

# Virginia's Rural Economic Analysis Program

Rural Development  
Program for Community Vitality



# HORIZONS

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## Changing Communities; Changing Needs

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Several converging forces make it necessary for local governments to address issues they never faced before. Some of these forces begin outside the community and others result from internal pressures. Economic globalization, political devolution, and rapid growth require local governments to understand and evaluate new and different options and problems. Responses to these pressures need careful analysis and often exceed the decision-making capacity of localities. Localities, confronted with new processes of acquiring information about decisions and their consequences, urgently need assistance. The state government and its agencies, including the land-grant universities, need to assist localities by providing information, innovative educational programs, and decision-support tools.

### *"Traditional" roles of local governments*

Local governments are responsible for providing some, but not all, public services and schooling, and for collecting revenues for these services. Public services include police and fire protection as well as management of federal programs such as health and welfare. The role of local governments in providing these services has changed in recent years. For instance, welfare reform has expanded the role of local service providers (see Box 1). As programs change, so, too, does local responsibility.

Planning for land use decisions and zoning and approving changes in land use also fall within the purview of localities. While land use decisions have always been contentious, forces such as rapid growth and congestion have increased the stakes for all citizens and generate pressures that are internal to the community.

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Localities also have responsibility in the area of economic development. In Virginia, economic development programs are fragmented, with activities and their outcomes varying dramatically between jurisdictions. Because economic development is viewed as a critical element for community success, separate governmental and quasi-governmental entities are often set up to encourage and oversee the development process. Most local governments have industrial development boards that purchase and develop industrial sites, build shell buildings, and recruit industry. As stakeholders become more aware of the consequences of development decisions, the politics associated with these decisions become more heated. One example is the public outcry surrounding the proposed Disney project in Northern Virginia.

Despite the fact that economic development is viewed as a local decision, state programs are centralized in Richmond. The Governor's office has traditionally controlled the big-dollar economic development funds, and economic development has been largely a "tops-down" process. This characterization is changing--although only slowly as evidenced by the reluctance of the General Assembly, in the past legislative session, to grant more autonomy to localities.

Many traditional roles of local governments are being stretched by the new forces. Sector-specific decisions affect the performance of other sectors. For instance, local educational policy affects the ability to pursue certain economic development strategies. In economic development, localities learn that decisions about firm locations affect everything from provision and funding of public services to land use. The long-run circumstances of a community are determined by day-to-day choices about economic development. While comprehensive plans are in place to guide these decisions, plans are only effective if day-to-day decisions are consistent with them.

Because its effects spill across sectors, economic development is especially critical in determining the long-run character of a community. Yet, local decision-makers are not well equipped to evaluate the consequences of many economic development actions. They find themselves being driven by local market forces or short-run political expedience.

### *Forces of Change*

Economic forces, in combination with sweeping changes in our political system, are increasing the local responsibility for decision making. The chief economic force is globalization. Globalization and liberalization of markets and trade can be associated with increased instability. This instability is evident in the upheaval in commodity markets. Three years ago, commodity prices were near historical highs. Today, most prices are near historical lows. Price instability leads to rapidly changing comparative advantages, and this rapid change challenges traditional strategies for economic development.

The historical engine of nonagricultural growth in the rural south was the flow of capital and jobs (whether in manufacturing or service sectors) to areas of low-cost production. The rural south had inexpensive land; lower costs of energy and waste disposal; and low-priced, but productive, labor. Since market conditions were more stable in the past, comparative advantage tended to persist over long periods. As overseas producers have more access to American markets and costs of trade fall, the historical comparative advantage is upset. Other regions of the world have similar cost advantages. This competition

leaves the southern region of the United States struggling to identify its niche in a rapidly evolving economic environment.

