Thinking about the Future of Small Metropolitan Areas

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In today's dynamic global economy, the economic importance of smaller metropolitan areas in the United States may be declining. Many of these areas have lost their major corporate stakeholders through mergers and acquisitions and have been downgraded to "branch site" locations. Moreover, few offer the thick labor markets and social/cultural environment sought by professional workers. The public policy initiatives available to these metropolitan areas often are very limited due to budget and legal constraints.

We are worried about the future of these areas and have been working to gain a better understanding of how they grow by identifying local public policies that facilitate and nurture economic growth. This article describes our current approach and initial findings.

In brief, our aim is to identify small metropolitan statistical areas (MSAs)— which the U.S. Census defines as those that housed fewer than one million residents in 1990—that experienced better than expected growth during the 1990s. After these "winning" MSAs are identified, we hope to find the salient public policies that significantly contributed to their success.

Identifying the Better-Than-Expected Performers

To identify MSAs that have enjoyed better-than-expected growth, it is necessary to construct a predictive model that estimates the expected growth of MSAs given their economic, social, and physical/geographic attributes. The explanatory variables we used in our predictive model of the growth in personal income during the 1990s for the 261 small MSAs can be categorized into the following four groups:

1) Structural. These variables controlled for the MSA's industrial mix relative to the nation's, and the economic health of its entrepreneur/small business base at the start of the 1990s.

2) Human capital. These variables controlled for the educational levels of the area's adults at the start of the decade.

3) Quality of life. These included control variables for the area's regional location, climate factor, and crime levels.

4) Historical trends. These variables controlled for the area's economic performance in the previous decade.

A full description of the regression model and its results are available in our forthcoming Upjohn Institute Working Paper, "Small Cities Blues: Looking for

Growth Factors in Small and Medium-Sized Cities."

Results

The model explained 72 percent of the variation of the dependent variable, personal income growth, as measured by the standard adjusted R-square statistic. Using this model to generate the predicted growth of all the 261 MSAs, we then ranked in order the areas according to the difference between their actual and the model-predicted growth during the 1990s. The resulting top 10 metropolitan areas are shown in Table 1. Many of the listed metropolitan areas are well known and have made their way to the top of major "Best Cities" polls and indexes published annually. Others, such as Sioux Falls, South Dakota; Laredo, Texas; and Fayetteville, North Carolina; are seldom seen in the winner's circle.

Conversely, it is instructive to examine the metropolitan areas that experienced lower-than-expected growth as well. The 5 metropolitan areas that were the least successful in meeting the model's growth expectations were Melbourne, Florida; Auburn, Alabama; Merced, California; Fort Myers, Florida; and El Paso, Texas.

Of course, this analysis is subject to the criticism that its results are only as good as the accuracy of the model. It is possible that the model's results are due to missing or misspecified variables. Still,

we believe that the model's results point us in the right direction.

Cluster Analysis

The next step in our exploratory research was to conduct a cluster analysis of the metropolitan areas, which sorts the areas into homogenous groups based on their fiscal, social, and demographic characteristics. The variables used in the analysis fall into four general categories: 1) education policies, 2) quality of life, 3) governmental actions, and 4) change in economic conditions. This statistical analysis grouped the 261 metro areas into the eight clusters listed and briefly described below.

1) High sprawl, low growth (49 MSAs). The strongest shared characteristic of this group was that they have highly fragmented local governments.

2) Growth and prosperity (55 MSAs). These MSAs share high growth and low poverty.

3) Low-living-costs hometowns (57 MSAs). These areas share low population growth, low living costs, and low export activity.

4) Forgotten and distressed (45 MSAs). The primary characteristic of these MSAs was a loss of public funding. In addition, they suffered from high poverty and ranked very low in terms of

the percentage of their residents who completed college.

5) College places leaking graduates (12 MSAs). These MSAs attract young adults to their colleges but seemingly cannot retain them after they have graduated.

6) Creative-class college towns (26 MSAs). These areas also attract young adults due to their colleges and universities but apparently are able to keep them longer after graduation.

7) Traditional employment centers (13 MSAs). The unique feature of these MSAs is that they have no unique features.

8) Pulled by exogenous change (4 MSAs). These MSAs are outliers that were seemingly impacted by an exogenous change in their economy.

Combining the results of the two models, we found that the MSAs performing better than expected were overrepresented in the "Growth and prosperity" and, surprisingly, in the "Traditional employment center" clusters. They were underrepresented in the "High sprawl, low growth" and the "Low-cost hometown" clusters.

Next Steps

We consider our research to be still in the exploratory stage of development. It is clear that more detailed case studies of the better performing metropolitan areas are warranted. We now have a better sense of where to look for possible effective local economic development policies, but we have not reached the stage of our project that allows us to identify them.

Table 1 The Top 10 Small MSAs Achieving Higher-Than-Expected Growth in the 1990s (percent change in personal income, 1990–2000)

Metro area	Actual growth (%)	Predicted growth (%)	Difference (percentage point)
Laredo, TX	140.2	102.0	38.2
Fayetteville, AR	111.7	75.9	35.7
Naples, FL	147.4	114.8	32.6
Boise City, ID	128.9	100.7	28.1
Austin, TX	166.7	140.2	26.5
Santa Fe, NM	98.8	74.6	24.1
Las Vegas, NV	176.7	153.2	23.4
Sioux Falls, SD	105.8	82.6	23.2
Raleigh, NC	112.6	89.5	23.1
Fayetteville, NC	75.3	52.5	22.8