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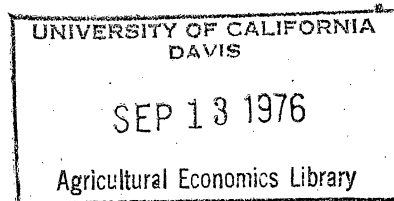
Rural development

THE POLITICAL ECONOMY OF RURAL DEVELOPMENT:

THEORETICAL PERSPECTIVES

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The rural and urban sectors of the economy are strongly interlinked. Growth in one sector impacts on the other. The growth process does not appear to be an equilibrium one in which marginal adjustments to opportunity costs eliminate disparities. The two sectors grow in an unbalanced way. So far, the economic advantages appear to have favored the urban sector.

The income gap between the rural and urban sectors continues to widen; rural income per capita is around three-fourths of urban incomes. The incidence of rural poverty is twice as high as urban poverty. Rural people have relatively limited access to health facilities, they are more likely than urban dwellers to live in substandard housing, and they attain lower levels of education.

Some conditions in the rural sector have improved recently relative to earlier decades as well as relative to the urban sector. Between World War II and 1970, rural to urban migration flourished, but since 1970 it appears to have reversed direction. Even so, the symptoms of imbalance continue. In a number of rural counties, social and economic opportunities are limited and outmigration continues.

This rural-urban imbalance is of national concern. It appears to have resulted in relatively densely populated cities and sparsely populated countryside. Rural development can increase economic efficiency, add to the nation's goods and services, and enhance the social and economic well-being of both the rural and the urban sectors.

A need has been felt by society to do something as a nation to improve the social and economic well-being of rural people. Some actions aim at

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improving efficiency and increasing aggregate well-being; others aim at equity and improving the distribution of income. Frequently, it is assumed that accelerating rural growth will, as a side effect, alleviate rural poverty. Empirical evidence raises doubts about this assumption.

A correct theory is not essential to problem solving. For example, 3,000 years ago, long before the laws governing motion in our solar system were sought, the Babylonians accurately predicted the apparent motions of stars and planets and knew when to expect an eclipse. Later, "incorrect" theories, in which it was assumed the sun is in orbit around a stationary earth, did not interfere with the accuracy of celestial forecasts. Now we have the "correct" theory, which jointly explains celestial motion and terrestrial tides. But the tide tables appearing in our daily newspapers continue to make no use of this theory. The rise and fall of tides is still predicted by empirical methods, sans theory. No, a correct theory is not essential to describe and forecast events. This explains why so many people have accomplished so much of value in rural development while claiming that we do not have an adequate growth theory.

But theory helps if we seek to understand events or to influence their outcome. We need to probe deeper into theories of change if we expect to understand the rural development problem and to seek public and private policies to ameliorate it. We have several growth theories--all of them partial, most of them helpful, but none of them complete. Together, they cast considerable light on rural development and can serve as guides to formulation of public policy.

Temporal and geographic variations in population, income, and employment have been explained in a number of ways. Some explanations, upon examination, turn out instead to be descriptions of history. Other explanations assert that everything in the economic system is functionally inter-

related, and that one must analyze the total system before one can begin to understand how it grows.

This paper is organized around five key factors that have each been considered in economic literature as the basis for regional growth. Public and private programs and policies are in place which influence each basis. The five alternative bases for growth are: increasing resource availabilities, advancing technology, expanding markets, conquering space, and building institutions. A considerable portion of the literature on economic development refers to none of these bases--such literature is descriptive rather than analytic. For example, the "stages of growth" literature describes growth over time, while the "diffusion" literature describes cross-sectional patterns of geographic change. Occasionally, an author will be found who discusses several, or possibly all, of the five bases for growth. In such cases, there is a tendency to consider only one of the five as "basic." When an author considers two or more of these five bases equally, we may classify that theory as a "systems approach."

Increasing Resource Availabilities

More input induces more output. Classical and neoclassical theories explain regional variations in growth by regional availability of land, labor, and/or capital. If there is a single most popular basis for growth in the literature of economics, beginning with Ricardo, surely it is the accumulation of capital. The theories of Harrod and Domar treat capital accumulation as the key. Romans notes that "from colonial times to the present day, statesmen and economists have assumed interregional capital movements to be a major variable affecting the economic growth and welfare of regions in the United States." Hirschman discusses many factors influencing growth, but funnels them all through "the ability to invest."

