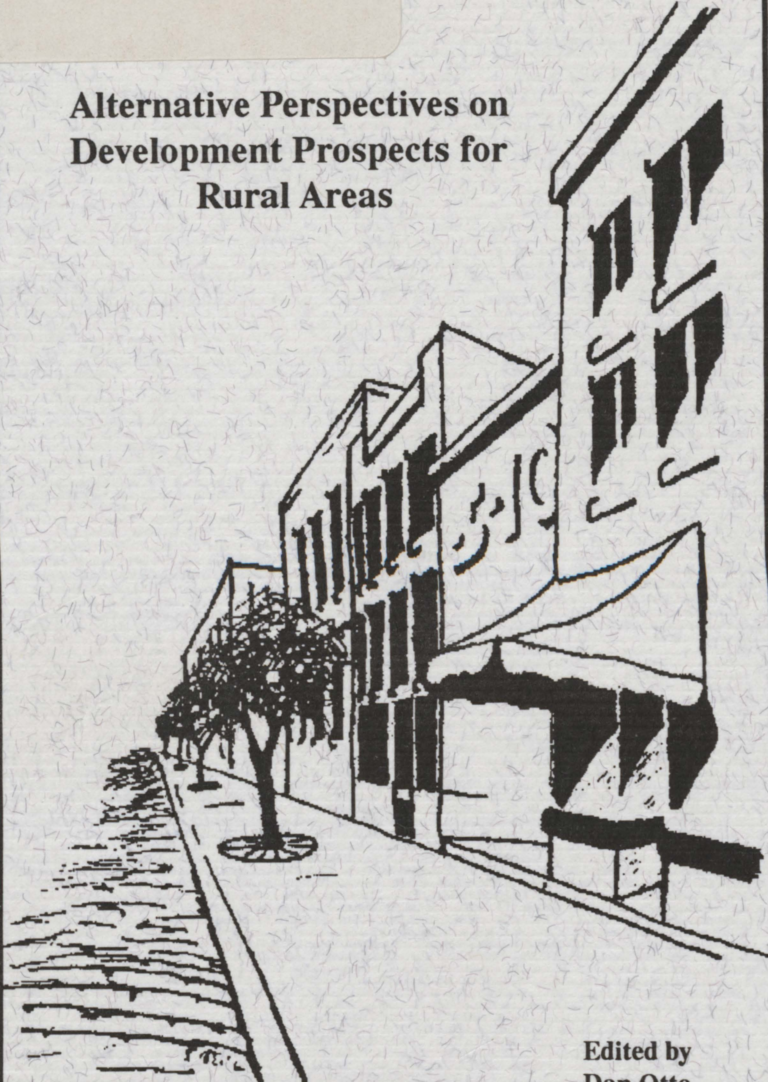
Rural development 1990?

Alternative Perspectives on Development Prospects for Rural Areas



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ALTERNATIVE PERSPECTIVES ON DEVELOPMENT PROSPECTS FOR RURAL AREAS

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INTRODUCTION

The papers contained in this volume are the outcome of a symposium organized as part of the 1990 annual American Agricultural Economics Association(AAEA) meetings in Vancouver B.C. The papers presented during this four hour symposium were intended to provide agricultural economists with an alternative perspective on rural development prospects. Agricultural and extension economists in the Land Grant and USDA system have a long history of involvement with economic adjustment processes and economic development strategies for rural areas. Social scientists from outside the Land Grant-USDA system also have given these rural development issues extensive consideration, but have had little opportunity for interaction with AAEA members. A major objective of this symposium session was to provide a forum for several prominent researchers from outside disciplines to share their perspectives and discuss rural development strategies with symposium participants. Each speaker was asked to discuss their analysis and provide thoughts on the prospects for rural areas based on their theoretical perspective or conceptual framework.

The set of paper begins with an examination of the extent of the divergence of economic performance in rural areas. The first paper, "Rural Development in a Global Economy" by Amy Glasmeier, University of Texas, helps set the context for the session by discussing the post WWII developments affecting rural development efforts and the difficulties of understanding these changes through the traditional urban and regional models. A broader understanding of industries, corporations, and international events are argued to be important for informing research and policy on non-metropolitan development.

The second paper, "Growth Center Theory Revisited" by Niles Hansen, University of Texas, critically examines key issues in growth center theory in terms of their relevance to current rural economic development concerns in the United States. A case study from peripheral Jutland in Denmark is used as an example of a center of innovative development based on state of the art flexible production system in a rural setting. Implications for industrial and regional development policies of a central government are drawn from this case study.

The third paper by William Coffey from the University of Quebec, Montreal, "Comprehensive Bases for Locally Induced Development," presents a framework for the analysis and use of a local development approach by rural areas. The economic and policy context for local development efforts is discussed with consideration given to several factors influencing local development approaches. These factors include; choosing a unit to be responsible for implementing, determining the structure of response, deciding the type of local development initiative, determining appropriate governmental financial assistance, and including evaluation efforts. Implications for local economic development policies are also discussed.

The final paper, "Alternative Perspectives on the Spatial Dimensions of Rural Development," by Susan Christopherson, Cornell University, reviews recent regional development research on the flexibly specialized firm and industrial district, new patterns of work, and the restructuring of the service industry for implications to non-metropolitan economic development strategies. Three prominent spatial trends in the economy; increased agglomeration in urban areas, restructuring of service industries, and state policies (including deregulation) have relevance for rural economic development efforts and are discussed as severely limiting development options for non-metropolitan communities.

The format of the symposium included an allotment of time for a discussion of papers following each presentation. An effort was made to capture the essence of this discussion and is included in a section following each paper.

RURAL DEVELOPMENT IN A GLOBAL ECONOMY

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The spatial evolution of the U.S. economy over the last twenty years challenges rural researchers and practitioners to formulate a comprehensive theory of rural development. Emerging from the 1960s, scholars were persuaded that the decades old pattern of rural decline had ended. Rural areas were poised for a new era of revitalization. The basis for these views was a perception that population would continue to deconcentrate from U.S. cities, and manufacturing and services decentralization would follow.

Almost as quickly as the rural renaissance was noted, development trends reversed. Rural areas once again fell into a pattern of slow population and income growth and exhibited persistently high levels of poverty and underdevelopment. The reversal of rural fortunes continues to perplex researchers attempting to formulate a theory of rural development for the 1990s (Kale, 1989).

Post war rural development trends have been conceptualized on the basis of urban and regional interpretations of spatial change. At present we lack a unique framework in which to situate rural development. Progress theorizing non-metropolitan development patterns requires challenging conventional wisdom. We need distinct theories of rural change that incorporate social theory, sectoral analysis, and an understanding of corporate strategy and structure.

Volumes of empirical research have been written about rural development over the last five years. Most of this research, however, is a historical. Yet with the exception of the 1960s, patterns persist in the evolution of rural economies. Authors such as Gavin Wright and James Cobb have made provocative contributions to our understanding of the historical development of America's regions (Wright, 1987; Cobb, 1982). Their work clearly illustrates how history shapes the present day economy of the South. Comparable research about other U.S. regions would enhance our understanding of contemporary rural problems.

Furthermore, studies of rural development would be strengthened by a more comprehensive evaluation of the role of institutions in regional development. It is impossible to explain the development of the rural South, for example, without acknowledging the role of labor and defense policies of the 1940s and 1950s. Rural areas in the West and Midwest have also been influenced by the actions of institutions such as the Farmers Home Administration, the Soil Conservation Service, the Bureau of Land Management, and the Army Corps of Engineers. Yet with the exception of a few scattered studies, our knowledge of institutions and how they have shaped rural development remains embryonic.

Development research must also be oriented toward the future. Rather than describing non-metropolitan development based on recent past events, rural research would benefit from incorporating an understanding of changes presently evolving in the international economy.

I begin by situating my discussion in context with developments in the post war U.S. space economy. I will illustrate how wholesale adoption of urban and regional models mis-specifies what actually occurs in rural areas. On the basis of this discussion I will suggest how an understanding of industries, corporations, and international events informs research and policy on non-metropolitan development. I will conclude with some thoughts about the

role of practitioners and suggest that our efforts need to take into account the changing global economy.

THE POST WAR TRANSFORMATION OF THE U.S. SPACE ECONOMY

Over the last 20 years we have witnessed profound changes in the national and international space economy. As Gordon Clark notes, prior to the 1970s, American firms were essentially protected from international competition (1989). Trade agreements between the U.S. and Britain effectively set the conditions for U.S. global hegemony. Bretton Woods specified the nature of international trade based on the existing comparative advantage of different nations. Accordingly, the U.S. produced and sold mass-manufactured goods while other countries provided the raw resources for their manufacture. Furthermore, emerging from the Second World War, the U.S. was the world's largest intact economy and the most integrated market. American firms competed amongst themselves for both domestic and international market share.

Manufacturing decentralization of the 1950s and early 1960s occurred in response to cost pressures experienced by national firms competing in the domestic market. Although manufacturing had been shifting out of the Northeast since the turn of the century, continued cost pressures accelerated the movement of labor-intensive employment southward (Barkley, 1990). In an effort to remain competitive, cost-sensitive firms restructured operations to lower labor costs and rationalize production.

Nonetheless, industry relocation was not simply in response to interregional factor cost differentials. State and federal institutions were instrumental in this spatial reordering. One need only read a 1960s copy of Fortune magazine to verify states' aggressive

efforts to woo business to the south. Local officials enticed corporations to relocate by offering lucrative financial incentives and promises of labor peace.

Federal defense policy was another important stimulus of industry relocation. Members of Congress made strategic compromises about the location of national defense investments including base placement and material procurement. Under the guise of deconcentrating vulnerable facilities, the South received a healthy dose of federal defense operations. And the West became the nation's center for aerospace and strategic operations. Government actions contributed significantly to distributional changes of population and industry over the post war period (Markusen et. al., 1990).

Migration flows and the formation of new markets further encouraged industry location outside the nation's traditional centers of population and industry (Kasarda, 1988). Population shifts of the 1950s and '60s reinforced migration patterns that had been unfolding since the early decades of the 20th century. Excluding the depression years, migrants flooded into Florida and Texas, eschewing states in the Deep South (Poston, Serow, and Weller, 1981). The West was also an important destination for migrants.

Following the Viet Nam war, another round of industrial restructuring occurred as U.S. firms, concentrated in the manufacturing belt, experienced the pressure of global competition. By the early 1970s, the U.S. economy was becoming more international as manufacturing shifted to other industrialized countries in search of markets, and to third world locations in search of cheap labor. Initially cheap wages enticed American firms to shift assembly abroad. Over time labor cost savings were overshadowed by gains derived from skill levels in other countries. Additionally, Asian firms, particularly Japanese firms, were steadily eroding the technological leadership of U.S. corporations (Henderson, 1989). Although U.S. firms did not yield command of key sectors until the 1980s, nonetheless the competitive edge of U.S. corporations was steadily eroding over time.

The terms of trade also began to change. With the rescission of Bretton Woods in the early 1970s, America became just another trading nation, subject to exchange rate fluctuations and international events (Clark, 1989). The American market became the final destination for goods produced by newly industrializing nations. Foreign firms began to penetrate and ultimately dominate markets previously controlled by U.S. corporations.

Exogenous shocks were also important determinants of the changing spatial structure of population and jobs. The oil crises of the 1970s precipitated rapid growth of energy and minerals exploration in the western U.S. The tripling of oil prices made millionaires out of Texas dirt farmers (Glickman and Glasmeier, 1989). A new axis in America's post war geography emerged as resource exploitation incorporated previously peripheral locations into the national space economy. Rural areas were momentary beneficiaries of this development.

This new round of restructuring was expressed geographically in further shifts of population and jobs to the West, and more significantly, to the South. Jobs in heavy industry such as steel, rubber, and machinery began declining overall, even as further decentralization occurred. High tech industries emerged, with dramatic growth rates made more apparent by the weakness of traditional industrial sectors. Services became more prominent as manufacturing job growth stagnated. Although manufacturing was an important source of new job growth in the South, expansion of the residentiary sector (including retail, wholesale, and construction), was the real driver of the region's expansion.

By the late 1970s the spatial distribution of economic development had become more uneven. States in the nation's mid-section were hemorrhaging. Traditional mainstay industries such as steel and autos shed hundreds of thousands of jobs, sending workers into the streets with uncertain futures. Key states along the East and West coasts were showing healthy signs of growth fueled by high tech, services, and accelerated defense spending. Migrants continued to flood into Florida and Texas. While the Rocky Mountain states experienced rapid growth, this proved ephemeral. Outside of resource extractive regions, rural areas were only minor participants in the late 1970s round of economic change.

The recession of the early 1980s proved disastrous for subregions of the country. While selected states in the Midwest and Northeast experienced dramatic declines in basic industry equally concentrated growth occurred in states in the West and South. But even within rapid growth states such as California, decline in basic sectors (timber and autos) elevated state unemployment levels. And job loss in the South's traditional industries (textiles and apparel) was only partly offset by continued growth of population-dependent sectors. While Texas was relatively unaffected by the recession, oil price declines in the early 1980s quickly eroded the state's "go go" image.

THE PRESENT

In the contemporary period even more profound changes are occurring in the organization of the world economy. The U.S. no longer has an undisputed lead in many fundamental technologies. Newly industrializing nations' state-led development policies have created production complexes capable of manufacturing entire products, including the most advanced components (Glasmeier, 1990a). Asia's productive capacity is so sophisticated that many American firms no longer consider manufacturing first generation technologies in the U.S. Today Hong Kong, Singapore, Taiwan, and South Korea challenge both U.S. and Japanese firms' manufacturing dominance in many sophisticated mass produced goods.

This latest round of industrial restructuring is altering previous patterns of spatial development. The East coast economy is weakening in response to a decelerating high tech sector, an overheated real estate market, a contraction in producer services---particularly finance--and real declines in defense spending. While the West coast economy is momentarily more buoyant, thanks to a diversified economy, defense spending declines threaten large areas of the region with recession. Whether high tech remains high flying depends on industry ties to defense spending.

Although no longer reeling from the devastating effects of economic restructuring of the 1970s, the Midwest still exhibits signs of slow growth. Service sector expansion has not kept pace with national trends. While the region has maintained its historic share of national output, manufacturing industry provides far fewer jobs than just a decade ago.

The new growth poles of the early 1980s--Texas and Florida--are facing uncertain futures. The Texas economy has been in retrenchment for much of the past five years. Real estate is not expected to recover before 1995. While oil exploration has picked up recently, drilling activity is still below pre-1980s levels. Population growth has slowed considerably, and per capita income levels hover just below the national average.

Only Florida remains somewhat growth-oriented. Nonetheless, the state shows serious signs of over-building. While retirees continue to migrate into the state, officials fear that public expenditures needed to pay for past growth will outstrip existing resources.

Given this forty year pattern of development, how do we understand the role of rural areas in advanced industrial nations during a period of global integration? Where once rural economies were removed from national international economic events, at the end of the 20th century rural communities find themselves buffeted about by economic forces beyond their control.

THE EVOLUTION OF THE U.S. SPACE ECONOMY IS NO LONGER TIED TO NATIONAL ECONOMIC EVENTS

To begin with, it will be increasingly difficult to forecast rural development based on events occurring within a single nation's geographic boundaries. Exchange rate fluctuations, state-led industrial policies, and evolving corporate strategies make predictions about U.S. economic development based on conventional theory hazardous at best.

