SHADOWS IN THE SUNBELT

Developing the Rural South
In an Era of Economic Change

A Report of the MDC Panel on Rural Economic Development

May 1986

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In 1967, an important document was released by the President's Commission on Rural Poverty. That report was entitled **The People Left Behind**. Twenty years later, the rural South has changed, and many of the people left behind have themselves left. Today there are different storm clouds, and the report we present here could well be called **The Places Left Behind**. Instead we choose to call it **Shadows in the Sunbelt**, an allusion to what we feel is the future of our South if current trends and policies continue.

MEMBERS OF THE PANEL

James K. Batten
President, Knight-Ridder Newspapers
Miami, Florida
Prizewinning reporter on rural poverty, **Charlotte Observer**, 1968

Dr. Charles E. Bishop
President, University of Houston
Houston, Texas
Executive Director, National Commission on Rural Poverty, 1966-67

Dr. Norman C. Francis
President, Xavier University of Louisiana; Chairman, Liberty Bank and Trust
New Orleans, Louisiana
Member, National Commission on Excellence in Education, 1981-83

Honorable A. Linwood Holton
Zuckert, Scoutt, Rasenberger and Johnson, Law Offices
Washington, D.C.
Governor of Virginia, 1970-74; Chairman, Southern Growth Policies Board, 1973

Honorable Juanita M. Kreps
James B. Duke Professor Emeritus
Duke University
Durham, North Carolina
U.S. Secretary of Commerce, 1977-79

Zachary Smith
Treasurer, R.J. Reynolds Tobacco Company, Retired
Winston-Salem, North Carolina
Vice President and Trustee, Z. Smith Reynolds Foundation; Vice President and Director, Mary Reynolds Babcock Foundation

Honorable William F. Winter (Chairman)
Watkins Ludlam & Stennis, Attorneys at Law
Jackson, Mississippi
Chairman, Commission on the Future of the South; Governor of Mississippi, 1980-84; Chairman, Southern Growth Policies Board, 1981-82

PREFACE

As the recession of 1982 began to fade, it became clear to MDC that the rural South was not benefitting from the renewed vigor in the national economy. MDC, a private, nonprofit corporation concerned with employment policy and programs, noted that there was a confluence of disturbing trends affecting the region and that the traditional approach to development was not responding to growing needs. MDC was concerned that the working definition of economic development had become obsolete in light of changing economic circumstance.

Under a grant from The Ford Foundation, MDC reviewed a variety of studies on the rural South and followed closely the work of the Southern Growth Policies Board, results of which were released in December 1985 in a distinguished report, *After the Factories: The Changing Economy of the Rural South.* To document current trends in the rural economy more fully, MDC also commissioned two papers, *Agriculture in the Southeast (With Particular Attention to Tobacco)* by Dr. William Toussaint of North Carolina State University, and *Economic Growth and Change in the Nonmetropolitan South* by Dr. Emil Malizia of the University of North Carolina at Chapel Hill. In addition, MDC conducted two studies of its own to explore economic development past and future—*The Great Industry Hunt: More Hunters, Less Game,* and *Broadening the Base of Economic Development: New Approaches for Rural Areas.* All the studies and a collection of summaries are available from MDC in Chapel Hill.

Finally, in order to gain a human perspective on rural economic changes, MDC staff visited sites in rural Georgia, Kentucky, Mississippi, the Carolinas, and Tennessee, collecting data and interviewing development specialists, business leaders, workers, farmers, and the unemployed.

In the fall of 1985, MDC assembled a panel of distinguished Southerners to synthesize the material which had been accumulated and to make recommendations. Following is the panel's report.

MDC is indebted to each panel member, to The Ford Foundation for its advice, support and encouragement, and to R.J. Reynolds Industries for subsequent financial support.

George B. Autry, Sr.
President, MDC, Inc.
Chapel Hill, N.C.

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An Introduction

"We live in two Georgias. We live in an urban Georgia that is booming, prospering, creating new jobs and opportunities; we live in a rural Georgia that is on the decline and losing jobs, people, and confidence."

That statement, uttered not long ago by a Georgia state legislator, can be applied to states throughout the South. Much has been made of the rapidly expanding economy of our fabled "Sunbelt"; indeed, growth in population and employment for Southern states greatly exceeded the national averages over the past decade, as cities like Austin, Atlanta, Jackson, Charlotte, Houston, and Raleigh have experienced impressive booms. Yet this explosive urban growth has masked the growing difficulties of the rural South. After two decades of reasonably solid growth, many rural communities are now finding themselves in serious trouble, faced with a simultaneous decline in manufacturing and agriculture. In short, while we live in the Sunbelt, there is a dark cloud hanging over many of our rural neighbors.

While adverse trends have been mounting for several years, it is only recently that the economic problems of the rural South—as distinct from those of the region or the nation as a whole—have commanded serious attention. Initially, news of farm foreclosures, textile and other plant closings in the South were viewed largely in the context of the national and worldwide recession of the early 1980s. Only when many rural areas failed to join in the national economic recovery was it recognized that the problems were not temporary effects of the business cycle. Instead, it has become increasingly clear that major structural changes are at work in the rural Southern economy, changes which are only intermittently visible, but that taken together promise profound and lasting consequences for all the South.

The Panel is calling today for Southern states to address the rural situation by broadening their approach to economic development. Our recommendations are based on three critical findings:

First, the economy of the rural South is facing several negative trends simultaneously. Together these trends have serious long-term implications for the entire region.

