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# The Growing Importance of Retirement Income in Timber-Dependent Areas

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## **Abstract**

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This paper examines five "timber-dependent" counties in the Pacific Northwest to document: (1) net migration rates of older (and presumably retired) people into these counties, and (2) changes in the economic base of each county during the 1970's. We identify a "retirement" sector and argue that it has become a major economic sector in three of our study counties. This development has at least two implications for natural resource management in such counties. First, economic diversification may lessen the effects of projected declines in timber harvests. Second, local concern for the management of amenity-related resources may grow.

Keywords: Economic importance (forests), economic impact, income effects, retirement income.

## **Research Summary**

This paper examines socioeconomic changes related to selective migration of retirees to nonmetropolitan, natural resource-based counties in the United States. A retirement sector is defined to include transfer payments to retirees. The growth of this sector and net migration rates of the 65-year-old and older age group are examined in three counties in Oregon and two in Washington. Historically, these counties have been dependent on the timber industry. During the 1970's, retirement became a dominant economic sector in three of the counties. This change has at least two implications for those involved in land use decisionmaking in these counties. First, economic diversification may lessen the effects of projected declines in timber harvests. Second, local concern for the management of amenity-related resources may grow. Land use planners and resource managers in similar counties throughout the country should become aware of changes in the economic and political environments in which they work.

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## Introduction

Rural communities throughout the United States have historically been dependent on natural resource-based extractive industries. The timber industry is an important economic sector in rural communities in many regions of the country. Economic growth and development in these communities have been tied to the performance of the wood products industry. Demographic and economic changes observed during the 1970's, however, may have important implications for those concerned with natural resource management and planning in such communities.

Until the 1970's nonmetropolitan areas of the United States steadily lost population to metropolitan areas. But during the early 1970's the direction of net migration changed. The net movement from metropolitan to nonmetropolitan areas during the 1970's has been referred to as reverse migration (Beale 1975). Many communities in the forested regions of this country have experienced rapid population growth because of reverse migration. A second, and perhaps related, phenomenon involves the growing importance of transfer payments (income received by individuals for which current services are not rendered) in nonmetropolitan areas. Transfer payments include unemployment compensation, welfare payments and benefits, Social Security payments, veterans' and military retirement benefits, as well as payments made through private pension plans. Transfer payments do not include property income, which results from dividends, interest, and rental payments. Net transfer payments (that is, total payments minus personal contributions to social insurance programs) was the fastest growing source of personal income in the nonmetropolitan counties of the United States from 1968 to 1975 (Bluestone 1979). This growth was particularly pronounced in the South and the West.

Our concern is with the relationship between reverse migration and the growth of transfer payment income in nonmetropolitan counties. Many of the urban-to-rural migrants are retired people (Beale 1975). Several studies have demonstrated that migration of retired people to nonmetropolitan communities as early as the 1960's and through the 1970's substantially altered the demographic structure of these areas. Graff and Wiseman (1978) identified emerging retirement areas in 1970 in the Lake States, the Pacific Northwest, and the Ozarks. Fuguitt and Tordella (1980) examined net migration of people 65 years old and older for the period 1970 to 1975. They found high levels of net migration into counties near the Great Lakes, the Ozarks, and the Northwest and Northeast coasts. Researchers studying the net movement of older people from metropolitan to nonmetropolitan counties consistently note the association of this phenomenon with environmental amenities. Their research indicates that retirees are migrating to areas rich in outdoor recreational opportunities and scenic values (Beale 1975, Fuguitt and Tordella 1980, Graff and Wiseman 1978).

Our research indicates that retired migrants are also changing the economies of rural communities. Retired migrants receiving transfer payments and property income (dividends, interest, and rent) inject income into many rural economies. This income may compensate for declines in other sectors or it may stimulate growth in the local economy. Thus, in many areas, retirement income may be viewed as an important new sector of the rural economy (Hirschl and Summers 1982).



For the last 6 years, the wood products industry in the Pacific Northwest has suffered from low levels of demand, and projections indicate supply problems in the future. Total log production is expected to decline until the end of the century because of the exhaustion of privately owned old-growth stands (Beuter and others 1976, Gedney and others 1975). Consequently, future growth and stability in timber-dependent communities will depend on new sources of income (Schallau and Polzin 1983). For some of these communities, the growth of a retirement sector could be important.

Our objectives are to document the demographic and economic changes we have outlined and to examine some implications of these changes for natural resource management and land use. Our data are derived from five counties in the Pacific Northwest; however, we believe that our findings may apply to forested areas in the Southwest, the Lake States, and the Southeast.

