THE RICHARD STOCKTON COLLEGE OF NEW JERSEY

The South Jersey Economic Review

Winter 2014

About the SJER

The SJER is part of a broader and ongoing Stockton College initiative whose aim is to provide the region's stakeholders and policy-makers timely, high-quality research products and technical assistance that focus on the region's economy, its development, and its residents' well-being. The SJER is produced and distributed exclusively as an electronic journal. If you would like to be electronically notified of future releases of the Review, send an email to sjer@stockton.edu with the subject line "sjer".

In This Issue

2013 in Review: Half Empty or Half Full?

How did Atlantic City's economy fare in 2013? The optimist's answer is "not too bad" especially given the disruptions caused by Sandy (whose adverse effects lingered into last year's first quarter) and the ongoing adjustments that continue to buffet the local gaming industry. Based on employment data for the first eleven months of the year (December data are due out in late January), the metropolitan area recorded its second consecutive year of job growth in 2013 (around 0.3% or approximately 400 jobs). After five consecutive years of job loss between 2007 and 2011, any year with job gains—no matter how few—is a welcome development. Those in the optimist camp also note that the metro area's unemployment rate, which peaked at 15% in late 2012, declined significantly last year and currently stands at 11.4%. (Figure 1) All told, the optimist camp sees last year as the final staging for a more robust recovery this year—one that will be tightly wedded to on-going efforts to broaden the local economy's key leisure and hospitality sector and the impressive improvements that have upgraded Atlantic City's infrastructure, aesthetics, and safety.

Pessimists on the other hand see last year's modest job growth as further indication of a weakened local economy that still can't gain the traction necessary to fully recover from the Great Recession. Indeed, last year's job gain was significantly less than 2012's 1.1% gain, which many believed signaled the start of a long-overdue recovery—one expected to materialize last year. The pessimist camp also sees last year's decline in the unemployment rate reflecting a shrinking labor force—not strong job growth. (Through the first eleven months of last year, the labor force declined by 0.6%.) Moreover, the local economy's unemployment rate remains far above the state's (7.8%) and the nation's (7% in November). While some in the pessimist camp believe the local economy will improve modestly over the coming year, most are worried about the local economy's medium and longer-term prospects.

Establishment employment in the metropolitan area was expanding at a 0.4% pace year-on-year in November, compared to the state's 1.8% rate of job growth, and the nation's 1.7%. (Figure 2, p.2)

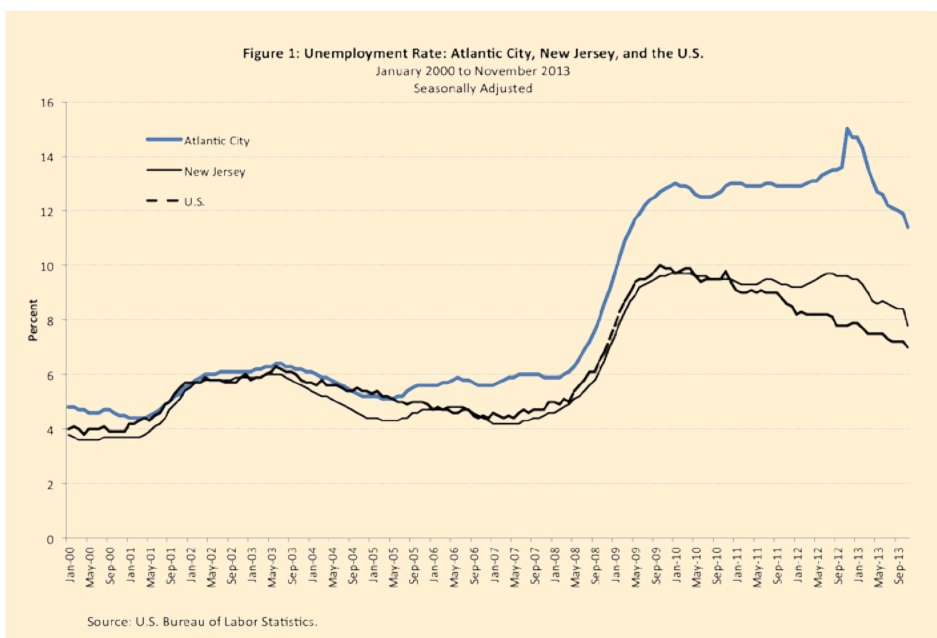


Figure 1: Unemployment Rate: Atlantic City, New Jersey, and the U.S.
January 2000 to November 2013
Seasonally Adjusted

Retail, Restaurants, and Construction Post Job Gains

Based on employment data for the first eleven months of last year, retail trade employment in Atlantic City increased by 1,400 jobs year-on-year—a very sizable 9.2% gain. Indeed, last year's job gain allowed the retail trade sector to surpass its pre-recession employment peak of 16,500 recorded in 2007. (Table 1) The health of the metro area's retail trade sector is especially noteworthy in light of the anemic growth in retail trade employment nationally which has reflected retrenchment of households in the aftermath of the national recession and a slow-moving recovery. While it seems unlikely that Atlantic City's retail trade sector will repeat this strong performance in the coming year, last year's robust job gains could signal an important turning point: retailers' expectations of a brighter 2014.

