

A VIEW ON THE ORIGIN OF A MODERN STATE

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ABSTRACT

In this study a traditional society is treated as an agricultural, single sector type and possessing a particular economic equilibrium. It is an equilibrium at which agriculture, under certain conditions, will eventually become established. The critical conditions underlying this type of equilibrium are: (a) the state of the arts remain the same, (b) the preference for acquiring and holding sources of income remains constant, and (c) both of these remain constant long enough for sources of income to arrive at an equilibrium with production and a net savings approaching zero.

INTRODUCTION

The historic state of Franklin is referred to as the "Lost State." The state was legally constituted in 1785, and after a short existence, expired. Later its territory was engulfed by the newly formed state of Tennessee and North Carolina, but its name continued to exist as one of the South's most enchanting legends. However, investigation shows that the state was in reality more economic than political and continued to live in this sense. This paper presents its geographic foundation and the boundaries within which the economic system of Franklin was founded. In order to do this, the state is placed in an appropriate historic setting.

In the course of probing the depths of Franklin's history, elements unique to the area were identified that in all probability provided the genesis of the modern industrial area of upper East Tennessee. In order to progress, changes were required in these foundation elements, modifications of some and complete transformation of others; but always making a forward thrust in the evolution of what was to become a modern, viable, social organization. The clue to the origin of modern industrial states may be found somewhere in the transformation process. The historic state of Franklin provides an excellent opportunity to test the validity of an idea of origin and evolution that in the past has existed as only a glimmering thought.

Among all the natural wealth with which early America was endowed, East Tennessee was one of its brightest jewels. The Holston River Valley provided the geographic core for the emerging state. Elements of the physical environment afforded ample opportunities for agriculture and an abundance of water for power and transport. There were also sizable deposits of iron along with an abundance of hardwoods for making charcoal. The basic ingredients for a strong economic structure were present.

TECHNIQUE

The statistical measurements suitable for this paper have been computed by Professor William H. Nicholls of Vanderbilt University. Although he was exploring the human resources and industrial development the county data needed here had been prepared in rank order; eliminating the need for repeating the work. He relied primarily upon the United States Census, supplemented when possible from other statistical compendiums which contained relevant socio-economic data on the counties concerned. The methodology of Professor Nicholls consisted largely of correlation techniques applied to the ranks of the data rather than to the data themselves. The Spearman rank-correlation techniques (Spearman rho) was applied to the entire sample (area) of about 15 modern counties; in each case, correlating their ranks in industrial development. Correlations based on ranks did not imply the reliability of the data in more than a relative sense which was adequate for this study. Thus, by the employment of his tables it was feasible to view the progress in areas of today's more advanced counties in upper East Tennessee from their earliest times and also to observe the variations at different stages of their growth with their neighboring ones.

The expression of correlation with reference to the various character changes among the counties within this area are based on the most stable element of all those considered. Progress was expressed in economic growth terms of the least advancing counties which were used as the control element.

THE STATE IDEA

Most modern states originated from communities based on traditional agriculture. From these single sector agricultural societies arose the modern multi-sector industrial states. Economic geographers generally agree that the change evolved through a well ordered process and that the transformation is usually a logical and predictable one. Beyond this the literature is vague especially on the details of the transition.

It appears logical that the resulting state carries the imprint of its past, particularly of those forces that forged new political and economic forms from traditional societies. The key, therefore, to the understanding and interpretation of the modern industrial state and its associated political complex is not found so much in the parent material as in the molding of it. The natural evolutionary process begins in the initial transformation with a society on an agricultural base, relatively static and traditional, and ends in a two sector economy, precisely balanced on a dual foundation. If the finely adjusted equilibrium between the two sectors can be maintained, a modern industrial state exists, and traditional agriculture has been transformed.

Many questions arise concerning the origin and evolution of the modern nation-state. A nation-state may be said to consist of its land area, its laws, and its people. The land is durable while the people and the law are less so because generations come and

go. It is of first importance to consider the more permanent part as the geographic foundation for any political system. The effectiveness of the political system may be judged by the degree of equilibrium achieved in its man-land interaction and to the degree the mobilization of its resources roughly match outlays. This is in general the natural process by which most nation-states evolve and is the valid basis for their political existence.

