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Sustainable rural economies, evolutionary dynamics and regional policy

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1. Introduction

The sustainability of rural economies that are closely tied to agricultural industries has been the subject of considerable academic scrutiny over the past two decades (Bowler, Bryant, & Cocklin, 2002; Cocklin & Dibden, 2005; Gray & Lawrence, 2001; Marsden, 2003, 2013; Smailes, 1995). The combination of increasing global competition, market liberalisation and socio-technical transformations have resulted in significant adjustments to both the structure and functioning of rural economies. Specifically, the cost-price squeeze facing farmers has contributed to processes of farm amalgamation and expansion, the substitution of capital for labour, farmer and farm worker outmigration, and the concomitant contraction of local service economies (McManus et al., 2012; Smailes, 1997). All of this has consistently raised questions about the resilience and long-term sustainability of rural localities (Paul & Haslam-McKenzie, 2015; Sorensen, 1993; Tonts, 2000; Wilson, 2013).

From a regional policy perspective, the situation is complex and oftentimes contradictory. On the one hand, a neoliberal policy stance of privatisation and deregulation has favoured a reduction in direct government intervention in rural economies (Argent, 2011; Tonts & Haslam-McKenzie, 2005). The presumption of such a policy stance is that competitive market forces are likely to stimulate innovation and improve the economic efficiency and, hence, the viability of these localities. On the other, local political realities have meant that governments continue to engage, if spasmodically, in various forms of direct regional economic intervention. These interventions have often emerged in response to electoral pressure (McManus & Pritchard, 2000; Paul & Haslam-McKenzie, 2015), but also in cases where serious social and economic disadvantage has emerged in rural localities: a crisis resulting from broader processes of restructuring and policy reform (Beer, Maude & Pritchard, 2003). What is often unclear, however, is the extent to which regional policies are more than short-term palliatives aimed at ameliorating the impacts of much wider structural and socio-technical changes.

The purpose of this paper is to explore the long run economic changes in rural economies, and in particular the extent to which direct policy interventions have had a measureable impact on local resilience and sustainability. To assess the impact of policy initiatives on the long-run sustainability of local economies we draw on recent advances in evolutionary economic geography, focussing on the economic resilience of localities to external disturbances. Specifically, using the LSE methodology in dynamic econometrics we identify the long-run developmental trajectories of local economies and test the resilience of those trajectories to exogenous ‘shocks’ (Gilbert, 1989). These concepts and methods are applied to two rural case study areas in the Western Australian wheatbelt: Katanning and Narrogin. Both of these areas have experienced considerable economic transformation as a result of the broader processes of rural restructuring mentioned above and have also been the subject of direct policy interventions aimed at enhancing local economic performance at various times. The next section provides an overview of the conceptual and modelling framework employed in the paper, before turning to an examination of the dynamics of change in the case study areas. Finally, we draw out the implications of our empirical analysis for the ways in which we think about designing, implementing, and evaluating the effectiveness of regional policy responses to externally generated social and economic processes of globalisation.

2. Sustainable economies, evolutionary thinking and rural resilience

The sustainability of rural systems has long been of interest across the social and environmental sciences (Bowler et al., 2002;

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Cocklin & Dibden, 2005; Marsden, 2013). While much of the early commentary on rural sustainability focused on the degradation of natural ecosystems as a result of extractive and agricultural industries, by the mid 1990s there was a growing appreciation that rural social sustainability was an important issue (Smailes, 1995). Central to this was understanding how rural regions were coping with rapid environmental, economic and policy changes. In areas highly dependent on agriculture, the 'farm crisis' of the 1980s heralded an era of rising cost-price pressures with a consequential emphasis on farmers increasing their economies of scale by acquiring more land from smaller producers (Argent, 2011). At the same time, greater emphasis was placed on improving productivity through investments in new technologies. While increasing efficiency and productivity have since characterized agricultural regions (Fuglie, Wang, & Ball, 2012; Kingwell & Pannell, 2005; Smith & Pritchard, 2014), it is clear that the impacts on local communities and economies have been substantial. For example, the out-migration of farm families has led to reduced economic activity, employment and service provision in many rural communities (Johnson, 2006; McManus et al., 2012). Moreover, this process of decline has led to deteriorating levels of social wellbeing and undermined community structures and morale (Anwar-McHenry, 2011; Atherley, 2006; Smailes, 1997).

Both within and beyond the Australian context, the issue of rural sustainability has posed a significant dilemma for policy-makers (Beer et al., 2003; Alden, 2006; Tomaney, 2012). Typically, there remains a commitment to policy frameworks that promote the virtues of competitive market forces and minimal state intervention in economic development. Accordingly, most countries have gradually reduced levels of trade protection and other forms of state support for agricultural commodities, thereby exposing farmers to the vagaries of global markets. In addition, there has been the gradual rationalization of state owned enterprises and infrastructure through privatisation and/or corporatisation. Consistent with this policy framework, economic development strategies tend to be lightly funded and focused on enhancing local competitiveness through short term support to facilitate private enterprise-led growth and self-help community initiatives (Herbert-Cheshire, 2000; Tomaney, 2012).