Tobacco restructuring and textile manufacturing plants closing in Southside Virginia represent two examples of rapid change in the economic circumstances of a region driven by globalization. Local decision-makers are challenged to find

employment opportunities to fit the skills of local workers while recognizing that international forces affect the viability of any strategy. Tobacco farmers, for example, need jobs with flexible hours. Such flexibility will enable them to continue to use the land while supplementing on-farm income with part-time or seasonal off-farm employment. Displaced textile workers need jobs that reward their mix of skills, or they will be forced to migrate out of the region.

Economic turmoil refocuses traditional decision making. In the past, localities sought firms that would locate in their areas without much attention to the labor needs of the business. The logic was sound: the responsibility for

matching labor requirements with local supplies was left to the firm. If a firm chose to locate in an area, public decision-makers often presumed that the labor market match was correct. Now, however, with restructuring, local governments need, more than ever, to identify firms with jobs that match the needs of the local labor force. Such firms should be resilient to economic change and should locate in the area because of the area's long-term comparative advantage. While the firm retains responsibility for the bottom-line profitability of its location decisions, localities need to identify firms that are compatible with local labor markets and consistent with long-term community goals.

### **Box 1. New Challenge: Labor Force, Social Welfare, and Local Responsibility**

An example of the new responsibilities faced by local governments is contained in federal welfare reform. The Temporary Assistance for Needy Families (TANF) act replaces the earlier welfare program (Aid to Families with Dependent Children—AFDC) and contains a set of carrots and sticks intended to reduce welfare roles. Able-bodied participants are required to seek work, and maximum lifetime limits exist for program participation. Responsibility for employment preparation and services falls on the backs of local social service providers. Dramatic differences exist in reductions of welfare caseloads across localities; many of these differences are attributable to local capacity. Social service providers in some areas are better at identifying training needs and providing guidance to welfare participants. The only way that welfare reform can work is if local governments become actively involved in identifying good quality jobs for people with few skills and numerous constraints to labor force participation.

Increased local responsibility for job training, job search skills, and employment coordination is implied by the federal Workforce Investment Act of 1998. The convergence of responsibilities for welfare caseload reduction, workforce enhancement, job training, and one-stop shopping for job services means that local governments need to coordinate activities across a variety of programs and sectors. It also increases the burden on local governments that are engaged in economic development. Economic development is no longer just a task of finding and attracting industry, but of matching local labor supplies with prospective demanders of labor.

### *New trends in job creation*

Another force affecting local decisions about economic development is the structure of job growth in America. Beginning in the 1980s, small- and medium-sized businesses replaced large conglomerates as the major source of job growth. Concurrently, service sector firms replaced manufacturing firms as the engine of employment growth throughout the United States. Smaller firms and service sector firms tend to escape the net of traditional economic development recruitment programs. These firms are less footloose and do not engage as frequently in location searches. They tend to start and flourish or fail locally. They generally do not need infrastructure support, shell buildings, and the like. Instead, these firms require basic business services, legal and accounting support, access to capital, access to flexible labor sources, and so forth.

A successful economic development strategy no longer solely involves the hunt for the large firm. Instead, it involves growing and expanding local businesses, assisting in filling gaps for local services, and the like. Little support is given by federal or state agencies for assistance to small- and medium-sized businesses, mostly because providing the support requires a major personnel commitment for delivery of these services. Local governments need to learn how to grow and expand local businesses, to help businesses identify and address the constraints they face, and to match local labor supplies with the demands of firms.

### *Rapid growth*

Changes in labor markets are forcing localities to more thoroughly evaluate the local impact of an economic development event. Rapid growth has similar implications. When a community experiences rapid growth, costs of immigration and the direction of settlement often become more important than number of jobs created. In fact, employment rates are so favorable in many rapid-growth areas of the state that firms now find it necessary to recruit workers from elsewhere. Many such firms are not providing large numbers of jobs to unemployed and underemployed local workers. Consequently, the impact the firms have on the value of the land and quality of life increase in importance to local decision-makers. Elected officials, in particular, are ill equipped to evaluate the different costs of development. They find themselves at a disadvantage when confronted with professional developers. Citizens are not able to effectively evaluate claims and counterclaims. The inability to analyze the full impact of economic development events can lead to unanticipated consequences. Decision-makers and citizens need tools to evaluate the consequences of public decisions, and these tools should be tailored to local needs.