There is a chicken and egg argument in the literature as to which is cause and which is effect in economic development---public or private capital. Hirschman favors a relative scarcity of public capital. Others argue that public capital, in the form of schools, roads, hospitals, sewer and water, and industrial parks is causal.

Natural resources have been seen as a limit to growth since Malthus suggested that population is limited by the capacity to produce food. Ricardo viewed the supply of land as perfectly inelastic. Later, Turner attributed rapid growth in the United States to the availability of cheap land on the frontier. The modern view is that increased services from natural resources can be made available through applications of capital. Perloff and Wingo relate regional availability of natural resources to what they call "the geography of national economic expansion." They trace the role of deep-water ports and agricultural hinterlands in the early agricultural period; of minerals during our industrial expansion; and, of amenities of climate, land, coastline, and water during the "services" era.

Growth in population was seen by Smith as a stimulant to the wealth of nations. Now we find two views toward the role of population in economic growth: Hirschman, following Smith, says that more people add to both the incentive to consume and the capacity to produce, while Schumpeter says that more people may mean more mouths to feed and a reduced level-of-living. Migration tends to override the effects of natural population increase in regional growth. As with population, we find two views: one that immigration adds to the size of markets as well as the capacity to produce; the other, that immigration is a burden adding to congestion and welfare rolls. Labor force participation tends to be smaller in slower growing regions; growth depends on the proportion of the region's population at work. The quality of the labor force is as important as quantity.

The policy implication of neoclassical growth theory is: to develop rural America we need to provide it more resources. Rural development programs frequently emphasize capital. For example, the model implicit in the Rural Development Act of 1972 is: outmigration would be stopped, or even reversed, if more jobs were created; jobs are created if output is increased; and output is increased if plant and equipment are expanded. Therefore: supply rural areas with more public and private capital. Tax incentives and low interest guaranteed loans to plants locating in rural areas are further examples of capital accumulation policies.

The Departments of Agriculture and Interior operate natural resource development programs which increase the availability of energy, minerals, water, and agricultural land. Friedmann noted that "until the late 1950's, most people understood regional planning to mean the purposeful development of a region's natural resources"-- a view much narrower than is held today.

The recent emphasis of public and private population programs has been one of limiting birth rates. The Labor Department recently revived its experimental program to relocate people from areas of limited economic opportunity to areas with greater prospects. Labor force expansion programs equip people with specific job skills and/or with freedom to join the labor force.

Advancing Technology

Advancement through science and innovation is probably the most widely held basis for growth outside of economics; that is, among historians, philosophers, scientists, anthropologists, and others. The idea is also one of the oldest. In "Antigone," Sophocles has the chorus comment that man has always helped himself and faces no future helplessly. He has learned to cross the sea in a winter storm, to plow the fields with mules, to snare birds, net beasts and fish, ride horses, provide shelter from cold and rain, and has even taught himself a language. Each of

these advances led to an increase in the availability of things valued by man per unit of input.

Among modern economists, technology follows resource availabilities as the most often cited basis for growth. As Leven put it, "the driving force behind economic growth is productivity." Kuznets asserts "modern economic growth is distinguished by the fact that the rise in per capita product was due primarily to improvements in quality, not quantity, of inputs." Schumpeter said "development consists primarily in employing existing resources in a different way, in doing new things with them."

Technological advance concerns the productivity of labor as well as capital. Kunkel sees human development and the analysis of behavior as the basis for social change and economic growth. Schultz finds "a strong connection between the investment in human capital and the secular rise in the economic value of man." Much of economic growth, says Shultz, cannot be explained by additional inputs of conventional types.

The policy implication of advancing technology as a basis for growth was illustrated during the 1960's by extensive public and private efforts to modernize rural plants, provide on-the-job training, reduce underemployment, and improve productivity. These efforts were abetted by Federal programs to provide orientation, counseling, education, skill training, and other services to help qualify individuals. Productivity gains in the nonmetropolitan sector during the 1960's were greater than in the metropolitan sector. This helps explain the recent surge in rural growth.

