A RESEARCH REPORT ON

Growth, Economic Development, and Local Government Structure in Pennsylvania

A White Paper Prepared by Wendell Cox Consultancy

JUNE 2005

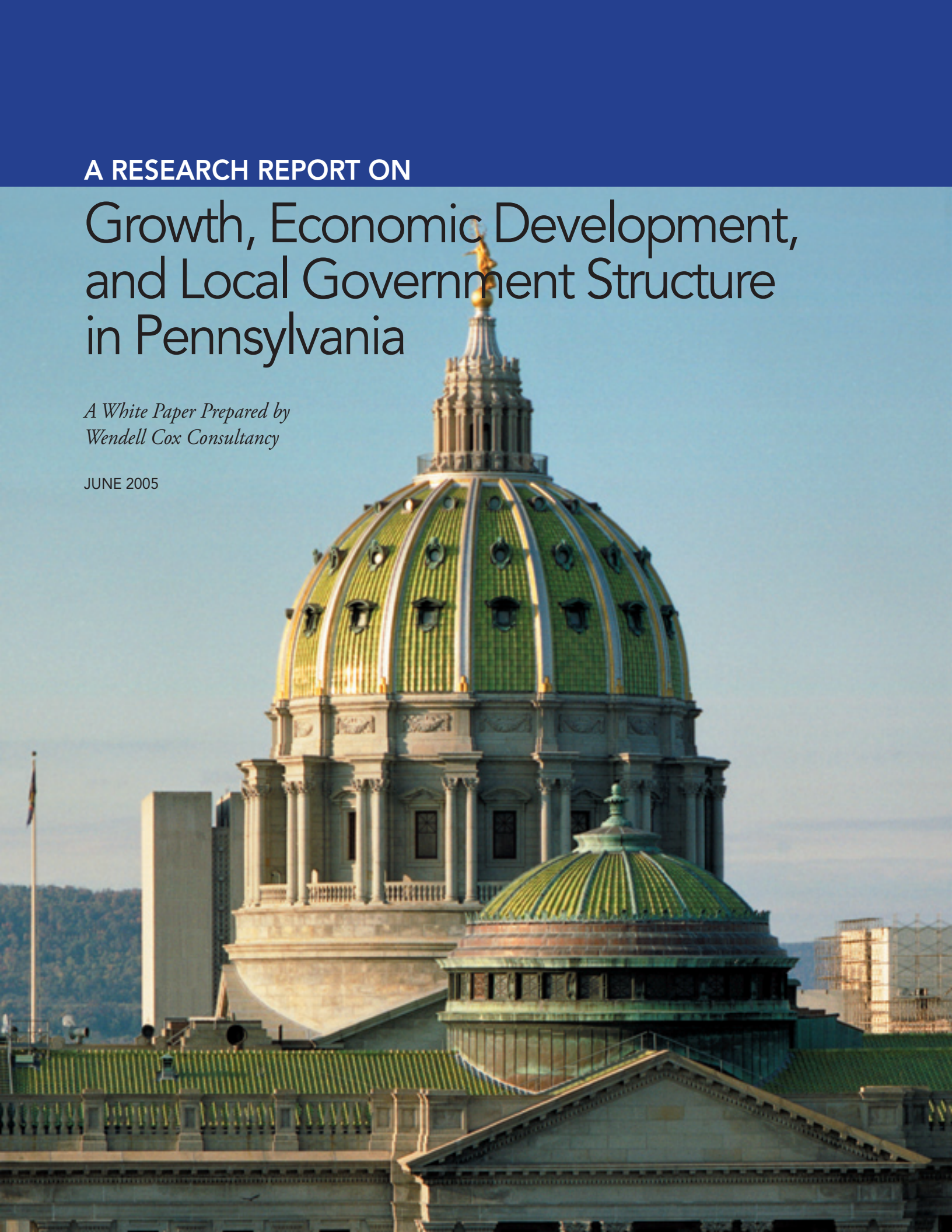

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TABLE OF CONTENTS

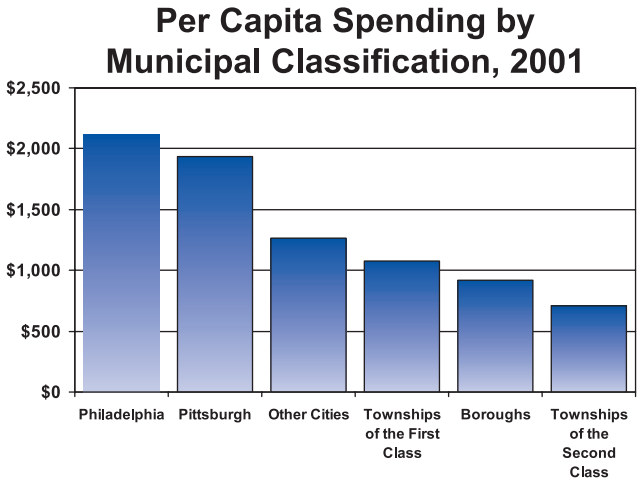
EXECUTIVE SUMMARY

Recently, Washington's Brookings Institution Center on Urban and Metropolitan Policy published a report, *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania,* which attributes Pennsylvania's competitive difficulties principally to two factors:

- Suburbanization, which is pejoratively labeled "urban sprawl."
- Greater local democracy, which is pejoratively labeled "fragmentation." Brookings implies that smaller local governments are associated with higher government costs.

While there is general agreement that Pennsylvania's population and economic growth have been comparatively weak, an examination of the data does not confirm the Brookings diagnosis. In fact:

- **Suburbanization Patterns in Pennsylvania Are Typical:** Suburbanization *(urban sprawl)* is the dominant urban development form, not only in Pennsylvania but elsewhere in the nation and throughout the high-income world. Pennsylvania's suburbanization is typical for an area with its characteristics.
- **Smaller Governments Cost Less:** Townships of the second class contain 42 percent of the state's population but represent only 28 percent of spending *(including county spending)* and spend less per capita than any of the other municipal classifications. Government expenditures are lower in the smaller municipal jurisdictions of Pennsylvania. Municipal government expenditures per capita are by far the highest in Philadelphia and Pittsburgh, which, with a combined population share of 16 percent, represent 31 percent of municipal spending in the state. Spending per capita is far lower in the other cities, boroughs, and townships of the first and second classes.



- **Suburbanization and Greater Democracy Are Unrelated to Economic Growth:** Brookings fails to document its claim that suburbanization and greater democracy lead to less economic growth. In fact, the high-income world's fastest growing large urban area is also the most sprawling (Atlanta), while the third and fourth fastest growing are also among the most sprawling (Dallas-Fort Worth and Houston). Since 1980, the greatest job growth in the Frost Belt (Northeast and Midwest) has been in metropolitan areas with greater local democracy. More research would be required, however, to determine whether suburbanization and greater democracy drive greater economic growth.
- **Economic Growth in Pennsylvania Is Typical for a Frost Belt State:** Pennsylvania's economic growth has been consistent with what would be expected for a Frost Belt state. The Pittsburgh area has experienced an unprecedented economic decline due to the loss of the steel industry but has recovered better than other metropolitan areas in the region that suffered less severe declines.

- **Greater Democracy Serves as Barrier to Special-Interest Control:** A great advantage of smaller municipal jurisdictions is that individual citizens have more incentive to be involved, which raises barriers to special-interest control. Pennsylvania's smaller municipal jurisdictions seem to be places that people care about.
- **Suburbanization Gives Residents More Choice:** Population growth is occurring in the suburbs[1] and traditionally rural environs because these areas provide many people with the quality of life they prefer and can increasingly afford.

  In Pennsylvania, suburban and rural residents also have the advantage of far more efficient local governments, a condition that also contributes to a superior quality of life by leaving more income under the direct control of households to exercise their own choices.

Recommendations

Pennsylvania can best position itself for renewal and reform by encouraging state and local governments to:

- **Encourage and strengthen policies that foster economic development** and avoid strategies that increase land, housing, or product pricing to foster maximum economic growth.
- **Reject any forced municipal consolidation proposal,** recognizing that the inevitable outcome would be to spread the higher costs and less efficient practices of any larger, less efficient jurisdiction across an even larger area, to the detriment of taxpayers.
- **Review the options for closing the financial performance gap between the cities of Philadelphia and Pittsburgh** and the more cost-efficient other cities, boroughs, and townships of the first and second classes. The extent of the performance gap suggests that Philadelphia and Pittsburgh may have become too large.

[1] Both in Pennsylvania and nearly all of the high-income world.

INTRODUCTION

Recently, Washington's Brookings Institution Center on Urban and Metropolitan Policy published a report, *Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania*, which purports to outline the competitive situation of Pennsylvania and offers recommendations to improve future performance. Brookings generally attributes much of Pennsylvania's economic problem to two factors:

- **Suburbanization**, which is pejoratively labeled "urban sprawl." Brookings notes that virtually all Pennsylvania population growth has been in peripheral *(suburban and exurban)* areas. At the same time, the core cities, principally Philadelphia and Pittsburgh, have lost population. Suburbanization is considered by Brookings to be a substantial contributor to Pennsylvania's slow economic growth. Indeed, Brookings refers to Pennsylvania as exhibiting a "radical pattern of sprawl."
- **Local democracy**, which is pejoratively labeled "fragmentation." Brookings notes that Pennsylvania has a comparatively large number of local government jurisdictions. This indicates that there is a high degree of local democracy in Pennsylvania because people generally have greater access to their local governments where average jurisdiction sizes are smaller.

  Brookings postulates that Pennsylvania government would be less costly if there were fewer local jurisdictions. Brookings also considers the high degree of local democracy to be a substantial contributing factor to Pennsylvania's slow economic growth.

Further, Brookings claims that Pennsylvania's suburbanization imposes higher government costs and points out that "older Pennsylvania," which it defines as the cities, boroughs, and townships of the first class, is facing considerable financial difficulty. Brookings expresses concern that most job creation has been in "greenfields," rather than established urban areas.

While there is general agreement that Pennsylvania's population and economic growth have been comparatively weak, an examination of the data does not confirm the Brookings diagnosis. The analysis that follows leads to the following overall conclusions:

- The population, urban growth, and suburbanization *(urban sprawl)* trends in Pennsylvania are not significantly different than in other similar areas throughout the country and even around the world.
- Municipal government expenditures per capita are by far the highest in Philadelphia and Pittsburgh, which, with a combined population share of 16 percent, represent 31 percent of spending. Spending per capita is far lower in the other cities, boroughs, and townships of the first class and second classes. Townships of the second class contain 42 percent of the population yet represent only 28 percent of spending
- Data from the Center for Rural Pennsylvania indicates that the household cost of living is lower in suburban areas than in central-city areas.
- Pennsylvania's suburban and rural development does not have a negative impact on economic growth.
- There is no indication that Pennsylvania's greater democracy has a negative impact on economic growth. Variations in economic growth appear to be the result of regional, weather, business climate, and political factors.
- Economic growth in Pennsylvania is consistent with what would be expected for a Frost Belt state.
- Pittsburgh has faced the unprecedented economic loss of its principal industry, steel. Yet, Pittsburgh has recovered more strongly than Cleveland and Buffalo, where economic decline was considerably less.
- A great advantage of smaller municipal jurisdic-

tions is that individual citizens have more incentive to be involved, which raises barriers to special-interest control. Pennsylvania's smaller municipal jurisdictions seem to be places that people care about.

- Data from the Department of Community and Economic Development and the Governor's Center for Local Government Services documents that there is a high degree of cooperation between Pennsylvania's municipalities on land use issues.
- Population growth is in the rural and suburban areas[2] because these environs provide people with the quality of life that they prefer. In Pennsylvania, these residents also have the advantage of far more efficient local governments, a condition that also contributes to a superior quality of life, by leaving more income under the direct control of households to exercise their own choices.

Townships of the second class contain 42 percent of the population yet represent only 28 percent of spending.

Recommendations

Pennsylvania can best position itself for renewal and reform by encouraging state and local governments to:

- **Encourage and strengthen policies that foster economic development** and avoid strategies that increase land, housing or product pricing, to foster maximum economic growth. This will lead to a Pennsylvania that has greater participation in the economic mainstream by people of all socio-economic backgrounds.
- **Reject any forced municipal consolidation proposal,** recognizing that the inevitable outcome would be to spread the higher costs and less efficient practices of any larger, less efficient jurisdiction across an even larger area, to the detriment of taxpayers.
- **Review the options for closing the financial performance gap between the cities of Philadelphia and Pittsburgh** and the more cost-efficient other cities, boroughs, and townships of the first class and second classes.

  The cost performance of both Philadelphia and Pittsburgh suggests the possibility that the two largest cities have become too large to achieve the lower per capita spending rates characteristic of the boroughs, townships, and smaller cities in the state. Such a review should begin with an examination of methods by which these cities could be subdivided into jurisdictions of between 10,000 and 50,000 residents.

[2] Both in Pennsylvania and nearly all of the high-income world.

URBANIZATION AND SUBURBANIZATION

The geographical growth *(or suburbanization)* of urban[3] areas, pejoratively called "urban sprawl," has become a heated issue. Suburbanization is a worldwide phenomenon that naturally accompanies population, household, and economic growth. Suburbanization is evident in virtually all high-income world urban areas from the United States to Canada, Australia, New Zealand, Japan, and Western Europe.

Further, suburbanization is occurring in the emerging democracies of Eastern Europe and in less affluent nations, such as in India and China. Urban areas *(including suburban areas)* grow both in population and land area, and as people become more affluent, they are able to take advantage of larger living quarters on larger lots.

Yet, a review of the current literature in urban planning could lead to the conclusion that "urban sprawl" is an inherent evil that must be eradicated. Within the urban planning profession, there is little critical thought at all on the issue. "Urban sprawl" has become a "sin" to the medieval church, and "smart growth" its salvation. For example:

- Nationally syndicated newspaper columnist Neal Pearce implied that the Columbine High School massacre in Littleton, Colo., was caused by urban sprawl .[4]
- Perhaps the most extreme of the anti-sprawl activists is James Howard Kunstler, who anticipates an apocalyptic end to suburbanization. He refers to urban sprawl as a "trashy and preposterous human environment with no future" and "places not worth caring about."[5]

There are, of course, less hysterical characterizations, but generally, the urban planning community is solidly of the view that suburbanization is a problem and must be controlled or even stopped. A variety of strategies have been proposed, such as smaller lot sizes, urban growth boundaries, and other housing market interventions, all of which tend to lead to higher housing prices. The intensity of opposition to suburbanization, however, is not accompanied by a solid justification for interfering with the rights of people to live and work where they prefer. For example, suburbanization is charged with:[6]

- **Wasting Land —** Even after 400 years of growth in the United States, major urbanized areas[7] cover less than one percent of the nation's land area.
- **Loss of Agricultural Land —** Suburbanization is charged with consuming an inordinate amount of agricultural land, thereby threatening the food supply. On the contrary, U.S. agricultural productivity has improved so much that substantial agricultural land has been taken out of production because it is no longer needed. Since 1950, the agricultural land removed from production has exceeded the land area of Texas, Oklahoma, and Vermont combined, even *after* accounting for the new land used for urban areas.[8]
- **Consumption of Open Space** — It is claimed that suburbanization consumes large amounts of open space. However, as indicated above, more productive agriculture has returned far

[3] An urbanized area is a U.S. Census and international urban classification generally meaning a continuously developed area. It is not confined to municipal boundaries and is generally smaller in both area and population than a metropolitan area, which is a labor market that includes not only contiguous development but also adjacent rural territory.
[4] Neal R. Pearce, *Littleton's Legacy: Our Suburban Dream Shattered.* www.postwritersgroup.com/archives (June 6, 1999).
[5] James Howard Kuntsler, *The Geography of Nowhere: The Rise and Decline of America's Man-Made Landscape* (1999).
[6] Based upon Wendell Cox, *Smart Growth and Housing Affordability,* paper commissioned by the Congressional Millennial Housing Commission (2002).
[7] Continuously built-up areas with more than 1 million population.
[8] http://www.demographia.com/db-agtxok.htm.

more land to open space than has been consumed by urbanization. This is not to suggest that environmentally sensitive or otherwise special land should not be preserved in reasonable amounts.

- **Traffic Congestion and Air Pollution** — Suburbanization is purported to make traffic congestion and air pollution worse. In fact, traffic congestion and air pollution are intensified by higher densities and generally moderated by lower densities.
- **Excessive Automobile Use —** It is claimed that urban land area growth forces people to be too dependent upon automobiles and that transit should be used more. However, automobiles are without competition for their ability to provide mobility throughout the modern urban area.

  No transit system has been proposed, much less implemented, that could remotely equal the mobility of automobiles, simply because it would be far too costly. Moreover, it is not feasible to increase urban densities enough to make transit materially competitive. The anti-growth pre-occupation with transit as an alternative to automobiles finds expression only in slogans and platitudes, not in serious proposals that transfer automobile demand to trains and buses by a meaningful amount.[9]
- **Jobs-Housing Imbalance —** Anti-growth activists often talk about the separation of jobs and housing as being a condition forced upon consumers. In fact, the separation that occurs is the result of conscious choices. People tend to travel farther than planners perceive to be necessary in virtually all urban areas, regardless of the extent of sprawl, passing literally thousands of jobs to work where they choose to work.
- **Higher Government Costs** — Most anti-sprawl academic studies deal with forecasts and fail to focus on actual spending data. They routinely project higher costs in suburban areas.

  However, the actual data indicates virtually the opposite, as will be shown below. The newer, less dense suburbs have lower government expenditures per capita than the more dense central cities.
- **Obesity** — Over the past year, an intense public relations effort has accompanied the publication of academic studies purporting to demonstrate that urban land area growth is a principal cause of obesity. It is suggested that lower population densities and suburban land use discourage walking, thereby increasing weights.

  There are at least two strong reasons to doubt the sprawl-obesity connection. Food intake has increased markedly during the same period that obesity has accelerated. Further, the large reductions in population density and walking occurred before the rise in obesity.

It is thus a mistake to accept a characterization of suburbanization as the modern reincarnation of the medieval "Lucifer." Virtually none of the claims made against suburbanization stands up to scrutiny.[10] While there are good reasons to protect sensitive land and to responsibly plan the infrastructure as demanded by the growing number of households, there is no justification for materially interfering with the right of people to live and work where and how they like.

No transit system has been proposed, much less implemented, that could remotely equal the mobility of automobiles, simply because it would be far too costly.

[9] See Wendell Cox, "The Illusion of Transit Choice," *Veritas*. Texas Public Policy Foundation (March 2002).
[10] A more extensive discussion of these claims is at http://www.aims.ca/library/coxfinal.pdf

There seems to be little evidence that the majority of Americans *(or Europeans, for that matter)* who live in suburban surroundings are aware of the purported scourge that their lifestyle is to the environment. They also seem to be comparatively content. The Pew Research Center reported that Americans and Canadians are the happiest people in the world in a 2003 survey.[11] Likewise, there continues to be robust demand for moving to the United States from other nations, while immigrants seem to move to lower-density surroundings as soon as their incomes permit.

From the outset, there is a semantic difficulty. The term "sprawl" itself conveys a negative connotation. "Income sprawl," for example, was not used to describe the rise of a strong middle class in the United States, nor is "tolerance sprawl" used to describe the objective of greater understanding between disparate ethnic or religious groups.

An objective definition is offered by Merriam-Webster: "The spreading of urban developments *(as houses and shopping centers)* on undeveloped land near a city."[12] The Merriam-Webster definition has the advantage of being objective *(neutral)* while also conveying the popular perception of urban sprawl: a spreading outward of urban development. This definition of "urban sprawl," or suburbanization, will be used in this report.

In fact, urban growth is suburban growth. For decades, nearly all growth in the metropolitan areas of Pennsylvania, the United States, and the rest of the high-income world[13] has been suburban *(Figure 1, right)*. Since 1965, approximately 114 percent of western Europe's urban growth has been in suburban areas. This seemingly impossible result occurred because the central cities actually lost population. As a result, the total population gain in the suburbs was

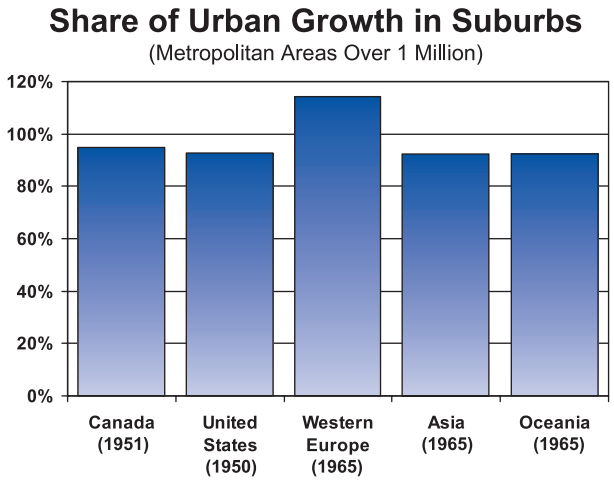


FIGURE 1

greater than the total gain in the metropolitan areas. More than 90 percent of urban growth has been in suburban areas in the United States, Canada, high-income Asia, and Oceania *(Australia and New Zealand)*.[13]

At the same time, most job growth has been in the suburbs, rather than in central cities, both in the United States and the balance of the high-income world. For example, in the Paris metropolitan area, which has been among the fastest growing in western Europe, all job growth for nearly 40 years has been outside the urban core. On average, less than five percent of new employment has been in central business districts in major world urban areas.[14]

The connection between growth and urban sprawl is noted by Ted Byrne, in a Business2Business magazine about the Brookings Report:

… in this Agenda, "sprawl" is very bad and "growth" is good … but what's the difference?[15]

Before the coming of mass transit in the early 19th

[11] Pew Research Center (October 29, 2003). *Global Gender Gaps: Women Like Their Lives Better.* http://people-press.org/commentary/display.php3?AnalysisID=71.
[12] http://www.m-w.com.
[13] www.demographia.com/db-highmetro.htm.
[14] http://www.demographia.com/db-intlcbd-trend.htm
[15] Ted Byrne, "Grading Brookings Agenda," *Business2Business.* Digital document: http://www.keywordcomm.com/pastissues/2004/february04/byrnefeb04.htm. Confirmed August 5, 2004.

century, cities were far more compact and dense than today. Residences and businesses needed to be close enough for people to walk to their destinations because most people didn't have access to the horse-based transport that was quicker. In the middle 17th century, Paris had nearly 250,000 people per square mile, more than 1½ times the current density of Hong Kong, the world's most dense *(least sprawling)* urban area. Even so, however, the walking city sprawled as it gained population. The walking city of 18th century London had 90,000 people per square mile, while the population of early 19th century New York was approximately 50,000. By 1800, at least Paris, Beijing and London were at or near 1 million in population.

The walking city was replaced by the transit city, as horse cars, then streetcars and subways made it possible for people to travel much farther in the same period of time. However, transit systems were core-oriented because it was far more efficient to design a system to feed a dense core than a system to serve all locations from virtually every potential destination. Improved transit, in the form of mass transit, allowed urban areas to become much larger than ever before. New York and London had achieved populations of more than 4 million by 1900.

Technology facilitated more suburbanization as widespread automobile ownership made larger geographical areas available for residences and businesses. Because the automobile can go anywhere, there was no longer the imperative to keep commercial development in the core, so that downtown areas became much less important. As a result, core *(especially downtown)* areas, which once contained most of the jobs in the transit city, lost much of their market share and now constitute from 5 to 20 percent of employment. In 1990, downtown Philadelphia accounted for approximately 10 percent of metropolitan area employment, while downtown Pittsburgh contained approximately 12 percent of employment.

If core areas had retained their higher employment market shares, the most effective transit systems in the world would not have been able to handle the demand.[16] By 2000, the largest urbanized areas in the United States had fallen from the 50,000 densities of the 19th century walking city to approximately 3,400, and overall urban area densities had dropped to 2,400.[17] The higher-density, large, urbanized areas of western Europe fell from walking-city densities of 90,000 to 8,000.[18] Urban land area expanded much more rapidly than population in large urban areas that had the highest density cores, such as New York, Boston, Chicago, Philadelphia, and Pittsburgh.

Overall, the Philadelphia urbanized area had a population density of 2,900 per square mile in 2000. The portion of the Philadelphia urbanized area in the state of Pennsylvania had a higher population density, at 3,200 per square mile.[19] This is approximately one-third more dense than the U.S. urban average, and nearly the same as Portland, Ore., which is admired in the urban planning community as a world leader in anti-sprawl *("smart growth")* policies.

The Pittsburgh urbanized area is less dense, at 2,057 residents per square mile. This is approximately 15 percent less than the U.S. urban average. However, Pittsburgh's density is approximately 20 percent greater than some Southern urbanized areas, such as Atlanta, Nashville, Raleigh, and Charlotte, which are experiencing some of the fastest population and economic growth in the nation *(or, for that matter, in the high-income world)*.[20]

[16] Tokyo, with the world's most extensive transit system, uses employees to push riders into subway cars to increase loads. Tokyo's core-oriented rail transit system carries more passengers every year than all of the transit systems in Canada and the United States combined.
[17] Average population per square mile of urbanized areas over 1 million in 2000.
[18] http://www.demographia.com/db-intlua-area2000.htm.
[19] Calculated from 2000 U.S. Census data.
[20] http://www.demographia.com/db-ua2000pop.htm.

Causes of Suburbanization

As noted previously, the principal causes of the world-wide suburbanization trend are population growth, household growth, and economic growth, which includes both rising incomes and commercial growth.

Population Growth — It would be expected that increasing population would drive an expansion of urban land area, but in recent decades, urban land area has increased faster than population throughout the high-income world and the United States, including Pennsylvania. However, other factors — as described here next — have materially increased the demand for new urbanized land.

Household Growth — A principal driver of suburbanization is household growth. Throughout the high-income world, household sizes have been falling for decades.

At the national level, the average household size dropped from 3.47 persons in 1950 to 2.68 persons in 2000. While the population increased 87 percent, the number of households increased 142 percent.

In Pennsylvania, the decline in average household size was even greater. In 1950, the average household contained 3.6 persons, while by 2000, the number of persons per household had dropped to 2.57. Pennsylvania's population increased 17 percent from 1950 to 2000, while the number of households increased more than 3½ times as rapidly, at 64 percent.

At the national level, the rate of urban land area expansion has been at nearly the same rate as the increase in households since 1960.

More New Housing than Households — The Brookings Report cites Pennsylvania's house building rate in the 1990s as "overproduction" because the rate of new houses built per new household was above the national average. However, it is inappropriate to evaluate the rate of new house building using a ratio of new households. There is demand for new housing that is unrelated to new households. This "internal" market demand is composed of building second houses and replacing obsolete housing units.

In fact, based upon the national rate of new housing built for the internal market *(excluding new households)*, Pennsylvania's home building rate in the 1990s was characterized by *underproduction.* If Pennsylvania's internal house building demand had matched the national average, 40,000 more homes would have been built in the state between 1990 and 2000.[21]

More Employment — It often seems forgotten that urban land area growth is the result of more than residential growth. Commercial growth also adds to the demand for land development.

There are two principal dimensions to commercial growth. The first is that job growth has expanded faster than population growth. This means that the development for new commercial land will tend to rise more steeply than the demand for new residential land. For example:

- The **Philadelphia** metropolitan area increased its population 7.3 percent from 1970 to 2000. However, the number of jobs increased at more than four times that rate, 30.3 percent.
- The **Pittsburgh** metropolitan area lost 11.9 percent of its population from 1970 to 2003. However, the number of jobs *increased* 17.2 percent *(Figure 8, page 20)*.[22]

The principal causes of the worldwide suburbanization trend are population growth, household growth, and economic growth, which includes both rising incomes and commercial growth.

[21] Estimated from U.S. Census data as provided in the Brookings report.

