

The Competitive Advantage of Towns: Transaction Costs and Innovation in a Rural Service Town

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Economic transactions are clearly seated in social relationships. Work by economic anthropologists demonstrates clearly how different social arrangements may raise or lower the transaction costs of economic activities and influence people's access to economic opportunities. This paper will draw on ethnographic research in a rural Australian service town to demonstrate the advantages of close-knit, geographically localised social networks in lowering the transaction costs of many basic economic activities (such as accessing services, suppliers, and business information). The paper then reflects upon the implications of lower transaction costs for the efficiency and innovative ability of businesses based in rural service towns. It is argued that, while rural towns are often characterised as "isolated" and thus disadvantaged from an economic standpoint, businesses located in such towns may in fact possess important actual or potential competitive advantages over their metropolitan counterparts.

Introduction

Country towns have traditionally been characterised as servants of their rural hinterland, with the surrounding rural (often agricultural) economy providing their reason for being. The establishment of rural towns as market centres for their surrounding areas is a pattern seen around the world (see Plattner 1989). Such towns provide market centres not just for goods, but also, importantly, for a wide range of services from trades to finance to education – captured in the concept of the 'rural service town'.

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As servants of their rural hinterlands, the fortunes of country towns are linked to the economic drivers of the hinterlands – in many cases, agricultural and pastoral industries. The decline of country towns, in turn, is often attributed to the decline of these traditional industries – which is in turn tied to larger economic processes (Gray and Lawrence 2001). Yet even when these traditional industries continue to do well, country towns may not: new ways of organising economic activity, new transportation and communications infrastructure and so forth, can mean that the services offered by country towns are no longer needed, or needed by fewer and fewer people. Thus, whether victims of adversity or prosperity, rural service towns may find themselves without a role, vestiges of an earlier way of organising economic activity and as such, doomed to disappear (Forth and Howell 2002).

Fortunately for the future of country towns, however, many are more complex than the concept ‘rural service town’ captures. While many towns certainly have their origins as market and service centres for rural industries, it is important to recognise that their local economies evolve over time. Businesses set up to service local rural industries may end up drawing clients from much further afield. Local entrepreneurs may identify new business opportunities, new products, and new markets. Particular resources, from natural assets to cultural characteristics, can attract outside investors or inspire local entrepreneurs, and lead to the start-up of new industries. Over time, the critical mass of people and organisations in rural towns has the potential to create diverse local economies, no longer dependent on servicing traditional rural industries.

Thus we have two narratives about country towns – both of which are common in Australia at the beginning of the twenty-first century. First, there is the disappearing towns scenario, linked with the conventional view of economic development and of the role of rural service economies. Here, globalisation, de-localization, and competition leads to economic and population decline of small towns vis-à-vis regional and metropolitan centres. Then, there is the new towns scenario, associated with entrepreneurial views of economic development and concepts from the ‘new regionalism’, in which innovation, knowledge creation and networking in specific local and regional places leads to prosperity (e.g. Amin and Thrift 1994, Cooke and Morgan 1998, Rainnie and Grobbelaar 2005).

On the ground, Australia’s country towns demonstrate the truth in both of these narratives. Towns are diverse. There is a marked difference between coastal and inland areas, as well as areas with or without major natural amenity, and those in proximity to or isolated from major urban centres (see e.g. Burnley and Murphy 2004, Hugo 1996). Many, particularly among consultants and government departments, also posit that there is great diversity in the ‘attitudes’ or innovative ability of particular towns (e.g. Kenyon and Black 2001), or at least, their ability and/or willingness to comply with externally mandated ways-of-doing-things (Herbert-Cheshire and Higgins 2004).

While resources and attitudes are important, so are the social relationships in which economic transactions are situated. Work by economic anthropologists demonstrates clearly how different social arrangements may raise or lower the transaction costs of economic activities and influence people’s access to economic opportunities (see e.g. Acheson 1994, Avenarius 2002, Cronk and Steadman 2002). This paper explores the economy of a diversified country town, drawing attention to how the social context in which local small businesses operate serves to lower many transaction costs for these businesses. This in turn suggests particular opportunities for businesses based in small towns.