### *Political forces*

Political forces such as New Federalism, devolution of decision making, and the movement toward reinventing governments act in the same direction as these economic forces. Increased decentralization of key decisions gives localities more freedom to respond and tailor policies for their own needs. In theory, when decisions are made locally, local people benefit most. However, good decisions require good information; without good information, errors are bound to be made.

In times past, traditional models of learning about local responsibilities for economic development were adequate. Federal and state programs required local training specific to the program, and the locality adapted appropriately. For example, the "Certified Business Location" program, begun in the latter half of the 1980s, required each locality to establish an Industrial Development Authority, formalize their industry targeting activities, and establish other processes in support of industrial development. Now, because experiences are so specific and responsibilities have been decentralized, each locality, given its specific circumstances, needs to go through a learning process and needs to understand the impacts of its decisions.

Markets for information need to emerge for liberalization to work without assistance from higher levels of government. Evidence shows that these information markets are imperfect. Although numerous consultants provide information to localities, these consultants tend to align themselves with particular political positions. Models become tools of particular interest groups, and local decision-makers are unable to sort through competing claims.

Regional cooperation is becoming more important as geographical spillovers increase with falling costs of transportation and communication. For instance, most people who live in nonmetropolitan areas of Virginia are employed in metropolitan labor markets. Mechanisms are needed for sharing costs and benefits within regions, but regional impacts should be considered during the decision-making process. Tools are needed to analyze impacts at different geographical levels and efforts should be made to share information as well.

### *Tools for assistance to localities*

The state of Virginia and Virginia Tech are actively preparing programs of assistance to rural localities. An example at Virginia Tech is the Program for Community Vitality (PCV) in the Department of Agricultural and Applied Economics. PCV emphasizes that the locality must know its

goals. Strategic planning and long-run visions are necessary parts of the process of economic development. Planning must include, as much as possible, an open political process that invites the participation of stakeholders.

The community must also know itself and recognize that its human and natural assets affect its feasible course of development. Over time, public policy and public decisions will determine the quality and value of these assets. Economic development programs can only be effective if they recognize local human and institutional capacity. PCV has tools for analyzing local labor market conditions and for helping decision-makers understand the implications of existing capacity for development. PCV can also examine training needs to help prepare the labor force to reach local goals.

PCV can help communities understand how decisions will impact the community over the short and long term. These impacts include fiscal consequences, spatial impacts, and the distribution of benefits and costs among stakeholder groups. Different forms of these impact models can be adapted to a wide variety of circumstances and problems. PCV is committed to using these tools in educational programs that will assist local decision-makers in understanding the consequences of their choices.

PCV, in conjunction with other programs of support, can assist local leaders in making decisions that will help achieve long-run community goals. The burden of responsibility remains in local hands; local leadership must have the resolve to act on information. Without this resolve, rural localities will find themselves swept away by the tide of events and will lose control of their future.

### Notices

**\*\*Please** notify the REAP office if your address changes or if you know of anyone who would like to be added to our mailing list.

**\*\*At the printer:** *Non-Metropolitan to Metropolitan County Commuting: Gateway to Prosperity or Barbarians at the Gate*, a joint Program for Community Vitality and REAP publication, describes who commutes and the costs to them and the county from which they commute.

*Pricing Policies and the Future of Tobacco* describes how large changes in tobacco prices affect tobacco usage and, ultimately, production.

**\*\*How to reach us:** REAP, Dept. of Agricultural and Applied Economics 0401, Virginia Tech, Blacksburg, VA 24301; by phone 540-231-9443; by email [reap01@vt.edu](mailto:reap01@vt.edu); or on the web at [www.reap.vt.edu/reap](http://www.reap.vt.edu/reap)

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