

THE STATE OF THE SOUTH 2002

Shadows in the Sunbelt Revisited

with support from

The Ford Foundation

September 2002

MDC

Expanding Opportunity • Reducing Poverty • Building Inclusive Communities

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*In 1986, MDC published *Shadows in the Sunbelt*, an analysis of trends threatening the rural South that offered recommendations for achieving more equitable and widespread progress. The report was guided by a panel of distinguished Southerners led by William F. Winter, Governor of Mississippi from 1980 to 1984. In August 2002, Governor Winter chaired another panel of distinguished Southerners to reexamine the shadows that still mar our region's economic landscape and recommend how to eradicate them.*

MEMBERS OF THE PANEL

William F. Winter (Chairman), Jackson, MS
Partner, Watkins Ludlam Winter & Stennis, Attorneys at Law

Frank Daniels, Jr., Raleigh, NC
President and Publisher, The News and Observer Publishing Co., retired

James A. Joseph, Chapel Hill, NC
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Sybil J. Hampton, Little Rock, AR
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Valeria Lee, Rocky Mount, NC
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Darla Moore, Lake City, SC
Chief Executive Officer, Rainwater, Inc.

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Jesse L. White, Jr., Washington, DC
Federal Co-Chairman, Appalachian Regional Commission

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Dedicated to...

The Honorable William F. Winter

Watkins Ludlam Winter & Stennis, Attorneys at Law, Partner
Chairman of the State of the South: Shadows Revisited Panel, 2002
Chairman of the Shadows in the Sunbelt Panel, 1986
MDC Board of Directors Member, 1986-Present; Chairman, 1988-2000
Governor of Mississippi, 1980-1984

Governor Winter had no idea, when he convened a panel of distinguished Southerners in July 2002 to discuss the state of the South, that the resulting report would be dedicated to him. He would not have allowed it, insisting that he was but one of many who contributed to the insightful commentary and recommendations.

He has carved out an extraordinary life-after-the-governorship role as a progressive "conscience of the South." For more than two decades, he has traveled widely in the region, inspiring leaders, speaking to the persistent need for closing racial and economic gaps, continuing to make the case for educational progress.

In a long career through tumultuous times in his native state and region, the former governor has demonstrated the high art of public leadership, acting with integrity and with deep human concern for his fellow citizens, regardless of their station in life. William Winter exemplifies what it means to be an engaged citizen, combining practicality and vision in the exercise of leadership.

He has helped MDC become a significant voice and catalyst for progress across the South, and he was an important friend, counselor, and collaborator with our founder, George Autry.

For these reasons, a grateful MDC staff and Board of Directors dedicate this report to him, in appreciation for his many years of guidance, mentoring, and friendship.

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- Indicators of Well-Being for Southern Metro Areas Larger than 750,000 and their Central Cities, 2000
- Population and Job Growth by Size of Metro Area, 1980-2000

Acknowledgments

Notes on Data and Analysis

This report refers to the "South" as defined in the *State of the South* series since 1996: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

Most of our data comes from the U.S. Census Bureau; some is from the Regional Economic Information Service (REIS) of the Bureau of Economic Analysis, U.S. Department of Commerce. A full list of sources and resources follows the report.

The full text and charts of this report, along with those of the 1998 and 2000 *State of the South* reports, are available on the MDC web site at <http://www.mdcinc.org>. The web site includes additional supporting data and resources for more information.

THE STATE OF THE SOUTH 2002

Shadows in the Sunbelt Revisited

I. RUNNING SMARTER

Historically, the South has relied almost exclusively on the hunt for outside industries. For today's changing economy, however, Southern states must broaden their efforts in economic development...

– *Shadows in the Sunbelt*, May 1986

Since those words appeared a decade and a half ago, the South has run hard in its quest for more jobs and greater economic opportunity for the people of the region. Some states and communities have sprinted so swiftly, and so nimbly adapted to a changing economy, that they now rank in the forefront of the nation.

But many Southern places – especially rural towns and central city neighborhoods – have fallen behind. Even running as fast as they can, distressed communities have found themselves mired in long-standing problems – low education, high poverty – and overwhelmed by the newer forces of globalization and technological change.

What's more, the recession of the early 21st Century has hastened the collapse of low-wage, low-skill manufacturing upon which so many Southern communities depended. And, however mild this recession may have been in economic terms, it has left states in a severely weakened condition to respond to the people and places left behind.

In 1986, following the South's recovery from a previous recession, MDC Inc. assembled a panel of distinguished Southerners who warned of a "confluence of disturbing trends affecting the region." In its report, *Shadows in the Sunbelt*, the panel recommended that states broaden their approach to economic development. Out of its subsequent research and work with states and communities across the South, MDC has learned a lot about economic and community development – and expanded its own understanding of what it takes to bring Southerners and their communities out of the shadows.

For this report, MDC again brought together a panel of distinguished Southerners to assess anew the region's response to economic change – change moving even more rapidly than in 1986. While several metropolitan areas have burgeoned and some rural communities have made a successful economic transition, shadows have darkened in many rural and urban places that lack distinctive competitive advantages in today's economy.

The "clarion call" from the MDC panel to the South: You're in a whole different race. Run hard, but also run smarter.

The job ahead

The 2002 panel urges the states of the South to redefine their vision of and thinking about economic development. And it recommends the following:

- Refocus the state agencies responsible for economic development to pursue a broader, more strategic approach. State governments should not measure success simply by the number of new jobs, but also in terms of higher incomes for people and improved competitiveness of regions within the states.
- Modernize tax systems, so that states have the fiscal capacity to provide excellent education, widely accessible job training, necessary infrastructure, and community amenities that enrich the soil for economic advancement.
- Tighten performance criteria for industrial incentives – and encourage associations of Southern governors and legislators to reexamine the one-dimensional, incentives-driven recruitment strategy in favor of a comprehensive economic development strategy.
- Preserve and enhance rural communities by forging regional collaborations and rural/metropolitan linkages to break their isolation and improve their competitiveness.
- Develop a set of metropolitan-focused policies to assure sustained economic and quality-of-life improvements in burgeoning metro areas on which the South has grown increasingly dependent.
- Dramatically expand efforts to erase serious deficits along the entire education continuum in the South, and bolster the education, health, and well being of children from birth to five-years-old as a prelude to greater achievement.
- Draw on the power of the South's universities and community colleges to act as catalysts for state and regional economic advancement.
- Aggressively support universities, community colleges, and nonprofits to prepare public officials to address the region's tough challenges and to raise up a new generation of civic leaders.

These recommendations are built on a conviction that the South's economic development should flow from two guiding, complementary concepts: competitiveness and equity. To succeed, our communities, rural and metropolitan, must strive constantly to remain competitive in the global economy. To advance as a democratic society, the South must strive just as energetically to widen the circle of prosperity.

II. A WARNING, NOW REITERATED

A tale of two Souths. – Shadows 1986

In 1986, the Chernobyl nuclear reactor melted down, the space shuttle Challenger exploded, and the U.S. unemployment rate hit 7.2 percent, a higher rate of joblessness than in the country's recent recession. "We Are the World" won the Grammy Award for song of the year, the Oprah Winfrey Show began on national television, Elie Wiesel won the Nobel Peace Prize, and Louisville defeated Duke by three points for the NCAA men's basketball championship.

In 1986, the United States had endured a decade of regional economic and political rivalry. An ascending "Sunbelt" was pitted against a descending "Rustbelt." Regions competed over the distribution of federal grants, and the states' practice of offering tax exemptions and other expensive incentives to attract businesses spiraled into a veritable arms race.

Once the South recovered from the early 1980s recession, the regional economy expanded rapidly. But MDC Inc. noticed – and spotlighted – the emergence of two Souths, one metropolitan and prosperous, the other rural and facing serious trouble.

In the midst of then-unprecedented prosperity in the South, MDC issued its cautionary paper titled, *Shadows in the Sunbelt: Developing the Rural South in an Era of Economic Change*. A simultaneous decline in agriculture and manufacturing had undermined the rural South's economic foundation, said the report, and the South's long-standing industrial recruitment strategy would no longer suffice. Instead of the "buffalo hunt" – the search for branch plants to provide employment – *Shadows* said that the South's policymakers should plant "new seeds for economic growth," with special attention to encouraging entrepreneurship and small business development.

MDC's analysis hit a nerve. So, too, did the report, *Halfway Home and a Long Way to Go*, issued by the 1986 Commission on the Future of the South of the Southern Growth Policies Board. Often discussed in tandem, *Shadows in the Sunbelt* and *Halfway Home and a Long Way to Go* remain benchmarks in the field of policy analysis on Southern economic development. They altered the regional conversation over economic development. The South didn't stop offering incentives to attract new and expanded plants, but many states began seeking higher-wage jobs. The region's leaders also increasingly drew the connection between education and the economy.

Since the two reports were issued in 1986, much has changed – and change has accelerated. But some things haven't changed – most especially that, despite its burgeoning affluence, the Southern economic landscape remains spotted with shadows.

This report points to the shadows that persist or have developed in both the rural and urban South. We offer recommendations, both to prod states to action and to provide a framework for policymaking in economic and community development. Still, as *Shadows* itself argued in 1986, more important than specific recommendations is "a new philosophy and thinking which is critical" to the South's advancement.

III. RECESSION AND BEYOND

It has become increasingly clear that major structural changes are at work in the rural Southern economy, changes which are only intermittently visible, but that taken together promise profound and lasting consequences for all the South.

– *Shadows* 1986

The current recession will end – perhaps the turnaround is already in progress. But, recession aside, structural changes only intermittently visible in 1986 continue to propel the economic dynamics of the South.

Through the 1980s and the super-charged years of the 1990s, the South outpaced the nation in job and population growth. In its *State of the South* reports, MDC documented an array of economic, social, and demographic changes that transformed the region: the South narrowed the income gap with the rest of the nation; the historic black out-migration reversed, and a strong black middle class thrived in the region; and in the 1980s and '90s, the South created 4 million new jobs beyond the gains associated with national growth.

Today, there are not simply "two Souths," although a clear rural/metro divide persists. Today's South is a region of complex diversity, with fast-growth and slow-growth communities, with high-tech metro areas and backwater rural counties, and with coastal towns having emerged as vacation havens and older cities searching for a place in the new economy.

In effect, there are two rural Souths, one enjoying the fruits and enduring the stresses of unprecedented growth, the other engulfed in darkening shadows. There are two, or more, metropolitan Souths. Some Southern metropolitan areas have become genuine new-economy cities, pulsing with knowledge workers. In other metro areas – including several of the most distinctly Southern cities – growth and adaptation to the new economy have come much slower.

The recession that ushered in the 21st Century served to speed up the change and churning in the economy. It hastened the collapse of traditional Southern industries. From Stonewall, MS, to Rutherford County, NC, decades-old plants have closed and won't reopen even in a national recovery, diminishing the tax base of communities and the jobs prospects of older workers.