The paper’s argument contradicts certain assumptions, central to the ‘disappearing towns’ narrative, that characterise rural towns as isolated and disadvantaged from an economic standpoint. This case study of a non-coastal, geographically isolated town in a traditionally pastoral and agricultural region, shows how focusing on the social context of economic activities in country towns – including institutional arrangements and cultural meanings – can shed light on why some towns are able to diversify successfully. It is argued

that the social context of country towns can incubate economic activities with important actual or potential competitive advantages over their metropolitan counterparts.

Michael Porter's classic *The Competitive Advantage of Nations* (1990) suggests that place is an important ingredient in economic development, as the clustering of related industries in a particular local place can create a strong source of competitive advantage vis-à-vis other places. His ideas about related clusters of businesses learning from one another, lowering transaction costs for one another, and creating a competitive-cooperative environment favourable to entrepreneurial activity are now echoed in a wide literature on the new regionalism, learning communities, and the economic benefits of so-called social capital. All point to the importance of the specific social and cultural contexts in which economic transactions take place, thus entering a terrain of longstanding interest to economic anthropologists.

When considering change and diversification in Australia's country towns, this focus on the social and cultural contexts of economic transactions is quite useful. Clearly, different towns have different economic landscapes. Why do some seem to prosper while others decline? Is it merely a question of having a more or less favourable natural resource base? Or, taking a more nuanced view, we can look to the many 'capitals' that a town may possess – not just natural, but also human, social, institutional, and so forth – to explain why some towns thrive and others do not (Cocklin and Alston 2004). Still, 'capital' is a static concept, and in the end, it is the dynamic interrelationships among people, organisations, and resources that create the economies of towns. The economy is, as Booth (1994:663) succinctly pointed out, 'something that we do, that involves us in certain patterns of relations with our fellow human beings and with nature.'

Hamilton – A Changing Country Town

This paper takes as a case study a rural Victorian service town, one which is located in inland Australia and not closely tied to a major metropolitan or regional centre. Hamilton has a population of approximately 10,000 people, though estimates vary; while the last census (2001) reported 9,128 people, locals will tell you that the town has grown noticeably since then. The town has long acted as a service centre for the area's strong pastoral industry (primarily sheep/wool), but now has a strong and diverse economic base. Local industries include manufacturing (notably tools), services (particularly strong education and health sectors), and diversified primary production and value adding (broadscale cropping, speciality niche-market agriculture, plantation forestry and, recently, mineral sands mining, in addition to the area's longstanding pastoral industry). The town has a prosperous retail centre, a booming property market, and a diverse assortment of small businesses. Strong employers are the retail, health/community services, manufacturing, education, property/business services and agriculture/forestry sectors (DSE 2003).

An overview of economic change in Hamilton in the past decade demonstrates its successful transition between the two scenarios identified above: from the declining rural service town, to the diversified 'new' rural town. This transition from economic stagnation to economic dynamism is clearly apparent in local people's own characterisation of how Hamilton has changed in recent years. Residents frequently describe how, only a few years ago, many shops in the main street were empty, local real estate sold at rock-bottom prices, and the struggles of the region's wool industry were having an unmistakable impact on the fortunes of the town. With the end of the centralised wool purchasing scheme in the early 1990s, a collapse in wool prices, and the imperative for wool growers to cope in competitive international markets without subsidisation, Hamilton appeared to be following the pattern of the declining rural service town, a victim of what Gray and Lawrence (2001) have called rural Australia's 'global misfortune'.

The region's wool industry has, however, survived these challenges, and the town of Hamilton has moved from being a declining rural service centre to, in the words of one local

business person, ‘a place where things are happening’. The reasons for this town’s turnaround are neither simple nor straightforward. Hamilton has always gone through good times and bad times, and experienced earlier periods of economic diversity – including the founding of a major airline in the town (see Garden 1984). The current turnaround was certainly assisted by the town’s existing built and institutional capital, developed through years of prosperity and local philanthropy; Hamilton has considerable amenities, including four secondary schools, an art gallery, performing art centre, attractive main street, and other facilities and organisations to an extent somewhat unusual for a town of its size. Natural assets also played a role in the development of two new industries in the region – plantation forestry and mineral sands mining and processing – though both State and national government policy decisions also had important influence here (see Mercer and Underwood 2002:111, and Eversole and Martin in press).

