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No Salvaging the Mill Towns

Ten years and $400 million has failed to transform the economies of Southside and Southwest Virginia. Until leaders confront dispersed human settlement patterns, they will never address root causes.

By James A. Bacon

A decade ago, regional leaders of Southside and Southwest Virginia were presented with a once-in-a-lifetime opportunity to restore prosperity to their ailing communities whose manufacturing-based economies had been hollowed out by the wholesale migration of furniture, apparel and other light manufacturing overseas.

Then-Gov. Jim Gilmore set aside half the proceeds due Virginia in the Master Settlement Agreement with the cigarette companies for the purpose of transforming the economies of these two down-trodden regions. To date, the Virginia Tobacco Indemnification and Community Revitalization Commission, which was created to administer the monies, has spent $432 million on more than 900 revitalization projects.

Further, by securitizing revenues due from the cigarette companies, the Commission has created a $1 billion endowment to fund future programs. Given conservative actuarial assumptions, the endowment should spit out $60 million a year for years to come... basically forever.

No other region of Virginia possesses a comparable war chest for investing in economic and community development.(1) Ten years later, it's worth taking stock of what the Tobacco Commission has accomplished with its windfall. Has the Commission succeeded, or even come close to succeeding, in meeting early aspirations of "transforming" the region -- evolving from farming, mining and manufacturing into the Knowledge Economy in the same way that, say, Ireland did?

That's what a blue ribbon panel, consisting of former Gov. Gerald L. Baliles, Hugh Keogh, CEO of the Virginia Chamber of Commerce, J. Robert Bray, former executive director of the Virginia Ports Authority, and other prominent Virginians set out to examine. The group's conclusions aren't pretty. Despite wording dry enough to parch the mouth, the report made plain that no such transformation has occurred. States the report:

> Given the existing state of the Southside and Southwest economies, it is fair to ask whether the expenditure of over $400 million by the TICR since the year 2000 on "regional transformation" projects has had the desired transformative effect on the regions. ...
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> Despite this spending, population in the region continues to decline, wage rates still lag behind the rest of the state, there is persistent high unemployment and poor educational attainment is still endemic.

The blue ribbon panel identified a number of problems large and small that need fixing. It suggests a number of well-considered process changes: tweaking administration of the Commissions' tobacco-funded endowment, routinely updating the Commission's strategic plan and streamlining the governing organization. The panel also calls for collecting data and measuring outcomes.

One set of proposals runs deeper: ever-so-delicately challenging the parceling out of dollars to every town, city and county throughout the region in response to "grass roots initiatives," an approach that ensures that every political jurisdiction gets its "fair share" but fritters away millions in marginal projects. Instead, the panel recommends treating disbursements as "investments" that pay off well into the future. Along the same lines, the report urges the Commission to stop doling out micro grants, under $100,000, and instead support larger initiatives that hold out the potential to create transformational change.

Finally, and most importantly, the panel recommends investing strategically in education. "The [panel] believes that education from preschool to high school and beyond high school is the future of Southside and Southwest Virginia," reads the report. "No miles of highways constructed, no tens of thousands of feet of water or sewer lines

laid, nor any number of industrial park buildings erected can change this."

I would put the argument more bluntly than the authors of the blue ribbon report. Not only has the Commission failed to "transform" the Southside/ Southwest Virginia economy, it has squandered many of its resources. By keeping the old economy on life support, it has failed to steer sufficient resources into the new economy. For all intents, the economies of Southside and Southwest Virginia look very much like they did 10 years ago -- the main difference being that the light-manufacturing economic base is somewhat more diverse and less dependent upon apparel and furniture than before.

The most visible progress the Commission has made in adapting to the new economy is building the regions' high-speed Internet infrastructure. But outside of a few showcases, like Danville's Center for Advanced Learning and Research and the Southwest Virginia Higher Education Center in Abingdon, communities cling to light manufacturing as a source of jobs and taxes. Education levels lag hopelessly behind those of Virginia and the rest of the United States. And there is little evidence that attitudes have fundamentally changed. Community leaders persist, for instance, in lobbying for the construction of horrendously expensive four-lane highways and Interstates, as if more asphalt somehow could revive corporate investment in the digital age.

