Social Capital as an Important Lever in Economic Development Policy and Private Strategy (Daniel Bromley, University of Wisconsin, presiding)

ESSENTIAL FORMS OF CAPITAL FOR SUSTAINABLE COMMUNITY DEVELOPMENT

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In today’s global marketplace, the emphasis is on economic efficiency and productivity. Under such conditions, individuals and firms make decisions by responding quickly to short-term changes in the market and seeking out more profitable markets and less costly production locations. For many rural communities, the consequences of global capitalism have resulted in declining real wages, high underemployment, and increasing rates of income inequality. Since 1995, overall employment growth in rural areas has lagged behind that of metropolitan areas. And, despite the unprecedented growth that has occurred in the service and trade sectors, the rural trade sector has steadily lost market share in recent years (Henderson). As companies relocate and seek out new opportunities, some communities, particularly rural communities, are left behind.

Social scientists have long asked questions about variations in patterns of development. For example, why are some regions more successful than others in improving socioeconomic conditions? Or do certain factors and conditions make some communities more susceptible to economic hardships? In recent years, trends toward globalization have made those questions even more pronounced. For instance, advancements in production technologies and management strategies in the past ten to twenty years have changed such that companies no longer produce many of their intermediate goods internally. Instead, the production of intermediate components is outsourced to companies with a comparative advantage in producing those components (Weinberg and Gordon). With the exception of agricultural and natural resources, rural areas by definition do not often conform to this model of competitiveness, so program planners, policymakers, and scholars alike are beginning to take a closer look at alternative, more sustainable models of development.

A group of social scientists has begun to reexamine the twin notions of social primacy and embeddedness (Putnam, Granovetter, Schmid and Robinson). This research, largely designed to address the community impacts and trends resulting from industrial restructuring and global economic integration of the 1980s and 1990s, is being undertaken by community sociologists and development economists, among others. As they seek to expand our understanding of local social structure and how it affects the welfare of people and places, these researchers have begun to shift attention from conventional models of development to alternative, community-based models that put the interests of workers and community sustainability over markets. Although sociologists and adherents of the structural tradition have undertaken much of the work on social primacy and embeddedness, scholars from other disciplines have weighed in as well. For example, Porter (1990) proposes that clusters play a significant role in economic growth. Defining clusters as “geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g., universities,
standards agencies, trade associations) in a particular field that cooperate,” Porter suggests that communities characterized by clusters may have a competitive advantage over other communities.

The purpose of this paper is to present the foundation rural communities need to develop sustainable economic growth in a global economy. To frame our argument, we draw from recent scholarship on alternative models of development. In contrast with the conventional economic development model, which has heretofore recognized the centrality of public and later human capital, we argue that to survive in today’s changing economic environment, communities must possess three important forms of capital: human, public, and social. When used in concert, these three forms of capital provide the paradigmatic basis for a movement toward sustainable community development. We first offer a brief definition of sustainable community development.

**What Is Sustainable Community Development?**

Sustainable development encompasses a set of policies and activities that work together to create economic vitality, environmental stewardship, and social equity. Economic vitality implies increasing and strong standards of living during current times as well as the ability to adjust to changes over time so that local operators and individuals remain globally competitive. Environmental stewardship implies that current and future activities do not degrade local resources such that the community becomes less productive and/or attractive over time. Social equity entails encouraging development that will benefit all segments of local society. This development process implies educational training that prepares current and future laborers not only to meet their current employer’s needs but also to be rapid adapters to new technology and capable of becoming entrepreneurs.

**Components of a Sustainable Community Development Strategy**

For rural communities to succeed in the global economy, they must be able to compete not only with other rural communities both at home and abroad but also with urban areas. Technological advances in communication and transportation have given rural communities the potential to overcome the problems of geographic and information isolation. Though these are huge obstacles for many communities, conquering these alone is not sufficient for economic growth.

Globalization and new technologies open opportunities for rural communities to develop; however, they do not ensure that it will occur. Weinberg states that for rural development to succeed in a global environment, three things are essential: human capital, physical infrastructure, and adequate financing. We agree that human capital and infrastructure (public capital) are critical components of sustainable community development. However, we feel that the third element should be social capital. Communities that have thriving social networks and institutions and good human capital will have adequate financing as well. Each of these elements (public, human, and social capital) is discussed more fully in the following sections.

**Public Capital**

A building block in a community’s sustainable economic development strategy is adequate infrastructure. Though new technologies exist to reduce the communication and transportation problems that have isolated rural locales, communities need infrastructure to implement those technologies. Increasingly, this means access to high-speed data transmission, digital communication equipment, international airports, and overnight transportation services (Weinberg).