Most clearly, however, it has been the actions and interactions of local and outside people and organisations, making use of available resources and opportunities, that have led to the establishment of new businesses, the revival of the town’s main street, the influx of new residents, and Hamilton’s escape from the declining-rural-service-town scenario. The key, as some residents have articulated, is diversification: new industries that help avoid close reliance on a single industry like wool. In the words of one local resident from the agricultural sector, ‘farmers know that diversification has been a good tool to manage commodity risks’; thus a new industry like mineral sands mining represents an ‘exciting economic development, a diversification of the area from traditional agriculture’. Several local people, reflecting on new industry in and around the town, noted the importance of such diversification for increased ‘stability’ as well as ‘confidence’ and ‘growth’ in the local area.

Hamilton’s transition from declining service town demonstrates that rural service towns – even inland rural towns with no close ties to major urban centres – can develop strong and diversified economies. And while it is easy to attribute this to particular circumstances favouring Hamilton, such as the entrance of two major new industries in recent years, the fact is that much of this change pre-dates the advent of the mineral sands industry (which is just starting operations in 2005) and cannot easily be linked to the plantation forestry industry. While the latter has apparently had a role in stimulating local property markets (to the extent that housing affordability is becoming a serious issue), its impacts on employment and other aspects of the economy have been minimal, as it has not yet entered the value-adding phase. It can, of course, be argued that new industries have boosted confidence in the local economy, as locals anticipate the effects these industries may have in future. Nevertheless, there is more to the picture of this changing rural town than the arrival of major industries from elsewhere.

The next section takes a close-up look at the experiences of local business people to understand, in greater depth, the social and cultural context of the Hamilton economy. The data and observations in the following section strongly suggest that there are particular advantages to running a business in a country town such as Hamilton – advantages which go beyond this town’s particular circumstances to embrace more general characteristics of country towns. These tend to create lower transaction costs, and potentially greater innovative potential, for local businesses. This, in turn, suggests that country towns have important, and often unrecognised, resources that they can draw upon for developing strong and diversified local economies.

Economic Activity and Transaction Costs in Hamilton

Ethnographic observations¹ during two years as a resident of Hamilton suggested something interesting and unexpected about the local economy: that in Hamilton, despite its small size and relative isolation, it was remarkably easy to get things done. Errands and

¹ Ethnographic methodology is commonly used in anthropological research; it involves immersion, often long-term, in a particular social setting as a participant-observer, and documenting one’s observations.

shopping were fast and efficient, with most businesses located within a five-minute radius. Retail businesses were diverse, and while they did not keep the variety of floorstock available in the larger centres, there was very little for the home or office that was unavailable along the town's two central streets. Most services were as easy as a phone call, prompt and reliable, and many were owner-operated. Locals generally knew instantly who to call or where to go for even the most obscure item or service, and they referred to owners and staff on a first name basis, expecting and getting personal service. Even a newcomer could tap into the advice of acquaintances and begin to weave networks through the amazingly user-friendly economy of Hamilton.

Something about this small town was different from the larger regional and metropolitan centres where I had lived. *Transaction costs* was the term that immediately leapt to mind, used often by economic anthropologists in their explorations of the social and cultural contexts of human economic activity (see e.g. Acheson 1994). Transaction costs are the costs, in time, money, risk, and so forth, of carrying out economic transactions. Economic anthropologists, as well as new institutional economists, recognise that certain institutional arrangements, formal and informal, raise transaction costs, while others lower them (North 1990). By paying close attention to the social and cultural context of economic transactions, economic anthropologists are able to identify how different local ways-of-doing-things ultimately impact the cost, and thus the efficiency, of economic activity.

In Hamilton, it seemed, transaction costs were low – it was easy to get things done, easy to find information, easy to resolve problems. A combination of close social networks, businesses built on the personal reputations of their owners, and physical concentration in a small geographic space, made it easy to do business in Hamilton. This in turn had some interesting implications. If transaction costs were, in fact, low for local businesses, did not this imply that these businesses were (actually or potentially) quite efficient? What did this mean for their potential competitiveness vis-à-vis businesses in larger centres? Could the businesses in country towns be leveraging their personal networks and geographic proximity to create strong economies characterised by information sharing, learning, trust and low transaction costs? Might there be, in the end, an actual or potential competitive advantage of rural towns as places to do business?