[22] In some ways, Pittsburgh might be considered the ultimate "comeback" city. Over the past one-half century, probably no major urban area has experienced such severe economic shocks. Pittsburgh, once the world's leading steel-producing area, lost virtually all of the steel industry. Yet, today, overall employment in the area is up nearly 20 percent from the pre-steel loss in 1970. Average earnings per job are up 2 percent, adjusted for inflation. In 1970, average earnings per job in Pittsburgh were 5 percent above the national average. Despite the unprecedented economic setbacks, average earnings per job are only 5 percent less than the national average today.

Greater Commercial Land Requirements — Commercial land requirements have grown as incomes, populations, and households have increased. Larger retail stores, such as big-box stores, have been developed, lowering consumer prices and generally improving the standard of living. This is especially the case with respect to lower-income households, for whom the price of basic necessities strongly influences the quality of life.

An important reason for this trend is the efficiency of horizontal, rather than vertical, commercial buildings. The advantage for society is that greater commercial building efficiencies lead to lower costs and lower prices, contributing to greater affluence. Much of the new commercial development has been single-story, especially warehouses, distribution facilities, and manufacturing plants. Moreover, office structures outside downtowns, or "edge cities," often tend to be low-rise — one, two, or three stories. These more horizontal designs take up more land.

It is clear that modern commercial development, whether business, government or institutional, generally uses more land per job than in the past.

Quality of Life — Rising incomes provide people with choices that they would not have had before. As was noted above, households have overwhelmingly chosen residences in the suburbs, whether Philadelphia, Pittsburgh, Paris, Stockholm, or Tokyo. Suburban housing is generally less expensive per unit of measure *(whether square feet or rooms)* and tends to be surrounded by considerably more land than in central cities.

The limited transportation options *(walking and transit)* that were available to people in the pre-1930 urban era compelled urban forms that were very dense. Widespread automobile availability, which was achieved by 1930 in the United States, 1955 in Canada, 1975 in western Europe, and 1985 in Japan, has made it possible for people to choose housing more to their liking. At the same time, the faster travel speeds typical of the car and the fact that cars can go virtually everywhere in the urban area *(not just downtown)* has meant that the move to the suburbs has generally reduced work trip travel times.

As people have become more affluent, they have chosen to buy larger houses, often on the periphery of the urban area. Whether an urban area grows substantially or remains effectively at the same population, overall income will generally increase. The extreme example is the Pittsburgh metropolitan area, which lost 10 percent of its population from 1977 to 2002 yet experienced an increase of more than 25 percent in gross personal income *(adjusted for inflation)*.[23]

But there are additional quality-of-life issues. Generally, crime rates have been higher in central cities. As a result, many households that were able to afford to leave moved to the suburbs. "Ivory tower" analysts may characterize such residential moves in pejorative terms, but the fact is that people tend to make their decisions principally on how they affect themselves, rather than the impacts on society. For example, the city of New York experienced a rapid increase in crime starting in the 1960s. It was only in recent years that there was a substantial reduction in crime, under the leadership of Mayor Rudy Giuliani. Other major cities have followed this laudable trend. But the household making the decision to move from the Bronx to Westchester County in 1969 could not predict that crime would substantially improve 30 years later, nor is it likely that, if they had known, the household would have been willing to stay.

There are other issues as well. Educational performance has been generally substandard in central cities. Many households with children either leave when they become old enough for school or place their children

A "government of the people" will be careful not to interfere with the choices of its citizens unless there is an overwhelming imperative.

[23] Calculated from U.S. Department of Commerce data. 1977 was the point of peak inflation-adjusted income before the large losses in Pittsburgh industrial employment.

in private schools. Public services are often inferior. Traffic congestion is generally worse in the denser central cities. There is at least the perception that large city governments are more prone to favoritism and political corruption and less under the control of their electorate. The Brookings report's misunderstanding of how reduced democracy raises government costs is discussed in greater detail later in this report. Finally, in exchange for a quality of life many consider to be inferior to the suburbs, central-city households generally pay higher taxes than their suburban counterparts.

Anti-Sprawl Policies: An Irony — It is ironic that policies intended to control urban sprawl often tend to have the opposite effect. Anti-sprawl policies in the San Francisco Bay area have driven nearly all growth across the Coast Range *(mountain range)* to the San Joaquin Valley. The bulk of Maryland's growth is in suburban and exurban policies despite strong anti-sprawl efforts under the administration of former Gov. Parris Glendening.[24]

A Matter of Choice — In fact, people tend to be more productive and fulfilled where they are allowed to do what they want to do. Few people prefer to have others make their decisions, whether friends, relatives, government, or other strangers. A "government of the people" will be careful not to interfere with the choices of its citizens unless there is an overwhelming imperative.

As was outlined above, anti-suburban interests have failed to demonstrate any such need. To its credit, the Brookings report did not propose the destructive strategies that have reaped such affordability losses in places as far apart as Portland, San Francisco, Boston, Vancouver, London, Sydney, and Auckland *(such as urban growth boundaries or excessive development impact fees)*. In these and other places, urban planners have been able to implement strategies that have created scarcity and resulted in the rationing of land and housing. This, of course, has been followed by the inevitable price increases that are inherently associated with rationing. Data from the 2000 Census indicates that houses are considerably more costly in urban areas that have created scarcity through land rationing *(Figure 2, below)*. Moreover, states with land rationing have had the greatest increases in housing values relative to incomes over the past three decades.[25]

This is in stark contrast to the situation in Dallas-Fort Worth, Houston, Atlanta, Philadelphia, and Pittsburgh, where land rationing policies have been avoided and where housing affordability remains at or superior to the national average.[26] As this indicates, there are both philosophical and economic reasons to allow people to live and work where and how they like.

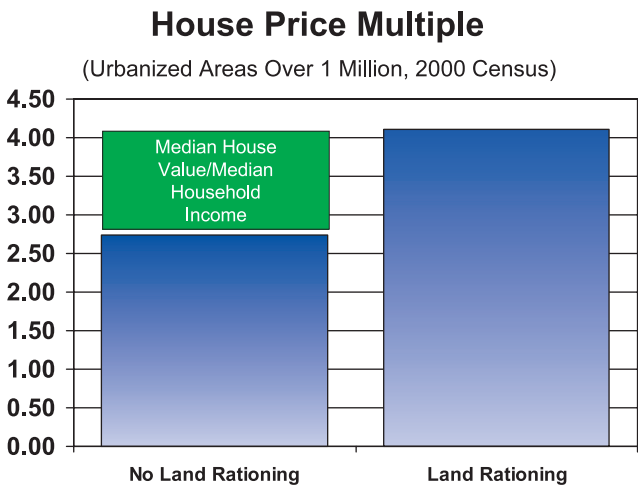


FIGURE 2

[24] Based upon U.S. Census Bureau data from 2000 to 2003.
[25] http://www.demographia.com/db-usafford1970r.htm
[26] http://www.demographia.com/db-housemult-smg.htm.

Pennsylvania Urban Development in Context

Population growth, especially urban growth, has been uneven in the United States since World War II. Most of the nation's population growth has been in an area corresponding roughly to the U.S. Census regions of the South and West. At the same time, growth has lagged considerably in the Northeast *(of which Pennsylvania is a part)* and Midwest. The term "Frost Belt" has been applied to the Northeast and Midwest, while the term "Sun Belt" has been applied to the South and West *(Figure 3, below)*.[27]

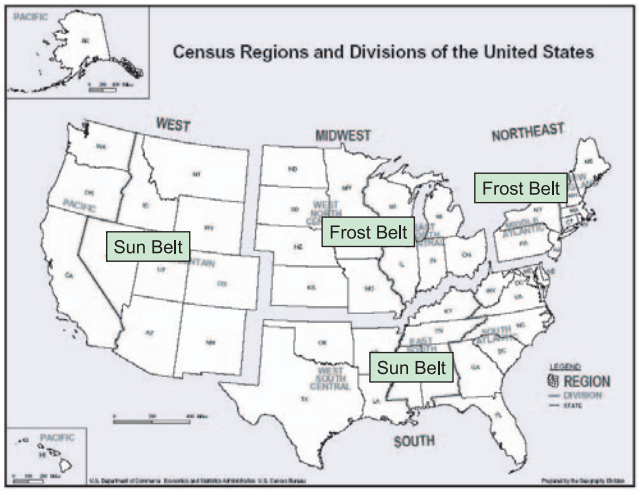


FIGURE 3

In 1950, 56 percent of the nation's population was in the Frost Belt. By 2003, that figure had fallen to 41 percent. During that period, the Sun Belt had added 103.6 million residents *(Figure 4, right),* nearly three times the 35.9 million residents added to the Frost Belt *(Table 1, adjacent page).*

- During the 1950s and 1960s, 42 percent of the population growth was in the Frost Belt.
- The Frost Belt share of population growth fell substantially in the 1970s and 1980s, to 11 percent.

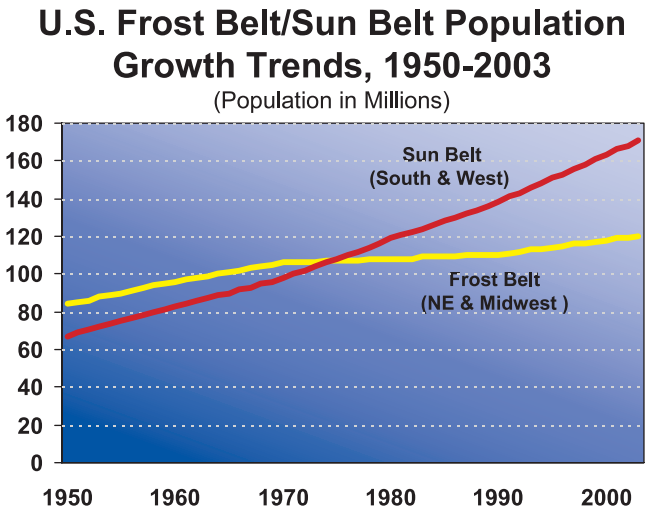


FIGURE 4

- From 1980 to 2003, there has been a recovery in the Frost Belt share of population growth, to 22 percent, double the 1970 to 1990 rate, but one-half of the 1950 to 1960 rate.

Like other Frost Belt states, Pennsylvania grew more slowly than the national average. From 1950 to 1970, Pennsylvania accounted for 6 percent of the Frost Belt growth. This fell to only 2 percent from 1970 to 1990 but recovered to 5 percent from 1990 to 2003. Nonetheless, Pennsylvania has grown more slowly than most Frost Belt states in recent decades. At least two factors have contributed to this slower growth:

- Much of the Philadelphia metropolitan area is located outside the state, in New Jersey, Delaware, and Maryland. Approximately one-half of the Philadelphia metropolitan area's growth has been outside the state *(Figure 6, page 19)*. The same situation exists in the New York area, where much of the population growth has been in New Jersey, Connecticut, and Pennsylvania. New Jersey has experienced strong population growth as a result of the fact that it contains most of the out-state suburban population of both New York and Philadelphia.

[27] These popular terms are not entirely accurate. Some "Sun Belt" states, such as Montana and Wyoming, have colder winter weather, on average, than the Frost Belt states. And, generally, "Frost Belt" states have considerably more days of sunshine than the "Sun Belt" states of Oregon and Washington. A more accurate characterization might be areas of older (Northeast and Midwest) and newer (South and West) development.

- The Pittsburgh metropolitan area has suffered population losses due to the unprecedented and unique economic losses that occurred principally from the virtual closure of the steel industry, which was largely completed before 1980.

Nonetheless, there is reason for optimism in the recent growth trends. The Frost Belt has recovered some of its population growth share and could be poised for greater growth in the future.

Central City Population Losses

The Brookings report raises concern about the population decline in Pennsylvania's older cities, boroughs, and older inner suburbs, which lost 139,000 residents from 1990 to 2000. This is principally a Philadelphia and Pittsburgh phenomenon, which combined for more than two-thirds of the loss (103,000). Since 1950, Philadelphia has lost nearly 600,000 residents, almost 29 percent of its population. Over the same period, Pittsburgh has lost nearly 350,000 people, or 52 percent of its population.

But the Philadelphia and Pittsburgh population losses are not unusual. Central city population losses have occurred in every major high-income-world core city that has not expanded its boundaries *(through annexation or consolidation)*, with the exception of Vancouver, British Columbia.[28] At the same time, nearly all population growth in high-income-world metropolitan areas has been in the suburbs for decades.

The most substantial central-city population loss in the world has been in St. Louis, which has lost 61 percent of its population since 1950. The smallest U.S. loss was in San Francisco, at 3 percent *(Table 2, page 16)*.

- Philadelphia's 29 percent loss has been similar to losses in Baltimore, Minneapolis, Washington, D.C., and Boston, but Philadelphia's loss has been below the national average of 36 percent.
- The 52 percent loss in Pittsburgh was among the highest. Only world population loss leader St. Louis lost more of its population than Pittsburgh, but other "heart of the Rust Belt" cities sustained losses nearly as great. Detroit and Buffalo lost 51 percent of their population, while Cleveland lost 49 percent.

International Context — As indicated, the international experience has been similar to that of the United States *(Table 3, page 17)*.

- The city of Philadelphia's population loss has been only slightly less than that of Paris and smaller than Copenhagen's loss. Losses have also been greater in London and Lisbon. Milan's loss

TABLE 1

Change in Population

Area	1950-1970	1970-1990	1990-2003	1950-2003
Frost Belt	21.67	4.87	9.33	35.87
Sun Belt	30.21	40.63	32.77	103.62
Total	51.89	45.50	42.10	139.49
Frost Belt Share	42%	11%	22%	26%
Pennsylvania	1.30	0.09	0.48	1.87
PA Share of Frost Belt	6%	2%	5%	5%
Population in Millions				

[28] www.demographia.com/db-worldcore400.htm.

TABLE 2

Non-Annexing US Cities With Peak Population Over 400,000

Central City	1950 Population	2003 Population	Change
St. Louis	857,000	332,000	-61.3%
Pittsburgh	677,000	325,000	-52.0%
Buffalo	580,000	285,000	-50.9%
Detroit	1,850,000	911,000	-50.8%
Cleveland	915,000	461,000	-49.6%
Newark	442,000	278,000	-37.1%
Cincinnati	504,000	317,000	-37.1%
Baltimore	950,000	651,000	-31.5%
Washington	802,000	563,000	-29.8%
Philadelphia	2,072,000	1,479,000	-28.6%
Minneapolis	522,000	373,000	-28.5%
Boston	801,000	582,000	-27.3%
Chicago	3,621,000	2,869,000	-20.8%
San Francisco	775,000	752,000	-3.0%
Average			-36.3%

Derived from US Census data.

nearly equals that of Philadelphia but has occurred over 30 years, while the Philadelphia loss has taken a longer period, 53 years *(Table 2, above).* Philadelphia's core population losses have been occurring for many decades. Historian Kenneth Jackson has noted that central ward population losses were recorded in Philadelphia between 1800 and 1820.[29]

- What might be considered the "Rust Belt" central cities of Great Britain suffered substantial losses. Glasgow, Manchester, and Liverpool all lost between 45 and 50 percent of their population, nearly equaling the Pittsburgh loss. Belgium's industrial and port city of Antwerp lost 53 percent of its population, more than Pittsburgh.[30] Much larger population losses are masked by city boundaries. Within its 1860 boundaries, Paris dropped 53 percent, from 1.27 million to 600,000 since 1901, more than Pittsburgh.

  Smaller areas of Paris and New York have lost approximately 70 percent of their population, while the inner core of Tokyo has lost more than 60 percent of its population, falling from 2.16 million to 780,000 since 1920, a loss equal to more than twice Pittsburgh's peak population.[31] Sections of New York lost more than 60 percent of their population from 1910 to 2000.

Finally, central cities are losing population even in middle- and lower-income nations. Mumbai, Bombay, one of the poorest and largest urban areas in the world, has experienced population declines in core wards, while most growth has occurred in the suburbs,

[29] Kenneth Jackson, *Crabgrass Frontier: The Suburbanization of the United States.*
[30] Data for the pre-1982 consolidation city of Antwerp.
[31] www.demographia.com/db-intlcitycores.htm

both inside and outside the municipal boundaries.

Mexico City's central wards have lost more than 40 percent of their population since 1960, while nearly all population growth has been in the suburbs for 20 years. In fact, Mexico is in the midst of an unprecedented, virtually all-suburban, new-house construction boom. One newly developing Mexico City suburb, Tekamah, is projected to add 500,000 residents, a number nearly as large as the Philadelphia loss in just 10 years. The core city Buenos Aires lost 7 percent of its population during the 1990s, and *all* urban area growth has been in the suburbs for more than 50 years.[32]

The differences between central city population losses *(and gains)* is simply a matter of where the municipal boundaries are drawn. The inner cores of urban areas tend to lose population regardless of whether they are in central cities with boundaries drawn far enough away from the core to include growing suburban areas.[33] The inner city population loss phenomenon generally results from the fact that inner cores tend to be older and were built at higher population densities, usually before the automobile, or even subways and street cars.

TABLE 3

Selected International Cities Losing Population

Central City	Peak Population	Latest Estimate	Change
Antwerp (Note)	334,000	157,000	-53.0%
Liverpool	857,000	439,000	-48.8%
Manchester	766,000	393,000	-48.7%
Glasgow	1,088,000	579,000	-46.8%
London (Note)	4,536,000	2,766,000	-39.0%
Copenhagen	768,000	502,000	-34.6%
Lisbon	818,000	557,000	-31.9%
Paris	2,906,000	2,125,000	-26.9%
Milan	1,687,000	1,256,000	-25.5%
Vienna	2,031,000	1,550,000	-23.7%
Essen	729,000	592,000	-18.8%
Osaka	3,156,000	2,599,000	-17.6%
Tokyo (Note)	8,893,000	8,130,000	-8.6%

Antwerp is for pre-consolidation city (1982).
London is for the pre-1965 city (London County Council).
Tokyo is for the 23 wards comprising the former city (abolished 1945)

[32] www.demographia.com/db-mumbai1981.htm, www.demographia.com/db-mxcsector.htm and www.demographia.com/db-bamsatrend.htm.

[33] The expansion, through annexation or consolidation of central-city boundaries, has no impact on this phenomenon.

Suburbanization Trends

In the context of regional growth trends, the suburbanization that has occurred in Pennsylvania metropolitan areas is not at all unusual. To the contrary, it is typical of metropolitan areas with similar characteristics.

Since 1950, most of the nation's major metropolitan population growth (73 percent) has been in the "Sun Belt."[34] More than one-half of this growth (27 percent) has been in "newer metropolitan areas" — areas that had a population of less than 1 million in 1950. These areas, the largest of which are Dallas-Fort Worth, Miami, Houston, and Atlanta, now have 47 million people. The largest population (69 million) is still in the older metropolitan areas of the Frost Belt *(Table 4, below).* This classification includes Philadelphia and Pittsburgh. The older metropolitan areas of the Sun Belt have 52 million residents. While 25 metropolitan areas have grown to over 1 million in the Sun Belt, only 7 have in the Frost Belt.

The older metropolitan areas of the Frost Belt captured more than 35 percent of growth during the 1950s and 1960s, but in the 1970s, these older metropolitan areas actually lost population. During the 1980s, the older metropolitan areas of the East and Midwest returned to growth, capturing

TABLE 4

Population of Major Metropolitan Areas: 1950 — 2003

Population in Millions	Number of Cases	1950	2003	Change
East & Midwest: Older (>1,000,000 in 1950)	14	46.8	68.7	21.9
East & Midwest: Newer (Achieved 1,000,000 after 1950)	7	5.6	9.8	4.2
"Frost Belt"	21	52.4	78.5	26.1
South & West: Older (>1,000,000 in 1950)	7	15.9	52.0	36.0
South & West: Newer (Achieved 1,000,000 after 1950)	25	13.5	47.1	33.5
"Sun Belt"	32	29.5	99.0	69.5
Total	**53**	**81.8**	**177.5**	**95.7**
Share of National Metropolitan Population				
East & Midwest: Older (>1,000,000 in 1950)	14	57%	39%	23%
East & Midwest: Newer (Achieved 1,000,000 after 1950)	7	7%	5%	4%
"Frost Belt"	21	64%	44%	27%
South & West: Older (>1,000,000 in 1950)	7	19%	29%	38%
South & West: Newer (Achieved 1,000,000 after 1950)	25	17%	27%	35%
"Sun Belt"	32	36%	56%	73%
Population in millions Metropolitan areas with more than 1,000,000 residents in 2003.				

[34] U.S. Census divisions used: Northeast (East), South, Midwest and West. Metropolitan population is based upon the 2004 area definitions and uses the county-based metropolitan areas in New England.

10 percent of growth of new residents. Since 1990, the older metropolitan areas of the Frost Belt have obtained more than 20 percent of the metropolitan growth *(Figure 5, below)*.

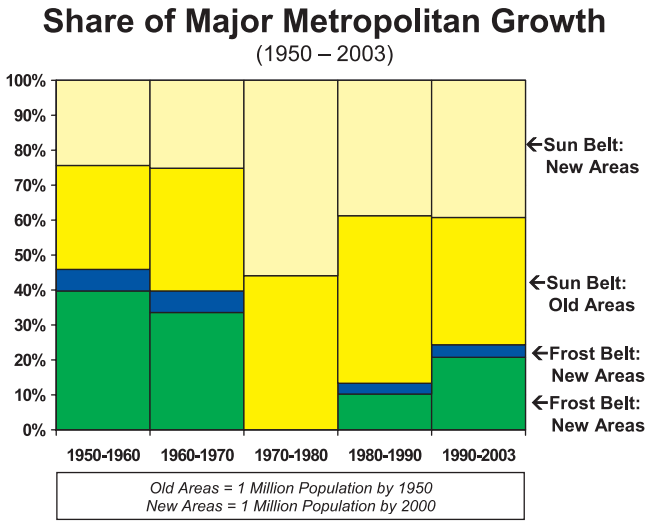


FIGURE 5

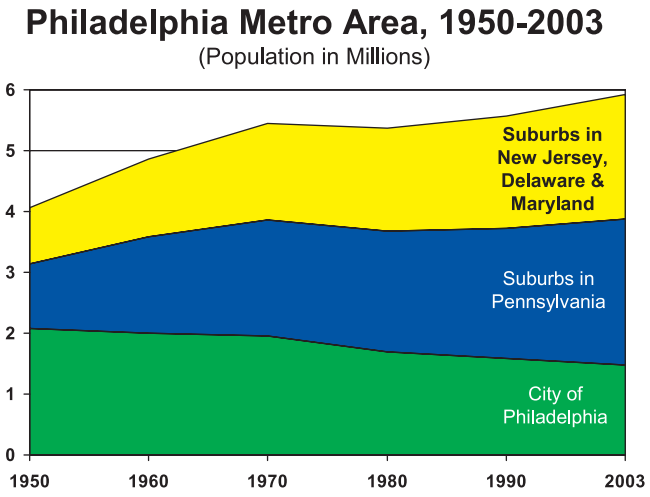


FIGURE 6

Philadelphia Metropolitan Area

From 1950 to 2003, the Philadelphia metropolitan area[35] grew from 4.1 million to 5.9 million people. This is a 46 percent increase but is less than one-half the 117 percent population increase that occurred over the same period among U.S. metropolitan areas with more than 1 million population. The growth pattern of metropolitan Philadelphia has been similar to that of other older metropolitan areas of the Frost Belt.

From 1980 to 2003, the Philadelphia metropolitan area grew 10 percent, slightly less than the Frost Belt older metropolitan average of 11 percent. Thus, while the Philadelphia area has grown more slowly than the national average, its growth has been similar to that of other older Frost Belt metropolitan areas.

All growth within the Philadelphia metropolitan area has been outside the city of Philadelphia, as the city itself, like other central cities around the world, has declined *(Figure 6, left)*. The Pennsylvania suburbs *(Bucks, Chester, Delaware, and Montgomery counties)* have received somewhat more of the growth than the suburbs in New Jersey *(Burlington, Camden, Cumberland, Gloucester,, and Salem counties)*, Delaware *(New Castle County,)* and Maryland *(Cecil County)*.

The Pennsylvania suburbs have grown 24 percent since 1950, adding 1.325 million residents. The out-of-state suburbs have grown 23 percent since 1950, adding 1.129 million residents. While there is a general perception that suburban growth has been fueled by the exodus from the core, the central cities' loss of 592,000 people represents only 24 percent of the suburban growth since 1950 *(Figure 7, page 20)*.

[35] As defined in 2004 by the U.S. Census Bureau, including portions in New Jersey, Delaware, and Maryland.

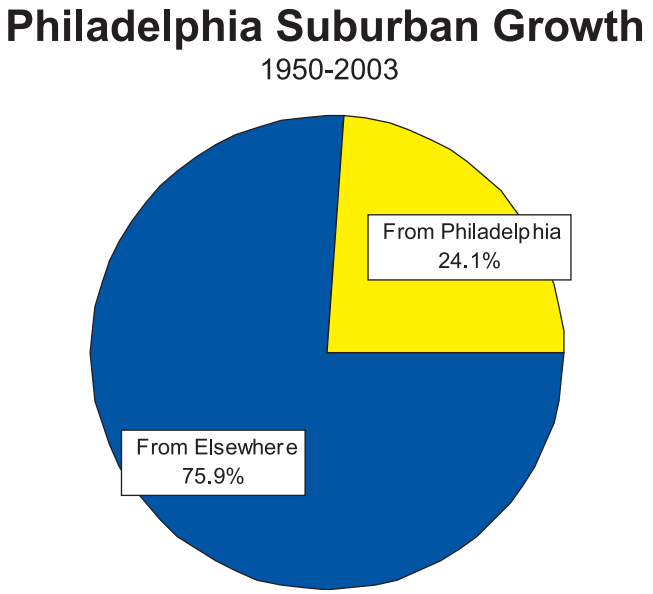


FIGURE 7

The interstate nature of metropolitan Philadelphia places Pennsylvania at competitive risk. Policies that increase housing prices or the cost of doing business, such as land rationing or overly restrictive development regulation in the Pennsylvania portion of the area, could drive population growth to the suburbs in New Jersey, Delaware, and Maryland.

Pittsburgh Metropolitan Area

Pittsburgh was the only major metropolitan area in the nation to lose population between 1950 and 2003. Buffalo was the closest to Pittsburgh, with a 7 percent population increase. All other major metropolitan areas gained at least 30 percent over the same period. However, metropolitan Pittsburgh is not alone in the world in losing population. Other metropolitan areas that have been especially dependent upon heavy industry have also lost. Metropolitan Liverpool has lost even more than Pittsburgh, at 10 percent. Glasgow and Manchester have also sustained losses.[36]

The Pittsburgh metropolitan area's largest population loss occurred in the 1980s. A number of older East and Midwest metropolitan areas had lost population in the 1970s, but Pittsburgh and Buffalo were the only two to lose population in the 1980s. While the Pittsburgh area continues to lose population, the rate has been reduced. Since 1990, the Pittsburgh area has lost 2.4 percent of its population, the same as metropolitan Buffalo. Nearby metropolitan Cleveland gained 3 percent from 1990.

