# Chapter 6
# Some Communities Are Successful, Others Are Not: Toward an Institutional Framework for Understanding Why*

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Some communities are successful and others are not. That is, some communities are able to set reasonable goals for themselves and achieve them. Usually these goals include measures of economic well being such as jobs and income. The explanations for success, or lack thereof, among communities are exceedingly elusive. They are, for the most part, beyond the scope of the economic rationale employed in assessing community resources and the potential for community development. Some very useful sociological research highlights several community attributes that are empirical correlates of successful communities. However, there is little conceptual development in either economics or sociology that does much to explain why some communities are successful and others are not. This chapter explores the elements in a

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conceptual framework for understanding the community processes that give rise to, or defeat, local development. This conceptual framework is based in analytical institutional economics.

## Local Economic Development Processes

In the literature on economic development, the importance of community leadership, community and local business attitudes, and a variety of other relatively "soft" variables are consistently identified as the fundamental explanations of successful local economic development. The work of John et al. (1986) titled *A Brighter Future for Rural America* is classic in this regard. The authors developed an econometric model involving twelve "hard" variables that included the population; the percentage of the population employed in manufacturing, mining, and farming; the percentage of the population with a high school education; and the percentage of commuters in the community. After the model involving the hard variables explained only 20 percent of the economic development success in a sample of rural communities, the authors concluded from community interviews that there were eight keys to the success of communities in economic development.

The eight keys were (1) recruitment and entrepreneurship; (2) manufacturing and services; (3) progressive firms; (4) sustained local economic development activities; (5) a progrowth attitude; (6) finance, sites, buildings, and infrastructure; (7) leadership in the form of partnerships; and (8) support from outside entities. Clearly, the existence of progressive firms, a progrowth attitude, leadership, and even several dimensions of the other components to economic success are, by any stretch of the imagination, soft variables.

A number of researchers have tried to clarify some of the specific community attributes that are either themselves among the soft variables or are unexpected correlates with the economic success of the community. Flora and Flora (1990, 1992) and others have examined the characteristics of "entrepreneurial" communities and of communities that have generated successful self-development projects. According to Flora and Flora's research, entrepreneurial communities have the following attributes:

1. They accept controversy as normal (indicated by a newspaper willing to print controversy).
2. There is a long-term emphasis on academics (as compared to sports) in the schools.
3. There are enough personal financial resources to allow for some collective risk taking.
4. There is a willingness to invest that surplus in local private initiatives.
5. They are willing to tax themselves to invest in a rural infrastructure.
6. They are able to define the community broadly (so that consolidation means larger boundaries for communities, rather than a battle between jurisdictions).
7. They have the ability to network vertically and horizontally to direct resources, particularly information, to the community.
8. They have a flexible and dispersed community leadership.

These characteristics of entrepreneurial communities clearly move our attention beyond economic variables to the functioning of the community itself. In the process of giving meaning to the results of their research, Flora and Flora employ the notion of "social infrastructure" and specifically identify the importance of internal community linkages (networks) as well as external linkages.

In another conceptual effort to more clearly describe the elements and outcomes of the community processes that contribute to the long-term success of a community, Shaffer and Summers (1988) set forth the notion of "community vitality." Community vitality is "the capacity of a local social system to generate income and employment in order to maintain, if not improve its relative economic position" (Shaffer and Summers 1988). Some of the important characteristics of vital communities include the explicit recognition of the need to adapt to changing conditions, the need to use and maintain the resource base of the community, and the measurement of success in relationship to other comparable communities.

Community economic development is thus seen as a dynamic process that creates or loses opportunities depending on the community's preparedness, willingness, and capacity to respond. The concept of resource maintenance recognizes that development is a long-term effort and cannot be achieved through the short-term exploitation of the human and physical resources of the community. The notion of relative position means that the community is interested in how well it is doing by comparison to similar communities; such comparisons indicate the degree to which the community and its citizens have access to externally generated opportunities. They also indicate the degree to which members of the community are able to attain a standard of living that is defined by the culture of the larger society.

McDowell and Shaffer (1989) have used the concept of community vitality as a means of integrating the various economic methodologies and paradigms that relate to the analysis of community economic issues. To this end, they identify the following as the fundamental resources that a community must manage as it seeks to become vital:

1. Land, water, and other natural resources (public or private)—these are the resources over which the community has the greatest amount of control.
2. Labor or human capital—some decisions, both private and public, will cause some people to leave and others to come to the community.
3. Capital—although there are few direct tools that local communities have to control the flow of capital, both public and private stocks of capital within the community and future public investments can influence private investments. There are also some institutional arrangements, such as community development corporations, that can directly facilitate the flow of capital into a community.
4. Institutions—these are the rights and obligations, or social, political, and legal rules, governing what has to be taken into account when using the other resources of the community.