Employment in the metro area's restaurants and bars was up 700 jobs (5.9%) year-on-year through November of last year. Similar to the gains experienced in retail trade, those in Atlantic City's restaurants/bars industry exceeded the national gain (+3.3%). Finally, job gains were also recorded in the metro area's construction industry last year. A gain of 300 construction jobs (6.2%) reversed the late-2012 slump in construction employment that followed the Revel induced run-up in construction jobs in late 2011 and early 2012.

Continued job gains across these three industries (which jointly account for 25% of the metropolitan area's job base) will be critically important to the local economy's fortunes in the year ahead, especially in light of the recent closure of the Atlantic Club.

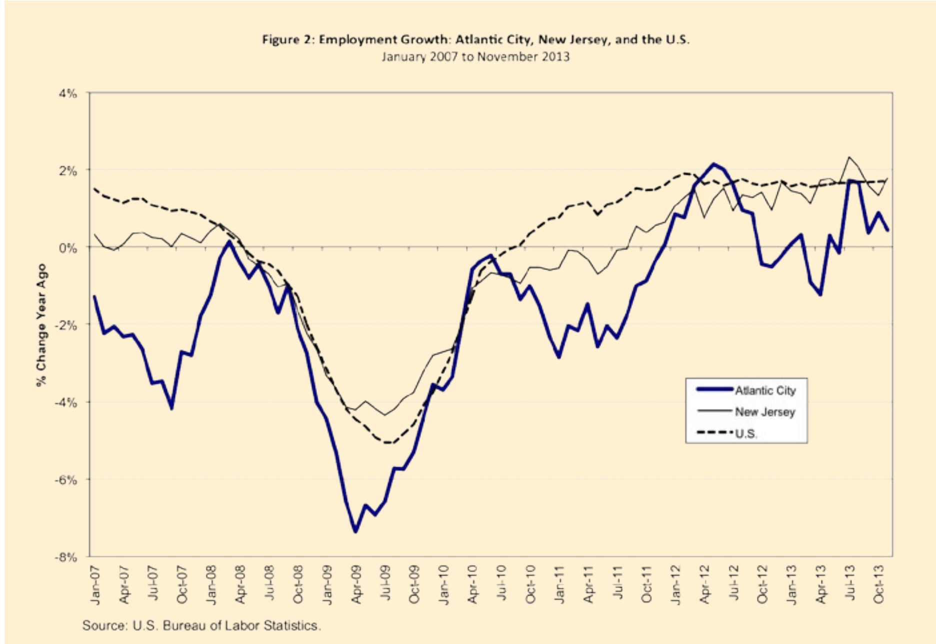


Figure 2: Employment Growth: Atlantic City, New Jersey, and the U.S.
January 2007 to November 2013

Source: U.S. Bureau of Labor Statistics.

Retrenchment and Realignment in Gaming Industry Continue

Last year's gains in retail trade, restaurants/bars, and construction employment were offset by 2,300 losses in the accommodations sector which includes casino hotels. Official employment data from the U.S. Bureau of Labor Statistics indicate that casino hotels employment was down 2,100 year-on-year through the first eleven months of last year. Last year's steep decline in casino hotels employment is especially troubling in light of the Revel-induced gain in employment the industry recorded in 2012—its first since 2005. The recent closure of the Atlantic Club, which cost the local economy approximately 1,600 jobs, ensures that 2014 will see another annual loss.

The restructuring of the gaming industry and continued tight fiscal times (Moody's downgraded Atlantic City's credit rating one notch to Baa2 and assigned it a negative outlook last November, citing declining gaming revenue and hefty losses from casino tax appeals) will weigh heavily on the local

