This governor offered the shareholders of Kia Motor Company $1 billion to build a plant in Meridian, MS.

Is he:
- a job creator,
- business friendly, or
- a socialist?

Kia Motors Plant: West Point, GA

Metro Area v. City

A political jurisdiction is for voting, taxes, and services.

A chart: metro size in 2000 and growth rate 2000 to 2010

Four Sources of Urban Growth
1. Natural Resources: water, minerals, climate
2. Advantage of large scale production
3. Synergy in the production of ideas
4. Delivering quality public services
#1: Gold, Oil, Iron, Water...

A gold rush can launch city and leave a ghost town. Bethlehem, Pittsburgh, Birmingham, and more rose and fell with iron and steel.

Rail yard and steel mills in Johnstown, PA ~1905

Rising Seas Threaten Coasts

Year Population Peaked:
- Blue 1800;
- Red 1905;
- Orange 2010;
- Yellow: still growing

Norfolk, VA

#2 Large Scale Production

Cities specialize and trade

Before World War II, every city had at least one brewery, distributing beer in kegs.
- Gersthaus
- Dixie
- Tennessee Brewing

New York had several:
- Ballantine
- Schaeffer
- Rheingold
- Pils

Large scale bottling plants, refrigerated transport, national advertising replaced local brews with national brands.

D. G. Yuengling & Sons, Pottsville, Pennsylvania (America’s oldest active brewery, established 1829)
Anheuser-Busch InBev serves the US from 13 breweries. MillerCoors has eight breweries.

VWs go from here all over the US.

Scale in Auto Assembly

1980 Auto Plants 2010

Plus several off map

Plus two in TX

Although there are small local banks in many places, a few very large banks are concentrated in just a few cities.

Scale in Finance

From pink collar workers to computers.

#3 Ideas & Talent

The idea producing city

Management
Music, Movies, Software
Research
Collocation with similar firms.

Cities with more educated people grow faster with higher incomes.

Universities & Immigrants

Grow ideas, entrepreneurs, and technologies.
#4 Quality Public Services

Municipal Bankruptcies

New York City defaulted in the 1975.
Orange County, CA bankrupt in 1994: $1.6 B
Jefferson County, AL bankrupt in 2011: $4 B
Detroit, MI bankrupt in 2013: $18 to $20 B

Avoid Decline

Avoid corruption
Diversify exports.
Sustain attractive living:
  Quality schools & colleges
  Infrastructure: roads, port, airport,
  Amenities: culture, parks, community

Today’s Specialized Metro Areas

Export a few things.
Import most things.
  Food & Clothing  Cars  Entertainment  Finance
Produce non-traded things locally.
  Housing, Personal Services, Retail

Modern Growth

People and businesses move often.
The economy grows dynamically, not job by job.
Open cities attract people and opportunities.
Effective local government promotes growth.

Grocery stores don’t promote growth.
When one closes, others picks up the business.
One City’s Gain is Another’s Loss

• The opening of a new automobile assembly plant doesn’t increase the total sale of cars.
• The gain in employment with the new plant is offset by the loss of jobs in other auto plants.

Powerful forces drive choice of locations.

Natural resource: Discovery, obsolescence, depletion
Scale: A few large facilities for the country.
Ideas: Bringing specialized talent together improves all
Public Services: Use taxes wisely, services matter.

The Prisoner’s Dilemma

A manufacturer plans to build a big plant.
It asks governors for subsidies.
Governors make offers.
The manufacturer locates the plant
where it had planned and pockets the subsidy.

There ought to be a law...

Alexander Hamilton

➢ The Interstate Commerce Clause of the constitution created a common market.
The Congress shall have the power:
To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;

Internal tariffs and subsidies undermine aggregate growth.

This governor offered the shareholders of Kia Motor Company $1 billion to build a plant in Meridian, MS.

All governors face a prisoner’s dilemma.

When some governor’s bid, others respond.
All would be better off with no bids allowed.

This governor offered the shareholders of Kia Motor Company $1 billion to build a plant in Meridian, MS.
Who benefits from growth?

Growth is capitalized into land values.

Workers migrate among metro areas.

City and Suburb

When a metro area grows past 1 million people, secondary clusters of employment emerge:
—Murfreesboro, Franklin, Airport, Lebanon.

The Great Inversion

High income in town, poverty in the suburb

HQ in suburbs

Dispersed employment clusters

Housing downtown

Population change 2000 to 2010

A new stadium!

The owner of an athletic business asks your city to pay $1 billion to replace its 25-year old facility with the threat that the business will leave town.

Will you support the subsidy?

Urban Growth and Decline

Malcolm Getz
Vanderbilt University
Economics