It became desirable to approach local businesses and gain their perspectives on these issues. A small preliminary study specifically focused on businesses that had been operating in Hamilton for a significant length of time – most, for over twenty years. These businesses were not children of recent boomtimes, but had survived both the highs and the lows of the Hamilton economy. I also chose to focus specifically on the trades rather than retail business, as these are less visible (many operate from home or from workshops in outlying areas of town), and thus, their prosperity or decline less easy to gauge from casual observation. Trades are also a central component of any rural service town, so their experiences are more generalisable than other kinds of businesses more specific to the local area.

All of the businesses in the study were Hamilton-based and locally owned. Interviews were with owners or former owners, both male and female, at their place of business (often, the home).² The following sectors were included: refrigeration, metal fabrication, the building trade, electrical, and general handyman work. All were owner-operated businesses with fewer than five employees – some with no outside employees at all. The interview script introduced the concept of transaction costs and asked informants to comment, in an open-ended conversation, on both the advantages and the disadvantages of doing business in Hamilton, particularly as compared with larger centres; to compare their experiences doing business in Hamilton with any experiences they may have had elsewhere; to compare the relative merits of doing business with locally based or out-of-town businesses; and to present

² Men were generally specialised in the trade in question, while women tended to handle the bookkeeping/administration end of these businesses – sometimes in addition to other employment or some limited involvement in on-site work.

a general assessment of whether, overall, it is ‘a disadvantage or an advantage for your business to be located in Hamilton, as opposed to in Melbourne or a regional city like Ballarat or Geelong.’

Respondents identified a range of advantages to doing business in Hamilton, most linked directly to its status as a small country town. Their observations of these advantages fell roughly into the following categories:

- ease and flexibility of dealing with local businesses;
- ease in obtaining and keeping clients, and consequently less need to advertise;
- knowledge of clients and workers and their reputations; and
- ease of access to work, with little need to spend time in travel.

These resulted in lower transaction costs, as well as lower risk, for these businesses.

Respondents also identified a few disadvantages to doing business in Hamilton. These were not, however, perceived as serious disadvantages, and often explained away as ‘not a major issue’. Disadvantages mentioned were:

- some parts/materials not available locally;
- finding and retaining apprentices and qualified employees could be difficult; and
- lack of flexibility in work schedules (a limited ability to switch from job to job).

These disadvantages tended to raise transaction costs, however their impact was not as great as expected. While skills shortages were mentioned, most businesses did not identify them as a serious problem, probably due to the fact that the particular business people interviewed employed few or no staff. Meanwhile, business people spoke favourably of available transport arrangements for parts and materials, which helped lower transaction costs considerably, compensating when these items were unavailable locally:

“From Melbourne services are good now, you usually get (parts) overnight”

“Depending on the size and quantity of what you want ...(from Melbourne) it’s not unrealistic to get it the next day.... In Melbourne you might get it the same day. But next day...is pretty good service...(and) the cost of getting material to you is negligible.”

“Warrnambool (regional centre about 100 km from Hamilton) can keep a very good range and if they haven’t got it, it’s usually a day or two and it’s back here. So not a problem in that area.... Say you have a breakdown, if you rang Warrnambool that night, you can have it up here by 9: 30 in the morning... and that’s all freight paid.... One really good thing being in a country area is that the transport/delivery is second to none.”

The issue of lack of flexibility in work schedules was raised by a builder:

“A lot of people in Melbourne, they might have four homes going at once, so if the plumber doesn’t turn up to that one, (the builder) can go and do something else on another house... (whereas in Hamilton, the business) can have two or three going, but not at all the stage where if the plumber doesn’t turn up to that one today he can go to that one...they’re all sort of totally different jobs.”

On a few points, local business people were not always in agreement as to whether a particular circumstance was an advantage or a disadvantage. Earnings, for instance, were identified as lower in a country town – but so were wages and the cost of living. Personal relationships with service-providers and clients were clearly an advantage in many cases, yet they also had drawbacks. And while the economy of Hamilton was seen as quite stable by some, others observed that it was still more susceptible to economic ups and downs than major metropolitan areas.

