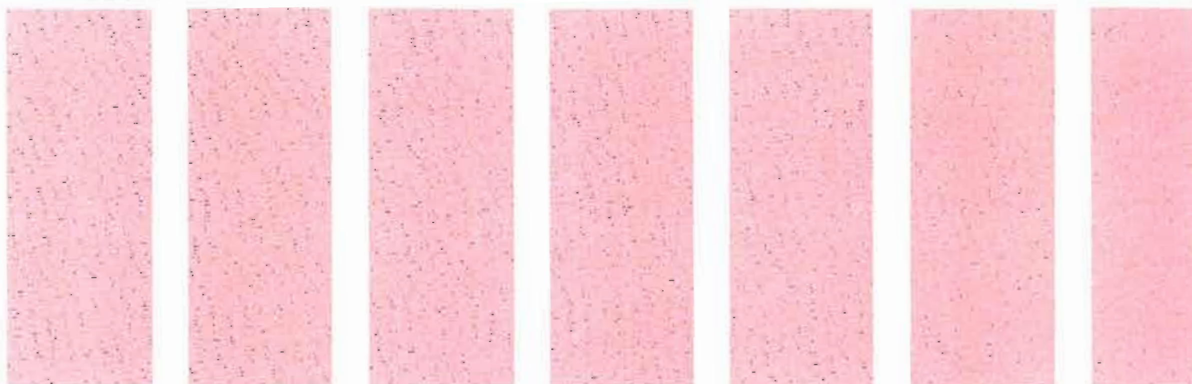
View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Research Papers in Economics

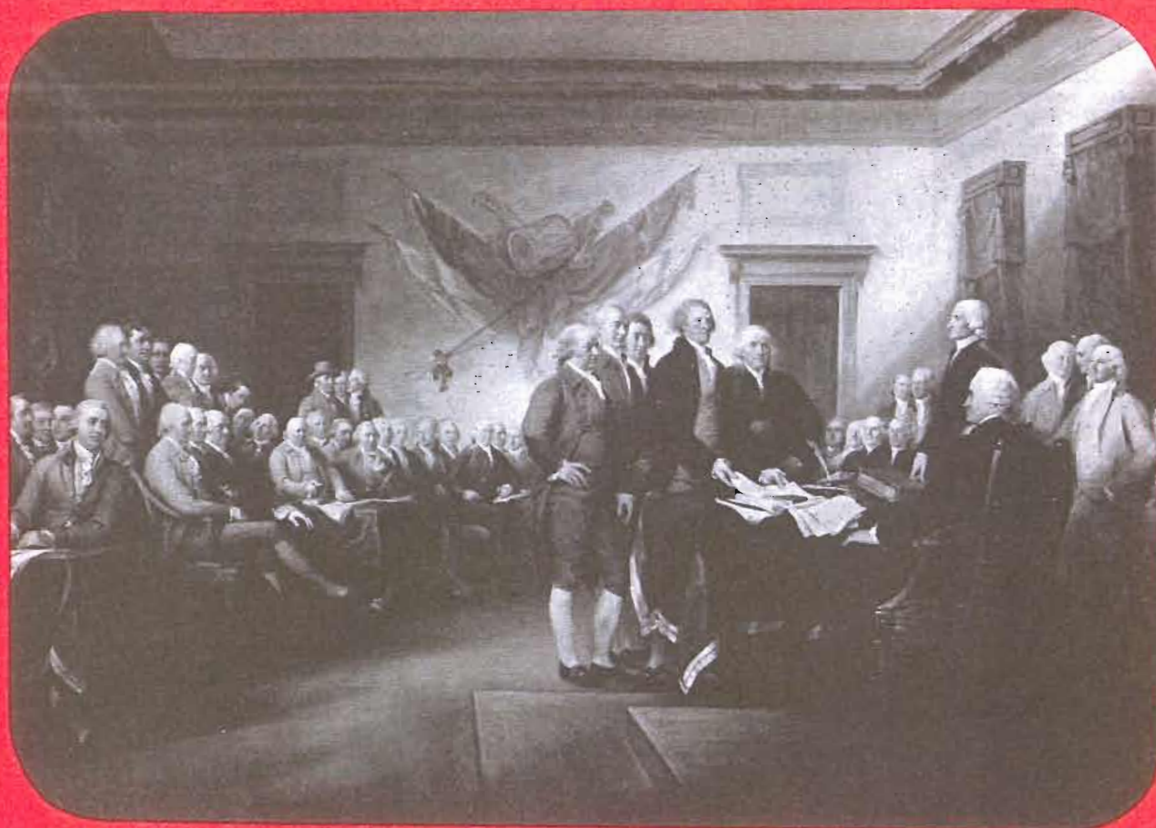
march/april 1976

BUSINESS REVIEW

Small Cities and Their Future

Regional Wrap-up '75: Downturn Ends, Recovery Begins





FEDERAL RESERVE BANK of PHILADELPHIA

IN THIS ISSUE...

