

Impact of Agglomerations on the Economy

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Abstract

Rural policymakers often use targeting-based economic development strategies to obtain and enhance the benefits of industry agglomeration. Although many policymakers and researchers believe they exist, the benefits of industry agglomeration are difficult to capture and measure directly. Thus, past studies have used a variety of indirect indicators to examine the effects of industry agglomeration.

This chapter reviews the current thinking on agglomerations, with a focus on rural areas, and examines the effects of industry agglomeration on several measures of local economic vitality. A key objective of the chapter is to identify, using both descriptive and regression-based analysis, the industries in which agglomeration seems to matter. This inquiry is guided by the idea that the selected community- and business-level economic indicators (e.g., firm location, inter-firm networking) may capture different aspects of industry agglomeration.

Empirical findings suggest that firm location, employment growth and earnings are all, to some degree, positively associated with industry agglomeration. We find that agglomeration appears to matter, according to at least one of these indicators, in 35 of 58 2-digit SIC industries included in the analysis.

Results suggest that the selected indicators of growth and development may capture different aspects of industry agglomeration. Furthermore, the way in which agglomeration impacts growth and development may vary systematically by industry. This implies that there is no one-size-fits-all approach to promoting industry agglomeration, and researchers and policymakers should use multiple indicators to evaluate the impacts of targeting-based strategies.