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THEME OVERVIEW: RURAL WEALTH CREATION

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Promoting rural wealth creation in the United States is a high priority of the U.S. Department of Agriculture (USDA) and of a growing number of rural development organizations. Secretary Vilsack argued in 2009 that USDA "must help rural communities create wealth so they are self-sustaining, repopulating and thriving economically", and this is one of the four goals of USDA's current strategic plan—with the word "prosperity" replacing the word "wealth". Achieving sustainable prosperity requires creating and maintaining wealth, broadly defined (Arrow, et al. 2010; Pender, Marré, and Reeder 2012), so this change in wording does not change the importance of rural wealth creation to achieve this goal. Many community and rural development organizations and researchers have advocated an asset-based approach to community and rural development in the past few decades.

Although the concept of rural wealth creation is attracting substantial attention among policy makers and development funders and practitioners, research on this topic has been limited. There are large and growing literatures on some types of assets and their relationship to rural economic development, such as human, natural and social capital. However, there has been much less research that applies a framework incorporating multiple types of assets to investigate the interactions and dynamics of investments in different types of assets, and how these concepts can be measured. Recent work by leading economists has sought to measure the comprehensive wealth of selected nations, but the concepts and methods in this research have not yet been taken up in research on rural areas of the United States.

To take stock of what is known about what constitutes wealth in rural areas, how it can be created and maintained to improve rural livelihoods, and how progress in creating it can be measured, and to initiate an ongoing dialog and research effort, the USDA Economic Research Service (ERS) and the Ford Foundation co-convened a National Conference on Rural Wealth Creation and Livelihoods in Washington, D.C. in October 2011. Nearly 170 rural development practitioners, researchers, policy makers, funders and others concerned with these issues from all parts of the United States participated. The articles presented in this theme are based on some of the best research discussed at the conference.

In this overview, we briefly define the concepts of "wealth" and "wealth creation", explain why a focus on wealth creation is important, discuss recent efforts to promote rural wealth creation, discuss what is known from past research about rural wealth creation, and introduce a conceptual framework for rural wealth creation and the theme articles.

What Is Meant by "Wealth" and "Wealth Creation"?

In common language, the term "wealth" often connotes ownership of money and other financial assets, net of liabilities. Economists and statisticians often refer to wealth as the net value of marketable assets, including physical assets such as houses, land, and equipment, as well as financial assets. More recently, some economists have defined and sought to measure broader wealth concepts. For example, Nobel laureate Kenneth Arrow and colleagues define "comprehensive wealth" as "the social worth of an economy's entire productive base," which "consists of the entire range of factors that determine intergenerational well being." Others, such as the World Bank, refer to "intangible wealth" beyond measurable physical, financial and natural assets, arguing that this concept represents the "dark matter" of economics: assets not easily observed and measured but which account for much of the variation in economic performance across nations.

We also define wealth comprehensively, as the stock of all assets net of liabilities that can contribute to people's well-being. However, we don't use the term "social net worth," which suggests that all types of wealth can be measured using a single monetary metric. Nor do we assert that wealth includes all factors that determine well-being, since some factors that determine people's well-being are beyond their control—such as the amount of energy provided by the sun—and because investments in wealth do not necessarily improve anyone's well-being. Improvements in well-being depend on how the wealth is used and how the costs and benefits are distributed.

Wealth includes productive assets, such as business plant and equipment, as well as assets that are valued primarily for direct consumption benefits, such as durable consumer goods. We focus in this theme on multiple types of wealth, referred to as "capitals". In recent decades, many scholars and development practitioners have argued that other forms of capital beyond marketable financial and physical assets are important for economic development, including "human capital"—resources embedded in people, such as education, skills and health; knowledge or "intellectual capital"—distinguished from human capital because it is not tied to any specific individual; "natural capital"—renewable and exhaustible natural resource stocks affected by human activities; social capital"—features of social organization that facilitate coordination and cooperation for mutual benefit; "cultural capital"—people's understanding of society and their role in it, and their values, symbols, and rituals; and "political capital"—the ability of a group to influence the distribution of resources within a social unit (Pender, Marré, and Reeder 2012).

All of these types of capital can be accumulated or depleted as a result of investment and consumption decisions and can contribute to the well-being of people. These characteristics make this broad set of assets important for economic and community development, even if not all of these are marketable or easily measured.

"Wealth creation" involves investments in increasing this broad array of assets. If all types of wealth can be aggregated into a single comprehensive measure, wealth creation simply means an increase in this comprehensive measure. However, if some types of wealth cannot be substituted by other types of wealth—as argued by proponents of a "strong sustainability" perspective—it may not be feasible or advisable to attempt to measure comprehensive wealth by a single measure. In this case, it may not be possible to say whether wealth was created or destroyed in aggregate; only whether particular types of wealth were created or destroyed.

Why Focus on Wealth Creation?

