Lagging Regions in the U.S. are Thriving in the Post-Covid-19 Era: Nice but Why?

Batabyal, Amitrajeet

Rochester Institute of Technology

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Lagging Regions in the U.S. are Thriving in the Post-Covid-19 Era: Nice but Why? [1]

AMITRAJEET A. BATABYAL [2]

Abstract

New empirical research shows that the so-called lagging regions in the U.S. have prospered in the post-Covid-19 era. Drawing on this research, we describe the sense in which these lagging regions have prospered. Next, we discuss how these same regions compare with the non-lagging regions in the U.S. Finally, we offer a preliminary explanation for this documented prosperity.

Keywords: Business Growth, County, Federal Assistance, Job Creation, Lagging Region

JEL Codes: R11, R23, R58

1. Setting the Scene

The systematic study of what regional scientists today call leading and lagging regions has a distinguished pedigree. In the early 1800s, von Thunen's (1826) prescient work on agricultural land use provided insights into spatial economic patterns and regional disparities. Some decades later, Weber (1909) laid the foundations for comprehending how industries locate based on factors like transportation costs, labor availability, and market access, thereby influencing regional development. Christaller's (1933) central place theory explored the spatial arrangement of settlements and economic activities, contributing to our understanding of urban hierarchies and regional economic disparities.

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2 Departments of Economics and Sustainability, Rochester Institute of Technology, 92 Lomb Memorial Drive, Rochester, NY 14623-5604, USA. E-mail: aabgsh@rit.edu

Lewis's (1954) seminal work in development economics explored dual-economy models and the structural transformation of economies, discussing implications for regional disparities. Finally, Krugman's (1991) research on economic geography and agglomeration effects helped explain why certain regions lead in economic growth while others lag, emphasizing the role of economies of scale and clustering. These studies represent salient milestones in our contemporary understanding of regional disparities and economic development, and they have collectively contributed theoretical frameworks and empirical insights that continue to inform our study of leading and lagging regions.

2. The Contemporary Setting

Focusing now on the United States (U.S.), regional disparities in this nation reflect significant differences in economic development and quality of life across various parts of the nation (Suarez-Villa and Cuadrado Roura 1993). For example, the wealthier regions such as Silicon Valley in California and the Greater New York City area benefit from high-tech industries and financial services, which provide substantial job opportunities and high wages (Engel 2015). In contrast, many rural areas, particularly in Appalachia and in parts of the Midwest, have experienced economic stagnation due to the decline of traditional industries like coal mining and manufacturing. This has led to a divergence in infrastructure quality, educational opportunities, and access to healthcare, exacerbating the divide between prosperous urban centers and struggling rural regions (Moss *et al.* 2023).

Economic disparities in the U.S. are also deeply intertwined with income inequality and the distribution of resources (Manduca 2019). High-income individuals and families, often concentrated in affluent urban areas, enjoy greater access to quality education, healthcare, and investment opportunities, while lower-income households face barriers to upward mobility. This inequality is further amplified by differences in state and local tax policies, which can impact the funding of public services and infrastructure (Bellofatto and

Besfamille 2021). The resulting economic imbalance contributes to a cycle where wealth and opportunity are increasingly concentrated among the already affluent, perpetuating disparities and hindering efforts to achieve greater economic equity nationwide (Yamamoto 2008).

The regional economic disparities in the U.S. mentioned above have given rise to distinct sets of leading and lagging regions, each with its own characteristics. As noted by Batabyal and Nijkamp (2014) and Batabyal and Beladi (2015), leading regions typically encompass metropolitan areas like New York, San Francisco, and Boston, marked by robust economies driven by finance, technology, and innovation. These regions attract top talent, and they also create a "magnet effect" for businesses and individuals seeking economic prosperity.

In contrast, Allen-Smith *et al.* (2000) point out that lagging regions often include rural areas, small towns, and some former industrial hubs in the Midwest and in Appalachia. These regions face declining industries, lower educational attainment, and limited access to resources and capital. Therefore, they experience slower economic growth, higher unemployment rates, and population outflows to more prosperous regions.