continued on page 3

Table 1: Industry Employment Trends in Atlantic City

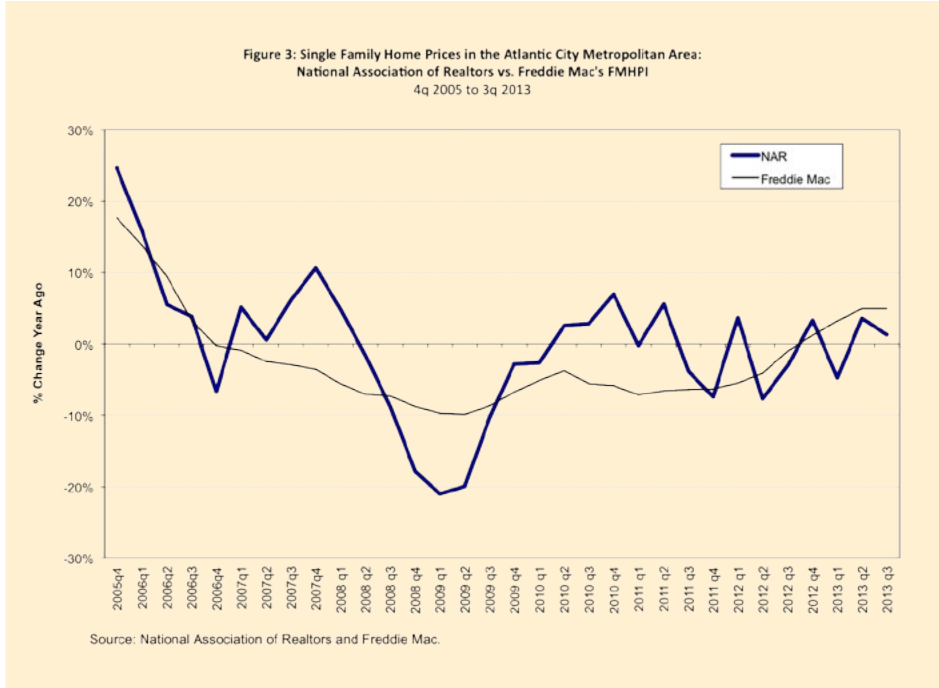
	Average Employment (000s)			Change from prior period			% Change from prior period		
Industry	**Jan-Nov 2011**	**Jan-Nov 2012**	**Jan-Nov 2013**	**Jan-Nov 2011**	**Jan-Nov 2012**	**Jan-Nov 2013**	**Jan-Nov 2011**	**Jan-Nov 2012**	**Jan-Nov 2013**
Total Nonfarm	135.2	136.6	137.0	-2.4	1.4	0.4	-1.8%	1.1%	0.3%
Total Private	112.5	113.9	114.6	-1.7	1.4	0.7	-1.4%	1.2%	0.6%
Leisure and Hospitality	46.3	47.8	46.7	-2.3	1.5	-1.2	-4.7%	3.2%	-2.4%
Accommodation and Food Services	44.6	46.2	44.6	-2.2	1.6	-1.6	-4.7%	3.5%	-3.5%
Accommodation	33.4	33.9	31.6	-2.2	0.6	-2.3	-6.3%	1.7%	-6.8%
Casino Hotels	31.6	32.1	30.1	-2.2	0.5	-2.1	-6.5%	1.6%	-6.4%
Food Service and Drinking Places	11.3	12.3	13.0	0.0	1.0	0.7	0.4%	8.9%	5.9%
Construction	5.5	4.7	5.0	0.9	-0.8	0.3	18.5%	-14.5%	6.2%
Manufacturing	2.2	2.2	2.0	0.1	0.0	-0.2	2.9%	-2.0%	-8.3%
Wholesale Trade	3.0	2.9	2.8	0.2	-0.1	-0.1	6.5%	-1.8%	-2.5%
Retail Trade	15.4	15.6	17.0	0.0	0.2	1.4	0.0%	1.3%	9.2%
Transportation and Utilities	2.6	2.9	2.9	0.0	0.2	0.0	-0.3%	8.6%	0.6%
Information	0.8	0.8	0.7	-0.1	0.0	-0.1	-11.8%	-3.3%	-11.5%
Financial Activities	4.1	4.0	4.0	0.0	-0.1	0.0	-1.1%	-1.8%	0.9%
Professional and Business Services	9.6	9.4	9.5	-0.3	-0.2	0.1	-2.6%	-2.4%	1.0%
Education and Health Services	18.6	19.0	19.2	0.0	0.4	0.2	0.1%	2.3%	1.2%
Hospitals	6.4	6.4	6.3	-0.1	0.0	-0.1	-1.4%	0.3%	-1.9%
Other Services	4.4	4.7	4.7	-0.1	0.2	0.1	-1.2%	5.1%	1.6%
Government	22.6	22.7	22.5	-0.8	0.1	-0.2	-3.3%	0.3%	-1.0%
Federal Government	2.8	2.7	2.7	-0.2	-0.1	0.0	-5.8%	-3.2%	-1.7%
State Government	4.2	4.0	4.1	0.1	-0.1	0.1	1.3%	-3.3%	2.5%
Local Government	15.7	16.0	15.7	-0.7	0.3	-0.3	-4.1%	1.9%	-1.8%

Source: U.S. Bureau of Labor Statistics

economy over the coming year. At the same time, several recent announcements—United will begin air service from ACY in April; Bass Pro Shops is scheduled to open its 86,000 sq. ft. store this coming fall; and, the Garden State Film Festival is slated to kick off in early April—should bode well for the local economy.