Since wealth is the stock of assets that can contribute to people's well-being, increasing wealth is important for increasing well-being. However, wealth creation in aggregate may not improve the well-being of all people in a community. This depends upon the distribution of wealth ownership in the case of private wealth, or more generally, the distribution of costs and benefits among community members and whether the social benefits of the investment exceed the social costs. These impacts depend upon many factors, such as uncertainty about the benefits and costs of the investment, who is making the investment, who is entitled to the flow of benefits from it, and the costs and benefits that the investment may impose upon non-investors.

Although increases in aggregate wealth may not be sufficient to improve the well-being of everyone in a community, increasing wealth is necessary to sustainably increase well-being. For example, communities in a mineral rich region may increase their incomes by mining these resources, but unless sufficient proceeds are invested in other assets, such increases in income may be temporary. Furthermore, since people's income and consumption prospects depend upon their wealth, long-term solutions to poverty require efforts to generate and use wealth effectively.

Recent Efforts to Promote Rural Wealth Creation

Creating wealth has long been a pursuit of regional and rural development policies and programs. For example, in the New Deal era, the Tennessee Valley Authority promoted regional development through investments in dams and other physical infrastructure. The Appalachian Regional Commission (ARC), begun as part of the "War on Poverty" in the 1960s also has had a strong commitment to investment in infrastructure, particularly highways. USDA's rural development programs have for many years supported investment in energy and telecommunications infrastructure, community facilities and rural housing, among other assets. Other types of capital have also been developed through such programs, such as human capital through education and training programs, natural capital through environmental conservation and restoration programs, and social capital through support for cooperatives and other types of civic organizations.

Although the idea of investing in multiple types of assets is not new, in recent years several programs have increased their emphasis on development strategies that build on the multiple kinds of assets that exist in particular regions and communities, take advantage of synergies among different assets, and respond to local priorities. For example, the ARC has embraced an "asset-based development" approach, emphasizing investment strategies that build upon the cultural, natural, physical, and leadership assets of Appalachian communities. Examples of ARC supported asset-based development projects include development of cultural and heritage tourism along the Bluegrass Heritage Music Trail in Virginia—the "Crooked Road", tourism development in Gateway Communities to the Blueridge Mountains and the Great Smoky Mountain National Park, and rehabilitation of an industrial brownfield site in Pennsylvania into a modern industrial park and business incubator. Each of these projects builds on multiple types of existing assets and invests in multiple assets.

The Ford Foundation is supporting wealth creation in three high poverty regions of the United States—central Appalachia, the Deep South and the Rio Grande Valley—through its "Wealth Creation in Rural Communities - Building Sustainable Livelihoods" program. The Foundation's approach is based on four principles: 1) focus on place by working with assets on the ground that are accessible; 2) encourage collaboration to share resources in order to develop the capacity to connect producers to viable regional or national markets; 3) understand and contribute to all components of wealth in a community; and 4) emphasize local ownership of wealth as a practical means of maximizing benefit to a community from the utilization of local resources. This approach emphasizes helping value chain intermediaries to identify, explore, and construct value chains that expand livelihood opportunities for low-income rural residents. Because the approach is demand driven—but also builds on local assets that determine communities' initial capacity to meet the demand—local producers have the opportunity to work with the market sector to create reciprocal relationships that benefit all parties. Value chains are constructed in such a way as to enhance and create seven forms of community wealth that are seen as critical to family and community well-being: individual—synonymous with human—capital, built—synonymous with physical—capital, and intellectual, social, natural, political, and financial capital. Using a wealth creation framework is meant to facilitate understanding of the impacts of value chain development on the total wealth of a community, in order to ensure that wealth is truly being created rather than being simply exploited or transferred from one pocket to another.

Federal Government agencies are promoting rural wealth creation through several regional development initiatives. For example, USDA's Regional Innovation Initiative is targeting 5% of the funds in 10 existing programs to support regional pilot projects, strategic planning activities, and other investments to improve rural economies on a regional basis. In the past few years, funds have been provided to seven multi-jurisdictional regions in different states to support regional planning activities focused on creating wealth, improving the quality of life and growing the regional economy. These planning activities have focused on developing regional food systems, renewable energy, ecosystem services markets, and other opportunities. Other Federal agencies, including the Departments of Housing and Urban Development, Transportation, and the Environmental Protection Agency are promoting regional planning for efforts to improve land use, transportation, and environmental quality through the Partnership for Sustainable Communities; involving several predominantly rural regions and investments in multiple types of assets. Other Federal and State initiatives are also promoting job and wealth creation in several rural regions.

