2 Literature Review

2.0 Introduction

Since its inception in 1965, the Appalachian Regional Commission (ARC) has made significant progress in promoting economic and community development in the Appalachian Region. Yet, despite these gains, portions of the region continue to lag behind the rest of the nation in terms of income, quality of life, and general economic performance incomes. Designated as "distressed counties" by the commission, these areas have not benefitted as fully from the ARC's investments in roads, infrastructure, and public services. Limited progress in some of these counties, when compared to better performing regional peers, suggests that these areas may possess additional physical, cultural, or institutional constraints and might benefit from creative or alternative development strategies.

Traditionally, poverty in Appalachia has been ascribed to a number of factors, including geographic isolation, external control of resources, land tenure policies, and cultural or historical constraints. Recent research continues to confirm this view. A 2006 report by researchers from the International Monetary Fund (IMF), for example, found that "initial conditions, including both geography and institutions, are very important for economic development, having significant effects lasting hundreds of years."[3]

The IMF report suggests that these historical or geographical barriers may, in fact, be more persistent in the region's distressed counties. In an effort to address these issues, considerable research has been conducted on development strategies and approaches for these types of communities. In 2007, for example, ARC published "Sources of Growth in Non-Metro Appalachia," an effort to increase understanding of the factors affecting economic growth in rural and distressed areas. The study, which relied on both statistical and qualitative approaches, found that "developmental path dependencies" often shape the direction of growth and recommended that local officials adopt a LEAP (Local Economic Assessment Package) approach to the creation of development strategies.

Other recent research has advocated the use of less conventional tools when working with Appalachian communities. Most recently, Susan Keefe explored and evaluated the use of participatory tools and approaches in regional development efforts. Her 2009 book, "Participatory Development in Appalachia," examined case studies from ten Appalachian communities and found that, within limits, participatory tools can be valuable in the creation and implementation of local development programs.

Building on these and other research findings, this report provides a multi-disciplinary assessment of economic development strategies in ARC's distressed counties. The evaluation identifies the constraints facing rural communities, notes the significance of geographic, cultural, and institutional factors, explores

[3] Eric V. Clifton and Alma Romero-Barrutieta, "Institutions versus Geography: Subnational Evidence from the United States," IMF Working Paper, International Monetary Fund, July 2006, i.

the impact of regional metropolitan and micropolitan areas, and compiles proven strategies for addressing or overcoming these barriers.

2.1 Progress Achieved, but Problems Persist

Research conducted over the past decade points toward the considerable progress made in Appalachia since the ARC was founded in 1965. In 2000, Lawrence Wood and Greg Bischak noted significant gains in their report "Progress and Challenges in Reducing Economic Distress in Appalachia." They noted that since 1960, "the number of distressed counties in Appalachia has decreased by half." The researchers attributed this improvement to a number of factors, including increased urbanization and industrialization in the South, improved levels of educational attainment, and the migration of retirees into the region.[4]

Subsequent studies - published after the 2000 census - confirm these findings. Dan Black, Mark Mather, and Seth Sanders noted that along with increased earnings, Appalachian residents also enjoyed significant improvements in the quality of life. Their report, "Standards of Living in Appalachia, 1960-2000," found that the region's homes were approaching national standards in terms of plumbing, heating, and other characteristics. A companion report, "The Upskilling of Appalachia," noted similar improvements in family income and attributed this rise to the entry of women into the workforce and the aging of the population.

Regional demographic changes were confirmed in another post-census study, "Emerging Patterns of Population Redistribution and Migration in Appalachia." This assessment, compiled by researchers from Ohio State University, found that "the decade of the 1990s ushered in major demographic shifts in the migration patterns of Appalachia." Among these changes was a historic reversal of prior migration trends, with residents of northern industrial and urban areas now migrating into the Appalachian region. This growth was especially pronounced in southern states, particularly Georgia and the Carolinas.

Yet, while these reports noted progress, they also documented a number of issues that continue to plague the region. Wood and Bischak, for example, noted that, while manufacturing played an important role in recent progress, its future in the region was, in all likelihood, limited to "the most productive, capital intensive" sectors. These researchers also expressed concerns about the coal industry, noting that "the rising distress in coal-dependent counties points to the need for greater economic diversification."[5]

Wood and Bischak also highlighted the importance of educational attainment in building the regional economy. "Future trends in the knowledge based economy," they wrote, "leave little doubt that educational attainment will continue to be a key factor in improving the prospects for distressed counties."[6] Black, et al. concurred, stating that "educational attainment was the key variable in explaining how individual earnings and employment in Appalachia continued to lag behind earnings and employment in the

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[4] *Lawrence E. Wood and Greg Bischak, "Progress and Challenges in Reducing economic Distress in Appalachia: An analysis of National and Regional Trends Since 1960," Appalachian Regional Commission, January, 2000, i.*

[5] *Ibid., iii.*

[6] *Ibid., iv.*

rest of the United States." They concluded their report stating, "further investment in education for the region's residents is necessary to ensure that any long-term trends towards economic parity continue."[7]