The structural changes at work in the rural economy are numerous and diverse. Agriculture and manufacturing—the traditional sources of jobs and wealth in the South—are declining simultaneously, undermining local economies, displacing industrial workers and creating especially serious problems for the many farm families throughout the South who rely on second incomes from manufacturing. Increasing international competition, the strong dollar, ballooning federal deficits, deteriorating roads and bridges, and increasing automation in manufacturing are all contributing to the decline and creating a drag on future development. At the same time, declining federal support for rural development, along with deregulation, are compounding the market effects and limiting local action. Many studies have tracked individual trends and speculated on their consequences. Yet the real threat to the rural South comes not from any specific change or trend but from the cumulative impact of so many reinforcing trends.

Second, Southern states' traditional approach to economic development—industrial recruitment—is not likely to ameliorate the adverse trends facing rural communities.

Industrial recruitment has been the linchpin of Southern economic development efforts for over 25 years. Across the South, a growing cadre of industrial recruiters emerged, searching throughout the United States and abroad to recruit the branch plants of large corporations. With its promise of low operating costs, a surplus labor force, and government financing of infrastructure development, the rural South was successful for many years in attracting new manufacturing jobs. Lately, however, employment in manufacturing industries has been shifting away from the rural South, lured either by even lower operating costs available overseas or by the more skilled labor force and developed infrastructure found in the cities. Thus, as the task of industrial recruitment grows increasingly difficult, its continued value as the foundation for rural economic development must be brought into question.

Third, there are alternative development strategies which can be implemented by state and local governments in the South to promote employment opportunity and economic growth, countering the adverse trends we see today.

As Americans we are constantly bombarded with such phrases as the "postindustrial society," the "information age," and the "service economy" as descriptors of the future. While manufacturing is clearly not going to disappear from the rural Southern economy, there is profound truth in these labels. To thrive in a rapidly changing economy, Southern states need to devise alternative development strategies to complement the work of industrial recruiters—strategies that expand local involvement in development activities and build onto the local economy by tapping underutilized local resources and

markets. These alternative strategies are crucial in reversing the dangerous trends facing the rural South today, and the states must play an important role in their implementation.

The Panel does not intend to change the world, only to note that the world is changing and to suggest appropriate actions in response. We are not calling for radical shifts in state policy, but rather an evolution into a broader understanding of economic development for the rural South. Nor are the costs of our recommendations necessarily high; in fact, many can be accomplished by examining the existing public investment in development, reallocating resources, and adjusting current programs.

Taken together, the evidence compiled by MDC and others is vivid and alarming. It documents the gravity of the threat to the rural way of life in the South. Fortunately, it also points the way to new strategies, a new approach, to build the region on the significant base of natural and human resources that has always been the pride of the rural South.

THE OTHER SOUTH:

The Places Left Behind

It is not easy to grasp the changing nature of the rural Southern economy. Rural communities in the South are becoming increasingly heterogeneous, difficult to characterize in general terms. As a result, perceptions of the rural South vary widely: We are all informed by whatever rural community we know best.

Hilton Head, South Carolina and Noxubee County, Mississippi, for instance, are both rural communities sharing much the same cultural heritage. Yet their economic prospects are obviously quite different. Hilton Head booms with development fueled by its tourist industry and retirement communities; Noxubee stagnates. Even within such counties as Tift in Georgia, Campbell in Tennessee, or Greenwood in South Carolina, the economic picture looks vastly different in communities only twenty miles apart. As one small town dies, another thrives nearby.

At the same time we hear of danger signals, we also hear good news: The traditional outmigration to the cities of the North has been reversed; towns in Kentucky and Tennessee have been chosen as sites for mammoth automobile factories; and there are thriving rural communities throughout the South where local leadership and entrepreneurship continue to bring their people a share of the American dream.

Overall, however, the trends are clear. For a majority of counties in the rural South—especially those far removed from a city and without access to an interstate highway—the economic forecast is dark and growing darker. Consider the following statistics:

- more than 95,000 textile jobs and 16,000 jobs in the apparel industry have been lost in the Southeast since 1980, the vast majority from rural areas.
- new jobs in the South are being added nearly twice as fast in metropolitan areas as in rural areas. In Georgia, for instance, three-fourths of all new jobs since 1981 have been located around Atlanta. Manufacturing employment in Atlanta grew 17 percent over the past five years, but declined by 3.3 percent elsewhere in the state.
- agricultural income and assets have declined drastically in the Southeast during the current farm crisis. In North Carolina alone, 13,000 farms went out of business from 1980-85, a decline of 14 percent. Land values and other agricultural assets have declined by at least $2 billion in the state since 1983.
- at the same time the rural South has endured these hardships, federal support for rural economic development has been sharply reduced, and many programs now face elimination. Budget cuts enacted during the Reagan Administration have cost state and local governments in the South a cumulative $20 billion since 1980. Many of these funds were critical to rural development efforts—providing jobs, technical support, infrastructure development, and business start-up capital for rural communities. Under the recently enacted Gramm-Rudman-Hollings legislation, such programs will be cut another 20 percent by 1987.
- all of these economic shocks are occurring in what is already the nation's poorest region. Despite gains in the 1960s and '70s, per capita income in the rural South was still less than three-fourths the national average in 1980. For blacks per capita income was only $3,200, roughly 30 percent of the national average. Meanwhile, unemployment rates in the rural South are now 37 percent above the national average.