Housing Market Update

Single-family home prices in the metropolitan area continued to edge upward last year, according to data from Freddie Mac. After six consecutive years of year-on-year quarterly declines, single-family home prices posted year-on-year gains in every quarter of 2013. While prices were up 1.2% in last year's first quarter, the rate of home price appreciation accelerated to 3.2% in the second quarter, and accelerated again to 5% in the final two quarters of last year. National Association of Realtors median home-price data meanwhile showed a broadly similar trend, with prices up 3.6% in last year's third quarter, and a more modest 1.3% in the final quarter. Both trends show a clear improvement in the local housing market which—in tandem with the continuation of very low levels of homebuilding in the local economy—should continue into 2014. (Figure 3)



The Diversification Premium

As is widely recognized, Atlantic City finds itself at a crossroads. Owing to increased competition, its long-time economic engine—gaming—has fallen on hard times as a result of the loss of its monopoly on East Coast gaming. On-going efforts (both public and private) will continue to restructure the industry and hopefully nurse it back to health in the near future. Additional efforts aimed at diversifying the local economy's tourism portfolio by marketing, expanding, and improving its non-gaming amenities are important and seem likely to eventually bear some fruit. However, while reenergizing and broadening the local economy's leisure and hospitality sector is undoubtedly important to Atlantic City's future economic success, it is unlikely to prove enough to allow Atlantic City's economy to flourish over the coming decades. Evidence from around the country makes clear that while specialization is "good" for individuals, industrial diversification underwrites success at the metropolitan level.

Table 2 shows a selected group of metropolitan areas based on their 1990 populations. Specifically, each metro area shown had a 1990 population between 90-110% of Atlantic City's 1990 population of 225,431. This yielded 18 metropolitan areas including Atlantic City. Between 1990 and 2012, the median rate of population growth for these metropolitan areas was 23.7% (or, approximately 1% per annum). Atlantic City's total population gain over this period was 22.2% (or, 0.9% per annum). Median nominal personal income growth equaled 185% for the metro areas shown (4.9% per annum). Atlantic City's personal income growth, at 123.3% (3.7% annually), ranked last as did its per capita income growth—82.8% (2.8% annually). Finally, the median rate of employment growth for the metro areas was 27% (1.1% annually). Atlantic City recorded *total* job growth during the 1990-2012 period of 0.6%.

The final column of Table 2 sums the annualized rates of growth across these four metrics in order to provide a snapshot indicator of the respective metropolitan area economies' success since 1990. Outside of its respectable and rather surprising population growth (which was just slightly less than the median rate of growth for all metro areas), Atlantic City's overall economic performance can only be characterized as very weak compared to this set of comparably-sized metropolitan areas. Had Atlantic City's employment base expanded at the metro area median rate of growth between 1990 and 2012, its economy would now boast 172,000 jobs vs. the 2012 reality of 136,500—a net swing of 36,000