Regarding sustainable economic development policies, Harrison states, “I also define ‘productive’ local economic development policy (as contrasted with a tax- and wage-cutting race to the bottom, in which localities compete with one another by reducing their standard of living) as the building on stronger attractors for catching multilocational or networked capital. This is done by providing high-quality infrastructure—roads, bridges, waste disposal, telecommunications, and transportation—and highly skilled labor.” (p. 33)

However, advanced infrastructure and quality amenities cannot be developed without the resources to pay for the improvements. This poses a problem for many rural communities because of their limited tax base and the sensitivity of firms to high tax rates. Nonetheless, research has shown that when taxes are raised to make improvements in infrastructure and/or
labor quality, communities may become more attractive to locating firms (Aschauer; Eberts 1986, 1991; Gerking and Morgan; Miller and Russek). This is not to imply that raising taxes alone has a positive impact on development. Holding everything else constant, higher taxes will tend to have a negative impact on capital investment. However, if higher taxes are used to make investments in public services that improve the productivity of private capital, the negative impact of the high taxes may be diminished or overcome by the positive productivity benefits (Rainey and McNamara, 2002).

Communities that want to participate in the global economy must be able to provide access to quality communication and transportation infrastructure and outstanding amenities. Communities that are deficient in these areas will find themselves at a considerable disadvantage for attracting and/or maintaining firms in a global environment.

**Human Capital**

Today, global competition and technological advancement necessitate that machinery and labor continuously change to meet consumer demand and competitive pressures. To accomplish this, global firms implement flexible organizational structures and high-performance work practices (Weinberg). These structures and practices include work teams, flexible job assignments, and information sharing between labor and management (Applebaum and Batt, Jones and Kato). High-performance work practices rely on skilled workers (Weinberg; Porter, 2000).

The association between human capital and economic well-being is derived from the early work of Schultz. Schultz’s research suggests that economic growth is largely the result of investments in human capital. Schultz argues that increases in the capital-income ratio are largely due to human capital development, not material capital (i.e., reproducible, nonhuman capital), which was originally thought to account for all increases in income and subsequent economic growth. The premise of his argument is that by giving too much weight to material capital, the large increases in real earnings of workers, which represent a return to the investment that human beings make in themselves, are overlooked. He suggests that investments in human knowledge and skill are the critical determinants of economic growth and are necessary if regions lacking human capabilities ever expect to attract and fully benefit from infusions of new capital.

No matter how powerful the computer hardware or how user-friendly the software, most functions provided by computers (such as word processing, spreadsheets, database management, computer-aided design, robotic manufacturing, and global positioning systems) still require hands-on human contact to be productive (Gordon). It is the ability to effectively use the advances in technology that will determine which communities will flourish and which will be left behind. Communities that are able to train and/or attract a technologically competent labor force will be better able to attract and retain globally competitive firms.

**Social Capital**

In recent years, social capital theory has begun to receive widespread attention as a possible alternative to neoclassical explanations for regional differences (Putnam, 1993a and 1993b; Flora; Fukuyama; Robinson, Lyson, and Christy). Social capital theory is situated in a growing body of literature that seeks to challenge the idea that only the market-driven path of development can lead to improved social and economic conditions. Social capital theory explains development from a structural rather than an economic perspective. Its emphasis is on the “embeddedness” within which economic relations take place, based on the notion that both individual and group decisions are embedded in a particular social context that includes community traditions, norms, networks, and the like (Granovetter). Literature in the structural tradition is divided into three primary strains, each focusing on some aspect of the organization of economic production and the individual and household opportunities it provides (Lobao). The strain upon which this research is based focuses on the effects of small firms, regional trade associations, industrial districts, and local entrepreneurs on community well-being. It examines the association between the organizational embeddedness of small-scale, locally controlled, economic enterprises, and community well-being. Research by Putnam (1993a, 1993b) and others suggests that the relationship between organizational embeddedness and sociocultural factors can help determine why some regions flourish whereas others remain underdeveloped.
Globalization’s Impact on Key Components of Sustainable Development

The rapid changes taking place in the global economy have already had a significant impact on rural communities and will continue to affect how communities develop in the future. Hundreds of U.S. communities have lost textile and light industrial activity to lower-cost overseas sites. As the United States continues to enter into bilateral and multilateral trade agreements, competition will only intensify in these and other industries. The following sections discuss the implications of these developments on the importance of the three forms of capital (public, human, and social) that are essential for sustainable community development.

Public Infrastructure

In the neoclassical model of economic growth, output is expressed as a function of capital and labor. Generally, this specification only refers to private capital with limited attention given to public capital. However, public capital has a productivity-enhancing impact on private capital and labor.

Recent research indicates that communities with well-managed and good quality public services are more likely to be successful in sustaining stable and growing economic bases. Historically, when development agents discussed public capital, it meant water and sewer capacity and transportation infrastructure. These areas are still necessary for growth in the global economy, but a more important factor is the availability of information and communication infrastructure.