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Such statistics paint a vivid picture. Clearly the rural South has been experiencing a painful period of economic readjustment. But statistics alone do not tell the whole story. While the loss of jobs and dollars can be counted, it is much harder to judge the cumulative social and economic impact on rural communities. Nor are statistics of much value in assessing the future prospects for rural economic growth. To make these judgements it is necessary to go much deeper—evaluating the trends which underlie the rural decline, and observing the economic climate of rural communities at close hand. It is exactly these types of activities in which MDC has been engaged, and the conclusions of its research foretell an even darker era for the rural South in the coming years.

MANUFACTURING: A Savior No More

Throughout the postwar era, the success of the Southern economy has been in its ability to attract new manufacturing plants. Though many of the poorest and most remote counties were left behind, particularly those with high rates of poverty and large minority populations, hundreds of manufacturing plants did locate in the region. The new plants—mainly in textiles, apparel, leather and wood, and electrical equipment assembly—created vast new employment opportunities throughout the South and helped to raise the region's per capita income. Between 1959 and 1977, 1.1 million manufacturing jobs were added to the rural Southern economy—an increase of 80 percent.

In the late 1970s, however, the influx of new manufacturing plants began to slow, and many existing plants began to experience serious financial problems—caught in a complex web of changing economic circumstances. Following the national trend, manufacturing employment in the South has seen a steady decline relative to other industry sectors. Moreover, the factors which once made the rural South attractive are now losing relevance. In short, for the past several years the trends in manufacturing have become increasingly stacked against rural communities.

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International Competition. The manufacturing economy of the rural South is almost exclusively tied to traditional industries—most notably textiles and apparel. Unfortunately, the market share for domestic producers of these goods has been eroding rapidly in recent years as international competition has increased. While workers in the rural South earn wages below the U.S. average, they cannot compete with the wage rates in several Third World nations. For instance, American apparel workers earn an average of $6.52 per hour; their counterparts in Korea and Taiwan earn $1.00 and $1.43, respectively. Chinese workers earn about 26 cents per hour.

The foreign threat to domestic manufacturers has been magnified in recent years by the increasing strength of the dollar on foreign currency markets. As the value of the dollar soared to 70 percent above the 1980 level, textile imports rose over 30 percent in 1984 alone, creating massive dislocations of American textile workers in the rural South and elsewhere. Although the value of the dollar has declined in recent months, there is little evidence that competition from abroad will decline significantly in the future.

Changing Priorities Among Domestic Manufacturers. For a variety of reasons, the rural South is also losing its attractiveness to manufacturers within the U.S. In the past, the promise of low wage rates made the rural South highly attractive to industry executives. As the economy has shifted into the 1980s, however, the factors influencing plant location and other decisions have changed. The needs for a highly skilled workforce, access to transportation, and a higher "quality of life"—as reflected in education, health care, and cultural amenities—have become increasingly important. All of these factors favor the South's urban centers over their country cousins.

Even in the traditional manufacturing industries which have historically favored the rural South, the trends now favor urban areas. As production becomes more mechanized and capital-intensive, fewer workers are needed, and those workers must be more skilled. For instance, despite the textile industry's decline in recent years, the number of white collar employees has been steadily increasing. Skilled workers such as these are far more plentiful in urban than rural areas.

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Equally negative for the rural South are the trends in transportation. Budget constraints at all levels of government have limited funding for road repair and maintenance, leaving rural roads and bridges in poor condition and continuing to deteriorate. This discourages investment in rural areas and adds to the burden of beleaguered farmers moving perishable goods to market. Only 33 percent of all rural roads in the South are rated in good condition, compared to 73 percent of Southern interstate highways.

One top recruiter described the general preference for urban over rural locations this way:

> *There's not a whole lot of magic in it. Would you locate a multimillion-dollar plant on a two-lane highway so that when one bridge is out, or a hog truck is ahead of your truck, your whole plant is left waiting for materials? The transportation requirement is critical, almost primary...*
>
> *You keep adding the factors. As industry needs change, you find companies are especially sensitive to the proximity of universities, because they certainly want to be in a position to recruit people with skills in engineering, computer science, telecommunications, medical technology, and the list goes on and on.*

AGRICULTURE: The Roots of the Southern Economy in Trouble

To think of the rural Southern economy is to think of the family farm. For centuries the people of the rural South lived off the harvest of crops such as tobacco, cotton, peanuts and corn. After World War II, however, as tractors, harvesters, combines, and other technologies proliferated, there began a series of major structural shifts in the agricultural economy of the Southeast—drastically reducing the number of farms in the region, increasing the average acreage per farm, and decreasing the demand for labor.

According to the U.S. Department of Agriculture, the total hours of farm work in the Southeast declined by more than three-fourths from 1950 to 1982, while the number of farms dropped by over two-thirds. In addition, more than half of all farm operators in the South today are dependent on off-farm income, and off-farm earnings comprise two-thirds of the total income generated by farm families in the South.

Despite the decline in farm employment, the agricultural sector remained a healthy part of the rural economy through the 1970s. Today, however, American agriculture finds itself in the most precarious financial situation since the 1930s. Discounting for inflation, the value of agricultural assets has fallen by 45 percent since 1981. The U.S.D.A. has estimated that 11 percent of the 1.7 million farmers surveyed in 1985 were suffering financial stress. Given the farm prices of 1985, the situation has worsened.

Farmers in the South have not escaped this nationwide decline. Like their counterparts in the Midwest, Southern farmers must contend with falling domestic commodity prices and lost access to overseas markets, along with the burdens caused by high production costs and falling land values. Although they are not faced with the extent of debts plaguing Midwestern agriculture, Southern farmers have their own special problem with tobacco.

Like their counterparts in the Midwest, Southern farmers must contend with falling domestic commodity prices and lost access to overseas markets, along with the burdens caused by high production costs and falling and values.