Overall, the interrelationships among businesses in Hamilton appear to be tight, with businesses often supporting one another – though not to the exclusion of using suppliers and services from elsewhere when necessary. A local informant observed, for instance, that one local tradesman who advertises with a local radio station, in turn receives regular work from the radio station’s owner. Most businesses are able to source the majority of their labour and supplies locally, and many express a preference for dealing with local suppliers and tradespeople:

“I use the same tradespeople all the time too, like an electrician or a plumber, I’ve got two plumbers that do my work, and electrician, I’ve got one or two blokes that you just ring them, if one can’t do it, the other one will do it.”

“We only mainly deal with suppliers (plumbing, hardware, etc.)...which you find quite good here in Hamilton – so we don’t have to source product from out of town.”

“(I) just work from stores here, they’ll order it, in whatever I want.”

“(We are) primarily dealing with everybody we can as locals. If there’s anything we can’t get here that we can get elsewhere, usually it’s Geelong...but we only use those if we can’t get what we want here.”

“All our subcontractors and things are all local ... we have used a couple (from elsewhere) ... when ours have been busy, but most of the time we deal locally, we think, we’re trying to run a business in Hamilton, we should be supporting the local people as well.”

Close interrelationships among local businesses, characteristic of industry clusters (Porter 1990) or of the strong regional networks among businesses discussed in the ‘new regionalism’ literature, seem to be operative here.

Overall, the business people interviewed assessed Hamilton as a good place to do business. As one put it, ‘It’s an advantage to run your own business in the country. The drawbacks aren’t that much.’ Business for all appeared to be booming:

“With Iluka starting their mineral sands mine up – even before that, the town seemed to be reasonably positive...people spend money...it goes in a big circle. We’ve been busy the whole time we’ve been here...we’re looking at putting another person on now.”

An electrician who has run a business in Hamilton for twenty-eight years noted that even before major new industries came to town, Hamilton was a good place to do business. He recalls an overwhelmingly positive experience, even during past economic downturns that affected many local businesses. For him:

“work never ever ceases..... I think Hamilton’s a very stable farming area, and once you get in with people here, you’ve got a good solid base, and people are very faithful to you, if you look after them and are reliable and do everything as they require.... I’ve worked here for 28 years and apart from three weeks only a couple of months after I started contracting, I had three weeks quiet, but apart from that, I’ve worked more Saturdays than I’ve had off.”

The client base for these businesses was primarily local people and other locally owned businesses, but it also included clients from outside the area, as well as the local branches of large national and international companies. Experiences with these larger companies varied, but were mostly quite positive.

Hamilton business people’s responses confirm that in many ways, the social and cultural context of the Hamilton economy lowers the transaction costs of doing business. The

ease and flexibility of dealing with other local businesses, from tradespeople to suppliers, was a frequent theme; here, economic transactions were facilitated by personal relationships and local knowledge, resulting in saved time, greater flexibility and less risk. As some of these business owners observed:

“If we need a tradesman, like an electrician or a plumber, that we don’t employ ourselves, normally we can get them at pretty quick notice.”

“You get to know the tradesmen, you get an understanding with a tradesman, if you say you need someone quick (they will oblige).”

“You know who’re the people that you’re dealing with.... When you’re ordering – if you need it in a hurry, they’ll look after you.”

“It’s easier to handle anything here because you know people...for good or bad.... You know the ones to steer clear of.”

The close social networks of a small town also influence relationships with clients, in a way that local businesses portrayed as advantageous. Both clients and businesses become known by reputation, meaning that established businesses tend to acquire clients easily, spend little on advertising, and avoid the risks associated with problem clients:

“It’s a small town – you know who’re the people that you’re dealing with.... You know ...if you’re going to get paid...(and) if they’re an organised person.”

“.... I got caught in the early stages with some local people, but as you get more and more known, and more and more experience, those sort of people seem to drop away. I think I’ve got an enviable clientele.”

“I think it’s probably easier (to run a business in a country town) insofar as people know you better. And I find that commercial advertising is virtually of no use, except for information only, because people, even if they come across your commercial advertising, they’ll still ask others for a recommendation. And even if they use your name as a possibility, they’ll still look for confirmation (of) reliability and quality of workmanship and so forth.”