There is likely to be a constant conflict within most communities over issues relating to continuity versus change (maintenance or protection versus the use of resources). That conflict will also occur over the use and change of the institutions of the community. The positions people take will be influenced by their time preference or personal discount rate, with the conservationists having a lower discount rate than the developers. It is through the wise use and maintenance of resources and the willingness and ability to adapt to a constantly changing environment that enables a community to become, or continue to be, a vital community. The conceptual frameworks in economics that are commonly used to figure out the wise use of these resources generally come out of regional economics and production economics.

The regional economic theories emphasizing demand, such as export-base theory and central-place theory, build on the idea that the focus of policy is to respond to a market, whether local or nonlocal. It is assumed that the enterprises within the community can supply the market in a competitive fashion, but the critical task is to determine what and where that market is and what its characteristics are. This form of analysis generates local strategies that build on the idea of expanding the local export sector or having local businesses provide previously imported items for local consumers.

Regional economic theories emphasizing supply aspects and production theory build on the idea that the focus of policy is to use capital, labor, and technology to supply a market. The community increases its development by shifting resources from lower- to higher-valued uses, using unemployed or underemployed resources, importing resources, and/or adopting new technology. Community strategies that are suggested by these approaches are characterized by training/retraining labor, transferring technology, upgrading management skills, increasing the availability of capital, and producing and managing publicly provided services.

The importance of resource maintenance to continuing the existing level of resource use, and thus community vitality, is clearly seen in examples where a natural resource is exhausted or rendered nonuseable. The reduction of aquifers through overuse and the loss of agricultural land through imprudent zoning are just a couple of examples of problems in resource maintenance. The theories and conceptualizations of natural resource economics contribute significantly in calculating the value to communities of maintaining such resources.

The analysis of the problems of communities in maintaining their private and public stock of physical capital or their stock of human capital are generally associated with the theories of public finance and welfare economics. However, few areas of community decision making are as difficult to assess or are as contentious as the issue of public capital investment. Recent concerns with infrastructure problems and theory would seem to support this contention.

Community vitality is a long-run concept that requires more than just the efficient use of resources in the short run to generate profits, jobs, and income for current community residents. Markets for products and services come and go, along with changing preferences and changing definitions of acceptable living standards. Changing technology has a profound influence on production and consumption patterns, on the use of resources, and on the comparative advantage of specific uses and users.

These dynamic conditions in the economy and the society make it necessary for a community and its people to be flexible, adaptable, and capable of making decisions on resource uses—decisions that adjust to change. Indeed, the major message of both Drucker (1985) and Birch (1987) in their discussions of the changing national economy is that individuals, and presumably communities, must be adaptable and prepared for change. theories based in macroeconomics and development economics are useful in describing, predicting, or estimating the magnitude of the changes that communities face and determing what some of their adjustments should be.

## Community Institutional Resources: The Key to Vitality

Issues dealing with resource maintenance and the adaptability of a community to change are discussed together here because both have a major institutional dimension. The mechanisms for both maintenance and change are the community's institutional resources. However, in addition to the set of institutional arrangements that are under the control of the community itself, there are a host of institutional empowerments and constraints that are available from, or imposed by, other levels of government.

The institutional aspects of local economic development can be divided into two components. The first emphasizes the rules of the game—the current rules regarding resource use and maintenance. A substantial amount of community development activity involves explaining to local people in both the public and private sectors what the rules are that constrain and empower them with respect to directions they wish to take.

Extension workers and other development specialists advise communities and citizens on issues of development rights related to the retention of agricultural land; on zoning; on planning; on the rights, duties, and responsibilities of various local officials; on whether industrial revenue bonds can be used to refinance a manufacturing firm or to fund commercial development; and on what kinds of national or state grant programs are available and who is eligible.

The second institutional dimension of communities has to do with the institutional forms of decision making in the community—these institutions can expand or circumscribe the capacity of the community to decide where it wishes to go. The structure and functioning of the many organizations, boards, committees, and departments in both the public and private sectors in a locale cause it to function as a community.

While the theoretical constructs of microeconomics, macroeconomics, regional economics, public finance economics, and resource economics appear to explain the consequences of resource maintenance or the need for change in the use of resources, everyone, and no one, is an expert on the design of institutions. Most of what we know about institutions and their functioning at the local level is descriptive—not analytical—and falls into the first category—the rules of the game. Considerably less is known about the design of new institutions and institutional arrangements and their impacts on local society, values, and culture. For example, we know little about the impact of institutions on such things as the mutual trust in a community that makes controversy an acceptable and normal state of affairs. We know little about what generates a diverse and broadly based leadership structure.