Big forces push on the South

To understand why the South should implement a broader vision of economic development, policymakers and opinion leaders must look beyond the recession and review the powerful forces that have exerted pressure on the region over the last 15 years, as well as trends likely to be sustained in the years immediately ahead.

Globalization

The Berlin Wall fell in 1989. Then the world's focus shifted from guns to butter – from competition over arms to competition over trade. Telecommunications, international investments, and trade agreements like GATT and NAFTA fed an economy gone global. Freer trade across borders brought lower prices to U.S. consumers, while imposing high costs on communities – in the inner cities and rural areas – not prepared for international competition.

Then came the attacks of September 11, 2001. The economic shock waves – decline in travel, nervousness in the stock market, increased government spending on security – were felt in the South as in the rest of the nation. The world is smaller than it was a decade and a half ago, smaller than it was even a year or two ago. Increasingly, states and communities must measure their strengths and weaknesses in the context of a global economy.

Technology

The word Internet appears nowhere in *Shadows* 1986. But the electronic information highway has joined asphalt-and-concrete highways as core infrastructure. Government and businesses are increasingly doing business online rather than on paper. As a core infrastructure, telecommunications has the potential to help rural areas overcome one of the biggest barriers to participation in the global economy: isolation. But the Internet is only one of the technological advances that have transformed the economic reality in the South.

The recent recession has not slowed the race toward a more knowledge-oriented economy. Technology continues to transform all manner of industries – and the way workplaces are organized – not only the so-called high-tech firms but also textiles and farming. Yet, most Southern states rank low on preparedness for the knowledge economy.

Virginia, at number eight, is the only Southern state to rank among the top 10 in the rankings of Progressive Policy Institute's New Economy Index, which used 21 economic indicators – patents, workforce education, manufacturing exports, information-technology jobs, technology in schools, and such – to assess states' progress as they adapt to the new economic order. Among Southern states, it is followed by Texas (14), Florida (18), Georgia (22) and North Carolina (26). Seven Southern states fall into the bottom 10.

Demographic destiny

The South's immediate past and its near-term future have been shaped by three significant population shifts, which together have contributed to the region's significant gains in population.

1. Over the past two decades, most of the new arrivals in the South have been white Americans. In aggregate, these in-migrants have been more affluent and better educated than resident Southerners. They come unburdened by the South's history and, to some extent, unaware of how hard-won have been its advances.
2. Reversing a historic out-migration, more black Americans now move to the South than to any other region of the nation. Blacks moving into the South have flocked to metropolitan areas, living in suburbs as well as the center of cities, adding to the ranks of a substantial middle class.

3. During the 1990s, Latinos pushed beyond Texas and Florida and into states where they found jobs in meatpacking, construction, services, and retail. Immigrants from Mexico and Central America have transformed some small towns, but the great majority has settled in job-laden metropolitan areas. No longer are Latino workers only migrants, picking crops when ripe and then moving on; now they are staying, with a disproportionate clustering in low-wage occupations.

The South has taken a historic turn from a largely biracial to a multiethnic region. The elimination of rigid racial segregation enforced through Jim Crow laws helped position the South for the economic advancement that ensued in the last quarter of the 20th Century. Having made considerable progress that should give it hope and confidence, the South still must deal with civic tension and economic disparities that linger from its long white/black divide, even as the region faces new challenges arising from unprecedented ethnic diversity.

Metropolitanization

Since the end of World War II, the South has inexorably shifted from a largely rural to a predominantly metropolitan region. There are 25 large metropolitan areas in the South with populations ranging from 750,000 to more than 4 million. All of these large metros gained population over the last two decades, 11 with gains of more than 50 percent.

The metro South has a few tightly packed urban centers, but it mostly features a sprawling, suburban style of development. As a result, jobs that have grown rapidly at the periphery of metropolitan areas often are far distant from city residents who need them.

Jobs are clustering in the metro South, and people inevitably go to where the jobs are. And, in a democracy, political power flows to where the people are. Whereas rural barons ruled Southern legislatures only a few decades ago, the South's decision-making bodies will increasingly represent an urban/suburban populace. **And yet, like an adolescent who grew too fast for his clothes, traditional policies in development, transportation, and environment reflect the legacy of a more rural era. Often, they don't fit the new metropolitan reality.**

Fiscal anemia

In the 1990s, economic advancement propelled revenue growth in the Southern states. Prosperity gave the states greater ability to address unfinished business – and states enacted tax cuts, too. Over the past few years, however, the picture has drastically changed.

Now, most Southern states have officially reported revenue shortfalls for the 2002 fiscal year, and the outlook is for more shortfalls, or only modest revenue growth at best, over the next two or three years. North Carolina has struggled with a shortfall over three consecutive fiscal years. Georgia reported that tax collections fell in every month of the 2002 fiscal year, compared with the previous year. And Texas, which did not report a shortfall for 2002, now projects revenues declining by as much as \$5 billion in the next fiscal year.

As the economy slumped in 2001-02, states found their tax systems under strain – income tax collections plummeted as a result of both job losses and the drying up of capital gains; sales taxes took a hit from the drop in tourism; and corporate tax revenue dropped with the decline in profits. None of the states has modernized its system to conform to today's more service-and-knowledge oriented economy.

What's more, Medicaid, the federal/state program of providing health services and medicine to the poor, has exacted an increasing share of state budgets – now up to about 20 percent of the typical general fund. Governors have turned to Washington for assistance, but now the federal budget is also experiencing substantial deficits.

The upshot is that the states' ability to respond to new challenges and unfinished business has weakened.

Churning beneath the rising tide

Once a region set apart from the nation, the South helped to stimulate and benefited from the economic boom of the 1990s. Through the decade, the nation experienced its longest period of low inflation, low unemployment, stable growth. The rising tide lifted both ships and small boats. But the rising tide also masked the churning beneath: an economy changing faster and faster was also destroying old-economy jobs as it created new jobs.

For a period of time in the 1990s, the economy expanded so vigorously that it raised the incomes of some of the poor, as well as the affluent. But many people who began the decade at risk ended the decade at risk. The at-risk include female-headed, single-parent families; men who drop out of school without skills for anything but muscle work; aging factory workers whose plants have closed or downsized; and especially place-bound people with limited skills. Amid the economic boom, persistent poverty, well, persisted in many small towns and city neighborhoods.

Many Southern governors, legislators, and policymakers detected the trends and worked assiduously to diversify the region's economy, make communities more competitive, and prepare workers for new jobs. While textiles and apparel declined, information technology, life sciences, plastics, and electronics grew, as did construction, services, and retail. However, the pace of change – especially the decline of long-entrenched manufacturing enterprises – accelerated dramatically in 2001 and even more precipitously after September 11.

While *Shadows* correctly warned in 1986 that the South was undergoing structural economic change, it could not have foretold the sweep of that change. In light of the forces of globalization and technology, today's South confronts a sweeping economic challenge with an impact more devastating than the sum of its parts. In this new context, the South needs a new framework for economic development.

IV. RURAL SHADOWS, OLD AND NEW

While we live in the Sunbelt, there is a dark cloud hanging over many of our rural neighbors.

– *Shadows* 1986

Over the past decade and a half, a gulf has emerged within the rural South. It is a gulf that separates new-growth counties from economically distressed counties.

On one side of that rural gulf stand regions, mostly along the coasts and in the mountains, rich in natural and cultural amenities that attract retirees, vacationers, and other new residents. The new-growth side also includes counties on the fringe of booming metro areas, places that have been transformed from field and forest to exurbia, with sprawling new bedroom communities and employment centers.

Whether along a coastline or along a wide-width freeway, growing rural counties have attracted well-to-do residents and created new job opportunities. Overall prosperity has risen in these places, but not everyone has benefited, as the retail and service-based economy that is fueled by population growth and tourism offers only modest wages and few full-time jobs.

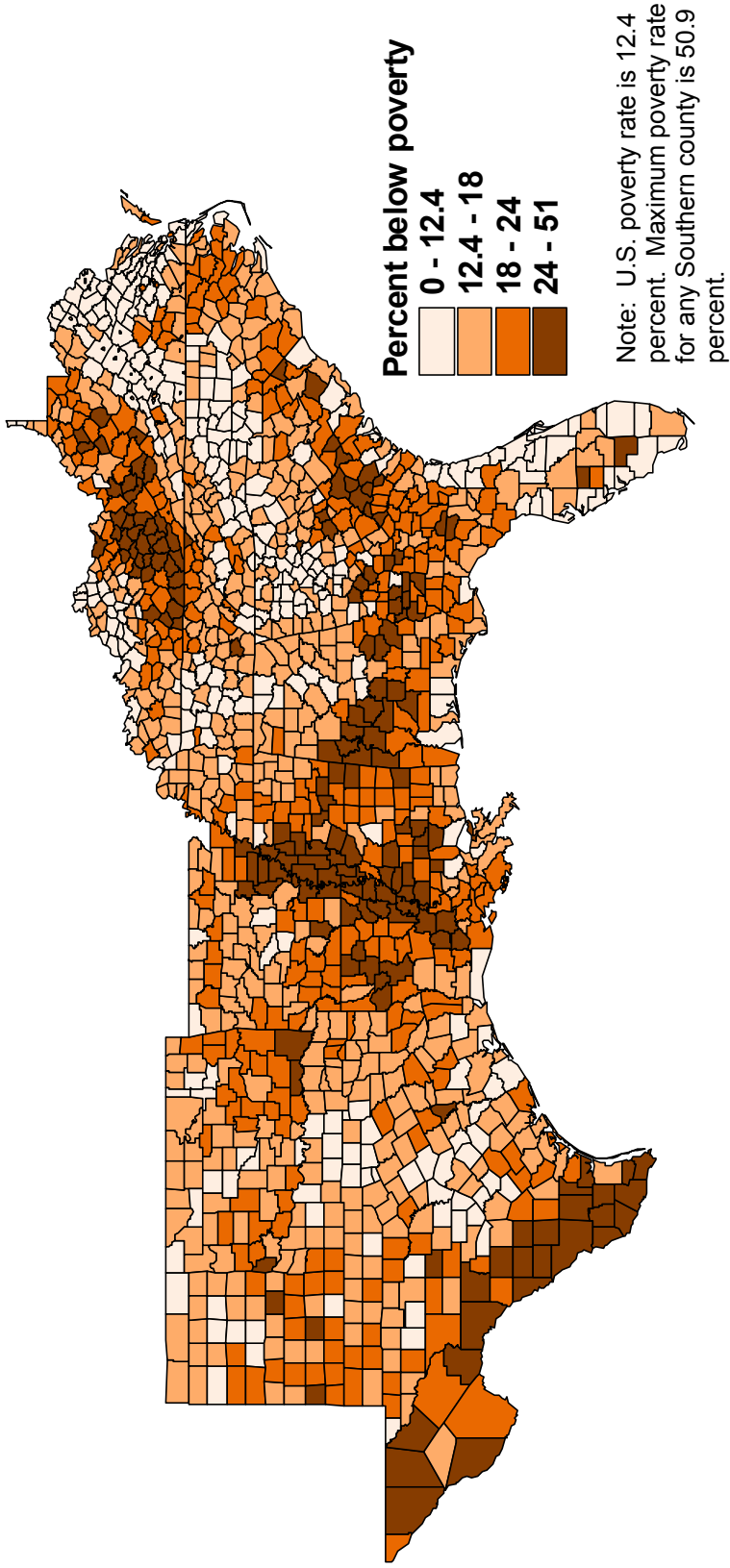
On the opposite side of the gulf are hundreds of towns and counties bypassed by the South's growth and prosperity. The South is home to 44 percent of the nation's nonmetro population but 51 percent of the nation's nonmetro poor.