“You go back to the same people and do work for them, so people get to know the people and that’s it, in a city they wouldn’t do that.... If you’ve done work for them before, they’ll keep ringing you back....I don’t advertise much at all now, just as I said before, I keep working for the same people over and over again.”

“Here, you’ve got your little networks I suppose. (We) know so many people, and then (a competing business) would know so many other people, so it sort of works in little circles..... Most of the (clients) will have heard from somebody that knows us...not very often you will get somebody who says I looked up in the yellow pages and chose your ad.... Someone will come in that you don’t know, but they’ll say oh such-and-such told us to give you a call. I find that happens, look, 98% of the time.... That’s probably easier, you don’t have to chase a lot of work here, a lot does come to you, because people know you.”

In addition, the geographic concentration of a small town like Hamilton can be a distinct advantage, as clients, suppliers and other businesses are generally located in close proximity:

“Getting to jobs in Melbournetakes longer – two hours to get to a job, that’s not an issue in Hamilton.”

“By the time you left a job in Melbourne to go and get something, it could be an hour or an hour and a half before you’re back at that job...the distance would probably be an advantage here...if you’re just working in town it takes you 2-3 minutes to get anywhere...you’re not gone from the site for a long period of time.”

Nevertheless, some businesses noted that they did travel quite a bit when servicing smaller towns and properties in the surrounding district. They did not, however, see this as a particular disadvantage, as travel would be necessary in larger centres as well.

Conversations with businesspeople in Hamilton also suggested that transaction costs were not only generally low for themselves as business people, but that in turn, they were low for their clients. It was suggested that clients received a flexible local service, with low risk:

“There aren’t many of those (untrustworthy businesses) in the country or they wouldn’t be in business.... In the city you can advertise and be two or three suburbs over, and no one knows you.”

“Usually the old people who just want something done, they’ll just leave a message (at the local shop) and you’ll pop in when you’re in the town and sort them out, but other people who want bigger work done they’ll ring up and book a time and make sure I’ve got the time on that day to do it, or another day.”

A local resident confirmed the impression that transaction costs were lower in the country for clients like herself; in the city, she remarked, it was necessary to be at home when tradespeople visited, to take leave from work to do so, and even to take further leave if the tradesperson did not show up at the scheduled time. In a country town like Hamilton, however, this is not necessary; keys are simply left under a mat or in a letterbox, and the tradesperson is trusted to get on with a job without supervision.

Business people also suggested that the standard and cost of services they provided were easily competitive with the standard and cost of similar services in larger urban centres. One couple, for instance, gave the example of a client who had been very impressed because the handyman, having finished his job, took the time to tarp over a roof to protect the building from rain:

“(The client was) really impressed with him. In Melbourne they wouldn’t care less.... In the country they do...in the city they don’t look after each other or just do that little bit extra.”

“It’s hard to gauge, but I think our prices here are very competitive, compared to what I’ve noticed in some of the bigger cities, I think we do even better than what they do there... probably because we’re a smaller area and more visible, and also Hamilton is such a vibrant community, that (wholesalers) are looking for a bite of the cherry and they’re willing to supply...and get it to us at a reasonable price.”

Overall, transaction costs tend to be low for these Hamilton businesses and their customers, allowing local business to provide services which are both efficient and competitive. It is unclear, however, from this small preliminary study the extent to which this might apply to Hamilton as a whole. However, ethnographic observations of local businesses, particularly the vibrant retail sector, at least suggest that this could be the case.

What is less apparent is the impact which this low-cost, low-risk environment has on the innovative potential of local businesses. In theory, circumstances of high trust and fluid flow of information among businesses should create the conditions for considerable innovation; however, no specific evidence of this emerged in the interviews. Rather, business people tended to express high levels of satisfaction with their current arrangements: prosperous, busy businesses, and the rural lifestyle they prefer.

Economic anthropologists have long observed how social and cultural norms influence economic transactions, and how economic activities are always 'embedded' in particular social contexts. The literature on industry clusters, new regionalism, and the importance of social capital for economic success, has also begun to capture this idea of the social and cultural embeddedness of economic activities. Nevertheless, it still displays a marked tendency to overlook local values and priorities and emphasize externally-determined norms (e.g. definitions of economic success). This recent, non-anthropological literature also frequently expresses a naïve enthusiasm for social relationships and networks. Clearly, there are disadvantages as well as advantages in having close, long-term and high-trust relationships with other business owners and clients:

“Knowing people, it’s a bit harder to chase money.... Because you know people, you know their families.”