## **Economic Base of Timber-Dependent Counties**

Our analysis concerns transfer payments received by people residing in five counties in the Douglas-fir region of western Oregon and Washington. We have used the economic base concept to assess the importance of this source of income. Most economic growth and change in small regions may be attributed to the performance of export industries. Income derived from exports allows residents to import goods and services and to purchase locally produced goods and services. Use of the economic base concept requires that a regional economy be divided into two kinds of sectors: (1) basic, which is composed of enterprises that export goods and services outside the region; and (2) nonbasic (or residentiary) enterprises, which produce for local markets. The economic base concept asserts that the level of economic activity in nonbasic sectors is determined by income and employment in basic sectors (Andrews 1953). The performance of basic sectors reflects external demand for goods and services produced by a region. Thus, economic activity in basic sectors is considered independent of local economic conditions, whereas the performance of residentiary sectors depends on the income generated by basic sectors. Traditionally, manufacturing industries have been considered the dominant basic sectors. We shall argue that retirement income may legitimately be considered a part of the economic base in our study counties.

Two factors guided the selection of study areas. First, we were interested in rural counties that had strong ties to the forest products industry prior to the 1970's. As can be seen in table 1, nearly one-third or more of 1969 basic earnings in each of the counties was related to forest products.

Second, we were interested in comparing counties that had experienced substantial inmigration of retirees during the 1970's with counties that had not. Table 2 indicates that net migration of the 65 years and older age group is considerably more important in Jackson, Lincoln, and Jefferson Counties than in Coos and Lewis Counties. Net inmigration at all ages appears more important in the former three counties. In these counties net inmigration accounted for more than 80 percent of population growth during the decade, and net migration of the 65 years and older age group accounted for more than 10 percent of total net migration. Thus, inmigration of older people was an important component of population growth in Jackson, Lincoln, and Jefferson Counties. In Coos and Lewis Counties, both total net migration and net migration of the older age group were relatively low. In Coos County net inmigration accounted for only 33 percent of population growth, whereas in Lewis County it was 65 percent.



**Table 1—The importance of the forest products industry in 5 Northwest counties**

| State and county   | Percent of basic 1969 earnings |
|--------------------|--------------------------------|
| <b>Oregon:</b>     |                                |
| Coos               | 55.9                           |
| Jackson            | 34.4                           |
| Lincoln            | 32.6                           |
| <b>Washington:</b> |                                |
| Jefferson          | 44.3                           |
| Lewis              | 36.3                           |

**Table 2—Demographic character of 5 Northwest counties**

| State and county    | Population, 1970 | Population change, 1970-80 | Net migration, 1970-80 |                                 |  |
|---------------------|------------------|----------------------------|------------------------|---------------------------------|--|
|                     |                  |                            | All migrants           | Migrants 65 years old and older | Migrants/1,000 previous residents 65 years old and older |
| ----- Persons ----- |                  |                            |                        |                                 |  |
| ----- Percent ----- |                  |                            |                        |                                 |  |
| <b>Oregon:</b>      |                  |                            |                        |                                 |  |
| Coos                | 56,515           | 7,532                      | 3,132                  | 620                             | 66.4   |
| Jackson             | 94,533           | 37,923                     | 32,024                 | 3,121                           | 164.7  |
| Lincoln             | 25,755           | 9,509                      | 8,897                  | 917                             | 135.4  |
| State of Oregon     | 2,091,533        | 541,623                    | 394,913                | 22,571                          | 61.4   |
| <b>Washington:</b>  |                  |                            |                        |                                 |  |
| Jefferson           | 10,661           | 5,304                      | 4,955                  | 661                             | 246.1  |
| Lewis               | 45,476           | 9,812                      | 6,684                  | 303                             | 32.1   |
| State of Washington | 3,413,250        | 716,913                    | 469,728                | 16,463                          | 30.8   |

Sources: Center for Population Research and Census, unpublished estimates, Portland State University, Portland, OR; U.S. Department of Commerce, Bureau of the Census (1973a, 1973b, 1983a, 1983b); State of Washington, Office of Financial Management (1983).

## Estimating the Economic Base

The first step in our analysis was to bifurcate each county economy into basic and residentiary sectors. Six sectors that potentially produce for export markets were identified. The sectors are retirement, wood products, other manufacturing, farming, service and trade, and Federal and State government. For each of these sectors, we estimated basic personal income for each year from 1969 through 1978. Our primary source of data was the Bureau of Economic Analysis "Local Area Personal Income" (unpublished) series. All personal income data were deflated by the consumer price index (1967 = 100).