The South is distinctive for having four major geographic areas, too large to be called "pockets" of poverty, where low-income families have been concentrated for decades. They are the central Appalachian counties of Kentucky, West Virginia, Tennessee, Virginia, and North Carolina; the Delta counties of Mississippi, Arkansas, and Louisiana; the Black Belt crescent curving down from Virginia, through North Carolina, South Carolina, Georgia, Alabama and into Mississippi; and the Rio Grande valley of Texas. (See Figure 1.)

During the 1990s, high-poverty rural counties lost thousands of young people and working-age adults to the South's growing cities. Many communities count high school graduates as their biggest export. Left behind are place-bound people lacking education and skills sought by employers – high school dropouts, single mothers, and older adults – as well as people with deep roots who simply don't want to leave. They and their communities face a litany of challenges: isolation by distance, lagging infrastructure, sparse resources that cannot adequately support education and other public services, racial and ethnic divisions, and weak economic competitiveness.

The digital divide is a growing factor in the lack of competitiveness of the South's high-poverty regions, as sparsely populated and low-income communities are invariably the last to get telecommunications infrastructure. More than 60 percent of the zip codes in the Delta still have no broadband provider.

Figure 1
Poverty in the South
County-by-county poverty levels in Southern states, 2000



But today it is not only the South's persistent poverty areas that are being left behind. The region's economy is in the midst of a long-term restructuring in which the big "losers" are manufacturing-dependent rural areas. The recent recession only served to speed up this restructuring, as formerly stable rural towns and counties suffered massive job losses in textiles, apparel, and other manufacturing industries.

In decades past, the impact of recession was temporary – workers would be called back to the plant floor when inventories had been worked off and demand picked up. This time, however, national recovery won't bring jobs back to the rural South. Production has moved to other countries with lower wages, or plants have substituted technologically advanced machines for people. Tens of thousands of jobs are not coming back.

Tsunami of globalization

Shadows in the Sunbelt called attention to the double-barreled threat posed to the rural South by the simultaneous loss of jobs in manufacturing and agriculture. Indeed, it was income from factory jobs that enabled many Southern farm families to hold onto their land in the 1970s and '80s.

For decades, manufacturing provided the economic base of the South's small towns. Workers with a high school education or less could find jobs that allowed them to live in a rural setting and earn a stable living. But the South's decision to develop a branch-plant economy half a century ago was a Faustian bargain. The region made a commitment to low taxes, low public investment, and low education in return for jobs. Ultimately, the South was entrapped in a cycle of low-wage, low-skill industry begetting more low-wage, low-skill industry. By 1986, international competition and technology were eating into the South's competitiveness, and *Shadows* warned that manufacturing was "a savior no more."

Today – with free trade well established, corporations seeking less costly labor overseas, computers and machines doing the work of ever more people – globalization and technology have become a tidal wave drowning whole communities. For example:

- When Stonecutter Mills in Spindale, NC, closed in 1999, the town lost 42 percent of its property tax base.
- In Stonewall, MS, Burlington Industries closed its denim plant in early 2002, laying off 800 workers in a town of 1,200. Cotton products had been manufactured in Stonewall since 1868.
- In the spring of 2002, unemployment in Marion County, SC, stood at 14.3 percent. Over three years, plant closings and layoffs cost the county – with a total workforce of 16,000 – nearly 2,600 jobs.

All told, between 1986 and 2000, textile employment in the Southern states fell from 549,000 to 418,000. Apparel jobs plummeted even faster, from 536,000 to 259,000.

The economic slowdown of 2001-02, along with the devaluation of Asian currencies, led to further layoffs and plant closings. The Southern states reported a loss of more than 375,000 jobs due to "extended mass layoffs" during 2001. Actual job losses were higher, since these figures include only layoffs and plant closings that affected 50 or more workers. In North Carolina, a third of layoffs during 2001 were in textiles, and 69 percent of these were in the state's rural counties. The people who held

those jobs – predominantly older workers with low education levels, including many women – have few or no options for alternative employment.

Even the most prepared communities are not immune. In Tupelo, MS, community leaders today are watching their furniture industry buckle under foreign competition. They have done all the right things – reinvested community wealth in education and other public services, created a strong health care sector, helped local businesses remain competitive through workforce training, nurtured civic involvement. But even Tupelo will have to struggle hard against the tide of globalization.

"We know what strategies work, but today the pace of change is so fast that often communities just can't keep up," according to Rick Carlisle, Managing Partner of North Carolina's Dogwood Equity. "Our efforts are simply too small in relation to global economic forces."

Farming won't save us...

The South has a rich agricultural tradition. "To think of the rural Southern economy is to think of the family farm," said *Shadows* in 1986. But, as in the rest of the country, the South has experienced a wrenching shift from family to corporate-style farming. The shift has resulted in large part from the same globalization and technological forces that have hammered manufacturing.

Southern farming is highly diverse, from Arkansas' vast rice fields to Florida's miles of citrus groves, to the five-acre burley tobacco farms on the slopes of eastern Kentucky. Mississippi grows both cotton and catfish. Hogs and poultry have overtaken tobacco as North Carolina's leading crops.

Today, even with its diversity and adaptability, agriculture is even less of a savior than manufacturing. Agricultural jobs (including forestry, fishing, and agricultural services) fell from 17 percent of nonmetro employment in the South in 1969 to 8 percent at the end of the 1990s. By 1997, these jobs produced only 5 percent of the region's nonmetro earnings.

But family-owned farms and farm-related businesses have long served as vital threads in the fabric of rural communities. Historically, they were the source of much of the leadership in rural counties, from elected officials to volunteer firemen to PTA members. So the contraction of the agricultural sector has had civic as well as economic consequences.

Agriculture remains an important part of the regional economy, and new opportunities are emerging for marketing and adding value to the region's output. Food processing, for example, has become the South's second largest manufacturing sector, employing over half a million people. Today perhaps more than ever, opportunities for small farms depend on forging creative market links. Some family farms are surviving by cultivating specialized crops and marketing locally through farmers markets, restaurants, and direct contracts with food stores or school systems. Still others are marketing nationally and worldwide through the Internet.

...But education and entrepreneurship might

How can rural communities build prosperity in the face of the global trends that threaten them? The region must respond with stronger efforts in education and in entrepreneurship.

As recently as 1999, the nonmetro South had more high school dropouts than college graduates in its core working population of adults age 25 to 64. The metro South, in contrast, had twice as many college grads as high school dropouts. With rising demand for math and reading skills, problem-solving, and computer literacy, earnings of male high school dropouts as well as high school graduates have fallen in real dollars over the past three decades. (See Figure 2.)

Two demographic trends have big ramifications for education in the South, especially rural areas. First, the current Southern workforce is aging: the number of adults ages 20 to 44 is expected to decline by half a million by 2010. The economy will depend more on mature workers, who will need continual retraining to keep their skills up to date. Investment in community colleges as institutions for lifelong learning will be more important than ever.

Second, an increasing portion of young workers will be African American and Latino. At the end of the '90s, only 8 percent of the rural South's African American adults ages 25-64 – and only 5 percent of Hispanics – had a four-year college degree. For nonmetro whites, the figure was 17 percent. (In contrast, 28 percent of adults in the metro South had college degrees.) More than half of the rural South's Hispanic adults ages 25 to 64 had not completed high school, along with 28 percent of African Americans and 18 percent of whites.

To sustain and build the South's economy in the future, the region cannot squander the assets embodied in the young people who currently live in rural shadows. The competitiveness of the region requires us to educate all our people - and to meet the special challenge of raising the educational attainment of African Americans and Latinos.

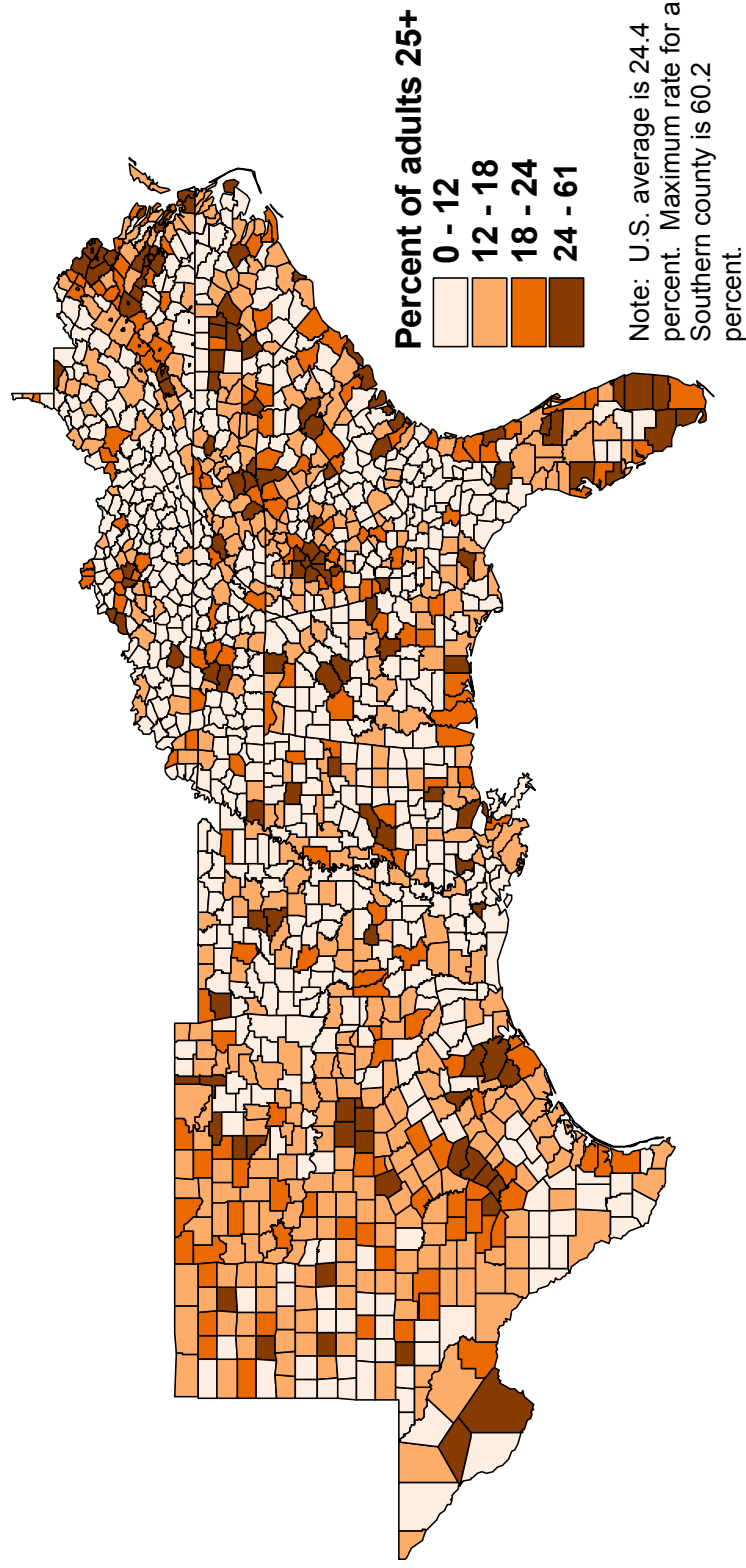
Like education, entrepreneurship has emerged as a critical foundation stone for rural advancement in today's economy. And yet, like education, entrepreneurship was not historically nourished by the culture or economy of the rural South. For generations, the South has raised its young people to work for someone else.