A case in point is strict interpretation of industrial location based on the product cycle model. In the 1960s and early 1970s, the product cycle model was useful in describing the development path of manufacturing. Today, however, the validity of this forecasting tool is in question. The high degree of corporate mobility and rapidly shrinking product cycles juxtaposed against existing labor constraints resulting from heightened technological change present special difficulties when theorizing the location of industrial activity.

For example, there are two primary interpretations of high tech industry location in rural areas. The first, based on industrial filtering, suggests rural areas gain jobs as industries mature, technology stabilizes, and labor costs become paramount in determining market share distribution. Empirical evidence of the early 1980s, however, indicates that job growth in high tech industries occurred in sectors growing rapidly at the national level. These results contradict product cycle predictions.

An alternative interpretation, combining insights from sectoral analysis, the division of labor, and corporate strategy, provides additional precision in explaining rural high tech location in the late 1970s (Glasmeier, 1990a). A number of introductory points are worth noting. First, almost since their inception, high tech industries have been subject to intense international competition. Consequently, the "super profit stage" accompanying the introduction of new products has been steadily shrinking. Second, the rate of change in the development of new technology has been accelerating over time. Each generation of technology is not just more powerful, but it is also much cheaper. Third, the cost of new productive capacity has increased dramatically. In the early 1970s, two million dollars purchased a state-of-the-art semiconductor production facility. Today a new semiconductor manufacturing facility costs in excess of $250 million. Fourth, because of accelerating product cycles, high tech industries tend toward over supply and stagnant demand as new generations of technology supersede previous models. Hence, in the late 1970s, the context in which high tech firms were making location decisions was changing rapidly over time.

In the late 1970s and early 1980s, these problems were exacerbated by growing spatial constraints in existing high tech complexes. Land costs were rising, and wage rates of professional workers were rocketing skyward. Simultaneously, production processes were becoming increasingly complex and therefore requiring a more highly skilled labor force. Increased demand for technical labor placed additional pressures on already congested labor markets. Industry decentralization occurred as firms tried to manage the problems of land and labor constraints, rapidly changing technology, and the need to establish new capacity for the manufacture of increasingly sophisticated products. A noticeable share of rural high tech growth occurred in communities adjacent to cities where agglomeration economies, amenities, and importantly, skilled labor could be found.

Based on this interpretation, rural high tech growth was very much tied to developments in urban areas, but in a rapidly changing international economic context. By emphasizing sectoral development, while recognizing the difficulties associated with the creation of a spatial division of labor, we can deepen our understanding of the development potential of high tech industries in rural areas.

THE FUTURE

These same factors have now given way to yet different spatial imperatives as U.S. firms struggle to remain internationally competitive. It is now mandatory that corporations manufacture in key markets of Asia and Europe. Co-production agreements, joint ventures, and strategic alliances are culminating in a new round of spatial reorganization. Today the location of both production, and more importantly R&D (once thought spatially fixed), is up for grabs. Competitor countries are creating their own technology base and positioning domestic industry to compete on the basis of both product sophistication and price. Thus important question is how this development affects rural areas.

THE NEED FOR SECTOR STUDIES

A missing ingredient in rural industrial location studies is an understanding of sectoral behavior. Yet it is difficult to comprehend the development path of industries without acknowledging production mandates and market structures. Sector studies have been instrumental in informing us about the evolution of the U.S. space economy. We have learned a great deal about the constraints governing contemporary location decisions. These studies have also enhanced our ability to describe likely development consequences of industry location. It is no longer enough (I question whether it ever truly was) to chart the location of even four-digit industries and make assumptions about their development implications.

Today within semiconductors, for example, there are a myriad of production processes, ranging from the most vertically integrated and capital intensive, to the most fragmented and decentralized. The labor process, and therefore the development implications of these establishments, varies. In the former case, plants can decentralize as most functions are internalized within a single establishment. In the latter case, spatial proximity is crucial to the successful operation of disintegrated production. Owing to this variation, we must now examine not only what is manufactured in different locations, but also how it is manufactured, and ultimately what market it is destined for.

WILL OTHER SECTORS FOLLOW THE PATH OF MANUFACTURING?

The same developmental concerns--the composition of an economic activity, the corporate organization, and the mode of production--arise when considering the growth potential of services in rural areas. Current research, based on a minimum cost framework, is forecasting services decentralization. Again, caution is advised in making such pronouncements.

The growth of services nationally is the result of many different factors--labor force changes and alterations in consumption patterns, government policies, third party transfer payments, the increasing division of labor in manufacturing, and the restructuring of corporations (Glasmeier and Borchard, 1989). Each of these developments has implications for services decentralization.

In the extreme, some research implies that services will follow the path of manufacturing, decentralizing to rural areas in search of lower land and labor costs. Policy proposals reflect this optimism. Robert Reich suggests rural areas need only better telecommunications to compete effectively for new industry (Reich, 1988a; Daniels and Lapping, 1988; Reich, 1988b). Reich argues that industry is no longer geographically bound, and therefore with the right infrastructure, rural areas can compete for services and flexible manufacturing.This sounds rather optimistic. In the first place, the suggestion is simplistic and ignores long standing limitations that inhibit rural communities' ability to compete for all forms of economic development. Better infrastructure will no doubt be helpful; however, it is more likely a necessary, but not sufficient condition to foster future rural growth. Furthermore, the claim that industry is geographically footloose ignores contemporary industry location behavior. The service sector remains spatially concentrated and requires intense spatial proximity to facilitate face to face contact (Glasmeier, 1990b).

More importantly, industry location is only one component of the development problem. It is not simply whether rural areas can compete for services but rather what kind of industrial activity non-metro communities are ultimately able to compete for (Gillespie and Robins, 1989). While it would be nice to interpret rural development based strictly on national events, it is increasingly hazardous to do so. Before speculating about services and rural development, we need a better understanding of the services we are talking about, how they are produced, who produces them, and how international events influence their development (Martinelli, 1989).

ECONOMIC DEVELOPMENT FADS: SMALL BUSINESSES AND INDUSTRIAL DISTRICTS

The failure of manufacturing decentralization to sustain rural development in the 1980s has led researchers to focus their attention on small businesses, and more recently industrial districts, as future sources of rural economic development. Missing from most discussions of these urban economic development initiatives is a critical appraisal of their applicability to rural areas. At a minimum, small business and industrial district promotion should be evaluated, not only on the basis of cross sectional and longitudinal analysis, but more importantly in context with developments occurring in the international economy.

James Miller of the U.S. Department of Agriculture's Economic Research Service (ERS), recently wrote a thoughtful paper on the role of small business in rural development (1990). While rural small businesses make major contributions to job generation, Miller cites evidence that suggests the growth of small businesses in the 1970s was an aberration--a symptom of how badly big businesses were doing during the period. Other research challenges the validity of virtues previously ascribed to small businesses such as their longevity, their marketing capabilities, and their technological innovativeness. On the contrary, recent comparative research of small business development in advanced industrial countries, suggests small businesses are very turbulent (Harrison, 1990; Markusen et. al., 1983); many develop new technologies but have difficulty commercializing them independently

(Shan, 1990); and small firms lag in the adoption of new technology (Kelly and Brooks, 1989).

Working conditions and skill levels, not to mention wages rates and pensions, are important issues that require consideration when proposing small business development strategies for rural areas (Brown, Hamilton, Medoff, 1990). All too often we focus on the Schumpeterian attributes of small firms without examining the social consequences of such development.

NEW INDUSTRIAL DISTRICTS: AN ALTERNATIVE TO MASS PRODUCTION

Perhaps the newest trend influencing economic development policy is the reemergence of industrial districts comprised of disintegrated production networks. According to one perspective, mass production, as the organizing principle of post war capitalism, is giving way to more flexible forms of manufacturing. Owing to increased consumer preference for differentiated goods, proponents argue that gains from flexible manufacturing outweigh benefits of scale economies through mass production (Piore and Sabel, 1984). Increased product variability discourages large investments in fixed capital and therefore diminishes barriers to entry by small firms. As a result, a window of opportunity has opened for small firm manufacturing. To compete successfully in this new era of production, however, small firms must specialize. The success of such an arrangement depends on a firm's ability to purchase in the market what it cannot produce internally. In this instance, economies of agglomeration override those of economies of scale. Therefore this type of production encourages the formation of small firm complexes.

These complexes achieve vitality from the highly interactive nature of production which fosters product innovation and ensures complex integration. Because products change rapidly and investments in capital are low, workers must be highly skilled and able to work with general purpose equipment. Some authors argue this new development embodies significant potential for rural areas.

The most celebrated example of this development is the Emilia Romagna region of Central Italy. Many of these industrial districts are located in small towns outside major metropolitan areas. Firms specialize in high value-added products such as machine engineering, high fashion clothes, designer shoes, and ceramic tiles. At the base of many Italian production districts is a tradition of small, family-owned business. Owing to a history of active local government in Central Italy, the public sector provides important services that contribute to the success of these complexes. While not denying the existence of industrial districts, it is important to acknowledge the uniqueness of certain localities, and accept that disintegrated production relations are subject to change over time.

Some scholars suggest the industrial district model is unique to Italy and not widely found in other European countries (Quevit, 1990; Amin and Robins, 1990). A number of countries (Denmark among them) are experimenting with programs designed to create the support structure needed to sustain such development (Rosenfeld 1990). Nonetheless, efforts to artificially construct the institutional basis for fragmented production systems are embryonic.

There is emerging controversy about the long term stability of this mode of manufacturing organization. Recent research indicates numerous industrial districts are undergoing vertical integration as micro enterprises are being consolidated into larger corporate groups (Harrison and Kelly, 1990). Mounting evidence further questions the independence of industrial district firms.

Studies show that many small firms are highly dependent upon a single large firm for their market. In contrast with the model of entrepreneurial independence described in some accounts, many of these small firms rely on large firms for material acquisition, market access, and new technology.

Furthermore, the technical attributes of disintegrated production systems do not necessarily translate into progressive skill-enhancing work settings. On the contrary, research indicates that the labor process is often little more than disintegrated de-skilled production (Amin, 1989; Rosenfeld, 1990). Thus the portrayal of flexible specialization as a progressive alternative to corporate paternalism may have limits.

Finally, the geographic significance of this development is a subject of some debate. As Niles Hansen and Stuart Rosenfeld both note, it is erroneous to describe these small European towns as "rural." Most industrial districts are in cities adjacent to metropolitan areas, or they are in small cities of some historic significance (1990). Therefore it is questionable whether this model has realistic applicability to rural areas.

THE NEED FOR GREATER REALISM AND COMPLEXITY IN THEORIZING ABOUT RURAL ISSUES

The purpose of raising these issues is to suggest that there are emerging opportunities to inject greater realism, and therefore complexity, into contemporary discussions of rural development. We need to move toward the development of a conceptual framework that treats rural as more than simply a residual of urban development. To do otherwise abdicates the responsibility of conceptualizing rural development to others. Future rural research would benefit from examining how urban and rural development processes interact (Seib, 1990). Greater scrutiny of urban and regional development processes is also needed. As Niles Hansen notes, many of the trends presumed descriptive of the U.S. space economy of the 1970s were often overstatements based on very aggregate measures (1988).

Rural industry location studies need to expand the dimensions of inquiry to incorporate sectoral development. Industries evolve on the basis of many imperatives. Their spatial evolution cannot simply be read off aggregate trends or highly stylized models. Labor quality, production processes, market instability, changing technology, and new competitors are all important factors influencing industrial location. Understanding how industries evolve will help us interpret patterns in aggregate data and therefore construct better theory--distinct from urban-based interpretations.

As part of a deeper understanding of sectoral development we need to reconsider the nature of corporations. Although studies of corporations were quite popular in the 1970s, research on corporate strategy fell out of favor as its focus gave way to concern about production processes. While not denying the latter's importance, it is imperative that we understand how organizations make strategic decisions. For example, corporate strategy and choice of production technology are converging over time (Schoenberger, 1990). While increasing a firm's ability to manufacture a variety of goods, flexible manufacturing systems are extremely costly to own and operate. In order to rationalize this type of investment firms must run flexible manufacturing systems at full capacity. One implication of this development is that firms no longer divide up production across space strictly to minimize a single input cost, such as labor. New facilities manufacture complete products destined for global markets. A task of future research is to anticipate how this development will influence the location of industry in rural areas.

As practitioners we have a special responsibility to scrutinize proposals and programs coming out of the economic development community. To accept the latest fashion in economic development planning without questioning its applicability to rural problems can only lead to disappointment. Industrial districts, small business, tourism, and retirement are but a few of the many proposals deserving careful evaluation before incorporating them into community development programs.

We must also accept that long established economic development patterns are not likely to change in the near term. Therefore, this may require a more realistic appraisal of communities efforts to attract branch plants. Instead of discouraging branch plant promotion efforts, communities would be better served by learning how to negotiate with corporations making location decisions. Since we know what corporations expect, we must determine how this knowledge can be used to the advantage of rural communities. This does not mean we should become glorified deal-makers, giving corporations everything they want. Rather we must continually search for quid pro quo agreements that enrich communities with tangible benefits beyond strictly low wage jobs.

Important research has been completed about rural America over the last ten years. Experimentation and innovation characterizes efforts to apply current knowledge about processes of economic change to rural development problems. In the future, greater attention to international events, industrial structure and analysis, and corporate strategy will enhance our work. The time is ripe for more concerted efforts to theorize the meaning of rural development in a global context.

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DISCUSSION

Question: You said that you felt that the assumption that many more firms were footloose than we previously thought was perhaps an error, and that there seems to be evidence that it was suburban or outlying urban areas where growth was in fact taking place. If I understand what your saying, there is still something about agglomeration that is meaningful in contemporary society. Am I correct?

Glasmeier: Yes, I'm saying that, but I'm also saying that companies are both extremely spatially bound and have infinite spatial possibility. Depending on the corporate organization, depending on the sector and international circumstances that sector is currently imbedded and the marketing strategy that firms undertake, you are going to find both agglomeration and decentralization. But I'm not sure if decentralization is within the domestic boundaries. That is the concern that I have.

Question: Does that mean everything is unique?

Glasmeier: People who conduct sector analysis have been able to make generalizations about certain aspects of industry and their locational behavior. Now, we are in a period of tremendous change. So what we might be able to do is describe tendencies looking forward into the future. I think it's not as easy for us today to be able to say industries follow this pattern and this pattern alone. But that does not mean you can not generalize.

Question: Have you studied the impacts of rural versus urban for something like a national health plan. In our case rural areas tend to have much lower level of coverage. In some ways that helps certain types of firms because they do not provide health plans. But it also creates a very unlevel playing field. Have you thought about the implications of this issue for locations and different industries?

Glasmeier: I've been doing some outlook scans and analysis looking at the role of services in rural areas and the number one sector that keeps coming up over and over again in terms of jobs generated is the health care sector. Whether or not national health care policy would help provide medical services into rural areas or whether it would create centers of medical services I think is a question of the way in which the government sets the policy, the scale economics, and the feasibility of certain kinds of procedures. It would be interesting to know the level of unused capacity of health care facilities in rural areas and if there is any type of specialized services that they might be able to provide, emergency services for example. Since rural facilities can not provide a whole range of service, I assume would have implications, but to read it off spatially I think is hard to do.