## Institutions, Culture, and Community

Institutions—in the most conceptual sense, property rights, or simply rights—have their origin in some minimal sense of community. “It’s mine,” not because I assert it is, or even because I have a gun to defend it, but because you agree that it is. Taylor (1966) calls this minimum sense of relationship a “covenant.” The covenant creates the self-restraint or forbearance—the acknowledgment that “it’s yours”—that creates the rights. Some of these agreements between people are then codified and become law.

Most economists acknowledge that the market is not an exchange of goods but an exchange of rights (see Schmid 1987; Taylor 1966; Bromley 1989) and that the rights have their origin in some kind of public choice. There is general recognition of this collective or community basis of the market and the economy, of the rights exchanged therein, and of the institutions that guide exchange in that market.

After this acknowledgment by economists, much of the economic literature dealing with property rights or institutions speaks in terms of the conflicts over rights that are codified in formal law and that are adjudicated through legal institutions. Much less attention is paid to informal or nonformal institutions, and seemingly completely forgotten is the covenant or sense of community that creates rights in the first place. This predisposition to deal with codified rights or formal institutions limits the treatment of institutions or rights to a subset of all institutions—only those that are formally codified. Many of the soft variables relevant in local economic development are likely the result of institutions, or arrangements between people, that are not codified but are simply the way of doing business in one community and not in another.

Fallows (1989) describes the set of institutions that are more subtle than those that are codified in his discussion of economically relevant dimensions of culture and why culture matters in explaining the economic performance of a society. "In the long run, a society's strength depends on the way that ordinary people voluntarily behave. Ordinary people matter because there are so many of them. Voluntary behavior matters because it's too hard to supervise them all of the time. . . . This voluntary behavior is what I mean by 'culture.'" (Fallows 1989, 13). In Taylor's (1966) discussion of the origin of rights, these notions of culture are aspects of the covenant or the set of rights within which economic activity takes place.[1]

In an effort to identify the elements of life, particularly economic life, over which culture has a major influence, Fallows goes first to Myrdal's *Asian Drama* (1968). As Myrdal attempted to explain the roots of poverty throughout Asia, he identified the cultural traits that productive cultures have in common and that are useful for development. Myrdal, reports Fallows, identified the following thirteen traits: (1) efficiency; (2) diligence; (3) orderliness; (4) punctuality; (5) frugality; (6) scrupulous honesty (pays off in the long run); (7) rationality in decisions on actions (approaching the rationally calculating "economic man" of Western liberal ideology); (8) preparedness for change; (9) alertness to opportunities as they arise in a changing world; (10) energetic enterprise; (11) integrity and self-reliance; (12) cooperativeness; and (13) willingness to take the long view (and forego short-term profiteering). Myrdal argues throughout *Asian Drama* that Indian culture, rather than encouraging these traits, encourages unproductive behavior by ordinary people.

As Fallows further refines the cultural norms that are economically productive, he reports on some work by Lawrence Harrison, a long-time official with the United States Agency for International Development (USAID) with extensive experience in Latin America. Harrison's list of the elements of a culture useful for development are the following: (1) the expectations of fair play; (2) the availability of educational opportunities; (3) the availability of health services; (4) the encouragement of experimentation and criticism; (5) the capacity to match skills and jobs; (6) the presence rewards for merit and achievement; and (7) the existence of stability and continuity.

The elements of culture that empower people such that their voluntary actions contribute to development can reduce even further to two crucial items, argues Fallows: whether the radius of trust is large enough and whether people feel they can control their destiny. Different societies, he argues, establish the radius of trust and the sense of controlled destiny in very different ways. These differences, and the unique way that the United States establishes those elements in its culture, are the subject of his book. In Fallows' terms, a vital community will have created a culture, a sense of itself, that lets people know the rules of the local economic game, encourages them to play as hard as they can within those rules, and reminds them of their obligations to the rest of the community—the elements of "control of destiny" and "radius of trust."

In a rather similar vein, Edward Banfield's *Moral Basis of a Backward Society* (1965) describes a culture in southern Italy in the 1950's that is unable to act together for the common good because there is virtually no trust or sense of obligation to anyone outside of the extended family. This "amoral familism," says Banfield, is responsible for the impoverishment of the region, rather than the lack of resources or economic opportunity.

Whether these dimensions of culture defined by Fallows—sense of control over destiny and radius of trust—are an adequate basis to describe the cultural differences between successful and unsuccessful communities is not now known. Alternatively, whether they provide a set of categories into which to fit the various soft variable correlates of successful and unsuccessful development is also not clear. They are, however, suggestive of a direction for further exploration.