In 1986, *Shadows* called on governors and legislators to "promote state programs to encourage entrepreneurship and small business development with at least the same vigor that they promote industrial recruitment." And indeed, Southern states have increased their support for small business development – including incubators, loan funds, small business counseling, and micro-enterprise development. Some high schools and community colleges now teach entrepreneurship, and more should.

Still, the South recruits industry with much more vigor than it seeks to develop a culture of entrepreneurship. Mac Holladay, who served as head of economic development in three Southern states, mused, "If we had put the vast majority of our economic development resources into incubators, small business services, export training, and existing business assistance – instead of recruitment and overseas offices – it might have made a big difference."

Darla Moore, South Carolina businesswoman and founder of the Palmetto Institute, a think tank devoted to raising per capita income in South Carolina, described the South's buffalo hunt strategy as "depending on the kindness of strangers." The region needs to become more self-reliant – to develop its own businesses based on its own assets. And that requires more support for entrepreneurship.

Figure 2
College Grads Clustered in Metros
Percentage of adults age 25+ with a bachelors, graduate, or professional degree in Southern states, 2000



Competitive advantage through regionalism

Brian Kelley, former president of the Arkansas Enterprise Group now at the Heinz Endowments, has spent the past two decades helping rural communities build viable economies. Communities without some "differentiated competitive advantage," he says, will not survive.

It is the unfortunate truth that in today's economy, some rural communities simply cannot find or develop a distinct advantage – the market no longer values what they have. Many rural counties do not even show up in the databases of industry-location consultants. Others are eliminated almost immediately as the first "screens" are applied – they fall short on educational attainment, infrastructure, and proximity to a supply chain.

In the face of this stark reality, states should use a "preferential option" strategy – that is, steering private investment toward those rural areas that have a fighting chance for success. And such a strategy should be accompanied by incentives toward regionalism. Public investments cannot save every small town, but states must not abandon entire regions.

Regionalism means actively encouraging communities to band together to achieve economies of scale. Rural communities increasingly are seeing the value in regional action and forming alliances with their neighbors for economic development. Some potentially viable regions are entirely nonmetropolitan, and states can support them by nurturing rural growth hubs that provide jobs for residents from surrounding towns and counties. In other places, rural/urban links are a promising way to create regional vitality. States can connect rural communities to thriving metropolitan areas through transportation (road and rail) and telecommunications networks.

A wide variety of public and private institutions can be catalysts for regional development efforts. They range from regional universities and community colleges to rural hospitals and churches (the lead institutions in The Duke Endowment's new Program for the Rural Carolinas). Over the past decade, the South has seen the creation of regional and statewide nonprofit rural development institutions, such as the North Carolina Rural Economic Development Center, the Enterprise Corporation of the Delta, the Foundation for the Mid South, and Southern Development Bankcorporation. These organizations add value by providing research, innovative ideas, and management capacity for ambitious rural development efforts in their regions. States need independent organizations to provide social venture capacity, testing new approaches beyond the scope of public agencies.

States also are beginning to grasp the new imperative and providing leadership for regional development. For example:

- Georgia amended its state constitution to allow local jurisdictions (counties and cities) to share revenue from regional industrial parks, airports, convention centers, and other development projects.
- South Carolina created an Infrastructure Authority, which funds only multicounty projects.
- In Eastern Kentucky, coal severance money is used to finance multicounty industrial parks.
- North Carolina put half its tobacco settlement money in a foundation, known as Golden LEAF, to finance long-term investments in tobacco-dependent regions.

In the late 1990s high-profile task forces were commissioned in North Carolina, Georgia, and Virginia to fashion strategies for rural revitalization. These task forces outlined comprehensive approaches, including extending Internet access to rural areas, making more capital available for rural business development, and bolstering rural schools. In addition, Congress authorized the creation of the Delta Regional Development Commission, modeled on the Appalachian Regional Commission. And Southern congressmen and senators have proposed a similar commission covering the seven states that form the Black Belt region.

Building upon and extending the potency of these initiatives will require a reorienting of thinking on both the state and local level. Leaders will have to identify communities' human, natural, and cultural assets to determine potential competitive advantages and to fashion a customized economic development approach accordingly. Rural towns and counties will have to see that the neighboring town is not their competitor (except perhaps in Friday night football), but rather that collaboration can boost their chances for success – even survival – in a global economy.

V. METROPOLITAN MAGNETS

Growth... for Southern states greatly exceeded the national averages over the past decade, as cities like Austin, Atlanta, Jackson, Charlotte, Houston, and Raleigh have experienced impressive booms.

– *Shadows* 1986

By the mid-1980s, several Southern cities had emerged as economic engines, for both the region and the nation. Actually, "city" is too narrow a term to define the South's hottest spots. Better to think in terms of "metropolitan area," an economic and cultural admixture of central city, sprawling suburbs, and expanding exurbia.

In the 1980s and especially in the booming 1990s, the South became increasingly dependent on metropolitan economies for its well-being. Indeed, the metro South far outpaced the nation in job growth during the 1980s and '90s. From 1978 to 1997, the number of jobs in the metro South increased by 64 percent while jobs in the metro U.S. increased by 45.5 percent.

Figure 3
The Southern Divide...

	Metro South	Nonmetro South
Job growth, 1980-2000	67%	31%
Population growth, 1980-2000	42%	14%
Adults age 25-64 with less than a high school diploma	14%	22%
Adults age 25-64 with a BA degree or more	28%	15%

Sources: BEA-REIS and CPS

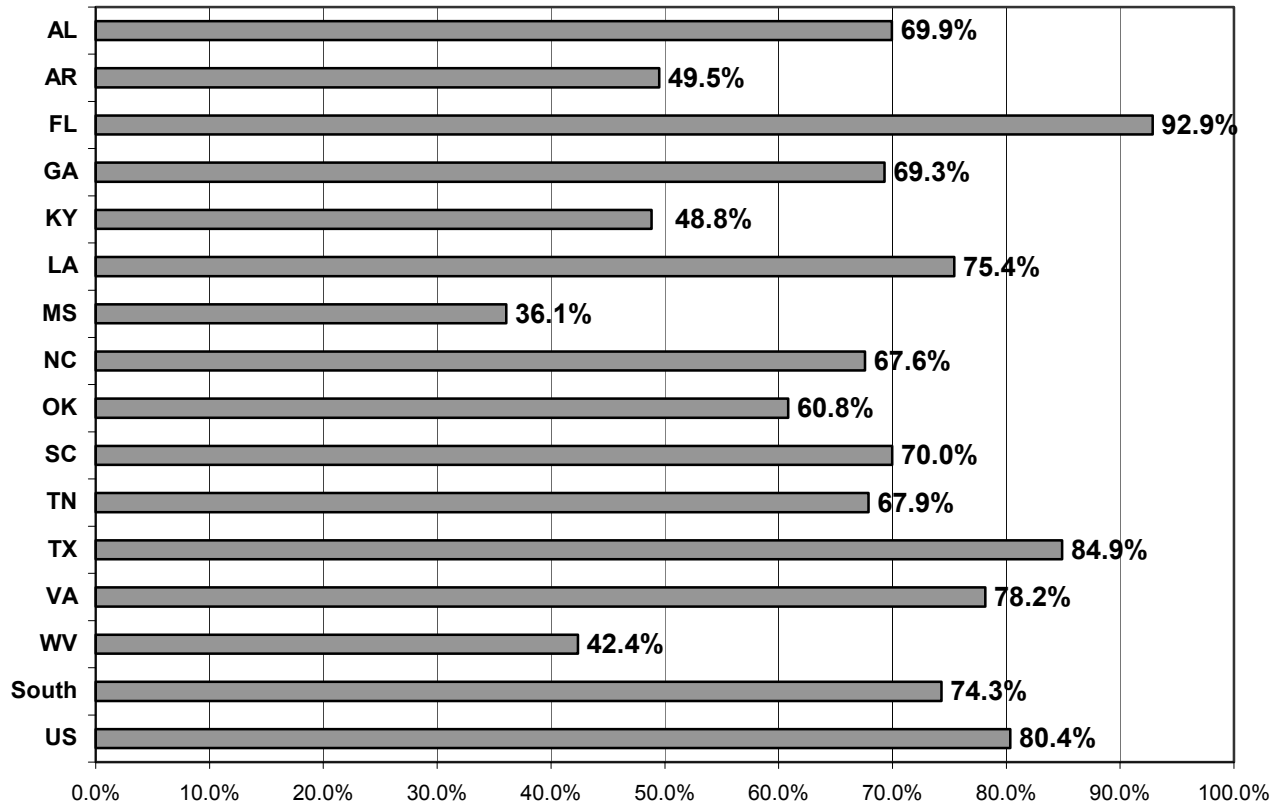
The South's rural roots remain strong and deep, the wellspring of its character and values. But today's South is predominantly a metropolitan South. Its largest states – Texas and Florida – have emerged as collections of huge "city-states" that now dominate the economy and politics. Yet the South's leaders have not fully recognized the implications of the shift to a "city-state" economy – not only in Texas and Florida but also in such states as Virginia, North Carolina, and Tennessee.

Nearly three-fourths of Southerners now live in metro areas. In 1980, the South had just 10 metro areas of a million or more. Today, there are 22. Only four Southern states – Arkansas, Kentucky, Mississippi, and West Virginia – have more nonmetro than metro residents.