Question: You suggest that we should consider doing more varied disaggregated sectoral studies. Any guidance for how we can target our efforts, target the kind of sectors that we should be studying? It seems to be a very high risk game, especially when your concerned with rural areas. You might come up some very interesting results, but they may not apply to rural areas any more than they apply to the regional economy as a whole.

Glasmeier: There are quite a few sector studies that have been conducted. I think a modest body of literature has developed that actually analyzes spatial implications of different industries and relatively minor sectors. But we have not actually taken full advantage of that literature yet. I think the first step might be to take that literature and mine it for what we see in terms of peripheral locations. In some cases it may be a crap shoot. You pick one and then it's not particularly important in any given period of time. So I would take the same position. There is enough analysis for key sectors that tend to end up rural areas. For example, because I have done some work on foreign investment in the U.S. looking at the auto industry, somebody recently asked me if rural America is going to be the single location for Japanese investments. Well it turns out that if you look at the spatial locations of the Japanese investments in autos, sure enough, it's smack dab right in the middle of the midwest or the northern part of the south and it tends to be rural areas. In my opinion if you only get that much information you do not know the answer. The answer is that there are particular strategic decisions the Japanese made distributing production in different states so that they would have political influence. They picked certain kinds of rural communities and they did not pick others. It may turn out, if you look at trends in automobile sales that the U.S. is going to have excess production capacity. Therefore, the implications are that there may not be an increase in production, or if there is increased production, it may be at the expense of American firms. On the question of whether rural areas are going to be the center for foreign investment, I would have to say the probability is not high, given the sectoral circumstances. So, I would say there are benefits from looking at what has already been done and that there are also some strategic sectors in rural areas that probably would benefit from more in depth analysis.

GROWTH CENTER THEORY REVISITED

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INTRODUCTION

This paper critically examines central issues in growth center theory in terms of their relevance to current rural economic development concerns in the United States. Past U.S. regional development policies invoked growth center strategies but various pressures precluded any genuine implementation. Nevertheless, historical and contemporary evidence indicates that it is not unusual to find centers of innovative development located in areas that are peripheral in relation to major urban agglomerations. The case of peripheral Jutland, in Denmark, is examined as a relatively clear-cut case of recent rural industrialization based on state of the art flexible production in an international context. Local cultural attributes have played a key role in this process. In contrast, central government industrial and regional development policies have had relatively little impact. The principal contribution of the central government was the creation of a sound educational system.

GROWTH CENTERS AND U.S. REGIONAL DEVELOPMENT POLICY

It should be emphasized that although this paper deals with growth centers, these should not be confused with the kind of growth centers associated with U.S. regional development efforts in the late 1960's and 1970's. The federal legislation that created the Economic Development Administration and the Appalachian program called for concentration of developmental investments in places with "significant growth potential," presumably to build on existing opportunities and to reap subsequent economies of agglomeration. A detailed critique of the relevant policies and programs is given in Hansen, Higgins and Savoie (1990); suffice it to say here that there was no real implementation of a growth center strategy as understood in economic theory. The "growth center" investments that were made to increase the demand for labor were also poorly integrated with supply-side human resource development programs. In any case, critics with a rural agricultural orientation tended to regard the growth center approach as unduly urban in nature, while more urban-oriented critics complained that the designated centers were too numerous, too small, and too unpromising, i.e. they were viewed as an equity sop to rural areas. Finally, it is worth noting that the economically beneficial "spread effects" that were supposed to flow to the hinterlands of growth centers were scarcely in evidence, as has been typical of similar policy efforts in other countries. Given what is known today about the relatively long-distance linkages that exist among firms in terms of both inputs and outputs, the absence of spread effects should not be surprising--even if the induced development of a small set of genuine growth centers had been the principal object of regional development programs.

Why then resurrect the growth center notion in the context of present concerns with the long-run development prospects of areas that are peripheral in relation to large metropolitan areas? First, because the historical record indicates that economic development in Western Europe was, for the most part, not initiated in large urban core regions, but rather in smaller spontaneous growth centers located in what were then regarded as peripheral areas. And second, because there is considerable contemporary evidence that fresh economic dynamism is frequently associated with geographic clusters of new firms located away from major urban centers--though these emergent clusters may eventually become major urban centers in their own right.

SPONTANEOUS PERIPHERAL GROWTH CENTERS

European historical experience. Amidst all of the theoretical discussions of cores, peripheries, and hierarchies, there has been an unfortunate tendency to neglect the prominent historical importance of small cities. The record in fact clearly indicates that development-inducing innovations have not typically been initiated in the large urban cores that commercially dominated world-economies or even national economies. In the later Middle Ages market activity was greatest in areas of half-hearted political control, such as borderlands between feudal units (Jones, 1981). The principal means by which the expanding market system broke up or bypassed the guild system in Europe as a whole was probably the rise of decentralized domestic industry, which set up an elaborate trade network among regions and across frontiers. Throughout Western Europe small towns offered considerable scope for individual and local solutions to scientific and administrative problems, whereas in Asia, absolutist, centralized empires stifled all economic progress. In 17th and 18th century England, for example, small towns were the places where a host of small but productive changes in technology, business organization, and marketing operations were being made.

Braudel (1979a) similarly maintains that the unique experience of the British Industrial Revolution was made possible by a host of transformations going back to the 16th century. He further points out that the fundamental creative changes were not launched in London, but rather in Manchester, Birmingham, Leeds, Glasgow, and countless small towns. London did not even play a prominent role in the development process until around 1830. France's later industrial revolution was similar in that the development of Paris lagged well behind the decentralized activities initiated in the North, Alsace, and Lorraine. While Braudel regards 17th century Amsterdam as the core of a world-economy, he insists that decentralized activities in such small towns as Leyden, Haarlem, Delft, Brill, Rotterdam and Dordrecht represented "the condition sine qua non of the grandeur of Amsterdam" (Braudel 1979b, p. 153). Jones (1981) even suggests that because of the economic and technological progress made possible by social and political decentralization, a recognizable and prosperous Europe might well have evolved without the traumas of the Industrial Revolution--if population had not expanded so greatly in response to real wage increases.

The contemporary context. Porter (1990), in his analysis of the competitive advantage of nations, remarks that competing firms in many internationally successful industries, and often entire clusters of industries, are often located in a single town or region within a nation. He particularly notes how numerous industries in Italy and Germany have grouped around one or a few small geographic areas. Without reference to the growth center literature, Porter nonetheless sets forth some of its major themes in his discussion of the various advantages of geographic proximity. Thus, a concentration of rivals, customers, and suppliers promotes efficiencies and specialization and, even more important, stimulates innovation. Geographic concentration of an industry acts as a strong magnet to attract talented people and other factors to it. Proximity increases the concentration of information and the speed of information flow. Geographic concentration also encourages processes of entry because spin-offs have a tendency to locate near the original firm. And proximity leads to early exposure of imbalances, needs, or constraints within the cluster to be addressed or exploited. IN view of the fact that the conditions that underlie national competitiveness are so often localized within a nation--though at different locations for different industries--Porter questions whether the nation is a relevant unit of economic analysis. Yet despite this crucial observation, only a few pages of his lengthy book are devoted to the role of geographic analysis; because economists are rarely equipped to deal with spatial issues, such issues tend to be ignored or treated inadequately.

Fortunately, economists' contributions of relevance to spatial analysis have been picked up and applied by scholars in such disciplines as economic geography and urban and regional planning. In this regard, growth center theory has recently been revivified by concepts and theories borrowed from economics, and particularly the field of industrial organization. In contrast to the spatial division of labor involving the decentralization of standardized, routine production activities to areas with abundant supplies of cheap labor, it is now frequently argued that a number of current tendencies favor agglomeration of economic activities. These include the increasing use of flexible technologies, just-in-time delivery systems, smallness of scale, and vertical disintegration. Storper and Christopherson (1987) suggest that flexible specialization in both manufacturing and producer services may account for much of the resurgence of metropolitan growth in the United States. Scott (1986, p. 225\4) similarly argues that "vertical disintegration encourages agglomeration, and agglomeration encourages vertical disintegration. In this way, localized industrial complexes, or growth centers, come into being, and the more they grow (up to a certain point at least) the more their locational attractiveness in intensified." Scott and Storper (1987) point out that in the United States ensembles of new industry have typically been established outside of dominant industrial areas. High-technology sectors, for example, have had their greatest growth in areas on the peripheries of existing large industrial cities, or in smaller urban areas--e.g., Dallas, Colorado Springs, and Phoenix--which then expanded to major metropolitan status. Similar examples of recent peripheral area development are given in Hansen (1990) and Stöhr (1986).

Although the recent literature on new industrial complexes in Europe and the United States indicates that centers of innovation and development are most likely to be found in regions peripheral to old industrial regions, the fact remains that these "peripheral" locations are still largely metropolitan in nature. Does this imply that small towns and rural areas are simply not capable of generating or adopting the development-inducing innovations found in the newer urban growth centers? It is indeed difficult to find examples of economically-lagging peripheral nonmetropolitan areas that have been transformed into modern industrial areas. (There is of course no lack of examples of rural areas where products at the low end of the product cycle are manufactured by cheap, relatively low-skilled labor.) The case of peripheral Jutland is a notable exception. The experience of this Danish region therefore merits careful study for insights that may be applicable in the context of peripheral nonmetropolitan areas elsewhere.

RURAL INDUSTRIAL DEVELOPMENT IN PERIPHERAL JUTLAND

<u>The setting</u>. Jutland (Jylland) consists of seven counties which account for most of the area of Denmark. Peripheral Jutland is defined here to include five counties: Ribe, Sønderjylland, Ringkøbing, Viborg, and Nordjylland. The remaining counties, Vejle

and Aarhus, are not considered because they have established industrial traditions going back to the last century. Peripheral Jutland, historically a land of independent farmers and fishermen, has been very extrinsic in terms of relations with Copenhagen, which lies at the eastern end of Denmark, on the island of Zealand (Sjaelland). In the past communication between the capital and western Jutland was always difficult; even today an auto trip between he two areas requires a break if at least an hour and a half by ferry, and peripheral Jutland still lacks express highways. Moreover, only in recent decades have most peripheral Jutlanders become "bilingual," that is speaking "official" Danish as well as the local dialect, which is unintelligible in the capital. Traditional tensions between Copenhagen and peripheral Jutland persist in many ways and are consistent with the fact that economic development in peripheral Jutland has taken place largely without reliance upon the central government.

Industrial employment change. Industrial employment in Denmark as a whole fell from 417,000 in 1972 to 363,000 in 1982, but then rebounded to 406,000 by 1987. Between 1972 and 1982, industrial employment in greater Copenhagen declined form 156,000 to 109,000; by 1987 there were still 109,00 industrial workers in the area. In contrast, industrial employment in peripheral Jutland rose from 102,000 in 1972, to 115,000 in 1982, to 140,000 in 1987 (MiljØministeriet Planstyrelsen, 1990). By 1987, peripheral Jutland, which only a few decades earlier had little industry, had 28 percent of the Danish population but accounted for 35 percent of national industrial employment.

Within peripheral Jutland there as a striking difference in industrial employment change by size of locality (kommune). Between 1972 and 1987, there was a small decline n the number of industrial employees in localities where the largest town had more than 40,000 inhabitants. In localities where the largest town was in the 10,000-40000 population range, industrial employment rose by 6,000. But in localities where the largest town had fewer than 10,000 inhabitants, industrial employment increased by 30,000. Moreover, these small peripheral Jutland communities alone accounted for 18 percent of total Danish industrial employment by 1987, as well as for 44 percent of the growth in such employment between 1982 and 1987.

Nature and significance. In this section I will attempt to summarize some of the principle features of the industrialization of peripheral Jutland. These remarks are based on a review of the relevant Danish literature as well as extensive interviews I have had with entrepreneurs, public officials, chambers of commerce, and trade associations.

The industrialization process has clearly been based on endogenous entrepreneurship. Less than 10 percent of industrial employment can be accounted for by establishments that have come from outside peripheral Jutland. The local culture strongly supports individualism and independence, which is considered to be a necessity for the good life. The great majority of new firms have been started by persons who have been the sons of self-employed fathers, many of whom were farmers or fishermen. Nevertheless, there is also a strong agricultural tradition of working closely together through cooperative associations, a tradition that has been carried forward by small firms in the industrial sector.

The financing of new firms comes largely from the entrepreneurs' own resources, from funds borrowed from relatives or friends, or from local banks. Local bankers and entrepreneurs have close personal relations, and entrepreneurs in peripheral

Jutland are more likely than their Copenhagen counterparts to own a house that can be used as security for a loan. Small firms exist in a very turbulent economic environment and many go out of business; half of the industrial firms started in the 1970's have disappeared. Nevertheless, owners of failed firms often start new ones. The desire to be independent frequently puts limits on the size of a firm. The typical starter knows how to make a product but not much about management and marketing; in order not to lose control to experts in such matters, the owner will not expand beyond the 15-25 employee range.

So long as entrepreneurs perceive that they can maintain their essential independence they will cooperate with other firms. Thus cooperative networks have been formed to deal with input purchases (to gain quantity discounts), subcontracting, marketing, and other facets of business. Here again it is necessary to emphasize the importance of the cultural factor. Economic networking cannot be forced by outside parties. It can be encouraged, but essentially it takes place spontaneously on the basis of existing social networks (e.g. the Rotary Club, card playing, football clubs) that create an environment of mutual trust.

According to OECD classifications, relatively few products manufactured in peripheral Jutland fall into the high technology category. However, I strongly question the very meaning of a high technology <u>product</u>. Technologies are applied in industrial <u>processes</u>, and the manufacturing processes used in peripheral Jutland are state of the art--indeed they must be for firms to survive in international competition. Although the small firms characteristic of peripheral Jutland make few technologically advanced innovations, they often apply existing technologies in new and improved ways and thus play a significant role in the diffusion of innovations and in economic diversification.

Although a wide variety of manufacturing activity takes place throughout peripheral Jutland, there is a pronounced tendency for firms within an industry and in related industries to cluster in small-town growth centers. For example, there is a major concentration of clothing and textile firms in the Herning-Ikast corridor. These firms both produce and import clothing for the Danish market, but they also export a great deal of their output, particularly to Germany and neighboring Scandinavian countries. The Herning-Ikast growth center, as others in peripheral Jutland, clearly illustrates how Marshallian external economies can come into play with the localized development of an industry. New firm incubator facilities, technical information centers, joint marketing facilities, and excellent industry-oriented vocational education schools both originated from and have contributed to the dynamism of the complex. In the past there have been no dominant firms in the complex though there are now clear indications that international competition is forcing greater organizational concentration. Turkey, for example, now produces clothing and textiles to German standards at half the Danish price. (Industry in peripheral Jutland is not based on cheap labor; by some estimates the discretionary income of workers in peripheral Jutland is greater than that of Copenhagen workers because of the high cost of housing in the capital.) In the Herning-Ikast area, as elsewhere, the survival of Danish firms will depend even more than in the past on ability to be the best niche producers in terms of combined quality, variety, and price considerations.

Other examples of industry-specific growth centers in peripheral Jutland include electronics (Pandrup and Struer-Lemvig-Skive), industrial equipment (Bjerringbro, Nordborg), plastic toys (Billund), ironworking (Lem), Kitchens (ØLgod), shoes

(Bredebro), furniture (Salling Peninsula), and windmills for generating electricity (Herning).

