The Political Economy of Rural Development
(Sidney Evans, North Carolina A&T State University, Presiding)

A New Approach to Nonmetropolitan Development: National Sectoral Policies

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The stimulation of economic development in nonmetropolitan areas lies as much in efforts to strengthen the overall economy and the vitality of specific industries and groups of linked industries, called "sectors," as in traditional area development policies.

Revitalizing the overall economy, its parts, and that of specific places—metropolitan and nonmetropolitan—will involve three interdependent courses of action: (*a*) improving capital formation and productive investment, (*b*) accelerating the development and application of new technologies, and (*c*) improving labor quality. Although these principal elements of a national economic revitalization effort are relatively clear and the potential benefits to nonmetropolitan areas relatively obvious, there is less clarity both on how to proceed and on the capacities of nonmetropolitan areas to participate fully in such an effort.

The purpose of this paper is threefold: (*a*) explore present economic and institutional circumstances that are key to national economic and economic revitalization, (*b*) describe how national sectoral policies can be used to guide national economic revitalization, and (*c*) assess the development capacities of nonmetropolitan areas to participate in a process of national economic revitalization.

A Changing Economy

During the past two decades, there has been a major shift of investment and employment from metropolitan to nonmetropolitan areas. This shift has made these nonmetropolitan areas sensitive to those international and domestic economic changes that affect specific firms, industries, or groups of linked industries—sectors. For example, as the fortunes of the domestic automobile assembly firms have declined, dozens of linked supply firms, such as tires, batteries, plastics, and steel, also have been adversely affected. Because many of these assembly and supply firms are located in nonmetropolitan areas, the effects of change have rippled through specific places and affected specific employment groups.

The creation of targeted national, state, and local economic strategies in the future will require increased reliance on microapproaches, approaches targeted to specific industries and sectors. The creation of such approaches requires a critical evaluation of national economic weaknesses and strengths that eventually must be addressed. Specifically, a number of indicators are cause for concern, including:

The United States' rate of productivity growth has fallen for almost a decade and a half. In 1979 and in the first quarter of 1980, actual productivity levels fell. This key economic indicator suggests that the United States is losing its competitive edge with international competitors whose productivity has declined but at not nearly the rate experienced in the United States.

Structural unemployment and high inflation have become a seemingly permanent feature of the U.S. economy. The present administration in its *1980 Economic Report of the President* predicted that unemployment would not reach 4% levels until 1985, and inflation would not be reduced to 3% levels until 1988.

Firms of other nations are capturing an increasing share of both domestic and international markets formerly serviced by U.S. companies. The difficulties in steel, automobiles, textiles, apparel, and shoes are merely the most obvious. Even seemingly thriving industries such as semi-conductors and computers are now potentially at risk.

Although these signs of economic decline are cause for alarm and action, economic and

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political panic must be avoided. The U.S. economy is strong and has all the key elements necessary for a restored economic vitality and growth. For example:

Although other nations have closed overall productivity levels, the United States remains the most productive among major industrial powers.

The size of the domestic economy is a major asset. Specifically, the $2.4 trillion-U.S. economy remains the largest single market in the world. The combined value of the gross national product (GNP) of the nineteen members of the European Organization for Economic Cooperation (OECD) is only slightly larger than that of the United States.

During the decade of the 1970s, the U.S. economy was able to absorb over 20 million additional workers, an increase roughly equal to the entire work force of either Italy or France.

Although other nations are increasing their competitive position in technology, the overall U.S. technological base is still the most advanced in the world.

The Changing Role of Government

A contemporary economic and political reality is that virtually all decisions by business and entrepreneurs are now shared with government. This expanded role of government in the economy is a consequence of the growth of public interventions through a diverse and interdependent array of fiscal, monetary, trade, area development, and regulatory activities.

The multiple economic interventions of the public sector are distinguished by their size, scope, directive influence, and their policy and administrative disarray. The disorder in public economic interventions is producing a number of unwanted, even unanticipated, side effects that in aggregate seem to retard overall productivity. In large measure, this disorder reflects the use of antiquated techniques of public administration, such as large-scale patronage, even though disguised under civil service labels. This disarray also reflects the absence of either macro- or micro-national development objectives.

At present, national development policy essentially consists of a number of discrete individual programs and regulatory activities. The responsibility and authorities for the policies and administration of these multiple interventions is fragmented among and between the many agencies of the federal government, the fifty state governments, and the more than 79,000 units of local government.

The inefficiencies and adverse consequences contained in public economic interventions have not gone unnoticed. For at least three decades, a diverse number of efforts have been initiated to bring rationality to these economic interventions. The principle of these efforts have been reorganization efforts, creation of a variety of intergovernmental planning requisites, coordination approaches, and the use of numerous "advanced" management techniques such as planning, programming and budget control, and zero-based budgeting. These approaches have produced some results, but on the whole they have failed. For example, since 1948, there have been twenty-eight major attempts to reorganize the economic policy machinery of the federal government now located in thirty-three separate departments and agencies outside the Executive Office of the President. Yet, the policy disarray continues as does the structural fragmentation.