Small Cities and Their Future

...The winds of economic change have whistled up hard times for many small cities, but overall population increases and changing lifestyles may mean that some small towns can overcome their economic disadvantages and prosper.

Regional Wrap-up '75: Downturn Ends, Recovery Begins

...Although the Third District economy in 1975 slumped even more than the national economy in some respects, the downturn did bottom out and prospects for expansion in the regional economy during the Bicentennial year are bright.

On our cover: *The Declaration of Independence*, painted by John Trumbull, depicts the Continental Congress adopting the Declaration of Independence on July 4, 1776. John Hancock, president of the Congress, sits at the right. Before him stand the members of the committee chosen to draft the document—from left, John Adams, Roger Sherman, Robert R. Livingston, Thomas Jefferson, and Benjamin Franklin.

This painting will be the design on the reverse side of the new two-dollar bill, which will be issued by the Federal Reserve System on April 13, 1976, Jefferson's birthday (see page 13 for more information). For aesthetic reasons, the six figures on the left and right borders will not appear on the bill.

John Trumbull (1756-1843), born in Lebanon, Connecticut, painted *The Declaration of Independence* after the Revolutionary War, using portraits he had already done as models. In 1817, he was commissioned to reproduce the painting in the Capitol Rotunda in Washington, D.C. The original is now in the Yale University Art Gallery.

BUSINESS REVIEW is produced in the Department of Research. Ronald B. Williams is Art Director and Manager, Graphic Services. The authors will be glad to receive comments on their articles.

Requests for additional copies should be addressed to Public Information, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19105. Phone: (215) 574-6115.

Small Cities and Their Future

*By James L. Freund**

The ever-mounting economic and social difficulties of big cities continually make page one news. So do the problems of suburbanization. Yet, discussions of the nation's ills often ignore the economic plight of small cities. This "neglect" cannot be traced to a presumption that small cities lack economic importance or have relatively few problems. Over 20 million people live in cities and towns whose populations range from 25,000 to 200,000, and the winds of economic change have whistled up hard times for any number of these communities. The economies of many small towns have contracted along with the general decline in agricultural employment in their respective regions. Others have suffered with the decline of such industries as coal mining, railroads, and textiles.

While such adversities are not confined to small cities, small cities may find prosperity harder to achieve than large metropolises—and for definite economic reasons. Grasping these forces is the key to understanding the fate of small-town America. On one side of the coin, plants in small cities lack large local markets for their products and often are isolated from regional population centers. On the other side, production costs are often higher in a small city. Lacking the advantages of industrial concentration, high-quality transportation facilities, and a skilled labor force, many small cities and towns find building an industrial base more difficult than do large cities. Likewise, public goods and services — a strong magnet for new residents and businesses alike—can be more difficult and expensive to produce than in many large metropolitan areas.

Citizens charged with bringing prosperity to their small cities frequently ignore the inherent economic limitations of their municipalities. They also tend to overlook the national and regional economic forces that influence the prospects of small cities. Yet some of these forces could hold promise for

*The author was formerly an economist with the Department of Research of this Bank. He is now on the staff of the Board of Governors of the Federal Reserve System.

the future of many small cities. The workability (and cost) of policies aimed at improving the lot of small cities must be considered in this light.

HOW HAVE SMALL CITIES FARED

Population growth is one measure of the progress of small cities. By this standard, many small cities are doing well. As Table 1 shows, from 1960 to 1970 small, nonmetropolitan cities of between 25,000 and 49,999 grew only slightly less rapidly in percentage terms than the nation as a whole.[1] Small metropolitan areas of less than 100,000 were also below average. Conversely, other small metropolitan areas with between 100,000 and 200,000 population grew at above average rates.

