

Producer-Service Workers in the Nonmetropolitan Midwest

Jeff Crump and Norman Walzer
Western Illinois University
March 8, 1996

This paper is one of a series associated with the March 8, 1996, workshop "The Changing Rural Economy of the Midwest." Gary L. Benjamin served as workshop convener and editor. The workshop was the third of a series held at the Federal Reserve Bank of Chicago as part of the 1996–97 project "Assessing the Midwest Economy." Inquiries should be directed to the Public Information Center, Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, Illinois 60690-0834, or telephone (312) 322-5111. The Federal Reserve Bank of Chicago's Web site can be accessed at <http://www.frbchi.org>.

Producer Services as a Remedy for Rural Areas

During the 1980s, rural areas across the United States experienced widespread economic distress and population declines. The Midwest in the 1980s was especially hard-hit with employment losses in the agricultural sector due to farm consolidations and losses in manufacturing employment (Sofranko, 1991). Widespread economic restructuring sent shock waves through the entire rural economy. Although many states initiated actions to revitalize rural economies, the future viability of many rural locations remains in doubt.

The 1990s have started on a more positive note for nonmetro areas. Employment and population seem to have stabilized. In fact, Johnson and Beale (1994) show that, according to Census Bureau estimates for 1990 to 1994, more than two-thirds of rural counties in the U.S. experienced population increases. The estimated population gains have not occurred in all rural areas, however. Nonmetro retirement and tourist destinations fared especially well as have rural locations along the West Coast (United States Department of Agriculture, 1995). In contrast, nonmetro counties in the Midwest, especially those still strongly tied to agriculture, experienced relatively little growth (United States Department of Agriculture, 1995). Compared with the rapid population losses of the previous decade, however, the early 1990s were a marked improvement.

Major differences in growth experiences exist within rural areas. For instance, rural counties adjacent to metro areas may prosper because of linkages with employment in urban centers. In contrast, other rural locations are beyond easy commuting range of metro areas, causing residents to depend on local employment opportunities. Location patterns mean that significant differences exist among nonmetro counties in the effects of the economic restructuring process.

The growth in service employment, nationally, has affected nonmetro areas across the U.S., including the Seventh District of the Federal Reserve System.¹ In 1980, for instance, manufacturing was 27.7% of total District employment, whereas by 1990 it represented only 22.3% (table 1). Services, on the other hand, increased from 59.9% of employment to 65.7% during the 1980s. Declines in manufacturing and expansion of services lead to the conclusion that the future of rural areas lies in relocating and expanding service businesses as employment sources (Glasmeyer and Howland, 1994).

The service sector is very heterogeneous. A close examination of service industries suggests that they can fit into two groups: producer services and consumer services. The former are those provided to other service and manufacturing firms. Definitions vary but they generally include business activities such as accounting, advertising, and legal services as well as professional efforts such as engineering and architectural services. Some definitions of producer services also include finance, insurance, and real estate (FIRE); although each of these serve consumers directly, they also supply businesses with essential financial and other support. The consumer-service sector includes retail and personal services such as fast food restaurants, housekeeping, and auto repair.

Producer and consumer services are distinguished by the source of demand but there are also significant differences in their labor requirements. Because producer-service firms offer specialized products, they require highly skilled or educated labor. These skill requirements bring higher wages. By contrast, consumer-service jobs are often routine activities such as clerical or sales work with relatively low wages.

Table 1 Percent of Employment in the Seventh Federal Reserve District, 1980 and 1990

	1980	1990
Natural Resource	3.8	3.2
Agriculture	3.4	2.9
Construction	4.6	5.1
Manufacturing	27.7	22.3
Public Administration	4.0	3.6
Services	59.9	65.7
Health	7.8	8.6
Education	8.7	8.4
Social services	2.0	3.1
TCU	6.7	6.5
Wholesale	4.4	4.4
Consumer	20.7	22.3
Retail	16.1	17.1
Personal	4.6	5.2
Producer	9.6	12.4
Business	2.3	3.0
FIRE	5.6	6.5
Legal, engineering & other professional	1.7	2.9
Total	100.0	100.0

Source: United States Bureau of the Census, 1992.

Variations in earnings between these two groups are clearly evident in the Seventh District. The median annual earnings for producer services in 1990 was \$17,697, compared with \$11,200 for consumer services.

Because a disproportionate share of the service jobs in rural areas tend to be in consumer, rather than producer, services these large wage differences have important implications for rural development. Much of the expansion of nonmetro services may bring relatively low-paying jobs causing, for example, displaced manufacturing workers to earn less when, and if, they find new employment.

Although there is some evidence that producer services are growing in nonmetro locations (Kirn, Conway, and Beyers, 1990) the jobs in rural areas may not pay wages comparable to metro areas and, in some instances, not much more than consumer services (Crump, 1995). Therefore, expansion in producer services may not be the panacea for nonmetro underemployment that some have suggested (Glasmeier and Howland, 1994).