continued on page 4

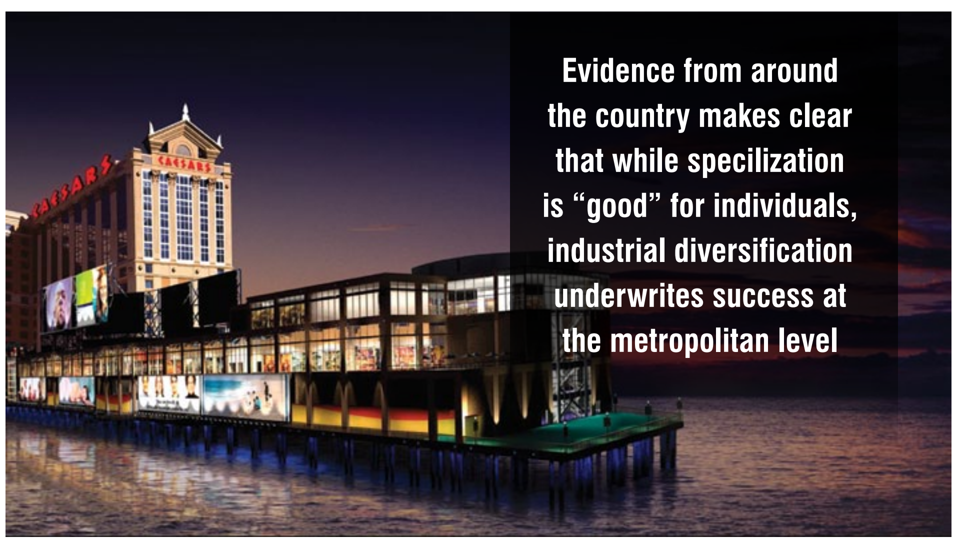


Table 2: Benchmarking Atlantic City's Economic Performance Since 1990

	Total Population	Population Growth 1990-2012		Personal Income Growth 1990-2012		Per Capita Income Growth 1990-2012		Employment Growth 1990-2012		% Total Employment Accounted for by 3 Largest Industries			Sum of all Annualized Growth Rates
Metropolitan Area	**1990**	**Total**	**Annualized**	**Total**	**Annualized**	**Total**	**Annualized**	**Total**	**Annualized**	**1990**	**2000**	**2012**	
Fayetteville-Springdale-Rogers, AR-MO	241,478	99.7%	3.2%	361.9%	7.2%	131.3%	3.9%	96.8%	3.1%	53%	50%	45%	17.4%
Boulder, CO	226,374	34.9%	1.4%	231.0%	5.6%	145.4%	4.2%	57.4%	2.1%	54%	47%	51%	13.2%
Lincoln, NE	230,144	34.8%	1.4%	211.4%	5.3%	130.9%	3.9%	38.1%	1.5%	48%	45%	47%	12.0%
San Luis Obispo-Paso Robles-Arroyo Grande, CA	218,276	25.9%	1.1%	216.2%	5.4%	151.1%	4.3%	34.8%	1.4%	51%	51%	49%	12.1%
Green Bay, WI	244,716	27.1%	1.1%	196.6%	5.1%	133.3%	3.9%	42.5%	1.6%	48%	44%	43%	11.7%
Fort Smith, AR-OK	219,804	27.6%	1.1%	207.0%	5.2%	140.5%	4.1%	27.8%	1.1%	54%	51%	47%	11.5%
Cedar Rapids, IA	211,200	23.9%	1.0%	188.4%	4.9%	132.7%	3.9%	35.0%	1.4%	46%	40%	41%	11.2%
Waco, TX	207,477	23.5%	1.0%	197.3%	5.1%	140.6%	4.1%	26.6%	1.1%	51%	48%	49%	11.2%
Lubbock, TX	237,193	25.5%	1.0%	181.2%	4.8%	124.1%	3.7%	32.6%	1.3%	50%	47%	51%	10.9%
Santa Cruz-Watsonville, CA	229,616	16.2%	0.7%	181.8%	4.8%	142.5%	4.1%	4.5%	0.2%	45%	47%	52%	9.8%
Topeka, KS	210,598	11.4%	0.5%	149.4%	4.2%	123.9%	3.7%	10.5%	0.5%	49%	48%	52%	8.9%
Champaign-Urbana, IL	203,117	15.1%	0.6%	157.2%	4.4%	123.5%	3.7%	6.2%	0.3%	59%	54%	55%	9.0%
Atlantic City-Hammonton, NJ	**225,431**	**22.2%**	**0.9%**	**123.3%**	**3.7%**	**82.8%**	**2.8%**	**0.6%**	**0.0%**	**66%**	**66%**	**65%**	**7.4%**
Salisbury, MD-DE	247,645	54.2%	2.0%	250.2%	5.9%	127.1%	3.8%	27.3%	1.1%	Insufficient data			
Lynchburg, VA	206,913	23.4%	1.0%	161.2%	4.5%	111.7%	3.5%	10.6%	0.5%	Insufficient data			
Macon, GA	207,190	12.3%	0.5%	150.4%	4.3%	122.9%	3.7%	12.2%	0.5%	Insufficient data			
Saginaw, MI	212,071	-6.5%	-0.3%	89.2%	2.9%	102.3%	3.3%	-0.7%	0.0%	53.1%	48.0%	46.1%	5.9%
Charleston, WV	243,124	-7.1%	-0.3%	123.7%	3.7%	140.7%	4.1%	22.1%	0.9%	41.2%	41.5%	45.8%	8.4%
Median		23.7%	1.0%	185.1%	4.9%	131.1%	3.9%	26.9%	1.1%				

Source: U.S. Bureau of Labor Statistics

jobs. In fact, it should be noted that Atlantic City actually boasted the largest employment base of all the metro areas shown in Table 2 in 1990. In 2012, its employment ranked as only the seventh largest. Further, its employment to population ratio declined by a whopping 10.6 percentage points—from 60.2% (also the high mark in 1990) to 49.6%. The median employment to population ratio change across the other metropolitan areas was a one percentage point increase.

Table 2 also shows the proportion of total employment accounted for each metro area's three largest industries (based on employment) for three time periods: 1990, 2000, and 2012. (Complete employment data for three metro areas were unavailable and they were therefore excluded from this portion of the analysis. Saginaw and Charleston were excluded owing to the fact that they saw population declines between 1990 and 2012.) This proportion provides one means of gauging each metropolitan area's industrial diversification. The higher the proportion the less diversified a metro area's economy is.

