

When is growth good?

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Based on ["The Faster Growth of Larger, Less Crowded Locations"](#)

*The views expressed are mine alone and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System

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The Criteria:

1. metropolitan area with pop > 1 million
2. stable and business-friendly environment
3. location that can attract and retain talent

The Prize:

- 50,000 jobs with avg salary > \$100,000
- \$5 billion capital investment

The Winners(?)

- New York City Metropolitan Area (pop 20.0 million, pop rank 1)
- Washington D.C. Metropolitan Area (pop 6.2 million, pop rank 6)
- Nashville Metropolitan Area (pop 1.9 million, pop rank 37)

Overview

- **The fundamental determinants of metropolitan size**
- **The benefits and costs of size**
- **2000–17: medium-sized metros grew fastest** (pop 500 ths to 3 mil)
- **When is growth good?**
 - ▶ **For whom?**
- **Emerging trends affecting metropolitan growth**
- **Evaluating policy**

Conclusions

- **Fundamentals determining size matter!**
 - ▶ productivity; amenities; taxes
 - ▶ improving fundamentals likely to benefit existing businesses and residents
 - ▶ will also drive growth
- **Size itself matters!**
 - ▶ Severe disadvantages to small size; limited scope to escape
 - ▶ Significant costs to size above some threshold
- **Medium size balances benefits and costs**
- **Growth for its own sake is less important**
 - ▶ Both benefits and costs to increased size
 - ▶ Is increased size sustainable?
 - ▶ Is there spare capacity?
 - ▶ Who benefits?

Fundamental determinants of metropolitan size

- **Business productivity**

- ▶ natural harbor, central location (“Meeting in the Middle”)
- ▶ transportation infrastructure, continuing education
- ▶ streamlined licensing and permitting
- ▶ test: **Are businesses willing to pay higher wages?**

- **Amenities**

- ▶ parks, museums, sports teams, the arts
- ▶ transportation infrastructure, continuing education
- ▶ great public schools!
- ▶ test: **Are residents willing to pay higher home prices?**

- **Moderate taxes**

Benefits of Size: Can boost productivity and amenities!

- **Sharing**

- ▶ infrastructure (airports, seaports, rail connections, utilities, ...)
- ▶ civic amenities (museums, zoos, performance arenas, sports stadiums, ...)
- ▶ risk (across businesses and industries)

- **Matching**

- ▶ workers to jobs (skills to needs, dual career couples, flexible hours)
- ▶ residents to services (restaurants, stores, continuing education, ...)
- ▶ businesses to services (law, advertising, banking, venture capital, ...)
- ▶ patients to doctors (specialization)