Against this background of competitiveness and market-led regional development, there are examples of quite targeted rural strategies aimed at stimulating local economies through direct state intervention. While generally inconsistent with market-led policies, these approaches reinforce the complexity of policy making 'on the ground' where they tend to confront the reality of: i) political imperatives; ii) economic or social crisis; iii) locally-led initiatives. The first of these, political imperatives, have emerged as a powerful force in shaping rural policy in developing countries as rural electors turn to alternative political parties in response to perceptions of neglect or the promise of a 'better deal' (McManus & Pritchard, 2000; Paul & Haslam-McKenzie, 2015). In rural areas where large electoral swings away from traditional parties have occurred, it is perhaps not surprising to find that political strategies emerge that aim to address local needs. A second major reason for states re-engaging with interventionist rural strategies is economic or social crisis (Head, 2014; Wheller, 2014). The collapse of a major industry, environmental disaster (e.g. drought), or the emergence of serious social disadvantage often becomes the basis for a focussed political response. A third reason for targeted regional strategies is local initiative. This typically emerges from local leaders and often through local government. Indeed, there are numerous examples of highly entrepreneurial local actors leading significant initiatives aimed at developing rural economies (Davies, 2006; Gibson & Connell, 2012; Sorensen & Epps, 1996).

In addressing issues of rural sustainability, the types of direct intervention strategies adopted are diverse. These are typically based on a vision of regional development that is in stark contrast to competitive market-led policies, and often draw loosely on post-Keynesian theories of growth. Particularly influential are simplistic notions of circular and cumulative causation, which rest on the assumption that stimulating growth through direct intervention is likely to increase the economic multipliers that sustain the long-term expansion of the local economy (Sorensen, 1993). While there are many variants on this theme, the central focus is usually on job creation, increasing levels of income per capita and population growth (Kenyon & Black, 2001; Murray & Dunn, 1996).

While there are often calls on the part of policy-makers, planners, activists and commentators for various forms of regional policy intervention, their efficacy, particularly over the long run, is not always clear. Those studies that have attempted to evaluate the long-run impact of local development strategies have tended to be largely qualitative and focused on relatively short time frames (e.g. Davies, 2006; Haven-Tang & Jones, 2012; Kenyon & Black, 2001; Sorensen & Epps, 1996; Yiannakis & Davies, 2012). The value of these studies is that they can provide considerable insight into the political and social dynamics underpinning local strategies, the precise nature of the projects adopted, and the short-run success (or otherwise) of local initiatives. However, they are typically unable to demonstrate the ways in which local strategies have resulted in substantial and sustained shifts in economic performance, particularly in relation to job creation and income per capita.

One of the alternate ways of unpacking the relationship between short run adjustments to external disturbances, or shocks, and the longer-run developmental trajectories of rural economies is through the lens of evolutionary economic geography (EEG) (Martin & Sunley, 2015). This emerging paradigm emphasises the importance of history and geography in understanding regional economies (Plummer & Tonts, 2013). In the context of evaluating the long term sustainability of localities, one of the specific areas of evolutionary thinking that offers considerable potential in this regard is the notion of resilience. Importantly, in terms of policy relevance, resilience can be defined as the ability of local economies to adjust or adapt to external disruptions or 'shocks'. Recently, there have been a number of attempts to move beyond abstract evolutionary 'thinking' to ground analyses of rural economic sustainability and policy in a suite of applied and testable models that are capable of evaluating the efficacy of regional policy initiatives (Doran & Fingleton, 2013; Fingleton, Garretsen, & Martin, 2012; Plummer & Tonts, 2013, 2015; Tonts, Plummer, & Argent, 2014).

Given the emphasis of rural economic development interventions described earlier, the resilience of a locality can be measured in terms of either job creation (employment growth) or income per capita. Furthermore, for each of these measures, resilience can be measured in either absolute terms or relative to a benchmark economy: i) *absolute resilience* answers the question: how resilient is the economy of a region? ii) *relative resilience* answers the question: how resilient is a given region relative to what might be expected based upon the resilience of a wider benchmark economy? Benchmarking against comparator economies provides a means to address 'what if?' questions: what would have happened to the development trajectory of a region had it evolved in a similar way to the benchmark economy as a whole?

Fig. 1 shows a stylized representation of the 'anatomy' of *resilience* for a hypothetical regional economy, depicting four stages of its long-run developmental trajectory.

- *Vulnerability*: Prior to an external "shock" at (a), for example, the recent global financial crisis, the region's growth follows a long-run equilibrium trajectory. This growth trajectory could be

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