These trends raise serious questions about the efficacy of relying on producer-service attraction and expansion as a major economic stimulus in nonmetro areas, including the Seventh District. They also challenge the view that nonmetropolitan areas are experiencing a major economic revival during the 1990s. While conditions in the 1990s are clearly better than the 1980s, the types of jobs created may not bring the anticipated prosperity.

This paper examines the economic restructuring that occurred between 1980 and 1990 in the Seventh District with special attention paid to producer services in nonmetro labor market areas. First, the literature on changes in producer services is reviewed as a backdrop for an analysis of the region. Second, employment trends during the study period are examined, by metro and nonmetro status. Third, issues of job quality are addressed through an analysis of the numbers of working poor. Finally, we discuss the implications of these findings for policy.

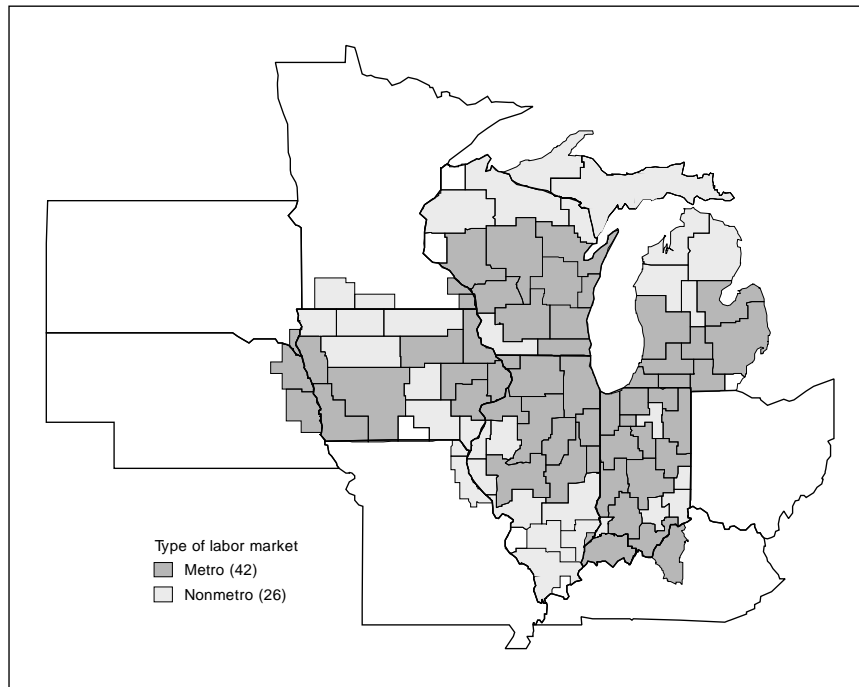
The analysis in this paper is unique because counties are aggregated into labor market areas (LMAs) based on commuting patterns (Tolbert and Killan, 1987, Killian and Tolbert, 1992). In developing the LMAs, counties with strong commuting links were grouped together to form a single labor market area. LMAs have several advantages for an analysis of rural socioeconomic patterns. Central is the recognition that many rural workers live in one county and work in another, making multicounty groups more appropriate units of analysis than single counties. The use of counties as building blocks for LMAs also allows utilization of the wide variety of available county-level data. Moreover, because LMAs were created with the goal of furthering research on rural areas, care was taken to differentiate rural from urban LMAs, simplifying urban/rural comparisons.

Most important, the LMAs were designed specially to facilitate use of a special tabulation of the Public Use Microdata Sample (PUMS-L) from the U.S. Census Bureau. The PUMS-L data set has several unique characteristics. For each state, the PUMS-L data contain a 0.5% sample of the total population. Individuals in the PUMS-L data set are identified by household so that analyses can be undertaken at both the individual and household scales. However, to assure confidentiality, the data are geographically identified only by areas with at least 100,000 residents. The LMAs meet this population criterion and a special tabulation of the 1990 PUMS data was made by the Census Bureau under the auspices of USDA Regional Project S-259 to match the Killian and Tolbert LMAs.

One potential disadvantage of using the LMAs is that several, particularly those in sparsely populated rural locations, cover relatively large areas. This reflects the necessity to meet the 100,000-population criterion set by the Census Bureau. Offsetting this relative lack of geographic detail is the large amount of specific information on the income and employment status of respondents. Employment for each worker is given to the three-digit Census industrial code, which is roughly comparable to the same SIC level, allowing for detailed analysis by sector, of the earnings of workers within the LMAs of the Seventh District.