Probably the most intriguing question pertains to those states that evolved through natural processes and possess the ability to continue to exist though their political legality has long since been withdrawn. For others, while having the force of valid and acceptable sovereignty, are lacking in proper foundations of national police power and international respect. Such states are artificial creations. Two answers appear extremely favorable to the naturally evolved states and weigh heavily on the scale of values by which state power is measured. First, is the character of the regional setting. No element that constitutes the geographic foundations of national power is as fundamental as this one.

The region should be an area of distinct personality, possessing the centripetal force inherent in a socially cohesive population that inhabits it. The people should have the social structure, competence, and skills suitable for utilizing the naturally occurring resources available to them along with the will to do so. In this context, political power is basically geographical.

Second, economic integrity, if viewed in the long run, is essential to the creation and transformation of traditional agriculture into a multisector structure of continuous economic growth. States must be viewed in a long range perspective because they are always evolving and the natural process of their growth is rather slow. It seems likely that the natural state inherently possesses the two characteristics mentioned above and that they form a continuity, in one form or another, throughout a long span of time.

To extend the logic one step further, it follows that the validity of the concept of a modern state is explained by the transpiration of the old to the new society. The unstable personality of many artificial states, and the lack of success so obviously displayed in trying to control their economic activities, leads one to look deeper into this aspect of economic growth. Agriculture is a prime factor in the development of industry. In trying to understand better the relationship between agriculture and industry, in the second stage of development of the two sector economy, there must be greater understanding of the transformation.

"Economic development is easily understood as improvement of people and their organization of economic life, transformation of an economy from one systematic type to another, and as aggregation of small systems into larger ones."

In 1958, Professor Albert Hirschman of Yale University proposed a new theory of growth economics—the theory of unbalanced growth. This provided the basis for an intensive controversy. This idea was

not new, it was deeply rooted in economic thought of earlier writers, but it was Hirschman who presented it as an organized theory of economic growth. Many opposed the theory as unacceptable but strangely, only a few, if any, argued that it was unworkable.

The opposition to it may have been rooted in our recent history. Present day development economics seems to have developed from the concept of "planning" and "balanced growth" evolved within the last forty years. This idea is so well established that few bother to see the matter of the transitional mechanics in any other light. Implicit in the theory of "balanced growth" are some answers to the problems involved in the transitional period. However, these implied answers have become somewhat distorted and even fallacious, or at least are fallaciously presented. A more suitable explanation of that which actually transpired in the change may actually lie elsewhere—within the concept of "unbalanced growth."

The primary purpose of this paper is to ponder this thesis and test the theory—however, in a somewhat limited manner; and to determine some measure of its validity. To study a new and developing state would be ideal, but due to the element of time it is not possible to do so. Hence, a suitable area has been selected whose economic structure has existed over a sufficiently long time interval to allow a traditional agriculture to originate and to evolve into a modern industrial society. Further, it possesses an unusually high degree of isolation from other economic and political units. The area is the historic, now politically defunct, state of Franklin, which although the name is gone, the people of the area still exist, economically within the regional geographical framework. Social consciousness of their historic heritage continues to exist.

Such an unusual phenomenon exists on most land masses and, without possessing the benefit of legal or political continuity, continue to exist as geographical expressions in the minds of the people inhabiting them: the "Confederacy," the "Home Counties" of England and many others. The historic state of Franklin, now roughly "upper East Tennessee," a place of economic, social and regional significance, is such an area.

BACKGROUND

The state of Franklin was conceived and launched toward a promising future in 1785. As a state its reality and hopes for existence lay in its isolation, both in distance and in its cultural character. Even with its reasonably humble origin, the state could have persevered as it was endowed with an abundant natural resource base, more than adequate for frontier society of that time. In fact, it had all the elements of greatness, but even so, it expired as a political entity after an existence of only two years.