In today’s marketplace, firms are constantly sharing and receiving information from vendors and customers. Access to up-to-date information is essential for most companies to operate efficiently and competitively in today’s economy. Communities that cannot provide access to digital and other advanced communication infrastructure will find their economy in a vulnerable position.

Current production strategies for many firms are to limit the supply of available inventories. Limited inventories enable firms to reduce their overhead expenditures and to respond more rapidly to changing market conditions. Limited inventories require advanced transportation infrastructure in order to avoid production disruptions from lack of inputs.

Public investments in transportation and communication infrastructure allow firms to exchange products and information more rapidly and at lower costs. Thus, firms obtain higher levels of output for given levels of investment in facilities and equipment. Laborers spend less time commuting, which enables them to be less fatigued and provides them with more leisure time, which enhances their overall quality of life. As information and rapid response to market changes become more important, rural communities will need to provide quality infrastructure for their economies to maintain and/or enhance their competitiveness. Quality infrastructure also enhances the area’s quality of life, making it an attractive location for professional labor.

Economic competition is also driving governments to be more efficient in providing services. High taxes and fees can be a deterrent to attracting new economic activity. Thus local government will need to provide better services with a smaller tax base. Many governments have already cut taxes significantly in recent years, now they must ensure that the quality of services does not diminish.

Investments in People

According to the neoclassical growth model, economic growth occurs when the jurisdiction experiences a growth in the capital-labor ratio. Improvements in labor skills can lead to an increase in effective labor as more output can be produced per unit of labor. However, economic growth requires an increase in capital investment as well, because, otherwise, capital will decrease per unit of effective labor. If capital expands so that the capital-labor ratio is maintained, the jurisdiction will obtain a higher level of capital accumulation if the labor productivity had not improved.

In recent years, it has not been improvements in effective labor causing an increase in capital investment but, rather, an increase in capital sophistication that has required an improvement in effective labor. Technological advances in recent years have demanded that laborers improve their skills or else be forced to lower-level production sectors. Public and/or individual investments in human capital are the primary way to improve the productive capacity of labor.

Most rural communities have not effectively provided an advanced curriculum in primary and secondary education, and many have done a poor job of providing a basic education. The lack of access to basic educational opportunity has led to a workforce that has not been
able to adjust quickly to technology changes. These workers are also not able to think of creative ways to make the production process more efficient. In many of today’s production techniques, line workers are required to make adjustments during the production process and to work, in teams, on ways to improve productivity and solve problems as they arise. However, many workers have not developed the critical thinking skills to function in these environments.

In addition, too many communities have relied upon providing the local labor force with specific skills that are now obsolete (at least the skills are no longer in demand in the local economy). Industry now demands that people have adequate knowledge to adjust to different technologies and environments. Workforce training will need to redirect efforts away from developing a certain set of basic skills to equipping workers with the ability to think independently and adjust quickly to a changing work environment. Creative thought and problem solving will also be given a lot more value in the future as firms move more toward seeking input from production workers in the decision-making process.

For rural communities to develop sustainable economies, they must develop workers who can make creative adjustments to the production process. Future workers should also be able to adapt new technology quickly. Quality human capital investment improves skills and cognitive ability of labor, allowing for enhancement of productivity and an expansion of entrepreneurial talent.

Social Networks and Collaboration

Though economics can say a lot about the efficiency impacts from changes in the distribution on income, the proper distribution should be determined by society through market operations or government intervention if society deems that the markets are doing a poor job. Social capital, though not easily incorporated into an economic model, is important in creating sustainable communities.

Many local economies have stagnated or declined because leaders are too concerned about protecting the special interests of a small group of business leaders. To reverse such stagnation, decisions must be made that will benefit the entire community, and for this to happen, formerly excised segments of the community must be brought into the strategic planning process at the beginning rather than as mere cheerleaders after the decisions have been made. Lyson and Young elaborate on this theme in an analysis of the effects of structural pluralism on community well-being. In their study of economic well-being among U.S. counties, they find that structural pluralism, the degree to which a diversity of associations and population segments may participate in political debate, tends to be associated with higher income and lower rates of poverty and income inequality. They argue that these results are possible because structural pluralism influences the kinds of economic organizations that locate and stay in a community, the diversified employment structure that it encourages, and the types of poverty-oriented agencies that the community adopts.

