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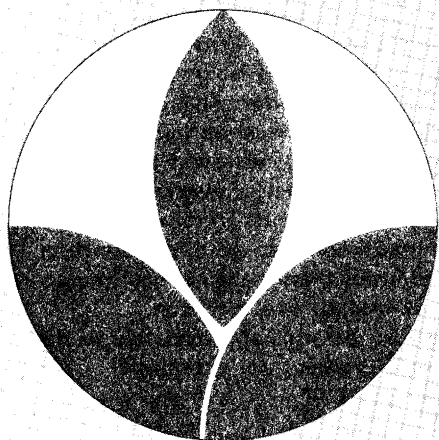
# Outlook '85

Two speeches at USDA's Agricultural Outlook Conference last December seemed particularly appropriate for RDP's readers, so we are reprinting them here.

In the first, Herman Bluestone and Stan Daberkow sift through the conflicting employment trends of the past couple of decades to see what might be in store for the rest of the 1980's. Their best guess is for a slower growth in nonmetro areas—that is, slower than in metro areas and slower than in the 1970's—yet not as slow as in the 1960's.

In the second, David McGranahan talks about how changes in the U.S. population's age structure can be foreseen more easily than overall changes in population and what those changes mean for the United States in general and for rural areas in particular.

A complete copy of the 1985 Agricultural Outlook Conference Proceedings is available, while supplies last, from U.S. Department of Agriculture, World Agricultural Outlook Board, Room 5143-S, Washington, D.C. 20250. Cost is \$15 per copy; make checks payable to USDA/WAOB.



Herman Bluestone  
Stan G. Daberkow

## Employment Growth in Nonmetro America: Past Trends and Prospects to 1990

We can better judge how the nonmetro economy will perform in the future if we first understand how it has performed in the past. Therefore, before we present our employment growth projections for the 1980's, we will review employment growth in the Nation's rural and smalltown communities, focusing on two periods, 1940-70 and 1970-80.

Between 1940 and 1970, employment increased slowly in nonmetro areas (fig. 1). Although many rural jobs opened up in manufacturing, construction, government, and private service industries, job losses in agriculture and other natural-resource industries such as forestry and mining were largely offsetting.

Herman Bluestone is an economist in the Economic Development Division's Rural Business Section. Stan Daberkow is an economist in ERS's Natural Resource Economics Division.

Between 1940 and 1970, nonmetro areas were unable to generate enough new jobs to absorb additions to their labor force. As a result, many rural people migrated to metro areas. During the 1950's, nonmetro areas gained one job in manufacturing for every three they lost in industries based on natural resources. By the 1960's, gains in manufacturing were completely neutralizing losses in industries based on natural resources. Then, beginning in 1970, total nonmetro employment began to increase rapidly. Increases during the 1970's occurred in private services, government, manufacturing, construction, and even in the natural resource industries. Analysts were surprised that manufacturing employment continued to increase rapidly in nonmetro areas during the 1960's while faltering in metro areas. They expected the "post-industrial" faltering in employment growth in manufacturing to have occurred in both nonmetro and metro areas.

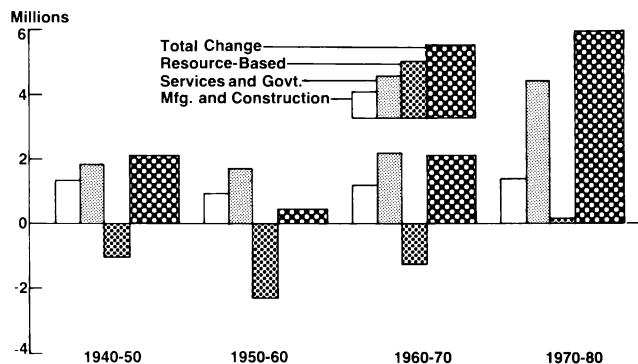
Associated with the rapid employment growth was the well-publicized revival of rural population growth. The population growth rate was half again as high in rural and smalltown communities as in metro areas during the 1970's.