The best performance among smaller cities and towns was registered in growing regions. Growth rates of small, nonmetropolitan cities and small Standard Metropolitan Statistical Areas (SMSAs) in all size categories in the South and the West (Table 1, column 2) outstripped those in the Northeast and North Central states (Table 1, column 3). The most striking example is the case of small nonmet-

[1] The fact that small cities did well in relative terms (percentage terms) does not mean that they are gaining absolutely compared to large places. Although cities of 25,000-49,999 population grew by almost the same rate as metropolitan areas of over a million population, the small cities gained 765,325 while the larger category gained 4,665,391.

TABLE 1

POPULATION GROWTH RATES, 1960-70 BY 1960 SIZE OF CITY

Size Status in 1960 (Population)	Percent Population Change: Total, U. S.	South and West Census Regions	Northeast and North Central Census Regions
Nonmetropolitan Cities			
25,000 - 49,999	12.4%	18.6%	6.6%
Small Metropolitan Areas			
50,000 - 99,999	10.9	12.3	8.6
100,000 - 149,999	15.5	20.7	12.2
150,000 - 199,999	15.7	16.8	14.7
Large Metropolitan Areas			
200,000 - 299,999	14.0	16.8	10.4
300,000 - 499,999	15.8	21.5	10.2
500,000 - 999,999	21.5	27.1	13.4
1,000,000 +	14.2	24.8	9.8
Total Population	13.3	17.6	9.7

NOTE: The source of the data was the *1970 Census of Population*, Final Report PC (1)-A1, Table 32 and the *1972 County and City Data Book*. Each city was classified by size according to its 1960 population on the basis of the 1970 definition of the SMSA. Changes in total population for each size class were calculated as percent from 1960 to 1970. The separation of size categories was arbitrary; the results were not greatly changed when groupings were altered.

ropolitan cities; such places grew almost three times as fast in the South and the West than in the Northeast and North Central sections.

Although regional location strongly influences any city's overall prospects, small cities grew somewhat less rapidly in the 1960s than did large cities *within* the same region. In the South and West, for example, large metropolitan areas registered the most spectacular rates of growth. Growth in the two smallest categories of cities in the Northeast and the North Central regions was well below the combined regions' average and trailed the nation as a whole by a considerable margin.

However, the averages don't tell the whole story. For instance, Table 2 reveals that, despite respectable average rates of growth, small cities were quite vulnerable to population declines between 1960 and 1970. Since small cities greatly outnumber large ones, it might be expected, other things equal, that small places would be experiencing more declines. However, the *proportion* of cities suffering losses is also strikingly higher among small cities.[2] Almost a third of the small nonmetropolitan cities lost population during the 1960s. (See Table 2, column 1.) Many small metropolitan areas also suffered losses—ranging as high as 18.5 percent for those of 150,000 to 200,000 residents. Although the percentage of small cities declining indicates that such places were more susceptible to decline, the *absolute* number of cities losing population tells the story more vividly. The number of small nonmetropolitan cities that

[2]Because they often rely on a smaller number of sources of employment than large cities, small cities are likely to be subject to higher variation in growth rates in general. Whether the high proportion of declining cities results from this lack of diversification or from inherent economic disadvantages, small cities still have to cope with problems of general economic decline more often than larger cities.

TABLE 2

THE INCIDENCE OF POPULATION DECLINE BY CITY SIZE

Size Status in 1960 (Population)	Percent Cities with Population Loss, 1960-70	Number Cities with Population Loss, 1960-70
Nonmetropolitan Cities		
25,000 - 49,999	30.9%	55
Small Metropolitan Areas		
50,000 - 99,999	14.3	3
100,000 - 149,999	17.5	7
150,000 - 199,999	18.5	5
Large Metropolitan Areas		
200,000 - 299,999	12.8	5
300,000 - 499,999	3.3	1
500,000 - 999,999	3.2	1
1,000,000 +	4.1	1

SOURCE: *1972 County and City Data Book* and *1970 Census*, Final Report PC(1)-A1, Table 32.

lost population was higher than the total of all metropolitan areas that declined. (These cities constitute 43 percent of the areas observed and 70 percent of the declines.) Further, 70 of the 78 cities that declined had fewer than 200,000 residents. (These areas represented 68 percent of the cities observed and 90 percent of the declines.)

SMALL CITY LIFE: INDIVIDUAL PREFERENCES AND ECONOMIC REALITY

If asked where they prefer to live, far more people would probably opt for a small city or metropolitan area than currently live in these areas. Indeed, many are moving to such places to take advantage of the agreeable lifestyle. Social and political participation in the affairs of the community is easier and more direct. Residents enjoy less congestion, easier transportation, and a lower population density. Small cities are less likely to have pollution problems and most have good access to outdoor recreation.