Pluralism, both structural and issue, is a strong force in the U.S. political and economic system, which must be recognized if improved public administration of the nation's economic interventions is to be achieved.

A New Approach to Nonmetropolitan Development

The most promising and efficient approach for bringing coherence to government's many economic interventions and to public, nonmetropolitan development policies/programs is the creation of economic strategies targeted to specific industries and groups of linked industries (sectors).

Industrial and sectoral policies essentially would be a process by which government, business, and labor would openly and cooperatively devise a set of common economic objectives (long- and short-term) and identify the respective roles and responsibilities each party would have. This common framework would provide a needed source of logic and discipline for government's many economic interventions and at the same time increase needed conditions of certainty for business and labor.

National sectoral policies would have a

number of basic characteristics, including: they would be more inclusive than the current, limited concepts of reindustrialization. Rather, sectoral policies would recognize the role and interdependence between manufacturing, agriculture, finance, services, resources, and other parts of a total economy. Such policies would be formulated in the context of general economic goals (macro-objectives) of reducing inflation and unemployment and of increasing per capita GNP. Such policies would harmonize the objectives of balanced growth between regions and between metropolitan and nonmetropolitan areas. And, they would assist in bringing better balance between the nation's efficiency, equity, and quality-of-life objectives.

In creating national sectoral policies, the initial focus would be on three categories of economic activities: (*a*) those having high growth potential; (*b*) those basic, mature, but essential economic activities such as steel production; and (*c*) those distressed economic activities such as apparel which eventually will drift to a lower level of production and employment because of strong international competition. Strategies for each of these three categories of economic activities would vary according to specific needs and opportunities that would be identified through cooperative business, government, and labor production committees, committees that would in many ways borrow from the experiences of the agricultural sector.

Creation of national sectoral policies would differ significantly from traditional concepts of a planned economy. By the use of formal working groups from all affected parties—business, government, and labor—the focus of policy creation would be the creation of compacts that will provide guidance to actions that already would be taken, but that otherwise would be unfocused. Because of the size and complexity of the U.S. economy, creation of national sectoral policies by necessity would not directly involve every industry or economic activity. Rather, if business, labor, and government in a number of key economic activities such as housing, automobiles, biochemicals, apparel, and primary metals can cooperatively devise effective economic strategies, then the hundreds of other linked industries and economic activities will also benefit. Such a limited, but highly targeted, approach to bringing rationality to government's economic interventions and public/private cooperation is within the present management capacities of business, government, and labor.

There are a number of requisites for the creation of effective national sectoral policies, including: an improved analytical capacity that will permit collection and analysis of better economic information; creation of a mechanism in the executive branch of the federal government (preferably in the Executive Office of the President) that would be responsible for initiating and evaluating national sectoral policies and coordinating them with fiscal, area development, monetary, trade, and regulatory policies; creation of improved consultative systems among and between the many federal agencies, the Congress, and the state and local governments; and creation of an effective consultative system with the private sector, both business and labor. Each industry has its own potential and its own problems that must be addressed systematically by those most intimately involved. The success of the agricultural sector in the United States illustrates the many benefits to be gained from focused cooperation between business, workers, and government.

Nonmetropolitan Development Capacities

The sweep and power of the changes underway in both the international and domestic economy are often beyond the development and remedial capacities of individual communities and individual nonmetropolitan communities. For example, there is little that Youngstown, Ohio, or even U.S. Steel, can do under present circumstances to alter the worldwide shifts underway in steel production. Too many factors are concerned and too many participants are involved.

Nonmetropolitan areas would be major beneficiaries of sectoral development approaches. Partially, these benefits would be derived from an improved national economy. Also, such benefits would accrue to nonmetropolitan areas because of the weak development capacities they now possess. Thus, targeting of public or private actions could minimize weaknesses and build on what strengths that do exist. For purposes of analysis of the capacities of nonmetropolitan areas to participate in national economic revitalization, a typology will be used as follows: (*a*) nonmetropolitan institutional and leadership capacity; (*b*) nonmetropolitan financial capacity; (*c*) nonmetropolitan human resource capacity; and (*d*) nonmetropolitan physical capacity.

Institutional and Leadership Capacity

Nonmetropolitan areas are burdened with too many units of government. Although nonmetropolitan areas possess less than one-third of the nation's population, they have 85% of the 3,042 county governments, 70% of the 18,000 municipalities, 80% of the 16,000 townships and towns, 67% of the 26,000 local special districts and authorities, and 45% of the 2,000 sub-state multijurisdictional districts. This excessive number of governmental units creates complexities and administrative costs that are beyond nonmetropolitan capacities. Institutional consolidation seems unlikely in the foreseeable future.

