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Economic Development: A Poverty Solution for the Rural South?

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Abstract

"From the founding of the nation, the South has been the least economically developed region of the United States. Many of the necessary preconditions for economic growth and diversification, such as the presence of essential physical resources, large quantities of capital, skilled labor, sufficient technology, and a class of innovators and entrepreneurs, have traditionally been lacking."

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Economic Development

A Poverty Solution for the Rural South?

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FROM THE FOUNDING of the nation, the South has been the least economically developed region of the United States.[1] Many of the necessary preconditions for economic growth and diversification, such as the presence of essential physical resources, large quantities of capital, skilled labor, sufficient technology, and a class of innovators and entrepreneurs, have traditionally been lacking. The 1970 census showed the South to be both more rural and more impoverished than any other region of the country. The South accounted for 41.3 percent of the nation's rural population but had only 31 percent of the nation's population. Furthermore, the South contained 44 percent of the total poverty population of the nation. Over 46 percent of all poor Southerners resided in its rural sector.

Popular accounts in recent years have noted the tremendous growth and development of the "sunbelt" states. The rural South, in comparison, has not come of age economically and is not generating self-sustaining growth of new factories, service industries, financial capacity, and housing. It is an area where the potential for development and the hope for elimination of poverty are limited. Not only have financial and physical capital not been forthcoming, but there are also serious questions as to the quality of available human resources.

The Economic Development Process

Defining poverty as an inadequate relative income level suggests economic development as a means of eliminating it. Because economic development has been lacking in the rural South, the process of development should be examined as it applies to rural areas. One way to do this is to examine the relationship between the industrial structure and the economic well-being of regions and nations in terms of stages of development. This method, although often criticized, allows rough generalizations to be made concerning major changes that are occurring.[2] The first stage of development is characterized by a heavy reliance on primary activities such as agriculture. As per capita income grows, there is a decline in the proportion of the working force engaged in agriculture and increased emphasis on manufacturing, a second stage of development. The "final" stage of development is characterized by the growth of service industries.[3]

Another view of the process of economic development examines empirical data. A study by Haren—although not specific to the rural South—found that nonmetropolitan areas experienced significant industrialization during the 1960s. Half of the gains in manufacturing employment in smaller labor market areas were found to stem from new plant locations or expansions in entirely and partly rural communities.[4] Beale, Berry, Till, Lewis, and Prescott as well as Haren have found that significant increases in employment have taken place in the nonmetropolitan or small labor markets.[5] However, the extent to which most of the rural South has "escaped" the first stage of development and has entered successive stages should be analyzed to provide clues to guide policy decisions. For although the terms *nonmetropolitan* and *rural* are often used interchangeably, many nonmetropolitan areas cannot be considered rural by most comparative standards. Some nonmetropolitan areas are simply too small to qualify statistically as being metropolitan. Such areas are not "rural" to the degree that the term meaningfully applies to many counties in the rural South. Hence, even though the literature may show that nonmetropolitan counties in the recent past have been able to grow without external assistance, it has yet to be proved that rural counties can be expected to do likewise.

Unfortunately, the rural South and the South in general have historically added to their economic woes by fostering certain institutional practices which restrict development.[6] A long tradition of segregation and discrimination and the evolvement of powerful and conservative elite groups have impaired industrialization and the growth of per capita income in the South. W. W. Rostow claims that the South differs from the rest of the nation in that it was not "born free"; rather, it is a place where changes in the structure, politics, and values of a traditional society are necessary before industrialization can take place.[7]

Because of institutional problems, it is not surprising that local efforts to industrialize have been limited. Many rural counties have expended effort to entice enterprises to locate within them but have met with mixed success. Tax incentives, establishment of industrial parks, local bond issues, and active community

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leadership have attracted some labor intensive industries. However, most rural counties in the South have limited financial resources. For those counties which have gone so far as to establish local bodies to attract new industries, such organizations have usually tended to be both understaffed and underfunded.[8]

Industrial development is often hindered by hard-to-identify local power groups which are reluctant to upset present wage structures or to cause labor shortages for established industries. Many times when firms are sought for location within a community, the primary goal is to find a specific type of firm that can absorb existing labor surpluses. Firms that are competitive in the local market or that offer the prospect of being unionized are often not considered.[9]

The problem of limited local resources for development has not been eased much by the federal government. Beginning in 1937 with the establishment of the Farm Security Administration, program efforts in rural areas have been concerned with land use and farm problems—many of which were not extensive and had little effect on many residents of rural areas.