Although the South's dependence on tobacco has declined in recent years, for a seven-state region—North Carolina, Virginia, Kentucky, Tennessee, South Carolina, Georgia, and Maryland—tobacco still represents almost 20 percent of total agricultural sales and, because tobacco is a high-yield cash crop, a much higher percent of net agricultural income. Farmers in these states have been hurt badly by the decline in tobacco production and prices, and the future prospects look even worse as the federal government considers major modifications and even termination for the tobacco program.

While agriculture accounts for only a small percentage of total employment, the plight of these farmers has a significant impact on the overall economy in many rural communities. The decline in agricultural earnings has led to a dramatic decrease in the value of farm assets in the South—especially for tobacco quota and land. This in turn reduces the local tax base and makes it more difficult to maintain an adequate infrastructure to support economic development. Likewise, the decline in agricultural earnings places a vast strain on agriculture-related businesses which are a major facet of the rural economy. Since 1980, the number of farm equipment dealers has dwindled by nearly 20 percent.

One last notable impact of the farming crisis on the rural South is more subtle: Much of the leadership in rural counties

The decline in agricultural earnings has led to a dramatic decrease in the value of farm assets in the South.

has traditionally come from the agricultural community. Elected officials, members of the PTA, volunteer firemen and rescue squad members are among the human capital on which a community can build. As farmers are placed under an increasing financial strain and many face bankruptcy, they are far less likely to provide this essential leadership.

A vivid example of the ripple effect which can result from agricultural changes can be seen in the case of Greene County, North Carolina. About 70 percent of Greene's tax base consists of farm land and other agricultural assets; property taxes account for more than half of the county's budget. In the past two years land values have fallen by more than 35 percent while farm equipment values have declined 10-20 percent. Meanwhile purchases of farm equipment such as tractors, combines, and bulk curing barns also dropped sharply. For instance, whereas several hundred curing barns were purchased in Greene during the late 1970s and early 1980s, only one curing barn has been purchased in the last two years. As the Greene county manager explains, "When agriculture is good, things are good all over the county. But when things are bad, it's bad all over the county."

A NEW ERA FOR THE RURAL ECONOMY: The Cumulative Impact of Current Trends

The problems which have racked the rural South's agricultural and manufacturing economies in recent years reflect profound long-term trends. Farmers will be feeling the effects of federal deficits and the strong dollar for many years to come. For tobacco growers, the continuing decline in production—caused by declining cigarette consumption and mounting foreign competition—is not likely to abate, while impending changes to the federal tobacco program promise to do further damage. In manufacturing, as unskilled rural workers are increasingly displaced by lower-paid workers overseas and high tech automation at home, the long-term trends are equally ominous.

Together, the combined effect of these negative trends is producing a revolution in the economy of the rural South. The changes are more subtle than those which took place in the South following World War II—as mechanization led to structural unemployment for millions of unskilled laborers—but they are equally traumatic.

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Because the rural South succeeded in making the transition from an agricultural to a largely manufacturing economy, it is easy to assume today that market forces will again enable rural communities to make the economic adjustments necessary to prosper into the twenty-first century. But the situation facing the rural South today is quite different and in many ways far more difficult.

For instance, in its December 1985 study, *After the Factories*, the Southern Growth Policies Board documented the changing employment patterns in the rural South. One of the principal findings of the study was that the counties in the South which have shown the fastest growth in recent years are those whose workers are the best educated.

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Yet the rural South has traditionally been among the least educated regions in the nation—only half of its adults 25 and over have received high school diplomas, compared to an average of two-thirds in Southern cities and nationwide. College graduates make up just 10 percent of the population in the rural South—40 percent below the national average. In Kentucky, which has the lowest proportion of high school graduates in the nation, 800,000 adults have less than an eighth-grade education, and 400,000 are functionally illiterate. Eighty percent of unemployed adults in the state cannot be retrained for new jobs because they lack basic educational skills. Similar problems exist throughout the rural South.

Another critical problem for rural communities is the declining support from the federal government. Traditionally, these communities have relied heavily on a number of major federal programs designed to aid rural development—the Appalachian Regional Commission, the Economic Development Administration, the Tennessee Valley Authority, and various Department of Agriculture programs. Expensive as these programs have been, they have proven valuable to the rural South—helping to provide the training, technical assistance, start-up capital and, most important, infrastructure necessary for economic development. Since 1980 all of these programs have been cut back, and all may face elimination in the near future.

In addition to these program cutbacks, federal deregulation of the banking and transportation industries has also had a disturbing impact on rural areas. Banking deregulation, though generally beneficial, has tended to place greater control in the hands of lenders less familiar with rural needs and far removed from rural investment opportunities. The effects of transportation deregulation have been far worse: More and more small towns are losing air, rail, and bus service; employment in trucking has declined in the South; and it is becoming increasingly expensive to move people and raw materials between rural plants and urban market centers.

THE YEARS AHEAD

The fact that so many trends are working against the rural South simultaneously does not mean that every rural community in the South will soon be burdened with a depressed economy. The impact of these trends does not hit all areas equally.

Many counties located adjacent to metropolitan areas will continue to thrive, feeding off the urban growth that is likely to continue for years to come. Counties with access to an interstate highway also have a good chance to achieve economic growth. Even many of the more remote rural counties will continue to thrive—through retirement communities and tourism, through proximity to colleges and universities or military installations, or through income generated by available natural resources. Some rural communities, through aggressive local leadership or sheer luck, will continue to thrive on manufacturing. Yet clearly the majority will not.