Leadership for public sector development activities comes primarily through federal-sponsored programs such as the Farmers Home Administration, the Small Cities Program of the Department of Housing and Urban Development, and the Economic Development Administration. These programs provide funds for institutional building and direct technical assistance. However, these program activities possess only limited coordination at either the policy or program level. The funds provided through these programs for staff are limited—less than $100 thousand per program for a seven- or eight-county area. Planning activities are focused more toward the delivery of agency funds than overall development needs. Staff are given limited training. For example, the staff charged by the Department of Agriculture to conduct its nonmetropolitan development through more than 1,000 county offices is trained in agriculture as opposed to economic and community development.

Financial Capacity

Nonmetropolitan areas have inadequate access to public and private capital. Theoretically, capital markets are efficient. In reality they rarely are. These areas have limited financial resources for private sector investments, particularly for small business, reflecting the small size of nonmetropolitan financial institutions, and their lack of experience making nonagricultural business loans.

The diversity of size, numbers, and financial capacities of nonmetropolitan units of government, coupled with the generally lower per capita incomes, restricts the financial abilities of these areas to undertake many essential public activities, such as construction of community facilities.

Human Resource Capacities

Publicly sponsored training and vocational education programs are a major tool for improving the productivity of firms and the per capita incomes of individuals. Although substantial progress has been made in the construction of vocational facilities in nonmetropolitan areas, there is substantial evidence that these programs are little related to the economic development needs of the places they serve. Although some states, such as South Carolina and Oklahoma, have used vocational education as a means to increase nonmetropolitan investment and increase placement rates of the trainees, these programs are still the exception rather than the rule.

Physical Capacities

Nonmetropolitan areas traditionally have had limited public infrastructure. This has limited nonmetropolitan development. In response to this perceived need, a wide array of public programs has been created, such as the Rural Electric Administration, Farmers Home Administration Community Facilities Program, Economic Development Administration, Appalachian Regional Commission, Title V Commissions, and a variety of special purpose programs. In aggregate, these programs have substantially enhanced the physical development capacities on nonmetropolitan areas over their previous condition.

Yet, as the nation enters the 1980s, there is growing evidence that even with these prior investments increases in population and the expansion of public regulatory requirements have created conditions whereby the physical plants of nonmetropolitan areas are increasingly inadequate for either community development or economic development needs. The Department of Commerce, in *A Study of the Public Works Investment in the United States,* has documented that in terms of real purchasing power the United States is now investing less in public works than in the 1960s, approximately 30% less. Although this can be explained in part by completion of the original interstate highway system and declining demands in education, the declining levels of investments are prevalent in real terms even when these two items are excluded. If there is a relationship between private investment and public works, this decline in public infrastructure investments may have long-term negative consequences.

A series of studies by the Economic Development Administration also have documented how many of those public works investments made for development purposes are unused. Specifically, EDA has found that less than 25% of its industrial park investments are being utilized. This represents a substantial diversion of limited public infrastructure investments to nonproductive uses. The EDA example is a paradigm for other programs found through the federal, state, and local levels of government.

Strengthening Nonmetropolitan Development through Sectoral Policies

Sectoral policies would permit the focusing of the limited area development assistance that is available to nonmetropolitan areas. Specifically:

The creation of a common logic for economic revitalization will permit the many units of local, state, and federal government to focus their policies and programs on key actions. Such targeting can do much to limit the present chaos found in economic interventions by multiple agencies.

The creation of sectoral policies will permit better identification of capital gaps existing in nonmetropolitan areas. Such identification would in turn permit existing federal financial programs, such as the FmHA Business and Industrial Loan Program, Small Business Administration, and EDA Title II Business Loan Program to better assess aggregate needs and better allocate the credit they do control.

The creation of sectoral policies will assist nonmetropolitan areas to identify and implement training programs that can improve placement of trainees and attract private investment. Such policies can provide a conceptual framework for a number of needed reforms in the nation's nonmetropolitan training and vocational education programs. (*a*) There should be an improvement of data and information systems to identify specific training demands/supplies by geographic area, skills, and time frames. (*b*) Improvement of policy and administrative structures that administer training and vocational education programs, including improved local involvement, is needed. (For example, metropolitan areas now are given autonomy in the administration of CETA funds, while nonmetropolitan area programs are closely controlled by state governments.) Finally, (*c*) there should be improvement in the links between training and vocational education and potential employers.

The creation of sectoral policies can serve to better target public works investments. In an era of increasingly scarce public resources and declining real levels of public works funds, nonproductive investments must be avoided. National, state, and local sectoral policies will permit the targeting of public works to those activities that have a higher probability of enhancing the community itself as well as its economic development.

Conclusion

For the foreseeable future, America faces many changes—some will be disruptive and some will be opportunities for growth. The success of business, labor, and government in minimizing the negative consequences of change and in seizing new opportunities will largely determine the economic and community development fate of the nation and its nonmetropolitan areas.

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