- **Learning**

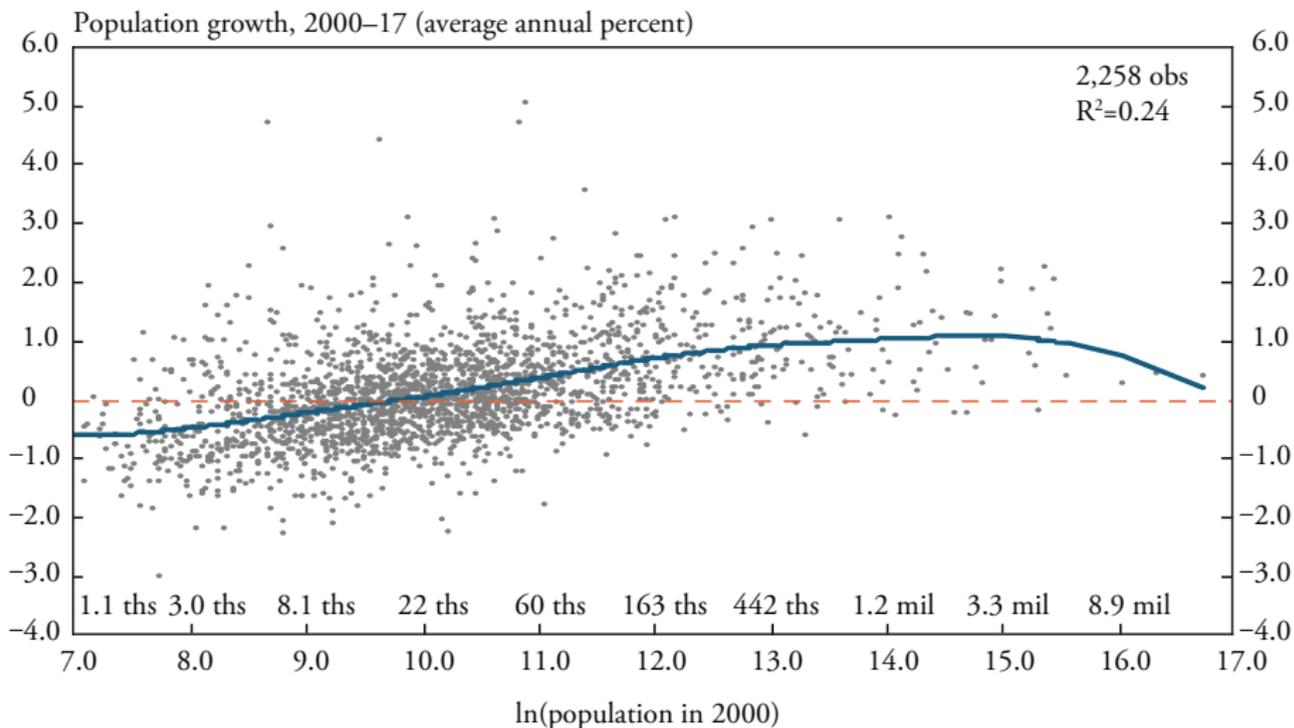
- ▶ generation of specialized knowledge (R&D, science, medicine)
- ▶ diffusion of knowledge: (medicine, entrepreneurship, finance, ... “the mysteries of the trade become no mysteries; but are as it were in the air”)

Costs of Size:

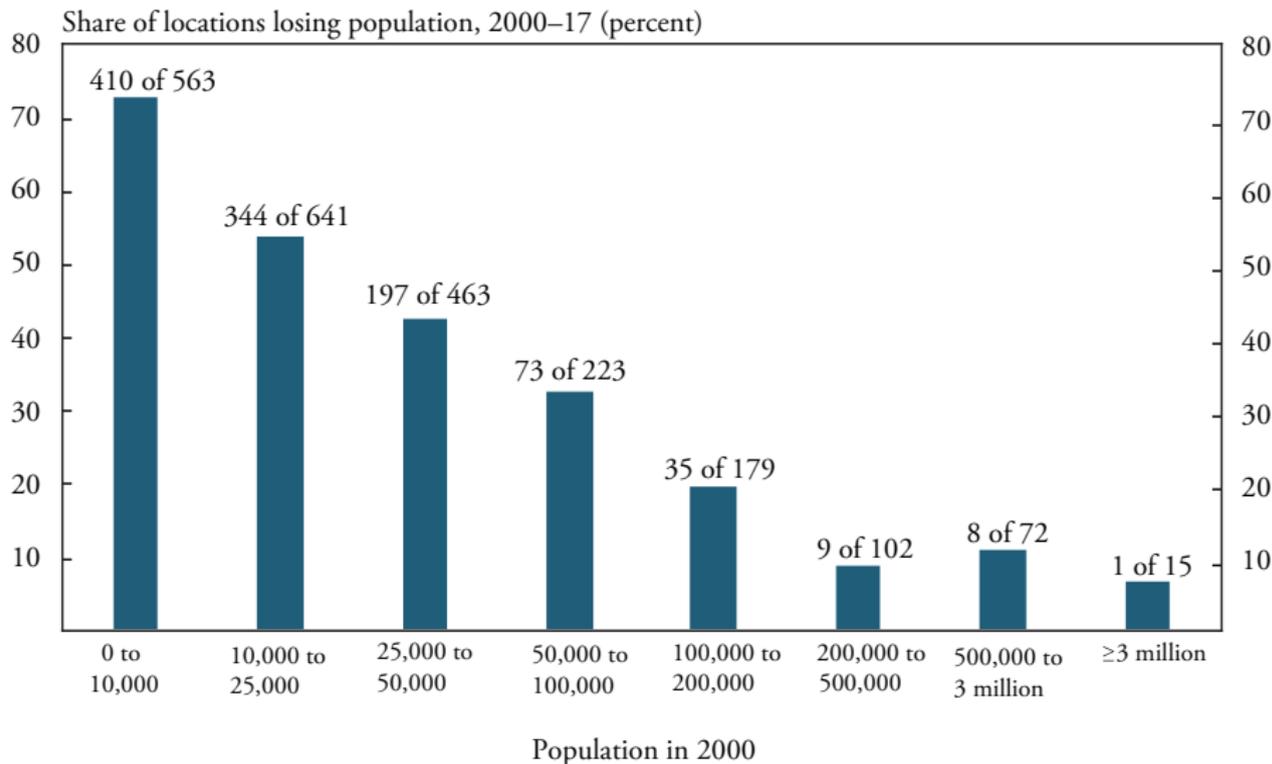
- **STRATOSPHERIC HOUSING PRICES AND RENTS**
- **MADDENING TRAFFIC CONGESTION**
- **CONGESTION OF EVERYTHING ELSE**
 - ▶ hours-long TSA waits
 - ▶ packed public transit
 - ▶ crowded sidewalks