The decline of the rural economy promises to be especially difficult for special segments of the population—particularly blacks. Counties with high minority populations, already quite poor, have fared much worse in recent years than predominantly white counties. Especially in the deep South, these areas typically have fewer resources on which to build their economies, and they threaten to become a permanent economic drain on their states. The future also looks ominous for other groups, such as:

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- older workers laid off from textile or other manufacturing jobs, unable to relocate, with a strong work ethic but obsolete skills.
- women, increasingly the heads of households, seeking to join the labor force but with few day-care or other support services available.

In short, it is those communities and population groups which have the least—in wealth, educational attainment, natural resources—that are likely to suffer most in the years to come.

BEYOND THE BUFFALO HUNT:

Toward a Broader Definition of Economic Development

Given the dramatic changes and ominous trends facing the rural Southern economy, the time has come for states in the South to reexamine their approaches to economic development. Historically, the South has relied almost exclusively on the hunt for outside industries. For today's changing economy, however, Southern states must broaden their efforts in economic development—cultivating local entrepreneurship and harvesting from untapped local resources and markets which provide fertile ground for development activities.

RECRUITING NEW INDUSTRY: The Traditional Approach

Over the past twenty-five years, the Southern strategy for economic development has been simple: Recruit new industry. Industrial recruiters have been able to claim great success as thousands of new plants have located in the South, both in urban and rural areas. Today, however, the competition for new industry is growing increasingly fierce, especially in the rural South. The situation is analogous to the great buffalo hunts of the last century. The stampede of plants to the South is definitely over—especially for the rural areas that lack a skilled workforce, transportation, infrastructure, and cultural amenities. Yet the hunters continue in their pursuit, hoping to bag one of the remaining hides.

The stampede of plants to the South is definitely over—especially for the rural areas that lack a skilled workforce, transportation, infrastructure, and cultural amenities. Yet the hunters continue in their pursuit.

The modern-day industry hunt was inaugurated in the South by the state of Mississippi in 1936. Through a program called "Balance Agriculture With Industry," the state supervised the use of municipal bonds to finance the construction of new plants. After World War II, other critical elements of the industry hunt began to take shape throughout the South. States and local governments began offering tax breaks to prospective employers, foregoing property tax revenues to lure new jobs. In 1957, North Carolina Governor Luther Hodges started another tradition by rounding up dozens of prominent citizens to prospect for industry in cities like New York, Chicago, and Philadelphia. As the community college system caught on around the South, special deals to train workers for incoming employers added one more dimension to the recruiting game.

Today, in addition to state efforts, literally thousands of local groups have been formed to recruit new industries. Often these groups have hired professional industry hunters to aid them in their search, making recruitment one of the few remaining growth industries in the rural South.

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Recruiters or Traffic Cops? Despite the wide public support for industrial recruiting and its proliferation to local communities throughout the South, questions have always existed about the actual impact of recruitment efforts on businesses' plant location decisions. Studies over the years have clearly established the critical factors in plant location decisions for a variety of industry sectors. Some are influenced most by transportation costs, some by proximity to natural resources. High technology industries are most dependent on an educated workforce, and many seek to locate near universities. Labor-intensive industries, which have tended to locate in the rural South, are most interested in low wages and low rates of unionization.

Inducements offered by industry recruiters—such as low taxes, special training programs, and industrial revenue bonds for plant construction—also affect plant location decisions, but to a far lesser degree than the broader business factors. Firms tend to decide first upon the region in which they will locate, and then they choose a state and a specific site after examining the packages presented by recruiters. In other words, states and local communities are not for the most part luring plants away from other regions to the South; instead they are helping firms which have already chosen the rural South to identify an optimal site. As one expert put it, "At best the states have assisted businesses in doing what they wanted to do anyway."

The Costs of Recruiting. It is nearly impossible to calculate the total costs of industrial recruiting efforts in the South. Programs by state governments are spread across many departments and agencies, while much of the cost is carried by the thousands of local public and private organizations. The data which are available indicate a large and growing investment in recruiting throughout the South. The costs of inducements offered to attract industry are also heavy—and in some cases counterproductive. For instance, there is substantial evidence that tax breaks do not significantly affect plant location decisions. Yet because they are unwilling to sacrifice any chance to recruit new plants, bidders continue to offer special tax incentives, denying themselves much-needed tax revenues and driving up the costs of recruitment for all.

While the costs of industrial recruiting are high, recent studies show that the benefits derived from these efforts have been seriously overstated. For years elected officials and government agencies have been issuing press releases and reports claiming responsibility for bringing thousands of jobs and millions in investments to their states and jurisdictions. The announcements are widely covered by the media, creating the perception of major economic gains. A long-term study of these announcements in South Carolina, however, found that only 52 percent of the jobs promised in the reports actually materialized in the economy. Actual investments, the other frequently cited statistic in the reports, were only 77 percent of the reported total. A study of two counties in North Carolina from 1971-80 found similar results; only 47 percent of the jobs announced were actually filled.

Whatever the effectiveness of industrial recruiting in the past, current trends clearly indicate that its value as a tool for economic development is declining in the rural South. One reason is simple: There are fewer prospects to recruit. Each year there are approximately 1200-1300 new plant openings announced nationwide—an average of only about 25 per state. And the number is not projected to increase in the future. Moreover, both emerging growth industries and traditional manufacturers are increasingly seeking more urban and suburban locations, leaving few prospects for the rural South.