Although it has frequently been argued that just-in-time inventory practices imply increasing spatial concentration of manufacturing firms and their suppliers, this has not been an important factor in the development of growth centers in peripheral Jutland. Just-in-time practices are common, but the relevant inputs typically come from elsewhere in Denmark or, in many cases, from Germany, Sweden or other foreign countries. As in the case of Mexican suppliers of auto components to assembly plants in the U.S. Midwest, physical proximity is not necessary so long as the timing of deliveries can be made in a reliable and predictable manner.

It has also been argued that, in view of the increasingly important need for information inputs, proximity of producer services is needed for the successful expansion of innovative manufacturing activities. Although there has been substantial growth of producer services in Jutland, the more sophisticated activities, e.g. data processing and advertising, are heavily concentrated in Copenhagen and, to a lesser extent, in larger provincial cities. Manufacturing firms in small town growth centers can obtain most relatively routine services locally or they have in house capabilities; but if they have to obtain other services from more distant localities this is not regarded as a significant problem.

SUMMARY AND CONCLUSIONS

The historical record and contemporary evidence both suggest that it is not uncommon for centers of innovative economic activity to develop in areas that are peripheral to the larger metropolitan areas. The problem from a rural development perspective is that these peripheral centers have still been largely urban in nature. It is difficult to find examples of rural areas that have successfully industrialized (and retained their rural character) except on the basis of cheap labor producing standardized products in branch plants. In contrast, peripheral Jutland provides a clear case of endogenous, innovative rural industrialization. However, it would be difficult to simply attempt to emulate this process elsewhere because of the critical role of the cultural factor.

U.S. observers have suggested that technical information centers and small-firm networking programs are aspects of the Danish experience that could be successfully applied in the United States. But this puts the cart before the horse. The technical information centers are not relevant to most firms in peripheral Jutland; they have been helpful in some instances, but in any case they have been an outgrowth of industrial expansion and have not been a significant inducing element in the development process. The Danish government's networking program was inspired by an American professor who revealed the marvels of the Third Italy to government officials who were ignorant of the fact that networking has long been practiced in peripheral Jutland. And where networking does not take place spontaneously, it is extremely difficult for outside consultants to bring it about. On the positive side, the central government did indirectly promote development in peripheral Jutland through the creation of a substantial social infrastructure, particularly highquality general education and industry-relevant technical education. Beyond that, development has been essentially locally initiated and locally sustained.

Regions whose people look to subsidies in one form or another to ensure their economic destinies are likely to be disappointed. Danish experience suggests that even in peripheral rural areas nonagricultural economic opportunities exist for those able and willing to seize them. The United States is still a land of great economic opportunity, and while the pioneering spirit that characterized those persons who originally settled rural America is no doubt still present, it not seems most in evidence among recent immigrants--and they rarely settle in rural areas.

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DISCUSSION

Question: Amy's talk sounded vaguely optimistic about the possibilities of academic contribution to rural development. Your's was more pessimistic, I mean implicitly not explicitly. I wonder what advice, if your self interests were not involved, would you give country X about using academic experts and to help rural development?

Hansen: I have no comment on that. The thing is that the academic stuff just never filters down to the practitioners. By practitioners I suppose I mean the extension services of one sort or another which are set up to help farmers, and in some cases to help small businesses, and so forth. But the people who practice at that level don't care anything about the academic literature. It's not because the academics don't make it relevant. It's not their fault. I'm not saying this as a complaint against academics, but this is an old story.

Question: So what advice would you give to first world countries with national ministries who would like to do some good work in rural development?

Hansen: List ten or twelve things that would be nice to do with the government's money. But quite frankly, I'm not sure in the end what good they are going to do if the population itself does not have a prior motivation to get something done. And when they have that, you usually do not have the need to do intervene extensively.

Question: The politics of local economic development are the bottom line. The economic development practitioner in the city has to produce a job. So when Charles Able comes around and sells industrial districts, he buys them in the off chance that it is going to work. So that's why critical academic research may not filter down. The second point, is it possible that the agricultural structure in the U.S. has created a persistent poverty population because of the structure of production and these are the people we're worried about? They are not going to be able to be entrepreneurs because not only do they not have a culture of entrepreneurship, they are dependent upon highly unstable employment and have low aspirations as partly a result of that, and the infrastructure is not there to counteract the over arching structural problems.

Hansen: Yes I agree. For me, so much of this goes back to education. Too often the schools, to me, seem to exist to inculcate Americanism or something in the US and not teach reading, writing and arithmetic. As long as you turn out people who salute the flag, don't burn the flag and all that, then the schools are successful. But Kentucky where I grew up, at least in eastern Kentucky, where I didn't grow up, and I suspect it's like this in a lot of places, the school system was the biggest local employer. And the jobs were plums where the head of the school district was a local friend and the school system was the biggest employer of last resort, all of which had nothing to do with education.

Question: I'd like to disagree with some of the discussion on rural entrepreneurship. We have a lot of spontaneous entrepreneurship out there. If you look at the businesses that are formed out there and 80-90% of them are independently generated. They rely not at all on government programs, they stay away from them. The concern of people selling the government programs is that the entrepreneurs are not adopting them. They get all their money from personal sources, their family and friends, and a little bit from local banks. And whether this is a service industry, a resource based industry, or a manufacturing industry, they are spontaneously locally generated. They are there because they live there and they want to start their own businesses. That doesn't seem to me to fit with your perception.

Hansen: I reread your paper on Pennsylvania in doing this paper and I had some questions because you had studied this rural entrepreneurship. To what extent are these people really remote? In Pennsylvania where they are they seem to have pretty easy access to metro areas. And also they're kind of isolated which is an issue you don't address. They don't do this networking that creates externality for the whole group. It's that sort of thing that is missing I think, for the regional development.

Question: If you look at the data on self employment in the United States, which to me seems to be the beginning of entrepreneurship, you find that self employment is higher in rural areas than in urban areas. The firms are smaller but higher percentage of people in rural areas are self employed. They may not be glamorous jobs, but there are indications that entrepreneurship is alive and well in rural areas.

Hansen: Well I did a study with a colleague of three cities in Texas and three cities in California of small entrepreneurs too, looking at Hispanic neighborhoods. Typically the firm has no employees or one employee. When I say no employees I mean there is the family but there are no paid individuals. They are all poor; you know you can have a whole lot of small and dying entrepreneurship. But it's not producing regional development, if you want to put it that way. I can also see somewhere that the rate of new firm creation is higher in rural areas than metro areas, but I do not know exactly what kind of firms these are. They are not building manufacturing plants, they are not providing high level producer services, I do not know what types of businesses they are.

Question: What role does government have in the act of entrepreneurship? For example, the acquisition of skills, technical training, is this privately acquired? Is it government subsidized? Is it the role of the private firm? Are these imported skills or home grown?

Hansen: With the growth of an industry, the industry creates its own technical schools, with government support. Also, the federation of industries put its own money into these things. They teach CAD/CAM sorts of things. It's really quite sophisticated but industry oriented.

COMPREHENSIVE BASES FOR LOCALLY INDUCED DEVELOPMENT

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INTRODUCTION

The phenomenon of local or community economic development has existed, both in theory and in practice, for many years. While its formal roots can perhaps be traced to the Antigonish Movement on and around Nova Scotia's Cape Breton Island during the Great Depression, local development began to attract a wider degree of attention in the mid 1960s with the emergence of community development corporations in a number of U. S. inner city areas. During the 1970s and the early 1980s, while remaining somewhat an "underground" approach, local development began to gain acceptance in policy and academic circles, and to diffuse into a broad range of developed and developing countries. Since the mid 1980s, however, due to a rapidly changing economic and social context, local development has increasingly come to be viewed as an indispensable alternative approach to the economic development of both rural and urban areas.

The purpose of this paper is to present a framework for the analysis and the utilization of the local development approach, and to explore its relevance for the economic development of rural areas, in particular. After first sketching the economic and policy context in which current local development efforts are situated, we propose some elementary definitions and consider the conceptual bases underlying the local development approach. Next, we explore some of the issues that need to be understood in order to successfully promote local development.

THE PRESENT CONTEXT

The context in which current local development efforts are situated is much different than it was a decade ago. First, the concern with economic equity across regions (in whatever manner that they may be defined) has proven to be a luxury in which most central governments can indulge only when the national economy is relatively buoyant. During periods of economic crisis, recession and major budgetary deficits, such as those that have characterized recent years, few national governments can afford to devote scarce resources to redressing regional disparities, being preoccupied instead with the issue of national economic growth and efficiency. The latter preoccupation is often translated into assistance to firms located in the most prosperous (generally metropolitan) areas. In Canada, for example, where combatting regional disparities had attained the status of a national pastime during the period 1955-1985, the recent withdrawal of resources from regional development programs and the elimination of the departments concerned with regional policy has been dramatic. The same pattern has been repeated in other developed countries. Further, the retreat from the regional development arena by most central governments has seriously undermined the ability of the second tier of government to effectively operate its own regional programs.

Second, at the same time, there has arisen a "the natives are restless" phenomenon. In the countries with a history of explicit regional policies (a set which does not include the U. S.), the relative ineffectiveness of traditional "top-down" measures (see section 3) and the consequent persistence of regional disparities in income and in employment opportunities have discouraged the inhabitants of many disadvantaged areas and have sent them searching for alternative solutions. Conversely, in countries such as the U. S., marked by relatively minor central government intervention in the regional arena, the recent economic performance of certain areas has stimulated both the local population and local institutions to take action. In the case of rural areas in the U. S., for example, there is considerable evidence that the "renaissance" of the 1970s was only a temporary aberration. Economic and demographic indicators suggest that a growing divergence between rural and urban areas exists (Beale, 1988; Brown and Deavers, 1988; Henry et al, 1987; Hoppe, 1987). In Canada, in spite of some non-metropolitan population growth during the 1970s, the renaissance never really occurred (Coffey and Polèse, 1988). Among other factors, the metropolitan-rural gap has been exacerbated by structural shifts in the economy which have favored the growth of skilled-labor intensive activities (i.e. producer services), which tend to concentrate in large cities in order to take advantage of a large and appropriately trained work force and other agglomeration economies.

In sum, given the absence of any regional policy in certain countries, given the simultaneous lack of effectiveness of traditional "top-down" policies and withdrawal of central government resources in those countries where it has existed, and given the widening disparities between metropolitan and non-metropolitan areas, the local development approach presents itself as an alternative framework that has the potential not only to fill a policy vacuum but also to respond to society's needs. In many ways, current interest in local development is the result of a self-defense reflex on the part of local communities: all else has failed. This situation contrasts sharply with that existing at the beginning of the 1980s, where certain national governments began seriously considering the possibility of integrating local development into their existing range of regional development policies.

DEFINITION AND CONCEPTUAL BASES

The term local refers to an event or a process which is initiated and/or sustained within a regional or sub-regional unit. More significantly, "local" also implies a sense of community, broadly defined: a geographic space in which a relatively homogeneous population shares certain social and/or economic objectives. As in the case of the concept of "region", the spatial scale implied by the adjective "local" is highly fluid; it may encompass the territory of several counties, a set of villages, a municipality or an urban neighborhood. This fluidity represents, simultaneously, a major strength and a major weakness of the local development approach. Development is a process of economic and social growth, accompanied by a structural shift, that is both long-term and irreversible; the more tangible results of this process normally include an increase in the relative productivity of a region's economy and thus a rise in the per capita income of its population.

Local (or endogenous) development is, therefore, not simply the development of a locality; rather, it involves an approach to development in which the local population, local institutions and other local factors (e.g. socio-cultural and behavioral attributes) act as the main engine of social and economic growth. It differs from traditional, top-down approaches to development in a number of significant ways: the integration of economic and social objectives within a broad, long-term strategy; a focus on cooperation between interest groups; and the active participation of local people in the design, priority setting and implementation of a development strategy (Coffey and Polèse, 1984). In the following portion of this section, we examine the conceptual bases underlying the use of the local development approach as a framework for stimulating community economic development.

The potential role of local development as an element of regional development policy may, in large measure, be seen to result from its complementarity with three traditional pillars of regional development theory and policy: the role of capital and infrastructure subsidies; migration as an adjustment mechanism; and the growth center approach (Coffey and Polèse, 1985). These elements will be considered briefly in turn.

Human Capital vs. Physical Capital. Although regional development specialists have long acknowledged that development is not a uniquely economic process, their behavior has often borne little resemblance to their words. Government policies and academic theories alike have generally emphasized the need to assist lagging regions in acquiring those locational characteristics judged to make them more attractive for plant location. Physical infrastructure is often expanded in an attempt to make an area appear more suitable to industry than a competing area and/or private investment is subsidized. Expenditures on education, health and social services rarely figure among the policy elements, largely due to the basic problem of measuring the returns to society on investments in human capital. It is somewhat ironic, however, that the literature on economic growth provides considerable justification for expenditures designed to improve human capital. Attempts to measure the sources of economic growth, in particular the various applications of Denison-type models (Denison, 1974), have generally concluded that a large proportion of per capita income increase may be attributed to a "residual" involving social and institutional factors such as the growth of knowledge, innovation, management skills, entrepreneurship and so forth (OECD, 1965). Thus while not necessarily supplanting the more traditional views and strategies of regional development, the "people development paradigm" clearly appears as a necessary complement to investment in physical capital.

Migration and Economic Adjustment. In the neoclassical regional adjustment model, population is essentially regarded as a set of labor inputs to be (efficiently) allocated or reallocated according to changing demand conditions. The model assumes that by redistributing labor, interregional migration will cause interregional differences in unemployment and/or wage rates to be minimized; failure for a lagging region to adjust via labor outmigration will result in higher relative unemployment and/or lower relative wages. By extension, government policies which discourage migration (e.g. transfer payments, unemployment insurance) may be seen to perpetuate disparities (Courchene, 1978). In fact, however, a well developed literature demonstrates that migrants generally comprise a proportionately higher percentage of educated individuals and of those persons possessing characteristics associated with a high potential for economic improvement; they embody not only labor but also other sources of growth -- capital, education and entrepreneurial initiative. In short, it is not unreasonable to suggest that regional growth and development depend as much, if not more, upon the composition of the population as upon locational, infrastructural and resource characteristics. Given this perspective, policies which emphasize keeping people in a region, raising their skill and knowledge level, and encouraging local entrepreneurship would appear to be instruments of regional development which are at least equally valid as those which seek equilibration through migration (Carel et al, 1989).

Growth Centers. Unlike the neoclassical model with its faith in the free market, the growth center approach generally involves a considerable amount of state intervention. In its traditional form, it attempts to selectively create the stimulus for growth in a region by establishing at one or more centers conditions conducive to economic expansion -- agglomeration and scale economies, infrastructure and service availability, linkage patterns and population and labor thresholds. One weakness of the growth center approach is that in its focus upon agglomeration and linkage effects it generally ignores the spatial origins of investment. The extent and nature of linkages, in the form of subcontracts and intrafirm flows, are greatly influenced by the location and behavior of head offices of multibranch corporations. Investments originating outside of the region often generate a much lower level of linkage effects; such is often the case with the branch plants of externally controlled corporations, which often rely upon firms in proximity to their head office for material and service inputs. In sum, the maximum retention of linkage effects would seem to require some minimum of local initiative and control.

