



# Small town growth drivers

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# Background

- ▶ Study of the Economic Potential of 5 small small towns in the EC midlands
  - ▶ Ability of development interventions to alter development trends eg LED
  - ▶ Drivers emerged as an explanation to certain growth trends
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# Small town socio-economic trends

- ▶ International literature suggest a general decline in small town economies with accompanied population decreases.
  - ▶ Leading to increasing disparities between small towns and larger urban centres
  - ▶ Economic fundamentals behind growth larger centres over small towns
  - ▶ South African towns similar economic trends but generally with linked population increases
  - ▶ Importance of small towns
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# Links to rural development

- ▶ Atkinson and Zingel (2004: 8) believe that small and intermediate centres assist rural development in a number of ways. These include:
    1. Acting as demand centres and markets for agricultural goods produced in the rural hinterlands,
    2. Acting as service and distribution points for rural regions,
    3. Stimulating the growth of rural non-farm activities; stimulating employment generally through SMMEs
    4. Attracting rural migrants through labour opportunities, easing the pressure on larger urban settlements, and
    5. Through the provision of public services.
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# Economic and Geographic Rationale behind small town decline: Location Theory

1. Economic space is the outcome of trade-offs between various forms of increasing returns and different types of mobility costs.
  2. Price competition, high transportation costs and land use result in the dispersion of production and consumption.
  3. Firms are likely to cluster within large metropolitan areas when they sell differentiated products and transport costs are low.
  4. Cities provide a wide array of final goods and specialised labour markets that make them more attractive to consumers/workers.
  5. Agglomerations are the outcome of cumulative processes involving both supply and demand.
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# New Economic Geography (NEG)

- ▶ The New Economic Geography framework explains economic agglomeration across space and relates these centralisation effects to transportation costs
- ▶ It can be represented by an equation which illustrates why the allocation of firms and workers may matter namely that a region's (nominal) wage rate ( $W_r$ ) is dependent upon the demand for final consumption and intermediate products ( $Y_s$ ), the price of manufactured goods ( $I_s$ ), the elasticity of substitution of these goods ( $\epsilon$ ) and transportation costs between locations ( $T_{rs}$ ).
- ▶ 
$$W_r = \text{Const} \{I_r\}^{-\mu/(1-\mu)} [\sum_s Y_s I_s^{\epsilon-1} T_{rs}^{(1-\epsilon)}]^{1/\epsilon(1-\mu)}$$

# Applications of NEG

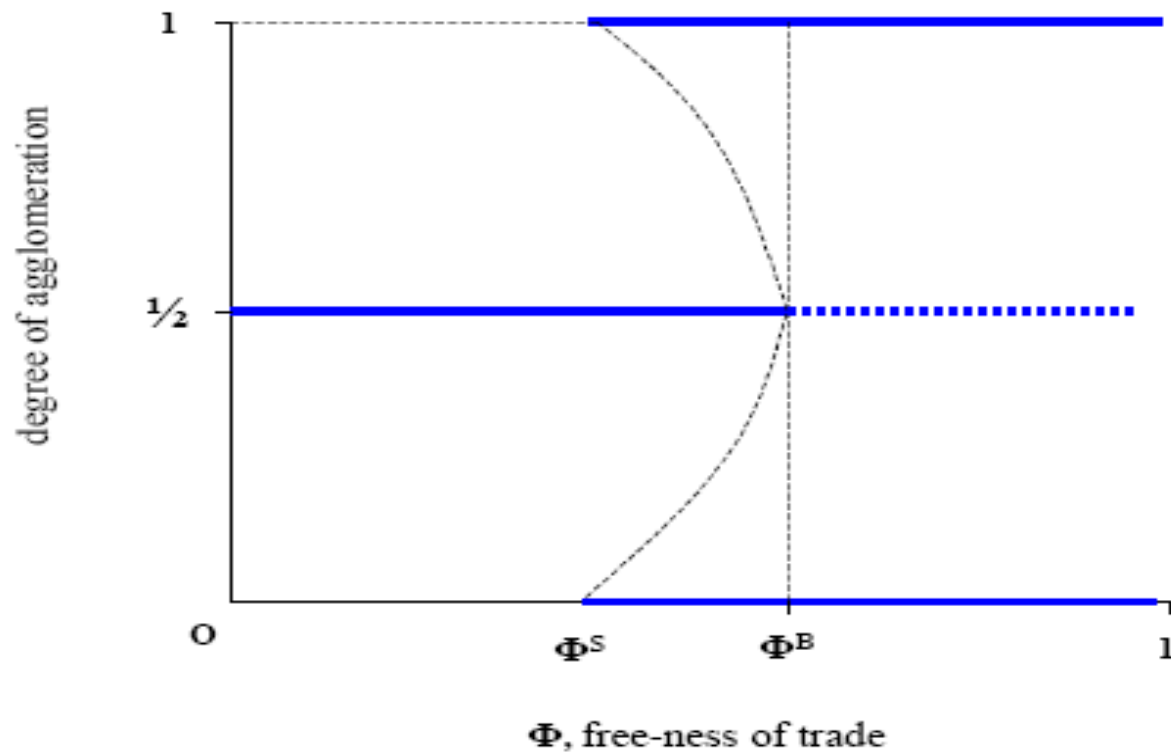
Two primary applications:

- 1 Labour mobility between towns and regions locally
- 2 Limited labour mobility, e.g. between regions in different countries.

Thus when reviewing growth patterns of small towns we need only consider the former.




# NEG model: labour mobility

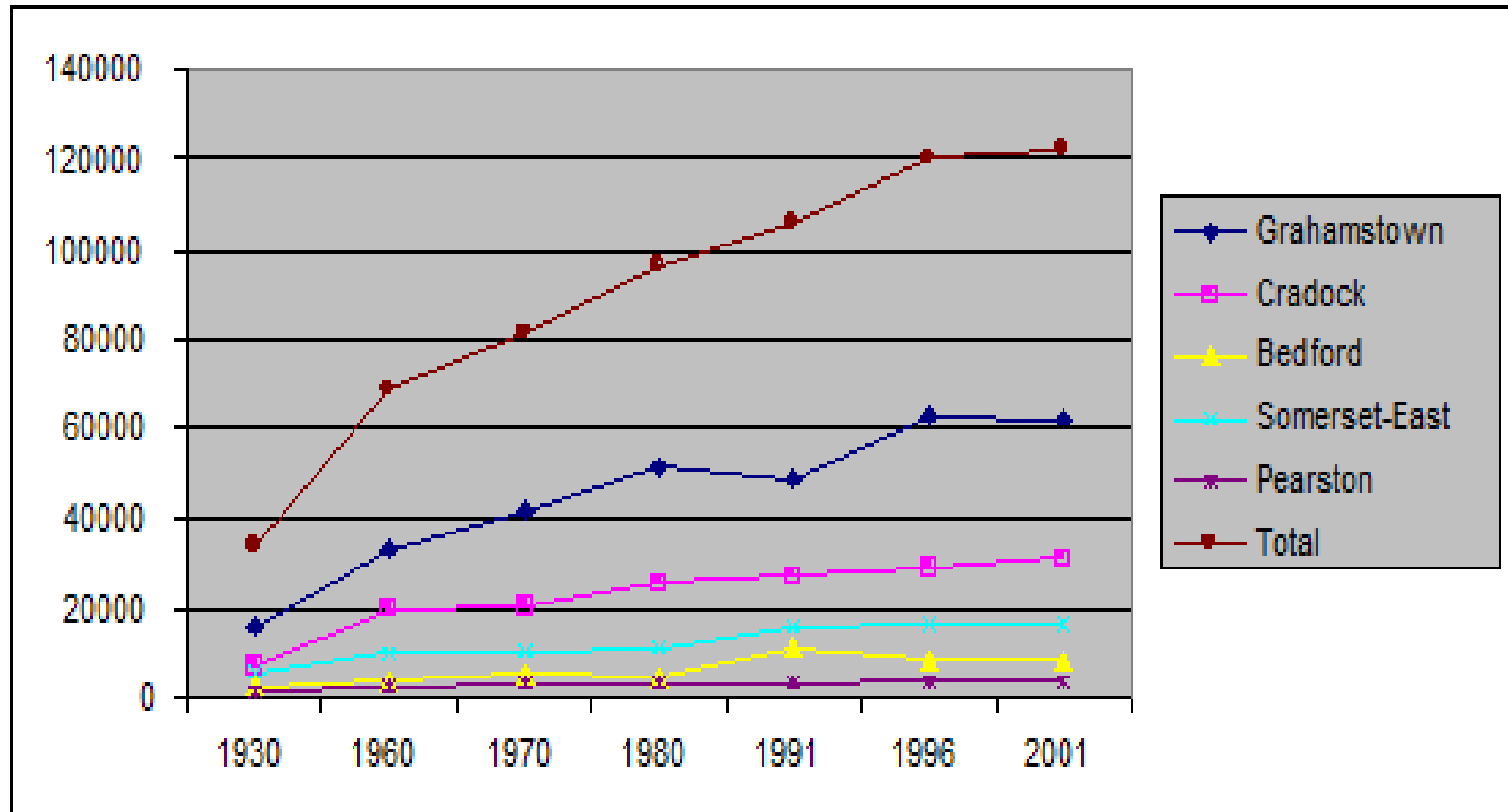




# NEG model cont.

- ▶ Assuming two towns exist within a region and there is labour mobility,
  - ▶ The model suggests that once transportation costs decrease past a certain level, total agglomeration in either one or the other town will occur.
  - ▶ Implies that smaller towns will amalgamate with larger towns or urban settlements at some point, depending on the level of transportation costs.
  - ▶ Predicts that broad spectrum smaller town growth is unlikely.
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# Growth Potential Study: Population




# Employment Figures 1996 and 2001

	G-town	Cradock	Bedford	Pearston	S-East
Employed 1996	12 300	5 336	770	364	2 933
Employed 2001	11 356	5 026	630	331	2 756
% Decrease in employment	7.7%	5.8%	18.2%	9.1%	6.0%
Unemployed 1996	7 954	4 297	1 210	607	2 001
Unemployed 2001	12 680	5 619	1 543	689	2 625
% increase in unemployment	59.4%	30.8%	27.5%	13.5%	31.2%
% not EA 1996	44	45	59	50	48
% not EA 2001	43	47	59	54	58


# Methodology of economic potential study

- ▶ Shift Share analysis
  - ▶ Economic Base theory
  - ▶ Social Accounting Matrix
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# Results

- ▶ Shift Share analysis: Decrease in employment – primarily due to regional declines not national or industrial trends
  - ▶ Location Quotient analysis –highlighted towns’ reliance on particular sectors and a general decline in the LQ figures
  - ▶ Agriculture dominant economic force
  - ▶ Services industry backbone of the towns’ employment.
  - ▶ Manufacturing performed poorly in all towns, indicating the presence of external agglomeration forces