The cumulative employment increases in manufacturing, construction, and the service industries and declines in agriculture over the past four decades dramatically trans-

*continued on page 34*

Figure 1

### Nonmetro Employment Change



Source: Bureau of the Census

Lower price and income supports for program commodities will also encourage adjustments in land use. More marginal land would be removed from production and some agricultural production would shift to the lowest cost production regions where land might be used more intensively. This may have widespread effects on some rural areas. Producers of program commodities may have less interest in soil conservation, although erosion will be somewhat offset by the reduced cultivation of marginal land. Depending on how these effects balance out, the result could be additional siltation of waterways and environmental degradation for all rural residents.

## Conclusions

Rural communities highly dependent on farming have specialized human and business assets of only limited use elsewhere in the economy. Significant reductions in farm price and income support policies would probably most severely affect residents of these specialized farming areas, which number several hundred, are highly concentrated in a few States, but are sparsely populated.

Diversifying the economies of farm-dependent communities will be difficult at best because of their small populations, their distance from most major urban markets, and their history of population outmigration, which has left them with a relatively high proportion of young and elderly.

During the past 30 years, rural America as a whole has become more diversified, significantly reducing its vulnerability to changes in natural resource markets, commodity prices, and farm policies. The economic futures of most rural citizens are tied more to national growth than to any one sector's success or failure. But this is not the case for farm-dependent rural counties—or for individuals elsewhere—whose economic fortunes are directly tied to agriculture. **ADP**

## Employment Growth

*(continued from page 20)*

formed the industrial structure of the nonmetro economy (fig. 2). In 1940, the natural resource industries provided more than 4 jobs out of every 10 in nonmetro areas; in 1980 they provided fewer than 1 job in 10. By 1980 the service industries, manufacturing, and construction had come to dominate economic activity in nonmetro areas, much as they do in metro areas.

Because the mix of industries in nonmetro and metro areas has become more alike and because the nonmetro economy now appears to be more closely tied to the metro economy, we would expect changes in nonmetro employment to parallel changes in metro employment. And indeed, changes in employment growth over the last four business expansions and contractions were similar in nonmetro and metro areas (fig. 3). Thus, it appears that nonmetro areas now have a larger stake than they used to in current and proposed Federal and State policies. These policies include not only overall Federal tax and expenditure levels and monetary policy, but such programs as enterprise zones, industrial revenue bond financing, tax incentives for manufacturing and high-tech industries, and incentives for small businesses.

### The 1969-82 Period

Between 1969 and 1973, nonmetro areas outpaced metro areas in employment growth; but later, between 1975 and 1982, they lagged behind. We selected these two particular periods for comparison because each represents an entire business cycle. Not only did nonmetro employment growth slow in relation to metro growth during the late 1970's and early 1980's, but it slowed from its level in the early 1970's (fig. 4). We can obtain a more complete picture of what was happening if we examine the industrial composition of the employment changes.

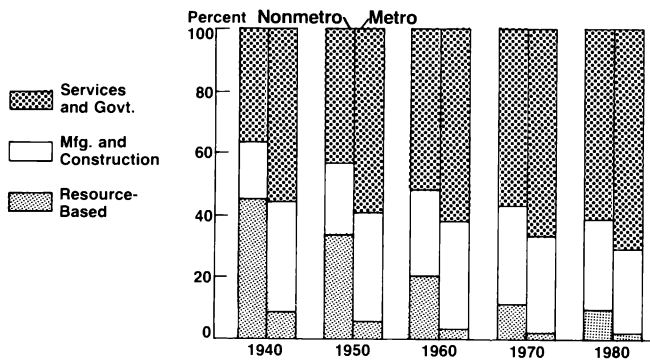
Between 1969 and 1973, the nonmetro expansion was pervasive. All industries, except the natural resource industries, made a significant contribution to total growth (fig. 5). On the other hand, between 1975 and 1982, the nonmetro employment gain was largely concentrated in services, trade, and government. By contrast, in metro areas, all industries provided more jobs per year between 1975 and 1982 than between 1969 and 1973 except government and construction (fig. 6).

During 1969-73, all nonmetro industries except the natural resource industries and government expanded at a faster rate in nonmetro than metro areas (fig. 7). But during 1975-82, only employment in government and in nondurable goods manufacturing grew faster (fig. 8).