Thus, in many ways, the concept of local development harkens back to both a sociological perspective, one emphasizing the importance of human resources, and the viewpoint of political economy, stressing the locus of ownership and control. Such emphasis upon social change and local control is the basis of many of the challenges facing this approach. In sum, local development may be seen as a partial response to the limited success of the mainstream theories and policies of regional development that have characterized the past three decades in many nations. The conceptual basis for a local development approach as an alternative and/or complementary regional development policy is in part contained in the inverses of the three frameworks presented above: people development and the role of "inferior goods" such as education; the indigenous population as a fundamental element of the regional economic base and as a potential source of growth; and the decentralization and autonomy inherent in the concept of territorial development.

THE OPERATIONALIZATION OF LOCAL DEVELOPMENT: SOME FUNDAMENTAL ISSUES

The local development approach has established a track record of successes; it has been clearly demonstrated that, in certain instances, this approach can bring about an improvement in the economic and social vitality of a community (Economic Council of Canada, 1990). But, like any other regional development initiative or like any private sector business venture, local development efforts have also known failure. What distinguishes the successes from the failures? In practice, what makes the local development approach work? Obviously, there are no simple answers to these questions. At best, we can identify certain issues that must be taken into consideration when implementing a local development approach and, based upon a growing literature and an increasing range of practical experience, offer some suggestions for dealing with these issues.

Responsibility. Who should assume the responsibility for organizing, implementing and supporting local development initiatives? It is clear that the sine qua non of local development is the willingness of a community to assume the responsibility for its own future; thus, the impetus for local development efforts must emerge "from the bottom up", and all major decisions must be made within a community itself, so as to reflect its wants, needs and aspirations. Available evidence indicates, however, that most communities cannot embark upon local development efforts entirely without a certain degree of government financial support; given the relatively disadvantaged position from which many communities begin their local development efforts, some type of financial support is essential, at least in the short-term.

If one accepts this premise, the next logical question then deals with which of the three levels of government (municipal, state/provincial, or federal) should have the responsibility for providing this necessary financial assistance. Each level has both an interest and a role to play in community economic development. While the municipal level is generally in most direct contact with local development efforts, it is often in the least favorable position to provide financial support. And, constitutionally, municipalities are creations of the states/provinces, which are directly responsible for the former. While the federal level generally has the greatest resources, it is de facto furthest removed from the community level and de jure often unable to establish direct contacts with the local level. Thus there are important issue to be addressed involving the interaction of local communities with federal, provincial and municipal governments, and involving the coordination of the efforts of the three levels of government.

While specific solutions to these issues may often be difficult to elaborate, two broad principles can be identified (Economic Council of Canada, 1990). First, the municipal level of government should probably have the most extensive ongoing and direct relationship with LDOs, and the federal level the least. This principle is based upon the view that the involvement of government in the operation of local development activities should be less extensive, the farther removed the level of government concerned is from the community level. Obviously, however, the state/provincial level and the federal level (through the former) are able to contribute financial resources. Further, the intermediate level often has a role to play in coordinating the direction of specific local strategies that occur within a given region. Second, the mechanisms of support need to be as free of bureaucratic involvement as possible. On the one hand, this means limiting the frequency of reporting, and ensuring the simplicity of reporting requirements. On the other hand, it also implies that guidelines about how funds are spent should be broad and flexible.

Structure vs. Initiatives. Is it better to develop structures or mechanisms within the community that permit it to determine and to pursue its own strategies, or to establish specific initiatives or projects designed to actively enhance the community's level of economic development? Each of these alternatives is a necessary but not sufficient element of local development; each must be addressed. While communities undertaking local development for the first time are often anxious to launch several initiatives and thereby to establish a track record for themselves, there is a strong consensus among students of the field that appropriate structures must be developed and put in place before any specific initiatives can be successful. The justification for this view lies in the very nature of the local development process: it is not fundamentally an economic phenomenon; rather, it is an institution-building process involving social, psychological, cultural and political components. While economic growth and development may be one tangible outcome of local development, a purely economic approach will generally not yield satisfactory results. Indeed, a major problem with many existing government programs that are used to assist local development efforts is that they tend to emphasize specific initiatives without addressing the structures or the non-economic aspects.

Appropriate Structures or Mechanisms. What is the proper structure or mechanism upon which communities should base their local development efforts? There is no easy answer to this question as the appropriate body can assume a wide variety of specific shapes and sizes. Generically, such a community institution may be referred to as a local development organization (LDO)[1]; most often, it takes the form of a legally incorporated not-for-profit organization. A LDO fulfills a number of important functions. First, it generally becomes the focal point of a community, and is instrumental in enabling the latter to develop a sense of identity and purpose; it also serves to bring together members of the local community and to permit them to utilize their specific skills or knowledge within an organized framework in order to promote social and economic development. As noted, the efforts of a LDO need not necessarily be limited to economic pursuits; the development of the economic base through the growth of capital can serve as an instrument to achieve other goals.

Second, a LDO often becomes the community's principal forum for identifying problems and priorities, for developing plans and strategies, for debating alternatives. In order to successfully fulfil this function an LDO must be representative of the interests of the community; in order to be representative the LDO must originate from within the community, not be imposed by external agents.

Third, LDOs generally launch their own development initiatives; through their programs and projects, and through their

[1] Some writers (e.g., Perry, 1987) use the term community development corporation (CDC) synonymously; for others, including the present author, a CDC refers to a specific for-profit venture initiated by a LDO.

own commercial ventures (CDCs), LDOs seek to create jobs, to improve the performance of local firms, and to stimulate entrepreneurship (Lamontagne, 1989). Their involvement in commercial ventures can serve the dual purposes of generating funds for the achievement of social and economic goals, and of increasing the prospects for self-sufficiency. Financial survival is indeed one of the most consuming preoccupations for LDOs and, although some of them can benefit from their profitable commercial divisions, many more continue to need public assistance in order to exist. The available evidence indicates that, for many LDOs, financial self-sufficiency is not a realistic short-term goal.

Before leaving the topic of appropriate structures underlying local development efforts, a few words must be added concerning the potential role of universities and other educational institutions. In certain isolated regions local educational institutions have become the focal point of social and economic development efforts. Sometimes in conjunction with LDOs, sometimes in the absence of the latter, these institutions have stimulated a sense of local identity and culture, animated debates on community needs and priorities, and have furnished both expertise and, in some cases, modest financial assistance; they have also served as role models for local enterprises. An educational institution has the capacity to advise, instruct, support, invent, import ideas and technologies, promote the development of ideas and technologies from within the region, facilitate contacts between specialists and local businesses, and develop human resources. A particularly striking example of the role of educational institutions in a local development context was the establishment at the end of the 1960s of the University of Quebec system, where five of the six constituent branch campuses were established outside of the Montreal metropolis, explicitly for the purpose of promoting the social and economic development of the province's non-metropolitan areas.

Local Development Initiatives. Once an underlying local development structure has been established, what types of initiatives (projects, programs) should be undertaken? Once again, the response to this question is rather complex; a wide variety of specific approaches have been implemented with success. A recently completed analysis of local development by the Economic Council of Canada[2] (1990) identified two major ways in which local development initiatives have contributed to the creation and the promotion of economic and social development in local communities: 1) the enhancement or expansion of local resources; and 2) facilitating the response to market opportunities. The former initiatives may be considered as addressing the "supply side", while the latter address the "demand side".[3]

Enhancing Local Resources. Three classes of activity have been shown to have the potential to produce a supply side impact. First, certain local development initiatives have been successful at

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[2] The author was a member of the advisory committee for this major three-year study. Certain of the following sections of the present paper draw upon the research conducted during this project.

[3] More detailed information concerning the points briefly summarized in the following paragraphs may be found in a series of 24 cases studies conducted by the Economic Council of Canada and published as the "Local Development Paper Series". These documents are available from the Publications Division, Economic Council of Canada, Ottawa, Ontario, K1P 5V6.

promoting the utilization of idle human and physical resources. The creation of jobs for the unemployed residents of the community has been one major result of such initiatives; in certain cases this has been combined with programs focusing upon occupational adjustment: training designed to impart specific skills, or the teaching of general skills and work habits designed to bring the hard-core unemployed onto the job market at a low cost. In other, less frequent, instances, activities have involved idle physical or natural resources. For example, abandoned factories have been recycled, small woodlots have been regrouped in order to achieve economies of scale, and idle farmland has been reactivated in order to take advantage of new agricultural opportunities.

Second, certain initiatives have sought to expand the resource base of the community. Three types of activities have been involved: the generation of new infrastructure, both physical and social (e.g., new institutions such as LDOs themselves); the encouragement of direct business investment; and the expansion of the supply of financial capital available to the community. As the latter is by far the most common approach it warrants special attention. The expansion of financial capital can take the form of reducing the cost of financial intermediation, as in the case of community loan funds which make short-term, small-scale loans (usually of less than $50,000) at lower than market rates to community-generated initiatives; counselling and money management services to borrowers are also often provided. In addition, certain communities have been able to pool government funds and local capital in order to provide loans to local businesses and to help them to gain access to other sources of capital that would be otherwise out of reach (leveraging). One of the explicit goals of the financial capital approach is the stimulation of local entrepreneur ship by helping to remove one of the major external constraints to the emergence of the latter (Coffey and Polèse, 1984; 1985).

Third, certain initiatives have sought to improve the productivity of local factors and, thus, to enhance the capacity to compete in external markets. As mentioned above, training and development programs have been able to increase labor productivity. Other productivity gains have been achieved through the adoption of better management techniques and of new technology. Productivity in local development organizations (LDOs) or community development corporations (CDCs) themselves can also be indirectly improved through cost reduction, for example by using volunteer (unpaid) labor inputs -- volunteer board of directors, volunteer staffing.

Responding to Market Opportunities. On the demand side, two types of initiatives may enable local capacities to better respond to the opportunities presented by regional, national and international markets. First, LDOs have often specifically sought to aid local firms and local groups to acquire better information on rapidly changing market conditions and market opportunities (both internal and external), product and process innovations, technologies, and funding sources. This may be referred to as an information brokerage function, and involves accessing, extracting, sorting, and transferring specific information relevant to the needs of a specific community, a specific firm, or a specific LDO or CDC.

Second, after identifying business opportunities available in the local area, community groups or LDOs have frequently invested in for-profit direct business ventures -- CDCs. In rural areas, CDCs have been involved in fish processing, forestry, housing, agricultural biotechnology, tourism, and transport (OECD, 1987). The typical CDC has much in common with a privately programs. Further, it must be recognized that in many instances an LDO must first perform its information brokerage and/or leveraging functions in order to ensure that local community or private ventures will have the necessary access to existing funding sources.

In cases where government funding is provided it is necessary to strike a reasonable balance between local community control and responsible supervision of spending by the funding agency. Many LDOs complain that government financial assistance programs are too difficult to use because of too much red tape, program criteria that are too narrow, and excessively lengthy approval processes. Another complaint is that ground rules of government programs may require LDOs to accept development goals that are not their own and that are inconsistent with the community's aspirations. In many cases these criticisms may be true, but they do not alter the fact that the funding agency has a responsibility to ensure that its funds are used in accordance with sound accounting principles. Ideally, however, the agency should attempt to reduce reporting requirements to the bare minimum. Finally, in the best interests of both the funding agency and the LDO, it should be clear that financial assistance will not continue indefinitely but will be phased out in stages over a predetermined period.

Selection of Communities. Two criteria must underlie the choice of which communities should receive assistance from public funds: need and potential. Automatically excluded are those communities that are flourishing and those that have no prospects for improvement. While the measurement of need is relatively straightforward, the assessment of the development potential of a community is much more complex. For this reason, the Economic Council of Canada (1990) recommends that communities become involved in the selection process at an early stage; the initial identification of development potential should come from the community and its LDO rather than from a funding agency. In the early stages of the process, government support can be used to help the community to begin its planning and assessment activities. And a prerequisite for further financial assistance should be a commitment of money and/or other resources by the community to the development effort.

Finally, let us note in passing that among some policymakers there is a debate over whether "disadvantaged" neighborhoods within large urban areas should be eligible for local development assistance. While urban communities are less likely to suffer from human resource and information infrastructure gaps, there is no denying the presence of development needs in many large urban centers where pockets of poverty, high unemployment, and inadequate social services are found.

Evaluation. The evaluation of local development efforts, i. e. the measurement of performance, is an issue distinct from that of financial reporting and the supervision of spending. The lack of an existing well defined evaluation framework creates serious problems for both LDOs and the funding agencies that support them; the LDOs cannot easily estimate the results achieved by different strategies in different situations, and the funding agencies cannot easily judge if their investments have been "effective" or "profitable". Indeed, evidence suggests that the inherent difficulty in evaluating local development efforts has been a major factor underlying the reluctance of some government agencies and departments to provide financial support in this area (Coffey and Polèse, 1985).

In the case of local development efforts, the classic process of evaluation --defining objectives, determining performance indicators, measurement and interpretation of results achieved-- is fraught with complexity. In addition to the usual problems of distinguishing between incremental and redistributive effects, and identifying causality, there are other more specific difficulties: local development objectives are both social and economic in nature, making the assignment of dollar values to benefits and costs often unsuitable; appropriate social indicators are often difficult to identify; micro-area data are rarely available for the indicators desired; LDOs lack the necessary resources and expertise for undertaking an evaluation. Nevertheless, in spite of these limitations, simple but regular evaluations can and must be performed, especially as they will both enhance internal control and increase external support.

POLICY OPTIONS FOR LOCAL DEVELOPMENT

As the previous sections indicate, the local development approach can encompass a broad range of specific forms and activities. A community seeking to initiate local development efforts, and a government agency seeking to assist that community, will be faced by the necessity to make certain choices concerning the strategies that should be pursued and the manner in which resources should be allocated. Table 1 proposes a synthesis of the range of choices available; these are the broad policy options open both to communities and to government. The three options are not mutually exclusive; not only are they complementary but elements of each can be combined selectively.

As we move from option 1 (business funding) to option 3 (structure-building) the alternatives become more complex and progressively further removed from the criterion of immediate profitability; thus it becomes increasingly difficult to evaluate their performance. The first option is aimed at entrepreneurs (whether they be individuals or community organizations) and is designed to supply them with the venture capital that the market may be reluctant to provide. Small business is the focal point of this option and potential profit-making capacity is the ultimate evaluation criterion. Yet many of these projects would, by definition, be rejected by the normal banking system due to the very high levels of risk and failure that they entail.

The second option addresses the more complex problem of access to information, broadly defined. In principle, it is aimed at the entire local population and at small business. The focus of this option is not upon supplying financial assistance but, rather, upon performing services, especially those related to the acquisition of knowledge and skills, and the diffusion of information concerning market opportunities and access to capital.

The third option, structure-building, is the most general and the most ambitious; it is also the most difficult to implement and to evaluate, particularly in the case where, in the absence of clearly defined goals and instruments, LDOs are given ambiguous mandates. The primary raison d'être of these organizations is in the area of community identity and motivation, and in preparing the way for specific programs and projects. It is by no means certain that LDOs are the optimal mechanism for acquiring and transmitting information or for coordinating business funding.