## Areas for Further Exploration

### The Domain in which Leadership Operates

In *Community and the Politics of Place* (1990), Kemmis explores the role or domain of leadership, one of the clearest yet most elusive of the soft variables often identified as a key to economic development. Kemmis takes the reader back to the debate between Madison and Jefferson about the character of the U.S. Constitution. Jefferson sought in a constitution a document that would challenge citizens to the noblest of "'civic virtues' upon which real citizenship depended." (Kemmis 1990, 21). Madison, argues Kemmis, believed that a constitution must protect citizens from their meanest instincts. Because Madison prevailed, Kemmis argues, the United States has a set of governance institutions that are essentially aimed at preventing tyranny, not at encouraging development.

Kemmis illustrates his point by describing the hearing process, a normal and familiar procedure in local, state, and national decision making in the United States. Because the hearing procedure is essentially adversarial and adjudicative, parties with different points of view on a matter come to the hearing and take the most extreme position possible—not one they would necessarily accept in a negotiated outcome. But they seldom really do negotiate with each other because the rules—institutions—either do not permit it or certainly do not facilitate it. Because of the United States' constitutional ethic and the fact that institutions that flow from it control citizens' meanest instincts rather than appeal to citizens' noblest virtues, Kemmis argues that Americans at the local level are often stuck with zero-sum choices.

Is it possible that this is the domain of leadership? If development is more than a zero-sum game and the economy is a system of claims (rights) rather than of commodities, then local development must be able to create new rights. But a set of governance procedures that are by their nature adversarial, not arbitrable, adjudicative, or negotiative, will not likely generate the new understanding between people—the new covenants—that will lead to new rights and to development. Is this the role of leadership, whether in official cum political roles or in civic cum volunteer roles? Do leaders move people, parties, and interests from zero-sum to positive-sum positions, from seeking adjudication to entering negotiations that can create new rights?

### The Community as a Commons or a Common Property Resource

It is even more difficult to initiate a strategy that will result in successful development in a community than to detect the major influences that distinguish the successful from the unsuccessful communities. This is true whether the action is initiated from within the local governance structure or outside that structure, within the civil/voluntary realm of the community. From perspectives both within the government and from the outside, individuals and groups seeking to take actions come up against the community institutions, must deal with them, and frequently must change them.

In addition to the adjudicative norms of those institutions described above, there is another whole set of considerations that makes change in those institutions difficult and affects the behavior of people. Just like many of the land, water, and air resources of the community, the communities' institutional resources have common property characteristics. These institutions are supposed to be accessible to all citizens, and the rules on changing them—the institutions for changing institutions—frequently require more than a simple majority. Simple indifference, rather than opposition, on the part of many citizens may defeat the change being attempted. This is a free-rider problem.

Therefore, those who seek to change or use institutions extensively will encounter many of the difficulties more often associated with common property resources. Such difficulties include the free riders and unwilling riders[2] that follow from the high exclusion costs and joint impact attributes associated with common property resources (see Schmid 1987, 44). Elinor Ostrom suggests in *Governing the Commons* (1990) that neither government nor the market is uniformly successful in solving common property resource management problems.

The importance of recognizing this dimension of community and community economic culture is that it may help to explain some of the great difficulty in both the analysis of community economic development issues and in the practical work of carrying out successful local economic development strategies. Frequently, such efforts are defeated, not because free riders are evil but because they are busy doing other things.

## Conclusions

Local people in communities are desperate to know what actions will develop their communities. The elements that give rise to success in local development are unpredictable from one locale to another. Successful development is phenomenological if not purely serendipitous; that is, it is an unusual and unpredictable occurrence.

Some of the things that can lead one to this conclusion include: (1) the great differences between communities with respect to community resources and locational attributes; (2) the degree to which regional, national, and international economic forces influence what happens locally and the limited span of control any locale has over those forces; (3) our lack of understanding of the major elements are that give rise to local economic success; (4) our lack of in-depth theoretical insight into the same issues; and, in the face of all of this, (5) the rather consistent evidence that when successful development in rural communities does occur, it frequently depends on the special initiatives, local attitudes, or leadership and actions of some individual(s) who prove all the experts wrong.

This is a beginning attempt to untangle what is serendipity for some communities and random, uncontrolled disaster for others—hopefully to increase the chances for any community to be successful.

## Notes

1. The notion of culture used here does not deal with issues such as the unique anthropological attributes of northern Europeans or the people of Scottish and Irish descent in Appalachia in the U.S. Nor is it intended to include the unique cultural circumstances generated by the work and industry of mining, lumbering, or some other industry. The focus here, and in Fallows, is on the cultural dimensions of communities that cause some communities in northern Europe to succeed and others to fail, some Appalachian communities to be successful and others not to be, and some mining or lumbering or farming communities to be successful and others not.

2. Free riders, like private residents adjacent to public lands, obtain extra benefits without contributing. Unwilling riders, like homeowners adjacent to landfills, have extra costs imposed on them against their wills.

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