THE NONMETROPOLITAN SOUTH IN THE 1990s: CONVERGENCE OR STAGNATION?

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For the past 25 years, members of this Association, together with a few select nonmembers, have made major contributions to the theory and measurement of regional economic growth and development and to the development and implementation of regional, state, and local economic development policy. However, the question of whether those theories of regional growth and development can lead to unequivocal policy recommendations for a region like the nonmetropolitan South remains unresolved. (The South is defined in this paper as the Bureau of Economic Analysis (BEA) Southeast region plus Texas and Oklahoma--from Virginia and West Virginia through the southeastern states to Texas and Oklahoma.) Will there continue to be inevitable market-directed convergence in wages and per capita personal income as predicted by the staunchest neoclassical believers, those described as "neoclassical moonies" by Richardson (see Miernyk, 1982)? Or will the nonmetropolitan South continue forever to be on the end of the product cycle described by Norton and Rees (1979)? Or will the agglomerative and exogeneous forces described by Williamson (1980) and Hansen (1972) lead to divergence between metropolitan and nonmetropolitan wages and per capita incomes? Or, will the future story of the nonmetropolitan South be some combination of the above?

The 1960s was the most recent period of sustained policy interest on problems of the nonmetropolitan South, as documented in such studies as *The People Left Behind* by the President's National Advisory Commission on Rural Poverty (1967). The 1960s era was also the most recent period when the farm population fell by at least a million people in any one year. Since the 1960s, farm labor has become increasingly less significant in the restructuring of the national economy as well as the economy of the nonmetropolitan South. The farm sector also has become increasingly less important as a source of the substantial increases in income to be gained from restructuring, as reported by Garnick and Friedenberg (1982).

Consequently, speculating upon the future of the region becomes a matter of anticipating the future mix of nonfarm activity, where much of that activity is determined by exogenous changes in demand, technology, and national and international events that are beyond the control of the region's decision-makers. However, other determinants of economic activity in the nonmetropolitan South can be influenced by within region forces, some of which, such as relative emphases on education, enforcement of environmental regulations, and infrastructure development, are policy choices of state and local institutions, both public and private; others, such as the gradual aging of the nonmetropolitan population, are not.

Historically, regional scientists have spent much more effort researching and analyzing the impact of exogenous change on local economies, generally known as economic growth or expansion of the economic base, than they have researching and analyzing strategies for economic restructuring, generally known as economic development. And, although the borderline between the notion of economic growth and economic development is not as clearly defined as one might like, the distinction is an important one, particularly when thinking about the future of the nonmetropolitan South. It is important because historically the region has chosen an almost exclusive reliance on economic growth policies, which we might characterize as "more of the same."

Those policies have emphasized the differences between the nonmetropolitan South and the rest of the United States, including other nonmetropolitan areas in the United States, in terms of lower wages, lower taxes, less unionization, fewer environmental constraints, and federally-subsidized financing. The policies assumed that the appropriate development perspective was one that focused on the number of jobs, often for those underemployed or recently released from the farm labor force. Historically, those policies have had some success in terms of increases in per capita income that were fast enough to contribute to income convergence between states and between metropolitan and nonmetropolitan areas within states, although a focus on convergence of average incomes may ignore important distributional issues, as Persky and Tam (1985) point out regularly.

The interesting question for the future is whether a continuing emphasis on regional differences with other areas of the United States will continue to be productive as a growth policy. Because low-skilled, low-wage assembly work can now be contracted for world-wide, the com-

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petition for the nonmetropolitan South comes increasingly from overseas. To the extent that the nonmetropolitan South positions itself to compete with the Third World, that is, to be the last stop before industry leaves the United States, it will grow to more closely resemble that world.

To speculate further on the future of the nonmetropolitan South, let me turn to some projections recently prepared by BEA (Johnson and Friedenberg, 1985). The projections are intended to be used as a baseline; that is, to assess how current trends observed in historical data will play out in the future with no major changes in either exogenous events or economic development policies. In that sense, they are appropriate for the task at hand—speculation about the nonmetropolitan South, assuming no major policy changes.

The projected economic patterns for the nonmetropolitan South are not likely to come as a surprise to many economists. The nonmetropolitan areas invariably are projected to be much more specialized, that is, dependent on just a few industries, than their metropolitan counterparts. Over the projection period to the year 2000, those differences generally increase with metropolitan areas continuing to diversify and the nonmetropolitan areas diversifying more slowly or in some cases showing little change or some slight increase in specialization (for example, in Alabama, Florida, Georgia and Louisiana).

Neither are the sectoral components of specialization likely to come as a shock. The nonmetropolitan areas continue to be overrepresented in farms, mining, and nondurables manufacturing and occasionally in the federal military. The areas are projected to be underrepresented in services and occasionally in trade and in finance, insurance, and real estate. In many cases (13 states out of 14, with the exception being West Virginia), the service sector is projected to become increasingly underrepresented. In a few states (Alabama, Arkansas, and Tennessee), specialization in nondurables manufacturing is expected to increase.

In terms of state per capita income convergence to the United States average, only two states are projected to reach (Texas) or exceed (Virginia) the national average. And it looks as though the projection for Texas may be high, given recent trends in oil prices. In eight of the 14 states, what might be described as the geographic core (North Carolina, South Carolina, West Virginia, Kentucky, Tennessee, Mississippi, Alabama, and Louisiana), there is little or no projected convergence to the United States average. However, within those states there is significant metropolitan-nonmetropolitan convergence, mostly because of relative increases in nonmetropolitan per capita income.

