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Discussion: Economic Sustainability of Rural Areas

Douglas H. Constance

The three articles in this invited paper session examine value-added strategies related to agriculture and food at the state and federal level designed to enhance rural development. Two of the papers dealt with the GO TEXAN program and the other with organic agriculture. All three papers were well written and interesting, but all three also shed light on the problem of using classical economic theory to interpret differentiated agriculture and food products as opposed to undifferentiated commodities.

Key Words: food, organic, rural development, value added

JEL Classifications: Q18, Q56

In recent years, state-level branding programs to enhance local sales of agriculture and food products have become the norm as states compete to try to keep more dollars in state and thereby increase the multiplier effect and potentially support rural economic development. Similarly, the creation of a national standard in 2002 for certified organic agricultural products provided another possible stimulus for rural producers to capture a premium for their value-added products and thereby enhance rural quality of life and development. As a rural sociologist with a long history of concern and support for rural economic development, I am happy to see agricultural economists increase their attention to these issues, although it is not without problems as they turn their attention to “differentiated” products as opposed to the traditional focus on “undifferentiated” commodities that better fit classical theories of economics and comparative advantage. Indeed, such government programs by definition distort the markets for agriculture

and food products through a system of incentives and subsidies for local/regional production. In doing so, they violate the assumptions of comparative advantage (Smith, 1776; Ricardo, 1817) and enter into the more nuanced area of competitive advantage as advanced by Porter (1990).

Two of the articles (Murova and Hanagriff, 2011; Xu, Malaga, and Martinez-Mejia, 2011) from this invited paper session investigate the case of the GO TEXAN program as a tool to support rural development. The first article by Murova and Hanagriff (2011) focuses on the GO TEXAN Hometown STARS (Supporting Tourism and Rural Success) Program. The state of Texas provides funds through this program to help advertise community tourism events. The purpose of the article is to improve the use and efficiency of the program. The authors do a good job of developing a detailed literature review of the different methodological approaches that have been used to study such phenomena. The article presents information from two sets of data related to the program: surveys filled out by community members (most often Chamber of Commerce representatives) that summarized the attendance and projected revenues associated with the events and a visitors’

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survey filled out by attendees of the event that document their expenditures and other travel information. Although the methods and results related to the visitors' survey appear to be reliable and valid, those related to the community surveys are suspect and therefore probably severely limits its usefulness for informing GO TEXAN policy improvement. Specifically, the fact that the community surveys are filled out by a community member using estimates of attendance and revenues combined with methodological issues related to the operationalization of independent variable as well as the dummy variables used as dependent variables cast substantial doubts on the usefulness of this information.

The second article by Xu, Malaga, and Martinez-Mejia (2011) focuses on an analysis of specific GO TEXAN sponsored activities and the use of the GO TEXAN logo in regard to supporting rural development. They discovered that certain activities (trade shows, retail promotions and media events, and reverse trade missions) and types of use of the logo (brochures) had a positive rural development impact. The authors acknowledge shortcomings in their data collection, response rate, and their proxy variable used to distinguish rural and nonrural regions. Furthermore, they attribute the effectiveness of the GO TEXAN label to regional attachment, whereas other factors may well contribute to the success. They have done a good job of documenting the "what seems to work" aspect regarding the GO TEXAN program, but to get to the "why those aspects do work," I would suggest that a complementary study of GO TEXAN consumers is necessary. Despite the imperfections in both research projects, valuable information can be gleaned from the efforts to inform public policy in support of rural development.

The final article by Kostandini, Mykerezi, and Tanellari (2011) investigates the opportunities of organic agriculture to support rural development. As part of the literature review, the authors do a good job of documenting the socioeconomic impacts of the consolidation of agriculture on rural communities and the potential for organic agriculture to ameliorate some of the negative effects of rural outmigration and

depopulation through increased economic opportunities for rural producers. It would have been useful to have more thorough use of citations in this section. The information provided on organic production by state is useful and interesting, revealing a pattern whereby the states in the Northwest and Northeast have the highest proportions of organics and those in the South and Midwest the lowest. The results of their research report the determinants of the number of organic operations and organic acreage. An interesting finding is that the locational variable indicates that those operations in proximity to urban areas support enhanced numbers of operations and acreage. This finding would appear to have crucial implications for organic producers that operate in direct markets. Another interesting finding that deserves closer scrutiny is the positive relationship between government agricultural payments/subsidies and increased organic activity.

From a social science perspective, organic agriculture is still in a transition phase regarding the adoption/diffusion ladder (Rogers, 1962), because the early adopters have entered the market now soon to be followed by the early majority. As part of this process, we can expect a conventionalization of the organic industry as major firms and large-scale operations enter the market. As a result, economies of scale will become essential for survival and we can expect further bifurcation of organic production into small-scale operations targeted to direct markets and large-scale operations participating in indirect markets (Guthman, 2004). Organic products destined for indirect markets will require the USDA-certified organic label, whereas those products sold in direct markets will often eschew the label and sell on "trust." As the amount of organic productions and sales increases, organics will take on many similar aspects of the undifferentiated commodities that are the basis of classical economic analysis. Nevertheless, because organics is a differentiated product and must be "identity preserved" and kept in separate supply chains from similar conventional products, the nonquantitative aspects of organic sales related to consumers' sentiments as reasons for purchasing organics

make it more problematic to model than undifferentiated commodities.

To conclude, all three articles deal with value-added aspects of agriculture and food as tools states and governments can use to support rural development. Because the GO TEXAN program and organic agriculture are based on differentiated commodities, they do not lend themselves well to established economic forms of analysis grounded in classical theories and comparative advantage. More specifically, the fact that consumers prefer these products based on various subjective sentiments instead of easily quantitative factors is problematic for agricultural economists. These sentiments must be operationalized in quantitative forms, usually through the use of proxy variables, and in doing so may lose much of the rich context that underpins the subjective reasons. In my view, this disconnect contributes to methodological problems for the two GO TEXAN articles especially. Nevertheless, all three articles provide useful information that policymakers can use to improve rural development programs. I look forward to more papers from agricultural economists on these issues as well as suggest enhanced collaboration with rural sociologists interested in similar topics.

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