The importance in educational achievement was also emphasized in "Changing Patterns of Poverty and Spatial Inequality in Appalachia," a 2005 study produced by Daniel Lichter and Lori Ann Campbell. In that study, which examined regional poverty trends, the authors noted "little evidence that education doesn't pay in Appalachia." Interestingly, Lichter and Campbell also researched the impact of changing family structures on Appalachian families. They found that "family change…has been inextricably linked to recent poverty trends." They concluded that educational improvements, along with "welfare reform policies that emphasize work and healthy marriages" were necessary for long-term economic change.[8]

Another study, prepared for the ARC in 2008 by Joel Halverson and Greg Bischak, assessed the region's growing health care crisis. The report, "Underlying Socioeconomic Factors Influencing Health Care Disparities in the Appalachian Region," examined patterns of premature mortality across Appalachia. The study confirmed the presence of "well-defined clusters" of high mortality in Central and Southwestern Appalachia. These high rates, they argued, are associated with a number of factors, especially poverty and low access to health insurance.[9]

Recent research points towards the impact of poor health on the region's economy and productivity. A Gallup study released in August 2011 found significant links between substandard physical health, mental health, and low productivity in the region. The study, titled "Appalachia: America's Low Energy Zone," found that residents of Appalachian cities had exceptionally high rates of depression diagnoses, higher numbers of poor-health days, and "lacked the energy to get things done." The study's authors concluded that "for many communities in the region, poor psychological health may be a significant barrier to growth." The authors recommended that local leaders invest in "initiatives to improve physical and psychological well-being" and "establish a positive cycle of optimism and growth."[10]

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[7] Dan A. Black, Kelvin M. Pollard, and Seth G. Sanders, "The Upskilling of Appalachia: Earnings and the Improvement of Skill Levels, 1960 to 2000. Prepared for the Appalachian Regional Commission, September 2007, 16.

[8] Daniel T. Lichter asnd Lori Ann Campbell, "Changing Patterns of Poverty and Spatial Inequality in Appalachia," Prepared for the Appalachian Regional Commission, April 2005, 29.

[9] Joel A. Halverson and Greg Bischak, "Underlying Socioeconomic Factors Influencing Health Disparities in the Appalachian Region," Prepared for the Appalachian Regional Commission, March 2008, iv.

[10] Steve Crabtree, "Appalachia: America's Low Energy Zone," The Gallup Organization, April 3, 2077, http://www.gallup.com/poll/148787/Appalachia-America-Low-Energy-Zone.aspx.

2.2 Case Studies in Appalachian Development

In addition to the aforementioned regional studies, a number of important subregional or local case studies have appeared in the past decade. Not surprisingly, the majority of these studies focus on the most distressed Appalachian subregion, Central Appalachia - an area dominated by the Eastern Kentucky Coal Belt. These research efforts provide additional insight into local development efforts and illustrate many of the obstacles and barriers faced by low-resource communities.

A summary of the state's woes can be found in the aptly named report "Why is Kentucky so Poor," by Kenneth Sanford and Kenneth Troske. In this study, Sanford and Troske examined factors explaining cross-state differences in wealth. They attribute the state's low income and productivity levels to a number of factors, including low levels of educational attainment, the prioritization of roads over schools, a lack of innovation, and a lack of urban growth. They concluded that, barring "fundamental changes, Kentucky will continue to be one of the poorest states in the union."[11]

The same year, the Brookings Institute published a report on poverty in Kentucky. The study, titled "The High Price of Being Poor in Kentucky," examined the day-to-day obstacles that conspire to keep the state's working families in poverty. The study's authors found that "Kentucky's lower-income working families often pay a premium for goods and services, making it difficult for them to build wealth, save for their children's futures, and invest in their upward mobility." They discovered that low-income families generally pay some of the highest prices for basic necessities, including food, housing, and transportation. The Brookings report also argued that while Kentucky had made important progress at increasing incomes, the state had "done little to address problems on the other side of a family's ledger" and concluded that policies were needed to help reduce the cost of living for working families.[12]

Local development strategies were examined by a group from Pennsylvania State University in the 2000 study, "Social Capital and Economic Development in Central Appalachia." The study focused on the experiences of three Kentucky case study communities: Letcher, Pike, and Floyd Counties. The study found that while social capital is important to promote development, local strategies tended to reinforce the status quo in these communities and thus had a minimal impact.

This study also found that large-scale reforms, particularly in education, often did not have an impact at the local level. Small poor communities, the study found, were "often bypassed by the benefits of reform because they lack local technical capacity to apply for grants and other special funds that accompany these

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[11] *Kenneth Sanford and Kenneth Troske, "Why is Kentucky so Poor: A Look at the Factors Affecting Cross-State Differences in Income," Center for Business and Economic Research: Kentucky Annual Economic Report, 2008, 9.*

[12] *The Brookings Institution Metropolitan Policy Program, "The High Price of Being Poor in Kentucky: How to Put the Market to Work for Kentucky's Lower-Income Families," Prepared for the Annie E. Casey Foundation, 2007, 4.*

changes." The study concluded that "until the 'worst first' are taken seriously, the region's most challenged communities will lag behind."[13]

2.3 Paths to Progress: The Debate over Growth and Development Strategies

The Appalachian Regional Commission has played a significant role in the region's progress in the past half century. ARC investments have helped transform the regional economy and have significantly improved living standards for many Appalachian people. ARC's approaches to development, however, have often been the subject of scrutiny and debate. As such, the agency has become an important global case study for regional development strategies.

