.3	53.3	53.6	55.7
Nonadjacent	42.2	48.9	44.8	40.2	47.8	50.2	45.7	46.7	46.4	44.3
1979										
Metropolitan	81.1	46.5	81.0	77.1	84.5	83.5	79.0	86.6	84.8	80.5
Nonmetropolitan	18.9	53.5	19.0	22.9	15.5	16.5	21.0	13.4	15.2	19.5
Adjacent	60.4	48.0	53.4	58.1	52.6	50.0	54.1	54.2	53.4	54.7
Nonadjacent	39.6	52.0	46.6	41.9	47.4	50.0	45.9	45.8	46.6	45.3

SOURCE: Compiled from County Business Patterns.

focus on people's preferences for living outside the cities. A *Newsweek* cover story reports on recent arrivals to nonmetropolitan areas who make only half as much money as they did in the city, but who are compensated by the "cry of a loon" on nearby lakes.[11]

Several factors are cited to explain why a greater number of households are able to act on their presumed preferences for rural living. One is the increasing proportion of retirement-aged people who need not match location and employment decisions. Retirees appear to be migrating to amenity-rich, low-cost locations, many of which are nonmetropolitan. Another frequently mentioned factor is the large increase in the number of people seeking college education as a result of the maturing of the post-war baby-boom generation. Since many colleges and universities have nonmetropolitan locations, the increased demand for educational services is thought to lead to increased employment opportunities in such locations.

But, if these factors are the key to understanding nonmetropolitan growth patterns, the pattern of statistics would look very different. They would show population growth *leading* employment growth, not vice versa. Moreover, the largest rate of growth would be in sectors such as retail trade and services, in response to increased consumer demand in nonmetropolitan areas. This is also not the case. These explanations do shed some light on the forces for growth in nonmetropolitan areas; however, they leave the forces that distinguish deconcentration from other patterns of employment growth in the shadows. The spotlight belongs on innovations in production, transportation and communications technologies, which have *significantly* reduced the economic advantages of concentrating economic activity.

CONCLUSION

The very same forces that gave rise to the suburbanization of people and jobs have now made rural locations economically viable. Innovations in transportation, communications, and production technologies led to suburbanization of manufacturing and wholesaling employment, and they now underlie the deconcentration of these same industries. Now many nonmetropolitan places are experiencing the same sequence of development as did the suburbs: manufacturing and wholesaling are leading the influx of other industries and people.

This new trend towards deconcentration is short-lived, so it may be reversed in the near future. But since it appears to be based on technological change, this seems unlikely. While all of its consequences are not fully known, deconcentration is likely to have sobering effects on central cities, particularly in the northeast and midwest regions, the traditional centers of manufacturing. Having suffered job losses from suburbanization and moves to the Sunbelt, these cities now face additional drains due to deconcentration.

[11] "America's Small Town Boom", *Newsweek*, (July 6, 1981).