Metropolitan areas serve as magnets, attracting jobs and the people who want them. Charlotte became a national banking center. Austin thrived as a center of the computer industry. Atlanta, home to such international enterprises as Coca-Cola and CNN, saw its metro area expand so that now it accounts for more than half the population of Georgia. Raleigh grew not just as a state capital but as part of the Research Triangle.

Figure 4 More Metro than Ever...

Percent of total population living in metropolitan areas, 2000



Source: US Census, 2000

But as metro areas create high-end jobs, they also spawn many low-wage, low-skill jobs. High-income people create demand for services, home building, and retail shopping that employ many low-wage workers. So, in Southern metropolitan areas, both ends of the income spectrum have expanded. The result is wide income inequality.

Fast growth has imposed additional burdens and challenges. Many metro areas face traffic congestion, with Southerners spending an increasing share of daily life inside automobiles. In several places, congestion contributes to air dirtier than the South has ever known. Water shortages loom in some places, shortages of classroom space in others. In some Southern metro areas, job growth has served as a magnet to tens of thousands of Latinos, posing language and cultural challenges to schools, courts, and other civic institutions.

Strong magnets, weak magnets

As job magnets, some of the South's metropolitan areas rank among the strongest in the nation. Others, however, have a decidedly weak force field.

The businesses fueling today's economy are in fields like communications, finance, health, and business services. They concentrate in metro areas with a skilled labor force, good public services, usually a strong university nearby, and attractive cultural and natural amenities.

Last year, the Progressive Policy Institute and the Center for Regional Economic Issues at Case Western Reserve University ranked the 50 largest metropolitan regions by how well they are adapting to the new economy. Three Southern metro areas – Austin, Raleigh-Durham, and Washington, DC, whose suburbs include a large swath of Virginia – ranked in the top 10. In the next 10 came Atlanta, Dallas, Miami, and Houston.

The analysis of Richard Florida, a professor at Carnegie Mellon University in Pittsburgh, suggests that economic growth now depends on the production of new and valuable ideas – and those metro areas congenial to the "creative class" that produces these ideas spurt ahead. Cities where creative workers cluster have been dubbed "magnet towns" or "ideopolises." Places with more creative workers, Florida has found, are outpacing those with fewer.

Creative workers include architects, scientific researchers, computer programmers, musicians, and writers. Drawing on Florida's research and further statistical analysis of its own city's growth, the *Austin American-Statesman* reports that this "new productive force is driving a group of cities," several of them in the South, where creative workers are congregating. Regions without a critical mass of creative producers may be left behind in "this vast re-sorting of America."

In the Raleigh-Durham-Chapel Hill triangle, four out of 10 residents have a college degree. The proportion with a college degree in the Austin metro area is 36.7 percent, Atlanta 32 percent. In contrast, the South's slowest-growing metros tend to have a lower percentage of the population with college degrees – New Orleans 22.6 percent, Louisville 22.2 percent, Birmingham 24.7 percent.

Not every Southern city, of course, can expect to replicate the conditions that led Austin and the Research Triangle to emerge as new-economy hot spots filled with creative producers. For some, indeed, the local economy will remain rooted in manufacturing. And yet, even those metro areas will have to understand the swiftly changing economy and the necessity to strive steadily for greater diversity.

One such community is Hickory, NC, which grasped the need to diversify and acted on it. The economy of Hickory, the hub of a four-county region that has become North Carolina's fourth largest metropolitan area, had long rested on a base of textiles and furniture making. But over the past decade or so, Hickory also emerged as a center of fiber-optic and coaxial-cable manufacturing. A strong community college upgraded the local workforce. In May 2000, the metropolitan unemployment rate was down to 1.9 percent.

Then the national slowdown pummeled Hickory's economy. Its old manufacturing as well as its new manufacturing took a hard hit, with heavy layoffs in textile, furniture, and cable plants. Unemployment shot up to 9.3 percent in January 2002. For the metro South, just as for the rural South, Hickory's experience points to a sobering lesson: fast-rushing economic forces can overtake even communities that have changed and those trying hard to do so. The lesson is not a cause for despair, but rather illustrates the need for persistent adaptation to the dynamics and demands of an unforgiving economy. Indeed, a key role for states is developing industry clusters by establishing or building upon regional competitive advantages.

For the modern South, the new economic reality is multifaceted: (1) Whether fast-growth or slow-growth, metropolitan areas generate more job opportunities these days than rural areas; (2) even though telecommunications has broken down barriers of place, talent still clusters into geographic

regions; and (3) unlike previous generations when ports or factories propelled urban growth, today's metro areas are likely to grow from the production of patents, innovative ideas, finance, and services.

Thus, it is crucial that public policymakers and civic opinion leaders in Southern states reorient their thinking about economic development and metro areas: wherever an "ideopolis" already exists, it must be supported and its quality of life sustained. Where a metro area is just chugging along, it must be assisted and guided to figure out its competitive advantages and to determine a creative approach to moving briskly into the new-economic sphere. The imperative is not narrowly "economic," but involves the need for an array of amenities, an open, inclusive culture and enlightened elected and civic leadership.

In the shadows of skyscrapers

In your mind's eye, you can picture the photograph: a neighborhood of decrepit housing in the foreground, with soaring skyscrapers in the background. Newspapers and magazines regularly run this sort of photograph to illustrate articles on the contrast between affluence and poverty in our major cities.

Indeed, within many of the South's large cities today, there are high levels of poverty. Metros with a population of 750,000 or more and central-city poverty rates higher than 20 percent in 2000 included Atlanta, Birmingham, Louisville, Memphis, Miami, New Orleans, and Richmond-Petersburg. The fact that Atlanta, a new-economy metro, is on that list points to a telling reality: a clustering of creative workers does not preclude a clustering of the poor – including many who moved in from the rural South – close at hand. Even medium-sized metros face this challenge; Columbia, SC, has a central-city poverty rate of 22.1 percent, and in Jackson, MS, it is 23.5 percent.

Whether in a rural or an urban setting, the face of poverty remains much the same: a single mother struggling to make ends meet; an out-of-prison unemployed man who did not complete high school; a child who relies on the school lunch program for a square meal. But settings, of course, matter, and federal, state, and local agencies should be mindful of the differences between rural and urban in developing their responses to poverty.

As metro areas sprawl outward, they create a spatial mismatch between poor urban neighborhoods and suburban jobs, exacerbated by public transportation patterns that flow the opposite way. For example, new jobs near the Fort Worth Alliance Airport have been largely inaccessible to inner-city residents. Meanwhile, the BellSouth Corporation has been locating new facilities along public transit lines in Atlanta to attract workers.

In governor's offices, legislative chambers, local boards and commissions, corporate boardrooms and civic associations, decision-makers and opinion leaders now must ask themselves: since our state now relies so much on metro areas for economic uplift, what set of policies do we need to ensure that our metro areas remain economically strong and sustain a high quality of life? The South, in short, needs not only a rural strategy but a metropolitan strategy as well.

Figure 5 Metro Shadows...

Indicators of well-being for metro areas with a population of 750,000+ and central city poverty rates of 20+ percent, 2000
(See appendix for data on 25 largest metros)

		Metro area	Central city
Atlanta, GA	Median household income	\$51,948	\$34,770
	% below poverty	9.4%	24.4%
	% with college degree	32.0%	34.6%
Birmingham, AL	Median household income	\$39,278	\$26,735
	% below poverty	13.1%	24.7%
	% with college degree	24.7%	18.5%
Louisville, KY	Median household income	\$39,990	\$29,144
	% below poverty	10.90%	20.60%
	% with college degree	22.20%	20.60%
Memphis, TN-AR-MS	Median household income	\$39,464	\$32,069
	% below poverty	15.3%	20.9%
	% with college degree	22.7%	20.5%
Miami, FL	Median household income	\$35,966	\$24,495
	% below poverty	18%	27.1%
	% with college degree	21.7%	20%
New Orleans, LA	Median household income	\$35,317	\$27,722
	% below poverty	18.40%	27.10%
	% with college degree	22.60%	25.60%
Richmond-Petersburg, VA	Median household income	\$46,800	\$30,667
	% below poverty	9.30%	21.10%
	% with college degree	29.20%	27.30%

Source: Lewis Mumford Center, SUNY-Albany

VI. EMERGING FROM THE SHADOWS

Southern states are threatened with both decaying rural and inner-city communities, creating a massive financial drain on the region's resources... The trends also threaten abstract, eternal values that have cemented the South's identity and made it worth preserving.

– *Shadows* 1986

In June 2002, the Mississippi Legislature approved \$68 million in incentives for an expansion of the automobile assembly plant that Nissan is building near Canton, a small town about 20 miles north of Jackson. No doubt, the Nissan plant – expected to employ 5,300 workers and to produce a ripple effect of job creation among suppliers – will serve as an economic stimulus to further growth in the Jackson metro area.

Still, *The Clarion-Ledger* newspaper of Jackson reported that Canton's social and economic distress – a 27 percent poverty rate, 76 percent of births out of wedlock, 44 percent of adults without a high school diploma – would make it difficult for Canton residents to find a job at Nissan. The company's director of human resources told the newspaper that he could not name any Canton resident likely to be hired for one of the 5,300 jobs starting at \$12 an hour.

The story has layers of lessons: that the South still hunts buffaloes and uses publicly financed incentives as weaponry; that much of the South has responded to the call to hunt for a better quality of buffalo with higher-pay, higher-skill jobs; that sites near metro areas have a greater drawing power than more isolated rural counties; and that even a large industrial buffalo cannot spread sunlight into some Southern shadows.

When *Shadows* was published in 1986, automakers had already announced major new assembly plants in Tennessee and Kentucky. More recently, foreign vehicle makers have increasingly found the deep South a congenial place for automobile assembly – BMW in South Carolina, Daimler-Chrysler and Hyundai in Alabama, and Nissan in Mississippi.

States have offered incentive packages worth hundreds of millions of dollars to automakers in the hope that their presence will "feed the village." And to some extent, they do – providing high wages to blue-collar workers and creating opportunities for further business expansion through the location of suppliers nearby.

And yet, however much auto assembly – or any other single manufacturing industry – can boost the economies of certain regions within states, those plants will not bring prosperity to the many Southern communities devastated by the flight of textile and apparel jobs. An underlying hard dual reality remains: the manufacturing buffalo is a relatively rare species these days. Many of the South's old manufacturing towns are not competitive for the higher-skilled industries that remain rooted in the U.S.

