Journal of Agricultural and Applied Economics, 34,2(August 2002):339–341

Social Capital, Tax Modifications, and Rural Economic Progress: Discussion

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This session addresses important economic development issues of the rural South, a topic of continuing interest to agricultural economists, rural sociologists, and policy analysts. In many respects, the rural South is a region that still warrants our collective efforts in finding solutions to its persistent economic development challenges. Wimberly and Morris document the many rural counties that the economic prosperity of the 1990s left behind. Indeed, economic development of the rural South remains as unfinished business on our professional agenda. I first offer general comments about the overall paper session and then provide specific observations on the Rainey and McNamara (RM) paper, "Tax Incentives: An Effective Development Strategy for Rural Communities?"

The Fuss in Florida: Does Social Capital Matter?

Despite the economic advances that have occurred over several decades and the number of public initiatives implemented, Southern rural communities continue to lag economically behind rural areas of most other regions in the nation. In 1960, for example, a full 60% of all African Americans in the rural South were below the poverty line. By 1990, the number living below the poverty line was reduced to 30%, and in the 1990s our robust economy reduced that number an additional 8–10%. Over the decades, many rural economies have improved with the passage of a number of federal, state, and local public policies including: War on Poverty, Equal Access/Public Accommodations, The Great Society, Affirmative Action, Appalachian Regional Commission, Delta Commission, Welfare Reform, Enterprise/Empowerment Zones, and Global Trade Legislation, to name a few. From this list of initiatives, it is clear that over time public policies have moved away from government-based solutions toward more market-based strategies. Today, rural development policy is in crisis. With production agriculture playing a smaller role in economic development, no central institution serves as a focal point in the creation and delivery of public responses to the challenges facing rural communities (Bonnen). Within this context, this paper session is both timely and relevant for social scientists and policy makers who are interested in solving the problems of rural communities.

In this session, alternative economic prescriptions concerning the economic development of rural areas are debated. The debate features two contemporary schools of thought among social scientists. The first school advocates, "She who owns the gold makes the rules." I believe that the RM paper best represents this widely held position. The second school of thought suggests that "She who makes the rules owns the gold." Here, the Robinson, Lyson, and Christy (RLC) paper, "Civic Community Approaches to Rural Development in the South: Economic Growth with Prosperity," is partial to this perspective. It supports the notion that embedded social and cultural factors can influence economic activity. An important aspect of contemporary

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social sciences research and policy analysis is an ongoing effort to determine the impact of cultural embeddedness on development by coming to terms with this central question: Does social capital matter?

When economic development emerged as a new branch of economics about 50 years ago, financial capital was seen as the primary fuel for the engines of economic growth. At that time, economic growth was equated with economic development. By the 1960s, thanks to the work of Nobel Laureates W. Arthur Lewis and T. W. Schultz, human capital emerged as an important contributor to the economic growth and development process (Lewis; Schultz). Now on center stage is a new form of capital, social capital, that social scientists are attempting to explain, evaluate, and elevate in private strategy and public policy. Unlike previous forms of capital, social capital does allow for a wider discussion of economic development determinants that span geographies (north/south) and more easily invites discussion beyond our disciplinary boundaries (economics and sociology). Therefore, I naturally had high hopes that this session on contemporary economic development would provide a more definitive answer to the central question (regarding the relative importance of social and financial capital) that has challenged our respective professions.

This session brought this central question closer to our view; however, in my estimation, it did not come close enough. With apologies to the nonsport enthusiasts, if this paper session was to be compared to two heavyweight boxing champions of the world—RM versus RLC—battling to secure their own framework in private and public use, it did not live up to its hype: *The Fuss in Florida was not the Thrilla in Manila.* The RM paper concludes that tax modifications are necessary, but not sufficient. In other words, it does not defend the purely economic incentives. On the other hand, the RLC paper offers the social capital paradigm as an alternative to neoclassical economics, and as such provided some hope that a decisive blow would have been delivered in its favor. At the end, the paper seems to call for the inclusion of neoclassical variables (human capital and median income) within the civic community framework. The bottom line is that both papers raced for the middle and, consequently, the bout ended in a draw.

Incentives and Economic Progress

My specific task is to provide comments on the RM paper. Despite the suggested reservations, the paper is well done. The authors were comprehensive in their discussion on the role of tax modifications on economic progress. They grounded their arguments in the economic theory of the firm by reviewing the factors that contribute to the firm's decision to locate. They acknowledge that many factors influence such a decision, including quality of school, quality of infrastructure, and density of business development. This paper is a must read for any policy maker who is interested in knowing the effects of tax modifications on economic progress. In my assessment of the RM paper, I call your attention to three specific observations.

First, they make use of the term economic progress. By that I take it that RM mean economic development, "a process of improving the quality of human lives" (Todaro). Todaro stresses that three equally important aspects of development are: (1) raising people's living levels—their incomes, consumption levels of food, medical services, education, etc., through relevant economic growth processes; (2) creating conditions conducive to the growth of people's self-esteem through the establishment of social, political, and economic systems and institutions that promote human dignity and respect; and (3) increasing people's freedom by enlarging the range of their choice variables, such as by increasing varieties of consumer goods and services. If RM took a more restrictive view of the concept of economic progress, by limiting its meaning to a measure of economic growth, their objective of determining the impact of tax modifications on economic progress would have been easier to show, but would be less meaningful to a wider discussion of improving the capacity of rural communities to solve their own development problems. I would have preferred RM to be more explicit about the goals of economic progress.

Second, RM make it clear that in an open economy, tax modifications become less effective in fostering economic progress (economic growth or economic development). To the extent that policy makers are less certain where a firm will reinvest their tax rebates, the overall effectiveness of this tool is questionable. Will the firm that is being recruited to Mississippi reinvest tax incentives offered by local communities or state government in Mexico, Morocco, or Madagascar? I concur with RM's assessment that, for remote rural communities, the globalization process limits the effectiveness of tax modifications in an open economy (Desai and Hines).

Finally, I would have preferred that RM would have considered the role of corporate social responsibility in their assessment of tax modifications on economic progress (United Nations). Admittedly, this consideration may be beyond the scope of their paper. Corporate social responsibility subscribes to the view that contemporary economic development is practiced in parallel with decisions by public and private investments rather than a sequenced pattern that relies on the state to create first an "enabling environment" for the private sector to then exploit. Today, more firms are realizing that their fate is tied to the community in which they operate and it is in their long-term best interest to invest in making it a better place to live and work. Many examples are possible, but the efforts taken by the Corning Corporation of Corning, NY are noteworthy (Kelleher). This company, through its division of Corning Enterprises, Inc., provides a notable example for many big companies that are located in small towns. Corning's efforts to foster cultural diversity, support local schools, and sustain community-based entrepreneurship is unsurpassed by their peers.

Finding Ways to Improve the Quality of Human Lives

In conclusion, it is quite fitting that this session is sponsored jointly by the Southern Rural Sociological Association and the Southern Agricultural Economics Association. Over two decades ago, I entered the agricultural economics profession with the high hopes of contributing to the economic development of the rural South, as it is the region of the country I know best and where I have spent a significant part of my professional career. However, it seems that over time the agricultural economics profession has been less willing to offer prescriptions that are consistent with improving the quality of human lives in rural communities. We are, in my judgment, too closely tied to commercial agricultural industry that is relatively less important in the economic development of rural America. For the rural social scientist to make a difference in society, we must continue to assess our efforts to enhance the well-being of people, and we must continue to find ways to contribute to the economic development of their communities. We cannot lose sight of the fact that economic development is about people.

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