Initiating the process of local development not only involves each of these three policy options, but requires that they be addressed in a sequential manner. This sequence is, however, the reverse of the order established in Table 1, which reflects the capability and willingness of society to deal with the options. In other words, structure-building must precede information acquisition and dissemination which must, in turn, precede business

TABLE 1
THREE POLICY OPTIONS FOR LOCAL DEVELOPMENT

	OPTION 1: BUSINESS FUNDING	OPTION 2: INFORMATION	OPTION 3: STRUCTURE-BUILDING
TARGET GROUP	Small Business*	Individuals/Small Business*	Communities/Community Institutions
MAIN OBSTACLE	Shortage of Capital	Lack of Knowledge and Skills; Lack of Information on Market Opportunities and Access to Capital	Inability to Develop Identity/Institutal Structure/Entrepreneurial Spirit
PRIORITIES	1. Financing	1. Information and Training	1. Community Organization

	2. Information and Training 3. Community Organization	2. Community Organization 3. Financing	2. Information and Training 3. Financing
IMPLEMENTATION VEHICLES	Loans, Grants, Community Loan Funds, etc.	Education and Training Programs;Information Networks and Infrastructure	LDOs and Other Community Institutions
EVALUATION CRITERIA	Profit-Making Potential	Internal Criteria Related to Quality of Services Provided	Internal Criteria Related to Community Goals and Long-Term Potential to Generate Development

*Refers to both private sector ventures and for-profit activities sponsored by LDOs.
Source: After Coffey and Pólese (1985)

funding. If this sequence is not followed, or if one or more stages are omitted, the results achieved will likely fall far short of those desired. Experience has shown, however, that far too often emphasis is immediately placed upon option 1, being the most tangible and familiar alternative in the case of both communities and governments.

CONCLUSION

The community based approach to development is particularly important in that it fills a void in the current range of economic policies. National economic policy is increasingly restricted to matters of overall growth and efficiency; regional policy, where it still exists, is concerned with the macro-scale --the spatial distribution of economic well-being across a set of large regions (often sets of states or provinces; in some cases a single state or province; much less frequently a sub-state or sub-provincial area). Municipal economic policies are rather rare and, where they exist, tend to deal with highly specific projects such as industrial parks. The local development approach thus has an important contribution to make in proposing a complementary perspective.

Local development is both social and economic in nature. On the one hand, it is an institution-building process that involves sociological, psychological, cultural and political components. This is both the strength of the approach, in that it involves a way of life and a commitment to one's community, but also its greatest weakness: not only is it difficult to evaluate non-economic performance, but social objectives are not currently high on the list of government policy priorities. On the other hand, for economic development to occur, the conditions of, and barriers to, the growth of small business must be addressed. Economic precepts and principles are able to provide important guidelines for local development efforts, even if certain elements of mainstream neo-classical economics must, by definition, be explicitly rejected. Thus, the local development approach must be based upon a close collaboration between the interests of the community and those of the private sector. It must be noted, however, that combining social and economic objectives within the same strategy can potentially cause difficulties; conflicts may occur between viewpoints concerned with promoting social objectives and those concerned with the bottom line of a financial statement.

In concluding its study of local development, the Economic Council of Canada (1990) proposes several relevant principles that should guide efforts in this area; these principles explicitly reflect the social and economic character of local development. First, communities should give high priority to structure-building and to capacity-building, in particular to human resource and information infrastructures that can support both public and private initiatives. Second, local development initiatives will have a greater impact if they attempt to respond to market opportunities more directly than has traditionally been the case; communities must attempt to promote a strong local private sector, particularly through the nurturing of entrepreneurs and new small businesses. And, third, communities should pursue a diversified array of projects in order to increase the stability and sustainability of the overall development effort.

Local development is not a panacea that may be applied indiscriminately to the economic difficulties of disadvantaged communities; this approach can begin to make a difference only in those circumstances where the social and economic potential for development already exists. Experience has shown that the local development approach can be successfully implemented in both urban and rural milieux. In the view of this author, however, it is often a significantly greater challenge to stimulate local development in a rural framework due to a greater sense of individualism among the population and due to the inherent difficulty of creating a sense of community over relatively vast geographic zones.

Finally, it is also important to recognize that, alone, local development initiatives have not had a significant quantitative impact on job creation, income generation or social improvement. This is not surprising given the relatively small scale at which local development initiatives operate and the relatively inhospitable environments in which they are implemented. One can only speculate on whether more substantial results could be achieved by increasing the quantity and the scope of local development efforts.

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DISCUSSION

Question: A couple of points, first of all your central model does not have any place in it for individuals to act as change agents. I'd like to ask you what you think about that? The second point is a dilemma that seems to exist in rural areas, which maybe part of that issue that you raised about the difficult nature of rural areas, where on the one hand there is often a missing ingredient in rural areas of some kind of over-arching organization to create those local development organizations. Yet, if you look outside for something to get them started, they never achieve the acceptance of the necessary individuals. The individuals do not recognize those as being legitimate they are not of their own making.

Coffey: The first point in terms of the role of the individual, I think there is obviously a role for the individual. In a lot of cases, community development organizations are stimulated by the particular drive, particular charisma of a given individual. I think the same role exists for the private sector activities as well. I see community development as being the cooperation among individuals, a lot of dynamic people working together for a common purpose. In terms of this problem of outside acceptance, I agree in part with you. If we look for example, at some of the case studies of local development efforts that have been done over the last several years, one finds a range of things that federal or state provincial government have imposed upon a local development organization. In that case I am in complete agreement that there is a problem because it was not something that grew from within the communities. In that case it is not going to work. I think that the point I was making is there has to be a seed within the community or a sense of purpose, a sense of community. And once that exists, in order for the seed to flourish, some sort of outside aid, financial or otherwise, is necessary. In this case the outside intervention is not really a "top down" sort of mechanism, but it's something that is being seen as complementary to the endogenous effort.

<u>Question:</u> Do you have any sense of the differences, or the roles of local governments and its variation in North America, as giving us any clues to those kinds of setting where there seems to be, because of the way which local governance takes place, more commonwealth and more economic development?

<u>Coffey:</u> Not really. I think in my experience, municipal governments and their policies for local economic development at a local level often is not the same thing as local developments as defined here. In a lot of cases local municipal level economic development efforts are concerned with boosterism: Our community is a wonderful place to live and establish your business; a lot of head hunting a lot of small rural communities sending trade delegations to Japan to lure a Toyota factory to town. Also, a lot of municipal policies are concerned with developing physical infrastructure such as industrial parks and more recently high technology parks where people are even talking about service activity parks. So, my experience is that the municipal level efforts have really not been very helpful in stimulating community grassroots development.

<u>Question:</u> Do you have any guidance for how local elected officials can more effectively do those things that have an impact on local economic development, in terms of getting away from boosterism?

<u>Coffey:</u> Well, I think so, as I said at the beginning, it's the municipal level of government which is most in direct contact with development efforts. One of the main problems is that their efforts have not really been coordinate with the community approach. I think there are a great many things that the municipal level of government can do to facilitate this emergence of community purpose, identity, and the whole set of subsequent for profit and not for profit types of activities that are going to result from that.

If I can just add another comment about the earlier question you asked regarding whether I noticed if there was a difference across countries in North America in terms of different levels of involvement or remoteness of local government. I do not see that as being the critical dimension. For me what is much more important is the cultural factor. In my own experience, when I was in Nova Scotia working for ten years I had an experience with local development efforts on Cape Breton Island which is one of the least developed parts of Nova Scotia. To be an entrepreneur there is to make yourself suspect by other members of the community. There is a culture, a sense of individualism, that if you have to do something different, something that moves outside of the norms of the community, you are going to encounter a great deal of resistance. To contrast that with where I am now in Quebec, there is this region east of Montreal, which for quite a number of years now has been having the reputation for the most dynamic region for entrepreneurship in all of Canada. It's a cultural factor. Entrepreneurship is something that is culturally accepted. People who are entrepreneurs are put on a pedestal, they're virtually revered by the rest of the community. So locally, I think of these very amorphous cultural factors that can either put in place or remove very major constraints to the emergence of entrepreneurial activity.

RE-THINKING REGIONAL ECONOMIC DEVELOPMENT
How Deregulation and Sectoral Shifts are Changing "The Rules of the Game"

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After a brief period of convergence in the 1970s, the economic gap between metropolitan and nonmetropolitan areas is growing. Thus far, attempts to explain the sources of this regressive trend and the continued economic underdevelopment of many nonmetropolitan areas have focussed primarily on the "deindustrialization" of nonmetropolitan areas and the loss in the "heartland's" share of the national income (Obey, 1988; Gorham and Harrison, 1989; and Markusen and Carlson, 1989). Less attention has been paid to two other interrelated processes that are re-making nonmetropolitan regional economies and altering the possibilities for regional economic development. The first process, the restructuring of service sector employment, directly affects the number and kinds of jobs available in many nonmetropolitan communities. As firms in banking, retail and other services restructure their operations in response to highly competitive financial and product markets, they are implementing labor force strategies to increase labor productivity, using fewer workers to accomplish more tasks. The second process is a dramatic change in the role of federal government. The major elements of this redefined role include: 1) the redistribution of responsibility for social and physical infrastructure to the state and local level; and 2) the withdrawal of the federal government from its historical role of intervening in the market via sectoral and labor market regulation. Though deregulation has been directed at and resulted in sectoral restructuring, it has consequences for the spatial distribution of public and private services and for regional equity. The effects of de-regulation are felt not only in firm organizational decisions but in firm locational decisions.

Together, de-regulation and sectoral reorganization have altered the environment for economic development. As a consequence, policy-makers in the 1990s have a new and different set of constraints to consider when trying to formulate economic policy initiatives. The situation calls for a fresh look at the assumptions underlying locally-initiated economic development and at our priorities. To contribute to this reassessment I will briefly outline both the macro-economic and regulatory trends that are altering "the rules of the game". I will then take a critical look at the kind of locally initiated economic development that is being promoted as a panacea for the economic problems facing some nonmetropolitan regions.

CHANGES IN LABOR DEPLOYMENT PATTERNS IN THE SERVICE ECONOMY

Since the early 1980s there has been a continuing debate over how the U.S. labor market is changing, how emerging patterns of work affect different segments of the workforce and how the apparent flexibility of the U.S. workforce is related to productivity and employment rates. Evidence from a recently completed study of labor flexibility in the U.S. sheds light on some of these patterns and processes as they developed during the 1980s (Christopherson, Noyelle and Redfield, 1990). The findings of this study contradict depictions of service economies as inherently dominated by low-skilled work and by expanding "peripheral" employment in part-time and temporary jobs. In some respects, the findings parallel earlier insights that there is no "natural" trajectory from craft to mass production in industrialized economies supporting a similar notion that there is no natural trajectory for the development of a service-based economy. Firm strategies in response to financial and output markets as well as labor supply conditions play a pivotal role in determining labor deployment patterns. Although the low-skilled, low wage scenario may have accurately characterized the U.S. labor market in the late 1970s and early 1980s, firm strategies have changed over the course of the 1980s and are reflected in considerably different patterns of labor deployment.

The salient feature of the U.S. labor market of the 1980s is a move away from "extensive" numerical forms of labor flexibility, such as part-time and temporary work and toward more "intensive" employment patterns. These include a higher proportion of jobs which combine routine and non-routine tasks, intensive forms of numerical flexibility such as longer work hours, and the increased use of mechanisms to directly link earnings to productivity.

Before attempting to explore why U.S. firms have changed their labor deployment patterns, it is useful to briefly review some of the major trends.

TRENDS IN THE DISTRIBUTION OF WORK

Despite serious data limitations, we can see the broad outlines of a change in labor demand between 1970 and 1990.

From 1970 to 1980, 20.6 million net new jobs were added to the U.S. economy. Another 15.7 million jobs were added between 1980 and 1988. Approximately 60 percent of the new jobs filled during those years were filled by women. And from 1970 until 1982, when the share of part-time employment peaked, nearly a third of the new jobs were part-time.

If one looks at the changing relationship between the number of hours worked per capita and the number of hours worked per working age adult between 1965 and 1986, per capita work hours were 14 percent higher in 1986 than in 1965, while hours worked per working age adult (between the age of 16 and 65) declined 4 percent during the same period. Almost all of this increase in work hours is attributable to increased work hours by women, the result of their increasing participation in the labor force during those years. Women across all age groups increased their hours of paid work by about 6 hours a week between 1975 and 1985.

Another dimension in the redistribution of work in the American workforce, especially during the 1980s, was the continuing existence of a hard core population of "discouraged workers"--people who say they want work, but are not seeking jobs or who work less than half the year and earn under $10,000, despite steadily declining unemployment rates. This group has been estimated at between 10 million and 20 million people and excludes the majority of non-workers who remain out of the workforce for reasons of health, education, or retirement (Uchitelle, 1987). Although the U.S. unemployment rate fell from 9.5 percent in 1983 to under 6 percent in 1989, this statistic measures only the status of those who were actively in the work force. Despite apparent labor shortages and a declining unemployment rate, the number of discouraged workers has remained sizable and stable since the recession of the early 1980s.

Within the employed workforce, patterns of work and the distribution of worktime are also changing. The 40-hour work week is becoming less common in the United States with considerable growth in both longer and shorter work weeks. Of the 88 million Americans with full-time jobs, 24% worked more than 49 hours per week in 1989. And, in another manifestation of this trend, the number of women working more than 49 hours per week increased

50 percent between May 1979 and May 1985 (Smith, 1986; and Office of Technology Assessment, U.S. Congress, 1988). Relative to the entire workforce, fewer adult Americans hold stable, 40-hour, full-time jobs today than 25 years ago.

Job turnover is also quite significant. As of the mid 1980s, less than one of every eight workers (and only 1 in 15 women) had been with the same employer for 20 or more years. Put another way, today nearly 90 percent of all U.S. workers are employed by two or more major employers during their work life.

Although these trends tell us only a little about a lot of complex changes in labor deployment patterns, they do suggest increased variability in the work experience of Americans and point to increasing workhours for a larger portion of the workforce. In addition, people's jobs are increasingly dissimilar with respect to job tenure and working hours.

To explain why labor deployment patterns appear to be changing in the U.S., we need to look first at some broad factors that have influenced firm behavior and then, at how these factors have been translated into different patterns of labor deployment since the early 1970s.

FACTORS CONTRIBUTING TO CHANGING LABOR DEPLOYMENT PATTERNS

Over the past two decades employment patterns and relationships in the United States have been influenced by developments in financial markets and product markets which distinguish the U.S. economic path from that of other industrialized countries.

<u>Competitive Financial Markets and Product Markets</u>. Although there has been an enormous amount written about the internationalization of financial markets, national financial systems still

influence firm strategies and production organization decisions. The relationship between banks and industries in Germany, for example, allows for long term decision-making while in the U.S. highly competitive financial markets encourage short term investments and firm strategies oriented toward short term profits.

In addition, the shape of markets and the nature of competition in the United States has been significantly affected by the re-making of the regulatory structures governing financial markets and by changes in the enforcement of anti-trust laws. In the competitive environment existing in the U.S. this has encouraged concentration across a range of sectors, an option which was restricted by regulation in the 1970s. Despite concentration, pressure to keep profits up and costs down has increased because of acquisition-related debt (Kaufman and Kormendi, 1985).