The study region is comprised of the LMAs in five states—Indiana, Illinois, Iowa, Michigan, and Wisconsin (figure 1). Several LMAs cross state boundaries and extend beyond the study area. Six of these bi-state LMAs contain only a single county in the Seventh District; included are two large metropolitan LMAs (Minneapolis–St. Paul and St. Louis), two medium-size metro LMAs (Toledo, Ohio, and Paducah, Kentucky), and two sparsely populated nonmetro LMAs (Duluth–Superior, Minnesota, and Moberly, Missouri). For purposes of this study, these LMAs were excluded. Other LMAs that extend across state lines contain many counties in the Seventh District (for example, Omaha–Council Bluffs, Nebraska/Iowa, and Louisville, Kentucky/Indiana), these were included in the study area. Within the Seventh District study area are 68 LMAs, which include 433 counties. Of these, 42 are considered metro and 26 are classified as nonmetro (or rural).

Figure 1 Labor Market Areas in States Comprising the Seventh Federal Reserve District



Compared with the U.S., this region has experienced above-average unemployment and relatively large population declines. Between 1980 and 1990, for instance, the Seventh District experienced a population increase of 0.4% compared with 9.8% for the U.S. as a whole. The region has 11.8% of its population living beneath the poverty standard compared with 13.1% in the nation.

Literature Review

Rural economies have undergone two major transformations: from agriculture to manufacturing and from manufacturing to services (Brown and Deavers, 1988). The shift to services began in the 1960s, and since then a majority of rural job growth has been in services (Fuguitt, Brown, and Beale, 1989). Expansion of the rural service sector accelerated in the 1970s and 1980s, when approximately 98% of new rural jobs were in the service sector (Miller and Bluestone, 1988). During the 1970s, employment growth in rural services (37.4%) outpaced the 35.3% in metro counties (United States Department of Agriculture, 1993).

Expansion of the rural service sector slowed during the 1980s, growing by 21.9% compared with a metro increase of 28.7% (United States Department of Agriculture, 1993). By the mid-1980s, services represented 67.5% of nonmetro employment, less than the 75.9% in metro areas (Miller and Bluestone, 1988). Glasmeier and Howland (1994) report that rural employment in services is concentrated in health services, eating and drinking places, food stores and social services. These are residential services, closely linked with meeting the needs of the local population.

Employment in producer services grew, especially during the 1980s. From a rural perspective, even more intriguing is that during the 1980s employment increases (in percentage terms) in nonmetro producer services outpaced those in metropolitan counties (O’Uallachain and Reid, 1991; Kirn, 1987). Although a vast majority of employment in producer services remains in large metropolitan areas, indications are that employment in producer services may be decentralizing (Crump, 1993; Testa, 1992; O’Uallachain and Reid, 1991; Kirn, Conway, and Beyers, 1990). However, the potential for producer services to provide quality employment opportunities for rural workers remains unproven.

Expansion of rural services and a decline in nonmetro manufacturing have helped fuel interest in producer services as a potential source of rural employment. Not only do producer services, at least in metropolitan areas, offer high wages, they are now considered by some as necessary for development (Feldman and Florida, 1994; Coffey and Bailly, 1990). Producer services are considered especially important for two main reasons. First, they play a significant role in encouraging the innovation necessary to sustain the competitiveness of local firms (Coffey, 1993). Furthermore, as Beyers and Alvine (1985) reported, producer-services are frequently exported as part of the basic sector, thereby further contributing to regional development (Porterfield and Pulver, 1991). Although the export potential of rural producer-service firms may be limited, local availability of these services may also have an important income substitution effect (Glasmeyer and Howland, 1994).

The expectation that producer services will disperse leads to policies designed to facilitate that process. Modernization of rural telecommunications systems, some claim, allows producer-service firms to relocate routine operations to low-cost rural locations (Parker, Hudson, Dillman, and Roscoe, 1989). However, availability of advanced telecommunications does not always have the desired impact. Such a network may simply facilitate the rural delivery of producer services from remote urban locations and reinforce the pre-existing urban concentration of these activities (Coffey, 1993; Kirn, Conway, and Beyers, 1990).

Impact on Rural Communities and Households

Much debate exists about the impact of structural change on the fortunes of rural communities and workers. Some researchers have a relatively optimistic view of this transformation. Brown and Deavers (1988) found that wages in service industries are the same or higher than those of low-paying manufacturing jobs; therefore, the growth of services can have a positive impact on income. Christopherson and Noyelle (1993) also claim that service employment in the 1990s differs from earlier times and is not necessarily equivalent to low-wage, low-skill, peripheral employment.

In contrast, other findings show that the declines in manufacturing and expansion of services are linked to the growing number of poor and working poor in rural America (Tickamyer and Duncan, 1991). In 1987, 42.1% of rural workers had annual wages below the poverty line and four of the five fastest growth sectors in the nonmetro U.S. (all in services) had low wage structures (Gorham, 1993; Porterfield, 1990). The low earnings evident in rural locations are not due to lack of work effort by rural residents; the basic problem is an insufficient number of jobs with wages high enough to push workers above the poverty line (Tickamyer and Duncan, 1991). Indications are that the growth in services may accentuate the problem.

In summary, the available literature indicates that rural services, including the producer-service sector, are growing at rates roughly comparable with those in metropolitan areas. However, further indications are that the growth of services may reinforce the already low-wage structure of rural economies.