Medium-sized metros have been growing fastest (pop., 2000–17)

Also true measured by employment

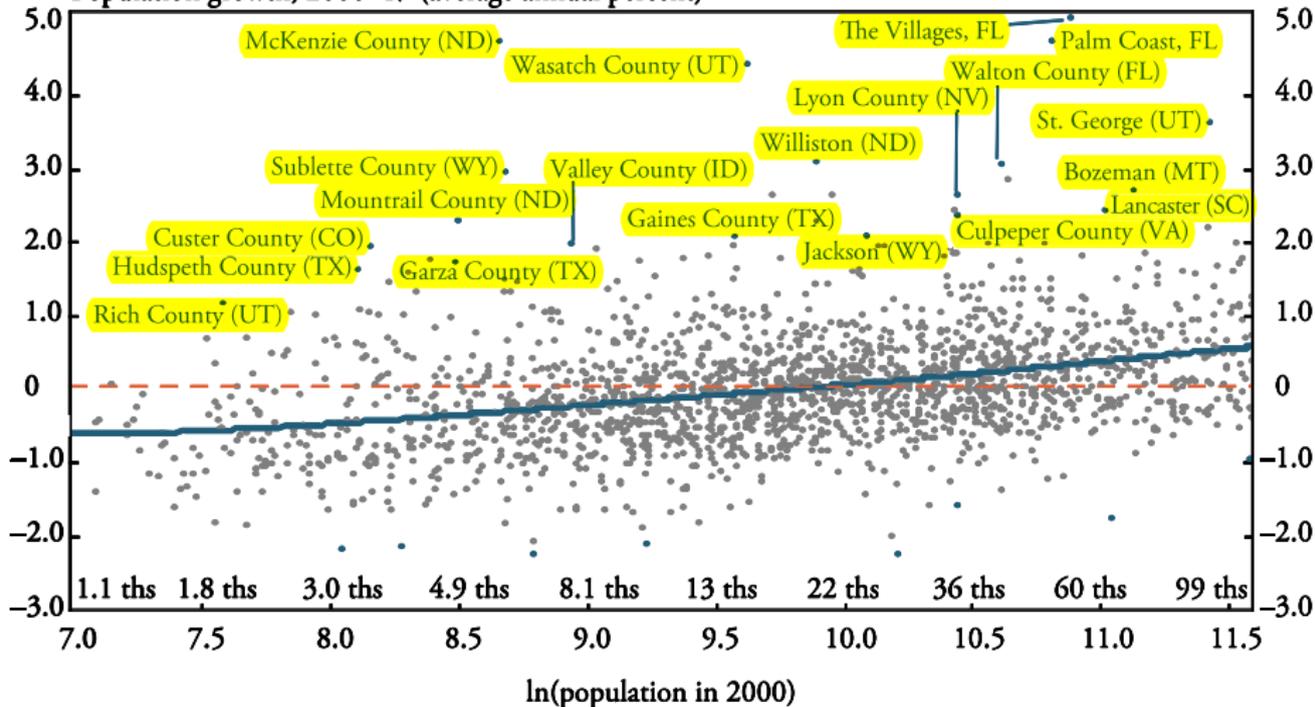


Most small locations lost population



Small locations that grew fastest benefitted from “special circumstances”