We still do not fully understand why nonmetro growth was so robust during the late 1960's and early 1970's and why it subsequently slowed. Some attributed the nonmetro growth spurt to such factors as a plentiful supply of nonmetro labor, a business climate more favorable than in metro areas, an increase in rural spending resulting from an influx of retirees into nonmetro areas, the effect of government rural development programs, the modernization of rural life, and the stabilization of employment levels in the natural resource industries. However, it has been extremely difficult to measure the importance of these factors. Nonmetro growth was likely spurred during the late 1960's and early 1970's by the combined impact of many different favorable factors coming together at the same time. On the other hand, the rural growth slowdown since the mid-1970's also seems to be associated with an equally complex and imperfectly understood set of factors, including the increase in foreign competition. Some have alleged that there has been a large movement of jobs in the low-wage labor-intensive, routinized "cut and sew," and assembly-type manufacturing operations from rural areas to less developed countries where labor costs are extremely low.

Figure 2

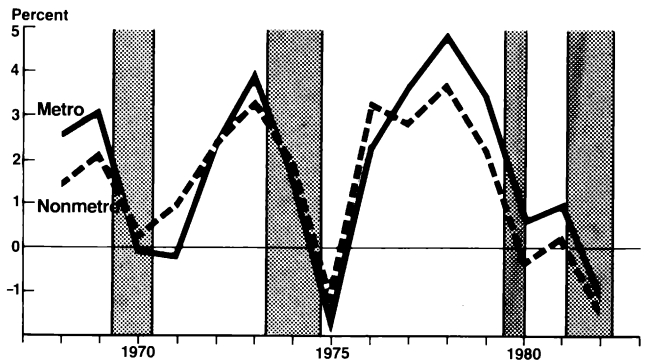
Industrial Distribution of Employment



Source: Bureau of the Census  
Resource-based industries include Agriculture, Forestry and Fisheries, and Mining.

Figure 3

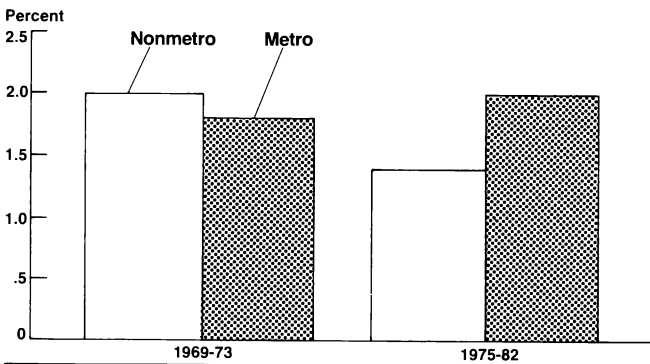
Percentage Change in Employment



Source: Bureau of Economic Analysis, U.S. Department of Commerce  
Percentage changes are from a year earlier. Shaded areas are recessions.

Figure 4

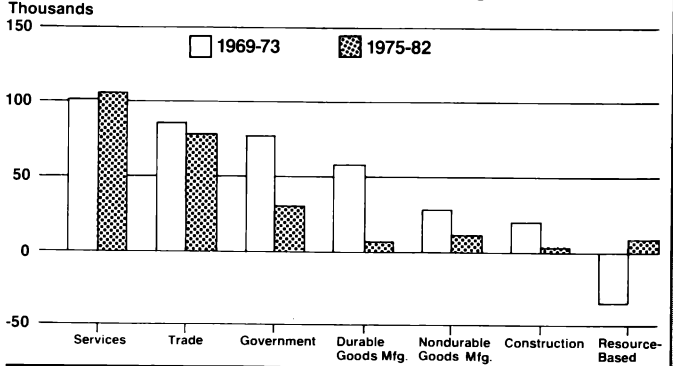
Employment Growth



Source: Bureau of Economic Analysis, U.S. Department of Commerce  
The employment used in computing growth rates is total employment excluding military employment and the nonfarm self-employed. Growth rates are compounded annual rates.

Figure 5

Average Annual Nonmetro Employment Change



Source: Bureau of Economic Analysis, U.S. Department of Commerce  
Government excludes military. Resource-based industries include agriculture, forestry and fisheries, and mining. Excluded from all the employment data are the nonfarm self-employed.