There are important gaps in the literature, however. First, with a few exceptions (e.g., Tickamyer, 1992), research on rural services has been conducted on an aggregate sectoral and spatial scale. However, rural areas are diverse; the trends and outcomes are likely to vary greatly within a state or by region (Hady and Ross, 1990). Not only do rural areas differ, services also encompass an assortment of activities with varying wage rates and working conditions. Therefore, a better understanding of the processes and outcomes of service growth in rural areas requires research at more detailed industrial levels. Second, although much attention has been paid to the potential for producer services to provide quality job opportunities for rural workers, relatively little research exists on the earnings and sociodemographic characteristics of those employed in rural producer services.

Producer Services in the Labor Market Areas of the Seventh District

Between 1980 and 1990, employment patterns in the rural LMAs of the District, with few exceptions, differed substantially from national nonmetro trends (table 2, figure 2). For producer services as a group, nonmetro U.S. employment increased 55.8% but the District increased only 33.6%. While the growth in business services for the rural U.S. averaged 67.5%, the comparable figure for rural LMAs in

Table 2 Percent Change in Nonmetro Employment, 1980–90

	United States	Seventh District
Natural Resource	-12.8	-17.5
Agriculture	-9.1	-15.6
Construction	20.5	8.5
Manufacturing	-1.8	-1.3
Public Administration	13.6	4.1
Services	29.9	15.6
Health	39.2	17.7
Education	13.2	2.8
Social services	86.3	85.6
TCU	18.0	5.4
Wholesale	17.1	-8.5
Consumer	27.3	16.7
Retail	27.2	16.5
Personal	27.4	17.2
Producer	55.8	33.6
Business	67.5	62.6
FIRE	37.7	19.8
Legal, engineering & other professional	100.5	56.9
Total	15.8	6.9

Source: United States Bureau of the Census, 1992.

A shift-share analysis has been conducted for producer services in the Seventh District (table 3). If producer services in the region had increased at the national rate between 1980 and 1990, there would have been an *additional* 130,813 producer-service jobs by 1990. The vast majority (88%) of the shortfall, or 115,718 jobs, resulted from the fact that local industries grew less rapidly than their national counterparts (regional-share effect). Only 15,095 jobs were attributed to the fact that the region contained slow-growing industries nationally.

Some, but not much, difference is found between metro and nonmetro areas. Nonmetro areas had 43,164 fewer producer-services jobs than if the sector had matched the national performance; and the vast majority (90%) can be attributed to the fact that local industries grew less rapidly than the national rate for similar industries.

Metro LMAs in the District also fell behind national growth rates. This is mainly due to regional factors but to a slightly smaller degree (86%) than in nonmetro LMAs. The metro areas tended to have a slightly higher proportion (14% compared with 10%) of producer-service industries, which grew more slowly at the national level.

At this time, we can do little more than speculate about regional factors that may have contributed to the relatively poor performance of the producer-service industries. Among leading causes may be the fact that manufacturing and other groups served by the producer-service industries did not perform at the national rate, helping to limit the expansion of producer services. This is a key issue in analyzing producer services because, in many instances, they depend on regional, rather than national, business conditions. This certainly has important implications for the potential of producer services to “stimulate” rural areas versus metro locations.

Table 3 Shift-Share Analysis of Producer Services Employment Growth in District States, 1980 to 1990

Area/Item	Employment
Regional Share (at U.S. rate)	2,106,840
Total shift	-130,813
Competitive (differential shift)	-115,718
Mix (proportional shift)	-15,095
Regional Growth	1,976,027
Nonmetro	
Regional Share (at U.S. rate)	302,178
Total shift	-43,164
Competitive (differential shift)	-38,857
Mix (proportional shift)	-4,307
Regional Growth	259,014
Metro	
Regional Share	1,809,477
Total shift	-92,464
Competitive (differential shift)	-79,590
Mix (proportional shift)	-12,874
Regional Growth	1,717,013

Source: Author's calculations from United States Bureau of the Census, 1992.

Metro and Nonmetro Comparisons in the District

Comparing metro and nonmetro LMAs in the District yields several interesting trends. Most significant, manufacturing in metro areas of the District declined much more rapidly than in rural areas (-14.8 percent compared with -1.3 percent). This is an important finding because if producer services are linked to other business ventures, presumably manufacturing, one might think that a stable rural manufacturing sector bodes well for nonmetro producer services.

A comparison of median earnings by industry and metro status shows important differences between metro and nonmetro counties in the District. It also provides insights into the potential for producer services to improve conditions in rural areas. For this comparison, producer services include general business services; finance, insurance and real estate (FIRE); engineering and other professional services; and legal services (table 4).