If these advantages exist, why has the thrust of economic growth historically been toward large urban areas? Can the nation assure that people who apparently want to live with less hustle and bustle will be able to do so? The answer to both questions lies in the ability of such places to compete with large metropolitan areas in two respects. People must work, so small cities must provide jobs. Many people who might have preferred a small-town setting have left to find better opportunities. Secondly, people value government services such as police protection, schools, and public health facilities. Unless local authorities can provide quality services at reasonable tax rates, attracting new residents and stimulating economic growth will be difficult.

There Should Be No Problem—Theoretically. Many economists would point out that there are mechanisms for assuring that people who prefer small cities are able to live there. If government services cost more in small places, people who really want to live there will pay the higher price. Further, plant location can reflect people's residential choices. Florida and the Southwest have grown largely because families have been attracted by the climate and the lifestyle. Many businesses have followed them. Many scientific and technological firms locate in areas where workers enjoy living in order to attract high-quality personnel without paying them high wages to work someplace they do not like. Lifestyle preferences also can be registered through direct action by workers. Even if all other costs indicate that a plant should locate in a major metropolitan area, workers may be able to offset the higher costs of small-city operations by accepting lower wages.[3]

In theory, these wage and tax adjustment processes can provide for job opportunities and desired public services. In practice, they cannot be relied on to assure prosperity for small cities. Most people are unwilling to make large financial sacrifices to live in small cities; they want "decent" jobs and a normal package of public services at "reasonable" tax rates. Over long periods, migration into an area will stimulate economic growth,[4] but it is rare that spontaneous migration alone makes an area prosper. Usually migration depends, at least in part, on job prospects, and these, in turn, depend on how profitable a location is for private industry.

A small city may have plenty of clean air, a clear blue lake, and friendly citizens — yet be an unsuitable factory location. Unless an area is so attractive that people will make substantial sacrifices to live there, cities grow or decline on the basis of their existing competitive advantages. The profitability of operating a business in any city depends on two factors: finding customers for the goods and services produced and keeping down the cost of production. On net, size works to the disadvantage of most small towns in both respects.

[3]Some locations may be at such a disadvantage that workers could work for nothing, and it would still be uneconomical to operate there.

[4]For a discussion of the important role population growth plays in economic prosperity, see Jerome Stein and George Borts, *Economic Growth in a Free Market* (New York: Columbia University Press, 1964).

Can Small Towns Support Big Business? To be successful any enterprise must have viable markets for its products. Many of the firms in any city rely on local residents to buy its products. A moderate-size city obviously cannot offer the same market to a business as Philadelphia, St. Louis, or Boston. For some goods the minimum number of customers necessary to support a profitable operation is small; almost every town can support a drug store, a market, or a service station. Consumer services (such as interior decorating and photofinishing) as well as business services (such as janitorial contractors and advertising agencies) require larger pools of local customers. Even middle-size cities might have difficulty supporting large wholesaling establishments, baking and bottling operations, and legitimate theater.[5]

In short, there are "threshold" levels of demand that must be met to make many locally oriented operations successful; small markets are beneath the cut-off for many products. Since residents must "import" such goods and services from nearby cities, they pay higher prices than if local production were efficient. Further, goods bought from other places create jobs within the supplier's area rather than locally.

Conversely, businesses in small cities can sometimes rely quite heavily upon customers from neighboring regions. These additional customers supplement demand from within their boundaries and support a larger, healthier economy than a city itself could sustain. When population centers are separated by miles of highway, consumers and businesses located in the surrounding regions gravitate to these centers to buy and sell goods and services. Each population center develops market areas that it services more efficiently than other cities can. Such markets provide economic viability for many of the nation's metropolitan areas and cities in rural areas.

Goods intended for national and broad regional markets form yet another potential source of local jobs. In theory, firms producing these goods could locate anywhere because local customers are not a primary consideration (only a small proportion of auto sales take place in Michigan). Many such plants locate in smaller cities and consitute the backbone of these local economies.[6] This is especially true in resource-oriented industries such as mining, forestry, and agricultural products. While these industries are important, areas that are growing in both size and in average family earnings usually must also attract nonextractive, nationally oriented plants. To do so, they must be able to compete with large metropolitan areas on the cost side of the ledger.