Regional Dimensions

There also are important regional dimensions to nonmetro growth (fig. 9). Differences in economic conditions among the Nation's four major regions appear to have a similar effect on both nonmetro and metro areas. Thus, between 1975 and 1982, nonmetro growth was above average for all nonmetro areas in the fast-growing West and South and below average in the slow-growing North Central and Northeast regions. Nonmetro employment lagged behind metro growth mostly because nonmetro growth was far lower than metro growth in the South and West.

On the other hand, nonmetro employment growth was slower in 1975-82 than in 1969-73 mainly because of the sharp reduction in growth in the North Central region (fig. 10). The North Central region, with its heavy dependence on manufacturing and agriculture, has been much more vulnerable than other regions to the increase in foreign competition and the cost-price squeeze in farming.

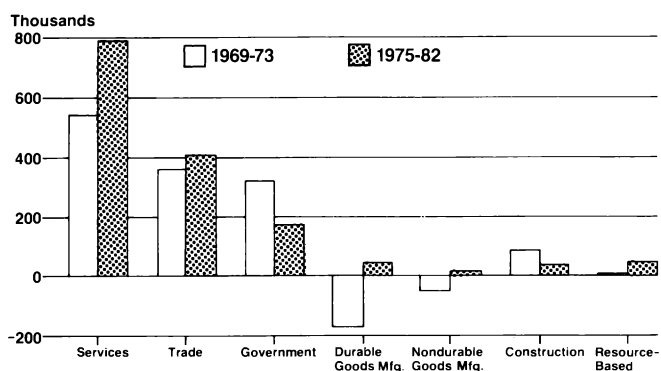
Projections to 1990

Once a growth trend is well established, people generally expect it to continue indefinitely. For example, support for governmental intervention to stabilize economic conditions in rural America reached a peak only

after rural areas had experienced slow employment growth for nearly 30 years. Not until 1968 was a national study of rural poverty commissioned. Similarly, the turnaround in nonmetro employment and population growth in the early 1970's was hailed as ushering in a new era of rural growth and prosperity, and indeed it did reduce economic disparities between nonmetro and metro people. Now that rural growth has been again lagging somewhat behind urban growth, it is easy to conclude that we are in for more of the same over the next several years. This is especially believable given the heavy concentration of slow-growing industries in nonmetro areas and the fact that nearly one-third of all nonmetro jobs are located in the economically depressed North Cen-

Figure 6

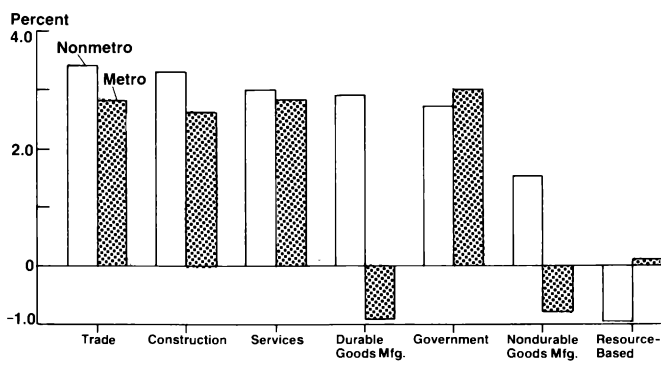
Average Annual Metro Employment Change



Source: Bureau of Economic Analysis, U.S. Department of Commerce  
 Government excludes military. Resource-based industries include agriculture, forestry and fisheries, and mining. Excluded from all the employment data are the nonfarm self-employed.

Figure 7

Employment Growth Rates, 1969-73



Source: Bureau of Economic Analysis, U.S. Department of Commerce  
 Growth rates are compounded annual rates. Government excludes military. Resource-based industries include agriculture, forestry and fisheries, and mining. Excluded from all the employment data are the nonfarm self-employed.

tral region. In fact, as we now unveil our growth projections for the 1980's you may well conclude that we too have fallen into the same trap of extending recent trends.