The constraints posed by financial markets mean that U.S. firms are under strong pressure to keep costs down and to move into markets which will produce short term profits rather than those which require long term investment. More importantly, firms need to move out of less profitable markets very quickly. This encourages the contraction of product cycles and a premium on product innovation rather than client-oriented customized production, a strategy which requires a longer term investment.

Altered Ways of Organizing Production. The restructuring of production has obviously followed firm strategies in response to market and regulatory conditions in the U.S.. With intensification of competition in the mid-1960s and the subsequent breakdown of many oligopolistic markets, firms responded by turning to the external market for intermediate inputs. In some cases, this move was cost-driven, as in the case of capacity subcontracting in manufacturing. In services subcontracting took the form of providing routine inputs not essential to the firm (security, catering, building maintenance). At the other end of the spectrum there was a drive to purchase specialized business services on the market rather than providing them within the firm. In general, and in contrast with the direction taken by other industrialized economies, production in the U.S. has been characterized by an expansion of the use of external markets for both production and skilled business services. In the late 1970s and early 1980s, this tendency was reflected in a trend toward vertical disintegration in both manufacturing and services. In some sectors, this trend was magnified by the effects of de-regulation as many small firms entered de-regulated markets in the early 1980s.

In the late 1980s, however, constraints on market entry increased and oligopolistic conditions have re-emerged especially in the de-regulated sectors. And, with relatively less uncertainty in their product markets (at least in comparison with that which characterized the late 1970s) large firms have turned away from price competition and toward other ways of competing, particularly product innovation. This trend has had two major effects on production organization. The first is that large firms are re-internalizing some activities formerly purchased on the market in order to exercise more control over cost and quality. This particularly applies to labor, as demonstrated in the reintegration of temporary pools described above, but also may apply to certain high cost skilled services such as accounting and law, which benefit from firm specific knowledge. These functions and personnel are being integrated in a very different way than that which characterized the vertically integrated firm of the past. The relationship is much more arm's length - contained by time-bound contracts and other risk reduction measures. One consequence is the further breakdown of the internal labor markets which once characterized large firms and a continued trend toward individualization of employment contracts.

The other effect is the exercise of more control over input suppliers through performance contracts, completion bonds, direct investment or other measures. This is partially made possible by the oligopsonistic conditions faced by suppliers in the emerging economy. The financial pressure on firms to become cost competitive or to exit from the market has arguably increased these recent tendencies, leaving a much more stream-lined, rationalized subcontracting system than that which existed in the late 1970s and early 1980s.

Technology, of course, has played a major role in the reorganization of production. Computerization has enabled both the increased monitoring of labor and the increased monitoring of markets which underlie the current transformation of production organization. What has been particularly notable about the role of technology in the service industries is its plasticity. Unlike in manufacturing where the application of technology in a particular work process determines the organization of work, computer technology can be used in a variety of ways, for example, centralizing or decentralizing the decision-making process in a firm. Thus, firm choice about how to use computer technology has become much more indicative of how management views the control process.

In addition to factors influencing labor demand, there have also been changes in markets and labor supply over the period.

<u>Changing Consumption Patterns</u>. Under the influence of changing demographics and "lifestyles", new consumption patterns have emerged. For example, with the rise in two-wage earner households, peaks in shopping hours have shifted from day-time week-day to

evening or week-ends. The shortening of product cycles has also translated into less predictable (i.e. daily, weekly, monthly or seasonal variations) product demand and unexpected (i.e. resulting from economic and/or product cycles) variations in demand.

The Changing Composition of the Labor Supply. In the 1970s, the ample supply of workers to fill part-time or temporary jobs and the largely unregulated labor market allowed U.S. employers to pursue a labor deployment strategy which emphasized extensive use of labor or numerical flexibility. In the late 1980s, the supply situation changed dramatically with a trend toward full-time employment among women and a decline in the numbers of youth aged 16-19. The contemporary labor shortage in the United States is not a shortage in absolute terms. The number of discouraged workers in the economy and the high percentage of involuntary part-time workers indicates that there is a potentially large pool of labor available. Given the changes in the economy, however, employers require particular types of labor and it is these that are in short supply. The shortages are in the supply of reasonably well-educated middle-class youth and women who can provide services to people like themselves. The shortages are also in suburban locations which have become, in the 1980s, the locus of industrial and commercial as well as residential growth (Stanback, 1991). Because of the likelihood that the shortages in these particular categories of labor are long term, employers have been forced to look to other solutions which emphasize intensive use of the larger pool of higher skilled workers on the external market. Because of the nature of he product market and the relative costs, this strategy is preferable to that of investing in the training of less-skilled workers.

There are obvious counter arguments to the claim that a structural change in occurring. For example, part-time employment may have declined in the 1980s because as the U.S. economy improved after the 1983 recession, employers were willing to hire full-time workers. The decline might also be attributed to a decline in clerical workers or retail sales workers in response to the crisis in financial service industries in the 1980s and the mergers and acquisitions (and consequent changes in labor deployment patterns) which occurred in the retail sector. Underlying these explanations is an assumption that employers will return to using part-time workers with: 1) an economic downturn which encourages employers to lay off full-time employees or 2) an upturn in the fortunes of industries traditionally employing large numbers of part-time workers, i.e. business services and retail.

The reasons for positing a longer term trend toward stablization or even decline in part-time employment are as follows: 1) the orientation of the consumer and producer services markets toward value-added services and the problems associated with using a part-time workforce in circumstances where greater amounts of firm specific knowledge are required; 2) the long term change in labor force behavior by American women beginning in the 1960s, away from part-time employment and toward full-time employment. Since women constitute the majority of part-time workers in all industrialized countries, a change in their behavior directly affects the supply of part-time workers; 3) technological and managerial innovations which particularly impact those jobs traditionally carried out by part-time workers, replacing routine functions with self-service (such as automated teller machines) and on the other hand increasing the skill and training required to carry out the remaining jobs. When taken together, these changes are sufficient to support a claim for a change in labor deployment patterns which includes less reliance on part-time work.

If we accept that a process of labor intensification is occurring, what does it mean for nonmetropolitan labor markets?

LABOR INTENSIFICATION AND NON-METROPOLITAN ECONOMIES

The available evidence indicates that U.S. firms are targeting markets and moving toward patterns of labor deployment in which a smaller workforce is used more intensely. And, in contrast with other industrialized countries which have achieved productivity increases through more flexible use of a workforce that is trained within the firm and has firm specific skills, the U.S. is notable for firm dependence on the external market and reliance on individual investment in industry-specific rather than firm-specific skills. External qualifications are extremely important to a worker's ability to remain employed and achieve occupational mobility. In stark contrast to the demand for workers with ever higher levels of qualification, many nonmetropolitan labor markets have a labor force with low levels of educational attainment. 20% of young rural adults never finish high school (in contrast with 15% in urban areas). At the level of higher education, the gap is even greater. 23% of young adults in urban areas have completed four years of college in comparison with 13% of young adults in rural areas. Many of these young people have been employed in retail (25%) and service (28%) jobs (O'Hare, 1988). As firms employing these workers restructure their operations to increase productivity, many of the jobs employing unskilled rural workers are being eliminated. This process is not simply one of restructuring in place but of the spatial reorganization of the nonmetropolitan economy and increasing centralization of service and retail functions. To understand the dynamics behind this reorganization, we turn to the other major process affecting regional economic fortunes, that of de-regulation.

THE CHANGING REGULATORY ENVIRONMENT

The question of how changes in regulatory structures affect firm location decisions is generally neglected because of the sectoral orientation of regulatory policy.[4] Studies of sectoral change in the ten years following deregulation, however, indicate that the benefits of deregulation are unevenly distributed. Although supporters of deregulation argue that increases in efficiency have substantially benefitted consumers, there are also those who argue that the short term benefits of de-regulation in decreased product unit costs are outweighed by increased costs with respect to service quality, access, and consumer time (Richards, 1987). As Kevin Philips notes: "A fair consensus view was that educated, reasonably affluent consumers able to understand the widening array of choices and take advantage of reduced price opportunities reaped the most benefits, while poor people strained by high minimum balance requirements at banks and steep local phone rates - fared the worst," (Philips, 1990).

There are also as yet largely unknown costs associated with the dismantling of formerly regulated labor markets in many

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[4] The United States may now be in a new regulatory phase that attempts to address some of the problems of that have developed as a result of the deregulation of the 1980s. One objective of this current phase is to reduce government liability for the consequences of restructuring that have taken place in conjunction with deregulation by, for example, raising certification standards for federally provided insurance. A second objective is to transfer more risk to the worker and raise productivity by new worker certification regulations such as national truck driver's licenses.

deregulated industries. Evidence is beginning to appear linking deregulation with the decreased investment in the workforce by employers, with the degradation of working conditions, with more incentive-based pay schemes and with a shortage of skilled workers in some affected industries (Philips and Belzer, 1990). De-regulation has arguably contributed to the changing labor market conditions described in the previous section.

One sector which has been profoundly affected by deregulation is that of financial services. Although it is not possible to describe the complexities of deregulation in detail, the process is basically one in which intra-sectoral boundaries have been broken down and firms freed-up to look for more profitable markets and investments. Prior to de-regulation in the 1960s and 1970s nondepository financial institutions, such as brokerage security services and insurance companies, devised short term investment products that yielded a higher return than the interest savings accounts of thrift institutions which were restricted from competing by interest rate restrictions. Consumer lending, in general, diversified during this period. General Motors was the largest consumer lender in the United States in 1980 and by 1981, and business lending by nonbank firms accounted for 20% of all business loans (Fraser and Kilari, 1985). At the same time the Eurodollar markets generated other unregulated investment opportunities. Partially as a consequence of these developments, there were a series of legislative acts which removed many of the previous controls on banks and thrift institutions and paved the way for the contemporary financial service industry. One of the most important consequences of this restructuring is that financial institutions no longer rely on a deposit base to finance lending operations but rather draw investment funds and invest across regions, countries and sectors. As a consequence the industry has changed from one in which the central activity is the provision of services to one in which the central activity is the sale of financial products (Rankin, 1990).

In general, the de-regulation process and the restructuring that accompanied it have made for much more competitive financial markets which have, in turn, affected product markets in the U.S. as was alluded to earlier. Very little research has been done on the consequences of this transformation for communities. What has been done explores the consequences of bank "rationalization" for inner city areas (Towle, 1990). The consequences of the deregulation of financial institutions for nonmetropolitan communities are a matter of dispute, with some analysts suggesting that rural communities have benefitted from the proliferation of branch banking (Milkove and Sullivan, 1989; Edwards, 1986). The critics of de-regulation have focussed on the activities which now take place in rural banks and on the question of the volatility of investment institutions rather than solely on the number of banks in a given region. The question of geographic distribution is also as yet unanswered. Given the diversification of nonmetropolitan economies, bank branches may be proliferating in some areas such as those proximate to suburban counties and being eliminated in less accessible and more isolated areas.

The profit orientation of contemporary financial institutions means that they are strategically targeting certain populations and certain communities. According to one account, "The neighborhood branch is not only superfluous but operates as a drag (upon the bank) unless the branch is located in the neighborhoods where the "cream" of the market reside," (Rankin,1990). And, another, " The traditional concept of banking services and careful nurturing of longtime customers is being replaced by concepts of targeting and "creaming" the market," (Dennis, 1984).

There is some evidence that nonlocal banks in rural areas may be draining capital from rural areas to invest in the expanding suburban areas (Pogge and Flax-Hatch, 1987). This not only results in a loss of local investment capital but, in the case of bad non-local investments, in higher user fees for local banking services. Two developments are, however, highly significant for regional development potential. First, the increasing emphasis on short-term commercial loans has reduced the availability of long-term, fixed rate financing crucial to community and small business development. Second, pressure to exit less profitable markets has led to a very unstable local financial market characterized by rapid turnover (Fishbein, 1989). Another, secondary, implication of the emerging distribution of financial services is a loss of expertise. Branch banks staffed primarily by sales personnel are unlikely to have the type of representation on community boards and chambers of commerce that resulted in lending practices reflecting "local knowledge". The controversy over federal regulators use of technical rationale to evaluate risk and its devastating effects on previously credit-worthy borrowers from the Bank of New England is only the most publicized case of the consequences of this transformation.

Our knowledge of the implications of the de-regulation of the financial sector for non-metropolitan areas is limited because apart from the particularities of agricultural lending we have little information about the role of financial products and services in local economic development. The number of bank branches or local banks in any given area is less important than changes in lending practices and the kinds of products and services available to consumers. What we need is more information on how those products and services which sustain and encourage development in different types of nonmetropolitan communities are being affected by the deregulatory and associated restructuring processes.[5]

A second change in the regulatory environment that has implications for regional development potential is non-enforcement of anti-trust law. The local impact of this national policy change is evident in the retail sector which has undergone dramatic change since the 1970s. The lack of enforcement of anti-trust law has accelerated the process of merger and acquisition which began to re-shape the industry in the 1970s. For example, although firms such as Macy's were able to stave off takeover in the 1970s by strategic acquisitions which increased their debt to equity ratio and made them direct competitors with potential acquiring firms, this strategy began to fail in the 1980s. Direct competition in some markets no longer constituted a regulatory barrier to takeover. In addition, the openness of the U.S. market to foreign capital increased the number of potential acquires. The takeover of Macy's by the British Batus Group was one consequence.

In nonmetropolitan areas, the restructuring of the retail sector has resulted in the so-called "Wal-Marting" of rural America or the replacement of locally-owned stores by discount retail chain stores in more centralized locations. Kenneth Stone's research on the economic effects of this new organization of retail trade indicates several important consequences for nonmetropolitan areas. First, in the towns and cities which become retail "nodes", the total retail trade area expands. Competing general merchandise stores, as well as specialty stores in the immediate vicinity suffer losses in sales though there are some beneficial spillover

[5] This is not as straightforward as it might seem since consumer loans may be used by the self-employed to purchase equipment (trucks, vans) which is also used to produce income.

sales to complementary activities such as fastfood restaurants. Fewer purchases are made in the towns without Wal-mart operations. So in the first four years of Wal-Mart operation, Iowa stores lost eleven per cent of their total sales, with losses in some sales categories, such as apparel, approaching twelve percent (Stone, 1989). The restructuring of retail stimulated at least in part by deregulation has encouraged rapid centralization of retailing and affected nonmetropolitan communities in at least three ways: decreased sales tax revenue in many localities, increased unemployment and redistribution of employment opportunities to higher order centers and decreased local investment. In addition, as was described in the first section, the increased debt load carried by firms is encouraging them to restructure operations to reduce labor inputs. Thus, we can expect that concentrated rural retail activities will not be a source of regional job generation but will most probably reduce employment in the 1990s. Nonmetropolitan communities are still places where people live but many are losing their employment generating functions. This view is supported by data gathered by Johansen and Fuguitt which shows that population has been more stable in small towns and villages than has retail and service activities (see Figure 1) (Johansen and Fuguitt, 1990).

