A HISTORICAL PERSPECTIVE ON ECONOMIC DEVELOPMENT

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Economic development may be defined as the spawning of economic activities. These are activities in which people engage to create and distribute wealth. Wealth consists of those things created by people from the raw materials of nature that provide people with sustenance, comfort, convenience and pleasure. Both goods and services contribute to the wealth and well-being of the populace.

The first task of an economic system is to provide sustenance (survival) for the populace it serves. This includes basic food or nutrition, water, clean air, and some protection against the elements. Creation of structures, goods, and services, which provide comfort, convenience and pleasure, are higher order economic activities.

Shumpeter, a noted German economist, observed long ago that economic progress stems from doing the old things more efficiently and simultaneously spawning new goods and services industries.

Types of Economic Activities

Tangible wealth is acquired or created by hunting, farming, mining, manufacturing and construction. These activities also provide buildings, materials and tools for a vast array of trade and service industries. Service and trade industries are dependent on the tangible wealth creating industries.

Hunting was the original and most primitive economic activity in which people engaged. Although hunting has diminished in importance, it is still an important economic activity — especially commercial fishing — and provides pleasure in the form of sport and recreation. Hunting is also the most dispersed of all economic activity as it is tied directly to the landscape and waters of the earth.

Farming — including the domestication of animals — largely displaced hunting as a source of food and clothing over many centuries. Since it is tied directly to the soil, farming is also a widely dispersed economic activity.

Mining includes all activities that extract natural resources including minerals, fossil fuels and naturally occurring vegetation. These activities occur where the resources are located, and are closely tied to the land surface and, to some degree, the water surface.

Manufacturing includes all activities that create useful and convenient products from the raw materials of nature. These products fall into the two general classifications of soft goods and hard goods. Soft goods generally disappear in a relatively short time period while hard goods are of a more durable character. Manufacturing is not site specific, but these activities are generally located where it is economical to assemble raw materials and distribute the finished products.

Construction involves the creation of buildings, roads, bridges, etc. These activities occur where they are needed and/or where people choose to locate them. Construction activities generally create only temporary employment opportunities.

Many economic activities do not directly contribute to the creation of tangible wealth. However, activities such as research, education, finance, accounting, wholesale and retail trade, transportation, communication, etc., contribute to efficiency in creating tangible wealth, and/or in assembly of raw materials and distribution of products. These activities are not site specific but generally locate where they are most accessible to users.

Other economic activities provide services directly to people as consumers. These include repair services, medical and health services, transportation, food and beverage service, legal service, finance, and insurance. Although these activities do not create tangible wealth, they require buildings and tools provided by tangible wealth-creating industries.

Concentration of Economic Activities

Higher order economic activities have tended to concentrate in favorable locations — based primarily on the avenues of commerce — since the emergence of the Greek City States during the 10th to 5th centuries B.C. Thus, concentration of economic activities spans more than 2500 years and continues today. However, economic activity in the hinterlands remains essential to providing raw materials that undergird all economic activities.
Transportation is a major force in the concentration of economic activities. Natural waterways provided the first avenues of commerce. Port cities evolved where it was possible to transfer goods from land based activities to ships and barges.

Railroads, and especially rail line intersections, supported the emergence of a second wave of cities. Smaller concentrations of economic activity often occurred where rail stations provided transportation services and telegraph communication.

Highways have been generally located to provide additional transportation to concentrations of population initially oriented to water and rail transportation. However, highways also have provided transportation to more remote areas. Air service and airports have also been located to serve primarily existing concentrations of population. Economic activity and population, though, continue to concentrate near major air hubs.

Other factors influencing location of economic activities include favorable climate, proximity to educational institutions, cost and availability of utilities, tax advantages, health service, etc. State and local governments and the image they project also influence the location of economic activity.

Rural Decline

The evolution of efficient technologies has resulted in a decline in the number of people engaged in farming, both absolutely and relatively. Capital-intensive mechanization of farming was most pronounced during the second and third quarters of the 20th century, accompanied by a rapid decline in the farm population, and a decline in rural business providing consumer goods and services. In many rural areas, an increase in sales of farm supplies and production services partially offset declines in sales of consumer oriented goods and services.

Off-farm assembly, storage, fabrication and processing contributed to the economy of some rural areas. These activities, as well as sales of farm inputs, were important in providing employment opportunities in rural areas for displaced farm workers.

But, rapid commercialization of the farm-food sector resulted in a transfer of many businesses to urban areas. These include farm machinery and chemical manufacturing, consumer oriented food fabrication, food and beverage wholesaling, retailing, and associated food preparation and service.

Mechanization and commercialization of food, fiber and kindred activities accelerated during the second and third quarters of the 20th century. Concurrently, much of the economic activity related to the food-fiber-kindred activity shifted from rural to urban areas.