When one looks at earned rather than total income,

however, the pattern changes. The category of metropolitan earnings per worker is projected to exceed the national average by the year 2000 in seven of the 14 states (Georgia, Kentucky, Louisiana, Oklahoma, Texas, Virginia and West Virginia) reflecting a more favorable industrial mix and higher productivity in the metropolitan areas. In only two states, Florida and Georgia, does the relative metropolitan-nonmetropolitan earnings per worker ratio remain constant. In the remainder of the states, continuing convergence of metropolitan-nonmetropolitan earnings per worker is projected to the year 2000. On the whole, earnings per worker shows continuing convergence between metropolitan and nonmetropolitan areas within states and between states and the United States.

However, when one looks at earnings per capita, that is, excluding transfers, dividends, interest, and rent, and spreading earnings over the whole population rather than the labor force, metropolitan-nonmetropolitan convergence reverses in eight of 14 states, demonstrating the importance of unearned income to the continuing convergence of per capita income between metropolitan and nonmetropolitan areas of the South. For most states, transfer payments—predominately government retirement, disability and health insurance payments, unemployment compensation, income maintenance, and veterans' benefits—are as important as dividends, interest, and rent and growing more so over time. (The exceptions are Texas, Louisiana, and Oklahoma where returns to energy resources dominate.)

If these projections capture the trends correctly, the nonmetropolitan South will maintain its relative income levels through increasing reliance on transfer payments—not a very optimistic assessment of its future economic development. Much improvement has been made in the last 25 years, but much of that improvement came from sources not likely to be replicated in the 1990s—a large number of farm workers being released from relatively low-paying agricultural employment, an increase in oil prices from about \$3.50 per barrel in 1973 to over \$30 per barrel in 1981, relatively high farm prices for much of the 1970s, and development of retirement and higher education centers in nonmetropolitan areas. Additional improvements will be more difficult to come by without increased emphasis on improving the quality of nonmetropolitan resources. That means higher and, perhaps, different skills, better infrastructure, and increased capital availability. It also means developing indigenous business ideas, rather than recruiting those activities already toward the end of the product cycle; and it means less emphasis on growth and more on development.

An interesting example of the growth approach versus the development approach can be found in a comparison of two systems for rating states as places to do

business. One system, sponsored by Grant Thornton, an accounting-consulting firm, ranks states according to their "climate," an index based on traditional economic development input variables, such as wages, taxes, and other business costs. The second, sponsored by the Corporation for Economic Development (CfED, 1987), ranks states according to institutional, economic, and environmental output measures, such as job quality and income per capita. States that do well on the first ranking often do poorly on the second. What appears as a desirable input, for example low taxes, in one system, leads to an undesirable output, low labor force skill levels, in the other system.

The CfED authors suggest four dimensions along which to measure the current and future economic success of the states: (1) performance--a measure of past performance in providing high income jobs, low unemployment rates, and substantial income transfers to those without work; (2) vitality--measures of competitiveness and innovation; (3) capacity--measures of labor force skills, education levels, credit availability, infrastructure, and amenities; and (4) policy stance--the public and private policies looking to maintaining or creating the positive elements of the first three dimensions.

The CfED report grades each state "A" to "F" on each of the four dimensions, so for the 14 southern states there are a possible 14 x 4 grades, 56 in total. Forty-four of the grades are "D" or "F." The report does not mark on a curve for the southern states. Although the grades are given just for states, grades for the nonmetropolitan South would likely be lower.

An encouraging finding of the CfED report is that the South does better, although still in the middle, on the fourth dimension, the one most future oriented. The report acknowledges the recent efforts of several southern governors, particularly in improving education, and of such groups as the Southern Growth Policies Board to reorient those policies of southern states that influence their future economies.

What does all this mean for a possible research agenda for members of the Southern Regional Science Association? Looking back on previous presidential addresses of this Association and comparing *The Review of Regional Studies* to journals such as the *Journal of Regional Science*, there are strong revealed preferences for practical and policy-oriented work focusing on, among other topics, the economic development of the South. There is also a willingness to go beyond traditional disciplinary boundaries to address cultural influences, the need for institutional change, and issues of equity and distribution--those variables which are difficult to measure and to which it is difficult to add a subscript or superscript.

But judging from *The Review of Regional Studies* and from the papers presented in these sessions, our interests continue to focus more on growth than development.

Over 20 papers concerned with rural or nonmetropolitan issues, especially issues of credit and off-farm employment, were presented at the 26th meeting of the Southern Regional Science Association, but not many of them looked at the issues within an overall context of structural economic change. Research at the Department of Agriculture indicates that the economies of nonmetropolitan counties are quite different with respect to their linkages to nearby metropolitan areas, to the rest of the country, and to the international economy. In addition it is believed that innovation and new product development have been primarily metropolitan functions. How can such knowledge be used to encourage restructuring in nonmetropolitan areas? For example, what might be the role of those nonmetropolitan counties dominated by higher education?

The 26th meeting of the Southern Regional Science Association also yielded over 20 papers on forecasting, trend analysis, and impact analysis, but not many of them dealt with structural issues. Often, this was because the analysis was at a high level of aggregation or was dependent on an economic base perspective to economic growth.

Why is it that input-output and optimization and programming models, which regional scientists were in the forefront in developing, have not been applied more to southern economic development problems? That is where regional scientists have a comparative advantage--the ability and interest to apply to real world problems the rigorous and sophisticated methods that can address issues of structural change. Although the models are data and dollar hungry, if southern states (and southern regional scientists) are to get serious, and there are indications that at least some states are leaning in that direction, that is one of the areas which must be examined. For unless substantial upgrading and conscious restructuring take place throughout the 1990s, the individuals featured in the *The People Left Behind* are likely to remain so--a little better off, but still behind.

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