The Area Redevelopment Act (ARA) of 1961 was the first federal legislation to note the existence of problems in rural areas other than agricultural ones. The act provided low-interest loans for new firms and expansion of existing facilities, financial aid to improve public facilities, technical assistance, and modest training programs in economically distressed areas. The program was experimental, and relatively small amounts of funding were authorized.[10]

The ARA was replaced by the Public Works and Economic Development Act of 1965. Whereas the ARA assumed that rural areas possessed the basic infrastructure for development, the new legislation was designed primarily to provide such infrastructure. Emphasis was given to planning, intergovernmental cooperation, upgrading of planners' skills, and designation of certain areas as growth centers.[11] Unfortunately, lack of local initiative, intercounty squabbling, interagency coordination problems, and poor planning produced mixed results. Further, little attention was given to investment in health, education, and training of the labor force in lagging areas which, according to one line of reasoning, might be more effective than investing in sewer and water lines.[12]

The Rural Development Act of 1972 was also an infrastructure-oriented piece of legislation designed to improve the economy and living conditions in rural America. The act is farm-oriented and is administered by the U.S. Department of Agriculture. Many of the provisions of the act were simply extensions of existing programs. The act does not contain an adequate conceptual framework for rural development policy, nor does it provide for the development of human resources as part of the development process.[13]

Dilemmas of Future Development Policy

Whether sustained economic development is the solution to poverty and to the problems of rural areas is questionable because of the economic status of many rural counties and their residents. Obviously, large financial disbursements by various regional government agencies (for example, the Tennessee Valley Authority and the current Tennessee-Tombigbee Project) have had an important regional impact on development. Growth also has occurred in some rural areas adjacent or close to metropolitan areas.

It is also evident that there are different possibilities for growth in many southern communities. It has been hypothesized that southern rural industrialization goes through two stages, in which low-wage, labor intensive firms of the first stage train a labor force which attracts higher-wage and more capital intensive firms.[14] If this is so, various areas of the rural South seem to have experienced these two stages of industrialization at different times and with divergent results. Many counties have been unable to enter into the first stage of industrial development and continue to rely heavily on agriculture as a source of income and employment. It is often the case that significant private economic development in many rural communities is not practical, given the low potential for return on investment. Furthermore, there are not enough businesses and industries which would consider relocation to or expansion in a rural area for *all* counties in the rural South to benefit.

In addition, the available labor supply in the rural South presently lacks the education and training to meet the skill requirements of many average or above average wage industries. It is, of course, precisely these industries that are required if sustained economic development is to proceed. Low-wage industries need little additional encouragement to come to the rural South, although there is often sufficient active competition between communities to affect the location of a specific firm. Presently, low-wage industries provide employment opportunities and are a source of income, but communities are unlikely to become significantly better-off because of their presence.

The development process involves more than job creation. There are a limited number of persons whose skills could improve as a result of extensive training or retraining in rural areas. There are also those who are poor, undereducated, disabled, and sick who, even if jobs were available, probably would not be hired. Hence, a serious dilemma for economic development in the rural South is exposed. Should public policy attempt to attract industries whose occupational requirements exceed the skill levels of the local labor supply? The result would be that the new enterprises would import skilled workers and skim off the best of the local labor force for the remainder. Or, should public policy advocate training local people for jobs which are currently not available and which, in many instances, will not materialize in the near future for underdeveloped rural communities? More concisely, human resource policies will not help the rural South (as a region) if there are no jobs, and jobs will not help if there is no human resource development. Human resource policies have helped to increase the alternatives available to residents of the rural South (for example, they have facilitated out-migration), but they have had only limited success in establishing linkages to local economic development efforts. Hence, those persons remaining behind in the rural South have received limited benefits from such policies.