Of course, deregulation alone is not responsible for the difficulties faced by nonmetropolitan areas. Its effects have been felt in conjunction with a range of state and federal government policies which have redistributed risk and responsibility as well as income. These redistribution processes have benefitted some groups such as the elderly, at the expense of others, children and young people. They have also had consequences for the spatial distribution of jobs, credit, and services. The Economic Recovery Tax Act of 1981, for example, encouraged capital intensive development in large

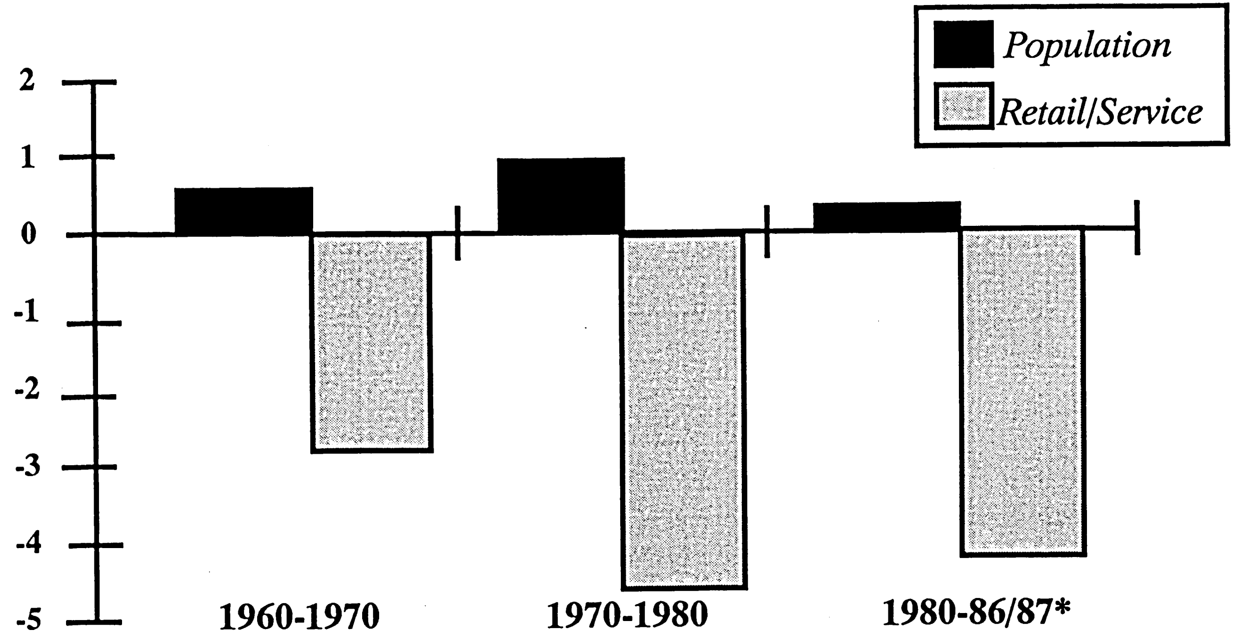

Figure 2. Change in Village Population and Retail Firms: 1960-1987 (%)

SOURCE: Harley E. Johansen and Glenn V. Fuguitt, "The Changing Rural Village," Rural Development Perspectives, Fall 1990, p. 4.

*1980-86 for population, 1980-87 for retail.

metropolitan areas because it provided for more rapid cost recovery for certain types of real estate development. This policy, channeled capital away from rural areas and also diverted capital from productive to tax-sheltered investment (Flora and Flora, 1989). Federal government policy to favor transfer payments to individuals over social and economic programs to help disadvantaged groups has also meant that earned income in some areas, such as retirement centers, can decline while, at the same time, personal incomes (from all sources including transfer payments) remain stable. As a result poverty is a much more serious problem among young rural inhabitants than among rural retirees.

As opportunities deteriorated during the 1980s in nonmetropolitan areas, population growth rates have slowed and in some areas there have been actual population losses. Some analysts see this trend as even more ominous pointing out that it is the people who are employable who have left. Nonmetropolitan population decline has also exacerbated economic problems, increasing tendencies toward centralization of services in higher order centers and leaving many communities with a housing stock but precious little else.

Although they are frequently depicted as unintended consequences of necessary sectoral reorganization and unfortunate by-products of the overall favorable effects of de-regulation there is another way to interpret increasing spatial inequalities - as a direct expression of the changing role of state and federal government relative to the production needs of firms in the now international economy. It is important that we try to look at what is happening from the perspective of active policy rather than unintended consequences since a different perspective may shape the a different set of policy responses.

STATES, SPATIAL EQUITY AND SPATIAL INEQUALITY

To understand why the federal government has moved away from policies and programs that encourage the provision of universal service, one needs to ask why such policies were enacted in the first place. One explanation, drawing from the work of O'Conner in The Fiscal Crisis of the State would suggest that certain necessary expenditures are taken on by the government because they are too costly for individual capitalists. As the nature of the economy changes, the kinds of expenditures the state finds it necessary to take on change with it.

There are two ways of viewing current federal policies with both probably playing some role in the restructuring of relations between the state and the economy. In the first scenario, the state plays an important role in promoting the kinds of capital accumulation prevalent from the 1950s through the 1970s, oriented around mass production industries and mass consumption. This requires large scale public investment in the social and physical infrastructure to create the spaces for mass production. It also requires public investment in housing, roads, school systems etc. to encourage mass consumption. In addition, property rights are centralized and transformed in order to create a public interest that supersedes the interests of small business and small property holders. As Geisler describes it, there is "a legal transfer of property rights to the public sector where certain private interests are better represented than others," (Geisler, 1982). Government federal, state and local, becomes complicit in the requirements of mass production enterprise supporting those industries most conducive to this type of production organization and failing to support others which are more specialized. The numerous cases of complicity between agribusiness and State governments against specialty agriculture is one example of how state power and its bureaucratic apparatus was tied to a form of mass production.

As production organization and location begins to shift in the 1970s, however, the bloated state becomes a drag on capital accumulation because of the revenues required to support it. This produces a fiscal crisis for the state and the need to dramatically cut back on expenditures for programs which had ameliorated the effects of uneven development under mass production. This argument is plausible but we still need to explain why certain types of expenditures have been cut and not others and why the federal state seems so little concerned to legitimate actions which have exacerbated regional and individual inequality. The answer to these questions lies in a second scenario - one which suggests a changing role for the state tied to emerging capital interests.

With the waning profitability of certain types of mass production, especially those which can be carried out in countries with cheaper labor forces, profits are to be found in specialized production and in product distribution. As has already been described with respect to banking and retail, two spatial trends in production and distribution can be distinguished from those of the mass production era. One is de-localization, the ability to target markets which are not spatially defined and to reach them through national advertising, telecommunications links and direct mail - thus the separation of market from place. The second is a tendency to concentrate distribution and production in fewer, nodal, locations so as to increase catchment areas. With these two tendencies in mind we can see that the role played by the national state in creating uniform space, particularly for consumption, is no longer as significant to capital accumulation as it once was.

The most important nodes in the new space economy are neither in cities nor in rural areas but in the suburbs. The reason for the explosion of production and consumption activity in the suburbs is not simply a move from more regulated to less regulated space but the ability, at the local suburban level, to manipulate land use and infrastructural investment for the development of shopping malls, industrial parks and office parks. What is needed is the capacity at the local level to re-make space to suit these new needs. The fiscal and bureaucratic capacity (as well as the market) are missing from most nonmetropolitan locations while cities still exact costs associated with a labor force that has become redundant with respect to both production and consumption. It is the suburban local state that is at the heart of the emerging space economy. Under these circumstances, the impetus to create the spatial conditions for universal service or mass consumption are missing. The encouragement of differentiation at the local level, and of local competition, is much closer to the spirit and substance of the role of the state vis-a-vis capital interests in the 1990s.[6]

WHAT DO THE NEW ECONOMIC REALITIES MEAN FOR REGIONAL DEVELOPMENT?

At the same time that policies were being implemented on a national level to erode universal service and increase differentiation among people and places, the orientation of economic development shifted to the local level and to local entrepreneurial initiatives. It is ironic that the economic development literature has

[6] This differentiation creates serious problems for interpreting change in nonmetropolitan America. For example, some nonmetropolitan areas adjacent to high growth suburban counties may do well economically because of spill-over effects while at the same time there are serious economic problems in non-adjacent countries.

concentrated almost exclusively on local initiatives during a period in which local capacities have been systematically undermined and in which nonmetropolitan regions have become less specialized rather than more specialized.

One of the strongest currents in this new emphasis on local initiatives stemmed from firm-centered paradigms. One of the strengths of the firm-centered production paradigm is, in fact, its close association with questions of regional development through the concept of the industrial district. This paradigm has spawned numerous efforts to replicate successful industrial districts in Italy and elsewhere through, among other things, firm "incubator" schemes. It has led to a re-thinking of the role of the locality in regional economic development and to the re-emergence of theories of local entrepreneurship and locality-led development. Flexibly specialized industrial districts have been proposed as a normative model for how production should be organized, a model directed at policy makers, corporate executives and planners (Storper and Scott, 1986).

This paradigm has been subjected to a barrage of criticisms not the least of which is that there is no coherent single industrial district model but a variety of arrangements for organizing successful vertically disintegrated production regimes. That said, however, one of the most interesting aspects of the successful industrial district continues to be compelling - that is the role of territorial government (in the broadest sense).

What is notable about this role and the relationship between state and economy in some of the most lionized industrial districts is how different it is from the national state - regional economy model that supports mass consumption, described above, and from the locally-initiated development model that has become the standard policy response in the United States. The national state-regional economy model is intended to produce an undifferentiated plane on which products can be produced and sold. The locally-initiated development model is intended to increase the capacity for inter-regional competition rather than intra-regional cooperation. The territorial governance model, in contrast, emphasizes what goes on in the region. Its development is dependent on a strong, intervening local state and on a concept of "municipalism" which at the same time creates the space for innovative expansion, blocks the exploitation of labor (Piore and Sabel, 1984). The political ideal of industrial districts is synonymous with state intervention in the form of "municipalism" which provides for both social and physical infrastructure and polices competition while, at the same time, encouraging it.

Thus, regional development in the industrial district form is not just a story about firms and firm interactions or about competitiveness but about state intervention in the market. By extension, if we want to develop policies to respond adequately to the difficulties facing those places that are outside the favored circle of growth in the 1990s, we also need to re-think the forms and nature of state intervention that will achieve our aims. This may mean redrawing regional boundaries and redistributing resources, it may mean tying job training provisions to local government contracts. It may also mean applying pressure at the State level to support the kind of infrastructural investment that will connect local producers with markets. This may be a very different kind of infrastructural investment than that which connected mass producers with their mass markets.

State intervention in the form it took in the United States in the 1950s and 1960s was arguably consistent with mass production systems. It evened things out, created relatively equal access across space to the basic commodities of the mass consumption economy. Even if we find a successful way to regional industrial districts, we may not be willing to give up that access particularly when its lack affects the most vulnerable segments of the society. If so, local initiatives are limited in their efficacy.

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DISCUSSION

Question: One of the problems rural communities face in their efforts to stimulate economic development is lagging quality of their infrastructure. I do not see much willingness on the part of the nation as a whole to address this issue and so rural areas are likely to see an increasing inequity in their infrastructure making it increasingly difficult to compete. What would be likely to change this trend?

Christopherson: Your last comments about the inequality evolving in infrastructure makes me just think that everything old is new again. We spent a lot of time emerging from WWII with the idea that all the nation would be prosperous and infrastructure was argued on an efficiency basis. So there was enormous investment made in infrastructure. What you are saying now is that efficiency is not as important. We often argue against an efficiency perspective saying our infrastructure is not important any more, do not chase branch plants, and all these sorts of things when in fact conditions may have changed. What we have to do is raise the issues again in different ways, in a different context, because I think your point about infrastructure decline is really right.

The other point I would make is that economic development strategies and the way we thought about them in the last ten years are really locally oriented. I think that because they're based on universal service or the idea that the state plays a role in providing certain services such as national health services in some countries. The absence of that kind of basic infrastructure increases the disparity. When you have that kind of common playing field, then you can concern yourself with entrepreneurial activities. But without it, I think that there is a prior step that has to be taken.

Question: I guess the question I would ask is, once you recognize that increasing disparity (between urban and rural areas), how do you generate increased interest in such an investment in a political climate that happens to characterize the United States today?

Christopherson: I do not think it is any more difficult than trying to conduct economic development locally. This may be somewhat of a radical proposition, there has to be an argument developed in favor of it, say national health insurance for example, so that people see what the effects will be locally, not just in terms of employment, but also in terms of a new basis for social equality; so that they see this just like they used to see roads and bridges. Now in the United States, they won't even invest in roads and bridges. You can't have an infrastructure on the basis of local economic development. So, I think there is an enormous political task and some attention by those economic development people should be directed up instead of down.

Question: The numerous lawsuits in courts over education are part of this factor of increased social inequality. As you see it, is this a turning around of the charade in the last decade of sneaking more true fiscal federalism to allow people to truly control their own destiny, which was a way of devolving federal and state responsibilities to local people without the resources to pay for it?

If so, is this in fact a changed culture in our society which says 'Screw folks who don't have the bucks to take care of themselves'?

<u>Christopherson:</u> Yes, but I think you can also make a positive argument in terms of describing an efficiency impact, not just the fact that there are people getting screwed by the system, but that the whole economy is going to be affected if you do not have equality of access.

<u>Question:</u> But the Bush summit on education focused on teenage pregnancy and school dropouts, which is fiscal downside. Twenty years ago this was talked about in terms of equal educational opportunity and social obligation.

<u>Christopherson:</u> Obviously the discourse has changed. I think that people in local economic development have swallowed this discourse and responded at every step by saying 'Yes, we want local control, we want local initiative, we want locally initiated development. We're going to respond to this new federalism.' But then the resources were pulled out and they are still doing it. They're turning around and saying, 'We can not this. These are the effects. Now we're going to go back to the nation or state and we are going to start making amends.' The National conference of governors in the U.S. which met recently was full of a lot of angry people saying 'We can not do this.' I think there needs to be support for that position.

<u>Question:</u> In response to your comment about infrastructure investment, a lot of the infrastructure development was not based on an efficiency argument, it was based on national defense. For example, the interstate highway system. The other argument was

for equality of access, such as REA programs and sewer and water. So if you're going back to argue for national health care, and I would argue for national education programs to level the playing field, then I do not see any distinction between national health care and national education. How do you separate those two? Both call for massive federal and state infusion of dollars and support. That' almost a political unreality.

<u>Christopherson:</u> Well it maybe a political unreality, but I think the opposite would be a political unreality too. If you're willing to accept continued decline and increasing disparity. I'm looking for an alternative. I agree this may be pie in the sky. I'm not pretending that people are organized around this. I'm just saying that the directions of the way things are going, particularly with respect to non-metro areas, I see things sliding further and further.

<u>Question:</u> Perhaps some institutional reorganizations could address some of these issues such as rural areas setting up a network with larger metro hospitals. This may be more politically doable than arguing for a level playing field.

<u>Christopherson:</u> The history of political decisionmaking in the U.S. is one where a lot of compromises are made that don't serve any one purpose. I'm making a far out argument knowing that there could be some compromises made. I'm simply talking about directing attention away from the local initiatives to making more demands on the use of resources.

<u>Question:</u> **Will we get further on this by looking at it in terms of social rights and social equality, or by trying to convince them that we now have a different industrial production function where education and health care and so forth are key arguments in that function.**

<u>Christopherson:</u> **I think that is exactly right. There is a role for human capital development. There is this broad argument to be made that investment in human capital is going to pay off for growth in the economy. These need to be widespread investment and not just investment in those increasingly smaller pool of elite universities.**