Overall, median annual earnings among nonmetro workers (\$15,253) were 82 percent of those of metropolitan workers (\$18,571). More significant, the largest earnings gap was found in producer services—nonmetro legal sector employees earned 74% of the metro median. Nonmetro residents employed in FIRE earned 79% of the metro wage. Overall, nonmetro producer-service workers earned annual median wages of \$14,652—78% of the median annual earnings among metro workers in this industry. By comparison, nonmetro manufacturing workers had median annual earnings of \$19,000—83% of the metro figure of \$23,000.

Table 4 Median Annual Earnings in District States by Industry, 1990

Industry	Nonmetro	Metro	Nonmetro as % of metro
Agriculture	\$13,000	\$12,632	103
Construction	\$19,200	\$23,111	83
Manufacturing	\$19,000	\$23,000	83
Public Administration	\$19,079	\$23,000	83
Services	\$13,520	\$16,512	82
Health	\$14,000	\$18,090	77
Education	\$18,928	\$20,343	93
Social services	\$12,235	\$13,592	90
TCU	\$21,108	\$25,680	82
Wholesale	\$16,800	\$20,197	83
Consumer	\$10,400	\$11,895	87
Retail	\$10,333	\$11,700	88
Personal	\$10,563	\$12,381	85
Producer	\$14,652	\$18,790	78
Business	\$12,464	\$16,400	76
FIRE	\$15,000	\$19,000	79
Legal	\$16,000	\$21,707	74
Engineering & other professional	\$17,164	\$22,494	76
Total	\$15,253	\$18,571	82

Source: Tolbert, Beggs, and Boudreaux, 1995

The lowest median annual earnings were found in consumer services; in retail services median annual earnings were just \$10,333—earnings that put many workers below the poverty line. Conversely, those nonmetro residents employed in education fared relatively well, earning 93% of the metro median of \$20,343.

These results indicate that nonmetro producer-service workers earn wages that are significantly below the metro median for this industry. Moreover, the metro/nonmetro earnings gap is highest in the producer-service sector.

Besides earnings, another indicator of job quality is the proportion of workers who are working poor. Two categories are used here: the working poor, those earning median annual wages below the poverty level (less than 100%), and the near poor, those with earnings just above the poverty line (from 100 to 150%). As a group, 14.2% of nonmetro workers were working poor with median annual earnings below the poverty line (table 5). An additional 7.5% were nearly poor with median earnings just above the poverty line. Overall, 21.7% of nonmetro workers were among the working poor/near poor, 32% higher than the proportion of working poor/near poor in metro LMAs.

In each employment category, the proportion of working poor in nonmetro LMAs was higher than the metro rates. Of the nonmetro producer-service workers, 12.7% were working poor compared with 7.3% among metro workers in that sector. Within producer services much variation was found; more than 20% of nonmetro business services workers were poor compared with 13.9% in metro LMAs. Conversely, only 2.7% of those employed in nonmetro legal services were poor, a rate lower than that found in metro (6.7%) locations.

The lowest rates of nonmetro working poor were evident in manufacturing (8.4%); however, this rate still exceeds that found among metro manufacturing workers. The greatest numbers of working poor were found in consumer services; in nonmetro locations over 20 percent live in poverty compared with 15.2 percent in metro LMAs.

Thus, two trends adversely affect rural areas. First, the relatively higher-paying producer services tend to locate in or around metro areas because of the larger markets. Second, even within the producer-service sector rural residents tend to earn substantially less than their metro counterparts in the same jobs. While somewhat similar claims can be made for manufacturing, construction, and many other industries, table 4 shows that, on average, rural residents fare the worst (lowest percentage of metro earnings) in the producer-service classifications. The only category in which nonmetro workers earned more than metro workers was agriculture and this industry declined in employment in recent years. These low earnings help explain why the number of working poor in nonmetro LMAs far exceeds that of metro locations.

These results mirror those of others (e.g., Tickamyer, 1992; Gorham, 1993); workers in rural areas have lower earnings and many nonmetro workers earn annual incomes that put them below the poverty line. Will the continued growth of producer services ameliorate or exacerbate the problem? To address that question, we now turn to some comparisons among sectors in nonmetro LMAs.

Table 5 Percent of Workers in the Working Poor and Near Poor Classifications, 1990