“People that don’t know you as well, think, right, well I (said) I’ll be there at 10 o’clock...I’d best get there at 10 o’clock if I want any more work from him, whereas the other people are friends, so they’ll just ring you up and say... I’m going to be late, or I can’t get there today, and that can be frustrating, really frustrating.”

“In the country you’ve got to be prepared to do a lot of work that you’re not really interested in, or that isn’t really cost effective, but you do it because you’re providing a service (and it may lead to more work) in future....”

Ethnographic observations in Hamilton indicate that businesses can benefit from, but can also suffer from, their social networks. In one outlying town, for instance, some residents will not patronise a local shop because they disapprove of the social behaviour of the shop’s owners. And of course, businesses based on personal networks can present a challenge for newcomers – Hamilton, for instance, has a reputation for being somewhat ‘closed’ to outsiders. Nevertheless, business owners not native to the area noted that they were able to develop their networks through others (business partners, clients, spouses), and all now felt that they knew many people locally.

Conclusions: Implications for Innovation and Competitiveness in a Rural Service Town

This paper has drawn on research in a rural Australian service town to demonstrate the advantages of a country town’s close-knit, geographically localised social networks in lowering the transaction costs of many basic economic activities. This preliminary study, consisting of ethnographic observations and a small number of interviews with local business people, has suggested that many kinds of economic transactions in Hamilton are easier, more flexible and less risky because they are located in the social and cultural milieu of a country town, thus significantly lowering transaction costs for local businesses and consumers. These low transaction costs may present a competitive advantage for country towns like Hamilton vis-à-vis competitors in larger urban centres, as small town businesses are able to efficiently provide a similar – or even higher-quality – service at lower cost.

These findings contest the stereotype of country towns as isolated and difficult places to do business. In the contemporary context, where local networks are closely linked to larger networks through information and communication technology, frequent travel, and migration, the traditional disadvantages of rural locations may be considerably lessened. At

the same time, their unrecognised benefits are beginning to be explored. As suggested by the literature on 'new regionalism' and related work on the importance of place-based social networks and social capital in economic success, country towns like Hamilton demonstrate some of the concrete advantages – as well as disadvantages – of doing business in a tightly knit, high-trust social context.

Nevertheless, it is unclear to what extent low transaction costs and free flow of information in these social networks are fulfilling their potential to create an environment conducive to economic innovation in country towns. Certainly, some businesses are innovative, but it is difficult to argue at this point that a small-town environment is more conducive to innovation than a larger urban environment. In fact, currently fashionable theories of the 'creative class' (Florida 2002) would tend to suggest the opposite – that a tendency toward greater social conservatism in country towns would tend to squelch innovative initiatives.

Yet a stronger argument would seem to be that in the micro-economies of country towns, connections are easy to see, information is easy to obtain, and that low costs and strong social support create a potentially very nurturing environment for innovation. Some of the highly innovative, if generally underresourced, ideas put forward by community committees in country towns under government pressure to 'reinvent' themselves, suggest that there is certainly no lack of innovative ability in small places. The key question may therefore be, not 'Are country towns innovative?', but, What kinds of innovations take place there, what motivates innovation – and do local innovations take the form that outside observers desire or expect?

In the end, a bird's eye view of rural Australia suggests that at the turn of the new millennium, at least some country towns are moving away from the stereotype of the declining rural service town to create diversified local economies. While a range of resources may contribute to this process, the social context of small town economies themselves can play an important role. Small scale, geographically localised, with strong inter-personal networks, the small town environment may offer lower transaction costs than larger centres, facilitating a range of economic activities and increasing the competitiveness of rural businesses. Thus, while the fortunes of particular country towns will always depend on a constellation of factors, it is possible to offer considerable encouragement for their future. Recognising the advantages of country towns, both actual and potential, affirms the observed ability of some such towns to develop strong and diverse economies, and offers the encouraging prognosis that a rural lifestyle and economic well being are by no means mutually exclusive.

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