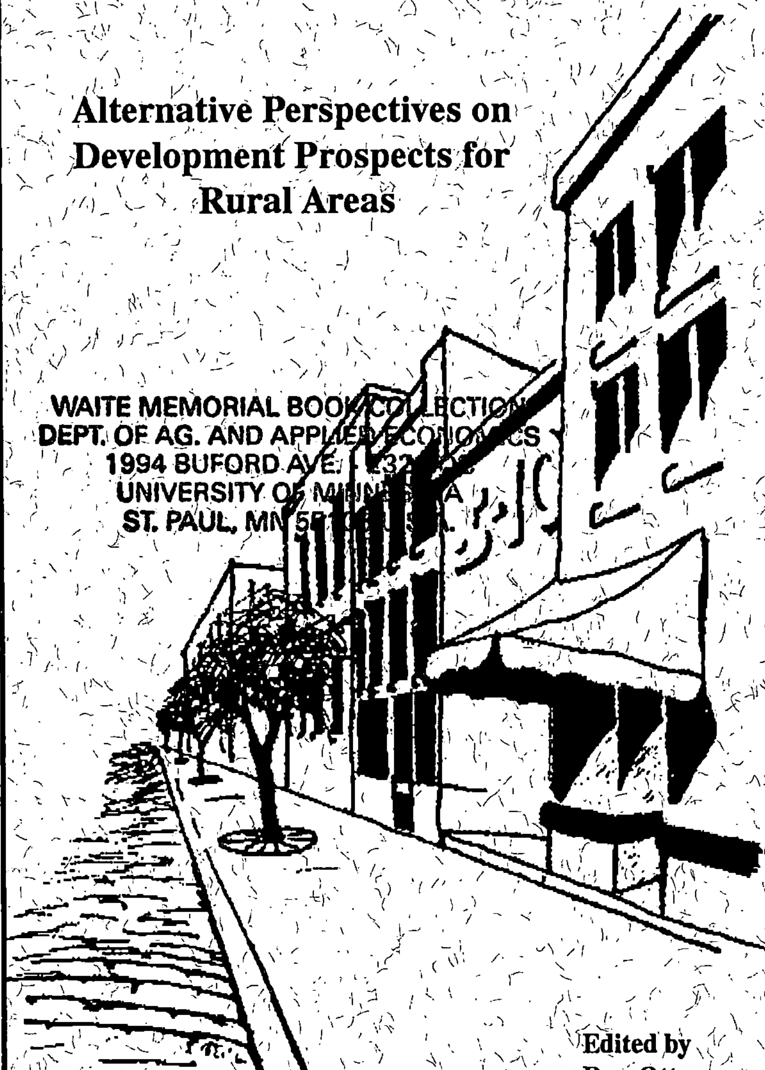
Alternative Perspectives on Development Prospects for Rural Areas



Edited by
Dan Otto
and
Steven C. Deller

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

Susan Christopherson
Cornell University

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.

Competitive Financial Markets and Product Markets. 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.

<u>Altered Ways of Organizing Production</u>. 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 break-down 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.

Changing Consumption Patterns. 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.

<u>The Changing Composition of the Labor Supply</u>. 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 de-regulation 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 de-regulation 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

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[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

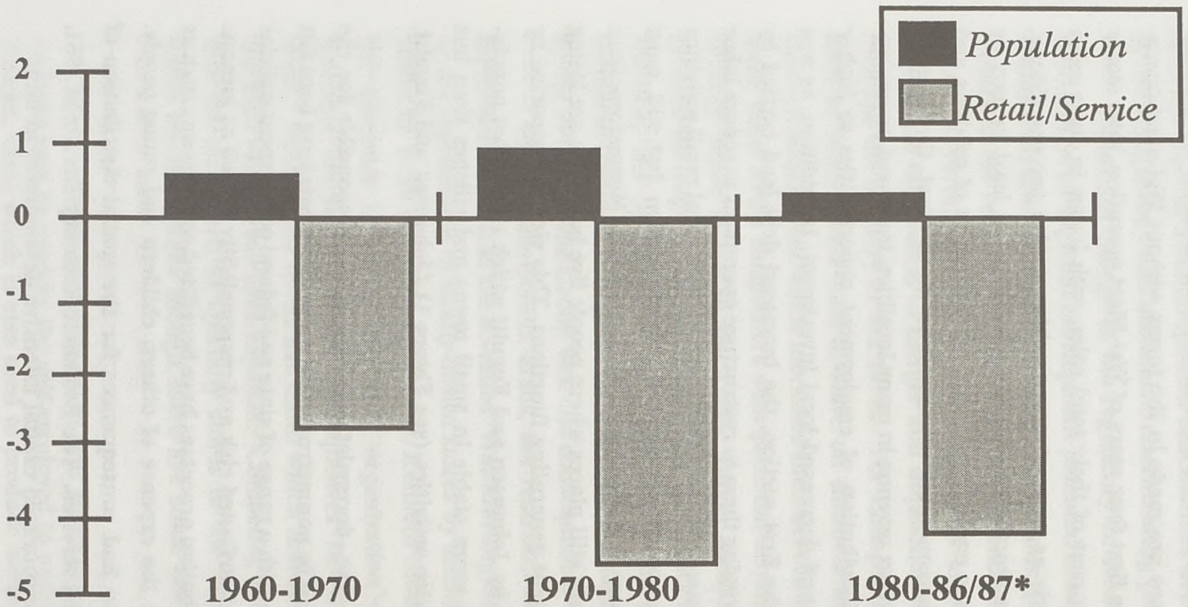

Figure 2. Change in Village Population and Retail Firms: 1960-1987 (%)

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

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[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.**