One widely read analysis attributes regional improvements to the strategies and programs of the ARC. "The Economic Effects of the Appalachian Regional Commission," a 1995 study by Andrew Isserman and Terance Rephann, provided an "empirical assessment" of the agency's impact. Isserman and Rephann found that Appalachian counties "grew significantly faster" than similar non-Appalachian counties "in income, earnings, population, and per capita income." The authors argued, "with certainty," that these gains were the result of ARC investments which, in their view, "produce a handsome return." "Regional Development Planning," they concluded, "has been successful in Appalachia."[14]

In his 2008 book, "Uneven Ground: Appalachia Since 1945," Ron Eller gave the ARC mixed reviews for its accomplishments. While acknowledging undeniable progress in Appalachia, Eller argued that, in the 1960s and 1970s, political considerations and prevailing economic theories compelled ARC to favor larger communities and county seats at the expense of smaller, more rural communities. At the same time, political demands forced the agency to expand its service area well beyond the physical or traditional boundaries of Appalachia. As a result, few resources were directed to many of the region's poorest areas.

Since the 1980s, ARC has made efforts to improve service to the most impoverished areas through its distressed counties program. In 1999 it reviewed lessons from this program in a report compiled by Amy Glasmeier and Kurtis Fuellhart, "Building on Past Experiences: Creating a New Future for Distressed Counties." The authors of this report sought to learn from the experiences of counties with improved socioeconomic status and apply these lessons to other distressed areas.

Glasmeier and Fuellhart found that several factors were common among distressed counties. These include a high number of single mothers, high levels of government sector employment, and low levels of educational attainment. The authors also stated that counties that emerged from distress benefitted from high levels of private land ownership, significant infrastructure investments (including ADHS highway development), and local investments in educational and health care facilities. The study also found that

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[13] Armand Ciccarelli, Phil, Corderio, Whitson, "Social Capital and Economic Development in Central Appalachia: Case Studies of Letcher, Pike, and Floyd Counties, Kentucky," Prepared for the Appalachian Regional Commission, September 2000, 75.

[14] Andrew Isserman and Terance Rephann, The Economic Effects of the Appalachian Regional Commission: An Empirical Assessment of 26 Years of Regional Development Planning," Journal of the American Planning Association, Vol. 61, No. 3, Summer 1995. 345, 362-363.

location played a major role, with communities near metropolitan areas being more likely to improve economically.

The researchers concluded that while some poor counties "were unable to receive funds under [ARC's] initial program design," the emergence of some counties from distress during the 1980s and 1990s validated the agencies distressed counties program. They argued that additional progress could be made through expanded investments in entrepreneurship and leadership development programs and through expanded efforts to assist women and single-parent households. Glasmeier and Fuellhart also recommended that Local Development Districts in each state be given training and incentives to expand partnership development and leverage private funding.

The largest (300+ pages), and most recent assessment of development trends occurred in 2007 with "Sources of Regional Growth in Non-Metro Appalachia" (SRG). The report, prepared by a consortium of researchers, was an effort to improve our understanding of factors affecting economic growth in smaller communities and better understand economic development strategies that can be used to improve them.[15]

The SRG report analyzed growth in the Appalachian region from a variety of theoretical and methodological perspectives. Importantly, recent advances conceptualizing and modeling in regional growth processes, including (1) the role of clustering, (2) the importance of agglomeration economies for understanding rural-urban economic linkages, and the (3) effects of distance on the trajectory and speed on economic growth; were overarching themes for inquiring and explaining growth trends in the region.

The SRG series was presented as four volumes. The first volume was a compendium of "white papers" that highlighted the theories of economic growth applicable to the Appalachian region, and emphasized, for example, cluster-based and economic base development theories. The second volume presented findings from six regions in the area that focused on local socioeconomic idiosyncrasies of each location and the constraints and opportunities characterized by these features. The third volume used secondary data sources to analyze the extent to which regional growth was influenced by spatial economic linkages and access advantage to agglomeration economies. Finally, the fourth volume summarized and assessed a suite of tools to gauge local opportunities for growth.

The authors of this report extended the methodological and theoretical orientations of SRG's first and second volumes, and follows up on the SRG report by examining local development efforts and assessing the impacts or regional or multi-county approaches at the local level. It differs from many of the prior studies, however, by incorporating both econometric and participatory research methods and through discussions with a wider range of case studies and stakeholder participants.

[15] Amy K. Glasmeier and Kurtis Fuellhart, "Building on Past Experiences: Creating a New Future for Distressed Communities," Prepared for the Appalachian Regional Commission, January 1999, iii.

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