Our growth estimates for the early 1980's and to the year 1990 are based on employment projections for individual industries from the Wharton Econometric Models published in September 1984 (fig. 11). In making our employment projections, we assumed that each industry will grow at the same rate in nonmetro and metro areas. Although this assumption may appear somewhat simplistic, our results are little changed when we incorporate into our model the same kinds of nonmetro-metro shifts among industries that have occurred since 1975. According to the Wharton models, growth is expected to be rapid in the construction and service-producing industries, moderate in government and durable-goods manufacturing, about zero in nondurable manufacturing, and negative in the natural resource industries.

A moderate number of new jobs will be provided by government, durable goods manufacturing, and construction during the 1980's. However, most of the new jobs will continue to

be generated by the private service industries as they were between 1975 and 1982 (fig. 12).

Because nonmetro areas still depend more on slow-growing nondurable goods manufacturing and natural resource industries and less on fast-growing services than metro areas, nonmetro growth is expected to continue lagging behind metro growth throughout the 1980's (fig. 13).

While these projections are plausible, that does not guarantee that they will come about. Large econometric models, such as the Wharton models on which the projections are based, are much better at predicting changes when the economy continues to behave much as it has in the recent past. These models, of course, cannot anticipate major international shocks to the economy such as a precipitous decline in the value of the dollar, a sharp deterioration in the worldwide credit situation, or the erection of highly restrictive trade barriers. Nor do they take into account radical changes in domestic monetary, tax, or expenditure policy. Such shocks would not only affect future expansion in total U.S. employment but would also affect the distribution of growth among industries and among nonmetro and metro areas.

In Conclusion

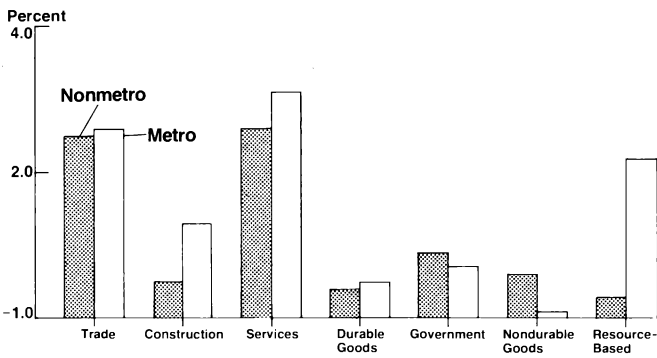
Employment growth in the Nation's rural and smalltown communities is expected to continue lagging behind growth in metro areas in the 1980's. This is likely because nonmetro areas still depend more than metro areas on slow-growing nondurable goods manufacturing and natural resource industries and less on fast-growing service industries.

However, nonmetro employment growth during the 1980's will probably be more rapid than between 1940 and 1970, when rural areas were adjusting to the large job losses in agriculture and other natural resource industries.

For nonmetro areas to grow faster than metro areas would seem to require a sharp recovery in economic activity throughout the North Central region or a resurgence of growth in the nonmetro South. While such developments are possible, there appears to be little basis for forecasting them. **RDP**

Figure 8

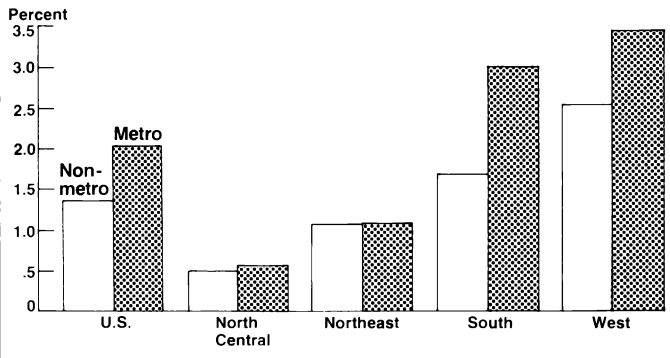
Employment Growth Rates, 1975-82



Source: Bureau of Economic Analysis, U.S. Department of Commerce  
 Growth rates are compounded annual rates. Government excludes military. Resource-based industries include agriculture, forestry and fisheries, and mining. Excluded from all the employment data are the nonfarm self-employed.