New jobs in health and business services, as well as retail, have dwarfed manufacturing growth over the past two decades. Hunting industrial buffalo cannot be all, or even most, of what Southern

economic development is about. And yet, state, regional and local economic development agencies, numbering in the neighborhood of 15,000, chase an estimated scant 1,500 plant expansions and/or relocations annually. **The industrial buffalo hunt will not end until states and cities agree collectively to call off the costly race.**

Tax abatements and other straight-ahead financial give-aways inevitably drain resources from schools, community colleges, and universities – public investments that are crucial to long-term economic advancement. Incentives provide a better return on investment when they build a community's infrastructure, provide workers with higher skills, and attract jobs that pay markedly more than the prevailing wages. Such public investments may well be more important to new-economy companies as well. "Keep your incentives and highway interchanges," Hewlett-Packard chief executive Carley Fiorina recently said. "We will go where the highly skilled people are."

So, to the extent that incentives remain in play, they should be targeted, scaled, and focused on building the long-term capacity of communities and regions. They should encourage business clusters and regional collaboration.

The recession has intensified the push for industrial recruitment – and the use of financial incentives. Given the economic anxiety of the times, it will be difficult for states to abandon their old ways. Still, they can reexamine their arsenal of incentives and begin negotiations toward a build-down. The South has several forums for such a reexamination, including the Southern Governors' Association, the Southern Legislative Conference, and the Southern Growth Policies Board.

Riding through a rough patch

As paradoxical as it sounds, the recent economic slowdown has made the South's economic transition go faster. It has hastened the crumbling of the old small-farm and light-manufacturing economy, which anchored so many Southern towns and families. In addition, the plummeting of the telecommunications sector hit hard at some metropolitan areas that had, wisely, diversified. So the South has several short-term challenges that require a response by federal and state governments.

Worker transition and training

In the past two years, thousands of Southern workers have lost their jobs in traditional industries. No matter how long they wait, few will find comparable jobs in manufacturing. Now, in fact, investment in job training is especially critical – so that unemployed adults can retool and build the states' capacity to develop new jobs. But retraining takes times.

To facilitate retraining, governments should reexamine unemployment insurance, COBRA, and trade adjustment assistance to modify rules that emphasize rapid return to the workforce and to provide more support for workers who need or want training for a better job. Fiscal constraints are no excuse for states to fail to take steps that can improve the employment prospects of Southerners. States must take full advantage of job-training funds in the Workforce Investment Act and Temporary Assistance to Needy Families (TANF). Regional Workforce Investment Boards, which include employers, must align training to job opportunities and to regional economic development initiatives.

States' strongest assets for retraining dislocated workers are community and technical colleges. But in times of economic downturn, when the need for retraining is greatest, states invariably cut

community college budgets – a self-defeating policy. Instead, governors and legislatures should place high priority on workforce education as central to the state's economic recovery. They should fund community colleges to meet the rising enrollment demand during hard times, and ensure that colleges offer accessible, affordable courses to prepare dislocated workers for new occupations.

Medicaid and assistance to the poor

Medicaid provides life-saving and life-enhancing health care and medicines for people of modest means. It is critical to sustaining the quality of life of millions who live in the South, historically the poorest of regions in the U.S.

But, with costs of the program still rising well beyond inflation, Medicaid now consumes 20 percent of the typical state budget. Unless the federal government responds by easing that burden, Southern states will have less ability to invest in education, economic development, and other unfinished business.

As federal policymakers reexamine and redesign TANF, they should take into account economic realities in the South and make the program flexible enough to respond to both rural and urban conditions. Much of the South's rural poverty stems from demand-side problems: there are simply too few jobs, or too few jobs that pay a living wage. Place-based people with limited skills have no options for employment.

Urban-oriented welfare-to-work strategies that emphasize quick job placement and support services don't work in distressed rural regions that lack jobs, transportation, and child care. In the rural South, TANF needs the flexibility to support longer-term training, mobility, public jobs and, in some cases, longer time limits.

Tax modernization

Through the 1990s, the growing economy gave states the financial ability not only to boost teacher pay, build and widen roads, and meet other public desires but also to enact substantial tax cuts. The rapidly changing economy, meanwhile, was also making state tax systems, founded on the old farm and factory economy, increasingly out-of-date. The recession has laid bare the fragility of state/local tax systems, even as the political debate remains mired in a simplistic tax vs. no-tax context.

The South will not fully recover from its current economic travails without a modernizing of tax systems. An economy that has shifted markedly from goods to services requires a reevaluation of the sales tax; could sales tax rates come down if more transactions were subject to tax? The Virginia legislature recently authorized regional tax referenda in the D.C. suburbs and in the Norfolk metro area to meet the crisis of traffic congestion; couldn't states give local government more incentives to collaborate?

In general, tax structures in the South should assure a fair apportionment of the burden, become more responsive to the new economic dynamics, and provide government with sufficient resources to invest in the educational, health, and other community services upon which economic advancement depends.

Spreading the sunlight

The long-term challenges facing both rural communities and city neighborhoods in the South often seem enormous and daunting. And oftentimes they are. Not so long ago, the South sought to build its economy by enticing companies from afar to relocate with the bait of cheap land, low taxes, and a surplus of hardworking but undereducated workers. That old recipe no longer works to feed families and sustain communities.

Today the South must create new recipes for economic development based on two central goals: competitiveness and equity.

Economic development is not just about the creation of jobs, however important that remains. It should be conceived as a process by which states, regions, and communities make businesses and people more productive and competitive in order to raise the standard of living for all their residents. To chart a course that will lead the South to long-term prosperity, MDC's panel calls on states to adopt a new vision for development and substantially broaden the mission of their economic development agencies.

MDC issued a similar call in 1986. Then, a broader focus meant moving beyond industry recruitment to support entrepreneurship, small business development, and expansion of existing enterprises. Now, MDC urges the South's leaders to recognize that a solid foundation for prosperity requires much more than support for business development. They must pay equal attention to workforce development, physical infrastructure, social infrastructure, cultural and environmental stewardship, and civic infrastructure. Together, those six elements comprise MDC's "Building Blocks of Community Development."

**Figure 6
The Building Blocks of Community Development**

Business Development	Workforce Development
<p>Vision: Build the economic base and create larger numbers of higher-quality jobs – jobs that provide a living wage, good benefits, and potential for advancement.</p> <p><i>Goals:</i></p> <ul style="list-style-type: none"> • Reorient the economic base to be more competitive in the knowledge economy. • Foster entrepreneurial development. • Build the assets and resources necessary for economic development in low-wealth communities. 	<p>Vision: Create a high-skill, high-value workforce, the human resource base required for the knowledge economy.</p> <p><i>Goals:</i></p> <ul style="list-style-type: none"> • Educate every child to the high standards demanded by society and the economy. • Help all adults stay fit for work in the knowledge economy. • Provide the skills necessary for adults with low literacy levels and other barriers to employment to participate in the economic mainstream.

<p style="text-align: center;">Physical Infrastructure</p> <p>Vision: Utilize transportation and telecommunications to connect the community with distant markets, people, and educational options; provide essential infrastructure to ensure public health and safety.</p> <p><i>Goals:</i></p> <ul style="list-style-type: none"> • Provide the infrastructure required to safeguard public health. • Connect communities in the economic shadows to areas with economic activity. • Invest in the basic infrastructure needed for the knowledge economy. 	<p style="text-align: center;">Social Infrastructure</p> <p>Vision: Provide social supports to enable all people to live and work with dignity.</p> <p><i>Goals:</i></p> <ul style="list-style-type: none"> • Provide affordable, quality health care for all people. • Provide pathways to self-sufficiency for economically vulnerable persons and families. • View safe, affordable housing as a human right and home ownership as an asset-building tool for families and communities.
<p style="text-align: center;">Cultural and Environmental Stewardship</p> <p>Vision: Preserve and enhance the natural, cultural, historical, and built environments.</p> <p><i>Goals:</i></p> <ul style="list-style-type: none"> • Preserve, develop, and capitalize upon the distinctive cultural and historical assets of the community. • Balance the need for development and preservation in land use and environmental stewardship. • Preserve clean air and water as community assets and health necessities for future generations. 	<p style="text-align: center;">Civic Infrastructure</p> <p>Vision: Create a culture of civic decision-making and problem-solving that is forward looking, accountable, and inclusive.</p> <p><i>Goals:</i></p> <ul style="list-style-type: none"> • Ensure open and accountable government that hears and values all voices. • Develop the civic capacity of communities to address their own challenges and opportunities. • Bridge the fault lines of race and class that inhibit community progress and erode civic health.

The Building Blocks framework has evolved out of MDC's work with dozens of Southern communities over the past decade and a half. Local leaders have used it as a blueprint to construct a solid foundation for economic and community development. Now MDC's panel recommends the framework as a guide for state-level development policy as well.

In state government, responsibility for the six building blocks is shared among many agencies: departments of public instruction, cultural affairs, human services, environment and natural resources, transportation and labor, community college and university systems, and economic development agencies. One of the building blocks – civic infrastructure – does not fall clearly in the domain of any state agency. Clearly, economic development goes beyond the turf of state commerce departments.

To implement this broader approach to economic development, governors must exert leadership to give departments and agencies a fresh mandate to work together. Business and civic leaders also have a role to play in defining and carrying out a comprehensive approach to economic development.

As they work to put all the building blocks in place as the foundation for stronger communities and economies, the region's leaders should pay particular attention to two challenges: education and regionalism.

Education

By several measurements, the South has made significant progress in public education – higher teacher pay, a high school graduation rate that matches the nation and gains on the National Assessment of Education Progress, with Texas and North Carolina cited as national leaders. Still, the region suffers from severe education deficits, a legacy of the era of racial segregation and of a farm-and-factory economy that produced jobs needing only a high school education or less.

Since *Shadows in the Sunbelt* and *Halfway Home and a Long Way to Go*, Southern policymakers increasingly have made the connection between education and economic development. No comprehensive strategy would be complete without further efforts to bolster public schools. Reflecting on the South's history and society, as well as its economy, former Mississippi Governor William F. Winter has defined the matter with eloquence:

"There must be a recognition that the ultimate challenge lies in the educational and economic advancement of people who have gotten left behind. We must get the message out to every household, and every poor household, that the only road out of poverty runs by the schoolhouse. **Discrimination is not limited to race. The line that separates the well educated from the poorly educated is the harshest fault line of all.**"

The South must help families give their young children a strong start before they enter school, educate every child to high standards, and assist adults to stay fit for work in the knowledge economy. States should use community colleges, in particular, as flexible, accessible institutions through which Southerners, including those at low levels of literacy, can find a place in the economic mainstream. In middle schools and high schools, Southern states should pay increased attention to creating "pathways" for young people to higher education and to the working world, including an expanding and upgrading of guidance counseling to help students envision and plan their futures in a competitive economy. And, as the nation moves into a period of rethinking of the high school, the South should lead the way in fostering innovations.

In an economy gone global and technological, education has become a lifelong imperative. As difficult as it may be during a recession, Southern states must do everything possible to avoid retrenching on education – from preschool through university.