Is It Feasible to Produce in Small Cities? A locale's ability to attract industry depends on many factors totally unrelated to its size. One is the beneficial effect of being in a growing region. Another is the discovery of a new natural resource. A new interstate highway near a city can significantly lower that area's cost of producing goods for national markets. Conversely, a city of any size may suffer because it specializes in a product for which its competitive advantage has faded. This is the case for textile centers in the Northeast and areas depending on employment in coal mines. Changes in tastes resulting in declining markets can affect the business community of large and small cities alike.

The economies of small cities are also affected by their lack of size. Some factors enhance the small city's status as a site of

[5]An interesting discussion of the size necessary to support different types of services is by Otis Duncan et al., *Metropolis and Region* (Baltimore: The John Hopkins Press, 1960), pp. 77-79.

[6]Industries that sell products to the "outside world" are both important to, and a problem for, smaller communities. On the positive side, they typically are one of the most important sources of income for local workers; this income is often spent in the community itself. If a manufacturing enterprise locates in a town, it often attracts firms that cater to its needs and create more jobs. For instance, an automobile plant may attract subcontractors both on the production and product distribution sides. On the negative side, localities tend to depend on just a few such plants. Lack of diversity leaves them vulnerable when these plants experience difficulties.

production. For instance, relatively cheap land, lack of congestion, and ease of internal transport all make running a business more profitable. Unfortunately, smallness has other disadvantages. Because local demand is limited, plants tend to be smaller in modest-size cities. Small plants are less likely to be able to take advantage of efficient management techniques and production methods that require large scale operations.[7] A producer in a large city often has the advantage of proximity to many plants in the same industry — for example, there's usually a garment district, a financial district, or food processing centers. Where similar firms locate, specialized business services develop. Legal firms know their unique problems, shippers can adapt to their needs, and subcontractors spring up. In large cities with many firms doing the same work, specialized labor forces can develop. Small-town plants have few of these advantages.

Even if a plant is the only one of its kind in a large city, it has certain advantages over a unit operating in a small city. Business and financial services are usually more sophisticated and extensive in metropolitan areas. For firms in the retail and wholesale trades in large cities, the very concentration of economic activity will often mean exposure to additional buyers that would not be attracted to isolated, small city establishments. Plants in small localities find a less diverse and shallower pool of workers from which to draw. Finally, larger population centers are generally recognized as the environment where new ideas and trends are developed. A firm in a small city often lacks exposure to such developments and, therefore, is once again at a disadvantage.[8]

Meeting Public Needs. Good public services are essential to a healthy community. The efficiency of delivering services and the quality of local facilities are important in determining the quality of life for citizens. Local government operations are also important to businesses. Inadequate or costly services will put firms at a competitive disadvantage. Thus, a key issue is whether small places have any disadvantage when it comes to providing public services.

As in private production, smallness has its pros and cons. Citizens' desires are usually more modest in small cities; public museums, social services, and extensive park systems are more typical of large cities. Moreover, many demands are more easily fulfilled. Police protection is less difficult where population is not crowded; maintenance is easier when streets are less congested.

Conversely, small city governments must contend with certain disadvantages. Like business, large government units are better able to take advantage of skilled administrators and specialized techniques. Large scale operations can typically use more efficient equipment. If a fire truck must be bought to protect a few citizens, more people can generally be serviced at little additional cost. Likewise, a small high school might underutilize a specialized teacher who provides services to a few students. In a large unit, specialists could be kept busy.

Economists have not definitely proven whether the costs of government services such as schools, hospitals, police and sewage treatment are substantially higher in small places. It is generally felt that cities of less than 100,000 population may be less efficient in providing most government services; cities over that level apparently suffer no great cost

[7]See Hugh O. Nourse, *Regional Economics* (New York: McGraw-Hill Book Company, 1968), p. 87, for a more detailed discussion of these advantages that economists refer to as "internal economies of scale."

[8]Although the evidence is hardly overwhelming, there is reason to believe that most innovations emanate from large cities. Once they are proven, it is contended, new processes "filter down" to smaller and more remote areas Two interesting discussions of this process are included in Wilbur Thompson, "Internal and External Factors in the Development of Urban Economies," *Issues in Urban Economics*, Harvey Perloff and Lowdon Wingo, Jr., eds. (Baltimore: The John Hopkins Press, 1968), pp. 43-62, and William F. Ogburn and Otis D. Duncan, "City Size as a Sociological Variable," in *Contributions to Urban Sociology*, E. Burgess and D. Bogue, eds. (Chicago: University of Chicago Press, 1964), pp. 129-47.

disadvantage for most functions. As for sewerage and fire protection, however, some studies indicate that costs show moderate declines until a city reaches several hundred thousand people.[9]

THE FUTURE OF SMALL CITIES: WHAT CAN BE DONE?