Expanding Markets

Expanding the market for products of a region as a basis for growth has been traced by Hoselitz at least back to the Mercantilists. The idea has been suitably captured in the following quote from a Presidential advisory commission: "The ability of a community to grow depends upon its success in attracting additional spending within its confines--whether

this be personal consumption, business investment, or government outlays." The commission might well have added, "net exports." Expanding rural markets may include: exports to abroad, such as wheat to Russia; shipments to urban areas, such as textiles; or local consumption. Each region can grow while the nation as a whole grows.

Alternatively, emphasis may be on expanding the derived demand for local resources by, for example, industry location. This view is frequently coupled with the notion that regional growth is a zero-sum game; growth in one region must be at the expense of another. Such thinking leads to anti-pirating clauses in rural development legislation.

The idea that nations or regions can mutually gain through exchange was developed by Ricardo and Mill. Comparative advantage, which is based not only on markets but also on internal resource availabilities, technology, and economic structure, implies that two trading regions can produce a greater total product than if there were no trade.

The potential for economic gain through international or regional trade can be exploited by residents of one region, at the expense of other regions, through increased exports or reduced imports. Economic base theory is a popular version of this narrow view. Growth is explained in terms of the market for a region's main export or staple. Total employment is allocated between base industries, in which the product is destined for export; and, nonbase, residentiary industries, where the product is destined for local use. The critical assumption is that residentiary employment is a function of base employment. It follows that total employment grows as base jobs are created through expansion of net exports. Greenhut argues that the unfortunate and widespread belief that export base is extremely important has helped promote abandonment of classical economic principles. He finds the internal structure of a region important and calls for "a return to the classics."

Keynes revived the idea of Malthus and others that aggregate demand is the basis for growth. He recognized both internal and external sources. Keynes was concerned with the short run. He asserted that at full employment his general theory is the same as neoclassical theory. Short-term growth of a partially idle economy may depend on expanding aggregate demand, as Keynes suggests, but long-term growth may depend on expanding capacity. This view was expressed by Borts: "Over long periods of time, it appears that the demand hypothesis does not play a role in explaining regional economic growth...supply factors appeared to have been very important in explaining regional growth differentials."

Expanding aggregate demand is a vague and general notion; some theorists, such as Rostow, demand more precision and seek to locate the origin of growth in a single sector. This turns attention toward a leading industry. Perroux emphasized that some industries are driving forces in an economy; the type of industry varies from region to region. This agrees with the views of Hirschman and Myrdal that growth is inherently not balanced. Some elements necessarily change prior to others, and in different proportions. These disequilibrium views raise concern for conflicts between efficiency and equity.

The policy implication of market expansion as a basis for growth is illustrated by Federal programs to increase or maintain exports to abroad. Many commodities benefiting from these programs are produced in rural areas. Increased government purchases or reduced taxes are frequently justified, in part, by their contribution to aggregate demand. State and local product promotion in the United States tends to be operated at the State or local level. Most market expansion programs are in the private rather than public sector.

Conquering Space

Geographic space has been overlooked as a dimension of economic space in much of economic theory. This was so even though Smith and Ricardo recog-

nized the importance of location in their rent theories, and Von Thunen developed his seminal approach to location of economic activity some century and a half ago. During the last three decades, spatial relationships have been incorporated in economic analyses, and are seen by some as the basis for growth. Richardson observed, "Growth rates vary with location... because the relative strength of agglomeration and dispersion factors alters over space."

Integration of location theory with the conventional theory of the firm leads to the conclusion that equilibrium in the space economy requires that marginal cost equals marginal revenue in spatial, as well as non-spatial, dimensions. Uncertainty tends to send plants to the obvious or safe location--the center of the market. Webber shows that this may result in concentrated patterns which would be suboptimal under perfect knowledge. From society's point of view, the profit-maximizing location of a plant need not be optimal with respect to, for example, providing jobs to residents of a slower-growing region.

Von Thunen had in mind a central place with agricultural hinterlands and was concerned with the spatial pattern of a region. Weber emphasized the importance of agglomeration. Christaller's central place theory incorporated the idea that the growth of a city depends on specialization in various functions, and on the demand of the region it serves. Losch studied spatial relationships for noncompetitive markets and extended the analysis to general location patterns and the network of economic regions.