In the past, skill training has primarily afforded persons an escape route by making out-migration feasible. Most who have converted a training potential into a skill or vocation can be counted upon to leave. As a result, the rural area they leave is convicted of being a provider of a second-rate existence. For those remaining, government transfer payments have often become a major source of income.[15] The alternative of leaving should continue to be provided; however, it should be noted that continued out-migration inhibits the emergence of a skilled labor force as a possible attracting force for industry. With the best-trained people gone, those who remain are seldom an attraction to above average wage industries.

Given limited public resources, the strategy of focusing developmental activities into designated growth centers has been posited as one way of solving the problem.[16] That is to say, funds for both economic and human resource development would be concentrated on designated intermediate-sized cities to the exclusion of all other rural communities. The lack of good job opportunities in many rural communities would induce people to migrate to those "growth centers" where jobs and training would be available. Relocation allowances would be available to cushion the financial costs of moving and to assist in the settlement of a designated area.

From a regional view, the growth center strategy may have appeal because satellite areas often benefit from growth in larger towns. But such a strategy has little to offer for some rural areas except the prospect of population decline and community atrophy.[17] There is little likelihood, for instance, that the most rural counties in the South would benefit from or be designated as growth centers if objective economic criteria were used and political manipulation were not involved in the decision-making process. Moreover, because of political considerations, it is unlikely that a growth center strategy will become the accepted development policy of this nation. The absence of relocation allowances from the array of publicly supported labor market policies adopted to date in this nation is no accident. Politicians are loathe to support policy proposals that encourage the exodus of local populations from their established political districts. It is hardly conceivable that legislative bodies at any governmental level will ever embrace a policy that simply writes off the future of the rural population, no matter how logical may be the objective case for doing so.

As recent problems of urban areas have revealed, there is little to be gained by a strategy of encouraging large numbers of poorly trained and inadequately educated rural persons to gravitate to growth centers. Moving to urban areas may improve their opportunities for education and training–as well as their access to health care–but it does not guarantee that such services will be received. The availability of housing and the quality of crime protection and urban services were all adversely affected in the 1950s and 1960s.[18] The continued financial plight of urban areas throughout the 1970s as well as higher unemployment rates raise serious questions as to the advisability of a policy of encouraging migration to urban areas. Moreover, as Heady has written, the continuation of out-migration is not without its costs to the typical rural community.[19] It exacerbates the decline in income, employment, capital values, and the provision of community services.

Aside from political questions, there is doubt as to the viability of the entire growth center strategy insofar as the smaller metropolitan areas are concerned. For example, linkages with the growth center hinterlands have been found to be weak for smaller areas.[20] Furthermore, given the poor preparation of many rural workers, it is doubtful that urban growth centers in the South would welcome the poorly prepared rural relocatees. Most growth center policy to date has dealt with physical infrastructure projects and the creation of jobs. Little attention has been paid to housing, transportation, and educational problems that will occur in the receiving communities by the gravitation of people from rural areas.

As an effort to cope with reality and at the same time to search for an acceptable policy alternative, growth center strategy appears questionable. For many rural communities, significant economic development simply will not occur. Some low-wage industries seeking to escape the high costs of production in urban areas may settle, at least temporarily, in some southern rural communities, but they are not likely to offer broader job opportunities or higher incomes than those already available in the area.

This is not to suggest that the federal government should refrain from any role in stimulating development. Where exceptional cases arise in which either state or local efforts are successful in enticing above average wage paying enterprises to locate in the rural South, federal funds should be available to cover the full costs of adapting the local labor to the needed skill requirements. And, should a local enterprise consider expansion, federal funds to cover the costs of institutional and on-the-job training of local workers should be available (especially if such training involves the upgrading of skills). An expanded federal role for support to small business enterprises—especially minority small businesses in the rural South—is essential. On-the-job training programs for small businesses—both existing and newly created—should be consistently available. The Economic Development Administration of the U.S. Department of Commerce should serve as a supportive agency in rural areas to provide housing assistance, transportation development, and aid for the development of public services.