Population growth, 2000–17 (average annual percent)



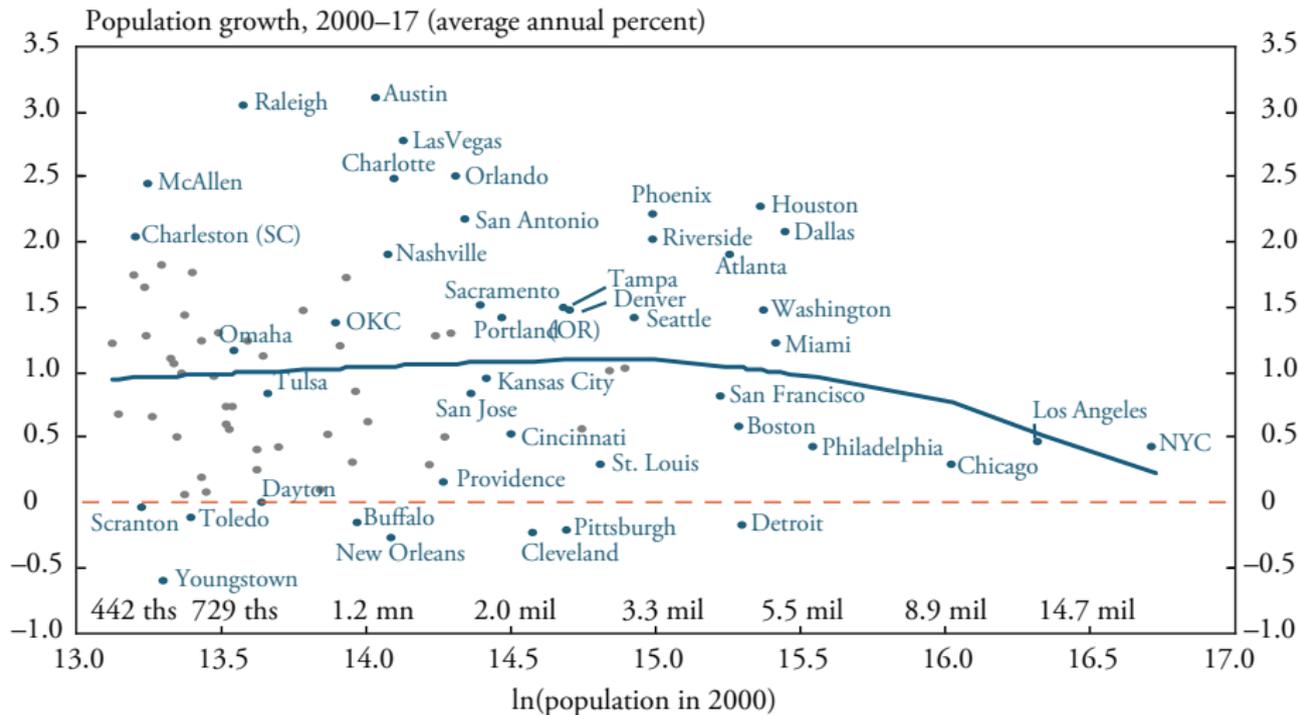
Special circumstances benefitting small locations (hard to change!)

- **nice weather**
 - ▶ warmer winters
 - ▶ cooler, less humid summers
 - ▶ less rainy days
- **mountains**
- **ocean coast**