Unlike virtually all other metropolitan areas, population has been falling in each of the Pittsburgh area sectors: the city, the inner suburbs, and the outer suburbs. The city continues to lose population, but so do the suburbs within Allegheny County and the suburbs in the outer counties *(Figure 8, below).* The city suffered its greatest population losses from 1950 to 1980. Since 1980, the city population loss has been less than one-half the 1950 to 1980 period. Since 1980, however, Allegheny County suburbs have lost 90,000 residents, while outer-county suburbs have lost 64,000 residents. The suburbs have lost 1½ times the population lost by the city of Pittsburgh since 1980 *(Figure 9, adjacent page).*

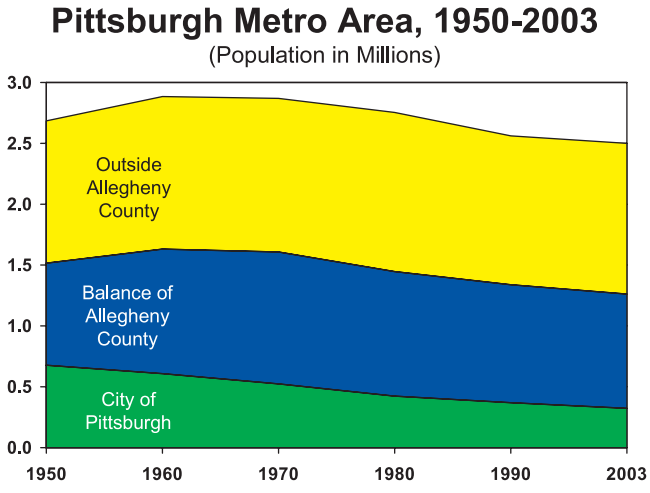


FIGURE 8

[36] http://www.demographia.com/db-metro-we1965.htm

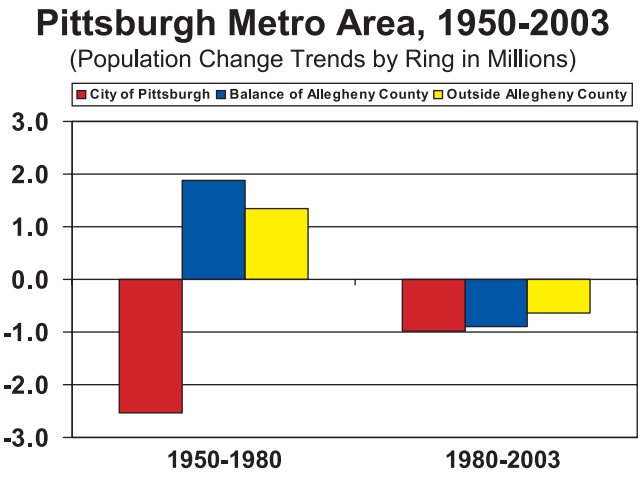


FIGURE 9

It would appear that a principal cause of Pittsburgh's population loss has been the unprecedented economic losses that have occurred in its former dominant industrial sectors, especially steel production.

Unlike Philadelphia, Pittsburgh is not an interstate metropolitan area. However, at least three counties in Ohio and West Virginia are comparatively close to Pittsburgh's western suburbs. This means that, as in Philadelphia, policies that make Pittsburgh less competitive could drive growth out of the state that would otherwise occur in Pennsylvania.

Other Metropolitan Areas

There are 11 smaller metropolitan areas that have core cities in Pennsylvania. The current total population is 4.2 million, up from 3 million in 1950. This 36 percent population increase *(Table 5, next page)* is less than that of the Pennsylvania portion of the metropolitan Philadelphia area but much larger than the metropolitan Pittsburgh loss.

As in the case of the state's two largest metropolitan areas, Pennsylvania has growing and declining metropolitan areas. Scranton/Wilkes-Barre is a unique case among the nation's medium-sized metropolitan areas. Using present definitions, Scranton/Wilkes-Barre would have ranked as the nation's 20th largest metropolitan area in 1910. The area peaked at 771,000 people in 1930 and has since declined more than 200,000 to 552,000.[37]

The Johnstown metropolitan area is now 30 percent smaller than at its peak, the largest decline of any of the nation's more than 300 metropolitan areas. The Altoona metropolitan area has also lost population, but at a much slower rate. The three declining metropolitan areas have lost 18 percent of their population since 1950, approximately 2½ times the metropolitan Pittsburgh rate of loss. Each of the three metropolitan areas lost a greater share of its population than the Pittsburgh area.

However, the state has more smaller metropolitan areas that are growing, and they contain about 80 percent of the smaller metropolitan area population. Overall, the population of the growing metropolitan areas has risen from 2.1 million in 1950 to 3.3 million in 2003. This 63 percent increase is one-third higher than the metropolitan Philadelphia growth rate. Today, more people live in Pennsylvania's growing smaller metropolitan areas than in the Pennsylvania suburbs of Philadelphia and twice as many as live in the city of Philadelphia.

It would appear that much of the growth of the smaller metropolitan areas is "exurban" to major metropolitan areas. The Allentown/Bethlehem/Easton area is the recipient of exurban growth from New York and Philadelphia. Lancaster and Reading each receive exurban growth from Philadelphia, while the York/Hanover/Gettysburg area receives exurban growth from Washington-Baltimore. These exurban metro-

Today, more people live in Pennsylvania's growing smaller metropolitan areas than in the Pennsylvania suburbs of Philadelphia and twice as many as live in the city of Philadelphia.

[37] Metropolitan geographical definitions as of 2003. www.demographia.com/db-met1900.pdf.

politan areas grew 71 percent from 1950 to 2003.[38] This is more than triple the growth rate of the Philadelphia metropolitan area within Pennsylvania. Likewise, exurban population growth is occurring in Pike County, which the Census Bureau classifies as a part of the New York metropolitan area.

TABLE 5

Population Trends: Pennsylvania Metropolitan Areas Under 1 Million Population

	1950	1980	2003	Change from 1950	% Change from 1950
DECLINING AREAS					
Scranton--Wilkes-Barre, PA	666	597	552	(114)	-17.1%
Johnstown, PA	210	183	149	(60)	-28.7%
Altoona, PA	140	137	127	(12)	-8.8%
Total	1,015	917	829	(187)	-18.4%
Change		-9.7%	-9.7%		
Change from 1950			-18.4%		
GROWING AREAS: EXURBAN					
Allentown-Bethlehem-Easton, PA-NJ	495	635	768	273	55.0%
York-Hanover-Gettysburg, PA	247	381	491	244	99.0%
Lancaster, PA	235	362	483	248	105.7%
Reading, PA	256	313	385	130	50.7%
Total	1,233	1,692	2,127	895	72.6%
Change		37.2%	25.8%		
Change from 1950			72.6%		
GROWING AREAS: OTHER					
Harrisburg-Carlisle-Lebanon, PA	399	555	640	241	60.5%
Erie, PA	219	280	280	61	27.6%
Williamsport-Lock Haven, PA	138	157	156	18	13.1%
State College, PA	66	113	142	76	114.9%
Total	822	1,105	1,218	396	48.2%
Change		34.5%	10.2%		
Change from 1950			48.2%		
ALL AREAS	3,070	3,714	4,174		
Change		21.0%	12.4%		
Change from 1950			36.0%		
Population in thousands					

[38] Excluding a portion of Allentown in New Jersey (Warren County).

TABLE 6

Pennsylvania Population Trend by Sector

Year	1950	2003	Change	%	Share
Philadelphia	3,143	3,875	732	23.3%	39.2%
Pittsburgh	2,686	2,504	(183)	-6.8%	-9.8%
Smaller Exurban	1,179	2,018	840	71.2%	45.0%
Smaller Other	822	1,218	396	48.2%	21.2%
Smaller Declining	1,015	829	(187)	-18.4%	-10.0%
Metropolitan	8,845	10,444	1,598	18.1%	85.6%
Other	1,653	1,922	269	16.3%	14.4%
State	10,498	12,365	1,867	17.8%	100.0%

Population in thousands

The remaining smaller metropolitan areas have also grown strongly, including Harrisburg/Carlisle/Lebanon; Erie; Williamsport/Lock Haven; and State College. Since 1950, these metropolitan areas have grown 48 percent, more than double the metropolitan Philadelphia growth rate inside Pennsylvania *(Table 6, above)*. The strong growth in the Harrisburg area is typical for a state capital, while the growth in State College mirrors trends in a number of communities that are host to large state universities. The growth in the Harrisburg and State College areas has been competitive with some Sun Belt metropolitan areas.

The Potential for Misdiagnosis

Misunderstanding the nature of Pennsylvania's growth could lead to policies that make the situation even worse. Anti-sprawl policies, such as urban growth boundaries and limitations on commercial development, have become popular in many jurisdictions. Such policies are often characterized as "smart growth."

The most frequently implemented policies involve consolidation of planning functions at regional government levels, where the currently popular land rationing policies are usually implemented. Urban growth boundaries, green belts, and zoning regulations intended to stunt suburban growth are typical land rationing policies. However, as is the case in the goods and services in the broader economy, rationing raises prices.

Land rationing must necessarily lead to higher housing prices. This makes it more difficult for lower-income households to join the economic mainstream through home ownership. This is a particular problem because home equity represents the principal basis of middle- and lower-income wealth and is a generator of funding for education, new businesses, and other activities that fuel economic growth. In addition to producing a less socially cohesive Pennsylvania, land rationing strategies could drive growth to outside the state, whether to the out-of-state suburbs of Philadelphia, the out-of-state exurbs of Pittsburgh, or elsewhere.

Land rationing must necessarily lead to higher housing prices.

Conclusions

The population, urban growth and suburbanization *(urban sprawl)* trends in Pennsylvania are not significantly different than in other similar areas.

- Much of the nation's growth has been in the Sun Belt. Barely one-quarter of population growth has occurred since 1950 in the Frost Belt, where Pennsylvania is located.
- Pennsylvania's growth rate has been below the national average, although more consistent with growth rates in the Frost Belt, especially if Pittsburgh's economic losses and Philadelphia's out-of-state metropolitan population growth are considered.
- Philadelphia's metropolitan area has grown at a rate similar to average for older Frost Belt metropolitan areas.
- Pittsburgh's metropolitan population loss is unique for a major metropolitan area in the United States but is similar to that of international urban areas that have experienced major industrial losses.
- Some of Pennsylvania's smaller metropolitan areas are experiencing strong growth competitive with that of some Sun Belt metropolitan areas.
- Pennsylvania's large central cities, Philadelphia and Pittsburgh, have experienced population losses that are not unlike the losses that have occurred in inner-city areas throughout both the United States and around the world.
- It is incorrect to characterize Pennsylvania as exhibiting a "radical pattern of sprawl." Pennsylvania's pattern of suburbanization mirrors the experience throughout the United States, Canada, Western Europe, Japan, Australia, and New Zealand.

  Based upon the pervasive dominance of suburbanization in the international experience, it is likely that without the suburban growth *("urban sprawl")* the Brookings report finds objectionable, virtually all of it would have instead gone to other states, such as New Jersey or elsewhere.
- State and local officials should be cautious about introducing policies that increase housing or business costs because growth could be driven to nearby states from the Philadelphia and Pittsburgh areas.

It is incorrect to characterize Pennsylvania as exhibiting a "radical pattern of sprawl."

PUBLIC COSTS OF SUBURBANIZATION

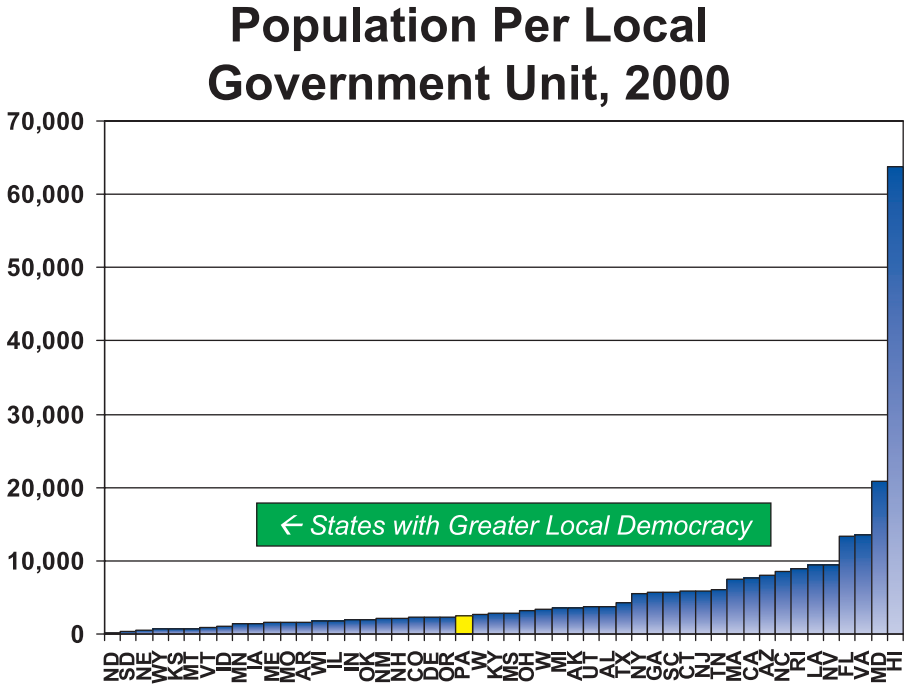
One of the frequently recurring myths in urban planning literature, including the Brookings Institution report, is the assumption that larger governments are more efficient than smaller ones. This belief has nearly always been a principal justification for proposed and implemented municipal consolidations. However, the theory and reality are different.

Local Government in Pennsylvania

Pennsylvania is often characterized as having a disproportionately high number of local governments units. Superficially, this appears to be the case. With more than 5,000 local government units, Pennsylvania ranks second only to Illinois, which has more than 6,900.[39]

The Brookings report claims that having more governments, a situation it refers to as "fragmentation," places Pennsylvania at a competitive disadvantage. But it is a mistake to consider a larger number of local government units as an undesirable condition. The very nature of democracy is that the electorate should have control of their government. All things being equal, more government results in *greater democracy* than fewer government units. Residents of Pennsylvania surely have more control of their government with 5,000 units than they would if there were 3,000, 1,000, 50 units, or one.

In relation to its population, Pennsylvania's number of local governments is not high.



[39] *Statistical Abstract of the United States: 2003*. At the state level, all local governments are included in this analysis, including municipalities, counties, school districts and special districts.

Pennsylvania Population Per Local Government Unit Is About Average

If Pennsylvania's large population[40] is taken into account, its number of governments is about average. Pennsylvania ranks near the middle of the states in average population per local government unit, at 28th — 22 states have smaller average jurisdiction sizes *(Figure 10, previous page, and Figure 16, page 29).* There are 2,400 people per local government unit in Pennsylvania. This is slightly below the national average of 3,200.

Two states, North Dakota and South Dakota, have fewer than 500 people per local government unit — from one-fifth to one-tenth the Pennsylvania rate.[41] Among the 27 states that have less local democracy *(larger average jurisdiction population)* than Pennsylvania, 22 have higher state and local taxation per capita. In relation to its population, Pennsylvania's number of local governments is not high.

No Association Between Average Jurisdiction Size and Per Capita Taxation

If it were true that larger units of government were less costly, then the states with proportionately more local governments would have higher state and local taxation rates. This is not indicated in the data *(Figure 11, below).* Pennsylvania's state and local taxation per capita is slightly less than average *(Figure 12, below).*

Two major industrial states with average jurisdiction sizes three times that of Pennsylvania *(Massachusetts and California)* have annual taxation per capita approximately 20 percent or more above Pennsylvania. New York, with average jurisdiction

If it were true that larger units of government were less costly, then the states with proportionately more local governments would have higher state and local taxation rates.

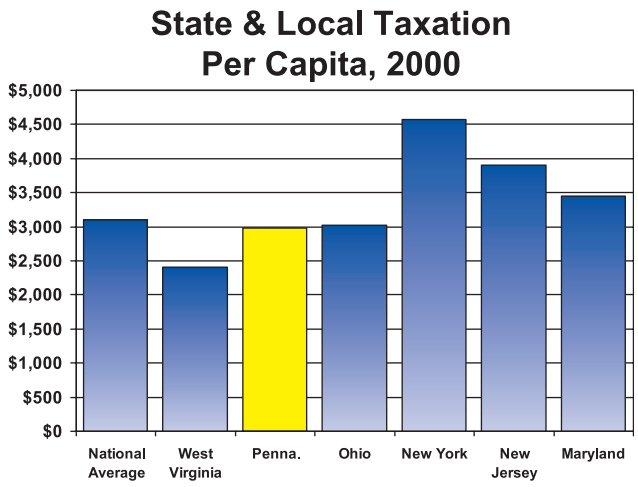


FIGURE 11

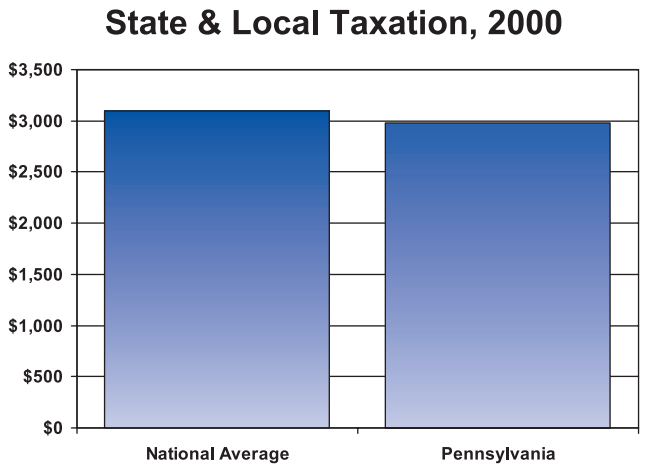


FIGURE 12

[40] The 2000 Census ranked Pennsylvania as 6th in population, trailing California, Texas, New York, Florida, and Illinois.
[41] Government count from 2002 Census of Governments, population from 2000 Census.

population more than twice as large as Pennsylvania, has per capita taxation more than 50 percent higher. The states with the largest average jurisdiction sizes *(least local democracy),* Maryland and Hawaii, have per capita taxation more than 10 percent above that of Pennsylvania *(Figure 13, below).*

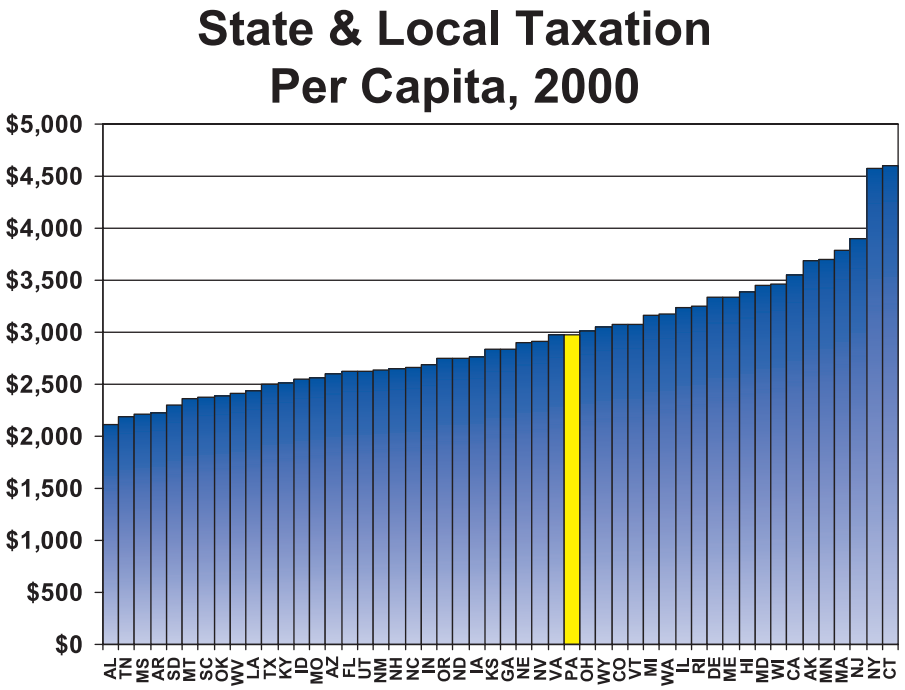


FIGURE 13

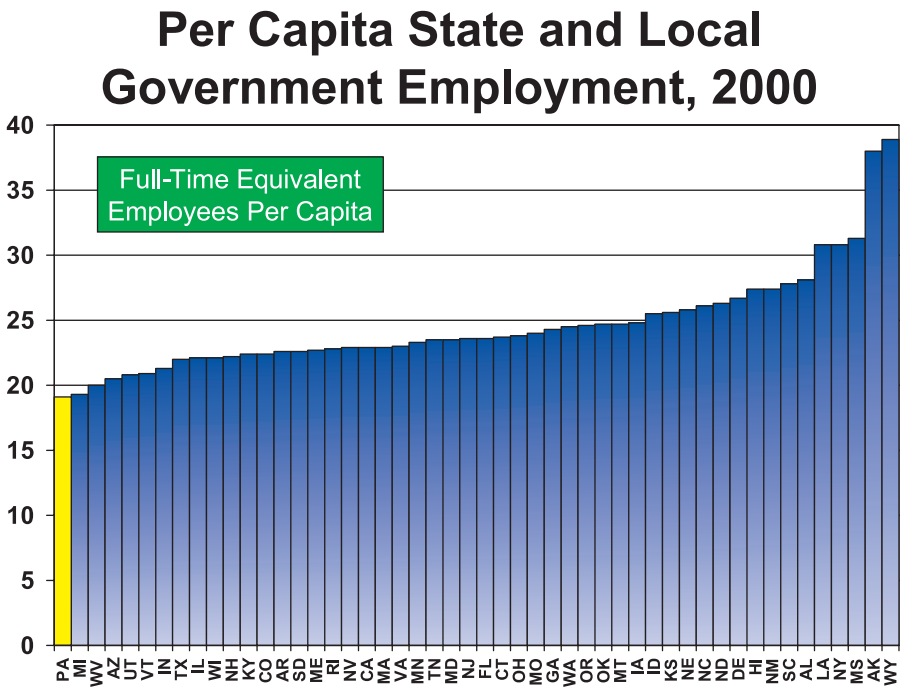


FIGURE 14

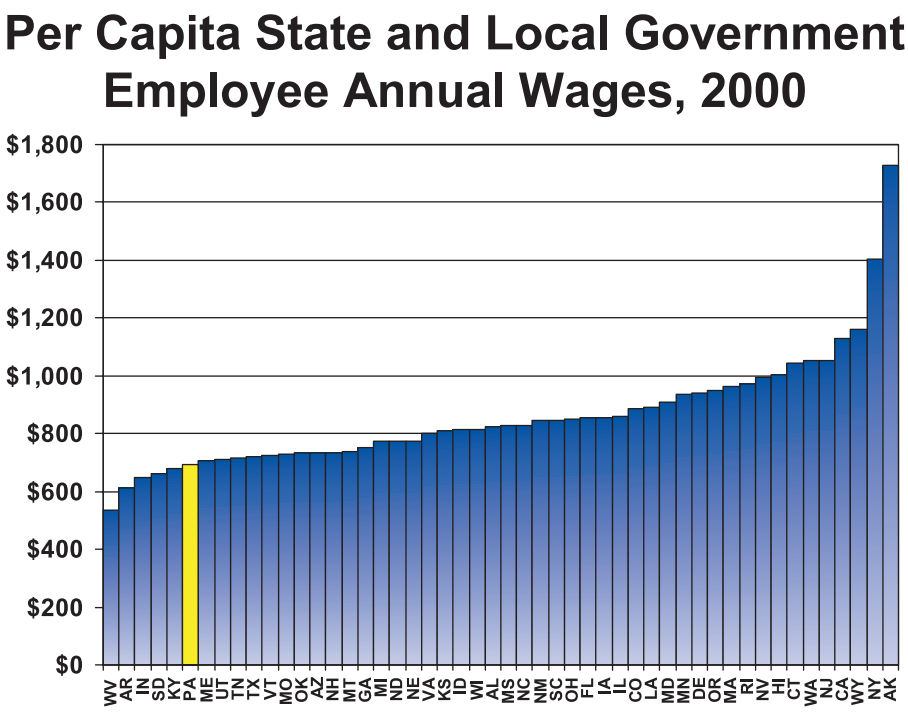


FIGURE 15

Greater Democracy Means Fewer Employees and Lower Costs

Government employee compensation is the largest element of state and local government expense, comprising nearly 40 percent of expenditures in 2000.[42] One of the most frequently recurring criticisms of greater democracy is the charge that it is inefficient with respect to labor utilization. In reality, however, the data reveals no such inefficiency.

Despite its greater democracy, Pennsylvania has the lowest number of general[43] state and local employees[44] per capita in the nation *(Figure 14, previous page)*. Moreover, Pennsylvania ranks sixth lowest in general state and local employee wages per capita *(Figure 15, above)*. Thus, in the function that would seem to be most sensitive to the purported inefficiency of local democracy, government employment, Pennsylvania ranks at or near the top.

Smaller units of government are associated with lower taxes and spending in the state of Pennsylvania itself.

Pennsylvania's system of greater democracy is efficient with respect to government employment.

Pennsylvania Compared to Neighbors: Smaller Governments, Lower Taxation

Pennsylvania's state and local taxation per capita is generally lower than that of its neighbors despite having greater democracy. Pennsylvania has a smaller number of people per local government jurisdiction than its neighbors and the national average *(Figure 16, adjacent page)*. And, only West Virginia has lower state and local taxation per capita than Pennsylvania *(Figure 17, page 30)*. Maryland, New York, and New Jersey all have much larger populations per local government unit and also have substantially higher state and local government taxation per capita.

[42] Calculated from U.S. Department of Commerce data for 2000.
[43] Excludes education, utilities, and liquor stores.
[44] State and local functions are included because the assignment of responsibilities to state and local governments differ between the states, making state-only or local-government-only comparisons invalid.

Smaller Municipal Governments in Pennsylvania Tend To Have Lower Taxes, Lower Spending

Smaller units of government are associated with lower taxes and spending in the state of Pennsylvania itself. The 2001 Pennsylvania municipal and county expenditure data was analyzed based upon the population per jurisdiction and type of municipal government. A per capita locally financed spending *("net spending")* estimate was developed for municipalities[45] in the data set, which included:

- All municipal expenditures per capita, except for sewer and water.
- A per capita share of all spending by the corresponding county.
- A deduction of state and federal funding per capita received by the municipality.
- A deduction of state and federal funding per capita received by the corresponding county.

The "net spending" figure is used to compare municipal expenditures. The excluded spending, which is financed by federal and state funds, tends to be higher in older, larger and less affluent municipalities and reflects to a larger degree the greater spending burdens that exist in such places.

The "net spending" figure measures expenditures on local government services that are demanded by their citizens, through their elected representatives. If all local government jurisdictions demanded the same services and each were equally efficient in their service delivery, per capita net expenditures would tend to be similar among Pennsylvania's jurisdictions.

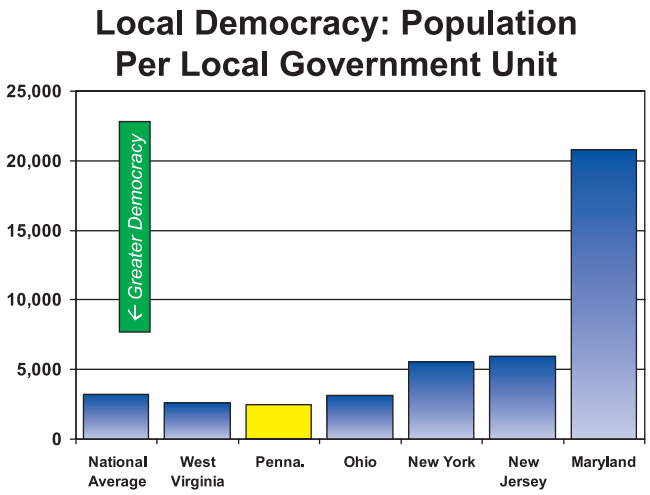


FIGURE 16

TABLE 8

Net Spending per Capita by Municipality Population Category

Rank	Population Category	Per Capita Net	Rank	Compared to 250,000 & Over	Number of Cases
1	250,000 & Over	$2,026	1		2
2	50,000 - 249,999	$1,268	2	-37.4%	11
3	25,000 - 49,999	$1,062	3	-47.6%	32
4	10,000 - 24999	$925	4	-54.3%	175
5	5,000 - 9,999	$804	5	-60.3%	292
6	2,500 - 4,999	$740	6	-63.5%	472
7	1,000 - 2,499	$602	7	-70.3%	706
8	Under 1,000	$555	8	-72.6%	705

Source: Pennsylvania Department of Community and Economic Development

[45] Two statistical outliers excluded *(New Morgan and Seven Springs)*.