Figure 9

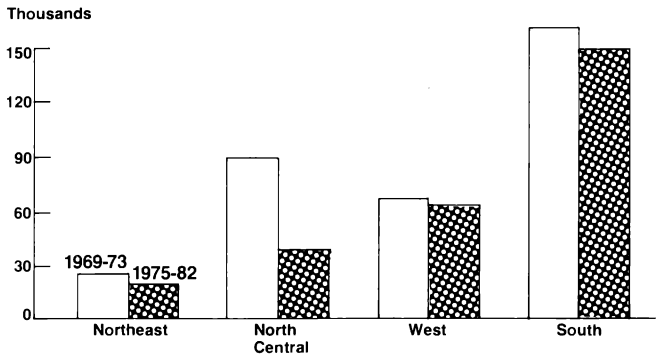
Regional Employment Growth Rates, 1975-82



The employment used in computing growth rates is total employment excluding military employment and the nonfarm self-employed. Growth rates are compounded annual rates.  
 Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 10

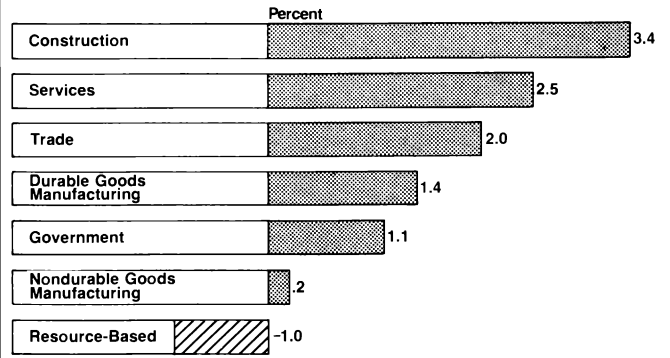
Regional Nonmetro Employment Growth



The employment used in computing growth is total employment excluding military employment and the nonfarm self-employed.  
 Source: Bureau of Economic Analysis, U.S. Department of Commerce

Figure 11

Projected Growth Rates, 1982-90

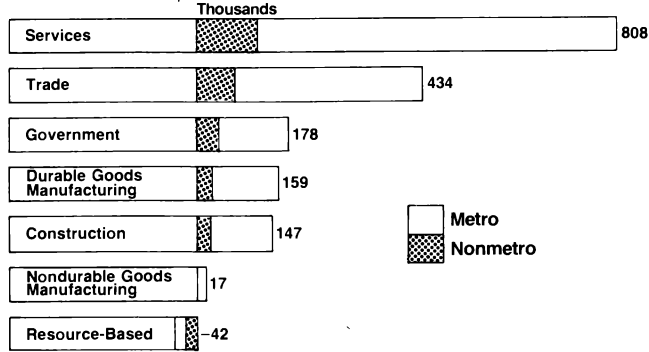


Source: Wharton Econometric Forecasting Associates and U.S. Department of Agriculture  
 Government excludes military. Growth rates are compounded rates. Resource-based industries include agriculture, forestry and fisheries, and mining. Excluded from all the employment data are the nonfarm self-employed.

Figure 12

Projected Growth, 1982-90

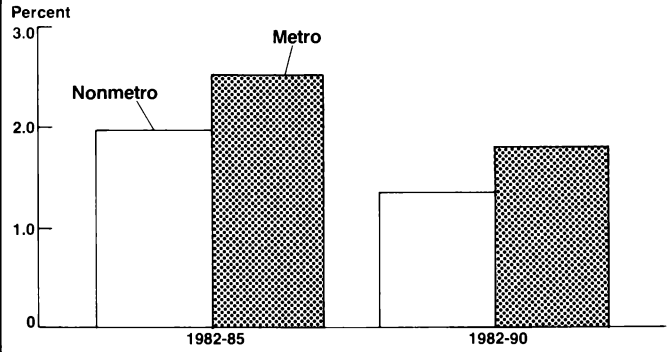
Annual Change in Jobs



Source: Wharton Econometric Forecasting Associates and U.S. Department of Agriculture  
 Government excludes military. Resource-based industries include agriculture, forestry and fisheries, and mining. Excluded from all the employment data are the nonfarm self-employed.

Figure 13

Projected Employment Growth Rates



Source: Based on projections by Wharton Econometric Forecasting Associates.  
 The employment used in computing growth rates is total employment excluding military employment and the nonfarm self-employed. Growth rates are compounded annual rates.