The reason for its political demise will not be pursued here as the concern of this endeavor is in the economic aspects of its geographic foundation. Franklin had, however, one structural flaw, which resulted in its political extinction. But, its economic structure

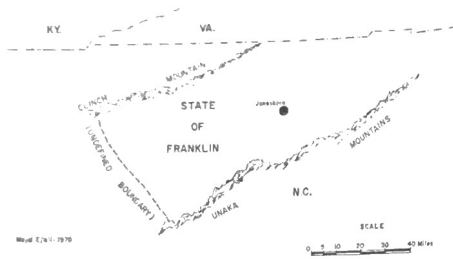


FIG. 1: State of Franklin: 1785—1787

remained, as it did not experience a dissolution of its integral parts; they generally continued to function, and did so within the regional framework of the former state.

States normally evolve through a well ordered process that usually includes the development of boundaries and a core area as a pivot of its natural activities. There are exceptions, but this is the normal historical pattern. As a state, Franklin evolved in such a manner and possessed such characteristics (see Figure 1). Its physical foundation and limits were situated as follows: the high and sharp Clinch Mountain ridge formed its northwestern boundary with the southeastern-trending Unaka Mountains performing a similar function on the opposite side. Sandwiched between these two ranges, it constituted a valley corridor of considerable size extending southwestward from the established Virginia state line. To the southwest, a definite boundary apparently did not exist, but settlements as far west as Morristown considered themselves within its effectively controlled territory. The Avery Treaty of 1777 with the Cherokee fixed the Indian line with North Carolina at approximately 20 miles south of Jonesborough, now Jonesboro. However, in 1783, the North Carolina General Assembly unsuccessfully attempted to fix the northern boundary of the Cherokee hunting lands at the French Broad River. It appears that during the time of Franklin's existence as a state, the area between the present day cities of Greeneville and Morristown was a zone of contention with the Cherokees.

In any event, little economic activity was carried on southwest of Morristown causing a definite political boundary line there to be of little concern considering the objectives of this study. It is of concern that the economic pursuits, mostly farming, ceased at clearly defined zones, and being able to locate and quantitatively measure these is more important than locating political boundaries.

EARLY CHARACTER

Franklin was rather homogeneous in culture and in its economic patterns until around 1875, at which time small changes became observable but until the turn of the century, not really noticeable. These changes were the results of the initial attempts at industrializa-

tion in some of the counties, more favorable to such enterprises, while other countries remained predominantly agrarian. It was the characteristics of isolation, resulting from physical barriers, and a definite movement toward economic "take-off," that recommended the state of Franklin as an area worthy of note in view of the purpose of this paper.

Even though the more richly endowed areas did at first present some evidence of industrial development, the relative difference was not a marked one among them. In any event, there was not enough significant difference to justify the effort involved in measuring it. In fact, differences in population density were evenly disposed throughout the area and industry, such as it was, seemed to be well distributed. Small differences remained until the turn of the present century at which time marked changes occurred in both population distribution and industrial production. So it is reasonable to select the year 1900 as the approximate point of breakdown after which the emerging economic development may be observed as growth patterns.

Almost from the beginning of economic "take-off," an unevenness in growth factors became marked. Within the first forty years after "take-off," some counties of the study area demonstrated this most vividly. Here, also, population kept pace with industry and matched its change in a corresponding degree. The manufacturing activities, of all categories, in 1900 produced at a level of no more than forty percent of the national average of industrial growth. This falling behind of factory production relative to the agrarian production was the first real indication of an uneven growth rate. At any rate, an uneven growth rate had been launched and the idea of an unbalanced growth pattern was well on its way to fulfillment.

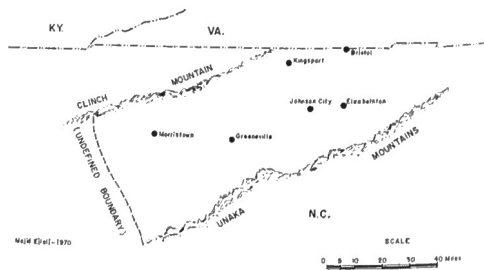


FIG. 2: Centers of economic activity before transition in upper East Tennessee

Also, at this time, the industrial-agrarian interrelationship first became noticeable in this area. Certain counties had, through natural endowment, better agricultural land and produced better crops, therefore, they had better rates of income growth. Here, also, new production factors, such as new crops, were first tried with the resultant cash income increases that usually attend such ventures. So, in the years leading