Further contraction of farming in marginal farming areas is underway in the 1980s and has not yet run its course. Improved crop yields and animal feed efficiency together with static markets have reduced the requirements for cropland, and for labor-management in farming, leading to further rural economic decline in some areas.

Evolving technologies have also pervaded mining activities. Mining is becoming progressively more capitalized and mechanized. Substitution of petroleum for coal during the second and third quarters of the 20th century contributed to declining employment in mining as petroleum recovery and distribution is more labor efficient than coal. Increasing United States dependence on imported petroleum further contributed to declining employment in rural areas. The same general pattern has pervaded the forestry sector. Conversion of cropland to forests and other natural vegetation has contributed to further decline in employment opportunities in some rural areas.

Patterns of Concentration

Despite prevailing economic forces that contribute to urban growth and rural decline, there is increasing interest in reviving and developing economic activities in rural areas. Much rhetoric pervades national and state governments concerning rural development and the welfare of rural people.

Governments can and do influence the location of economic activity through tax incentives and the location of government activities. Government employment follows closely the location of government buildings and functions. The rhetoric to the contrary, governments themselves contribute to concentration of economic activity, employment and population. Even in rural counties, government employment and associated activities concentrate around the county courthouse. Law firms and businesses not employed directly by governments also tend to concentrate near county courthouses.

Federal government functions in the USA are concentrated around the national capital and in or near a dozen or so large regional cities. Defense and other government contracts are concentrated in major metropolitan areas. Research and educational grants are awarded primarily to large institutions — most of which are in or near the major cities.

State government functions are concentrated near state capitals, although these are not necessarily the largest cities. State appropriations for higher education gravitate to a few large institutions usually located in or near large cities. Highway construction is perhaps the most dispersed of any government activity. For the most part, though, highways are built to connect and to serve metropolitan areas.
Widespread ownership of personal automobiles and the construction of super roads have contributed to a "belt" of economic activity around major cities. People may now live in low density residential areas and commute to employment in central cities or suburbs.

Automobiles and highways contribute to the dispersion of wholesale and retail trade, and all other consumer oriented services. Again, however, clustering around interstate highways, including major city perimeters, is the prevailing pattern.

Developmental highways are being proposed for the more rural areas of Georgia. The impact a new highway will have on the location of economic activity is debatable, especially if the highway goes from nowhere to nowhere. The existing USA Interstate Highway System was designed to connect already existing population and economic activity concentrations.

The advent of high speed computers and communication technology contributes to further dispersion of economic activities. These technologies enhance economic efficiency by reducing commuting time, cost and frustration, and may also contribute to improved labor-management efficiency.

Rural Revitalization

Increases in prices of farm commodities, petroleum, coal and other minerals in the 1970s caused a reversal of population flows from urban to rural areas. However, commodity markets were soon satiated and falling prices in the 1980s again reversed the population migration to the historical pattern of rural to urban.

Sustainable increases in farming and mining activities, relative to other economic activities, is highly unlikely. A modest absolute increase in farm output might be sustained through increasing domestic population, and/or exports. However, an increase in employment in farming is highly unlikely.

The critical issue to be addressed in rural development is the type of economic activities that can be dispersed to rural areas -- namely smaller cities and towns. What are the economic forces that lead to dispersion of economic activities? Can we expect the free market system and profit motives to suffice, or should governments intervene in the location of population and economic activities in the interest of national security, and/or social tranquility? The question of dispersion of economic activities includes government functions as well as private sector activities.

Profit maximizing manufacturing activities are prone to locate where the sum of assembly, labor-management, and distribution costs are minimized. Consumer oriented trade and service industries locate in proximity to existing population with buying power. Thus concentration of economic activity feeds on itself. Those making private-sector decisions on the location of economic activities are not responsive to social stresses, personal commuter time and costs, or public costs of roads, police protection and education. Thus, there is rationale and justification for government intervention, or at least, government incentives in the location of economic activities. The issues fall largely in the political arena, and solutions will no doubt require a rigid delineation of public sector priorities.

One of these priorities might be a stronger public commitment to leadership development. Visionary public leaders can be a dominant influence on patterns of economic development through provision of state and local infrastructures targeted to support selected types of business and industry. Existing infrastructures -- transportation systems, social and cultural services, utility systems, post-secondary and higher education -- determine the attractiveness of business environments.

Perhaps the most fundamental of infrastructures is the accessibility and quality of education. The 1986 Commission on the Future of the South noted that "Education is the driving force behind economic development in the South. It is the source of leaders ... Higher education can be the power station that energizes an entire society." It also noted that the South as a whole "has an inadequate educational system." The importance of enlightened leadership to economic development suggests that Georgia and the region place a high priority on education, and leadership development.

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References