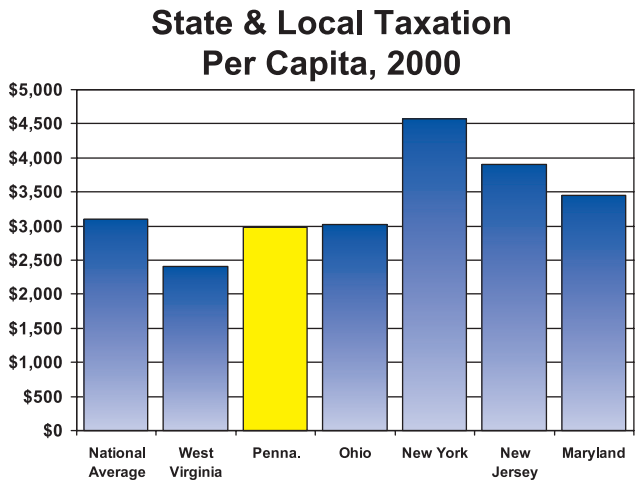


FIGURE 17

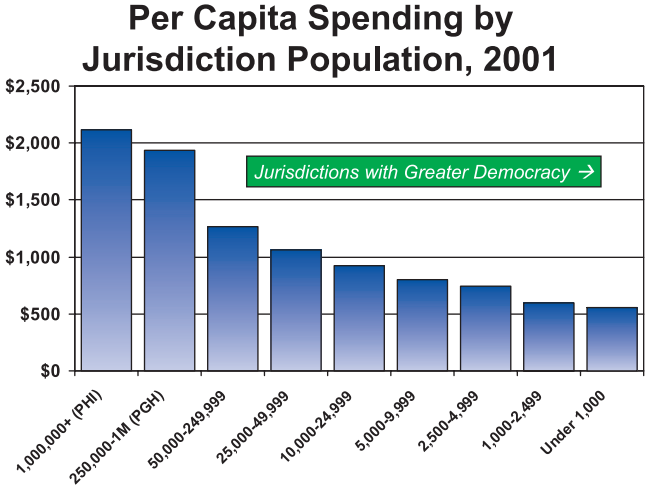


FIGURE 18

In fact, however, the data shows large disparities. Smaller jurisdictions are associated with lower net expenditures per capita in Pennsylvania *(Table 8, previous page and Figure 18, above right).*

- The first category, in Table 8 *(previous page)*, municipalities with more than 250,000 population *(Philadelphia and Pittsburgh),* had the highest net spending level, at $2,026 per capita.
- The second category, municipalities with 50,000 to 249,999 population, had the second highest net spending level, at $1,268 per capita, 37.4 percent below municipalities with more than 250,000 population.
- The third category, municipalities with 25,000 to 49,999 population, had the third highest net spending level, at $1,062 per capita, 47.6 percent below municipalities with more than 250,000 population.
- The fourth category, municipalities with 10,000 to 24,999 population, had the fourth highest net spending level, at $925 per capita, 54.3 percent below municipalities with more than 250,000 population.
- The fifth category, municipalities with 5,000 to 9,999 population, had the fifth highest net spending level, at $804 per capita, 60.3 percent below municipalities with more than 250,000 population.
- The sixth category, municipalities with 2,500 to 4,999 population, had the sixth highest net spending level, at $740 per capita, 63.5 percent below municipalities with more than 250,000 population.
- The seventh category, municipalities with 1,000 to 2,499 population, had the seventh highest net spending level, at $602 per capita, 70.3 percent below municipalities with more than 250,000 population.
- The eighth category, municipalities with under 1,000 population, had the lowest net spending level, at $555 per capita, 72.6 percent below municipalities with more than 250,000 population.

Smaller Municipal Governments in Pennsylvania Have Less Debt

At the same time, annual debt service *(included in net spending)* is far higher in the large cities, indicating a much higher debt obligation. The smallest debt service per capita figures are in the smallest municipalities. Pittsburgh, reflective of its current financial distress, has debt service per capita 12 times that of municipalities with less than 1,000 population. Philadelphia's per capita debt service is five times that of the smallest municipalities *(Figure 19, adjacent page).*

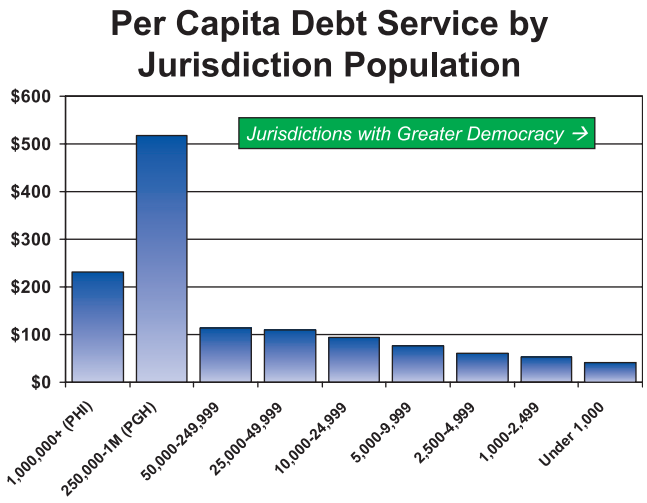


FIGURE 19

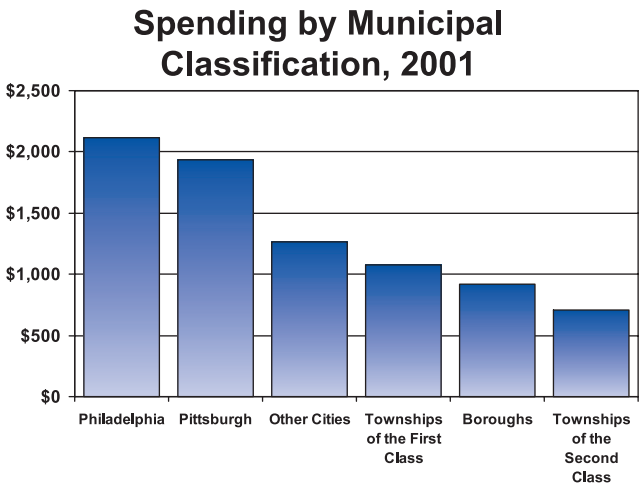


FIGURE 20

The finding that smaller jurisdictions have lower per capita expenditures is consistent with the findings of the Los Angeles County Local Agency Formation Commission, which noted in its report on the attempted withdrawal of the San Fernando Valley from the city of Los Angeles:

> *The academic studies on this topic have found that economies of scale are relevant only among the smallest cities.*[46]

Cities Most Costly; Townships of the Second Class Least Costly

There are substantial differences in net spending among the municipal government classifications in Pennsylvania *(Figure 20, above right, and Figures 21 and 22, next page).* The category with the largest total population, townships of the second class, has the lowest net spending per capita.

- The highest net spending occurs in the cities, at $1,781 per capita. Cities account for 25 percent of Pennsylvania's population but a larger 42 percent of net spending. This figure, however, is skewed upward by Philadelphia and Pittsburgh, with spending per capita well above that of the other cities.
- The second highest net spending occurs in townships of the first class, at $1,075 per capita, 39.7 percent below the cities. Townships of the first class account for 12 percent of Pennsylvania's population and the same share of net spending.
- The third highest net spending occurs in boroughs, at $918 per capita, 48.6 percent below the cities. Boroughs account for 21 percent of Pennsylvania's population and a smaller 18 percent of net spending.
- The lowest spending occurs in townships of the second class, at $709 per capita, 60.2 percent below the cities. Townships of the second class account for 42 percent of Pennsylvania's population and a smaller 28 percent of net spending.

As was noted above, by far the highest debt service amounts are found in Philadelphia and Pittsburgh. Other cities have annual debt service per capita far smaller than Philadelphia and Pittsburgh *(Figure 23, next page),* and townships of the second class have the least debt per capita. Philadelphia accounts for 26 percent of local government debt service in the state, twice its 13 percent population share. Pittsburgh accounts for 12.9 percent of the state's local government debt

[46] Los Angeles County Local Area Formation Commission, *Special Reorganization of the San Fernando Valley; Executive Officer's Report.* April 24, 2002.

service, nearly 4½ times its 2.9 percent population share *(Figure 24, below).*

Without Philadelphia and Pittsburgh, City Spending is Less

The city spending average, however, is skewed higher by Philadelphia and Pittsburgh, which have the highest net spending amounts among the 48 cities in the analysis. Combined, Philadelphia and Pittsburgh, represent 16 percent of the state's population and 31 percent of net municipal expenditures. The other cities are considerably more frugal, containing 9 percent of the population while accounting for 11 percent of spending.

The city data supports the conclusion that smaller jurisdictions are less costly. The lowest locally financed expenditures per capita are in cities with 10,000 to 24,999 population, with the smallest category *(below*

Share of Spending & Population by Municipal Classification, 2001

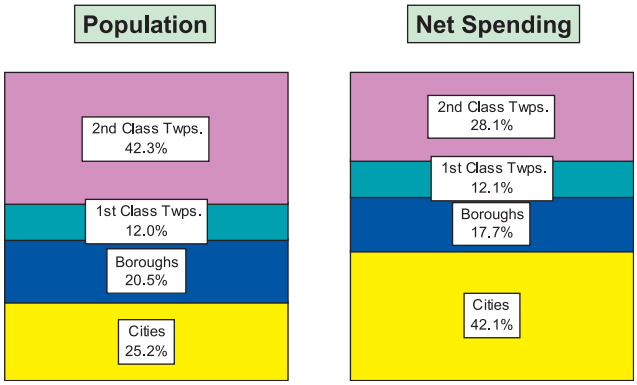


FIGURE 21

Share of Spending & Population: Pa. Local Governments, 2001

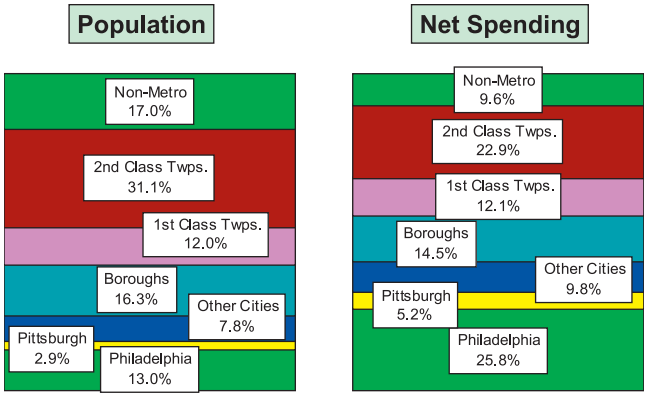


FIGURE 22

Per Capita Debt Service by Municipal Classification, 2001

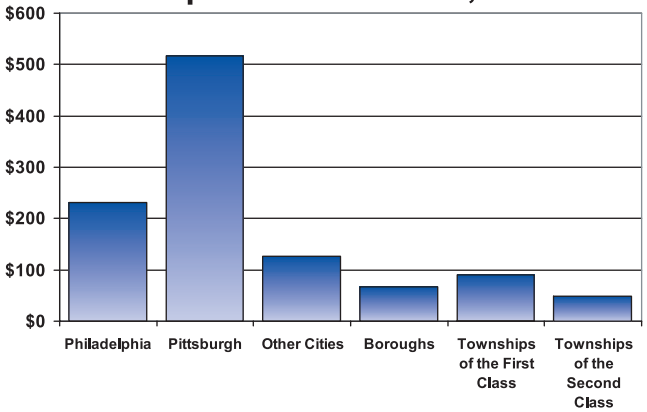


FIGURE 23

Share of Debt Service & Population by Municipal Classification, 2001

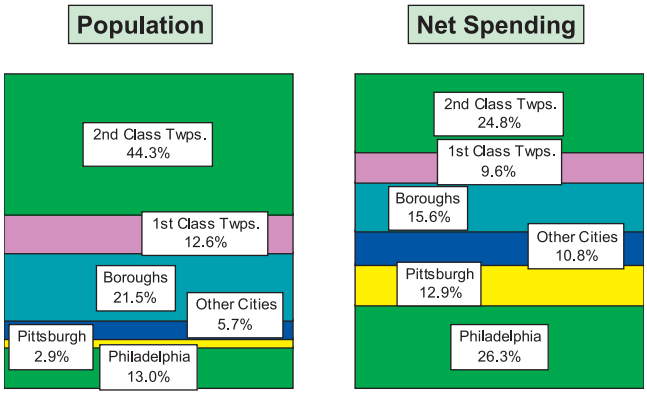


FIGURE 24

10,000 population[47]*)* ranking second lowest *(Figure 25, below).*

As noted above, these spending figures are reduced by the per capita federal and state aid received by each municipality. The cities of Philadelphia and Pittsburgh have the highest federal and state aid per capita, ranging from more than double to more than four times the amounts received by boroughs and townships of the first class and second classes *(Figure 26, below).*[48]

Metropolitan Spending Higher Than Non-Metropolitan

Generally, municipalities located in metropolitan areas have higher net spending than those located outside metropolitan areas. At the same time, within metropolitan areas, cities have the highest net spending per capita. As with the overall state data, townships of the first class have the second highest net spending per capita, boroughs third, and townships of the second class have the lowest *(Figure 27, next page).*

Suburban Spending Lower Than Central-City Spending

Generally, the anti-suburban literature contends that government costs in suburbs is higher than in the denser central cities. However, at the national level, the data indicates no such relationship.

A review of local government data from the U.S. Census Bureau for 2000 indicated that, generally, newer and less dense, more sprawling municipalities have lower expenditures per capita *(Figure 28, next page),* while the highest expenditures per capita are in the older, denser *(less sprawling)* municipalities.[49]

A similar relationship exists among the more urban municipalities[50] of Pennsylvania. Municipal expenditures are generally lower in less dense *(newer growth)* municipalities. Net spending per capita is the highest in municipalities with more than 10,000 people per square mile, at $1,210 annually, while the lowest spending levels are in the municipalities with 1,000 to 3,000 people per square mile ($815).

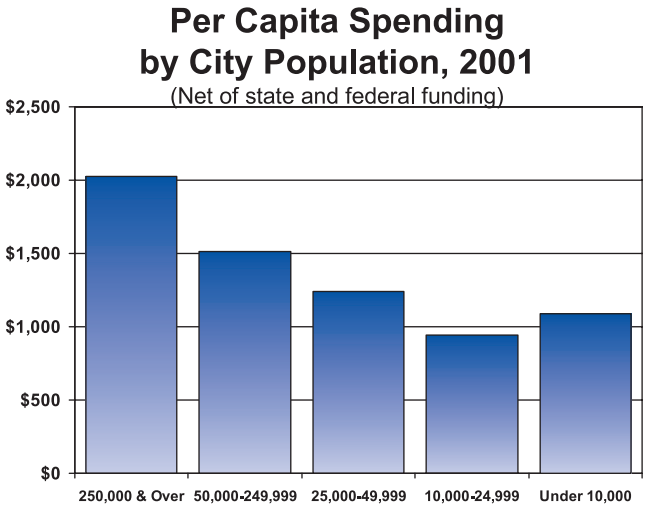


FIGURE 25

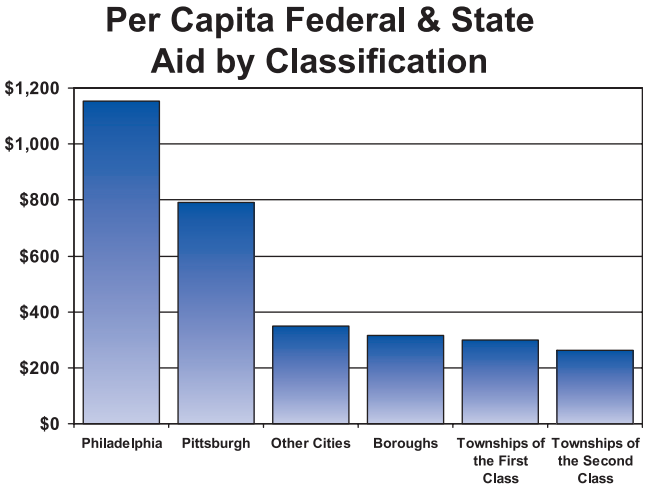


FIGURE 26

[47] Only one city has a population below 5,000.
[48] This data, like the net spending per capita data, includes a per capita allocation of county expenditures.
[49] Wendell Cox and Joshua Utt (2004), *The Costs of Sprawl Revisited: What the Data Really Show.* http://www.heritage.org/Research/SmartGrowth/bg1770es.cfm.
[50] Municipalities exceeding the U.S. Census urbanization threshold of 1,000 per square mile.

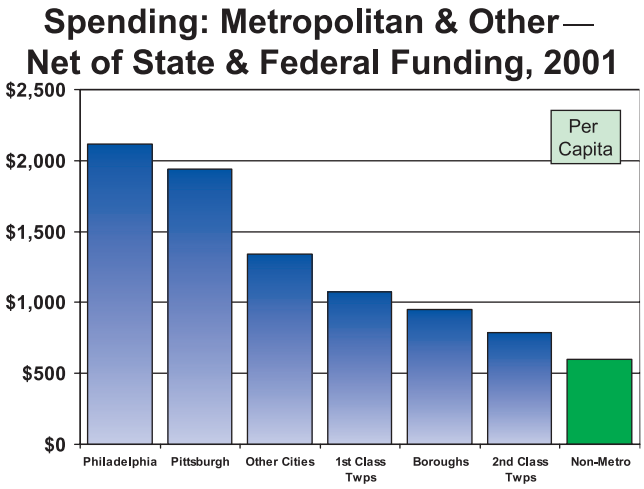


FIGURE 27

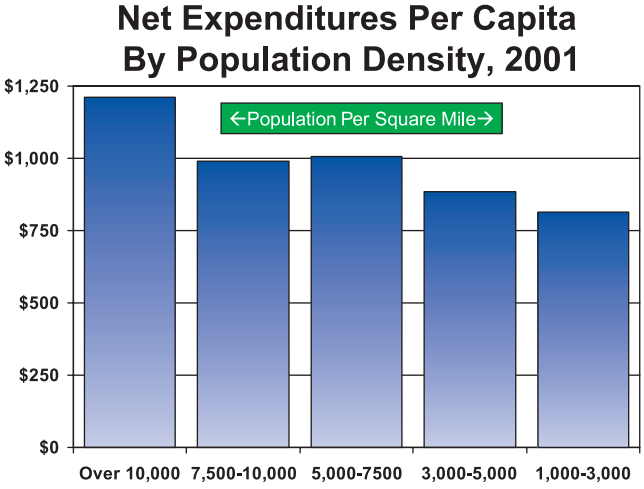


FIGURE 28

Two categories of this analysis are skewed by Pennsylvania's largest cities. In the over 10,000 density category, cities other than Philadelphia have an average spending level of $1,081, which is still higher than the other categories but considerably lower than when the largest city is included. The 5,000 to 7,500 density category average falls to $994 (from $1,008), when Pittsburgh is excluded. The data seems to indicate that higher density is associated with higher government costs in Pennsylvania and further, that the highest costs are associated with the largest cities.

Philadelphia: City Spends Most; Townships of the Second Class Spend Least

Within the Philadelphia metropolitan area, relative net spending levels are consistent with the statewide situation. City of Philadelphia spending is far higher, per capita, than in the suburbs *(Figures 29 and 30, adjacent page):*

- ***The city of Philadelphia*** has the highest net spending per capita, at $2,114. The city of Philadelphia accounts for 41 percent of the state's population and a higher 56 percent of net spending.
- ***Cities other than Philadelphia*** have the second highest net spending per capita in the Philadelphia area, at $1,729. The other cities have a net spending level 18.2 percent below the city of Philadelphia. Cities other than Philadelphia account for 1 percent of the population and approximately the same 1 percent of net spending.
- ***Townships of the first class*** have the third highest net spending per capita in the Philadelphia area, at $1,267. Townships of the first class have a net spending level 40.1 percent below the city of Philadelphia. Townships of the first class account for 17 percent of the population and a lower 14 percent of net spending.
- ***Boroughs*** have the fourth highest net spending per capita in the Philadelphia area, at $1,209. Boroughs have a net spending level 42.9 percent below the city of Philadelphia. Boroughs account for 11 percent of the population and a lower 8 percent of net spending.

Generally, municipalities located in metropolitan areas have higher net spending than those located outside metropolitan areas.

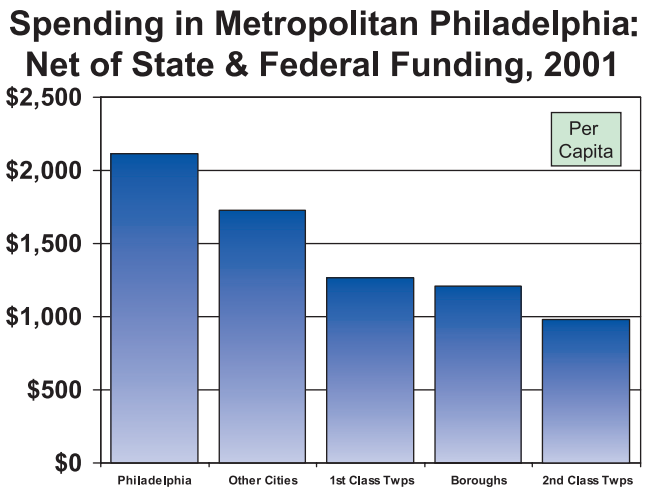


FIGURE 29

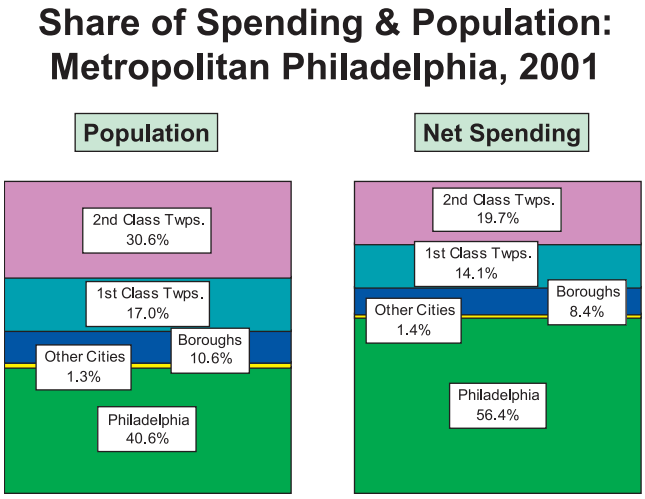


FIGURE 30

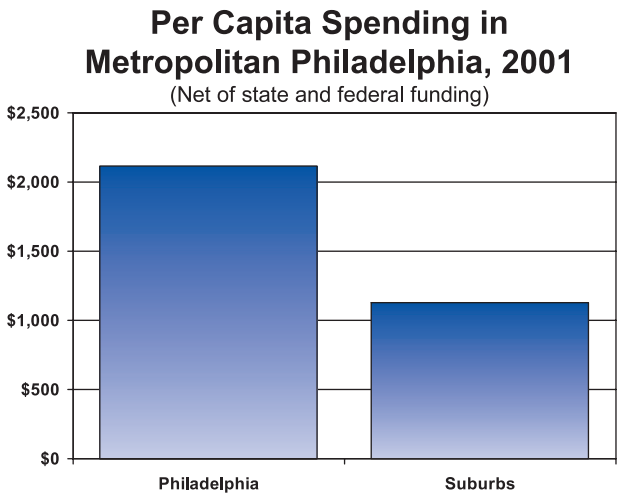


FIGURE 31

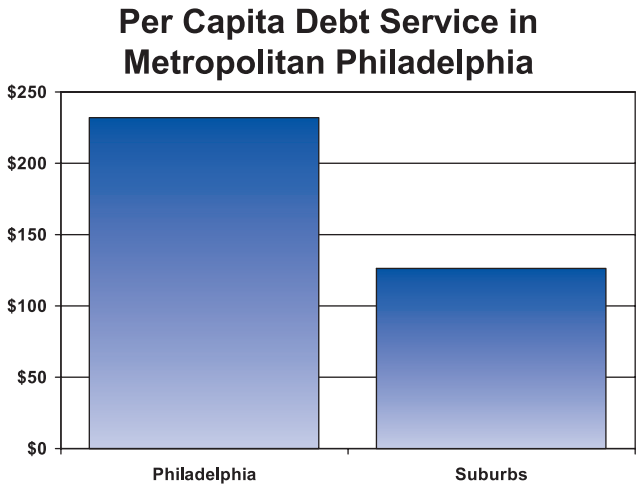


FIGURE 32

- ***Townships of the second class*** have the lowest net spending per capita in the Philadelphia area, at $983. Townships of the second class have a net spending level 53.5 percent below the city of Philadelphia. Townships of the second class account for 31 percent of the population and a lower 20 percent of net spending, virtually the same ratio as in the Pittsburgh metropolitan area.

Overall, the suburbs[51] of Philadelphia have annual net spending per capita of $1,121, or 47 percent below the city of Philadelphia's $2,114 *(Figure 31, above left).* Philadelphia's per capita annual debt service is nearly that of the suburban average *(Figure 32, above right).*

[51] All municipal jurisdictions in the metropolitan area other than the city of Philadelphia.

Pittsburgh: City Spends Most; Townships of the Second Class Spend Least

Within the Pittsburgh metropolitan area, the city of Pittsburgh spending is far higher per capita than in the suburbs *(Figures 33 and 34, below)*:

- ***The city of Pittsburgh*** has the highest net spending per capita, at $1,939. The city accounts for 14 percent of the population and a higher 30 percent of net spending.
- ***Cities other than Pittsburgh*** have the second highest net spending per capita in the Pittsburgh area, at $875. The other cities have a net spending level 54.9 percent below the city of Pittsburgh. However, net spending in cities other than Pittsburgh is only marginally above that of the boroughs and townships of the first class. Cities other than Pittsburgh account for 7 percent of the population and approximately the same 7 percent of net spending.
- ***Townships of the first class*** have the third highest net spending per capita in the Pittsburgh area, at $834. Townships of the first class have a net spending level 57 percent below the city of Pittsburgh. Townships of the first class account for 18 percent of the population and a lower 16 percent of net spending.
- ***Boroughs*** have the fourth highest net spending per capita in the Pittsburgh area, at $814. Boroughs have a net spending level 58 percent below the city of Pittsburgh. Boroughs account for 30 percent of the population and a lower 27 percent of net spending.
- ***Townships of the second class*** have the lowest net spending per capita in the Pittsburgh area, at $598. Townships of the second class have a net spending level 69.2 percent below the city of Pittsburgh. Townships of the second class account for 31 percent of the population and a lower 20 percent of net spending, virtually the same ratio as in the Philadelphia metropolitan area.

Overall, the suburbs[52] of Pittsburgh have annual net spending per capita of $745, or 61.6 percent below the city of Pittsburgh's $1,939 *(Figure 35, adjacent page)*. Pittsburgh's per capita debt service is more than seven times that of suburban jurisdictions *(Figure 36, adjacent page)*.