Current or prospective difficulties have caused many small cities and towns to mobilize their resources to attempt to stem the tide of economic decline. Policies are drafted to attack particular problems. Water and sewer systems are built. Roads are constructed. Industrial parks are organized and developed. Wharfs and warehouses are constructed. Local leaders often take out ads in periodicals to trumpet their city's virtues or to offer tax breaks to new industry.

Such policies can sometimes be useful. This is especially true if an otherwise viable town has just one or two problems that can, in fact, be overcome. Occasionally a town has all the advantages businesses need, but market information is imperfect and few executives know about its merits. However, the competitive market works fairly well in the long run, and it is rare that such self-development policies are effective.[10] If a city has remained small or has declined, it usually is for reasons beyond local control.

There Is Always A Bigger Picture. People concerned with growth of their city or town often fail to realize that local economies do not grow in isolation. A locality's economic health depends on its relationship with neighboring cities. Furthermore, national trends help to shape its position in the contest for a share of national markets.

Any city is vitally linked to other cities in its vicinity with regard to the production of many goods and services. Remember that many cities — especially in rural areas — are central locations to which residents of surrounding areas and smaller towns come to conduct business. These same cities typically rely upon still larger cities for products which can't be produced profitably in the smaller locale. Such hierarchical relations are typical of many activities that create jobs.

While such patterns and relationships reflect efficiencies in production, they leave small places in an awkward position. Towns and cities "low" on the hierarchical ladder become dependent on larger cities. Even if a small city could become less reliant on larger neighboring cities for goods its citizens buy, it still would have to vie with them for businesses that serve national and international markets. In addition to disadvantages inherent in a small city's size, other factors beyond local control will bedevil attempts to improve local economic prospects.

For instance, local officials may want to diversify their town's economic base. But if its only advantage is a skilled labor force in textiles, the community is unlikely to attract an auto assembly plant. While the local leaders may exert pressure to keep an uprofitable railroad spur open, the costs of bringing raw materials to a city that is geographically iso-

[9] A review of the literature on the economies of scale in government services can be obtained from Werner Z. Hirsch, *The Economics of State and Local Government* (New York: McGraw-Hill Book Company, 1970), pp. 176-83.

[10] It is understandable that local civic leaders and businessmen in stagnant small cities would not be happy with the market solution to the question of where economic activity should take place. Economists also point out problems resulting from the way things work out. For instance, some argue that when people and plants move into large metropolitan areas, they create costs that others must bear. As large cities grow (especially during periods of rapid growth), congestion and pollution can increase dramatically. The costs of the additional problems fall on everyone — not just the new residents. By making small places more attractive, migration to large cities could be stemmed and such "social costs" could be avoided. Another argument for aiding small cities is that the market solution typically leaves them in an inherently unstable position, and they deserve aid on that account. As suggested earlier, because a small city is usually endowed with only a few industries, its economy is more likely to experience ups and downs. Unlike larger cities, fluctuations in one section cannot be absorbed by others. This vulnerability to extremes of growth and decline can be cited as a reason for public policy efforts at diversification.

lated may continue to discourage local development. Even if the oil crisis rekindles the demand for coal, a city whose resource base is high-sulfur coal may still miss out because of environmental regulations. In short, factors like investment patterns of the Federal Government, the way commerce is regulated, what products are in greatest demand nationally, and the distribution of natural resources influence which places prosper and which do not. Since there is not much local leaders can do to influence such factors, a city's economic fate is largely beyond its control.

A "Balanced National Growth" Policy. The frustration of citizens and their representatives in watching many small cities and metropolitan areas decline or grow very slowly has resulted in proposals for a "balanced national growth" policy.[11] Such a policy, of course, means different things to different people. Most proponents seem to be asking that the large geographic areas of the country—especially those cities and towns in rural areas that have experienced relatively little growth in the last 20 years—share more fully in the nation's prosperity.

If society decides to strive for "more balanced" growth, it makes sense that such a policy be national in scope. Local development planning and public investment certainly cannot hurt the local economy.[12] However, to be successful such a policy must alter the basic competitive forces that have drawn private industrial investment from small cities. As has been mentioned, many of these forces are economic trends which have affected the nation as a whole or are the result of Federal policy.