Transfer payments were divided into a retirement component (Social Security payments, military pensions, and other government retirement payments) and an "other" component (for example, welfare, unemployment). We classified the retirement component as basic and the other component as residentiary. There is some disagreement about whether transfer payments may be legitimately viewed as basic income.<sup>1/</sup> The level of income in the retirement component of transfer payments, however, is certainly independent of the performance of the local economy. The magnitude of the retirement component in a specific county depends on two variables. The first is the number of retirees who choose to reside in the county. The second variable is the level of funding for government pension programs. Neither variable is directly dependent on the performance of the county economy. Rather, these two variables depend on decisions of individual retirees and on national politics.

Retirees who are affluent enough to migrate often receive income in addition to pensions. Such income includes rents from property and dividends and interest on investments. Thus, an influx of retirees to a rural community is likely to be associated with an increase in property income. Although not all recipients of property income are retired, growth in this type of income, in part, reflects the growing importance of the retirement community. Unfortunately, we know of no indirect method that will allow us to allocate property income among age groups in a convincing manner. Therefore, we have omitted property income from the economic base analysis (reported in table 3). This approach leads to a very conservative estimate of the magnitude of the retirement sector.

The manufacturing and farming sectors were classified as basic. These sectors are traditionally assumed to produce for export markets. Manufacturing was divided into wood products and other manufacturing. The wood products sector includes lumber and wood products, and paper and allied products.

Five trade and service sectors—transportation and public utilities; finance, insurance, and real estate; wholesale trade; retail trade; and services—were bifurcated by use of a location quotient approach.<sup>2/</sup> After basic personal income was estimated for each sector, the amounts were summed. Results are reported for the aggregate trade and service sector.

Finally, income received by employees of Federal and State government agencies was classified as basic. Such income is generally independent of the performance of the local economy. Personal income received by county and municipal government employees was designated nonbasic.

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<sup>1/</sup> Park (1965) was one of the first analysts to include transfer payments in the economic base. He argued that the level of transfer payments would have "significant bearings upon local employment." See Hirschl and Summers (1982) for an analysis of the growing importance of transfer payments in the economic bases of rural communities.

<sup>2/</sup> The location quotient technique compares the percentage of total county personal income in one sector with the same percentage for a benchmark region (in our case, Oregon and Washington). If the percentage for the county is greater than that for the benchmark region, the difference is assumed to result from production in excess of local demand. This excess is then classified as basic. See Richardson (1973) for a discussion of location quotients as well as other methods of regional economic analysis.

**Table 3—Annual growth rate<sup>1</sup> of the export base components (earnings basis) of 5 timber-dependent counties in Oregon and Washington, 1969-78<sup>2</sup>**

| State and county | Retirement | Wood products | Trade and service | Other manufacturing | Federal and State government | Farm  | Total |      |
|------------------|------------|---------------|-------------------|---------------------|------------------------------|-------|-------|------|
|                  |            |               |                   |                     |                              |       | A     | B    |
| <i>Percent</i>   |            |               |                   |                     |                              |       |       |      |
| Oregon:          |            |               |                   |                     |                              |       |       |      |
| Coos             | 8.78       | 1.19          | 6.45              | 1.86                | 3.81                         | 1.05  | 3.43  | 2.12 |
| Jackson          | 8.61       | 3.46          | 1.74              | 6.08                | 5.77                         | -5.26 | 4.68  | 3.53 |
| Lincoln          | 8.36       | 4.16          | 3.36              | 6.34                | 4.40                         | 2.43  | 5.76  | 4.30 |
| Washington:      |            |               |                   |                     |                              |       |       |      |
| Jefferson        | 10.56      | 1.43          | 12.30             | 17.07               | 5.84                         | 6.59  | 6.86  | 4.87 |
| Lewis            | 7.70       | 5.56          | 11.42             | 3.37                | 3.34                         | 5.32  | 5.54  | 5.10 |

<sup>1</sup>All calculations are based on constant dollars (1967=100).

<sup>2</sup>The rate of growth was derived from the exponential curve fit of the form:

$$Y_i = ae^{bx_n}$$

where:

- $Y_i$  = export base earnings for sector i,
- $a$  = Y intercept,
- $e$  = natural log,
- $b$  = annual rate of growth, and
- $x_n$  = year n (n = 1, 2, ..., 10).

<sup>3</sup>"A" includes the retirement sector; "B" does not.

## Retirement Income More Important

With the exception of Lewis County, the wood products industry declined in relative importance between 1969 and 1978 (table 4). Wood products continues to dominate the economies of both Coos and Lewis Counties. But the relative importance of timber-dependent earnings dropped significantly in the Coos County area. (Although table 3 reveals absolute increases for real income in the wood products sector, other sectors grew faster in all five counties.)