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# Results cont

- ▶ Incorporating qualitative research growth prospects for all towns were not negative
  - ▶ Small towns in SA have not necessarily followed predicted growth patterns predicted by NEG and location theory
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# Growth Drivers

- ▶ Despite the economic rationale behind small town economic there are towns which have averted this trend experiencing economic growth and development, suggesting that 'growth drivers' may exist within small towns.
  - ▶ In the context of rural development the identification of these factors is important
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# 7 Growth Drivers

1. Population
  2. Infrastructure
  3. Existing markets and location
  4. Municipal Leadership
  5. Local Entrepreneurs
  6. Existent Industries
  7. Local Economic Development
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# Growth Drivers Scorecard Matrix

Town	LED	Size	Location & markets	Existing Industry	Infrast- ructure	Municipal Leadership	Local Entrepreneurs	Total	Percentage of max score
Grahamstown	2	4	3	5	3	2	4	23	66
Cradock	1	2	2	2.5	2.5	2	2.5	14.5	41
Bedford	1	1	1	1	1	2	1.5	8.5	24
Somerset East	5	1	1	2	1	3	3	16	46
Pearston	1	0	0	0	0.5	2	0.5	4	11

# Conclusions

- ▶ Small towns critical in rural development – Residents in centres and as service centres
  - ▶ Critical that development initiatives do not ‘fight’ economic fundamentals and they are aligned
  - ▶ Built on local assets and communities needs and desires
  - ▶ Type and nature of support is often blurred eg growth vs welfare
  - ▶ Potential framework by which local municipalities could assess the developmental outlook of towns and the type appropriate interventions
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