Regionalism

A special challenge to leaders in the South is to adapt to an era in which old lines have blurred. So much of the South's economic development politics revolves around competition – state vs. state, county vs. county, city vs. city. Meanwhile, the Internet, free-trade agreements, and metropolitanization have made old lines on a map increasingly irrelevant. States are in effect collections of local and regional economies – a sprawling metropolitan economy in one region, a pocket of distressed rural counties in another.

Tiny economies no longer have the wherewithal to compete in a global setting. The South may not be able to save every distressed town, but it must strive to sustain rural regions. Further advancement will require regional collaborations instead of self-defeating competition.

The regional-collaboration imperative applies to metro areas as well. The South has benefited immensely from the emergence of new-economy metro areas like Atlanta, Austin, and Research Triangle. But, on the whole, Southern states still treat big cities almost as aberrations and have yet to comprehend the full extent to which their economies depend on metro engines. There are some exceptions. For example, the Georgia Regional Transportation Authority, created to control land use and open up new transportation options for metro Atlanta, is a state initiative that responds to the new metro reality.

Sprawling metropolises also present the South with a governance challenge: how are such places to be governed rationally – and participatory democracy sustained – as they continue to expand beyond old town and city limits? In his book, *American Metro Politics: The New Suburban Reality*, Myron Orfield, executive director of the Metropolitan Area Research Corporation, suggests a rationale and an agenda for creating a "regional confederation" in each major metro area as an antidote to fragmentation. The South needs leaders who can guide their communities in forging regional partnerships and new metropolitan governance structures.

Leadership: central and essential

Assemble Southerners to talk about the future of their states and communities, and the conversation inexorably turns to leadership. It takes leaders to pursue progressive policies and to make the processes of democracy and economic development work.

In many towns, the traditional leadership base has been eroded in recent years by the loss of family farms and Main Street businesses. This can create opportunities to involve new people in civic leadership.

In growing metropolitan areas, leadership has shifted as recent arrivals put down roots and get active in civic and political life. Much of Southern metropolitan politics has gotten locked into growth vs. no-growth, tax vs. no-tax debates that seem to go 'round and 'round. New dynamics and volatility manifest themselves as once-powerful leaders move on, and new attitudes – some positive, some negative – gain a voice.

The South requires leadership development at two levels: at the grassroots to assure that all people have an effective voice locally and at the elective level so that governing bodies respond creatively to the complex issues arising from the consequences of the new economy. As Debby Warren, executive director of the Southern Rural Development Initiative, says, "We can't wait for the exceptional leaders to appear. We must help ordinary people become leaders – cultivate the diamonds in the mud."

All communities have leaders. What distinguishes "good" leaders in today's South are people who can help their states and communities adapt and compete in the fast-changing climate they face. Based on MDC's own work, we have found that effective leaders:

- Build community alignment around a common vision for the future based on an understanding of assets and grounded in values of equity and excellence.
- Seek out new ideas and create a culture of innovation and "public entrepreneurship."
- In a spirit of equity, strive to create opportunity for everyone.
- Represent diverse voices and include people who have been left out of civic decision-making in the past.

- Recognize that their town or county cannot make it alone in today's economy, and seek opportunities to partner with neighboring jurisdictions.
- When elected to office, continue to seek the knowledge and expertise to govern with skill and vision.

Every Southern state should pursue leadership development at the grassroots, in the civic sphere, and for public elective offices. Universities have a vital role to play in bringing knowledge to bear on the major issues facing states and communities – and in arming elected and civic leaders with knowledge and the skill to lead in an often fractious democratic society. Traditional leadership development programs that focus on building a network among a limited representation of the community are not the answer. States, cities, towns, and counties require the development of leaders – knowledgeable of trends and issues, representative of all residents, skillful in guiding citizens in a participatory process – to meet the public-policy and human-relations challenges of the 21st Century.

South rising, together

In 1986, *Shadows in the Sunbelt* concluded with a warning to the states of the South to "tend to our roots, or in the end, risk our values." It was a call especially to tend to our rural roots, and it is a call that remains relevant today. And yet, a decade and a half later, with globalization and technology having accelerated change, the South will "risk our values" if it does not enlarge its vision to comprehend both its rural and its metropolitan challenges and opportunities.

What works in one place won't necessarily work in another. Our states and communities are shaped by their histories, marked by their own geographic and cultural characteristics. Thus, each place must understand its own circumstances, collect and analyze data about itself, assess its own assets and weaknesses, and adopt approaches that respond to its circumstances.

But if one size doesn't fit all, one common cause should animate governors, legislators, and other policymakers in the Southern states: to eliminate the shadows and spread more sunlight in both rural regions and metropolitan areas. So much of what it takes to build a strong economy and a better life for Southerners – highways and schools, and more – is financed by revenues collected and distributed by the states. When one section of a state flounders, the state as a whole suffers; when one community thrives, the whole state benefits.

Once upon a time, the cry, "The South will rise again," sounded across the region. It was a cry of determination – and of defiance with an overtone of divisiveness. By the end of the 1990s, the South had risen far beyond the dreams of the long-ago defiant. Now the times call not for defiance but renewed determination. The South will continue rising together, or not at all.

Note to Readers

For more information on the building blocks framework cited in section VI, see the State of the South 2002 page of MDC's web site, <http://www.mdcinc.org>. The page also contains links to primary data

sources for this report, additional resources that have informed the research committee, and profiles of effective development strategies.

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Appendix

Indicators of Well-Being for Southern Metro Areas Larger than 750,000 and their Central Cities, 2000

		Metro area	Central city
Atlanta, GA	Median household income	\$51,948	\$34,770
	% below poverty	9.4%	24.4%
	% with college degree	32.0%	34.6%
Austin-San Marcos, TX	Median household income	\$48,950	\$41,510
	% below poverty	11.10%	15%
	% with college degree	36.70%	40%
Birmingham, AL	Median household income	\$39,278	\$26,735
	% below poverty	13.1%	24.7%
	% with college degree	24.7%	18.5%
Charlotte-Gastonia-Rock Hill, NC-SC	Median household income	\$45,607	\$44,157
	% below poverty	9.30%	11%
	% with college degree	26.50%	32%
Dallas, TX	Median household income	\$48,364	\$38,325
	% below poverty	11.1%	16.7%
	% with college degree	30%	28.3%
Fort Lauderdale, FL	Median household income	\$41,691	\$37,887
	% below poverty	11.5%	17.7%
	% with college degree	24.5%	27.9%
Fort Worth-Arlington, TX	Median household income	\$45,962	\$40,450
	% below poverty	10.3%	13.6%
	% with college degree	25.1%	25.4%
Greensboro-Winston Salem-High Point, NC	Median household income	\$40,913	\$37,867
	% below poverty	10.4%	13.5%
	% with college degree	22.9%	30.3%
Greenville-Spartanburg-Anderson, SC	Median household income	\$38,458	\$30,294
	% below poverty	11.8%	19.5%
	% with college degree	20.7%	28.5%
Houston, TX	Median household income	\$44,655	\$36,557
	% below poverty	13.90%	19.10%
	% with college degree	27.20%	26.40%
Jacksonville, FL	Median household income	\$42,439	\$40,316
	% below poverty	10.70%	12.20%
	% with college degree	22.90%	21.10%
Louisville, KY	Median household income	\$39,990	\$29,144
	% below poverty	10.90%	20.60%
	% with college degree	22.20%	20.60%
Memphis, TN-AR-MS	Median household income	\$39,464	\$32,069
	% below poverty	15.3%	20.9%
	% with college degree	22.7%	20.5%
Miami, FL	Median household income	\$35,966	\$24,495
	% below poverty	18%	27.1%

United States as a whole:

Median household income: \$41,994
 % below poverty: 12.4%
 % with college degree: 24.4%

Note: "% below poverty" is percentage of all persons; "% with college degree" is for adults age 25 and over.

	% with college degree	21.7%	20%
Nashville, TN	Median household income	\$44,223	\$38,519
	% below poverty	10.10%	13.30%
	% with college degree	23.90%	29.80%
New Orleans, LA	Median household income	\$35,317	\$27,722
	% below poverty	18.40%	27.10%
	% with college degree	22.60%	25.60%
Norfolk-Virginia Beach-Newport News, VA-NC	Median household income	\$41,856	\$39,493
	% below poverty	10.6%	12%
	% with college degree	23.8%	22.5%
Oklahoma City, OK	Median household income	\$36,797	\$34,845
	% below poverty	13.5%	16%
	% with college degree	24.4%	25.9%
Orlando, FL	Median household income	\$41,871	\$35,732
	% below poverty	10.70%	15.90%
	% with college degree	24.80%	28.20%
Raleigh-Durham- Chapel Hill, NC	Median household income	\$48,845	\$43,540
	% below poverty	10.20%	13.60%
	% with college degree	41.20%	45.80%
Richmond- Petersburg, VA	Median household income	\$46,800	\$30,667
	% below poverty	9.30%	21.10%
	% with college degree	29.20%	27.30%
San Antonio, TX	Median household income	\$39,140	\$36,148
	% below poverty	15.1%	17.1%
	% with college degree	22.4%	21.7%
Tampa-St. Petersburg- Clearwater, FL	Median household income	\$37,406	\$34,950
	% below poverty	11.2%	15.3%
	% with college degree	21.7%	24.1%
Washington, DC (PMSA)	Median household income	\$60,731	\$45,498
	% below poverty	7.4%	16.4%
	% with college degree	41.8%	43.5%
West Palm Beach- Boca Raton FL	Median household income	\$45,062	\$45,303
	% below poverty	9.9%	13%
	% with college degree	27.7%	35.4%

Source: Lewis Mumford Center for Comparative Urban and Regional Research at SUNY-Albany, <http://mumford1.dyndns.org/cen2000/CityProfiles/Citiesstate.htm>