Over and above the blue ribbon pane's sober analysis, I would add the following point: Rising energy prices are devastating the rural standard of living (2). Virginia's mill town economies support a highly dispersed population -- dozens of hamlets and mill towns, farmettes strung along country roads, houses built in scattered cul de sacs -- that entail long-distance commutes to manufacturing facilities. Inhabitants of rural counties suffer more than most Americans from the surge in gasoline prices. The scattered, low-density human settlement patterns were affordable when gasoline was cheap. Many factory workers supplement their wages by raising a few cattle or growing tobacco or corn on the side. But the low-density settlement pattern is crippling in an era of expensive energy.

Unfortunately, the problem is bigger even than energy scarcity. The United States' competitive advantage in the global economy resides in knowledge-intensive industries that leverage productivity and innovation. To compete, businesses need employees with high levels of skills and education. To recruit a workforce, successful businesses must locate in proximity to large labor pools -- i.e., large metropolitan areas. (In some instances, corporations are willing to locate near university towns where they can recruit grads with specialized knowledge sets.)

Not only are businesses biased towards locating in large metro areas, but the most cutting-edge businesses migrate toward metropolitan areas associated with particular industry clusters -- finance in New York, computers in San Jose, movies in Los Angeles, biotech in Boston, etc. -- where highly industry-specific industry knowledge can be shared, start-up and expansion capital is available and executives with industry-relevant backgrounds can be recruited.

Virginia mill towns, like mill towns everywhere across the United States, lack the size to create knowledge-intensive labor pools. They lack the business clusters that support industry-specific innovation. And they lack the amenities required to recruit, retain and remunerate the highly educated employees needed to run, or start up, successful enterprises. As creative-class guru Richard Florida observes, the best educated Americans are going where the wealth-generating opportunities are -- a relative handful of large, dynamic metropolitan regions. If once prosperous regions like Detroit, Cleveland and even Pittsburgh are having a difficult time competing for top talent, mill towns aren't even in the race.

The Tobacco commission simply has not come to grips with this problem. But even if it did, even if the Commission followed the advice of its blue ribbon study group and invested more heavily in education, it wouldn't make much difference. Tragically, the vast majority of newly educated residents of Southside and Southwest simply would emigrate to metro regions where they could better utilize their skills and make more money. This problem is not unique to non-metropolitan Virginia -- it's a pattern seen across the country.

Politically, of course, the Tobacco commissioners cannot throw up their hands and say, "We're doomed. We give up." But unless they are willing to make really tough decisions -- in effect, to perform economic-development triage -- Southside and Southwest Virginia probably *are* doomed to failure.

It is absolutely crucial that the Tobacco Commission stop frit-

tering away resources on tiny community projects that protect a few jobs for a few years but fail to achieve lasting transformation. As far as I can see, the regions' only hope is to concentrate resources in creating a handful of economically viable cities that possess the size and resources to attract both human capital and investment capital.

It is possible -- not likely, but possible -- that cities like Danville, Martinsville and Bristol/Abingdon have sufficient population and resources to lure corporate and individual refugees from the high costs and dysfunctional human settlement patterns of the large metro regions. Danville, which has done a remarkable job of reinventing its economy in the face of hurricane-like erosion of its old economic base, shows it has the will and imagination to fight for its economic life.

However, the strategy of supporting "urban" economic activity (primarily manufacturing) in dispersed, low-density human settlement patterns across thousands of square miles becomes less and less viable with every increase in the price of gasoline and the steady migration of the creative class to large metropolitan areas. Until the Tobacco Commission abandons the delusion that conventional strategies can work, the cause is futile, and the leaders of Southside and Southwest Virginia are peddling false hope to the people they serve.

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(1). The Tobacco Commission funds are supplemented by hefty community endowments in Danville and Martinsville, raised through the sale of their community hospitals to for-profit health care companies, as well as special levies on the coal industry to finance economic diversification in the coalfield counties. These resources are leveraged by generous dispensations from the Governor's Opportunity Fund.

(2). I follow Ed Risse in using the term "rural" advisedly. Truly “rural” economies are based upon farming, forestry and the extraction of natural resources. Outside of the coalfield counties, where coal mining still underpins the local economy, manufacturing is still the dominant primary industry in Southside and Southwest Virginia. Industrial plants are concentrated for the most part in industrial parks, which require significant infrastructure investment in roads, water, sewer and electricity. The challenges that factories face in competing for workers are essentially urban in nature. Additional problems arise from the fact that much of the workforce lives in the "countryside" -- in human settlement patterns reminiscent of the agricultural era -- while depending upon the automobile and cheap gasoline to get to work.

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