It should be clear that the only tenable role for the federal government is *ex post* in any economic development effort in any region of the country. To the degree that the federal government may seek to play an *ex ante* role of trying to make economic development occur, it is likely that an undesirable competitive war between national regions could be triggered. If one region is receiving federal support to attract existing businesses from other regions, it is unlikely that the regions that are losing firms would stand for such a program for long. It is also important to realize that much of the attractiveness of moving is often an attempt by a firm to escape existing labor standards and to flee from unionization. The federal government cannot be supportive of efforts to undermine prevailing work standards under the pretense of fostering economic development. There is nothing, however, to stop states and localities from doing so, and it can be expected that they will continue to make such efforts.

Unfortunately for the rural South, efforts to diversify local economies have fallen into the purview of local business leaders and local government officials (often one and the same) who often do not wish to see prevailing power relationships altered. Such individuals and interest groups often seek industries which will absorb some of the existing labor surplus but not enough to have any meaningful effect on the wage structure. One study found that industrial search activities in rural areas of the South often centered on acquiring minority female labor intensive industries.[21] Agrarian resistance to high-wage industries (and the unions that may follow) is a persistent force in rural communities.[22] It appears, therefore, to be illogical to vest total responsibility for change in those who may have an interest in opposing it.

One alternative is the establishment of community development corporations (CDCs). Experimentation with the concept is being carried out in a 15-county area of the Mississippi Delta. These corporations enable local people to achieve ownership and control over business enterprises that they create or can attract. This approach escapes the domination of the local power structure, which often favors only controlled industrialization. By transcending political boundaries in their membership and operations, the development corporations avoid the parochialism of a single municipality or county. In the rural South, CDCs also have the advantage of drawing upon the increasing feelings of racial pride among minorities.

On the other hand, the CDC approach has conceptual drawbacks which may limit its effectiveness. The most obvious problem is limited funds. It is unlikely that a poor population can raise sufficient funds to engage in activities representing a significant step toward economic development. Their ability to exist without subsidization and available outside technical assistance is questionable.[23] It also is unrealistic to believe that established interests will ignore CDCs should they begin to compete actively for local labor or in other local markets. The strength of CDCs appears to be more one of community involvement than of community development, and their effectiveness may be limited as a general approach to economic development.

No Panacea

The rapidity with which economic development is possible in rural areas is subject to all sorts of institutional constraints and other limitations. Existing unemployment and underemployment will not be absorbed into the private sector in the short run. All of the available evidence indicates that industrialization should not be viewed as the only way to reduce poverty. Public employment and income maintenance programs, as well as continued out-migration, are escape valves in the short run.

Further, until economic development is well under way in the rural South, neither expanded private employment nor public employment will be able to provide job opportunities to prevent out-migration. The major need is not to thwart all migration from rural areas but to prevent that which does occur from having an adverse effect on urban areas. Information is poor concerning available employment opportunities in urban areas for potential migrants, as is attested by the current patterns of rural southern migration. Existing patterns cannot be altered without better information.

The economic development of the rural South may well have to wait until the United States government decides to adopt a comprehensive rural development policy. There may be limits to the extent of urbanization that is desirable for a nation. Eventually, attention must turn to the importance of striking a balance between urban and rural life. Until then, it is likely that the thrust of federal policy should be to assist in a purely supportive manner the local and state efforts to attract industries. In a larger context, it may be necessary to rely upon income maintenance and extensive public job creation measures to help "those left behind" until such time as a national rural development policy is enunciated.

