

ECONOMIC BRIEF NO. 26

# Recovery from Economic Disaster

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This series of economic briefs explores fundamental concepts in economics and community and economic development.

The invisible hand is the economist's fanciful name for the self-correcting market processes that turn disasters into opportunities and direct resources into their highest and best uses. These processes have important implications for all declining small towns.

Empty storefronts, falling house prices, lots of experienced workers who can't find work locally and are reluctant to move are all personal trag-

edies, but to the market, they represent opportunities. If rents on the storefronts and prices on houses are low enough, someone will see their potential. If the workers are good enough and cheap enough, employers will see an attractive locational site.

the invisible hand is evident in places like Ware Shoals. When the Riegel textile plant closed in 1981, Ware Shoals could have turned into a ghost town. Almost everyone in town worked for the mill. The sprawling empty mill stood right in the middle of town. Three years later, a fire turned the middle section of the mill into a burned-out hulk.

Predictable changes followed. Population declined, stores stood empty, prices of houses fell. It didn't look like this town of 2,500 people had much of a future.

But the fortunes of Ware Shoals have been turning around. In April 1997, the town celebrated the opening of its first chain restaurant, a Burger King. There are also new housing developments. There are still empty storefronts, but there are more stores than ten years ago. The town is working to combine the city and high school libraries into one facility. The annual Catfish Festival draws some remarkably large crowds.

So, how did the invisible hand manage to turn things

around?

The invisible hand capitalizes on opportunities created by cheap rents and low housing prices. But even the invisible hand needs tools with which to work. Ware Shoals had two assets: location on Highway 25 just fifteen miles from Greenwood and good local leadership.

Greenwood and Highway 25 just north of the city are both bustling with industry. Ware Shoals offers the attraction of a small, quiet community with inexpensive housing at a convenient commuting distance. So, the invisible hand is quietly leading people who work in and around Greenwood to Ware Shoals, as well as to Donalds and Hodges, where they can enjoy small town ambience and low living costs.

Good leadership meant developing a festival, finding uses for empty buildings, attracting small firms, and building community pride that kept people from giving up and moving away.

Not every declining town has Ware Shoals' location and leadership to reverse downturns. But if Ware Shoals, which lost jobs for 80 percent of its labor force when Riegel closed, can begin to turn things around, who knows where the invisible hand may strike next?

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The invisible hand may not work fast enough or thoroughly enough to suit the needs of everyone living in a declining town, and it won't work for every place. But the work of