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Civic Community Approaches to Rural Development in the South: Discussion

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It has been my good fortune to know Tom Lyson and Ken Robinson when they were very early in their careers. Tom was a colleague at Clemson University for a few years before departing for the icy hills of Ithaca. Ken earned his undergraduate degree in community and rural development at Clemson University before moving on to the LBJ School of Public Policy at the University of Texas where he, no doubt, was energized for his later doctoral studies at Cornell by the intellect and charisma of Barbara Jordan. Although I do not have a personal connection with Ralph Christy, suffice it to say that he was on the faculty at Louisiana State University for a substantial period before his move to Cornell, and his economic development work is widely known and highly regarded. My main reason for reflecting on these connections is to emphasize that the authors have significant grass roots experience with development problems in the rural South. Far from being simply academic theorists from "the outside," these authors are well equipped to address the nuts-and-bolts issues of how a civic community model (CCM) can be developed to address persistent problems of development in the rural South.

The goal of their paper is to explore the potential for civic community theory as an alternative to the neoclassical model of rural development. My main conclusion is that there is a good deal of exploring that remains to be done. There are two main reasons that the authors need to explore a bit more carefully. First, their characterization of the neoclassical model approach to rural development is far too narrow. Second, the proposed CCM ignores fundamental economic forces and adopts a Putnam vision of social capital that some critics say ignores the key role of power in the formation and sustenance of relations between classes or groups in a community. Having said that more exploration is needed, let me emphasize that economic models of rural development and civic community models should be regarded as complements—not substitutes for each other. By challenging the conventional wisdom of the economics of rural development, the authors make a substantial contribution to what should be a renewed effort by social scientists to examine how institutions and social relations interact with fundamental economic forces to shape long-term economic fortunes of residents of the rural South.

The Corporate Community Model: Neoclassical Paradigm or Strawman?

The authors seem to equate the neoclassical model of rural development with the product life cycle ("industrial filtering-down") that has been used to describe the incentives for firms to locate establishments of a more routine/low skill variety in rural areas. One might think of the textile mills in the rural South, or more recently of meat processing plants. The genetic engineering needed to produce hogs suitable for large-scale processing plants is a high-paying "urban" activity. The routine

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process of processing the animals is relegated to the rural hinterlands where land and labor are "cheap." So it is the "outside" decisions of corporate managers from Smithfield, Inc. and their ilk that dictate the economic base, and thus the economic development of the rural places in the South. Voila! We have the corporate community model of rural development.

However, this view of the rural development process represents only a narrow slice through a set of fundamental economic and social forces at work determining the pace and character of rural economic development in the South. The product life cycle is not a general theory of development, but an outcome of more fundamental economic forces. Most economic explanations of why rural areas of the South grow or decline can be grouped into demand-side Keynesian-type models of the export base and supply-oriented neoclassical models of economic growth that focus on aggregate production functions. A few examples of how regional economists build on theory to understand regional development may help to illustrate that the product life cycle is only a slice through economic and social forces shaping the rural economy.

First, consider Keynes and the demand side. In the export base types of models, rural incomes vary in the short run (over the business cycle) as the external demand for basic industries expands or contracts (North; Tiebout). In the long run, components of the export base vary as tastes and preferences and the relative competitiveness of rural industry changes (think about the decline in textiles first in New England and now in the rural South). The role of technology—a supply-side force—is key in affecting the fortunes of the economic base:

> "The process seems to work mainly as follows. Start with a region that has a particular industrial base, itself the product of a long historical evolution. If the environment were unchanging, that industrial base would tend to persist; but things do change. Most important, probably, is the rise of new technologies that make old advantages irrelevant but offer new opportunities. However, the past is not completely irrelevant: the special characteristics of regions, the consequences of their old industrial mix, determine which new industries find them congenial soil. Machine shops set up to serve textile mills can turn to the production of components for aircraft engines; . . .In other words, the regional industry structure at time t determines the structure at time t + n in a nonrandom way, but it does so through quirky linkages that nobody could have foreseen" (Krugman 1999, p. 2).

