

# **The Economic Transformation of American Cities**

**THIERRY J. NOYELLE  
and  
THOMAS M. STANBACK, JR.**

Foreword by Eli Ginzberg

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*The Economic Transformation  
of American Cities*

*Thierry J. Noyelle*  
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## *Foreword*

One of the curses of modern economics, as Nobel prizewinner Wassily Leontieff has observed, is the preference of economists for building models and their aversion to undergoing the drudgery involved in collecting, sifting and organizing the data, without which the validity of their models can never be tested. Logical consistency and mathematical sophistication are not substitutes for hard data, and it is more and better hard data that modern economics most needs.

These obiter dicta help to explain my great enthusiasm for Noyelle's and Stanback's new book. They have taken Leontieff's charge to heart. They plowed through and organized large bodies of data relating to the changes that the principal metropolitan areas have undergone in the post-World War II period, particularly in the decades of the 1960s and 70s.

Conventional wisdom about what has been happening to the U.S. economy in the post-World War II era with particular reference to structure and location would stress the following:

- the retrogression of the snowbelt economy and the strikingly rapid advances of the sunbelt economy;
- the movement of manufacturing out of the older urban centers to the suburbs and smaller non-urban communities;
- the increase of services, usually defined in terms of retailing and consumer services, with their lower than average productivity;
- a mounting unease with the rapid growth of the governmental and nonprofit sectors without any clear perception of their role in contributing to output and employment;
- the growing concern that with U.S. manufacturing in decline, the preeminence of the U.S. in the world's economy is in serious jeopardy.

One could continue but the foregoing are among the key themes that have gained wide currency.

The important point to stress is that the foregoing propositions have tended to be supported by, at best, scattered evidence and that, up to the present large-scale study, no broad systematic effort has been made to see the picture whole and to let the facts—not theory—lead the way.

Let us look more closely at each of the beliefs outlined above, with the data that Noyelle and Stanback have pulled together and analyzed.

To begin with, Noyelle and Stanback do not question, much less deny, that,

taking the entire region as a unit of analysis, the economy of the Sunbelt has been expanding much more rapidly than the Snowbelt. But once they probe more deeply and look at the array of different types of cities in both the South and the North—using a typology that they have developed based on a structure reflecting sources of employment and output—then the simple areal generalization begins to fall apart. To oversimplify: they indicate that most, though not all, of the major cities in the Snowbelt have been able to compensate for some or all of the losses that they have experienced as manufacturing wandered off first from core to the suburb, later from the suburb to other areas, particularly to the South.

Two further strong findings emerge: putting New York City to one side, there has been a reshuffling of the cities where large companies are headquartered, but for the most part the northern cities have done quite well—losing some, gaining others, but definitely continuing to dominate the national landscape.

Further from the important new data that Noyelle and Stanback have worked up with respect to regional and divisional headquarters of large and medium sized corporations, the conclusion emerges that the center of control for subsidiary corporate activities continues to be in the North. There is no basis for Noyelle and Stanback to denigrate the gains of the South or to assume that they are nearing an end. But there is also no basis for them to write off the North where many cities have made good progress in compensating for their loss of manufacturing and are gaining strength from the continuing growth of services.

The second contention deeply embedded in contemporary thought about the relocation of manufacturing, first out of the central cities and latterly away from the suburbs to free standing small non-metropolitan communities, comes closest to being substantiated by Noyelle and Stanback's analysis. But even here the authors make an important but generally neglected point: that manufacturing itself is being transformed with internal and external services playing increasingly important roles, that these "producer services" tend to cluster in good-sized cities and, that most of these cities remain in the Snowbelt.

Drawing heavily on earlier work on which they collaborated, Noyelle and Stanback challenge the widespread conviction that the expansion in services has been mostly in retailing and in meeting other consumer needs, and that the services basically provide only low wage, low productivity jobs that cannot be viewed as compensating for the losses of good blue collar employment. While there are many low wage, low productivity service jobs in retailing and in other service sectors there are also a great number of high wage, high productivity jobs in finance, advertising, accounting and other producer services.

One of the more intriguing sections of Noyelle and Stanback's book is Chapter 7 where they present detailed information on the distribution of selected producer services with heavy emphasis on banking and insurance but including others as well, all of which point to the continuing ability of most of the larger northern cities to hold their own.

While the authors explore in somewhat less detail the role of government and nonprofit institutions in the restructuring of the U.S. economy, they provide, *inter alia*, a critical chapter (9) which shows the importance of higher education and research in quickening the pace of transformation in selected northern and southern cities.

While Noyelle and Stanback's data and analyses do not directly speak to the widespread concern that, with a weakening of its economic base, the U.S. international competitive position is being eroded, by implication there is much in their treatise to raise serious questions about such oversimplification. They point repeatedly to the transformations underway that have reduced the relative share of manufacturing employment till it accounts for fewer than one out of every four workers. But they do emphasize that in terms of dollar output, manufacturing remains critically important. What needs to be remembered is the impact of these domestic transformations not only on the U.S. commodity trade but also on its balance of payments position. We know from other sources that services have begun to loom ever larger as a proportion of total U.S. exports.