Sustainable communities will have well-functioning business and community networks. Cited as two of the most important ingredients needed to revitalize regional economic growth, network-building and collaboration among small- and medium-sized enterprises is now seen as a prerequisite for communities attempting to achieve the economies of scale necessary for participating and competing in the global economy (Rosenfeld, Bergman, and Rubin). Admitting that the policy of branch plant recruitment and its dependence on nondurable manufacturing have become less effective in today’s worldwide marketplace, Rosenfeld, Bergman, and Rubin suggest that program planners and policy makers should do more to actively encourage the kind of collaborative networks that characterize industrial districts. Because regions that are home to industrial districts (e.g., the “Third Italy,” Spain, Germany, and Denmark) generally fared well during the global economic crisis of the 1970s and early 1980s, researchers have begun to look at industrial districts for what they might reveal about perspectives and ingredients for development. For Harrison (p. 477), the logic behind industrial districts is that “proximity promotes the ‘digestion’ of experience which leads to trust which promotes recontracting (and the sharing of common support services) which ultimately enhances regional growth.” He further points out that trust enables firms to “relate to one another by interpenetrating one another’s formal organizational boundaries, rather than solely through the price-mediated exchange of commodities. The result is that firms plan together, bid on contracts together, and receive technical, financial and other services from the
‘commons’ together, rather than on a firm-by-firm basis.”

Sustainable communities will have effective governments. The relationship between sustainable communities and effective government is introduced in Putnam’s work (1993a, 1993b) on the institutional performance of regional governments in Italy. He provides empirical evidence to show how norms and networks of civic engagement affect the performance of government institutions and prospects for regional development. Social capital advocates such as Putnam stress social structures that make, sanction, and enforce social norms, which benefits not only the person or persons whose efforts would be necessary to bring them about but also all those who are part of such a structure (Coleman, p. S116).

Creating an Enabling Environment for Sustainable Community Development

Creating a sustainable community development program will require participation from local residents and several local and regional institutions/agencies. Individuals across all segments of the community must get involved in the decision-making and strategic planning process. Public agencies must become more proactive and efficient. And, local and regional private institutions must work together to form a cooperative environment for making a positive change in the community and must abandon turf wars.

One of the primary roles public institutions will play will be to improve the human capital of current and future workers. More emphasis must be put in curriculums that foster critical thinking abilities. Rural educational systems can no longer focus on providing the bare basics to meet state educational requirements. If they are to take an active part in creating sustainable communities, they must be proactive in insuring that students not only understand basic math and science but also are able to think creatively and work within diverse groups to solve problems.

Educational systems must put more emphasis on providing basic technological training. Almost every industrial sector involves some form of electronic technology to operate efficiently. With many employers complaining about the lack of technical capabilities of new and long-term employees, communities that can provide a technically sophisticated workforce will position themselves well for economic advancement.

Educational institutions also are needed to help foster strong entrepreneurial skills in order to enhance local economic opportunities. Many rural communities will not be able to attract outside investment and will have to develop from within or face continued decline or stagnation. Developing from within will require strong entrepreneurial activity.

State and federal educational agencies can help foster the adoption of a more advanced curriculum by setting guidelines and raising minimum curriculum standards. There has always been a strong resistance to educational programs being mandated by federal and state agencies, but too many communities have not made adequate investments in human capital. Local institutions could reinforce the importance of improved education and act as a liaison between the governmental agencies and local residents who are resistant to requirements imposed from outside the community.

Many rural school systems will likely need financial assistance in providing improved curriculum development, particularly as it relates to technology advancements. Technology grants and aid for salary support will likely be needed from state and federal sources. Aid will be needed in providing infrastructure improvements in many rural locations as well.

In addition, the local chamber of commerce, SBA, lending institutions, local banks, and branches of national banks should work more with smaller businesses to ensure that they know how to access equity markets. The continued operation of many of these institutions in small communities is dependent on the competitiveness and survivability of these small local businesses. This is particularly true as communities try to develop entrepreneurial talent.

Though almost everyone agrees that investments in both public capital and human capital are essential components of any local development program, the verdict is still out on social capital or the need to promote “a sense of community.” Perhaps this is because of the fragmentation or isolation among groups that often characterizes economically disadvantaged communities. Or it could simply reflect the notion that “community” is a much more nebulous quality to define, compared with human or physical capital. In any event, if government authorities want to help communities address local development needs, they must design a set of policies that cultivates and enhances
the capacity of community-based organizations and encourages the civic participation of all residents.

Pulver’s call (p. 59) for “economic development literacy” is perhaps a step in this direction. According to Pulver, any comprehensive strategy to address economic development issues must include an economic development literacy program. Such programs or policies should be designed to provide educational and technical assistance in community economic development policy to local government officials, community organizations, and private business people. The intent of economic development literacy policies is to enable local communities to understand critical changes in global economic forces, analyze their specific economic problems and opportunities, and build comprehensive strategies to address them. They also help citizens transform their own neighborhoods by nurturing leadership from within those communities, often through what Harris (p. 26) refers to as the “organizing tradition.” The organizing tradition involves local residents teaching and recruiting each other to organize and become actively involved in community problem-solving activities rather than relying on charismatic leaders or well-meaning volunteers, who may have little first hand knowledge of the community. In building greater local capacity among themselves, residents become better equipped to make informed decisions about the future health and welfare of their communities.

References