up to 1900, farmers in these counties with their increased farm incomes were the first to invest some of their savings in enterprises other than agriculture. These counties were the first to demonstrate an effort toward some form of industrialization. Although the farmers of these counties did not have larger farms than those of the more numerous non-industrial counties of this time, they did present a better facade: more improved acreage, a higher value per acre, and a tendency to develop more acres of improved land devoted to wheat; the major cash crop. There evolved, in the more industrial counties, a great inter-county difference in the pre-1900's, relative to the less richly endowed counties, in capital formation in agriculture. It was this capital that provided the foundation for the first industrial attempts on the part of the local people, and having the momentum of an early start, these early investments provided the basis for the industrial centers of today in upper East Tennessee (see Figure 2).

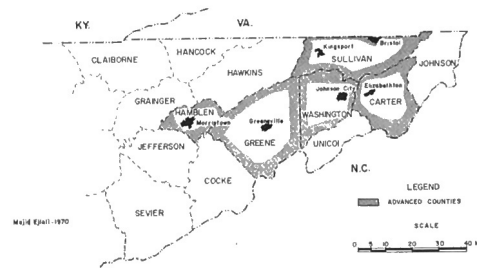


FIG. 3: Advanced counties upper East Tennessee, 1950

These differences in physical character had been there all along, of course, but the subsistence type of farming had not reflected them to any great degree before the last decades of the last century. Numbers of early settlers started to arrive about 1750. The first few generations existed on a hunting and subsistence type agriculture which did not necessitate the construction of development patterns utilizing the many endowments of nature. However, they did lay the foundations during the first one hundred fifty years for the economic take-off.

By 1900 and shortly after, the results of the urban-industrial impact on rural population and per capita farm income began to appear; slowly at first, but more obvious with the passing of time. Although the more advanced counties had only a small growth rate advantage in 1900, it increased within the next forty years at an amazingly rapid rate (see Figure 3). The inequality of income between the newly emerging urban worker and the rural agrarian workers, especially those in the least developed counties of this time, was no doubt due to the dynamic impact of the disequilibrating effect brought about by the new element of urban indus-

tries over the more traditional practices of factor transfer in maintaining an economic balance.

Economic TAKE-OFF

As a result of the emergence of the second economic sector a new source of capital formation also emerged. This new capital became available for agricultural credit, which apparently was utilized by the agricultural interests. Thus, production on the better lands near the urban centers was greatly stimulated. So the initial flow of capital from the agriculture sector to the urban industries experienced, within the space of forty years, a reversal and was once again returned to its original source. It can not be argued that landowners were financing their own land development and crop production from their own profits. Some development, of course, came from this source, but certainly not enough to explain the rapid growth rate that took place during this period. It is reasonable to assume an input of industrial sector capital, as this was the only other source, and at this time, the rate of return on investment in land and agriculture was relatively proportional to the observed rate of increasing capital formation at the urban centers.

It seems in the course of time, that agriculture in the least advanced counties came to be a labor reservoir to the more advanced counties—now becoming industrialized. No economic opportunities of significant proportions were available to the less advanced counties. Commuting long distances prevented the farmer in such counties from augmenting his income from such other enterprises as industrial work in the urban centers. For these (and other reasons) there existed little opportunity for the cultivation of crops requiring an intensive land-use system.

Further, capital accumulation in the more advanced counties was invested in human beings acquiring skills not only for industry but also in the agricultural sciences, which stimulated even further the balancing of the two sectors of the economy in those counties.

This "two sector advance" in the economic growth of Franklin continued in the more advanced counties while the least advanced counties experienced a prolonged period of economic stagnation. Their plight resulted from the nature of a relatively free economic system. Their labor force continued to drain off to the urban-industrial centers within the more advanced counties. It was a one way flow; there was not an equivalent amount of capital returning to those counties. Capital created from this labor and returned to the agricultural sector went to farms in the advanced counties rather than to those that supplied the labor. It appears that under normal circumstances, in a relatively free and isolated region, the process of unbalanced growth within the two leading sectors was perhaps most desirable in the better endowed counties. As both sectors advanced in vigor and widened the real extent of their influence, less advanced counties in the periphery gradually became incorporated into the growing economic processes of this alternating system of economic growth.