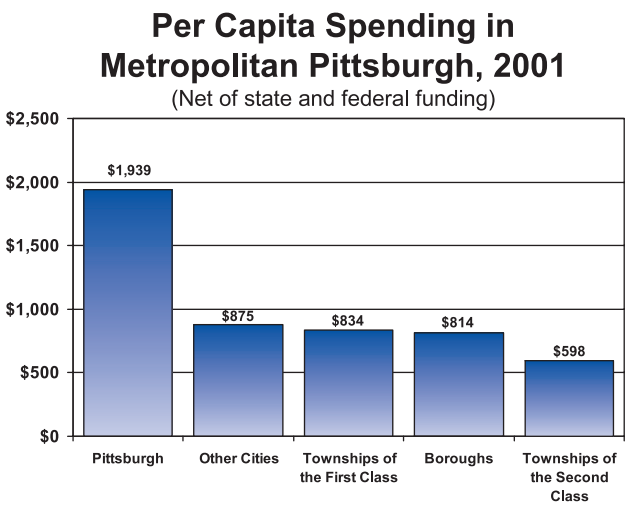


FIGURE 33

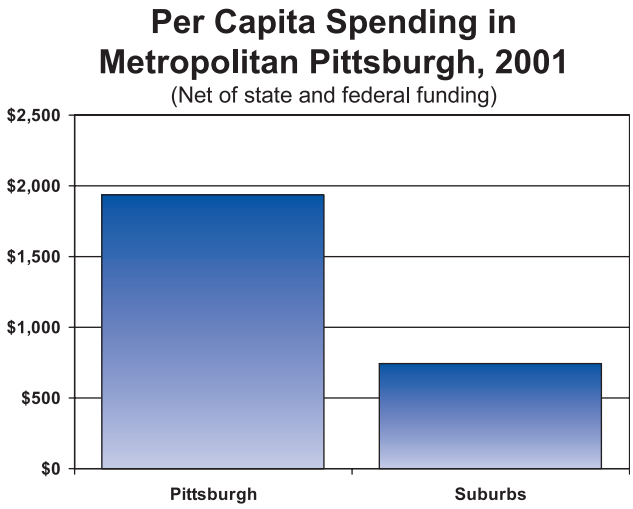


FIGURE 34

[52] All municipal jurisdictions in the metropolitan area other than the city of Pittsburgh.

Pittsburgh Suburban Municipalities Are Smaller, Spend Less Than Philadelphia Suburbs

A comparison of the Philadelphia and Pittsburgh suburbs provides further evidence for the conclusion that smaller jurisdictions have lower spending levels. The 432 suburban Pittsburgh jurisdictions have an average population of 4,700 *(Figure 37, below).*

The 224 suburban Philadelphia jurisdictions are more than twice as large, with an average population of 9,900. Yet, the Pittsburgh suburbs have annual net spending per capita of $745, or 33.5 percent lower than the suburban Philadelphia jurisdictions, which spend $1,121 *(Figure 38, below).*

Townships of the second class have the lowest net spending per capita in the Pittsburgh area, at $598.

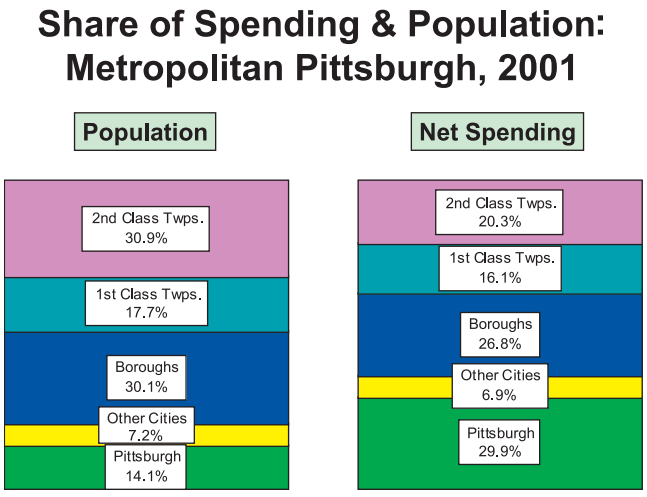


FIGURE 35

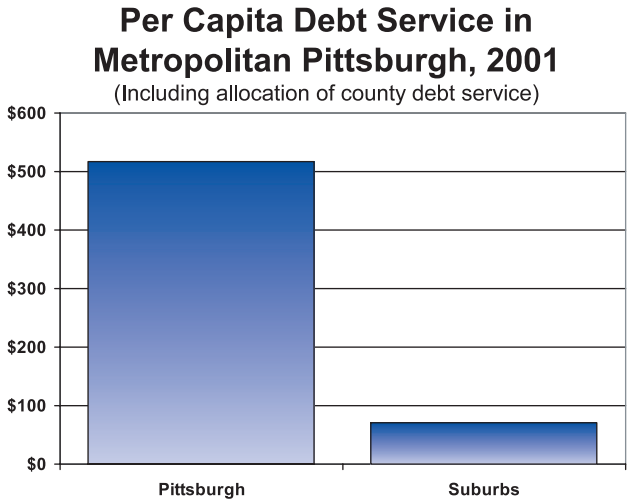


FIGURE 36

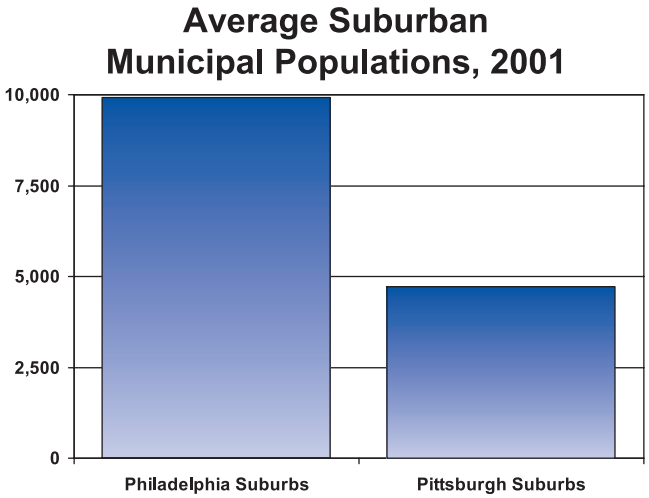


FIGURE 37

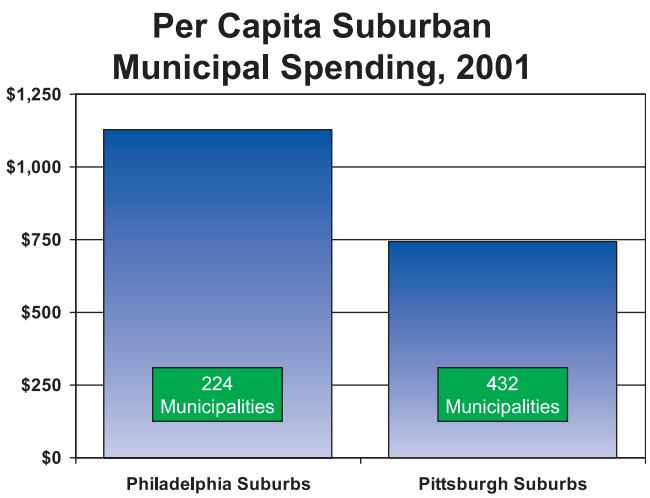


FIGURE 38

Elsewhere: Cities Spend Most, Townships of the Second Class Spend Least Per Capita

Municipalities in metropolitan areas other than Philadelphia and Pittsburgh exhibit spending patterns also similar to the state situation *(Figures 39 and 40, right):*

- ***Cities*** have the highest net spending per capita among metropolitan areas other than Philadelphia and Pittsburgh, at $1,430. Cities account for 19 percent of the population and a higher 29 percent of net spending.
- ***Townships of the first class*** have the second highest net spending per capita among metropolitan areas other than Philadelphia and Pittsburgh, at $1,013, or 29.2 percent below the cities. Townships of the first class account for 10 percent of the population and about the same proportion of net spending.
- ***Boroughs*** have the third highest net spending per capita among metropolitan areas other than Philadelphia and Pittsburgh, at $945, or 33.9 percent below the cities. Boroughs account for 22 percent of the population and approximately the same share of net spending.
- ***Townships of the second class*** have the lowest net spending per capita among metropolitan areas outside Philadelphia and Pittsburgh, at $738, or 48.4 percent below the cities. Townships of the second class account for 49 percent of the population and a lower 38 percent of net spending.

A comparison of the Philadelphia and Pittsburgh suburbs provides further evidence for the conclusion that smaller jurisdictions have lower spending levels.

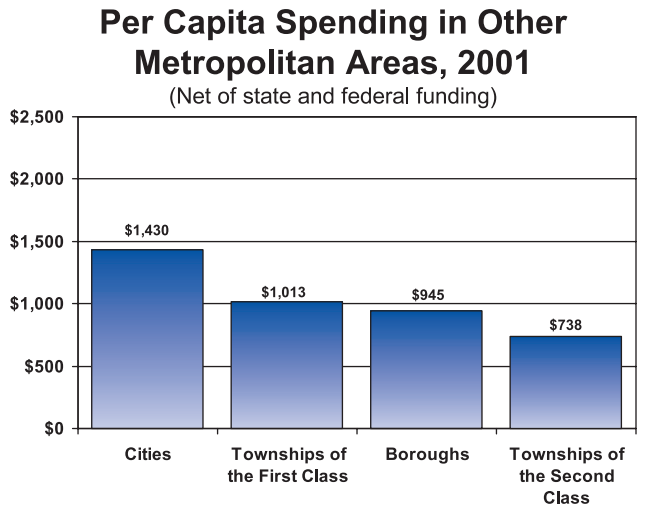


FIGURE 39

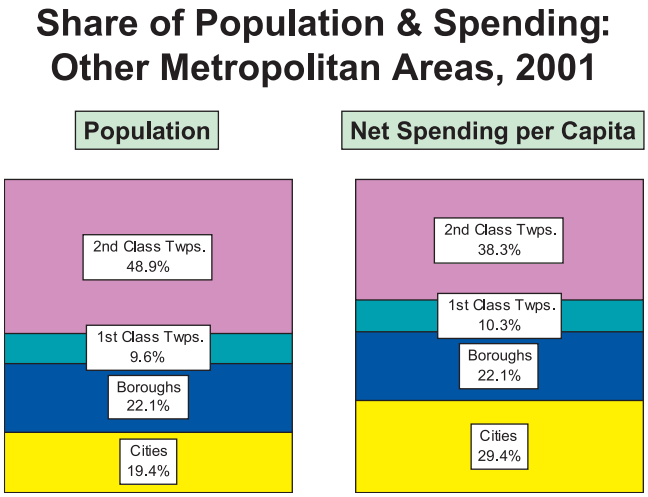


FIGURE 40

High-Cost v. Lower-Cost Pennsylvania

Pennsylvania municipal spending patterns suggest that the divide is not between what the Brookings report calls "old Pennsylvania" *(cities, boroughs, and townships of the first class)* and "new Pennsylvania" *(townships of the second class).* Generally, municipal spending and debt per capita is well below that of either the cities of Philadelphia or Pittsburgh among all classifications of municipalities, cities, boroughs, and townships of the first and second classes.

The real divide in Pennsylvania is between high-cost Pennsylvania *(the cities of Philadelphia and Pittsburgh)* versus lower-cost Pennsylvania *(other cities, boroughs, and townships of the first and second classes).*

Transportation Spending

Citing a draft report[53] by Ann Canby of the Surface Transportation Policy Project and James Bickford of 10,000 Friends of Pennsylvania, the Brookings report alleges that state and federal highway funds are disproportionately spent in townships of the second class. According to this analysis, 58 percent of state highway spending *(including federal funding)*[54] was spent in what Brookings calls these "outer townships" *(townships of the second class)*, which account for 42 percent of the population.

But these data portray an incomplete picture of transportation funding in Pennsylvania, for two reasons:

- Much of the state highway system, including the interstate system, provides for non-local, regional, or even interstate needs. For example, much of the traffic on Interstate 80 across northern Pennsylvania is interstate in nature, and most of the route is in townships of the second class.

  Allocating funding spent on regional and interstate highways, the greatest share of which are in less developed areas, wrongly prejudices the data against townships of the second class and is both inappropriate and irrelevant as a measure of funding equity.

  Because of the nature of the state highway system, it would have been more appropriate to evaluate state spending on the basis of land area. Townships of the second class account for 92 percent of the state's land area, yet, according to the Canby-Bickford report, received only 57 percent of the funding.
- Any analysis of transportation funding must also include mass transit. Over the period covered by the Canby-Bickford analysis, governments in the state spent $5.8 billion on mass transit from 1999 to 2002, most of which was from state and federal subsidies.[55] Approximately $5.1 billion of the $5.8 billion was spent by the two largest transit agencies, in Philadelphia *(SEPTA)* and Pittsburgh *(Port Authority).* However, given the focus of transit routes on the two large downtowns and the comparatively sparse route network in the outer suburbs *(especially townships of the second class)*, it seems likely that the overwhelming majority of transit spending was in the two large cities and comparatively little in townships of second class.

Of course, transportation finance is complicated, and any legitimate equity analysis would need to consider a number of additional measures. For example,

The real divide in Pennsylvania is between high-cost Pennsylvania (*the cities of Philadelphia and Pittsburgh*) versus lower-cost Pennsylvania (*other cities, boroughs, and townships of the first and second classes*).

[53] Page 75 of the Brookings report.

[54] The source of nearly all state and federal highway funding is user fees paid in the form of fuel taxes.

[55] Overall, state and local spending on streets and highways amounted to $5.3 billion in 2002, compared to $1.8 billion on transit. Transit accounted for slightly more than one percent of travel in the state and accounted for more than 25 percent of the government spending.

much highway funding is from user fees, or fuel taxes. The local relationship between fuel taxes and highway expenditures, for example, would need to be analyzed.

It would also be appropriate to review transit spending and efficiency alternatives. In Pittsburgh and Philadelphia, for example, cost escalation above inflation has driven operating costs up a combined $200 million annually *(inflation adjusted)* in the last two decades.[56] A number of transit agencies in the United States and abroad have improved their cost performance relative to inflation over the same period of time.[57]

However, it appears likely that by any reasonable measure, total state and federal transportation funding for townships of the second class is less than would be expected.

Allocating funding spent on regional and interstate highways, the greatest share of which are in less developed areas, wrongly prejudices the data against townships of the second class and is both inappropriate and irrelevant as a measure of funding equity.

Conclusions

- Net locally financed county and municipal government expenditures per capita are by far the highest in Philadelphia and Pittsburgh and far lower in the other cities, boroughs, and townships of the first and second classes.
- Pennsylvania has many local governments, but Pennsylvania's system of greater local democracy has an average jurisdiction size near the average for the states. Likewise, state and local taxation is slightly less than the national average.
- Pennsylvania has the lowest number of state and local government employees per capita of any state and the sixth lowest state and local government wage and salary expenditure per capita. This indicates a comparatively high level of labor productivity and performance that would not be expected from a state with so many local government jurisdictions.
- Lower net expenditures per capita are associated with smaller units of general government. Further, net expenditures per capita are considerably higher in the largest cities, Philadelphia and Pittsburgh, than in smaller categories of jurisdictions.
- Lower debt service per capita is associated with smaller units of general government. Further, debt service per capita is considerably higher in the largest cities, Philadelphia and Pittsburgh, than in smaller categories of jurisdictions.
- The lowest net expenditures per capita are associated with townships of the second class. Moreover, cities other than Philadelphia and Pittsburgh, boroughs, and townships of the first class have considerably lower net expenditures per capita than the largest cities.
- The lowest debt service per capita is associated with townships of the second class. Moreover, cities other than Philadelphia and Pittsburgh, boroughs, and townships of the first class have considerably lower debt service per capita than the largest cities.
- Philadelphia suburban jurisdictions have considerably lower net expenditures and debt service per capita than in the central city of Philadelphia.
- Pittsburgh area suburban jurisdictions have considerably lower net expenditures and debt service per capita than in the central city of Pittsburgh.

[56] Does not include capital costs. http://www.publicpurpose.com/tpb-phi.htm., http://www.publicpurpose.com/tpb-pgh.htm.
[57] http://www.publicpurpose.com/ut-thredbo7.pdf.

PRIVATE COSTS OF SUBURBANIZATION

The view is often expressed that non-governmental consumer costs are higher where suburbanization *(urban sprawl)* is greater. Generally, comprehensive studies on this issue are not available because the local level cost-of-living data has not been compiled. However, the Center for Rural Pennsylvania commissioned a study to estimate the cost of living at the county level.[58]

As in the case of government costs, the consumer cost results in Pennsylvania are the opposite of what is generally postulated by suburban critics. In Pennsylvania, the cost of living is *less* where there is more suburbanization. This can be illustrated by comparing the cost of living by county with a "sprawl index" developed by "Smart Growth America:"[59]

In the Philadelphia metropolitan area *(Figure 41, next page):*

- As would be expected, the core city of Philadelphia, the most dense in the metropolitan area, is rated as the least sprawling. The cost of living in Philadelphia was 27.6 percent above the national average, also the highest in the metropolitan area.

As in the case of government costs, the consumer cost results in Pennsylvania are the opposite of what is generally postulated by suburban critics. In Pennsylvania, the cost of living is less where there is more suburbanization.

- Delaware County had the second least sprawl. The cost of living was also second highest, at 8.4 percent above average.
- Montgomery County had the third least sprawl. It also had the third highest cost of living, at 5 percent above the average.
- Bucks County and Chester County had the most sprawl. The cost of living was 4 percent and 3 percent above average, respectively.

The same pattern is evident in the Pittsburgh metropolitan area, although somewhat masked because the Pittsburgh core city data is not separated from the Allegheny County data *(Figure 42, next page).*

- The highest sprawl index in the area is in Allegheny County, at 21 percent above the national average *(signifying less sprawl).* The cost of living is also the highest, at 4.6 percent above average.
- A sprawl index was provided for four suburban counties, ranging from 5 percent above average to 1 percent below average. Each of these counties has a cost-of-living index from 0.7 percent to 1.3 percent above average, lower than Allegheny County.

The cost of living index data in Figure 42 does not include local taxation. Generally, net expenditures by municipal and county governments are higher in the core areas of Philadelphia and Pittsburgh, which are rated as less sprawling.

Of course, no household in either Pennsylvania or the United States has been forced to move to the

[58] http://www.ruralpa.org/clr2000.pdf.

[59] Reid Ewing, Rolf Pendall, and Don Chen, *Measuring Sprawl and Its Impact.* www.smartgrowthamerica.com. This sprawl index can be confusing because as it increases, there is less sprawl. The result is an index that measures the opposite of what its name implies. The sprawl index would be more accurately titled the "compact city" index or some other title denoting the opposite of sprawl. Sprawl can be measured in various ways. The Smart Growth America "Sprawl Index" relies on population density *(geographic expanse)* but also gives weight to land use characteristics within the urbanized area. Population density *(relative geographic expanse)* is the ultimate measure of suburbanization or sprawl. However, such data is not readily available for the urbanized portions of individual counties. The inclusion of internal factors in the "Sprawl Index" creates some odd comparisons, such as the fact that Providence is rated with a sprawl index 50 percent above Sacramento *(meaning that Smart Growth America rates Providence as sprawling less).* However, the Providence urbanized area sprawls over 60 percent more land area than Sacramento *(adjusted for population size).*

suburbs. People willingly choose their lifestyles, including the associated costs. For example, in some cases, households choose to have higher transportation costs so that a more desirable house can be afforded on a larger lot in the far suburbs. Such choices are beyond the appropriate province of government policy concern. Overall, however, the evidence indicates that the costs of living in Pennsylvania's suburban areas are lower than in more urban areas.

Conclusion

Data from the Center for Rural Pennsylvania indicates that the household cost of living is lower in suburban areas than in central-city areas.

Overall, however, the evidence indicates that the costs of living in Pennsylvania's suburban areas are lower than in more urban areas.

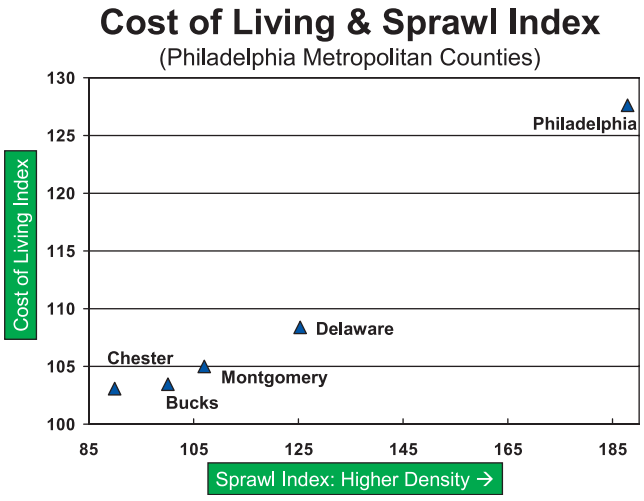


FIGURE 41

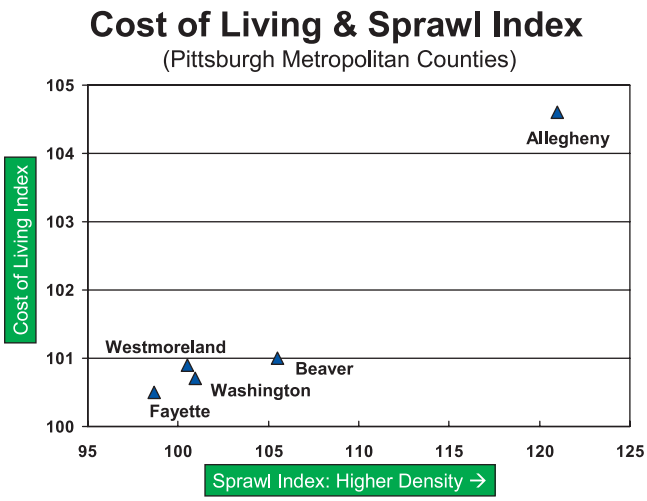


FIGURE 42

SUBURBANIZATION AND ECONOMIC GROWTH

The Brookings report indicates that suburbanization is a contributing factor to Pennsylvania's slow economic growth. However, a review of the national data indicates no negative association between suburbanization and economic growth. For the purposes of this analysis, the nation's metropolitan areas with more than 1 million population in 2002 were divided into quintiles *(fifths)* based upon their percentage growth in employment from 1980 to 2002.

As noted above, there are various ways to measure suburbanization *(urban sprawl)*. One of the highest regarded among anti-suburbanization advocates is the Smart Growth America "sprawl index."

An examination of employment growth and metropolitan[60] Sprawl Index values indicates no association between greater suburbanization and slower economic growth.

- The lowest economic growth quintile has the *least* "urban sprawl" *(suburbanization),* according to the Smart Growth America Sprawl Index.[61]
- The middle economic growth quintile had the greatest "urban sprawl."
- The highest economic growth quintile had the second greatest "urban sprawl" *(Figure 43, right).*

Taken by itself, the Sprawl Index analysis would seem to indicate that more suburbanization *(more sprawl)* is associated with *greater* economic growth. This is in direct opposition to the Brookings report contention that sprawl contributes to slower economic growth.

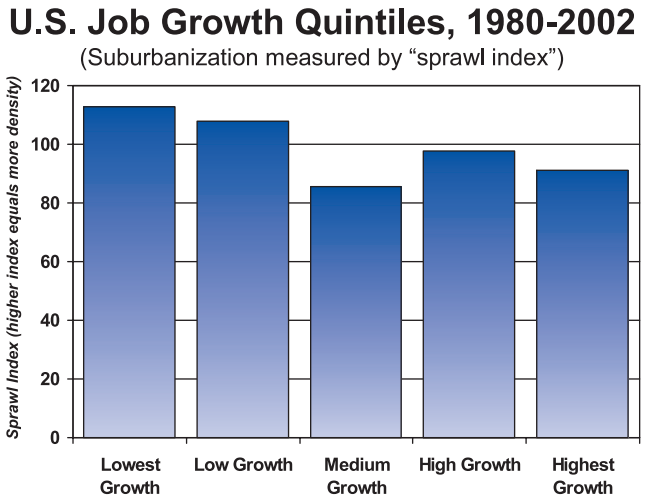


FIGURE 43

An analysis measuring sprawl based upon urban population reveals the same lack of relationship between economic growth and less sprawling urban areas, again refuting the Brookings report implication. The greatest metropolitan economic growth quintile exhibited the second highest population density[62] *(second least sprawling),* while the medium quintile economic growth areas had the lowest density *(most sprawling) (Figure 44, next page).*

[60] Data for 48 metropolitan areas with more than 1 million population (5 areas not rated by Smart Growth America). Metropolitan Statistical Area or core Primary Metropolitan Statistical Area in a Consolidated Metropolitan Statistical Area sprawl index used.
[61] Core metropolitan areas in metropolitan areas of more than 1 million. Smart Growth America published data for 48 of the 53 metropolitan areas with more than 1 million population in 2003.
[62] Based upon 2000 population density of the core urbanized area.

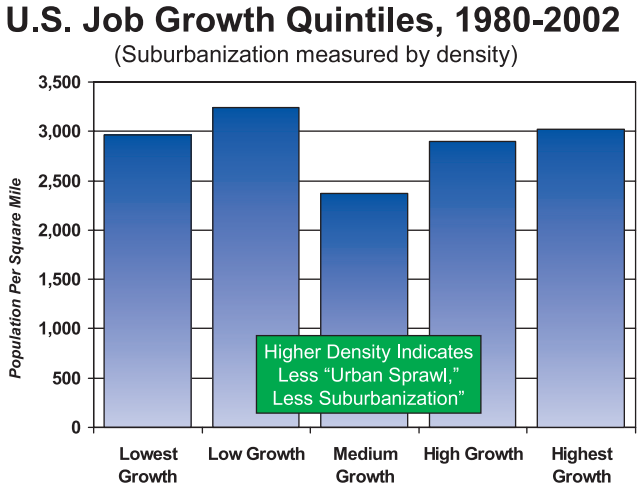


FIGURE 44

The fact that suburbanization is not a barrier to economic growth is illustrated by the fastest growing, large, urbanized areas in the high-income world. Atlanta, which is the fastest growing, large, urbanized area in the high-income world with more than 3 million population, has the lowest population density.[63]

The third and fourth fastest growing, large, high-income-world urban areas are Dallas-Fort Worth and Houston, which also have among the lowest urban population densities.[64] Current growth rates indicate an association between low population density *(sprawl)* and greater growth. But, again, a causal relationship is not proposed here.

The lack of connection between economic growth and suburbanization is also evident with respect to the largest Pennsylvania metropolitan areas.

The lack of connection between economic growth and suburbanization is also evident with respect to the largest Pennsylvania metropolitan areas *(Figures 45 and 46, page 46)*.

- Philadelphia is ranked 13th least sprawling of 48 in the "Sprawl Index" and 19th least sprawling of 53 in urbanized area population density. Both measures place Philadelphia in the second least sprawling quintile, but Philadelphia's economic growth is ranked in the bottom quintile. The largest metropolitan areas with the greatest job growth, Dallas-Fort Worth and Atlanta, are rated by Smart Growth America as having considerably more sprawl than Philadelphia.
- Pittsburgh is ranked 19th least sprawling of 48 in the "Sprawl Index" and 43rd least sprawling out of 53 in population density, yet it is ranked 51st in economic growth. Among the metropolitan areas with greater suburbanization than Pittsburgh are Atlanta, Charlotte, Nashville, and Raleigh-Durham, all among the top seven in job growth.

Among major metropolitan areas in the Frost Belt, eight of the nine with greater employment growth than Philadelphia were rated by Smart Growth America as more "sprawling." Only five of the 11 ranked below Philadelphia in job growth were rated by Smart Growth America as more sprawling than Philadelphia.

In fact, the top eight economic-growth metropolitan areas have sprawl indexes indicating that they sprawl more than average. The top 10 metropolitan areas in economic growth had, according to Smart Growth America, 13 percent greater sprawl than the 10 slowest growing metropolitan areas. Generally, eco-

[63] Urbanized areas with more than 3 million population.