Nonmetro	Poor	Near Poor	Poor and Near Poor
Agriculture	14.6	10.3	24.9
Construction	13.8	8.7	22.5
Manufacturing	8.4	6.5	14.9
Public Administration	13.2	4.2	17.4
Services	16.0	7.4	23.4
Health	10.2	7.9	18.1
Education	16.5	5.0	21.5
Social services	16.3	10.8	27.1
TCU	7.4	5.0	12.4
Wholesale	9.2	5.9	15.1
Consumer	21.8	8.8	30.6
Retail	21.1	8.7	29.8
Personal	24.4	9.0	33.4
Producer	12.7	6.6	19.3
Business	20.8	9.7	30.5
FIRE	9.1	5.2	14.3
Legal	2.7	1.5	4.2
Engineering & other professional	13.3	7.2	20.5
Total	14.2	7.5	21.7
Metro			
Agriculture	14.4	8.4	22.8
Construction	9.3	4.6	13.9
Manufacturing	6.0	4.5	10.5
Public Administration	6.3	3.4	9.7
Services	10.5	5.3	15.8
Health	7.1	5.1	12.2
Education	10.6	4.6	15.2
Social services	12.8	7.1	19.9
TCU	6.2	3.1	9.3
Wholesale	5.8	4.0	9.8
Consumer	15.2	7.1	22.3
Retail	14.8	7.1	21.9
Personal	16.6	7.1	23.7
Producer	7.3	3.8	11.1
Business	13.9	6.1	20.0
FIRE	4.6	3.1	7.7
Legal	6.7	1.2	7.9
Engineering & other professional	4.5	1.9	6.4
Total	9.6	5.1	14.7

Source: Tolbert, Beggs, and Boudreaux, 1995

Producer Services in Context: Comparison within Nonmetro LMAs

Although metro/nonmetro comparisons are interesting and important, also relevant are comparisons among the types of nonmetro employment. How do nonmetro producer-service workers fare compared to other nonmetro residents? Even though they earn much less than their metro counterparts, nonmetro producer-service workers have median annual earnings roughly equal to the overall nonmetro median—96 percent of median earnings for all nonmetro workers (table 6). By

Table 6 Nonmetro Median Annual Earnings by Sector as a Percent of Overall Nonmetro Median Annual Earnings

Agriculture	85
Construction	126
Manufacturing	125
Public Administration	125
Services	89
Health	92
Education	124
Social services	80
TCU	138
Wholesale	110
Consumer	68
Retail	68
Personal	69
Producer	96
Business	82
FIRE	98
Legal	105
Engineering & other professional	113

Source: Tolbert, Beggs, and Boudreaux, 1995

comparison, however, nonmetro manufacturing workers earn 25 percent more than the overall nonmetro median, and those employed in transportation, communications, and utilities (TCU) have earnings 38 percent greater than the nonmetro median. Among nonmetro workers, those employed in consumer services fare the worst, earning only 68 percent of the nonmetro median.

Most interesting is the wide variation *within* the producer-service sector. Business-service workers earn only 82 percent of the nonmetro median wage; however, engineering and other professional-service employees make 113 percent of the median. These results indicate that even though business-service workers, when compared to all rural workers, don't fare well, those in professional services do quite well. At present these variations are unexplained, but clearly additional research is needed.

Comparisons of the working poor within nonmetro areas are also revealing (table 7). The proportion of working poor in nonmetro producer services was 89 percent of the overall proportion. Thus, fewer rural producer service workers live in poor households than overall. However, the percentage of working poor was much lower in the manufacturing sector—only 59 percent of the nonmetro proportion. Workers do not fare well in consumer services; the rate of working poor was 54 percent (154 percent of the overall nonmetro rate) higher than for nonmetro workers as a group. Producer-service jobs are not as good as those in manufacturing; however, they are much better than those in consumer services.

Moreover, significant variations in the levels of working poor were found within producer-services. The proportion of working poor in business services was 146 percent of the nonmetro average, while the proportion of working poor in engineering and other professional services was just slightly below the overall nonmetro proportion. However, the proportion of working poor was much lower in

Table 7 The Proportion of Nonmetro Working Poor by Sector as a Percent of the Overall Proportion of Working Poor in Nonmetro Areas, 1990

Agriculture	103
Construction	97
Manufacturing	59
Public Administration	93
Services	113
Health	72
Education	116
Social services	115
TCU	52
Wholesale	65
Consumer	154
Retail	149
Personal	172
Producer	89
Business	146
FIRE	64
Legal	19
Engineering & other professional	94

Source: Tolbert, Beggs, and Boudreaux, 1995

legal services—only 19 percent of the nonmetro rate. These results indicate that policies targeting producer services must be carefully focused.

Policy Implications

The trends described in this chapter raise significant questions about the potential for focusing on producer services to revitalize nonmetro areas, especially in the Midwest. A key factor is an understanding that producer services are linked to other business activities in the region. If manufacturing and other industries do not prosper, it is likely that producer services will not perform well either.

Even though rural areas, through a proactive and aggressive targeting program could attract producer services, it is likely that they will pay less than their counterparts in metro areas and, in fact, may not pay much more than many other employment categories in rural areas. However, producer-service jobs are far superior to those in consumer services; moreover, they play an important role in fostering local businesses. Therefore, carefully crafted policies, targeted at fostering selected producer-service activities may prove beneficial to nonmetro locations. In particular, local entrepreneurs as well as urban migrants seeking to start producer services businesses should be provided with the infrastructure needed, such as telecommunications facilities.