FOOTNOTES

1. Financial support for the study from which this paper was drawn was provided by the Employment and Training Administration, U.S. Department of Labor. The authors also wish to express their appreciation to Lewis H. Smith for his critical comments.
2. For discussion see Stuart J. Greenfield, *Poverty and Industrial Structure* (Austin: University of Texas, Bureau of Business and Economic Research, 1975).
3. Ibid.
4. Claude Haren, "Rural Industrial Growth in the 1960s," *American Journal of Agricultural Economics*, vol. 52, no. 3 (August 1970), p. 431.
5. Calvin Beale, "Demographic and Social Considerations for U.S. Rural Economic Policy," *American Journal of Agricultural Economics*, vol. 51, no. 2 (May 1969), pp. 410-27; Thomas E. Till, "Two Models of Nonmetropolitan Industrial Development and Poverty Impact in the South," *Labor Law Journal*, vol. 25, no. 8 (August 1974), p. 473; William C. Lewis and James R. Prescott, "Urban-Regional Development and Growth Centers: An Econometric Study," *Journal of Regional Science*, vol. 12, no. 1 (April 1972), p. 59; and Brian J. L. Berry, *Growth Centers in the American Urban System* (Cambridge, Mass.: Ballinger, 1973), p. 151.
6. William H. Nicholls, *Southern Tradition and Regional Progress* (Chapel Hill: U. of North Carolina Press, 1960).
7. W. W. Rostow, *The Stages of Economic Growth* (Cambridge: Cambridge U. Press, 1970), p. 18.
8. Some studies, however, have concluded that the major determinants of plant location or expansion are independent of public action or control. See, for example, Ronald J. Dorf and M. Jarvin Emerson, "Determinants of Manufacturing Plant Location for Non-Metropolitan Communities in the West North Central Region of the U.S.," *Journal of Regional Science*, vol. 18, no. 1 (April 1978), p. 119.
9. Brian Rungeling, Lewis H. Smith, Vernon M. Briggs, Jr., and John F. Adams, *Employment, Income and Welfare in the Rural South* (New York: Praeger, 1977), chap. 9.
10. A. Bruce Johnson, "Federal Aid and Area Redevelopment," *Journal of Law and Economics*, vol. 14, no. 1 (April 1971), p. 277; and J. M. Becker, William Haber, and Sar A. Levitan, *Programs to Aid the Unemployed in the 1960s* (Kalamazoo, Mich.: W. E. Upjohn, 1965), p. 22.
11. Gregg Chappell, "The Economic Development Administration's Experience with Economic Development and Manpower Planning in Rural Areas," in *Manpower Planning for Jobs in Rural Areas*, ed. Collette Moser (East Lansing: Michigan State University, 1972), pp. 93-95.
12. Sar A. Levitan, Garth L. Mangum, and Ray Marshall, *Human Resources and Labor Markets* (New York: Harper & Row, 1972), p. 538.
13. Ray Marshall, *Rural Workers in Rural Labor Markets* (Salt Lake City: Olympus, 1974), p. 84.
14. Thomas E. Till, "Changes in Industries Located in the Nonmetropolitan South, 1959-1969," *American Journal of Agricultural Economics*, vol. 56, no. 2 (May 1974), p. 309.
15. Rungeling et al., op. cit., chaps. 7 and 9.
16. Niles M. Hansen, *Rural Poverty and the Urban Crisis* (Bloomington: Indiana U. Press, 1970), pp. 288-305.
17. It has been suggested [see K. R. Tefertiller, "Rural Development in an Urban Age," *American Journal of Agricultural Economics*, vol. 55, no. 5 (December 1973), p. 772] that some rural areas might be designated "artificial" growth centers in order to receive federal dollars. Criteria for establishing these centers would at best be controversial.
18. Hansen, op. cit., pp. 26-31.
19. Earl O. Heady, "Influences of the Stage of Development and Urbanization on the Structure of Agriculture," in *Benefits and Burdens of Rural Development: Some Public Policy Viewpoints* (Ames: Iowa State U. Press, 1970).
20. Charles T. Steward and Virginia T. Benson, "Linkages between Small Metropolitan Areas and Their Hinterlands with Implications for Regional Development Policies," mimeographed (Washington, D.C.: George Washington University, May 1973), p. 84.
21. Rungeling et al., op. cit., chap. 9.
22. Heady, op. cit.
23. D. Jeanne Patterson and Brady J. Deaton, "A Development Alternative for Rural America," *Growth and Change*, vol. 4, no. 1 (January 1973), pp. 48-49.