**Table 4—Change<sup>1</sup> in timber-dependent income (A) and retirement income (B) of 5 Northwest counties, 1969-78**

| Year                                       | Oregon |      |         |      |         |      | Washington |      |       |      |
|--|--------|------|---------|------|---------|------|------------|------|-------|------|
|  | Coos   |      | Jackson |      | Lincoln |      | Jefferson  |      | Lewis |      |
|  | A      | B    | A       | B    | A       | B    | A          | B    | A     | B    |
| <i>Percent of all export base earnings</i> |        |      |         |      |         |      |            |      |       |      |
| 1969                                       | 55.9   | 14.9 | 34.4    | 23.1 | 32.6    | 23.2 | 44.3       | 22.0 | 36.3  | 20.9 |
| 1970                                       | 54.4   | 16.4 | 32.7    | 25.7 | 28.8    | 26.1 | 42.8       | 24.7 | 38.0  | 24.2 |
| 1971                                       | 52.1   | 18.4 | 32.2    | 25.2 | 28.5    | 24.6 | 39.0       | 27.3 | 38.9  | 25.6 |
| 1972                                       | 49.6   | 17.8 | 34.2    | 24.7 | 27.5    | 25.0 | 40.7       | 27.4 | 39.8  | 23.8 |
| 1973                                       | 47.1   | 19.8 | 32.4    | 26.2 | 22.2    | 29.4 | 39.5       | 27.9 | 37.0  | 23.1 |
| 1974                                       | 47.7   | 21.6 | 30.3    | 29.0 | 28.5    | 27.3 | 37.6       | 30.3 | 34.9  | 25.5 |
| 1975                                       | 44.9   | 23.8 | 28.1    | 32.2 | 26.5    | 29.4 | 32.5       | 30.7 | 36.1  | 27.3 |
| 1976                                       | 46.1   | 23.8 | 31.9    | 32.1 | 26.1    | 29.9 | 33.0       | 29.4 | 38.5  | 26.5 |
| 1977                                       | 48.1   | 23.2 | 33.2    | 32.3 | 28.3    | 27.9 | 32.0       | 30.1 | 38.7  | 26.7 |
| 1978                                       | 45.8   | 22.5 | 30.1    | 30.0 | 25.9    | 29.6 | 25.4       | 32.3 | 37.2  | 26.1 |

<sup>1</sup>Derived from constant dollars (1967=100).



In two of the counties—Lincoln and Jefferson—the wood products industry essentially reversed roles with the retirement sector between 1969 and 1978. That is, the timber industry was the most important component of the economic base in 1969; in 1978 the retirement sector was the most important. In Jackson County, the retirement and timber sectors were equally important in 1978. The relative importance of retirement income changed little in Lewis County. But even in Coos County, where the retirement sector is still less important than in the other counties, the change was quite significant.

A comparison of the real annual growth rate of the economic base components is shown in table 3. In the three Oregon counties, the retirement sector grew faster than any of the other sectors. Furthermore, growth of the wood products industry in these counties was below the average for all economic base sectors. The retirement sector grew faster in Jefferson County than in any other county. But in Jefferson County there were other sectors that grew faster. The retirement sector exhibited the least growth in Lewis County.

The timber industry in two of the Oregon counties—Coos and Jackson—is particularly vulnerable to a future decline in timber production resulting from the exhaustion of privately owned old-growth timber. But during the 1970's, the above average growth of the retirement component of the economic base in both these areas helped to diversify their respective economies. Conceivably, therefore, continued growth of retirement income could compensate for any loss of income resulting from the decline of the timber industry.

## Forest Management Policy and Socioeconomic Change

In addition to influencing the amount of residentiary activity in a region, the basic sectors will also affect the structure of residentiary activity (North 1955). Local industries that produce inputs for the exporting industries may become established and grow within a region. In a rural community that depends on the export of timber for much of its income and employment, we would expect to find several stores that sell chainsaws, automobile dealers that specialize in four-wheel-drive vehicles, as well as other retail outlets selling equipment used by loggers. For example, the sale and service of logging equipment is very prevalent in western Oregon but is nonexistent in the Corn Belt. Similarly, health care facilities for the elderly would be more important in areas with a larger than average retirement sector (Hirschl and Summers 1982).<sup>3/</sup>

The economic base of a community or region also contributes to its social and political development (North 1955). The vitality of basic sectors is very important to the residents of a community or region because a wage earner's economic future depends either directly or indirectly on the performance of basic sectors. Consequently, local residents will generally find it to their collective advantage to support political positions and movements that favor basic industries in order to strengthen the local economy's interregional competitiveness.