A key question confronting policy makers in the U.S. concerns what they might do to uplift lagging regions. Research on this question has led to a vigorous debate about whether regional policies ought to be people-based or place-based (Partridge and Rickman 2008; Neumark and Simpson 2015; Bartik 2020). People-based policies concentrate on individual needs and welfare, aiming to improve education, healthcare, and social support directly for citizens. Place-based policies stress geographical areas, aiming to stimulate economic development, infrastructure, and environmental sustainability in specific regions.

3. Surprising Findings of New Research

Recently, this "people vs. place" debate in regional policymaking in the U.S. has taken a back seat because of a rather unexpected but positive development. Interesting new research by Benzow (2024) shows that many lagging regions (meaning lagging counties) in the U.S. have just experienced their strongest three-year period of job creation and business growth since 2000.[3] The purpose of our paper is to discuss the key findings in this research and the most reasonable explanation for these findings.

3.1. Job creation

For this discussion, a lagging county is one in which the population and the median household income growth rates between 2000 and 2016 were less than half that experienced by the nation as a whole. Now, let us consider the metric of job creation. Job creation in the lagging counties compared to all counties in the U.S. is shown in Table 1. If we compare the performance

Table 1 about here

of the lagging counties with that of all other counties, we see that the lagging counties have done far worse in terms of job creation. Specifically, job creation in the lagging counties has been lethargic, averaging only 0.4 percent annually from 2016 to 2019. Moreover, these counties lost 1.9 million jobs during the so-called Great Recession[4] and 1.7 million jobs during the Covid-19 pandemic.

But the recovery after Covid-19 has been brisk. Jointly, the lagging counties have regained almost all the jobs lost during the pandemic. What is particularly noteworthy is

3 Benzow (2024) and some other researchers such as Ulrich-Schad and Duncan (2018) use the term "left-behind" to refer to what we are calling "lagging." In using this latter term, it is understood that the word "region" generally refers to a sub-national geographic entity which may be a county, a province, or a state. In the case of Benzow (2024), the sub-national geographic entity and the unit of analysis are counties in the U.S.

4 This lasted from December 2007 to June 2009. Go to https://www.federalreservehistory.org/essays/great-recession-of-200709#:~:text=Lasting%20from%20December%202007%20to,longest%20since%20World%20War%20II.&text=The%20Great%20Recession%20began%20in,notably%20severe%20in%20several%20respects for more details. Accessed on 18 July 2024.

that individually, employment now is greater than the pre-pandemic levels in nearly one-half (41 percent) of all the lagging counties. Further, in the three years after 2020, annual job creation in the lagging counties has been five times faster than in the three years before it.

3.2. Business growth

Next, let us focus on the metric of business or establishment growth. Business growth in the lagging counties compared to all counties in the U.S. is shown in Table 2. Once again,

Table 2 about here

if we compare the performance of the lagging counties with that of all other counties, we see that the lagging counties have done a lot worse in terms of business growth. Even so, what is remarkable about these novel research findings is that compared to job creation, lagging counties appear to have done even better using this metric, since the pandemic. To put this in context, note that throughout the 2000s and 2010s, the number of businesses in lagging counties showed little or no growth.

Matters have been rather different in the post-pandemic era. Specifically, since 2020, new business openings in the lagging counties under study have quickened to rates almost on par with all other counties. This turnaround represents a dramatic reversal from the previous pattern of disinvestment and a lack of establishment growth in the lagging counties of the U.S. It is worth emphasizing that the striking rise in new businesses along with sturdy employment growth in the lagging counties denotes their best three-year period of job creation and business growth since 2000.

In addition to laudable developments using the metrics of job creation and business growth, we see positive outcomes in population trends and in median household incomes in the lagging counties of the U.S. That said, two points deserve some emphasis. First, the economic recovery that we are talking about appears to be led primarily by rural, lagging counties. Second, some of the highest concentrations of lagging counties are in political swing states such as Michigan and Wisconsin that comprise the U.S. heartland.