There are measures that could be used to tilt competitive advantage in favor of small places. Public works and investments could be channeled to small cities on a massive scale. Federal regulatory policies could be altered to make transportation and communication less expensive for small cities. A bolder approach would be a system of taxes on business that would favor plants in small cities, offsetting their competitive market disadvantages.

Any such policy must keep two considerations in mind. First, the magnitude of such efforts must be substantial enough to offset both broad market forces and the inherent disadvantages of being small. Programs exist now that provide local capital, but they are not operating on a magnitude that significantly alters the way markets work.[13] Second, there are costs involved in many such policy suggestions. In some cases it makes no economic difference where an activity is performed. If it is just as efficient to locate a government research facility in a small city as in a large one, it is costless to society to confer the benefits on a small town. In other cases, a policy to achieve a "better" geographic pattern of economic activity may cause efficiency in production to be sacrificed. This means

---

[11]Typical of new efforts is the Balanced Growth and Development Act, introduced by Senator Hubert H. Humphrey, which would provide a Federal mechanism for long-run national growth planning and consolidate existing development programs, procedures, and goals. Specific account would be taken of the locational impact of all Federal spending. Local planning would also be beefed up.

[12]If a city does grow and the initial problems of smallness are overcome, the advantages become self-reinforcing. As it gets bigger, there is more demand for business services. The resulting growth means more efficient operations for local businesses and more revenues for government. These improvements foster expansion in manufacturing and other "export" industries; this growth also yields tax dollars and further stimulates demand for services. Increased revenues and better government services make private enterprises more profitable and attract people to the town. Such interaction has led many to suggest that once a city reaches a certain size (250,000 population is often mentioned), it has become large enough to be permanently economically viable.

[13]The Economic Development Administration of the U. S. Department of Commerce devotes much of its attention to stimulating long-run economic growth in small cities in rural, depressed counties through infrastructure investment. The budget of the agency averages only about a quarter of a billion dollars a year. Thus, it is dwarfed by other government programs and market forces that affect regional distribution of economic activity.

valuable resources are lost to society. For instance, subsidizing a railroad line to a small city may prevent a dying plant from moving to a profitable location elsewhere. Unless the spur can eventually run at a profit and reimburse society for the expense of the subsidy, the money could have been used to meet other social needs.

LOOKING AHEAD

It seems unlikely that a national growth policy will be implemented with enough force to alter the prospects of small cities and metropolitan areas. However, some important national trends now underway could do so. As the nation's population grows, the additional people must be housed. Since the nation's borders are fixed, Americans must look inward for living space. The more rapid the growth of population, the more likely that people will find their way to small places.[14]

A second, and more important, trend may enhance the future of small places. There are indications that an increasing number of people are choosing lifestyles that emphasize small city amenities. For instance, recent evidence for the years between 1970 and 1973 reveals a dramatic shift in population distribution toward small cities. Although the fastest-growing areas were adjacent to metropolitan areas, small metropolitan areas and isolated rural areas grew more rapidly than the nation as a whole and at a much faster rate than previously.[15]

If these trends continue and gain momentum, the market provides mechanisms that can translate them into economic growth for small cities and metropolitan areas. The changing patterns of population would act as a signal to firms as producers and employers. It is a good bet that large metropolitan areas will not lose many of their economic advantages over small cities. But, there is no reason why—if more people show interest in small cities—they cannot overcome their disadvantages and prosper.

Unless such changes take place, many small cities will lose their economic viabilitiy and, perhaps, cease to exist. Others will remain small because they are performing only a minor role in the economic system as it is now structured. The is nothing "wrong" with such a situation. Not all cities can be large and growing.

Policies designed to aid economically lagging small cities and metropolitan areas must recognize such distinctions. Cities need not be large or growing to provide adequate jobs and incomes for their citizens. Efforts can be directed toward increasing the standard of living of citizens in small places that show signs of economic distress. However, programs that are aimed at making such places both "bigger and better" must be applied selectively. Such aid must be grounded on economic realities, not on the feeling of local citizens that every city has a right to grow. The system just does not work that way.

---

[14]Even if population growth in the U. S. stabilizes, the population level would continue to rise because of the current mix of population. It is estimated that, even at the "replacement level" fertility rate of 2.1 children per woman, U. S. population will not stabilize until 2037, at a level of 275.5 million persons. For a full discussion of the issue of population growth, see "Zero Population Growth" in the *Monthly Review* of the Federal Reserve Bank of Richmond, September, 1971, pp. 7-12.