Consider technological improvements in transportation:

> "It is a familiar point from the 'new economic geography' that the impact of transportation costs on agglomeration tends to have an inverted U shape. At very high transport costs, there cannot be agglomeration: the world consists of self-sufficient peasants. At very low transport and communication costs, there is little incentive for agglomeration: necessary inputs can be delivered to wherever the factor costs are lowest. (This is what happened to the textile industry: improved transportation made it unnecessary for mills to remain in the established centers, and allowed them to move to lower-wage locations). It is only in an intermediate range that agglomeration is both possible and necessary" (Krugman 1999, p. 4).

The relation to the product cycle is that spinning off low-skill jobs or routine production to remote rural areas only makes sense if lower transport costs offset higher production costs in urban areas, making rural areas the lowest total cost region. Kilkenny makes the important point that unfettered market forces will likely generate a spatial distribution of economic activity that is suboptimal in terms of national welfare levels. Indeed, this is a theme from Hotelling's famous depiction of how ice cream vendors along a beachfront will tend to cluster in locations as the equilibrium outcome of spatial competition that is suboptimal from a national welfare perspective. *Ergo*, a justification for rural development policy is established.

Next, consider neoclassical models and the

supply side. The first point to make is that models of economic growth across regions have undergone a dramatic change over the past decade largely because of Paul Krugman. His lectures, summarized in *Geography and Trade* (1991), introduced a new economic geography into the mainstream of economics by showing how a neoclassical model explaining the spatial distribution of economic activity can be constructed and how it differs from the earlier work of economic geographers and regional scientists. Tendencies for concentration of economic activity between these regions result from interactions of internal scale economies at the plant level, transport costs, and mobility of labor and capital. As Krugman puts it:

> "Loosely speaking, firms want to *concentrate production* (because of scale economies) *near* markets and suppliers (because of transport costs); but access to markets and suppliers is best where *other firms locate* (because of market size effects). This circular logic can produce agglomerations—although it is opposed by the 'centrifugal' force of agriculture, which provides an offsetting incentive to locate in the region with fewer local competitors" (Krugman 1998, p. 166).

The new economic geography (NEG) may have much to say about how rural economies in the South will be affected by the economics of industrial organization, transportation costs, and the current spatial distribution of markets and suppliers. For example,

> ". . . rural development *arises* from transport cost reductions as follows: Relatively low industrial transport costs imply a gap between urban and rural nominal wage rates. Cheaper rural labor attracts firms. Higher real rural wages attracts workers. . .. simulations show the conditions under which a mobile workforce would optimally choose rural locations. A higher real/lower nominal rural wage can compensate for the lack of agglomeration economies in rural locations. As long as market prices are uniform across regions, the only way to have a higher real rural wage is to have more non-market goods providing positive externalities" (Kilkenny, p. 274).

Earlier neoclassical models of regional growth (Borts and Stein) also emphasize the role that factor prices play in influencing movements of labor and capital between regions. They construct neoclassical models on the basis of aggregate production functions that predict long-run convergence of regional per capita incomes as labor and capital respond to factor price differentials. This neoclassical approach is also reflected in the large and growing literature on models explaining growth differences across countries and regions. Much of the more recent work emphasizes "noneconomic" factors—the strength of institutions that promote transparency in markets, and the rule of law and political power through democratic means. More importantly, these are still neoclassical models that include the recognition of both market forces and institutional conditions.

No model is going to go far in explaining why rural areas of the South are lagging if it ignores fundamental economic forces in the neoclassical tradition. For example, Krueger and Lindahl provide extensive evidence on the importance of human capital in the process of economic growth. Mathur argues that investments in human capital *and local amenities* are key to sustained regional economic development. Human capital affects growth because it "generates innovation and technical change which in turn defies diminishing returns to labor and (physical) capital, hence driving the regions' growth and development in the long run" (Mathur). The point is that the determinants of rural economic development will never be understood without a conceptual framework that reflects the array of forces in play, and explains why labor, capital, and technology vary over time and space. The authors could deepen their exploration of why rural areas lag if they hitched a ride on the neoclassical paradigm, as explored in recent growth theory and the NEG. A final historical note illustrates the way that neoclassical forces lead to rural economic change:

> "In *Rip Van Winkle's Neighbors*, Wermuth

> reviews the debate concerning the onset of rural capitalism. While debunking the myth of the "happy yeoman" who was self sufficient, independent and lived free of government authority, he also argues that Rip's neighbors were not full-blown capitalists. . . in 1799 only about 12 percent of these farming people were 'market producers' (p. 103). By 1820, however, the forces of the market economy had begun to impact the valley. By then, the more successful, large-scale producers had entered the marketplace as commercial farmers but ordinary farmers typically had not increased their agricultural output. Rather they entered the market obliquely through the production of non-agricultural products such as barrel staves that they bartered for textiles, hardware and cheap consumer goods.
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> By 1839 canals and roads in the region provided new market opportunities for valley farmers but they also brought stiff competition for those markets from the west and north. As a result, van Winkle's neighbors altered their production as they searched for a market niche. Some farmers shifted their production from wheat to livestock because of the competition of cheaper wheat from the Ohio Valley and Midwest. Others virtually abandoned the production of wool in favor of dairy products as a result of the increasing dominance of woolgrowers and textile manufacturers from New England.
>
> Although their production changed significantly over the years, Wermuth notes that these changes allowed valley farmers to maintain a degree of independence from the wage labor and rural outwork that had become a way of life for many New England farmers. By specializing in market products that they could produce themselves, their farms remained the center of their economic activity and mediated some of the harsher consequences of the market economy" (Parkerson).

Here, in an historical nutshell, neoclassical forces are revealed. People change their behavior (what and where to produce) in response to new market opportunities associated with changing transportation costs from "technical change" (new roads and canals). The point is that rural economic change depends on a wide range of forces that affect the opportunities of rural residents and businesses in the rural South. The product life cycle is only one of many forces that may affect these opportunities, and thus how labor and capital respond to improve the well-being of rural residents or profitability of rural firms.

The CCM: Where is the Power?

I agree with the authors that most of the work on industrial districts is European. though there is substantial literature on tacit knowledge and information spillovers in clusters of economic activity in the United States (e.g., Audretsch and Feldman). But let's agree that "noneconomic" forces embedded in social relations are largely ignored in regional economic models. The authors point to interesting (and controversial in the case of Goldschmidt's work; see Hayes and Olmstead) studies that examine the potential that improved social relations can have on community development. However, I am not convinced that small establishments are superior to large ones in providing both job stability and community improvements (see Lyson and Tolbert for a more positive view of the benefits of small establishments). Davis, Haltiwanger, and Schuh demonstrate that small establishments' job offerings are much more volatile over time than jobs in larger establishments. They also reveal the fragile statistical foundations used by Birch et al., who claim that small businesses create most of the new manufacturing jobs.

More importantly, the issue of who has the "power" to establish and maintain social relations—who is in and who is out—seems particularly apt in the rural South. But as DeFilippis emphasizes in a review of Putnam's perspective on social capital, much more attention should be paid to Bourdieu's focus on power and class in determining how social capital is formed and maintained. This is the nice way of saying that the good-old-boy network is alive and well in the rural South, and its influence on rural development prospects should be central in the evolving model of the civic community.

Summary

The proposed CCM is not really a model in the sense of depicting why and how labor, businesses, and governments *make decisions* that affect the pace of economic development in the rural South. If the CCM is shocked with more small establishments and fewer large ones in a rural county of the South, what would one expect to happen? How will decisions by firms to expand or contract or by households to stay or leave the county be affected, controlling for other economic and social forces at work in the economic growth process? How is the size distribution related to the social capital in a community? What is the direction of causality, social capital to size distribution or vice versa?

It is evident from economic growth models across nations that institutions and social forces matter a lot. What is not so clear yet is how they matter in the rural South. The authors make an important contribution by emphasizing the issue. What remains is to embed the social relations in the rural South into an economic model of growth that will allow reliable tests of alternative hypotheses of the role of social capital in rural economic development. This requires a hard look at how social capital affects behavior of firms, households, and government within the framework of a neoclassical model.

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