3.3. Problems remain

Despite the positive news concerning employment creation and business growth, America's lagging counties continue to suffer from many problems. Two problems are worth highlighting. First, these lagging counties continue to lose population although the rate of depopulation appears to be slowing. Second, there continues to be a big gap between the average median household income in lagging counties and the nation. For instance, as late as 2022, this gap had grown to $22,000 from $18,000 in 2016.

These difficulties notwithstanding, we should not lose sight of the fact that in recent times, across several salient metrics, lagging counties in the U.S. have rebounded in a significant manner. This raises an important question: why are lagging counties flourishing now? Let us consider the most reasonable answer.

3.4. Why now?

At present, there are no comprehensive answers to this question. The single best answer is based on a recognition of two facts. First, the Covid-19 pandemic speedily but permanently changed how many Americans live and work. Second, during the same time, the U.S. federal government was showering Americans with trillions of dollars in pandemic assistance.

Decker and Halitwanger (2023) contend that the above two facts opened doors for entrepreneurs who are frequently the best able to respond to unexpected business opportunities. Interestingly, these researchers demonstrate the presence of a surge in Americans starting new businesses during and after the pandemic. These businesses range from restaurants and dry cleaners to high-tech start-ups. So, the basic argument here is that this massive increase in new business activity also led to substantial employment creation from these businesses and this is what the data reported by Benzow (2024) show.

The Decker and Haltiwanger (2023) explanation about why America's lagging counties have prospered as far as employment creation and business growth are concerned is certainly plausible. Nevertheless, we know from the work of Akcigit *et al.* (2023) that start-up activity and the associated employment creation, as a share of the economy, have fallen since the 1980s. Therefore, we do not know yet whether the employment and business growth gains described by Benzow (2024) are ephemeral or truly durable.

4. Conclusions

We discussed novel empirical research chronicling what the *New York Times* reporter Jim Tankersley (2024) has called "a remarkable comeback" of America's lagging counties. Although there certainly has been a comeback, without knowing whether this comeback is transitory or long-lasting, it is premature to call it "remarkable." What is needed, as more data become available, is to meticulously analyze whether a durable reversal of certain pre-pandemic trends in, for example, business creation is, in fact, occurring.

More generally, revitalizing lagging regions in the U.S. requires a comprehensive and multi-dimensional approach that addresses economic, infrastructural, and social challenges. Central to this effort is fostering economic diversification by supporting small businesses, attracting new industries, and enhancing workforce skills through targeted education and training. In this regard, strengthening community institutions and improving public services can enhance the quality of life and retain residents. Addressing systemic issues and fostering regional collaboration ensures that revitalization efforts are inclusive and sustainable, tailored to the unique needs and strengths of each community.

Table 1

Mean employment growth, year-on-year, lagging counties and all other counties, 2010-2023		
Year	Lagging counties	All other counties
2010	-0.9%	-0.6%
2011	0.7%	1.3%
2012	0.8%	2.0%
2013	0.4%	2.0%
2014	0.9%	2.2%
2015	1.1%	2.3%
2016	0.7%	1.9%
2017	0.3%	1.8%
2018	0.6%	1.8%
2019	0.3%	1.6%
2020	-6.7%	-6.1%
2021	1.8%	3.2%
2022	2.5%	4.1%
2023	1.2%	2.0%

Source: Benzow (2024)

Table 2

Mean business growth, year-on-year, lagging counties and all other counties, 2010-2023		
Year	Lagging counties	All other counties
2010	-0.6%	0.0%
2011	-0.3%	0.8%
2012	0.2%	0.4%
2013	0.2%	1.0%
2014	0.4%	1.6%
2015	0.0%	1.9%
2016	0.4%	2.0%
2017	-0.8%	1.6%
2018	0.5%	1.9%
2019	1.4%	2.2%
2020	0.6%	2.3%
2021	1.5%	3.2%
2022	2.9%	4.4%
2023	2.5%	2.9%

Source: Benzow (2024)

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