[64] http://www.demographia.com/db-econ-uaintl.htm. This is not necessarily to suggest that greater suburbanization leads to higher growth. Boston, considerably less dense than either Houston or Dallas-Fort Worth, is the second least dense urbanized area, yet ranked 16th out of 28 in population growth. Philadelphia, also less dense than Houston or Dallas-Fort Worth, ranked 22nd. Hyper-density Singapore and Hong Kong, the two most dense urbanized areas in the high-income world, ranked second and seventh, respectively, in economic growth. These urbanized areas are political enclaves that have experienced strong immigration growth from far poorer adjacent areas. But the Brookings report contention that "sprawl" produces anemic economic growth is not supported by the data.

nomic growth was greater in the more sprawling Frost Belt metropolitan areas.

Using a population density measure, the 10 fastest growing areas had 16 percent greater sprawl than the 10 slowest growing areas *(Table 9, below)*. This does not necessarily lead to a claim that greater suburbanization or greater sprawl leads to greater economic growth. It does, however, refute the claim that greater sprawl contributes to slower economic growth.

Conclusions

Pennsylvania's suburban development *(extent of urban sprawl)* does not have a negative impact on economic growth.

- Neither the Smart Growth America sprawl index nor a population density-based analysis confirms any negative relationship between suburbanization and economic growth.

TABLE 9

Frost Belt Metropolitan Growth 1980-2003 and Suburbanization Measures

Rank	Metropolitan Area	Employment Growth	Sprawl Index (Lower is More Sprawl)	Urbanized Population Density (Lower is More Sprawl)
1	Grand Rapids	62.0%	95.2	2,095
2	Columbus	56.7%	91.1	2,849
3	Minneapolis-St. Paul	54.0%	95.9	2,671
4	Indianapolis	48.8%	93.7	2,205
5	Cincinnati	43.5%	96.0	2,238
6	Kansas City	42.6%	91.6	2,330
7	St. Louis	29.2%	94.5	2,506
8	Albany	28.6%	83.3	1,966
9	Boston	27.6%	126.9	2,323
10	Philadelphia	24.7%	112.6	2,861
11	Milwaukee	24.2%	117.3	2,688
12	Chicago	24.1%	121.2	3,914
13	Detroit	23.8%	79.5	3,094
14	Rochester	18.4%	77.9	2,353
15	Providence	18.0%	153.7	2,332
16	New York	17.2%	177.8	5,309
17	Dayton	16.2%	No data	2,174
18	Hartford	13.1%	85.2	1,814
19	Cleveland	12.6%	91.8	2,761
20	Pittsburgh	9.3%	105.9	2,057
21	Buffalo	7.2%	119.1	2,664

Employment growth calculated from U.S. Department of Commerce data.
Sprawl Index for core metropolitan area, from Smart Growth America.

- In the Frost Belt, the greatest economic growth has been achieved by metropolitan areas with greater than average sprawl. This is not to suggest that greater suburbanization leads to faster economic growth. It does, however, strongly refute the view that greater suburbanization causes slower economic growth.

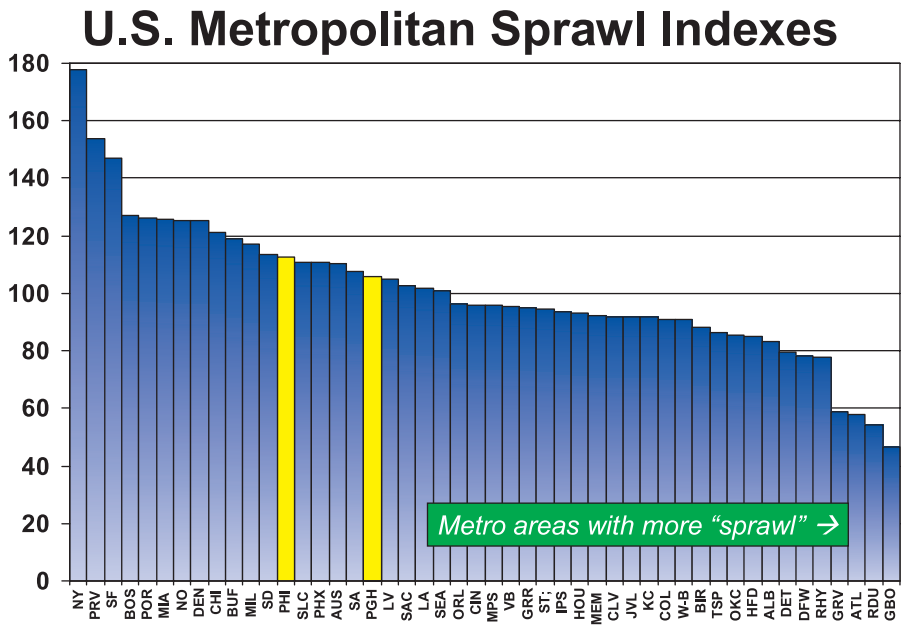


FIGURE 45

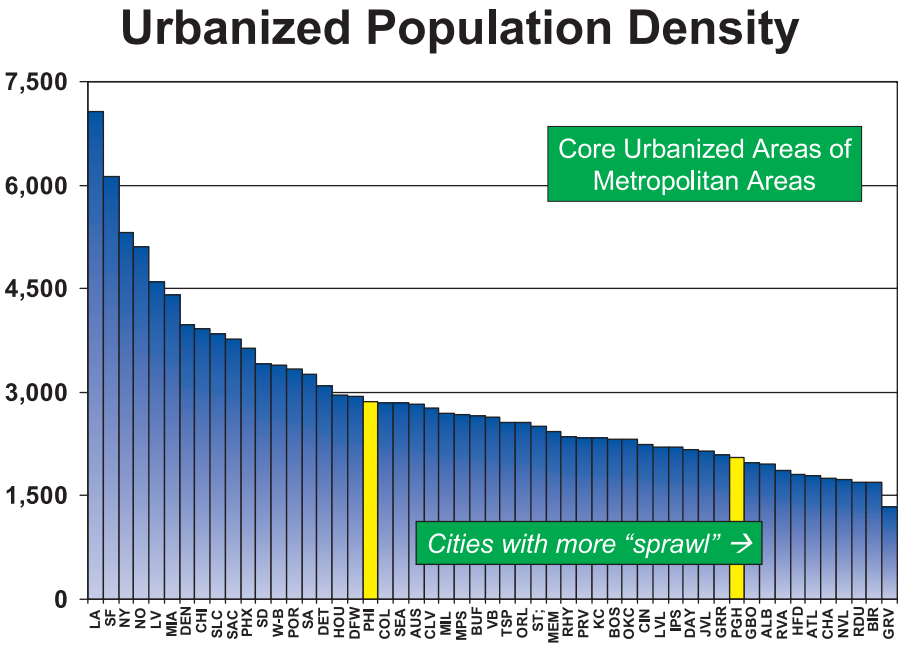


FIGURE 46

LOCAL DEMOCRACY AND ECONOMIC GROWTH

The Brookings Institution report suggests that more local democracy leads to less economic growth. The David Rusk discussion paper *(Little Boxes, Limited Horizons: A Study of Fragmented Local Governance in Pennsylvania: Its Scope, Consequences, and Reforms)* mistakenly attempts to further the argument, referring to research by Dr. Jerry Paytas at the Carnegie Mellon Center for Economic Development. Dr. Paytas suggested that more local democracy led to comparatively less job growth, indicating that "a significant amount of the variation in (metropolitan) competitiveness can be attributed to governance."[65]

Dr. Paytas's analysis explained 31 percent of the variation in metropolitan job market share over a 25-year period among the metropolitan areas with more than 1 million residents. However, the formula was generally limited to measures of governance.[66] Other potential drivers of competitiveness were not included and exhibit a similar relationship.

This is indicated by a quintile analysis of employment growth from 1980 to 2002 by major metropolitan area *(Table 10, page 48, and Figures 47 and 48, page 49)*:[67] Like Dr. Paytas's analysis, higher economic growth rates are associated with less local democracy. However, other variables have virtually the same relationship with economic growth, undermining the contention that greater democracy leads to less economic growth.

Employment growth has been greater in the Sun Belt than in the Frost Belt. In fact, Sun Belt metropolitan areas have had a virtual monopoly on rapid economic growth *(Figure 49, page 49).* All of the top-20 employment-growth metropolitan areas are in the Sun Belt, and all but one of the metropolitan areas with the lowest growth are in the Frost Belt *(Figure 50, page 50).* A number of factors could contribute to this, such as better weather and a generally more favorable business climate.

Weather — Areas with less inclement winter weather have tended to achieve greater employment growth. The average annual snowfall in the bottom economic-growth quintile metropolitan areas is 47 inches, compared to 6.9 inches in the quintile with the greatest employment growth *(Figure 51, page 50).*

Business Climate — A number of factors related to the business climate also bear a strong relationship to the pattern of economic growth. For example:

- **Taxes —** The slowest growth quintile of metropolitan areas includes core cities located in states with by far the highest taxes per capita at the beginning of the period, in 1980 *(Figure 52, page 50).* Higher taxes tend to discourage business from locating in a state.
- **Labor Costs —** In many industries, the most significant factor of cost is employee compensation. Generally, the metropolitan areas that had lower average wages and salaries in 1980 have added jobs at a greater rate than those that had higher average wages.

  At the beginning of the period (1980), the quintile with the slowest economic growth had the highest average wages, while the quintile with the highest growth rate had the lowest average wages *(Figure 53, page 50).* Higher labor costs tend to discourage businesses from locating in a state.
- **Manufacturing Unionization —** The Frost Belt has experienced an unprecedented loss of comparatively unionized manufacturing jobs in recent decades. The metropolitan areas with the slowest job growth had core cities in states with the highest share of private employment in

[65] Jerry Paytas. "Does Governance Matter: The Dynamics of Metropolitan Governance and Competitiveness." http://www.smartpolicy.org/pdf/governancematter.pdf

[66] The formula also included a state capital "dummy" variable.

[67] More than 1 million population in 2003.

TABLE 10

Metropolitan Employment Growth Quintiles Compared to Various Factors

	Lowest	Low	Medium	High	Highest
Employment Growth: 1980-2002	14.2%	30.7%	45.0%	67.5%	123.5%
Total Cases (Metropolitan Areas)	10	11	11	11	10
Cases (Metropolitan Areas) in Frost Belt	9	6	4	2	0
Share of Metropolitan Areas in Frost Belt	90%	55%	36%	18%	0%
1980 State & Local Taxes per Capita: Core City State	$1,106	$1,017	$842	$885	$864
Annual Snowfall (Inches)	47.0	23.4	16.1	17.6	6.9
State Manufacturing Union Members as a Share of Private Employment: 1983	8.2%	7.0%	5.3%	5.3%	2.2%
1980 Average Pay Compared to Lowest Quintile	1.07	1.05	1.00	0.99	0.97
Years Since Central City Achieved 100,000 Population (from 2000)	120	119	91	83	57
Average Size of General Government Jurisdiction	21,677	24,323	28,538	43,779	72,495

Derived from U.S. Census Bureau, www.unionstats.com, *Statistical Abstract of the United States* and U.S. Department of Commerce

union manufacturing jobs in 1983.[68]

The lowest economic-growth quintile had nearly four times as much of its work force in unionized manufacturing employment as the highest economic growth quintile *(Figure 54, page 50).* Unionization is generally viewed negatively by businesses seeking to establish new facilities.

- **Political Entrenchment —**The late economist Mancur Olson developed a theory that economic growth tends to be less in nations that have had longer periods of stability that has permitted special interests to become more powerful in obtaining political considerations that restrict economic growth.[69] Dr. Olson also referred to analysis indicating the same tendency with respect to U.S. states and cities.

  A potential measure of urban political entrenchment is the number of years since the core city reached 100,000 residents. Generally, the metropolitan areas with slower job growth had older core cities than those with the greatest job growth. The lowest growth quintile had central cities with an average of 120 years since the core city reached 100,000 population, while the highest growth quintile had an average of 57 years since the core city reached 100,000 population *(Figure 55, page 50).*

[68] Earliest data available from www.unionstats.com.

[69] Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (1982).

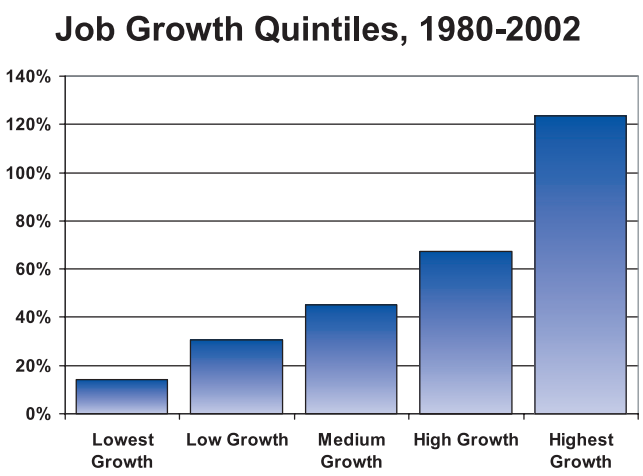


FIGURE 47

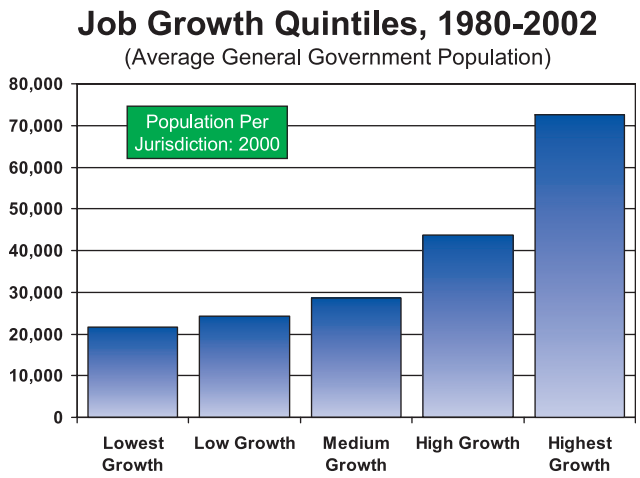


FIGURE 48

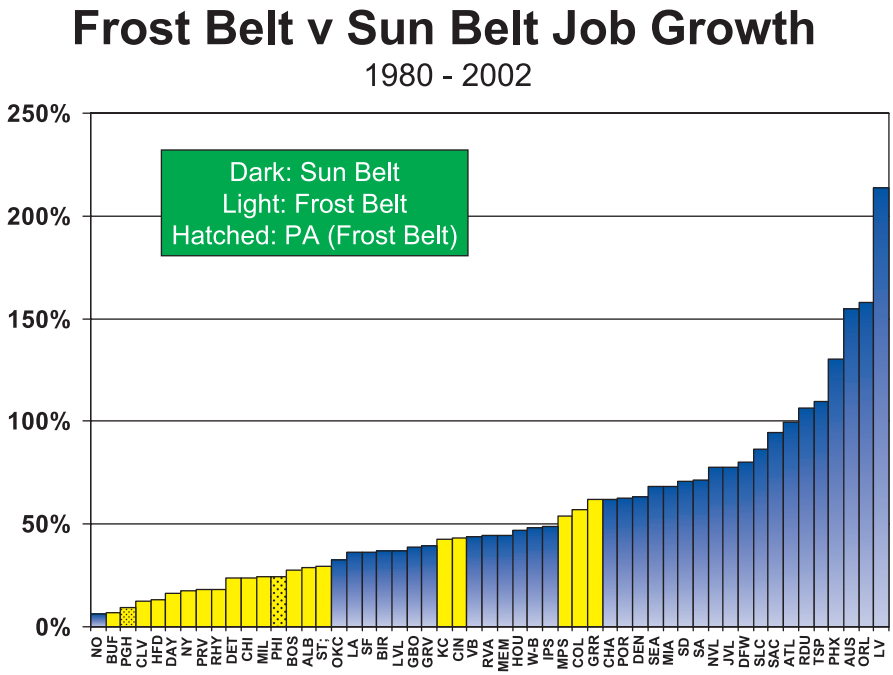


FIGURE 49

Job Growth: Frost Belt & Sun Belt

Metropolitan Areas, 1980-2002

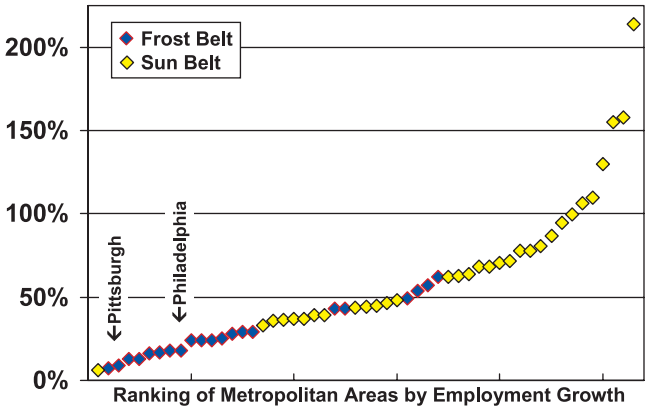


FIGURE 50

Job Growth Quintiles, 1980-2002

Average Annual Snowfall (Inches)

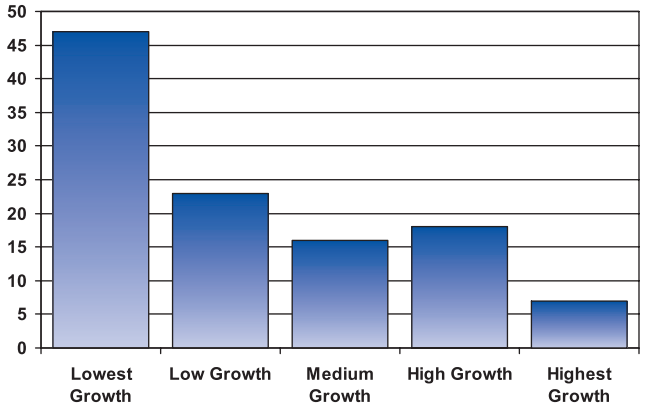


FIGURE 51

Job Growth Quintiles, 1980-2002

State & Local Taxation Per Capita, 1980

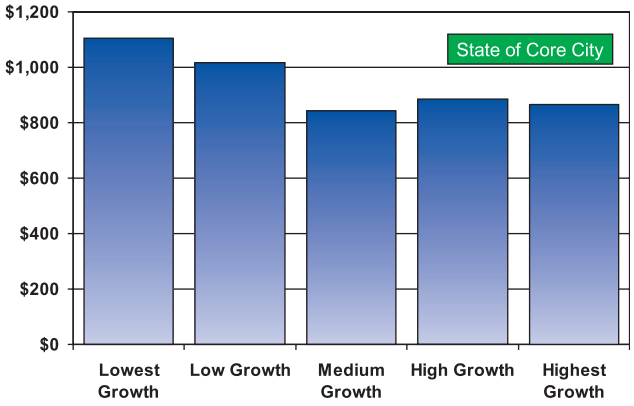


FIGURE 52

Job Growth Quintiles, 1980-2002

Average Wages, 1980

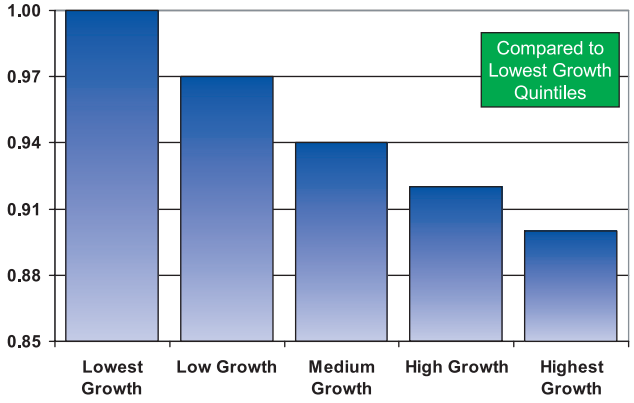


FIGURE 53

Job Growth Quintiles, 1980-2002

Unionized Manufacturing Employment Share

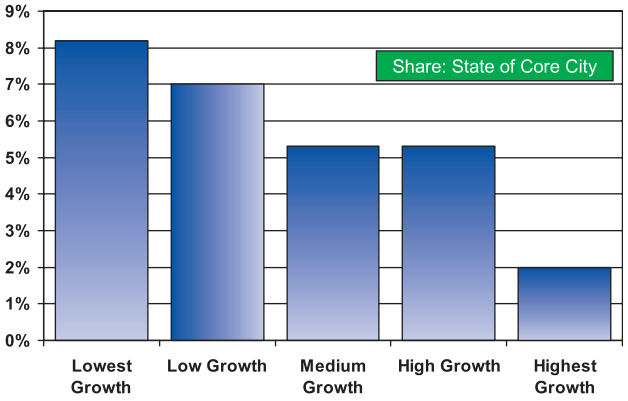


FIGURE 54

Job Growth Quintiles, 1980-2002

(Years since core city reached 100,000 population)

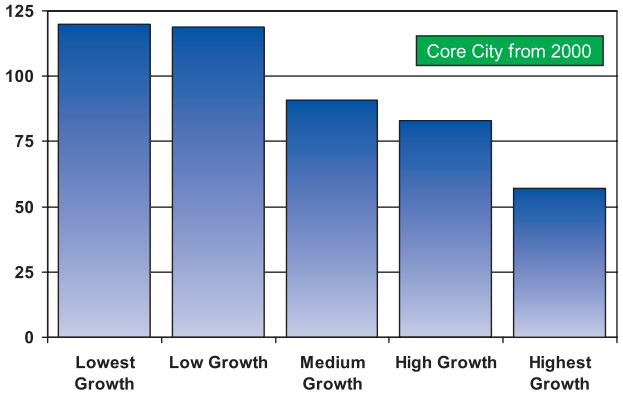


FIGURE 55

Further, in the Frost Belt, *greater* economic growth has been associated with *greater* democracy. From 1980 to 1992, Philadelphia ranked 10th out of 21 Frost Belt metropolitan areas in employment growth. Eight of the nine metropolitan areas with greater economic growth had greater democracy than the Philadelphia area, with an average general government jurisdiction population of 9,119, nearly 40 percent less than Philadelphia's 14,806. On the other hand, only four of the 11 metropolitan areas with less employment growth than Philadelphia had greater democracy *(Table 11, below)*.

As in the case of suburbanization and economic growth above, none of this analysis is to suggest, at this point, that greater economic growth is associated with greater democracy. However, the evidence strongly refutes the contention that greater democracy leads to slower economic growth. It is more likely that factors other than the extent of local democracy are more important.

TABLE 11

Employment Growth and Greater Democracy

Rank	Metropolitan Area	Employment Growth: 1980-2002	Average Jurisdiction Population (Lower Population Means Greater Democracy)
1	Grand Rapids	62.0%	7,800
2	Columbus	56.7%	8,372
3	Minneapolis-St. Paul	54.0%	7,977
4	Indianapolis	48.8%	8,104
5	Cincinnati	43.5%	8,129
6	Kansas City	42.6%	7,043
7	St. Louis	29.2%	7,073
8	Albany	28.6%	7,723
9	Boston	27.6%	19,847
10	Philadelphia	24.7%	14,806
11	Milwaukee	24.2%	15,103
12	Chicago	24.1%	15,014
13	Detroit	23.8%	18,051
14	Rochester	18.4%	9,165
15	Providence	18.0%	27,053
16	New York	17.2%	29,178
17	Dayton	16.2%	8,868
18	Hartford	13.1%	22,251
19	Cleveland	12.6%	12,857
20	Pittsburgh	9.3%	5,396
21	Buffalo	7.2%	19,120

An Alternative Theory of Economic Growth

The weather and business climate factors noted above seem more likely than the purportedly negative effects of greater democracy in explaining the variations in economic growth between metropolitan areas.

The reason for the stronger growth of the Sun Belt over recent decades may well be so simple as a reflection that Americans have generally sought to escape colder climates as technology has made hotter and more humid climates more livable. The much wider availability of air conditioning made large areas of the South and Southwest more attractive. At the same time, these areas have tended to have more favorable business climates, reflected in lower labor costs and often lower taxes.

California attracted large shares of internal immigration in the decades following World War II, with plenty of land to develop and better weather. As California became more crowded and expensive, much of the internal immigration went instead to formerly slower growing Sun Belt states in the Pacific Northwest *(Washington and Oregon)* and the Mountain states *(especially Colorado, Utah, Arizona, and Nevada)*. At the same time, the greater growth in the humid South may have been facilitated by the wide availability of air conditioning.

Part of the population and economic shift from the Frost Belt to the Sun Belt may simply be an indication of movers seeking opportunities in newer, less politically and economically entrenched areas, consistent with Mancur Olson's theory.

Finally, over the past half century, the nation has become far more homogeneous due to communications and transportation advances. For example, rapid air transportation made the South and West far more accessible for business locations as travel from these previously more remote areas to the rest of the nation became feasible for the first time. Another important impact was the completion of the interstate highway system, which reduced transport costs while making previously remote areas more accessible.

Surely, it seems more plausible that factors such as these would have been more important in driving population and economic growth than the number of local government jurisdictions or, as is suggested by David Rusk's city elasticity theory, municipal annexation policy.

Conclusions

There is no indication that Pennsylvania's greater democracy has a negative impact on economic growth. Variations in economic growth appear to be the result of regional, weather, business climate, and political factors.

- Since World War II, economic growth in the United States has been strongly skewed toward Sun Belt areas and away from Frost Belt areas, such as Pennsylvania.
- Weather, business climate, and political factors seem the most likely explanations for the differences in economic growth among states and metropolitan areas.
- Frost Belt data indicates that the highest-growth metropolitan areas have generally had *more* local democracy, generally refuting the assertion that greater democracy leads to slower economic growth.

ECONOMIC GROWTH IN PENNSYLVANIA

As was noted previously, Pennsylvania and its metropolitan areas have experienced comparatively slow economic growth for decades. To improve or even reverse this economic performance will require a more competitive Pennsylvania. But what would be required to make Pennsylvania more competitive?

Measures of State Competitiveness

A review of various state and metropolitan competitiveness measures yields a number of answers, not all of them consistent. This is illustrated by an analysis of four state competitiveness indexes and a ranking of job growth from 1980 to 2002 *(Table 12, below)*. The top-10 rankings of these five lists include 29 states, which means that fewer states (21) did not achieve a top-10 ranking than did. Pennsylvania is one of the states that did not achieve top-10 status in any list.[70]

TABLE 12

Various State Competitiveness Rankings

Rank	(1) Beacon Hill Institute, 2003	(2) Progressive Policy Institute, 2002	(3) Clemson University, 1999	(4) Fraser Institute: 2004	(5) Actual Job Growth: 1980-2002
1	Delaware	Massachusetts	Idaho	Colorado	Nevada
2	Massachusetts	Washington	Virginia	Delaware	Arizona
3	Wyoming	California	Utah	South Dakota	Utah
4	Utah	Colorado	Wyoming	Tennessee	Florida
5	Washington	Maryland	South Dakota	New Hampshire	Georgia
6	Vermont	New Jersey	New Hampshire	Louisiana	Colorado
7	Minnesota	Connecticut	Delaware	Nevada	Idaho
8	New Hampshire	Virginia	Texas	Texas	Washington
9	Connecticut	Delaware	Mississippi	Georgia	Alaska
10	South Dakota	New York	Kansas	Missouri	New Mexico

TABLE 13

Summary of Pennsylvania Competitiveness Rankings

Competitiveness Index	Ranking
Beacon Hill Institute, 2003	29
Progressive Policy Institute, 2002	19
Clemson University, 1999	45
Fraser Institute	21
Job Growth: 1980-2002	44
Average Ranking	32

[70] Other medium and large Frost Belt states not achieving top-10 status include Ohio, Illinois, Michigan, Indiana, and Wisconsin.

Delaware is in the top 10 on four of the five lists, while Washington, Utah, Colorado, New Hampshire, and South Dakota appear on three of the five lists. Eight additional states appear in the top 10 of two of the five lists. Individual states exhibit large differences. For example, the state of Washington ranked as high as number 2 and as low as number 49. New York is ranked 10th in one list and 50th in another.