PLANTING NEW SEEDS FOR ECONOMIC GROWTH: An Alternative Approach for Rural Development

"We plead absolutely not guilty to overemphasizing new industry. But what has been lacking is a second dimension."

Chief Industrial Recruiter for the State of North Carolina

Despite its historical importance in the development of the rural South, industrial recruitment cannot solve the complex set of economic problems facing the region. As a result, the need for new development strategies is increasingly apparent.

A 1986 survey of economic developers in North Carolina's 100 counties found that alternatives were being considered in every rural area. But the industry hunt continues to distract attention from any systematic efforts to broaden the local economic base. "Landing a big one" is still the essence of rural development.

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Consider, for instance, one rural county in southern Georgia, where local leaders joined together in early 1984 to offset the lagging growth in jobs and economic activity which was stunting the local tax base. After consulting with the State Department of Industry and Trade, the group raised $500,000 to hire a professional recruiter and finance construction of a new plant facility for the recruiter to fill.

Two years later, their considerable efforts have netted no new industries, no new jobs and no firm prospects. And the county has found new competition from an adjoining county where a major plant closing idled 2,000 workers and left an expanse of low cost industrial floor space. Yet county leaders still see the best hope for their economy in plant location decisions that will be made from afar.

In late 1985, a developer for a small South Carolina city illustrated the continuing appeal of this traditional approach. "We announced five new plants here in one week in 1979," he explained. And though he conceded that times had changed since 1979, he felt that with the county unemployment rate nearing 12 percent, "We need jobs in a hurry and a manufacturing strategy is the only way to get them. We don't have anything else to sell." Accordingly, the local chamber of commerce had just raised $39,000 to fund a permanent industry-hunting division.

In a nearby town, where 980 jobs were lost last year when a textile plant closed, the strategy is similar. The town has hired an industrial recruiter, because the mayor argues that "we need instant relief."

In these two counties, as in so many places in the rural South, the dramatic impact of a major plant announcement and the memory of past successes continue to serve as powerful lures for economic developers, many of whom face pressures to produce instant results. New plants are often viewed as the only means by which rural communities can attract large amounts of outside capital. Yet major plant openings are just one of many potential sources of employment for rural communities. Creating new small and medium-size businesses, expanding existing businesses, and preventing closings of troubled but viable businesses can also boost employment.

Rural communities in the South offer abundant opportunities for entrepreneurship and local business expansion. Many

The dramatic impact of a major plant announcement and the memory of past successes continue to serve as powerful lures for economic developers

rural areas contain a wealth of natural resources which have been overlooked or exploited without full benefit to the local community. Human resources offer an equally rich source for development opportunities: Unemployed and underemployed workers—including minorities, women, youth, and older workers who are often overlooked by traditional development activities—have skills and entrepreneurial potential that can be harnessed in new or expanded enterprises. At the same time, untapped local and regional markets can also be a valuable source of new employment opportunities, allowing local communities to build from existing enterprises.

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The purpose of alternative development strategies is to stimulate economic activity by assisting rural communities in taking advantage of these opportunities for local development. This can be achieved by providing a number of valuable services to local communities and entrepreneurs, such as:

- planning and organizing, including market research and community education.
- provision of technical assistance and financing for new and expanding local businesses.
- direct involvement in enterprise development.

In contrast to the single-minded activity of traditional industry recruitment, alternative approaches to economic development employ a wide variety of strategies which can be tailored to local needs, goals, and opportunities. These strategies can make use of specific types of businesses—worker-owned businesses, cottage industries, and cooperatives, as well as traditional small businesses. Some strategies promote specific resources—utilizing farm, forest, or water resources, as well as underdeveloped historical, scenic, or recreational attractions. Others seek to provide needed services to local communities such as housing, medical services, transportation or day care. Still other strategies are aimed at specific populations—providing remedial education and vocational training to improve the human capital on which communities must build.

EXAMPLES OF EFFECTIVE ALTERNATIVE DEVELOPMENT

Over the past seven years, MDC has conducted a series of studies identifying and evaluating promising alternative economic development projects in the rural South and nationwide. While few produced dramatic results, many proved highly effective in forwarding economic growth on the local level.

HARDWOODS IN KENTUCKY. Hardwood lumber has traditionally been one of the key industries in eastern Kentucky, where small mills serve as a source of extra income to thousands of small farmers and laid-off miners. Unfortunately, these small mills have never become dependable employers of a large workforce, due mainly to an inability to finance large log and lumber inventories. Lacking these inventories, mill operators cannot gain access to major markets or accumulate specific grades of sawn lumber in the large lots which bring premium prices. Instead they are forced to sell all their lumber—higher grades and lower grades alike—at very low prices for use in railroad ties, barn siding, fencing, and other low-value uses.

Noting this situation, the Mountain Association for Community Economic Development (MACED) established a lumber company to overcome these structural problems confronting small sawmill operators. MACED acquired one sawmill and hired an expert in the industry to provide technical assistance for other mill operators, to develop a marketing strategy, and to help arrange loans to hardwood-related businesses. Most important, the new company has purchased lumber from small sawmills and independent loggers, accumulating large inventories sufficient to sell on national markets, securing prices which reflect the wood's true value. These efforts have served to boost the value of the hardwoods market to the region, thereby creating more jobs, with greater stability and higher pay for local residents.

COMMUNITY DEVELOPMENT IN "HILLTOWN." In 1980, a series of meetings was held in a nine-town rural area of western Massachusetts known as "Hilltown." The meetings, attended by over 300 local residents, led directly to the formation of the Hilltown Community Development Corporation and to several specific economic development projects.