A single work that calls into question five deeply entrenched views of the U.S. economy, views that are held by businessmen, economists, government officials, is clearly on that criterion alone an important contribution. But Noyelle and Stanback have done more. They have provided much of the data and the framework for analysis that will enable others to develop valid views about the economic transformations that are underway in the U.S. with particular references to how they are affecting different regions of the country and specifically its older and newer cities. As such they have made an important contribution to dynamic economics, a sadly neglected arena.

Eli Ginzberg, Director  
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## Preface

When, back in the late 1970s, Eli Ginzberg urged several of us at the Conservation of Human Resources Project to take a closer look at the structural transformation that had been affecting the United States during the previous two or three decades, we chose to do so from the standpoint of the economy's shift to the services, an area in which the Project staff had already accumulated considerable expertise over the years. Several studies were eventually conducted under this broad agenda, among which this is the third coauthored by us.

In *Services/The New Economy* (1981), written in collaboration with Peter Bearse and Robert Karasek, we set out to map the principal directions of the sweeping transformation that had been at work through much of the postwar decades and had been accelerating during the 1970s. Our analysis made clear that the shift to the services had resulted not only from changes in what the economy produces (final output), but also from changes in how it produces (greater use of services as intermediate inputs). In addition, we pointed to major changes in the structure of metropolitan economies and in the composition and functioning of labor markets.

In *Cities in Transition* (1982), we examined the impact of the shift to the services on the labor market of seven medium-sized cities. We were able to take the analysis a few steps further by observing differences in patterns of adjustments to changing metropolitan roles and by providing evidence of an emerging tendency toward increasing labor market dualism.

The present book examines the impact of the shift to the services on the structure of the U.S. metropolitan system. While a few economists and geographers (reviewed in Chapter 3 of this book) had done earlier work on the impact of the postwar development of corporate headquarters, producer service firms and other strategic services on the economic structure of metropolitan places, we felt that a system-wide analysis was needed. Such an analysis would treat a wide variety of economic activities and extend beyond the largest places to a broad spectrum of metropolitan economies. The task turned out to be far more ambitious than we had anticipated, requiring exploration of a large number of previously untapped data sources as well as analysis of more-conventional materials. The thesis developed in this book is, we believe, an important one: that the advent of the service era has given rise to a system of cities fundamentally different from that which structured the economic geography of the United States during the previous manufacturing era. Urban analysts need to reconceptualize their understanding of the system of cities in the light of these historical changes, to rethink their notions of economic development and growth diffusion, and ultimately to review

the directions urban policy is taking. While we recognize that our contribution to this agenda is modest, we hope it marks a step in the right direction.

In concluding this preface, we wish to thank two groups of individuals who made important contributions. First are Marc Glassman, David Kung, Wenny Lin, Eileen Nic, Terry Stanley, Bob Watts, and Tom Wong, who provided clerical assistance or technical expertise at various stages of the research. Second are Heidi Jones, Fedor Kabalin, David Harris, Ellen Levine, Penny Peace, and Shoshana Vasheetz, who demonstrated both patience and skill in preparing the various drafts of this manuscript.

October 1983

Thierry J. Noyelle  
Thomas M. Stanback, Jr.



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## CHAPTER ONE

### *Introduction*

As America moves into the last decades of this century, it is clear that both the nation and its cities have been caught up in a major transformation which may well rival the earlier industrial revolution in terms of wrenching changes and developmental opportunities. Between 1970 and 1980 close to 19 million jobs were added to the American economy, of which over 90 percent were in the service sectors, while manufacturing employment stagnated through much of the decade. Moreover, in goods as well as service producing industries there was a shift toward white collar occupations, which brought the share of such jobs to about 80 percent of the total workforce. Closely associated with these developments were changes in institutional arrangements, featuring increasing prominence of large corporations, nonprofit and public sector enterprises, along with major changes in technology, the location of activities, and the nature of work.

In city after city, the results were dramatic. In New York City, the decade brought the loss of roughly 400,000 jobs in manufacturing, and a growth and reshuffling of employment in the complex of corporate headquarters and allied business and financial services (hereafter *complex of corporate activities*), in nonprofit institutions and in the public sector, which together, today, account for roughly two thirds of the city's labor force. Most importantly, New York steadily strengthened its position as a world center, as evidenced by its rising prominence in the Eurodollar market or by the rapid buildup of foreign banking, trading, and other business facilities within its limits.

Likewise, in less than three decades Atlanta, Denver, Miami, and other Sunbelt cities rose to become key business centers, at the same time that some of the older northern cities such as Boston, Minneapolis, or even Philadelphia were breaking away from their former dependence on manufacturing employment and strengthening their positions as major regional centers, attracting scores of offices from large corporations as well as major facilities of the nonprofit or public sectors.

Yet the prospects are by no means favorable everywhere. Even if some troubled places such as Cleveland<sup>1</sup> or Akron<sup>2</sup> succeed in firming-up their position in the hierarchy of cities, once their respective industries have adjusted to the new conditions of world competition, it may well be that other cities like Buffalo,<sup>3</sup> Youngstown, or Flint will remain under considerable stress in years to come. Moreover, it is clear that the difficulties met by cities in adapting to the nation's