Seven of the 13 metro areas shown had 2012 proportions in the 40-49% range. Five had proportions in the low-50% range. Atlantic City's 65% proportion in 2012—reflecting its heavy reliance upon leisure and hospitality—stands out like a sore thumb. In fact, this 2012 proportion is all the more remarkable given the steep declines in gaming employment that have occurred over the past several years.

Perhaps more importantly, when one analyzes how these proportions changed between 1990 and 2012, one sees that nine of the thirteen metro area economies grew more diversified. For example, Fayetteville-Springdale (whose economic performance ranked as the best among all the metro areas shown) saw its three largest industries' share of total employment decline to 45% in 2012 from 53% in 1990. Eight of the aforementioned nine metro areas boast total summed annualized growth rates of 11% or greater. The ninth diversifier (Champaign) had summed annualized growth rates of 9%—as its weak job growth was compensated for by low population growth.

The remaining four metropolitan areas—Lubbock, Santa Cruz, Topeka, and Atlantic City—effectively failed to diversify. (Santa Cruz and Topeka actually grew more concentrated.) In the case of Santa Cruz and Topeka, weak employment growth was matched by weak population growth allowing each metro area to experience modest per capita personal income growth. Atlantic City's near zero job growth and surprisingly strong population growth served to undermine its personal income and per capita income growth.

Writing about New York City's overreliance on finance, Harvard's Edward Glaeser comments,

> New York City has become too dependent on the financial industry. In 2008, 44 percent of Manhattan wages were earned by workers in finance and insurance; the following year, even after the financial crisis and economic downturn had battered the industry, that share stood at a still-enormous 37 percent. And the track record of one-industry towns isn't good. No matter how loudly Chrysler's provocative Super Bowl ad heralded Detroit's comeback, the Motor City's population dropped by a quarter over the last decade and now stands at 39 percent of its 1950 peak. In Russia, Soviet-era monocities like Norilsk, a mining hub, are emblems of urban decline. Economic data, bearing out what those examples suggest, show a positive link between industrial diversity and long-run urban success.[i]

While diversification *alone* does not explain metropolitan economic success (Glaeser's work finds, for example, that a 10 percent increase in the share of the population with a college degree in 1980 was associated with 18 percent more population growth between 1980 and 2010 and 8 percent more income growth between 1980 and 2000), there is abundant evidence that makes clear that it is vitally important. In an analysis involving 300 metropolitan areas between the late 1970s and today (which used the share of wages accounted for by a metro area's four largest industries in 1977) Glaeser found:

> the more concentrated each area was, the smaller its percentage growth in population between 1980 and 2010, and the smaller its percentage growth in real median income between 1980 and 2000. (The changes in the 2010 census make it difficult to use comparable income data for

continued on page 5

that year.) In other words, both population growth and income growth decline steadily with industrial concentration. The 60 most diverse areas enjoyed population growth of over 60 percent and income growth of over 25 percent, while the 60 least diverse areas saw population growth of under 23 percent and income growth of under 16 percent.[ii]

As Ricardo Hausmann (also a professor of economics at Harvard University, and Director of the Center for International Development) comments, "More diversified metro area economies tend to grow faster and become even more diversified not only because they have larger internal markets, but also because they are more diversified in terms of what they can sell to other cities and countries."[iii]

One way to understand the benefits that accrue from diversification:

> is to think of industries as stitching together complementary bits of knowhow, just as words are made by putting together letters. With a greater diversity of letters, the variety of words that can be made increases, as does their length. Likewise, the more bits of knowhow that are available, the more industries can be supported and the greater their complexity can be . . . Cities are the places where people that have specialized in different areas congregate, allowing industries to combine their knowhow. Rich cities are characterized by a more diverse set of skills that support a more diverse and complex set of industries – and thus provide more job opportunities to the different specialists. [iv]

Hausmann continues by noting:

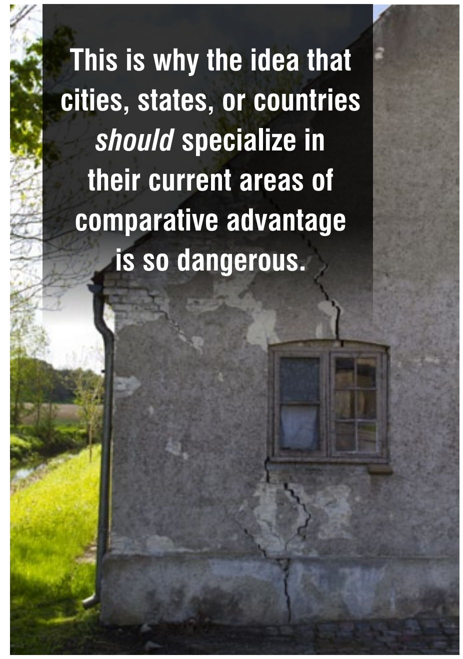
> In the process of development, cities, states, and countries do not specialize; they diversify. They evolve from supporting a few simple industries to sustaining an increasingly diverse set of more complex industries. Achieving this implies solving important coordination problems, because an industry that is new to a city will not find workers with industry experience or specialized suppliers. But policymakers can do a lot to solve these coordination problems . . . This is why the idea that cities, states, or countries *should* specialize in their current areas of comparative advantage is so dangerous. Focusing on the limited activities at which they currently excel would merely reduce the variety of capabilities – or "letters" – that they have. The challenge is not to pick a few winners among the existing industries, but rather to facilitate the emergence of *more* winners by broadening the business ecosystem and enabling it to nurture *new* activities.[v]

While the above discussion has underscored the importance of diversification as a development approach, those charged with managing Atlantic City's future economic development face an additional critical issue. Namely, the metropolitan area's failure to diversity over the past two decades has left it with a principal city (Atlantic City proper) that is plagued with very low family income, high poverty, and a dearth of college-educated workers. (Table 3, p. 6) To be clear, these issues are multi-faceted and are *not* solely the result of a lack of industrial diversification. But, the lack of diversification in the local economy has likely contributed to their entrenchment.

Table 3 shows four important socio-economic indicators for the principal cities of each of the 13 metropolitan areas included in the diversification analysis above. As shown, the City of Atlantic City ranks at the bottom across all four indicators. Over one-third of all families in the city (compared to an average of 18.5% in the other 12 areas) have incomes of less than $25,000 per year. Atlantic City's family poverty rate, at 29%, is more than double the average across the other metro areas. The city's median family income ($33,715) represents just 54% of the benchmark group's average. And, only 11% of its residents have a bachelor's degree compared to an average of 21.6% across the other principal cities shown. (Again, there is some evidence that suggests that this metric—an area population's educational attainment—may be the most important factor in driving metropolitan economic success.)

Combined, these characteristics have worked to repel significant *outside* private investment in the metropolitan area's primary urban core. Would-be start-ups, potential relocators, and existing businesses seeking to expand confront limited consumer and business-to-business demand owing to the local economy's low incomes, high poverty rate, and limited internal market. And, the lack of college-educated workers makes it difficult for employers to find skilled employees.

The new administration and development officials thus face a Gordian Knot—one that many metropolitan areas grapple with. Private investment is necessary to generate the higher-value added jobs that attract highly-skilled workers, whose salaries, in turn, tend to drive secondary business and job growth—the type of business and job growth that is essential for the creation of a broad middle class. But, robust private investment generally tends to flow into dynamic, high-income, fast-growing areas.



Despite these challenges, Atlantic City development efforts over the recent past have successfully transformed large swaths of the city. The city's street and pedestrian aesthetics, safety, and entertainment amenities have been significantly improved in a remarkably short period of time. As development efforts move forward over the coming years, the greatest challenge will be to connect these recent efforts to significant and sustained private sector job creation in the metropolitan area (especially in its urban core). Put otherwise, public-led investment must eventually translate into significant outside private investment. And, ideally, such investment and the jobs it creates will lie outside the leisure and hospitality industry—allowing the local economy to undertake the diversification that it needs to prosper in the decades to come.

The three metro areas that experienced the greatest economic success over the past two decades—Fayetteville, Boulder, and Lincoln in Table 2—provide clues as to the direction that diversification efforts in Atlantic City could aim for. First, all three of these metropolitan areas boast small but important manufacturing sectors. On average, manufacturing employment accounts 10% of employment in these three metropolitan areas compared to 1.6% in Atlantic City.

There is now a sizable literature that documents the varied economic benefits that accrue to *light* manufacturing as a development tool. While there is no formal definition of light industry, it generally relies more on

continued on page 6

labor (as opposed to machinery); produces finished products from partially processed materials; produces smaller products with higher value per unit weight; requires less raw materials, square footage, and power; and has a relatively small environmental impact. Moreover, such manufacturing jobs can often provide vital first-rung entry points into the economy for those with little formal education and/or work experience. (twenty six percent of the metropolitan area's population speaks a language other than English at home.) Such entry points are vitally important in light of the family income, poverty, and educational attainment levels discussed above.