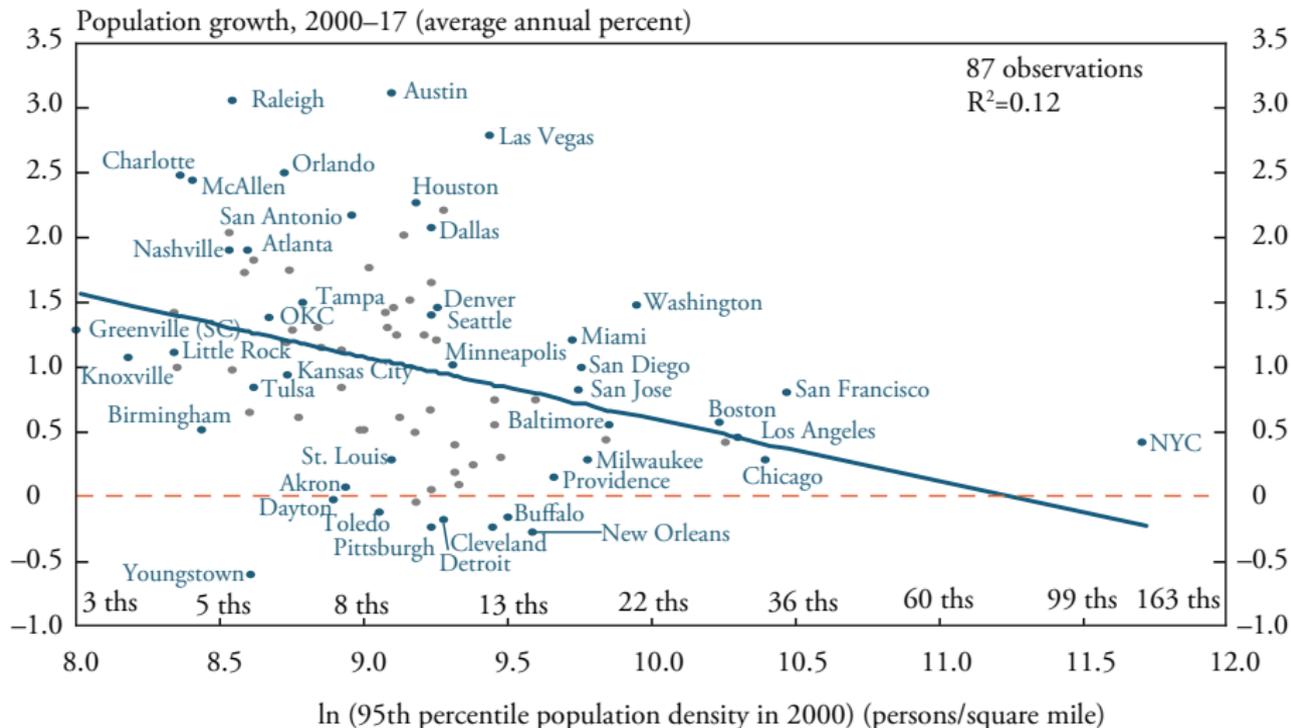
- **shale basin**

- **near medium or large metro area**
- **university**

Largest metropolitan areas grew slowly



Metros with highest population density grew slowly



Is growth for its own sake good?

- **Long-run size: do benefits of being larger outweigh costs of being larger?**
 - ▶ for largest metros: probably not
 - ▶ for small locations: perhaps
 - ▷ must be supported by fundamentals
 - ▷ required increase may not be attainable
- **Is there spare capacity?** (temporarily below fundamental size)
 - ▶ unemployed workers *who will be hired*
 - ▶ unfilled jobs
 - ▶ vacant homes
 - ▶ underused infrastructure
 - ▶ vacant commercial space
 - ▶ **Do benefits of short-run growth outweigh taxes/expenditures to attain it?**
- **Who benefits?**
 - ▶ existing businesses and residents or new ones?
 - ▶ high skilled or low skilled?
 - ▶ homeowners or renters

Emerging Trends

1. Suburbanization in large metros is reaching its geographic limit

- ▶ lack of undeveloped tracts in desired locations is severely dampening single-family construction
- ▶ requires shift in construction to metro interior
- ▶ requires shift in construction to multifamily
- ▶ requires shift in population to medium-sized metros

2. Autonomous ride hailing

- ▶ reduces parking needs for multifamily housing
- ▶ reduces parking needs for workers
- ▶ most benefits medium-sized metros

Three criteria for evaluating a policy

1. **Will it make existing businesses willing to pay higher wages?**
 - ▶ if yes: increases business productivity
2. **Will it make existing residents willing to pay higher home prices?**
 - ▶ if yes: increases amenities
3. **Think metropolitan!**
 - ▶ fundamentals typically affect the geography within which a population lives and works
 - ▶ municipal fundamentals complement metropolitan ones