Since 1980, 160-180 local businesses have received assistance—half of these were brand-new enterprises. The efforts were mostly targeted at small businesses—such as members of an artisans and craftsmen guild or a local bed and breakfast association. In addition to advice and technical assistance, many of these businesses have received loan funds, channelled from a variety of federal, state, and local sources.

Most recently, Hilltown has turned its attention to a larger project—promoting secondary processing from the region's lumber industry. An industrial park is being developed specifically to "incubate" new wood industries.

Overall, Hilltown demonstrates the economic activity which can be generated when a rural community pools its resources and thinks creatively to identify new opprtunities for development.

TOURISTS IN NORTH GEORGIA. Though situated on a major recreational lake, Hartwell, Georgia was depressed in the early 1980s. Today, through the innovative efforts of local leaders, high school students and outside experts, a new tourist attraction has been created for the town and the downtown area is being revitalized.

Working with local leaders and experts at the University of Georgia, the county school system created a program of school-based enterprises to boost local development while providing jobs and entrepreneurial skills for high school students. After obtaining an antique steam engine from the local railway company, the students opened a new tourist excursion train to tour the lake.

In addition, the school-based retail store joined with 19 other Hartwell businesses to form the Depot Street Development Corporation which is redeveloping a two-block area next to the scenic railroad. Students helped the corporation with the research necessary to have the entire street placed on the National Historic Register, and efforts have now begun to restore the buildings to their original designs of the 1890s and early 1900s.

Thus, by unleashing local talents and resourcefulness, Hartwell has put itself on the road to economic recovery.

LOCAL INITIATIVE: The Key to Success

The examples above offer just a sampling of the types of activities which fall under the heading of alternative economic development. While the strategies are varied, there is a common thread in each case—a local or regional organization which knows the area and involves a cross-section of its citizens. In fact, such organizations provide the key to success in implementing alternative strategies for rural economic development.

There is a common thread in each case—a local or regional organization which knows the area and involves a cross-section of its citizens.

Local development organizations can take a wide variety of forms, including that of a a council of government or similar regional planning organization, a chamber of commerce, a community development corporation or other community-based group, an industrial development commission, or an educational institution. In fact, four-year colleges and universities (such as Western Carolina in the mountains of North Carolina and Morehead State in rural eastern Kentucky) have proven to be particularly promising centers of economic development activity—conducting market research, applying technological innovation, and providing expert advice to local businessmen and developers.

By serving as "public entrepreneurs," local development organizations can bring new creativity and vitality to areas languishing for these qualities. By committing substantial resources to market research and by accepting a lower return than for-profit corporations, these organizations are often able to initiate development opportunities where a traditional approach has failed. Equally important, the technical assistance they provide to businesses can be invaluable in spurring growth and innovation.

By serving as "public entrepreneurs," local development organizations can bring new creativity and vitality to areas languishing for these qualities.

Yet local development organizations which perform these functions are not widespread, while those which do exist are generally small and underfinanced. As a whole, in its close adherence to the strategy of industrial recruitment, Southern states have done little to promote and stimulate local leadership and entrepreneurship for economic development.

THE CHALLENGE TO THE STATES:

Recommendations

The South needs to broaden its working definition of economic development. Over time, the term economic development has become virtually synonymous with industrial recruitment. Today, however, economic trends are decreasing the value of recruitment—especially for rural communities. At the same time, promising alternative strategies for economic development are not being widely utilized. The South must reduce its emphasis on the hunt for outside industry and begin to plant the seeds for local business development.

The key to alternative development strategies lies in public entrepreneurship provided by local organizations. Yet if alternative economic development activities are to become more widespread and have a larger impact, states must also play a central role. Unfortunately, states in the South have lagged behind the rest of the nation in recognizing the need for a broader approach. Most states in New England, for instance, have implemented programs to support local development organizations and spur entrepreneurship. Minnesota and California have also had innovative development programs, while Oklahoma has taken the lead in actively seeking out high school dropouts and providing remedial education as a basis for economic development.

If Southern states are to make an impact in combatting the decline of their rural communities, they must follow this lead and diversify their efforts in economic development: by establishing a supportive environment for alternative development activities; by providing direct assistance and support for local development efforts in rural areas; and by reexamining other state policies and programs which affect the rural economy.

GENERAL SUPPORT: Creating a Positive Climate. Perhaps the greatest barrier to the use of alternative economic development strategies is the perception of local leaders that such strategies cannot have a significant impact on their communities. Therefore, the most crucial role for state governments in the coming years will be to broaden these attitudes and create a climate which is favorable to alternative development. To do this, the states should consider the following changes, strategies and initiatives:

a. **The states should educate civic leaders, local government officials and the general public about the opportunities for locally based development strategies.** In addition, states could
   - emphasize and coordinate the many scattered programs which currently aim at promoting alternative development strategies—such as minority business assistance, small business development, etc;
   - help to develop local leadership and local organizations which might sponsor alternative development activities;
   - offer awards to state employees and to local developers who are successful in implementing alternative development strategies.

b. **Southern states should develop broader indicators for success in economic development—indicators which go beyond the number of jobs created by new plant locations and lost by plant closings.** Additional measures could include the
   - rate of new business formation;
   - median per-capita income
   - growth in the number of self-employed;
   - levels of educational attainment and adult illiteracy;
   - investment in local infrastructure development;
   - value of new loans to local enterprises.