Table 3: Principal Cities of Table 2's Metropolitan Areas

Prinicpal City	Families with Income < $24,999	Median Family Income	Family Poverty Rate	% Population (25 years old +) with Bachelor's Degree
Fayetteville, AR	17%	$63,645	12%	25%
Boulder, CO	9%	$101,989	7%	35%
Lincoln, NE	15%	$63,166	10%	23%
San Luis Obispo, CA	14%	$75,625	8%	31%
Green Bay, WI	19%	$51,324	13%	16%
Fort Smith, AR	23%	$45,680	20%	14%
Cedar Rapids, IA	11%	$68,567	7%	22%
Waco, TX	29%	$39,974	22%	15%
Lubbock, TX	20%	$55,816	15%	19%
Santa Cruz, CA	10%	$78,555	7%	28%
Topeka, KS	21%	$53,587	18%	17%
Champaign, IL	16%	$73,514	13%	25%
Atlantic City, NJ	**36%**	**$33,715**	**29%**	**11%**

Source: American Community Survey 3-Year Estimates (2010-2012)

The most recent data from the Census Bureau's County Business Patterns (2011) indicate that the metropolitan area had 105 manufacturing establishments—a good number of which are light manufacturers, e.g., food processors, etc. Efforts to aid the growth of the local economy's light manufacturing sector and expand its jobs base would constitute a low-cost, low-risk development strategy that could yield significant returns on tax-payer dollars. Each manufacturing job in Atlantic City had an average annual wage of $42,642, whereas each job in the accommodations and food services industry had an average annual wage of $28,183.

This annual wage differential ties directly to the "internal market" issue raised by Hausmann above. The multiplier effect of one additional local manufacturing job dwarfs that generated by one accommodations and food service job. Were Atlantic City to boast a manufacturing jobs base the size of the three aforementioned metro areas (which would translate into an additional 11,500 manufacturing jobs), the annual wage income generated would equal $489 million. The same number of jobs in the accommodations and food services industry would yield $323 million in additional wage income.

Atlantic City's economy also suffers from a dearth of professional and business services jobs, as these jobs account for just 7% of its employment base, compared to 15.8% for the three most successful metro areas. This broad employment sector includes, among others, jobs in: legal, accounting, engineering, surveying, marketing, environmental, advertising, and R&D services. As with manufacturing, these types of jobs tend to have high wages ($65,000). The lack of professional and business services jobs is both a symptom and a cause of Atlantic City's poor diversification as these types of jobs tend to proliferate in areas with diversified export bases. Finally, it should also be noted that in an age in which the IT and software industries are transforming virtually every sector of the economy in unimaginable ways, Atlantic City boasts a single business establishment engaged in software design and publishing (according to the most recent County Business Patterns data).

While modern literature in urban economics has deepened and elaborated upon the idea that industrial diversification is beneficial to cities, it was the preeminent urbanist, Jane Jacobs, who first articulated its central importance to urban economies. As Glaeser notes,

continued on page 7

More than forty years ago in *The Economy of Cities*, Jacobs commented that new ideas usually come from combining old ideas. Nighttime baseball combines baseball with electric lighting; graphic computer interfaces merge old-fashioned pictures with basic computing functions. Michael Bloomberg became a high-tech billionaire not in Silicon Valley but in New York, thanks to his firsthand knowledge of what technology a stock trader needed at his desk. To innovate, in Jacobs's view, you often need to borrow the insights of another occupation—and since diverse cities contain many occupations, they should encourage more leaps of insight. . . At its extreme, this view predicts that Silicon Valley will eventually resemble Detroit. In the short run, industrial concentration can lead to rapid leaps along a technological path. But progress along that path will eventually grow slower and yield diminishing returns, since an industrial monoculture will not encourage radically new discoveries.[vi]

The greater Atlantic City metropolitan area boasts many well-known assets (including the Stockton Aviation Research and Technology Park and Bader Field) that provide real opportunities for diversifying the local economy's industrial base. Recent efforts to transform the city's basic aesthetics, safety, and cultural environment are laudable. They should continue. But the upside to further expansion of basic consumer-driven industries—retail, food and accommodation, and arts and entertainment—which rely heavily on well-heeled locals and tourists is limited. In a world in which entertainment options are proliferating at a ever-quickening rate, the idea that Atlantic City can sustain itself primarily as an entertainment hub strains credulity. Finding ways to diversify the local economy should be among the top priorities of the new administration and development officials over the coming years.

ENDNOTES:

[i] Edward L. Glaeser, "Wall Street Isn't Enough" *City Journal*, Vol. 22, No. 2, Spring 2012

[ii] Ibid

[iii] Ricardo Hausmann, "The Specialization Myth" *Project Syndicate editorial*, December 30, 2013

[iv] Ibid

[v] Ibid

[vi] Glaeser

All analysis in this issue by:
Oliver D. Cooke, Ph.D.,
Associate Professor of Economics, School of Social and Behavioral Sciences
The Richard Stockton College of New Jersey

Please direct comments and questions to:
oliver.cooke@stockton.edu

STOCKTON
NEW JERSEY'S
DISTINCTIVE
Public College

www.stockton.edu/sobl