Given that services, in general, are expected to increase during the next decade, what does that mean for rural areas? Overall, the picture is decidedly mixed. Rural areas within commuting distance of metro areas containing service growth may benefit if residents can work in the metro center and live in surrounding communities. These commuters will at least provide some additional local income, thereby stimulating the local economy. Nonmetro locations with environmental amenities may also prove attractive to producer-service businesses and entrepreneurs.

In remote communities, or those without cultural or environmental amenities, the picture is somewhat less optimistic. One can expect a combination of growth in consumer services at relatively low pay and a continuation of long-term declines in agriculture along with a stagnant manufacturing sector. In these locations, increasing numbers of residents may remain in poverty even if they are employed.

What do these trends suggest for local policymakers and community leaders interested in revitalizing the region? Several ideas come to mind. First, successful economic revitalization policies must occur on a regional basis. In other words, without expansions in the metro areas, it will be unlikely that rural areas will participate in an economic revitalization based on producer services.

Second, with sophisticated telecommunications at a reasonable cost, it may be possible for rural residents to serve firms in metro areas and compete effectively. This would mean that architects, engineers, and other groups who need less face-to-face contacts on a daily basis could find more remote rural areas with a high quality of life more attractive. Reasonable housing costs, low crime and taxes, combined with a clean environment, may provide an incentive for producer-service workers to commute to work from a longer distance or maybe work part-time in their homes. This means, however, that high-quality telecommunications connections must be available. Also, this will take an aggressive marketing effort by local officials and community leaders in rural areas. There are many examples of white collar professionals who have moved to remote areas in search of a less costly and congestion-free lifestyle. Whether an entire office or complex can be enticed from a metro area is another matter.

Transportation facilities and other services, such as education, which are essential to the quality of life will be crucial in efforts by rural areas to attract urban professionals. These areas must provide amenities or other attractions to offset the higher commuting costs associated with living outside of a metro area. There is considerable evidence that schools in nonmetro areas, for instance, do not have the fiscal resources needed to compete with those in suburban areas. Producer-service workers, especially those who are paid well, are likely to be very concerned about the quality of education and health care, both of which tend to be poorer in rural areas than in metro places. While technology may help to upgrade both of these services, rural areas are still likely to encounter difficulties competing with urban areas. Unless rural locations are competitive, however, maintaining even a stable population and economy will be difficult.

Rural areas also lag behind urban areas in access to the latest telecommunication facilities, often because of smaller population sizes to offset the high fixed costs. Telecommunication hook-ups and fiber optics can be expensive for only a few users. At the same time, up-to-date facilities are imperative to attract highly paid producer-service workers. In fact, without high-quality telecommunications services, the expense and inconvenience of commuting to metro areas may preclude rural areas as viable sites.

Summary

While population increases in rural areas offer promise for the 1990s, it is hard to be sanguine about the prospects of many rural areas, particularly those in remote locations. Population growth in the 1990s is related to proximity to metro areas, retirement facilities, and recreation opportunities. This group leaves a large number of remote rural counties out of the growth scenario. Even those with growth potential will require significant investments in infrastructure and public services to maintain a high quality of life.

Remote rural counties must find other sources of population and economic growth. Manufacturing employment remained reasonably strong in rural areas during the 1980s, and community leaders may continue to pursue, or start, small plants to serve large existing operations. Public promotion of manufacturing networks and other industrial support groups is gaining in importance as one way to make rural firms more competitive. Clearly in the 1990s, improving competitiveness will be a main thrust in local economic development. However, these efforts, once again, will probably involve interactions with businesses in large urban areas, stressing the link between metro and rural. Governments that are able to attract or expand manufacturing are still likely to be better able to attract higher-paying producer-service employment.

Note

¹The Seventh District and the District refer to the five states of Illinois, Indiana, Iowa, Michigan, and Wisconsin.