The central place provides jobs, shopping, and cultural attractions to residents of the entire region. The hinterland, on the other hand, provides rural-oriented goods, such as food, textiles, minerals, and timber products. And it provides workers to fill central place jobs. It may provide residential and recreational sites, and sites for decentralization of central place activities. The economic fortunes of a region depend on the interplay

between its central place and hinterland as well as on its relationships with other regions.

The theories of Von Thunen, Weber, Christaller, Losch, and others suggest that a nation can be delineated into a number of regions, each with a central place and a hinterland. A hierarchy is formed in which some regions are fairly urban in character and provide central city services to others. Some regions are fairly rural in character and perform hinterland functions for the more urban-oriented regions. Commuting and trade patterns suggest that the United States is probably comprised of some 500 functional economic areas which are relatively closed with respect to trading and commuting. About half of these contain cities larger than 50,000 persons. The other half are relatively rural.

Prospects for development of a particular rural area depend in part on where it is located. A rural community in the hinterland of an urban-oriented region has different prospects for growth than a community in an isolated, rural-oriented region. Alonso suggests that "the path of fastest economic growth may imply sharp geographic inequalities concentrating wealth and power in a few advanced centers and condemning backward areas to lengthy periods of poverty."

The policy implication of spatial relationships as a basis for growth is illustrated by multicounty programs and by growth center strategies. Substate planning and development districts have been delineated for 527 districts in 45 States for the purpose of coordinating Federal programs. Other multicounty efforts, some of which are coterminous with substate planning and development districts, include councils of governments (COG), economic development districts (EDD), resource conservation and development districts (RC&D), and nonmetropolitan HUD funded districts.

A number of Federal programs, particularly those operated through the Economic Development Administration (EDA), accounted for spatial relationships through growth centers. The concept of a growth center is not so clearly defined as that of central place. Some authors apparently use the term to mean any urban place which grew recently. Hansen associates growth centers with places in excess of 250,000 persons. EDA's programs were based on the theory that "accelerating the creation of employment opportunities in or near such centers was believed the most effective and timely approach to providing jobs for residents of neighboring depressed areas." This became popularly known as the "trickle down" theory.

The U.S. Department of Agriculture inverted this theory when it encouraged plant location in the hinterlands. Weitzell explains: "The basic theory underlying these...efforts is that rural industry can bring about sufficient economic growth to resolve problems of unemployment, underemployment, and low income. ...the growth center concept should not be overemphasized. ...modern communication and transportation...make decentralized development entirely practical." In contrast to EDA's trickle-down approach, this seems to imply that beneficial effects would trickle up.

The multipliers in the above approaches are variable and not too reliable according to subsequent evaluations by Milkman, Stewart and Benson, and Lewis and Prescott. Beneficial effects claimed from both the "trickle down" and "trickle up" theories have not been substantiated as a general rule. Programs aimed directly at a target group appear more likely to succeed than those which seek to accomplish their ends indirectly through a multiplier effect. An explanation of how to conquer space will likely never be arrived at by reducing spatial theory to simple multiplier relationships. The problems of communication and transportation over space, and their contributions to growth, are proving to be more complicated than that.

Federal programs to enhance transportation have had considerable impact on rural development. Interstate highways have frequently been cited as a prime example, but we must not overlook programs related to air, rail, and water transportation. Highway development policies have been associated with the rapid suburbanization of major cities and concurrent depopulation of both the central cities and the more distant countryside.

Building Institutions

Man is a goal-oriented animal. He may seek to reach his goals as an individual or as a member of a group. A group of individuals organized to attain a goal has been described as an institution. Institutional arrangements can affect economic development.

In neoclassical theory, institutional arrangements to organize firms and households are assumed to evolve as needed to absorb increased demand, accumulate resources, innovate, and conquer space as firms and families take appropriate actions to reach individual goals in the growing economy. Samuelson has shown that this view implies that man need concentrate only on private firm and household goals; the free market will automatically organize firms and households into an efficient, equitable economy.

Contrary to the view that requisite institutions will always materialize as needed is Baran's view that "economic development has always meant a far-reaching transformation of society's economic, social, and political structure of the dominant organization of production, distribution and consumption." Authors with a relatively long-term view tend to pay far more attention to institutional change than those taking a short-term view. Perhaps this is because the pace of change in institutions is relatively slow and the impact negligible over shorter time periods.