Pennsylvania is ranked as high as 19th and as low as 45th in the five lists, with an average ranking of 32nd *(Table 13, previous page).*

For example:

- The Beacon Hill Institute's *Metro and State Competitiveness Report* ranks Pennsylvania 29th.
- The Progressive Policy Institute's[71] *State New Economy Index* places Pennsylvania at 19th.
- Clemson University's *Economic Freedom in America's 50 States: A 1999 Analysis* ranks Pennsylvania at 45th.
- The Fraser Institute's *Economic Freedom of North America*, which ranks U.S. states and Canadian provinces, ranks Pennsylvania 21st, and above all Canadian provinces.
- A simple ranking of percentage job growth from 1980 to 2002 places Pennsylvania at 44th.

While there is good reason for concern about economic performance, it is clear that Pennsylvania is not alone in being less economically competitive than a number of other states, principally in the Frost Belt.

Measures of Metropolitan Competitiveness

Likewise, there are a number of measures of metropolitan competitiveness, and there is considerable variation in the rankings. Five lists were analyzed, including the Beacon Hill Institute and Progressive Policy Institute metropolitan rankings, two lists from *The Rise of the Creative Class* by Dr. Richard Florida, and a 1980 to 2002 job growth list *(Tables 14 and 15, adjacent page)*. A total of 19 metropolitan areas appear. Austin and Raleigh-Durham are on all five lists, while Seattle, Minneapolis, San Francisco, Denver, and Boston are on four lists.

There is comparatively less correlation with the state competitiveness lists than might be expected. For example, North Carolina does not appear in the top 10 of any list, yet Raleigh-Durham appears in the top 10 of all five metropolitan lists. Texas appears on only one of the five state competitiveness lists, yet Austin is also in the top 10 of all five metropolitan lists *(Table 14, adjacent page).*

The largest metropolitan areas in the state, Philadelphia and Pittsburgh, like Pennsylvania in the state rankings, are not consistently the worst in the nation but are also rarely among the highest rated *(Table 15, adjacent page)*.

- The Beacon Hill Institute ranks Philadelphia 44th and Pittsburgh 19th out of 50.
- The Progressive Policy Institute ranks Philadelphia 14th and Pittsburgh 30th out of 50.
- *The Rise of the Creative Class* (Richard Florida, 1999) ranked Philadelphia 13th and Pittsburgh 22nd in its first listing *(out of 49).*[72]
- *The Rise of the Creative Class* (Richard Florida, Revised) ranked Philadelphia 20th and Pittsburgh 34th in its revised listing *(out of 49).*
- From 1980 to 2002, Philadelphia ranked 41st and Pittsburgh 51st out of 53 in job growth.[73]

Philadelphia and Pittsburgh rank near the middle in metropolitan competitiveness, with average rankings of 26th and 31st, respectively *(Table 15, adjacent page).*

[71] Associated with the Democratic Leadership Council.
[72] Metropolitan areas of more than 1 million as of 1999.
[73] Metropolitan areas of more than 1 million as of 2003.

TABLE 14

Various Metropolitan Competitiveness Rankings

Rank	(1) Beacon Hill Institute, 2003	(2) Progressive Policy Institute, 2002	(3) Richard Florida, 1999	(4) Richard Florida, Revised	(5) Actual Job Growth: 1980-2002
1	Seattle	Washington, DC	Washington, DC	Austin	Las Vegas
2	San Francisco	Denver	Raleigh-Durham	San Francisco	Orlando
3	Minneapolis	Minneapolis	Boston	Seattle	Austin
4	Boston	Austin	Austin	Boston	Phoenix
5	Denver	Raleigh-Durham	San Francisco	Raleigh-Durham	Tampa
6	Raleigh-Durham	Seattle	Minneapolis	Portland	Raleigh-Durham
7	Austin	San Francisco	Hartford	Minneapolis	Atlanta
8	Salt Lake City	Boston	Denver	Washington, DC	Sacramento
9	Portland	Hartford	Seattle	Sacramento	Salt Lake City
10	Atlanta	Salt Lake City	Houston	Denver	Dallas-Fort Worth

TABLE 15

Summary of Philadelphia & Pittsburgh Metropolitan Competitiveness Rankings

	Philadelphia	Pittsburgh	Cases
Beacon Hill Institute, 2003	44	19	50
Progressive Policy Institute, 2002	14	30	50
Richard Florida, 1999	13	22	49
Richard Florida, Revised	20	34	49
Job Growth: 1980-2002	41	51	53
Average Ranking	26	31	

Exercise Caution with Competitiveness Rankings

The four economic competitiveness ranking lists appear to have little relationship to the actual competitiveness achieved by states in terms of job creation over the past two decades. Four of the states in the top 10 in job growth *(Table 12, Column 5, page 53)* did not achieve a top-10 ranking on any of the four economic competitiveness lists, including Georgia, which contains the fastest growing metropolitan area of more than 3 million in the high-income world *(Atlanta)*.

Two other states, including job-growth leader Nevada, appear on only one of the four economic competitiveness lists. Likewise, metropolitan job-growth leaders Las Vegas and Orlando do not appear on any of the four other competitiveness lists *(Table 12, Columns 1 to 4, page 53)*. Texas, which includes the third and fourth fastest growing high-income-world metropolitan areas *(Dallas-Fort Worth and Houston)* appeared in the top 10 of only two of the four state competitiveness lists.

In addition to differences between lists, substantial differences can arise between different editions of the same list. This is illustrated by rankings in *The Rise of the Creative Class.* In the initial 1999 list, *The Rise of*

the Creative Class top 10 included Houston and Hartford, which dropped to 21st and 28th, respectively, in the 2004 revision. At the same time, Sacramento and Portland entered the revised top 10 in 2004, from having been 18th and 30th, respectively. Washington, D.C., was top-ranked in the 1999 listing but fell to 8th in the 2004 listing. This does not necessarily mean that large competitiveness swings occurred in less than five years. It is rather indicative of Dr. Florida's refinement of the rating system.

There is no generally accepted state or metropolitan competitiveness index, although some may be more popular than others at any particular time.

Economic Development and Local Democracy

The inconsistencies of state and metropolitan competitiveness indexes indicate the importance of being cautious with respect to formulation of public policies intended to generate job growth. There is sometimes an assumption that state and local economic development policies are principal determinants of economic performance. Dr. Terry Buss of Suffolk University suggests that this may not be the case.[74]

Even so, however, effective economic development efforts do not require the dilution of local democracy. State and regional economic development policies can be effectively administered at the state and county levels. Local policies can be coordinated by cooperative efforts at the local level. There is considerable debate with respect to what causes the variations in economic growth that are observed around the nation. The Frost Belt analysis above demonstrates that greater democracy does not impede economic growth. There is no reason to sacrifice the advantages of Pennsylvania's greater democracy on the questionable assumption that insulating "city hall" from the voters will improve economic performance.

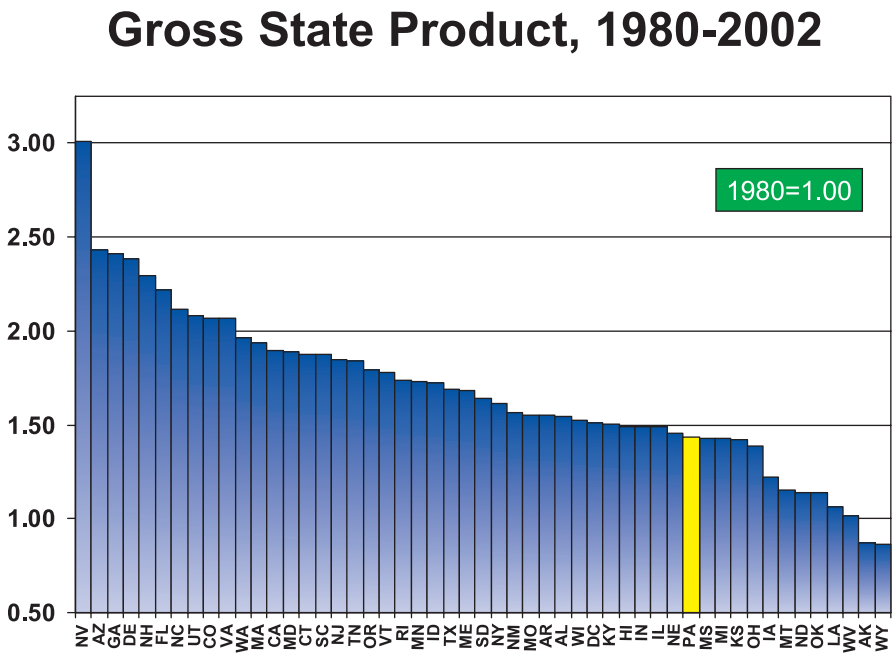


FIGURE 56

[74] Dr. Terry F. Buss, "The Effect of State Tax Incentives on Economic Growth and Firm Location Decision: A Review of the Literature," *Economic Development Quarterly* (February 2001).

Gross State Product/Capita, 1980-2002

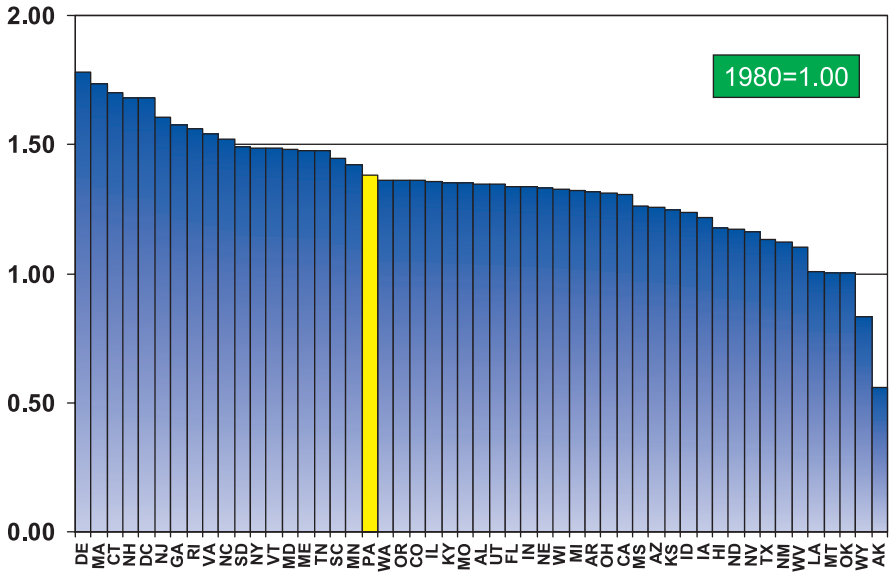


FIGURE 57

State Economic Performance

From 1980 to 2002, Pennsylvania's gross state product increased 43 percent,[75] a full third less than the national rate of 70 percent *(Figure 56, adjacent page).* Pennsylvania ranked 39th in economic growth among the 50 states and the District of Columbia. While Pennsylvania's economic performance has been less than average, it has been fairly characteristic of large Frost Belt states. Pennsylvania's economic growth has been greater than that of Michigan and Ohio and somewhat less than that of Illinois.

Pennsylvania ranked considerably stronger in gross state product per capita. From 1980 to 2002, gross state product per capita increased 38 percent, above the national average of 35 percent *(Figure 57, above).* Pennsylvania ranked 19th among the 50 states and the District of Columbia. This would seem to indicate that, despite its slow overall growth, Pennsylvania has been more successful than most other states in retaining better paying jobs. Large regional competitors Illinois, Michigan, and Ohio all experienced slower per capita gross state product growth, although Pennsylvania trailed New York and New Jersey. Pennsylvania outperformed some perceived economic dynamos in the fast growing Sun Belt, such as Oregon, Colorado, Washington, and Florida.[76]

Pennsylvania's employment grew 19 percent from 1980 to 2002, ranking 44th out of 51. Among Frost Belt states, Pennsylvania's employment growth ranked 17th out of 21. But, again, illustrating the regional nature of economic performance, New York and Connecticut, which are often perceived as economic "powerhouses," experienced slower job growth than Pennsylvania.

Among the Frost Belt states that grew faster than Pennsylvania, most were either in the Midwest or were much smaller *(Vermont and New Hampshire).* Among the larger Northeastern states, Massachusetts ranked just above Pennsylvania, while New Jersey experienced nearly 1½ times the growth. Both New Hampshire and New Jersey have the advantage of extensive suburban areas that capture substantial growth *(in the Boston, New York, and Philadelphia metropolitan areas).*

[75] All data inflation-adjusted.
[76] Calculated from U.S. Department of Commerce data.

Major Metropolitan Economic Performance

Pennsylvania's major metropolitan areas ranked near the bottom in the gross personal income increase but performed more favorably in personal income per capita, consistent with the state's performance in gross state product per capita *(Figures 58 and 59, adjacent page).*

Philadelphia — The Philadelphia area[77] experienced a 64 percent increase in gross personal income from 1980 to 2002, below the national average of 77 percent. Philadelphia ranked 40th among the 53 metropolitan areas in the nation with more than 1 million residents.[78] However, Philadelphia's personal income per capita ranked much higher, at 12th. Per capita personal income rose 50 percent, above the national average of 40 percent. Overall wages per employee increased 6.4 percent relative to the national average from 1980 to 2002, ranking Philadelphia 13th out of 53.

Philadelphia experienced 25 percent employment growth, higher than the state average. Philadelphia ranked 40th out of 53 in employment growth among metropolitan areas with more than 1 million population and 10th of the 21 Frost Belt major metropolitan areas. Philadelphia's job growth was greater than that of New York and Chicago and ranked immediately below that of Boston.

Pittsburgh — As would be expected, the unprecedented industrial losses in Pittsburgh were instrumental in producing a ranking of 52nd out of 53 with respect to the change in gross personal income from 1980 to 2002. Pittsburgh's gross personal income rose 28 percent, well below the national average of 77 percent. But, again, personal income per capita performance was much better. Pittsburgh ranked 29th of 53 and experienced a 40 percent increase in per capita personal income from 1980 to 2003, virtually the same as the national average.[79]

Nonetheless, overall wages per employee declined 11.9 percent, relative to the national average, ranking Pittsburgh 50th out of 53. Pittsburgh ranked 51st out of 53 major metropolitan areas, with 9 percent employment growth, leading only Buffalo and New Orleans.[80] Pittsburgh ranked 20th out of 21 Frost Belt major metropolitan areas in employment growth.

Pittsburgh experienced an economic decline unlike that of any other major metropolitan area in the last three decades. This is illustrated by an examination of gross payroll data from the U.S. Department of Commerce.[81] Each of the four "heart of the Rust Belt" urban areas reached an economic peak *(payroll)* in 1978 and began declining until, in each of the four cases, the bottom was reached in 1983. It was during these years that the remaining steel mills closed in Pittsburgh.

The state should create a vision, but the vision should be based upon an objective analysis of the causal factors, such as economic dislocation and outmigration.

[77] The entire metropolitan area, including portions in New Jersey, Delaware, and Maryland.
[78] The U.S. Department of Commerce does not calculate gross metropolitan product data. Gross personal income is used to measure comparative metropolitan performance.
[79] Calculated from U.S. Department of Commerce data.
[80] New Orleans, with the lowest job growth, ranked 8th out of 53 major metropolitan areas in average size of government, more than 10 times the Pittsburgh area figure. Buffalo also has a larger average government size than Pittsburgh.
[81] www.bea.doc.gov. All data in 2002 *(adjusted for inflation).*

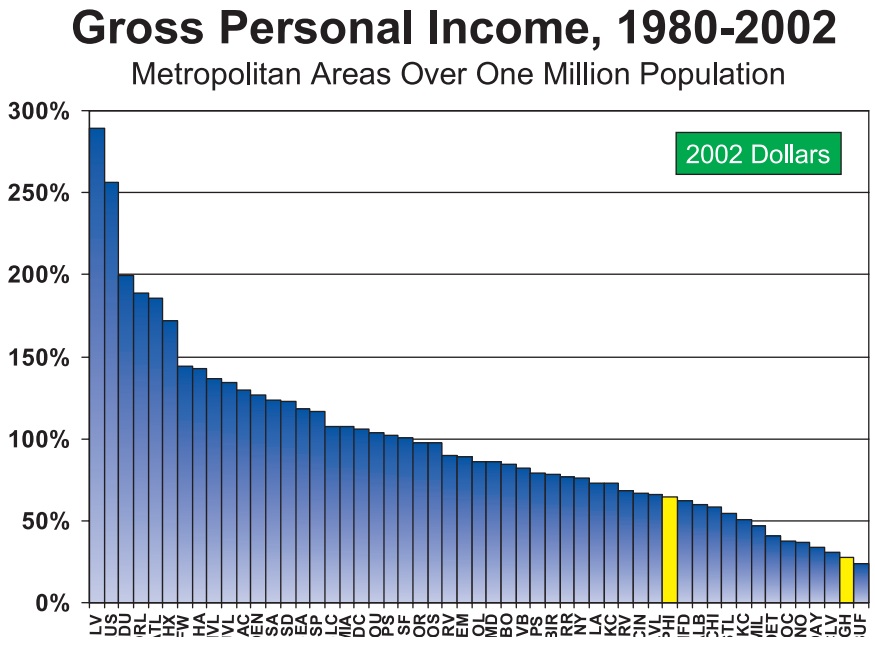


FIGURE 58

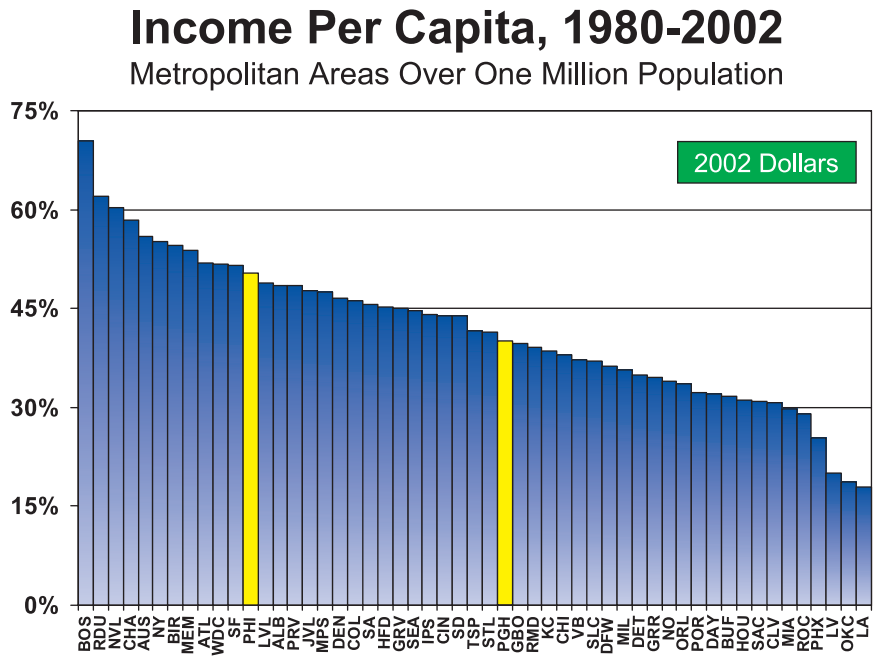


FIGURE 59

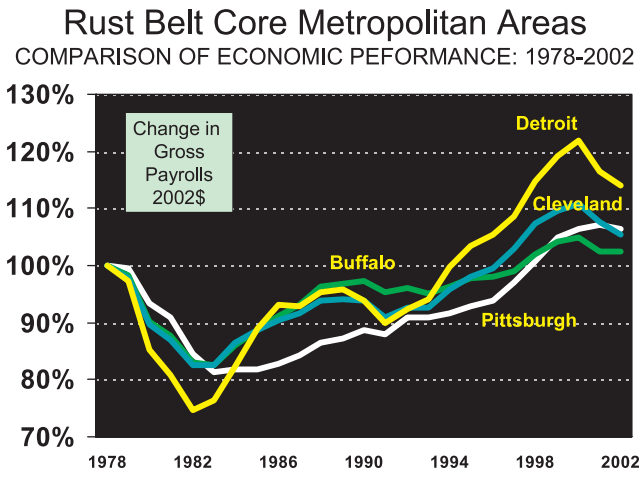


FIGURE 60

In the years that followed, there are important contrasts between the economic performance of the four Rust Belt metropolitan areas *(Figure 60, above):*

- Metropolitan Detroit experienced the greatest decline, with a 24.6 percent loss in payrolls from 1978 to 1983. However, quick progress was made, with payroll levels rising to 93 percent of the 1978 level by 1986. During the 10 years following the low, payrolls in metropolitan Detroit averaged 7.4 percent less than the 1978 peak.
- Metropolitan Cleveland experienced a 17.5 percent payroll loss from 1978 to 1983, but quick progress was also made, with payroll levels rising to 90 percent of the 1978 level by 1986. During the 10 years following the low, payrolls in metropolitan Cleveland averaged 8.1 percent less than the 1978 peak.
- Metropolitan Buffalo also experienced a 17.5 percent payroll loss from 1978 to 1983. Again, quick progress was made, with payroll levels rising to 91 percent of the 1978 level by 1986. During the 10 years following the low, payrolls in metropolitan Buffalo averaged 6.2 percent less than the 1978 peak.
- The Pittsburgh metropolitan area experienced an 18.8 percent payroll loss from 1978 to 1983, slightly more than Buffalo and Cleveland but less than Detroit. That is where the similarity stops. By 1986, payroll levels had recovered only to 17 percent less than the 1978 peak, more than double the deficit faced in Detroit, Cleveland, and Buffalo.

  It would take an additional nine years (1982) for payroll levels to reach the 10 percent deficit reached in the other metropolitan areas by 1986. During the 10 years following the 1983 low, payrolls in metropolitan Pittsburgh averaged 13.3 percent less than the 1978 peak.

It seems likely that the devastating nature of losing virtually all of its largest industry, steel production, made the recovery in Pittsburgh much more difficult.

Rusk conjectures that less democracy in the Pittsburgh area would have helped to reverse the economic losses sustained from the closure of the steel industry. This statement is unsupported. Despite having sustained the unprecedented loss of its principal industry, Pittsburgh has managed a payroll recovery that now exceeds that of both Cleveland and Buffalo, which were not nearly so dependent on a single industry. Further, both Cleveland and Buffalo have managed to fall behind Pittsburgh despite having far less local democracy that the Brookings Report associates with greater economic growth.

Pennsylvania's economic growth has been typical for a Frost Belt state, and its per capita economic growth has exceeded that of some Sun Belt states.

Where Brookings is Right

The Brookings report rightly points out that Pennsylvania could be more competitive. Its recommendation that the state should create a "vision for economic competitiveness and development" is especially appropriate. In explaining this recommendation, however, Brookings focuses principally on planning.

There are many reasons why Pennsylvania has been less competitive than it might be. There is no substantial evidence that lack of planning or the nature of planning in the state is a significant contributor to the problem.

The state should create a vision, but the vision should be based upon an objective analysis of the causal factors, such as economic dislocation and outmigration.

The Brookings report also calls for state initiatives to better prepare municipal officials and administrators on land use issues. In the abstract, this is a useful recommendation. However, care must be taken to ensure that any such program be objective, as opposed to being driven by what is often an ideological "anti-suburban" agenda.

In the long run, urban planning and land use planning should seek to facilitate the desires of households, rather than try to steer them to work or live where or in ways that planners would prefer. History is replete with examples and subsequent failures of governments seeking to "socially engineer" behavior or thought on the part of citizens.

Conclusions

Economic growth in Pennsylvania is consistent with what would be expected for a Frost Belt state. The Pittsburgh area has experienced an unprecedented economic decline due to the loss of the steel industry but has recovered better than other regional metropolitan areas that suffered less severe declines.

- Measures of state and metropolitan competitiveness are inconsistent. As a result, considerable caution should be used in applying such measures to public policy.

History is replete with examples and subsequent failures of governments seeking to "socially engineer" behavior or thought on the part of citizens.

- There is debate about the extent to which economic development efforts generate overall economic growth.
- Pennsylvania's economic growth has been typical for a Frost Belt state, and its per capita economic growth has exceeded that of some Sun Belt states.
- Philadelphia's economic growth has been typical of a Frost Belt metropolitan area.
- Pittsburgh has faced the unprecedented economic loss of its principal industry, steel, but has recovered more strongly than Cleveland and Buffalo, where economic losses were considerably less.

LOCAL DEMOCRACY IN PENNSYLVANIA

Philadelphia and Pittsburgh have experienced serious financial difficulties in recent years. Moreover, these two cities are by far the largest municipal jurisdictions in the state.

Philadelphia is approximately 14 times the size of third-ranking Allentown, while Pittsburgh is more than three times as large. Indeed, Philadelphia and Pittsburgh may be the only municipal jurisdictions that are large enough for financial distress to be a matter of statewide significance.

However, Philadelphia and Pittsburgh, combined, represent less than one-fifth of the state's population. The much smaller townships of the second class contain more than 2½ times the population of Philadelphia and Pittsburgh. Nonetheless, Philadelphia and Pittsburgh, combined, have annual net spending 10 percent above the combined total for townships of the second class.

Some analysts have suggested that these crises justify governmental reorganizations that would provide more funding, such as municipal consolidation or intermunicipal revenue sharing. In fact, however, intermunicipal tax sharing already occurs through the state government, which transfers millions of dollars a year between counties and municipalities, much of it for the purpose of dealing with the special problems that exist in older cities such as Philadelphia and Pittsburgh. This is the appropriate approach for funding concentrated special needs.

The actual spending data, however, suggest that the two largest city governments have net spending that is considerably higher than that of smaller jurisdictions. Even after deducting state and federal aid, spending per capita in the city of Philadelphia is nearly double the rate in Philadelphia area suburban municipalities. Likewise, spending per capita in the city of Pittsburgh is more than double the rate of Pittsburgh area suburbs.

The actual spending data, however, suggest that the two largest city governments have net spending that is considerably higher than that of smaller jurisdictions.

This would tend to indicate a *spending*, rather than a *funding*, problem. In both cases, not only is spending higher, but debt burdens are also considerably higher than in the suburbs. Both Philadelphia and Pittsburgh have reached severe financial distress in recent years after incurring exceedingly large debt burdens and no longer being able to balance their budgets.

Philadelphia — The comparative inefficiency of the largest cities was demonstrated in an analysis performed for the city of Philadelphia during its fiscal crisis of the early 1990s. Then Mayor and now Governor Edward G. Rendell noted in his *Five-Year Financial Plan* the need for a "complete restructuring of the way" the city does business.

He noted that labor and management costs were "out of line with costs" in other cities. In particular, he noted that employees enjoyed up to a 70 percent premium in pay compared to comparable private-sector employees and that employee benefits were considerably more lucrative than what was paid by other cities.

Over five years, the mayor proposed payroll cost reductions of more than $800 million and other savings of more than $250 million. By the fifth year of the plan, city expenditures were to be reduced 15 percent from the 1992 level.[82] Rendell's record in Philadelphia clearly indicates that the large cities can substantially improve their own performance.

Pittsburgh — The city of Pittsburgh is currently in serious financial difficulty and has adopted a recovery plan under Act 47. The plan recognizes that payroll costs are too high and requires layoffs, a two-

[82] Edward G. Rendell (1992), *The City of Philadelphia Five-Year Financial Plan*, City of Philadelphia.

year wage freeze, and other efficiencies.

There have been proposals that would seek efficiencies by consolidation of services, if not consolidation with Allegheny County, one by Brookings author David Rusk. Generally, however, consolidation proposals, including Rusk's, operate from an assumption that a distressed city faces a funding crisis, rather than a cost crisis. The high net spending rate, the high debt burden, and Mayor Rendell's success in Philadelphia indicate to the contrary that Pittsburgh's problem is exceedingly high costs.