THE MYTH INVOLVED

Before the turn of the century agricultural activities had reached a state of equilibrium that could be classified as traditional: the critical conditions existed, but the state of the arts was not advancing to a higher order. Motives for acquiring and holding new or additional income streams were not in evidence, and there seems to be little evidence that marginal productivity of new sources could be viewed as an investment in permanent income streams. There were little or no savings to promote any advance. In this view, the stock of material factors of production and labor forces were the principal variables. In any event the infant industry so full of promise in the county seat locations did not, as of 1900, require large outlays of capital that could have been supplied from agricultural savings. So, from both sectors, the structure was traditional.

With respect to individual motivation, mentioned before, it can be pointed out that individual initiative was lacking, there existed a strong penchant for idleness, that they valued idle time too highly, and that they lacked the economic values of our Christian principles, i.e., the Protestant ethic. These, however, should not be treated as cultural traits but in reality, as economic variables. They result, one must conclude, not from an inherent state of mind but from the lack of initiative. Because the marginal productivity of labor was very low, savings—personal or otherwise—was not encouraged.

In many cases, education is a prerequisite to financial success, or so we like to think; however, it does not mean that illiterate people are not aware of marginal costs and returns. Even though schooling may give a farmer new skills, it does not make him any less an economic being. Logically, any of the farmers in the isolated state could have taken advantage of new or better opportunities in terms of skills or technological advances, had the returns on their investments warranted and had the natural base provided the yields from which to create capital in the first place. It is apparent that in the more advanced counties income from the natural resources and the subsequent capital formation made education feasible and allowed these people to take advantage of their opportunities. It is probably for this reason, along with inefficiencies in factor allocations, that inter-county differences developed.

To continue, there seems to be a negative argument that also contributes to the inter-county differences. There has been in existence, since at least the 30's, the idea of "surplus labor" in rural or less developed areas. The idea of surplus labor has some value but the idea as a popular concept usually means that a certain part of the agricultural labor force has a marginal productive value of zero, and that possibly as much as 25 per cent of the labor in poor counties can be drained off without reducing agricultural production.

"Although the theoretical basis of this doctrine is shaky, the belief persists . . ." So part of the answer may lay in a clearing away of the myth. There exists

much empirical evidence in rural areas to adequately support an argument pointing out the falsity of the doctrine. In such rural areas margins of low productive values are either not measured or they are ignored, and therefore we often fail to observe that when the production function has an extremely low input-output ratio, and economic gain is not too obvious, progress is still being made. Also, theoretically, it is impossible to have an agriculture labor of zero value—zero may be approached, but not reached.

Greater value "labor" drained from the farms in the more advanced counties was replaced by more skilled labor. There were also increased yields, farmer credit, and other forms of mobile factor returns. Here "circular causation" found a positive expression, while in the less advanced counties losses were not replaced. Income value returned to these counties was not adequate to compensate for the permanent loss of "surplus" labor to the factories. Agriculture therefore declined still further. The question is, after a long period of stationary equilibrium for some of these counties, how is the economy to be stimulated into a period of growth? The push in these underdeveloped areas must come from the new industry as soon as it can provide the stimulus.

TRANSFORMATION OF THE AGRICULTURE SECTOR
IN FRANKLIN

Those who are concerned with the elements of a modern state must surely be aware that the well-ordered models, which explain the dynamic functions of the advanced economic organization, are not suitable tools for explaining the situation at the point of economic take-off. Needless to say, the savings and investment functions were of no concern on the frontier in the pre-take-off period of economic development. The productivity of capital was not a highly functioning element of the local economy. So the utilized present-day models, in general, are not applicable to today's underdeveloped areas that are also in the pre-take-off state but that are looking for a way out.

It would seem that the idea of investments related to savings, as the prime concern, is a function related only to an advanced economy, and may be balanced by governmental decree. This is the normal approach. In underdeveloped states it is the development of investment opportunities that determines investment decisions rather than income or savings capabilities. Further ". . . productivity is often held back by shortages and bottlenecks and where eliminated may suddenly produce a considerable increase in the productivity of already invested capital." This being so, we have to view economics approaching the take-off stage in a framework different from the normal approach, where balancing may neither be suitable nor be desirable. Then which approach do we use to explain the transformation of traditional agriculture in the pre-1900's in the isolated state of Franklin?