<sup>3/</sup> The transformation of a local economy from one based on resource extraction and processing to one that is dominated by retirement and tourism will affect the kinds of employment available and the levels of wages in a community. Though these particular changes have not been a central focus of our research, they are important and deserve examination. Results of this kind of study would be useful to local officials involved in land use and economic development planning.



That income sources of retirees are generally not tied to a geographic location has important implications for the social and political inclinations of the residents of timber-dependent communities. Retirees may not be as sympathetic to the needs of local industry as the resident labor force is. We have documented instances of inmigration contributing to an increased number of older and retired people (table 2). Although most older citizens do not migrate at retirement, an increasing number have the financial resources to do so—in part because of increasing transfer payments. For those who do migrate, expectations about the quality of life at the destination are important (Cebula 1974). Evidence gathered by demographers indicates that retirees have migrated selectively to areas with recreational opportunities and scenery provided by nearby forest and water resources. Thus, if we assume that retirement-induced economic growth depends at least in part on amenity-related natural resources, then the management of these resources will hold more importance for many residents of rural counties.

Economic diversification associated with the growth of the retirement community could result in increased sensitivity regarding the management and use of amenity-related natural resources. This sensitivity is likely to be expressed in the political arena and thus will affect the work situation for both public and private resource management and land use planning agencies. Adelman (1980) discusses the political activities undertaken by retirees who have migrated to Jefferson County, Washington. She observes that these newcomers are very active in community affairs, that they are involved in land use and conservation politics, and that they have the organizational skills necessary to make their involvement effective. They have expressed opposition to new development as well as to what they perceive to be “overly timber-oriented management of the federal lands” (Adelman 1980, p. 58).

Examples of active local opposition to resource management activities by recent in-migrants may be found throughout the West. In the late 1970's and early 1980's a group of residents in Roslyn, Washington, effectively halted Burlington Northern plans to log company-owned land in the community's watershed. This effort was led by recent migrants to Roslyn, among them retirees. In addition to having an interest in how land and natural resources are managed, many retired people have the time and resources to pursue such interests politically.

Economic diversification has additional implications for the management of Federal forest land. Economic stability has been one of the major objectives of public forest land management in the West (Schallau 1974); however, the relationship between timber harvest levels and the stability of employment and income may be changing. The economic bases of many communities are no longer as reliant on timber as they once were. Consequently, these diversifying economies will respond differently to fluctuations in timber harvests than more timber-dependent communities do. This would be the case if losses in the timber sector were offset by the growth of the retirement sector. Thus, in estimating direct and indirect socioeconomic responses to alternative harvest levels, public forest managers should carefully reexamine traditional assumptions regarding community stability and timber dependence. In some areas, timber dependence may not be as great as conventional wisdom might lead us to expect.

The emergence of the retirement sector could be important for resource managers and land use planners in some rural communities. This growing component of the economic base could contribute to economic stability by helping to compensate for the expected loss of timber-dependent income. Furthermore, the growing retirement community could heighten competition for land and resources; however, an alternative scenario may be envisioned. Future efforts to resolve resource conflicts may not be as acrimonious as in the past. Healy (1983) predicts that the 1980's "might best be described as the decade of compatibility and context," and a time when land use planning, "especially at the local level, will emphasize negotiation and partnership, rather than regulation and unilateral government action." In some rural counties, political involvement by the retirement community could play a role in determining whether industry and environmentalists can find common ground.

## Conclusions

We have documented high levels of immigration of older (and presumably retired) people into three of the five rural counties analyzed in Oregon and Washington. Demographic studies indicate that this is an important phenomenon in rural areas in the Southwest, the Lake States, and the Southeast (Beale 1975, Fuguitt and Tordella 1980). We have also documented the emergence and growth of a new sector in these rural economies. Personal income received by retirees in the form of transfer payments constitutes an increasingly dominant economic sector in three out of five of our study counties.<sup>4/</sup>

Substantial immigration of retirees and associated diversification of rural economies could have important implications for resource management. The growth of the retirement sector could compensate for future declines in the wood products sector. The recipients of this new source of income may mobilize to become a more dominant political voice in many rural communities in the Pacific Northwest and elsewhere. It is not apparent whether this new voice will heighten or reduce tensions between environmentalists and the timber industry. In any event, resource managers and land use planners will need to become more responsive to diverse local concerns in the management of amenity-related natural resources and more skillful in resolving local conflict over resource allocation.

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<sup>4/</sup> An analysis that included property income received by retirees could demonstrate that the retirement sector is even more important than our results indicate.

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