Augusta-Aiken, GA-SC (MSA)	364,340	478,200	31.3%	176,554	264,311	49.7%
Columbia, SC (MSA)	411,681	538,271	30.7%	229,020	378,993	65.5%
Lexington, KY (MSA)	371,611	480,567	29.3%	205,982	342,729	66.4%
Galveston-Texas City, TX (PMSA)	197,028	250,727	27.3%	83,160	118,188	42.1%
Charleston-North Charleston, SC (MSA)	433,615	550,444	26.9%	209,800	328,144	56.4%
Savannah, GA (MSA)	231,691	293,454	26.7%	110,177	174,392	58.3%
Hickory-Morganton-Lenoir, NC (MSA)	271,068	342,895	26.5%	151,530	222,271	46.7%
Knoxville, TN (MSA)	548,402	689,071	25.7%	268,025	441,252	64.6%
Little Rock-North Little Rock, AR (MSA)	475,441	585,228	23.1%	254,742	389,820	53.0%
Fayetteville, NC (MSA)	247,896	302,914	22.2%	126,034	181,788	44.2%
Montgomery, AL (MSA)	273,305	333,479	22.0%	138,932	204,802	47.4%
Tulsa, OK (MSA)	661,001	804,774	21.8%	377,706	523,696	38.7%
Jackson, MS (MSA)	363,182	441,982	21.7%	197,471	289,459	46.6%
Mobile, AL (MSA)	445,136	541,522	21.7%	196,141	291,539	48.6%
Baton Rouge, LA (MSA)	497,203	604,199	21.5%	239,472	374,309	56.3%
Biloxi-Gulfport-Pascagoula, MS (MSA)	301,117	364,938	21.2%	142,585	214,028	50.1%
Macon, GA (MSA)	273,661	323,248	18.1%	130,766	190,693	45.8%
Corpus Christi, TX (MSA)	327,815	380,689	16.1%	160,836	212,393	32.1%
Lafayette, LA (MSA)	332,922	385,955	15.9%	157,218	209,290	33.1%
Chattanooga, TN-GA (MSA)	418,811	465,678	11.2%	206,456	297,198	44.0%
Johnson City-Kingsport-Bristol, TN-VA (MSA)	434,688	480,327	10.5%	197,136	261,095	32.4%
Columbus, GA-AL (MSA)	254,627	274,971	8.0%	124,398	164,640	32.3%
Evansville-Henderson, IN-KY (MSA)	276,466	296,282	7.2%	146,930	191,973	30.7%
Shreveport-Bossier City, LA (MSA)	377,944	392,298	3.8%	189,296	223,197	17.9%
Beaumont-Port Arthur, TX (MSA)	374,797	384,977	2.7%	174,847	200,021	14.4%
Huntington-Ashland, WV-KY-OH (MSA)	336,386	315,215	-6.3%	134,853	152,491	13.1%
Charleston, WV (MSA)	269,722	251,429	-6.8%	135,871	162,785	19.8%
Small Metros (population under 250,000)						
	Pop. 1980	Pop. 2000	% Change	# of Jobs 1980	# of Jobs 2000	% Change
Punta Gorda, FL (MSA)	59,472	142,435	139.5%	19,550	56,915	191.1%
Laredo, TX (MSA)	100,481	194,868	93.9%	39,076	86,234	120.7%
Myrtle Beach, SC (MSA)	102,469	197,966	93.2%	56,424	129,097	128.8%
Wilmington, NC (MSA)	139,986	234,430	67.5%	69,242	142,777	106.2%
Bryan-College Station, TX (MSA)	95,404	152,657	60.0%	45,965	91,099	98.2%
Fort Walton Beach, FL (MSA)	110,679	170,934	54.4%	54,504	113,086	107.5%
Panama City, FL (MSA)	98,318	148,324	50.9%	46,312	84,732	83.0%
Auburn-Opelika, AL (MSA)	76,610	115,481	50.7%	32,999	55,699	68.8%
Greenville, NC (MSA)	90,580	134,116	48.1%	43,558	80,621	85.1%
Athens, GA (MSA)	105,367	153,949	46.1%	55,429	92,666	67.2%
Gainesville, FL (MSA)	152,223	218,176	43.3%	80,156	145,547	81.6%
Brazoria, TX (PMSA)	170,849	243,271	42.4%	77,373	105,376	36.2%
Charlottesville, VA (MSA)	114,048	160,243	40.5%	67,563	111,309	64.7%
Clarksville-Hopkinsville, TN-KY (MSA)	150,587	207,613	37.9%	74,944	117,286	56.5%
Tyler, TX (MSA)	129,316	175,418	35.7%	71,947	112,620	56.5%
Jacksonville, NC (MSA)	113,515	150,239	32.4%	60,304	88,581	46.9%
Jonesboro, AR (MSA)	63,304	82,436	30.2%	31,300	52,772	68.6%
Fort Smith, AR-OK (MSA)	163,084	207,869	27.5%	79,174	128,842	62.7%
Asheville, NC (MSA)	178,126	226,628	27.2%	90,667	146,164	61.2%
Amarillo, TX (MSA)	174,530	218,321	25.1%	95,564	139,889	46.4%
Waco, TX (MSA)	171,454	214,044	24.8%	85,645	124,675	45.6%
Hattiesburg, MS (MSA)	90,439	112,105	24.0%	42,389	65,589	54.7%
Sherman-Denison, TX (MSA)	90,118	110,988	23.2%	45,074	57,905	28.5%
Jackson, TN (MSA)	87,554	107,582	22.9%	44,356	74,444	67.8%

San Angelo, TX (MSA)	85,323	103,970	21.9%	47,779	63,350	32.6%
Decatur, AL (MSA)	120,435	146,055	21.3%	51,604	76,395	48.0%
Victoria, TX (MSA)	69,377	84,075	21.2%	35,211	49,176	39.7%
Tuscaloosa, AL (MSA)	137,831	165,003	19.7%	57,930	95,955	65.6%
Sumter, SC (MSA)	88,736	104,809	18.1%	40,192	56,755	41.2%
Lynchburg, VA (MSA)	182,642	215,175	17.8%	93,047	126,358	35.8%
Odessa-Midland, TX (MSA)	201,009	236,345	17.6%	123,882	140,643	13.5%
Goldsboro, NC (MSA)	97,314	113,341	16.5%	48,187	60,992	26.6%
Rocky Mount, NC (MSA)	123,463	143,085	15.9%	65,580	80,996	23.5%
Longview-Marshall, TX (MSA)	181,745	208,797	14.9%	89,971	126,460	40.6%
Lubbock, TX (MSA)	212,117	242,882	14.5%	117,235	153,487	30.9%
Texarkana, TX-Texarkana AR (MSA)	113,379	129,762	14.4%	52,728	67,620	28.2%
Florence, SC (MSA)	110,521	125,847	13.9%	56,274	80,590	43.2%
Abilene, TX (MSA)	111,817	126,441	13.1%	67,928	79,786	17.5%
Dothan, AL (MSA)	122,978	138,048	12.3%	67,330	87,315	29.7%
Lake Charles, LA (MSA)	168,054	183,523	9.2%	80,972	104,077	28.5%
Houma, LA (MSA)	178,317	194,469	9.1%	84,293	98,598	17.0%
Wichita Falls, TX (MSA)	128,890	140,326	8.9%	81,100	87,708	8.1%
Albany, GA (MSA)	112,846	120,855	7.1%	54,794	70,869	29.3%
Roanoke, VA (MSA)	220,768	235,876	6.8%	126,964	176,854	39.3%
Owensboro, KY (MSA)	86,092	91,609	6.4%	41,509	55,569	33.9%
Florence, AL (MSA)	135,322	143,008	5.7%	58,901	72,608	23.3%
Monroe, LA (MSA)	139,654	147,246	5.4%	62,861	87,827	39.7%
Lawton, OK (MSA)	112,921	114,534	1.4%	57,273	62,942	9.9%
Gadsden, AL (MSA)	103,112	103,284	0.2%	41,517	50,332	21.2%
Danville, VA (MSA)	111,813	110,050	-1.6%	52,736	57,465	9.0%
Parkersburg-Marietta, WV-OH (MSA)	157,848	151,086	-4.3%	71,979	86,762	20.5%
Cumberland, MD-WV (MSA)	107,868	101,791	-5.6%	42,290	48,035	13.6%
Alexandria, LA (MSA)	135,422	126,443	-6.6%	57,453	70,860	23.3%
Pine Bluff, AR (MSA)	90,722	84,226	-7.2%	41,624	44,298	6.4%
Anniston, AL (MSA)	120,016	111,350	-7.2%	57,622	61,885	7.4%
Enid, OK (MSA)	63,179	57,661	-8.7%	35,969	34,985	-2.7%
Wheeling, WV-OH (MSA)	185,340	152,828	-17.5%	78,814	81,945	4.0%
Steubenville-Weirton, OH-WV (MSA)	163,345	131,609	-19.4%	68,727	61,836	-10.0%
Source: BEA, Regional Economic Information System						

Acknowledgments

In developing this report, we drew on the knowledge and talents of a great many people beyond our research committee. We could not have produced *State of the South 2002* without them, and we are deeply grateful.

First and foremost, we thank the panel of distinguished southerners who combined our analysis with their experience to make recommendations for the region's progress. Chaired by William F. Winter, the panel includes: Frank Daniels, Jr.; James A. Joseph; Sybil J. Hampton; Valeria Lee; Darla Moore; James Scott; and Jesse White. Their insight and common-sense approach have produced a bold agenda.

In early July, we convened colleagues from the South and North to inform our analysis and discuss lessons our region could learn from the Rustbelt states' experiences. This extraordinary group included: Barry Bluestone, Director, Center for Urban and Regional Policy, Northeastern University, Boston, MA; Bill Bynum, President, Enterprise Corporation of the Delta, Jackson, MS; Rick Carlisle, Managing Partner, Dogwood Equity Corporation, Raleigh, NC; John Foster-Bey, Senior Associate, Urban Institute, Washington, DC; Mac Holladay, President, Market Street Services Inc., Atlanta, GA; Sara Lawrence, Program Manager, Corporation for Enterprise Development (CFED), Durham, NC; Bill Schweke, Research Director, CFED, Durham, NC; Debby Warren, Executive Director, Southern Rural Development Initiative, Raleigh, NC; and Jesse White, Federal Co-chair, Appalachian Regional Commission, Washington, NC.

We are thankful for the support and assistance of our Board of Directors, who helped us focus our research agenda, and David Dodson, President of MDC, who was instrumental in interpreting the implications of our findings. Leslie Boney, MDC Senior Associate, provided a great deal of guidance on economic development and rural issues. Nova Henderson, our management assistant, was our proofreader extraordinaire and institutional memory regarding the 1986 *Shadows* report. Bill Bishop, a former MDC writer-in-residence, provided his insights into new-economy cities. Colin Austin, MDC's Research Associate, and Jehan Shamsid-Deen, MDC's Autry Fellow, gathered data and reviewed early drafts. John Rohrs, former MDC staff associate, drafted early case studies. MDC's program staff reviewed our final draft and conferred with us on policy recommendations.

Any errors or oversights contained herein are, of course, solely the responsibility of MDC.



Expanding Opportunity • Reducing Poverty • Building Inclusive Communities

MDC's mission is to advance the South through strategies that expand opportunity, reduce poverty, and build inclusive communities. The organization furthers its mission by analyzing economic, workforce, and demographic trends to identify challenges that impede progress for the region and its people. To address those challenges, MDC works from multiple angles, including: developing responsive public policies; demonstrating effective programs; building institutional and community capacity for progress; and informing the public dialog on development issues.

Established in 1967 to help North Carolina make the transition from an agricultural to an industrial economy and from a segregated to an integrated workforce, MDC has spent the past 35 years publishing research and developing policies and programs to strengthen the workforce, foster economic development, and remove the barriers between people and jobs. MDC now works to facilitate the South's transition to a high-performing, multiracial society where economic, workforce, and community development work for all people and communities.

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