References

- Beyers, W.B. and M.B. Alvine, 1985,
Export services in postindustrial society. *Papers of the Regional Science Association* 57:33-45.
- Brown, D.L and K.L. Deavers, 1988,
Rural change and the rural economic policy agenda for the 1980's. In D.L. Brown, J.N. Reid, H. Bluestone, D.A. McGranahan, and S.M. Mazie, eds. *Rural economic development in the 1980s: prospects for the future*, Washington, D.C.: United States Department of Agriculture, Economic Research Service:1-28.
- Christopherson, S. and T. Noyelle, 1993,
The U.S. path toward flexibility: the re-making of the U.S. labor market in the 1980s. In H. Ernste and V. Meier, eds. *Regional Development and Contemporary Industrial Response*, N.Y:Belhaven:161-178.
- Coffey, W.J., 1993,
The role of producer services in modern production systems: implications for rural development. In G.A. Bernat, jr. and M. Fredrick, eds. *Rural America and the changing structure of manufacturing: spatial implications of new technology and organization*. Washington, D.C.: United States Department of Agriculture, Economic Research Service:69-94.
- Coffey, W.J. and A.S. Bailly, 1990,
Service activities and the evolution of production systems. *Environment and Planning A*, 22:1607-1620.
- Crump, J.R., 1995,
Hard work and low wages: earnings among workers in rural Illinois. *Macomb, IL: Illinois Institute for Rural Affairs*, forthcoming.
- Crump, J.R., 1993,
The growth of business and professional services in the non-metropolitan Midwest. *Bulletin of the Illinois Geographical Society*, 35(1):25-35.
- Feldman, M.P. and R. Florida, 1994,
The geographic sources of innovation: technological infrastructure and product innovation in the United States. *Annals of the Association of American Geographers*, 84:210-229.
- Fuguitt, G.V., D.C Brown and C.L. Beale, 1989,
Rural and small town America. N.Y: Russell Sage Foundation.
- Glasmeyer, A. and M. Howland, 1994,
From combines to computers, rural services and development in the age of information technology. Albany, N.Y.: State University of New York Press.
- Gorham, L., 1993,
The slowdown in nonmetropolitan development: the impact of economic forces on the distribution of wages. In L.L. Swanson and D.L. Brown, eds., *Population change and the future of rural America: a conference proceedings*. Washington, D.C.: United States Department of Agriculture, Economic Research Service:60-78.
- Hady, T.F. and P.J. Ross, 1990,
The Diverse Social and Economic Structure of Nonmetropolitan America. Washington, D.C.: Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture.
- Johnson, K.M. and C.L. Beale, 1994,
The recent revival of widespread population growth in nonmetropolitan areas of the United States. *Rural Sociology* 59:655-667.
- Killian, M., and C.M. Tolbert, 1992,
"Mapping Social and Economic Space: The Delineation of Local Labor Markets in the United States." in *Inequality in Labor Market Areas*. J. Singelmann and F.A. Deseran (eds.). Boulder, CO: Westview Press.
- Kirn, T.J., Conway, R.S. and W.B. Beyers, 1990,
Producer services development and the role of telecommunications: A case study in rural Washington. *Growth and Change* 21:33-50.
- Kirn, T.J., 1987,
Growth and change in the service sector of the United States: A spatial perspective. *Annals of the Association of American Geographers* 77:353-372.
- Miller, J.P. and H. Bluestone, 1988,
Prospects for service sector growth in nonmetro America. In D.L. Brown, J.N. Reid, H. Bluestone, D.A. McGranahan, and S.M. Mazie, eds. *Rural economic development in the 1980s: prospects for the future*, Washington, D.C.: United States Department of Agriculture, Economic Research Service:135-157.

- O'hUallachain, B., and N. Reid, 1991,
The location and growth of business and professional services in American metropolitan areas, 1976-1986. *Annals of the Association of American Geographers* 81:254-70.
- Parker, E., H.E. Hudson, D.A. Dillman, and A.D. Roscoe, 1989,
Rural America in the information age. Lanham, MD: University Press of America.
- Porterfield, S.C. and G.C. Pulver, 1991,
Exports, impacts and locations of service producers. *International Regional Science Review*, 14:41-59.
- Porterfield, S.C., 1990,
Service sector offers more jobs, lower pay. *Rural Development Perspectives*, June-September:2-7.
- Richardson, H.W., 1979,
Regional Economics. Urbana, IL: University of Illinois Press.
- Sofranko, A. J., 1991,
Transitions in Rural Areas of the Midwest and Nation, in N. Walzer, ed. *Rural Community Economic Development* New York: Praeger Publishers, Inc.:21-40.
- Testa, W.A., 1992,
Producer services: trends and prospects for the Seventh District. *Federal Reserve Bank of Chicago, Economic Perspectives*, XVII: 19-28.
- Tickamyer, A., 1992,
The working poor in rural labor markets: the example of the southeastern United States. In C.M. Duncan. ed. *Rural Poverty in America*. Boulder, CO: Westview Press:41-61.
- Tickamyer, A. and C.M. Duncan, 1991,
Work and poverty in rural America. In C.B. Flora and J.A. Christenson, eds. *Rural Policies for the 1990s*. Boulder, CO: Westview Press:102-113.
- Tolbert, C.M., and M. Killian, 1987,
Labor Market Areas for the United States. United States Department of Agriculture, , Staff Report No. AGES870721. Washington, DC: United States Department of Agriculture, Economic Research Service.
- United States Department of Agriculture, Economic Research Service, 1993,
Service industries dominate nonmetro employment growth. In *Rural Conditions and Trends*. Washington, DC: USDA, ERS:41-43.
- United States Department of Agriculture, Economic Research Service, 1995,
Indicators point to a post-1990 revival in rural areas with some cautions. In *Rural Conditions and Trends*. Washington, DC: USDA, ERS 6:3-5.
- United States Bureau of the Census, 1992a,
USA Counties on CD-ROM (machine-readable data files), prepared by the Bureau of the Census. Washington, D.C.: U.S. Bureau of the Census.
- Walzer, N., 1991,
Rural Community Economic Development (New York: Praeger Publishers, Inc.).