Assume that the goal of all developing states is to arrive at a point of equilibrium in the savings-investment process with an annual growth rate of from 2.5

to 3.0 percent. However, the process of manipulating each of the two sectors, searching endlessly for their balancing points, or bringing them into equilibrium is the problem. Telescoping the process of balancing the two main terminal points can cause trouble, because some of ". . . the factors limiting growth are related not to these terminal points themselves but to the difficulty of connecting them." So the ability to invest is a problem for a developing state because of these limiting factors. They therefore may feel that ". . . the desired step is to move from a point where the dominant growth-limiting factors turn from the ability to invest into the supply of savings." The balancing process may prove difficult even with these efforts. It may mean a slower expansion rate and special fiscal measures may have to be taken: capital loans, reduction of mass consumption, and other forcible actions, in order to maintain the balanced growth. Further, if the savings ceiling is reached, as it often is under these circumstances, and economic growth drops below the ceiling, a crucial time may exist for this reason. Therefore, a viable state may find difficulty in its claim to exist within the concept of "balanced growth," if this theory is accepted.

The above concept is a good one and acceptable if a logical argument did not have to be provided for it. The lack of logical force springs from two main weaknesses. First, maintenance of equilibrium of the two leading sectors is a rarely hoped for situation. Second, the restraints limiting investment are not always released by one pull of the string. These points being considered, the better argument would lead to a different conclusion—that of unbalanced growth.

THE NATURAL PROCESS

Staying in equilibrium is not a part of the natural process. The maintenance of a balanced growth can be achieved by artificially manipulating the various growth factors, which, experience has shown, can get out of hand or at best, eventually become stagnant, and remain so until some induced investment or other inducement stimulates a new period of growth, at which point the growth process becomes unbalanced, because the bottlenecks are never removed at all points along the front at the same time. Staggered growth becomes the more natural process, hence, unbalanced growth. It would appear more logical that the viable modern states should date their origin and development from the point in time in which some restraints were removed to an extent that would create a stimulus at some point along the state's economic front sufficient to launch it into its initial take-off. Traditional agriculture would begin here to be transformed and the beginning of a staggered multi-sector economic growth would be underway.

We observed in the state of Franklin, around the turn of the century, that a continuous state of equilibrium was not acquired as an economic characteristic when this took place. A small beginning in the investment of

local capital, and much later by outside capital, resulted in the advanced counties. Agriculture lagged relatively. Later in these same counties, resulting from a push from the budding industrial nodes, agriculture began to catch up and may have pulled ahead; a process that on the basis of empirical observations and some data may be said to have been underway for some time. It is speculative, but unless the trends and plans are misleading, there is in the future of this area the making of a powerful new thrust of industrial growth that will require a catching-up of the agricultural processes and techniques, which will carry significant momentum to embrace all the peripheral and less advanced counties in its sweep toward a temporary equilibrium of those two leading sectors. Should it ". . . over reach its goal, as it often does, then the stage is set for further advance elsewhere." In a two sector economy, with which we are concerned, the seesaw of advance of unbalanced growth is significant in that it ". . . leaves considerable scope to induce investment decisions and thereby economize our principal scare resource . . . genuine decision making."

Further, the facts seem to point to a transformation of traditional agriculture in the upper Tennessee valley in two stages, the first of which has been achieved. The second, not yet accomplished, is in the process.

The origin of modern states lay in the transformation of those elements involved in their foundation. Agriculture, traditional in character, is the material from which these states are fashioned through being transformed from a relatively simple to a more complex structure. When established in a regional setting, these structures become meaningful and industrial nodes are formed. And the core of the modern industrial state evolves. The character of the periphery also evolves in accordance with its necessary adjustment to the core; being, by nature, the more active element and the pivot of economic growth.

Any modern industrial state, fitted into a regional frame, and endowed with a reasonable resource base, will naturally rest on an acceptable geographic foundation of national power. When the conversion of these resources are involved in the process of staggered growth, this national power can be dynamic and long lasting. Inherent in such a state would lay the valid basis for a declaration of its identity and its natural right to exist among the family of nations.

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