[15]See Richard L. Forstall, "Trends in Metropolitan and Nonmetropolitan Growth since 1970," NICHD Conference on Population Distribution, Baltimore, Maryland. Revised, May 1975.

the $2 bill makes a comeback!

THE $2 BILL MAKES A COMEBACK

A decade after it was withdrawn from circulation, the $2 bill is rejoining the ranks of circulating U. S. currency. The public will be able to obtain the new denomination from their local commercial banks beginning on April 13, Thomas Jefferson's birthday.

Although the note is being reintroduced in conjunction with our nation's Bicentennial celebration, it is not solely a commemorative issue. The $2 bill will continue to be printed after the celebration is over and will be a permanent part of our nation's currency.

The design of the new note is consistent with the Bicentennial theme. Featured on the face is a portrait of Thomas Jefferson, who also appeared on the last series which was discontinued in 1966. The reverse design is completely new: it shows a rendering of *The Signing of the Declaration of Independence* based on the painting by John Trumbull. (See cover of this *Business Review.*)

Unlike ten years ago when there were hardly enough "twos" to go around, the new note will be supplied in sufficient volume to assure wide availability. The Treasury's Bureau of Engraving and Printing plans to produce 400 million notes annually.

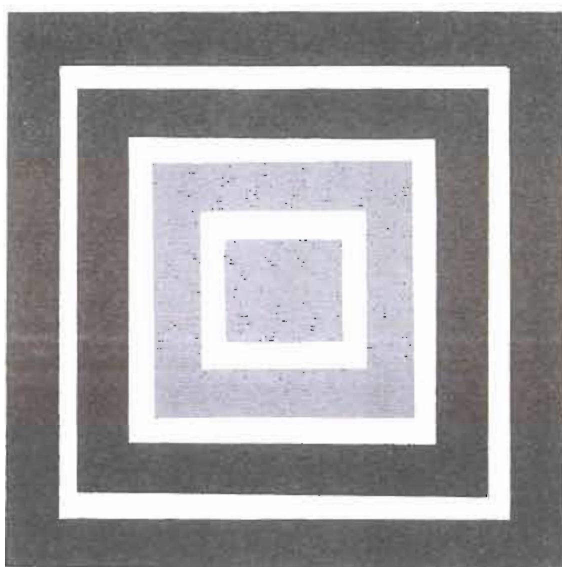
The decision to revive the $2 denomination was made in the interest of economy and efficiency. Until now the Treasury has been printing about 1.7 billion $1 notes each year to meet the public's currency needs. This accounts for nearly 60 per cent of the total annual volume. By replacing half of the "ones" printed each year with "twos" the Treasury will be able to cut down substantially on printing, sorting, maintenance, storage and shipping expenses. These savings are expected to approach $7 million a year. Similarly, the Federal Reserve System which distributes currency to banks will save about $27 million over the next five years.

So, in addition to providing greater convenience to consumers in their everyday transactions, use of the $2 denomination offers the unusual opportunity of helping to cut government costs.

. . . here are some additional facts . . .

- The new $2 Federal Reserve Note will have the signatures of William E. Simon, Secretary of the Treasury, and Francine I. Neff, Treasurer of the United States.
- As with all currency, the $2 bill will be issued by the Federal Reserve System, which will supply individual banks throughout the country with sufficient quantities to meet public demand.
- During initial production, an estimated 11 million notes are being printed each day. A total of 400 million $2 notes will be printed annually.
- There will not be a "collector's" or special numismatic issue of the new note.
- The $2 denomination traces its lineage back to 1776 when it was first issued by the Continental Congress as "bills of credit for the defense of America."
- Since 1862, it has been issued in various forms as Treasury notes, Silver Certificates, National Bank currency, and U. S. Notes.
- The most recent issue of the $2 bill was the 1963 A Series U. S. Note featuring Thomas Jefferson on the face and Monticello on the back. This series was last printed in May 1965 and officially discontinued in August 1966.
- Approximately $135,288,000 in previously issued $2 notes are still in the hands of the public.

AVAILABLE UPON REQUEST . . .



STUDIES IN SELECTIVE CREDIT POLICIES

edited by
Ira Kaminow
James M. O'Brien

Single copy free. Additional copies $2 each. Requests should be addressed to Studies in Selective Credit Policies, Department of Research, Federal Reserve Bank of Philadelphia, Philadelphia, PA 19105. Checks should be made payable to the Federal Reserve Bank of Philadelphia.