DIRECT ASSISTANCE TO SUPPORT RURAL DEVELOPMENT. While leadership and general support can go a long way toward encouraging alternative economic development activities, the states can also play a valuable role by providing direct assistance for rural economic development. These programs are most needed in three key areas.

a. **Governors and legislators should promote state programs to encourage entreprenuership and small business development with at least the same vigor that they promote industrial recruitment.** For instance, states could
   - utilize universities and technical colleges in rural areas to become centers of small business development, providing market research and technical assistance to local entrepreneurs. In addition, these institutions—as well as rural councils of government or other regional planning organizations—should sponsor, coordinate, and train local development leaders and organizations;
   - finance or facilitate the formation of revolving loan funds to provide seed money for promising rural business activities;
   - place special emphasis on areas of high minority population, offering assistance to develop minority entrepreneurship and encourage minority businesses.

b. **Local development organizations should be offered technical and financial assistance in order to promote alternative development activities.** States should consider initiatives to
   - provide funding and/or technical assistance for traditional developers—chambers of commerce, industrial development commissions, etc.—to broaden their activities and promote alternative strategies;
   - provide direct assistance for local development organizations to hire staff and upgrade their capabilities, promoting the creation of new organizations where none exist;
   - support the activities of other organizations engaged in public entrepreneurship, such as those dedicated to specific regions, populations, or types of businesses.

c. **States should establish a comprehensive program for responding to imminent plant closings.** For instance states should
   - strengthen programs to coordinate federal funds for displaced workers, to develop an informal system of early warning for possible plant closings, and to provide technical assistance to employees or outside investors who might buy out the owners and keep the plants in operation;
   - utilize public employment services, postsecondary training institutions and local development organizations to assist displaced workers not only in searching for jobs but also in starting their own businesses, becoming self-employed, or finding employment in nearby cities.

RELATED PROGRAMS WHICH AFFECT THE RURAL ECONOMY. States must recognize that direct programs for economic development are only one means by which they can assist rural areas. Several programs and policies outside the traditional realm of economic development can also be of great value or detriment to rural areas. Most important are those which concern education, transportation, and agriculture.

a. **In an era when educational attainment levels are becoming ever more crucial to development potential, Southern states must begin to view education not only as a public service but also as an investment in economic development.** For instance,
   - adult illiteracy should be attacked as a matter of economic urgency. Illiterate adults should be reached and trained—to improve their job potential, to break the cycle of illiteracy, and to enhance the area's long-term growth potential;
   - dropouts should be vigorously recruited in rural communities and trained by alternative high schools or technical colleges to improve basic competencies, communication skills, job readiness, and entrepreneurial awareness;
   - secondary vocational education, designed for the manufacturing economy, should be restructured to fit the needs of a new rural economy fast in transition. Emphasis should be placed on thinking and problem solving, basic math and literacy, and basic entrepreneurial skills which might enable rural residents to respond flexibly to market opportunities;
   - postsecondary educational institutions located in rural areas should recruit and train students for careers related to engineering, computer science, and other disciplines that expand the knowledge base and enhance the area's development potential.

b. **States must recognize the importance of adequate transportation to the economic development prospects of rural areas.** In particular states should
   - reexamine their investment in rural road maintenance and repair, allocating additional funds where possible to combat the deterioration of rural roads and bridges;
   - direct new construction for highways to depressed rural areas when possible in order to boost their growth potential. Special emphasis should be placed on upgrading transportation to rural universities and small cities that spur economic development in surrounding areas;
   - consider innovative methods to provide public transportation services to rural areas, such as using school buses for other public needs.

c. **States should promote programs and policies to minimize the effect of the current crisis in agriculture on Southern farmers.** Specifically, states could
   - broaden the mandate of the agricultural extension service. Agents of the AES, already known and respected in rural communities, could ease the transition of those most-at-risk farmers to employment in the larger economy. In addition, the AES could play a valuable role by assisting local development organizations with technical advice and market research;
   - seek a regional consensus on federal agriculture policy. Southern agriculture is currently at the mercy of federal policy decisions and the national economy. A regional position should be hammered out by Southern governors on trade, economic policy, and federal farm programs.

The above recommendations represent the types of changes and initiatives which might prove beneficial to states in combatting the ominous trends facing their rural areas. What is important, however, is not any specific recommendation. Instead it is a new philosophy and thinking which is critical. Southern states must begin to recognize the gravity of the problems facing the rural economy, and they must respond by broadening their approach to economic development.

EPILOGUE

The situation facing the rural South is serious. Many rural communities are now mired in economic stagnation, and the trends for the future are almost uniformly negative. Moreover, the decline in rural areas is not going on in isolation. Cities in the South—like Northern cities a generation ago—are becoming magnets for those displaced from the country. Thus Southern states are threatened with both decaying rural and inner-city communities, creating a massive financial drain on the region's resources.

Finally, the consequences of the current situation transcend economic considerations. The trends also threaten abstract, eternal values that have cemented the South's identity and made it worth preserving. Much has been written and said in recent years concerning America's reverence for tradition and family. In the South, these ideals are rural. Even those of us a generation or two removed from the farm trace our love of the environment, our concern for thrift, our feelings for fellowman, our awe of nature, and our sense of place to the routines of rural community life and our connections to the land. States in the South must tend to our roots, or in the end, risk our values.

Panel on Rural Economic Development

James K. Batten
Miami, Florida

Dr. Charles E. Bishop
Houston, Texas

Dr. Norman C. Francis
New Orleans, Louisiana

Honorable A. Linwood Holton
McLean, Virginia

Honorable Juanita M. Kreps
Durham, North Carolina

Zachary Smith
Winston-Salem, North Carolina

Honorable William F. Winter *(Chairman)*
Jackson, Mississippi

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