North and Thomas find "efficient organization is the key to growth." They discuss institutional change involved in the delivery of public goods, such as justice and protection; growth of the money economy; transactions; specialization; and, particularly, to institutions related to private property rights.

There are several situations in which purposive institution building may be required to produce desired economic development:

(1) A competitive equilibrium situation may be held to be inequitable. An example may be taken from Keynesian economics where institutions are created to intervene with fiscal and monetary policies.

(2) The economy may not be converging on an equilibrium, but may be observed, in fact, to be diverging. Myrdal identified what he called the principle of circular and cumulative causation as a cause of inequity, with the rich getting richer and the poor getting poorer. Institutions may be built to guide or redirect various strands of the economy toward a socially acceptable balance among diverging sectors.

(3) Monopoly power may override competitive forces. Antitrust legislation is an example of institution building to express dissatisfaction with the invisible, guiding hand.

(4) Uncertainty, or imperfect knowledge, may interfere with competitive choice. Schmid sees a relationship between institutions and uncertainty. He states a need for research on how institutions might perform a hedging function. Imperfect knowledge creates the need for institutions for research, education, extension, market news, and insurance.

(5) Market failure may occur for public goods--goods which are consumed jointly by two or more users. Buchanan has shown that the rules for optimizing behavior are different for public goods than for private goods. Institutions required to deliver services of public goods, such as hospitals, roads, and symphony orchestras, need not evolve spontaneously, as market institutions for private goods do; sometimes they must be built purposively. Interjurisdictional conflicts among local governments are symptomatic of the institutional breakdown associated with market failure.

(6) Not all conflict is resolved in the market. Roboch describes how nonmarket institutions may cope with conflict and promote regional growth.

Neale points out that goals of acquiring and exercising power came into conflict with economic goals in India. Ladd cites a conflict between parochial and cosmopolitan goals in Connecticut. Okano discusses conflicts between indigenous residents of a region and newcomers. Strong outlines a conflict between landowners along the banks of Brandywine Creek, who stood to gain from economic development, and residents of nearby townships who preferred the status quo.

Policy implications of institution-building as a basis for growth can be classed into two groups: those which facilitate other bases for growth discussed above, and those which serve vital functions independently of those bases. Examples in the former category include: financial institutions to provide capital; manpower training institutions to increase productivity; news services to expand markets; and, zoning regulations to control spatial activity.

Other programs have resulted in formation of institutions for regional planning, identification of local leadership, and establishment and valuation of local ends. These institutions promote multicounty organizations and employ local coordinators to work with lay leaders in establishing priority needs and carrying out plans for community development. There is an emphasis on institution building to deliver public goods, such as health and education, to rural areas.

Conclusion

Five theoretical bases for growth have been considered. Policies for which laws and appropriations exist were noted which are directed toward each of the several bases, and thereby influence regional growth and rural-urban balance. The question is: if we know the bases for growth, and if we already have policies acting on each basis, why do the problems persist?

Economic theorists have not integrated the five bases conceptually. In fact, defenders of one basis frequently skirmish with defenders of others as to which favorite is really the key to growth. The neoclassical marginalists, the Keynesians, the regionalists, and the institutionalists continue to regard one another as misguided.

Policy makers have not waited for a fully developed growth theory before implementing programs which influence growth, evidence that a correct theory is not essential to problem solving. However, they have failed to integrate their several policies.

Most government programs that impact on regional growth and rural-urban balance are created and operated with other ends in view. Adverse side effects on the rural economy may go unnoticed because such effects were not the purpose of the program. Noticed or not, the effects occur; government programs can unwittingly contribute to the problem.

Government programs which are explicitly focused on rural development tend to be fragmented rather than integrated. With each agency operating such programs, we find single purpose thrusts focused on specific targets. Such targets may be met, but it may not be the responsibility of the persons involved to be aware of unintended side effects.

Economic theorists need to look again at theories which explain change over time and space. They need to provide policy makers with a more clear understanding of the disparate effects of policies. And policy makers need to be more clear about rural development goals and about the impacts of existing and proposed legislation and appropriations which act on the several bases for growth.

We have the theoretical and practical potential to develop rural areas and achieve rural-urban balance, but we have not yet learned to put it together.