Consolidation with the more cost-effective suburban municipalities would not provide incentives to improve Pittsburgh's cost performance; it would, in fact, do the opposite. At Pittsburgh net spending rates per capita, consolidation would free up to three times as much local tax revenue as is currently spent by the city. Beyond the inherent incentives to spend more, there are at least two reasons that consolidation of municipal functions is not likely to result in savings:

- City of Pittsburgh employees are paid more, on average, than employees of other jurisdictions in Allegheny County. The 1997 U.S. Census of Governments indicates that average city wages per employee were 8 percent above that of other Allegheny County municipalities. It can be expected that any consolidation would eventually lead to virtually all employees being paid on the higher City of Pittsburgh scale *(Figure 61, right).*
- The "small government" culture of suburban services consolidated with Pittsburgh would likely be replaced with the higher-spending culture of the city. The city has three times as many employees per capita as suburban jurisdictions, and it is likely that staff sizes would grow throughout Allegheny County toward the ratios in Pittsburgh *(Figure 62, right),* in response to the availability of new tax funding from the former suburbs. This could result in literally hundreds of millions of dollars in additional expenditures.

If Pittsburgh's costly payroll practices were extended throughout Allegheny County, $300 million a year could be added to the tax bills of Allegheny County residents.

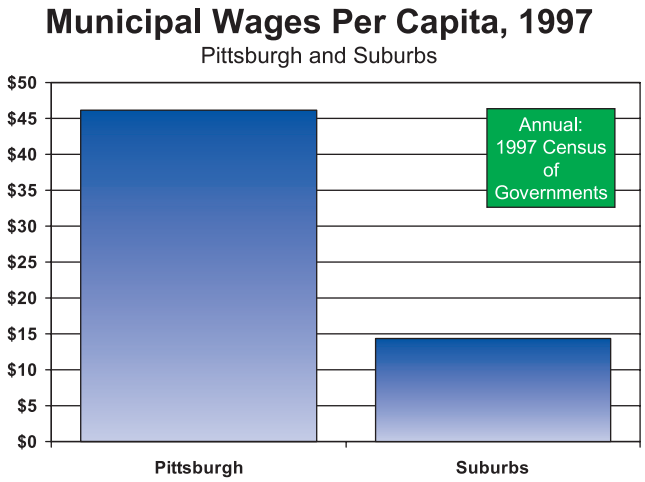


FIGURE 61

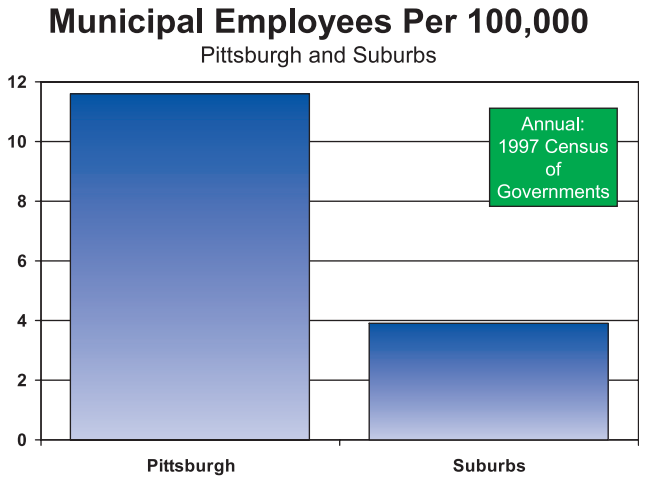


FIGURE 62

Municipal Consolidations

Professor Robert Bish of the University of Victoria *(Canada)* compared the costs of governance in the Victoria metropolitan area, which has a high degree of local democracy, with the similar sized Halifax metropolitan area, which had undergone a consolidation imposed, without a referendum, by the Nova Scotia provincial government. Dr. Bish found virtually no cost savings in the consolidated government, as salaries rose and support employees were added. The new costs more than offset the savings from employing fewer elected officials.[83]

It might be imagined that laying off borough, township, or smaller-city employees would lead to more cost efficiency in a larger, merged municipality. However, the virtually inevitable costs of harmonizing employee wage and benefit packages can be expected to quickly neutralize and probably exceed any savings. If smaller governments were less efficient, Pennsylvania would have among the highest state and local taxation in the nation, and its smaller boroughs and townships and smaller cities would have higher costs than its largest cities. The data indicates otherwise.

Indeed, as noted above, Pennsylvania is a national leader in state and local government employee productivity, which is exactly the opposite relationship in a state with more governments, as would be predicted by the prevailing views in urban planning.

In the final analysis, making the financial-crisis-prone largest cities even larger by consolidation would seem likely to extend, not control, the factors that have led them to spend so much more per capita than smaller jurisdictions, some of which would be "swallowed up" in the process. Consolidation tends to impose the higher-spending culture of large cities over larger areas, creating a tax bonanza and removing any material incentive to control the already higher expenditures.

The local government finance problems that have occurred in Pennsylvania since 1990 primarily have been in the largest cities, Philadelphia and Pittsburgh. At the same time, the much smaller municipalities have continued to spend considerably less than the larger cities and generally avoid serious financial difficulty.

If more is required for concentrated needs, the appropriate funding sources are the state and federal government, not taxpayers in adjacent jurisdictions who have generally done far better in keeping the costs of their governments under control.

Nonetheless, the spectacular fiscal turnaround achieved by Philadelphia under Mayor Rendell demonstrates that cities can, when required, substantially improve their financial performance. Mayor Rendell did not have the prospect of consolidation with, for example, Delaware, Chester, Montgomery, and Bucks counties to spread their costs over a larger tax base. Yet, the mayor and his administration brought the city of Philadelphia, which had at least as much a cost problem as a funding problem, back to fiscal health.

To force smaller, more efficient jurisdictions into larger units would be to reward failure and punish success.

Rightsizing Local Government

After years of researching municipal finance in both the United States and Canada, Professor Bish has come to the conclusion that a mix of government sizes is appropriate, rather than larger regional governments. Some services are best administered at the local level, while others are better administered at a larger regional, state, or even national level. For example, administration of residential waste collection is probably best handled at the local level and would be less efficiently managed at the regional level *(large city, consolidated city, county, or metropolitan)*. Other services, such as transit, are best administered at a regional level.

[83] Robert L. Bish, *The Cost of Municipal Officials in the Capital Region of British Columbia.*

The same arguments that would place virtually all local services under consolidated cities could be used to support removal of responsibility to metropolitan, state, or even national governments. Generally, the underlying philosophy of government in the western world is to assign responsibility to the level of government closest to the people yet competent to perform the particular service. The superior financial performance of Pennsylvania's smaller cities, boroughs, and townships of the first and second classes demonstrates the value of "rightsizing" local governments: to best serve those needs most efficiently handled closest to the electorate.

The largest cities, Philadelphia and Pittsburgh, may have become too large. Any effort to make Pennsylvania local government more efficient should start with reviewing options for *reducing* the size of the largest city governments to obtain the efficiencies demonstrated by smaller local governments in the actual spending data. Howard Husock of the John F. Kennedy School of Government at Harvard University has suggested that there could be substantial benefits to dividing today's large cities into smaller ones.[84] Smaller units of government may be a necessity for the modern city to be governable and thus maintain effective control over its expenditures and debt.

Concentrated Needs — However, there are needs that are often concentrated in the largest cities. State and federal assistance is used to fund these needs, such as higher welfare expenditures per capita. Currently, Philadelphia and Pittsburgh are receiving considerable assistance from the federal and state governments. In state funding alone:

- Philadelphia received approximately $1,150 per capita in federal and state aid in 2001. This exceeds the net municipal and county spending in suburban Philadelphia municipalities.
- Pittsburgh received nearly $800 per capita in federal and state aid in 2001.[85] This exceeds the net municipal and county spending in suburban Pittsburgh municipalities.

Larger jurisdictions tend to be more susceptible to control by special interests.

It is beyond the scope of this paper to evaluate whether these state and federal contributions are enough *(or too much)*, but concentrated needs are generally the result of societal problems that are addressed at the state and federal level, not at the municipal level. If more is required for concentrated needs, the appropriate funding sources are the state and federal government, not taxpayers in adjacent jurisdictions who have generally done far better in keeping the costs of their governments under control.

The Advantages of Local Democracy

There are a number of advantages to greater democracy that would seem likely to contribute to the lower costs that emerge from the national and Pennsylvania analyses:

- Citizens have greater control of their governments. This occurs both because individual votes are more powerful and because there is likely to be a greater sense of community in a smaller jurisdiction. Robert Bish notes that smaller jurisdictions tend to have higher participation rates in local public hearings and meetings.[86]
- Larger local government units are generally less popular than smaller units, probably because people have less attachment to larger organizations. Local citizens have strongly opposed a number of attempts to merge suburban areas into central cities. Most recently, voters in more

[84] Presentation by Howard Husock to the Montreal Economic Institute (May 18, 2001). See http://www.iedm.org/communique7en.html.

[85] Including a population-based allocation of county receipts from the state and federal governments.

[86] Robert L. Bish, *Local Government Consolidations: Discredited 19th Century Ideals Alive in the 21st*. C. D. Howe Institute.

than 30 Quebec jurisdictions have approved measures to "demerge" their cities, which would reverse the consolidations forced upon them by provincial government. The electorate in six jurisdictions returned majorities of 70 percent and more against a consolidation in Toronto that was forced upon citizens nonetheless by the provincial government.

Likewise, there have been highly publicized, though thus far unsuccessful efforts to exit the cities of New York *(Staten Island)* and Los Angeles *(San Fernando Valley and Hollywood).*[87]

- Local elected officials are likely to be more responsive to the electorate where there are fewer voters. Part of the reason is that in a smaller jurisdiction, a much larger number of residents actually know their municipal officials.
- At the same time, larger jurisdictions tend to be more susceptible to control by special interests. Again, Robert Bish notes that "large governments are also more responsive to special-interest programs and projects than are smaller governments." [88]

Perhaps the principal reason that expenditures per capita tend to be lower in smaller government units is that, to paraphrase Milton Friedman, "people are more careful with their own money than with other people's money." Because the power of the average voter is greater in a small jurisdiction, it seems likely that there is more of a sense of "ownership" with respect to the tax revenues raised.

Legislation enacted by the state in 2000 provides Pennsylvania's smaller municipalities far greater opportunities to cooperate with one another in various public functions in land use planning. At the same time, the law appropriately allows municipalities to make their own decisions with respect to intermunicipal arrangements. Since that time, intermunicipal land use agreements have increased substantially. Before the new legislation, fewer than 15 municipalities were involved in cross-jurisdictional land use initiatives. Today, the number has climbed to more than 600. A 2004 Lincoln Institute survey of township officials indicated that 85 percent of jurisdictions are involved in intermunicipal agreements, and most of these respondents indicated a high degree of satisfaction.[89]

The superior financial performance of the state's smaller municipal jurisdictions may be simply the result of voters having more rational incentive to exert their will, which reduces the impact of special interests.

In short, the smaller government local democracy that exists in Pennsylvania is so efficient and effective because people have a greater incentive to care about their communities. The individual voter is more significantly empowered, while special interests have less influence. Elected officials are more accessible and personally know more of their constituents. Local democracy may work better because it is government on a human scale. To the contrary of what has been suggested by James Howard Kunstler *(Chapter 1, page 7)*, smaller units of local government may be better because they are places that people care about.

[87] Municipal withdrawal efforts are often very difficult because they generally require approval of voters not only in the withdrawing area but also within the remaining area of the city.
[88] Robert L. Bish, *Local Government Consolidations: Discredited 19th Century Ideals Alive in the 21st*. C. D. Howe Institute.
[89] www.lincolninstitute.org.

Conclusions

A great advantage of smaller municipal jurisdictions is that individual citizens have more incentive to be involved, which raises barriers to special-interest control. Pennsylvania's smaller municipal jurisdictions seem to be places people care about.

- By far the most significant municipal finance crises in Pennsylvania, and the only municipal crises of statewide significance, have been in the state's two largest cities, Philadelphia and Pittsburgh.
- Municipal consolidations involving the largest cities, which are also by far the largest spending municipal jurisdictions, are likely to extend their relative inefficiency, making local government overall less efficient in the state.
- Some government services are best provided by small local governments, while others are best provided by county, regional, or state government, or even the federal government.
- The high net spending in the two largest cities, which are far larger than any of the state's other municipal jurisdictions, suggests that they may be too large to take advantage of the structural efficiencies exhibited by the smaller cities, boroughs, and townships of the first and second classes.
- There is a high degree of cooperation and ongoing progressive movement among Pennsylvania's municipalities on land use issues.
- Pennsylvania's smaller municipal governments may be characterized as places that people care about. The superior financial performance of the state's smaller municipal jurisdictions may be simply the result of voters having more rational incentive to exert their will, which reduces the impact of special interests.

A great advantage of smaller municipal jurisdictions is that individual citizens have more incentive to be involved, which raises barriers to special-interest control. Pennsylvania's smaller municipal jurisdictions seem to be places people care about.

PLACES PEOPLE CARE ABOUT

The analysis in this report leads to the following overall conclusions:

- The population, urban growth, and suburbanization *(urban sprawl)* trends in Pennsylvania are not significantly different than in other similar areas.
- Residential segregation in the largest Pennsylvania metropolitan areas is typical for similar, slow growing areas.
- Net locally financed county and municipal government expenditures per capita are by far the highest in Philadelphia and Pittsburgh and by far lower in the other cities, boroughs, and townships of the first and second classes.
- Data from the Center for Rural Pennsylvania indicates that the household cost of living is lower in suburban areas than in central-city areas.
- Pennsylvania's suburban development *(extent of urban sprawl)* does not have a negative impact on economic growth.
- There is no indication that Pennsylvania's greater democracy has a negative impact on economic growth. Variations in economic growth appear to be the result of regional, weather, business climate, and political factors.
- Economic growth in Pennsylvania is consistent with what would be expected for a Frost Belt state.
- Pittsburgh has faced the unprecedented economic loss of its principal industry, steel, yet has recovered more strongly than Cleveland and Buffalo, where economic losses were considerably less.
- A great advantage of smaller municipal jurisdictions is that individual citizens have more incentive to be involved, which raises barriers to special-interest control. Pennsylvania's smaller municipal jurisdictions seem to be places that "people care about."
- There is a high degree of cooperation between Pennsylvania's municipalities on land use issues.
- Population growth is in the suburbs[90] because suburban areas provide people with the quality of life that they prefer. In Pennsylvania, suburban residents also have the advantage of far more efficient local governments, a condition that also contributes to a superior quality of life, by leaving more income under the direct control of households to exercise their own choices.

Population growth is in the suburbs because suburban areas provide people with the quality of life that they prefer.

[90] Both in Pennsylvania and nearly all of the high-income world.

Recommendations

It is therefore recommended that the state and its units of local government should:

- Maintain policies that encourage economic development and not implement strategies that increase land, housing, or product pricing, to foster maximum economic growth. This will lead to a Pennsylvania that has greater participation in the economic mainstream by people of all socioeconomic backgrounds.
- Reject any forced municipal consolidation proposal, recognizing that the inevitable outcome would be to spread the higher costs and less efficient practices of any larger, less efficient jurisdiction across an even larger area, to the detriment of taxpayers.
- Review the options for closing the financial performance gap between the cities of Philadelphia and Pittsburgh and the more cost-efficient other cities, boroughs, and townships of the first and second classes. The cost performance of both Philadelphia and Pittsburgh suggests the possibility that the two largest cities have become too large to achieve the lower per capita spending rates characteristic of the boroughs, townships, and smaller cities in the state. Such a review should begin with an examination of methods by which these cities could be subdivided into jurisdictions of between 10,000 and 50,000 residents.

The cost performance of both Philadelphia and Pittsburgh suggests the possibility that the two largest cities have become too large to achieve the lower per capita spending rates characteristic of the boroughs, townships, and smaller cities in the state.

APPENDIX: CITY ELASTICITY THEORY

David Rusk has proposed a "city elasticity" theory that cities that have annexed have also added population and performed better economically.[91] His discussion paper for the Brookings Report is partially based on this theory.

However, it would be a mistake to suggest that cities that have pursued major annexations or consolidations have done materially better. Generally, the new, growing territory involved in such expansions serves simply to mask the core population losses that occur, whether or not annexation takes place. For example, the pre-consolidation city of Indianapolis has lost more than one-third of its population since 1970, with the loss being masked by the addition of suburbs that have gained more population than the former city has lost.

Within their 1950 city limits, Nashville lost nearly 40 percent of its population by 1990, and Portland lost about 15 percent of its population. The same trends can be observed as far back as the 1820's, when core districts of Philadelphia were first noted as declining, even as the city continued to grow by annexation and consolidation.

Essentially, the city elasticity theory holds that economic performance is superior and social difficulties are less severe in core cities that have the ability to annex adjacent areas. Most Frost Belt cities have been unable to annex new territory over the past 50 years, having been encircled by incorporated suburbs. On the other hand, most core cities in the Sun Belt have been able to annex.

The city elasticity theory, however, principally reflects regional differences between the faster growing Sun Belt and the slower growing Frost Belt. It is simply not believable that the greater growth of the Sun Belt compared to the Frost Belt over the past 50 years is to any significant degree a result of differing city annexation policies. As has already been suggested in this report, the most important reasons for the overwhelming growth of Sun Belt areas in relation to Frost Belt areas are weather, business climate, and political factors.

In fact, social difficulties are severe in both "elastic" *(those than can annex)* and "inelastic" metropolitan areas, as the following comparisons based upon 1990 Census data indicate:[92]

- Per capita income in the city of Indianapolis was 10 percent less than in the suburbs, and in the city of Milwaukee, 38 percent less than in the suburbs. But the Indianapolis data masks the fact that, within the 1950 boundaries of the city, income disparity was much greater: 42 percent below that of the central city and suburbs outside the 1950 boundaries. Indeed, the income disparity between the 1950 core and the subsequently annexed portions of the city was a nearly equal 41 percent.
- Per capita income in the city of Nashville was 2 percent less than in its suburbs, while per capita income in the city of Louisville was 22 percent below that of its suburbs. But the Nashville data masks the fact that, within the 1950 boundaries of the city, income disparity was much greater: 29 percent below that of the central city and suburbs outside the 1950 boundaries. As in the case of Indianapolis, average income within the 1950 city boundaries is well below that of annexed portions of the city, at minus 26 percent.

The social and economic differences identified through "elasticity" theory analyses are, to a large degree, reflective simply of where municipal boundaries are drawn. When the entire urbanized area is analyzed, a considerably different picture emerges:[93]

[91] David Rusk, *Cities Without Suburbs,* 1995.
[92] A more complete critique of city elasticity theory can be found at Wendell Cox, "Measuring Happenstance: David Rusk's City Elasticity Hypothesis," *Demographic Briefs.* http://www.demographia.com/db-rusk.htm (2000).
[93] 2000 U.S. Census Data.

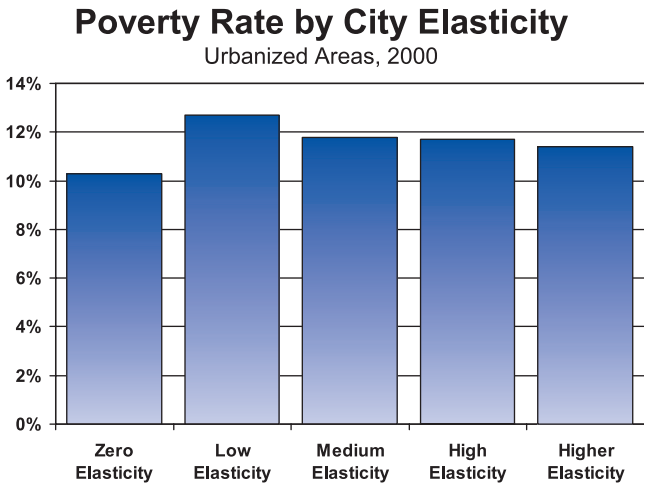


FIGURE 63

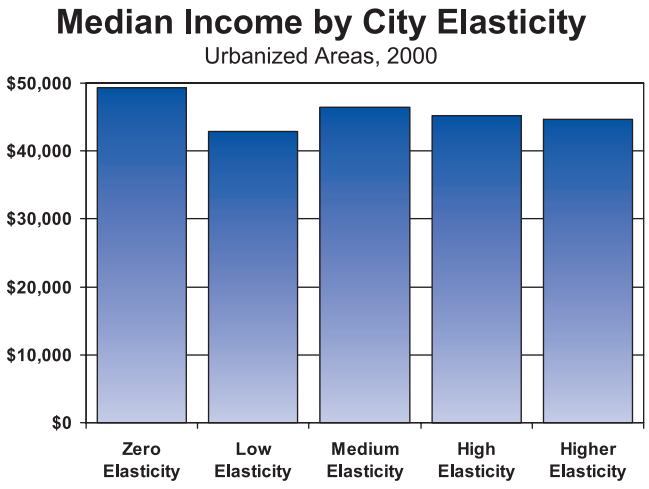


FIGURE 64

- The quintile of urbanized areas with the *least* elasticity had the *lowest* average poverty rates, the opposite of what would be expected if elasticity theory were measuring more than the happenstance of central-city boundary drawing *(Figure 63, above).*
- Median income was the *highest* in the quintile of urbanized areas with the *least* (zero) elasticity *(Figure 64, above).*

A Pittsburgh Example

The principal problem with the "city elasticity" theory is illustrated by a review of poverty in the city of Pittsburgh in comparison with what would be the situation in a consolidated city of Pittsburgh-Allegheny County.

As a result of the present financial crisis in the city of Pittsburgh, some, including David Rusk, have suggested a merger of the city and Allegheny County. This example can be used to illustrate the superficial nature of comparing social data based upon city elasticity. The present city of Pittsburgh is considered inelastic *(in the "zero elasticity" category)*. A merged city of Pittsburgh-Allegheny would be considered elastic, by virtue of its consolidation. In 2000, the city of Pittsburgh had a poverty rate of 15 percent and the 40th lowest poverty rate of the 66 cities in the United

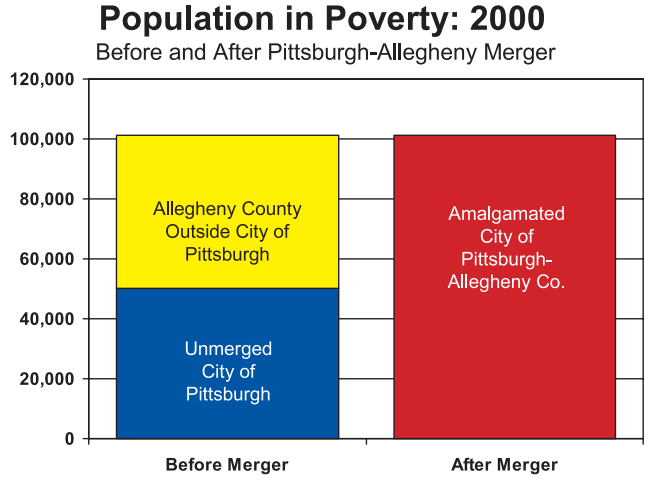


FIGURE 65

States with more than 300,000 population *(Figure 65, above).*

If a merged city of Pittsburgh-Allegheny had been established before the 2000 census, the poverty rate would have been 7.9 percent and the city would have had the 14th lowest poverty rate of the 66 cities with more than 300,000 population *(Figure 66, next page).* Both the poverty rate and the ranking of the merged city-county would be superior to that of the former city of Pittsburgh.

However, after the municipal consolidation, the same number of people — indeed the very same people — in the former city of Pittsburgh would be in poverty, and they would receive the same income. Likewise, after consolidation, the same number of people in Allegheny County would be in poverty as before, and they would have received the same income *(Figure 67, below).*

Only the municipal boundaries would have changed. Casual observers might believe that poverty had been reduced in Pittsburgh-Allegheny compared to the former city of Pittsburgh. But, in fact, the poverty rate of the core city would be masked in the data of the larger municipality.[94]

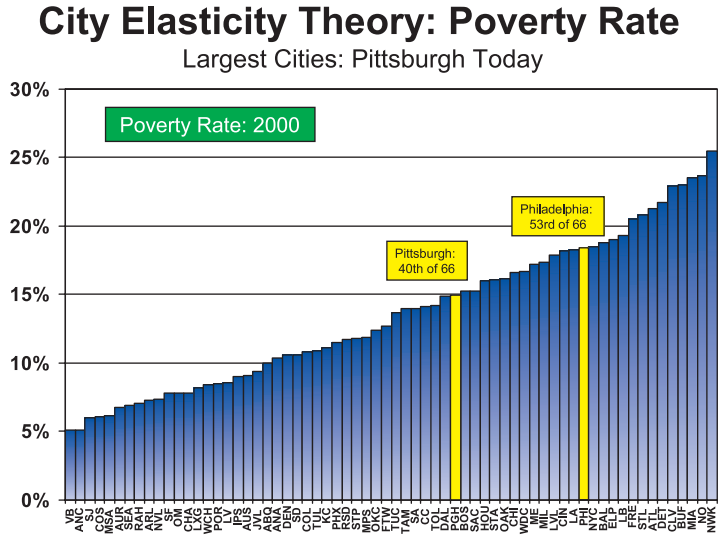


FIGURE 66

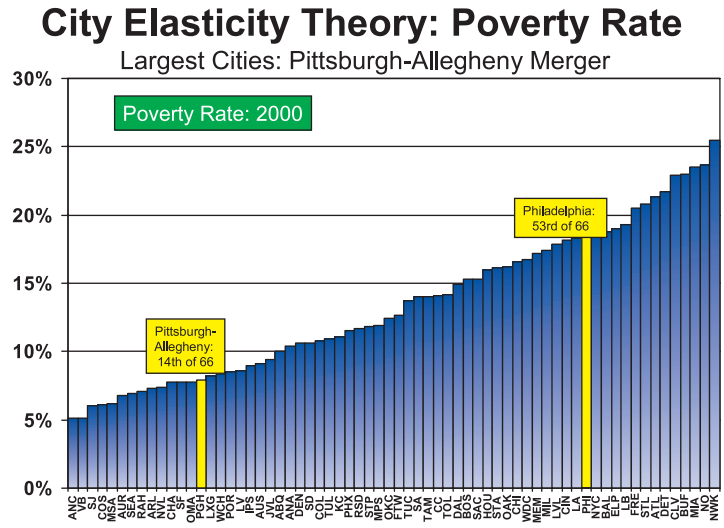


FIGURE 67

[94] While a new city of Pittsburgh-Allegheny would be no more socially healthy than Allegheny County, it would challenge the city of Philadelphia for state population leadership within a few decades. This is because Philadelphia's recent population loss rate has been considerably greater than Allegheny County's.

ABOUT THE AUTHOR

Wendell Cox is principal of Wendell Cox Consultancy in metropolitan St. Louis, which also does business as Demographia, an international demographic and urban policy firm. He also serves as a visiting professor at the Convervatoire National des Arts et Metiers, a French national university in Paris. He has completed professional assignments in the United States, Canada, Australia, New Zealand, western Europe, and Japan.

Mayor Tom Bradley appointed him to represent the city of Los Angeles on the Los Angeles County Transportation Commission and reappointed him to two additional terms (1977-1985). U.S. Speaker of the House Newt Gingrich appointed Wendell Cox to the Amtrak Reform Council to replace Gov. Christine Todd Whitman of New Jersey upon her resignation (1999-2002)

He is vice president of the CODATU association (Lyon, France), an international organization dedicated to improving urban transportation in emerging economies. He has served as a member of the steering committee of the International Conference on Competition and Ownership of Land Transport.

Wendell Cox Consultancy sponsors three Web sites:

- www.demographia.com, which is principally dedicated to issues of urban policy and demographics.
- www.publicpurpose.com, principally dedicated to transportation. The *National Journal* has twice honored publicpurpose.com as one of the nation's top transport Web sites.
- www.rentalcartours.com, which includes travelogues of urban areas around the world.