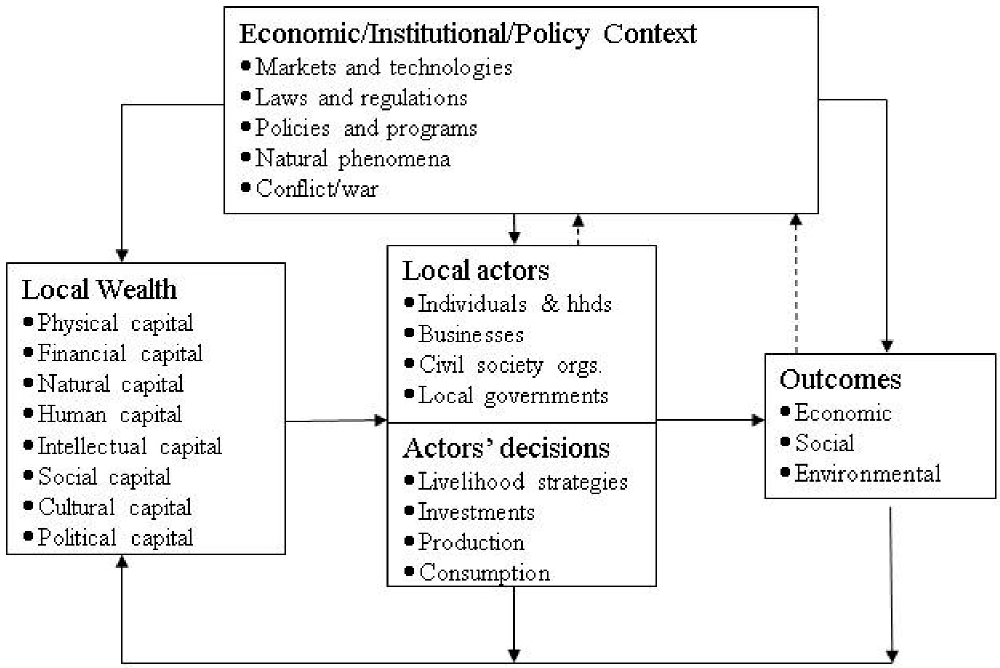
How Much Is Known from Research about Rural Wealth Creation?

Scholars who have focused on development in rural America have tended to concentrate research on movements of people and firms, and changes in income and income poverty. Rural researchers have tended to focus on deficits and problems rather than assets, and have emphasized jobs and neglected broader livelihood strategies and wealth creation.

The domestic and international rural development literatures have developed frameworks over the past few decades that focus on sustainable livelihoods for rural populations, particularly those living in poverty. These frameworks examine how increases in well-being and reductions in poverty for rural populations can grow out of livelihood strategies for the rural poor that involve institutional and organizational interventions that mobilize rural "capitals" within their particular historical and economic context. A conceptual framework for rural wealth creation that draws upon this literature is provided in Figure 1 (taken from Pender, Marré, and Reeder 2012).

This framework emphasizes that wealth creation is a context-dependent and dynamic process, with the economic decisions made by local actors in rural communities—households, businesses, local governments, and civic organizations—affected by their endowments of different types of capital and by the local economic, institutional and policy context. These decisions lead to economic, social and environmental outcomes, some of which feed back to change the asset endowments of communities and their members. This process results in multiple possible dynamic pathways of changing wealth and well-being, such as sustainable growth paths involving accumulation of a broad set of assets and improving living conditions; downward wealth-based poverty traps in which overall wealth is depleted; and transitional paths in which some types of wealth are depleted and the proceeds invested in other forms—for example, investing rents from depletion of mineral resources to develop physical and human capital. Over a longer time frame and broader regions, the accumulation of decisions and outcomes in particular communities can change the underlying context, leading to further dynamic prospects.

Figure1: Conceptual Framework for Rural Wealth Creation



Research on rural wealth creation in the United States has only begun to draw on such frameworks. A substantial body of empirical research has investigated the impacts of particular types of capital on rural development processes or outcomes; particularly human, natural and social capital in recent years. However, little empirical research has investigated the interactions of different types of capital, or how the effects of different types of capital vary across different contexts. An example of such research is a recent article by McGranahan, Wojan and Lambert (2011), which examines how natural amenities, human capital in the form of "creative class" people, and an entrepreneurial context interact to generate greater economic growth in rural U.S. counties. Even less research has investigated the dynamics of rural wealth creation and destruction. In part, this reflects an absence of research on how to measure wealth and changes in wealth in rural areas of the United States, and limitations in the available data. Despite such limitations, research on measuring comprehensive wealth at a national level has demonstrated that progress can be made despite data limitations, and that efforts using available data may inspire and inform efforts to improve data collection in this direction.

Articles in this Theme

The articles in this theme address various components and relationships in the framework presented in Figure 1. In "Wealth, entrepreneurship, and rural livelihoods", Deborah Markley and Sarah Low investigate how several types of wealth—including human, financial, physical, and natural capital—affect one aspect of rural livelihood strategies—entrepreneurship. Although policy makers often focus on access to financial capital as a key mechanism to promote entrepreneurship, Markley and Low find that other types of wealth may be more important building blocks in some U.S. regions. They raise several questions for future research on how multiple forms of wealth contribute to entrepreneurship and improved rural livelihoods.

In "Latino/a wealth and livelihood strategies in rural Midwestern communities", Corinne Valdivia and her co-authors synthesize findings from several pieces of research on asset accumulation and livelihood strategies of Latino/as in the Midwest. They focus on the impacts of cultural, social and human capitals on the incomes and subjective well-being of Latino/as in rural communities. They find that social, cultural and human capitals and acculturation strategies have a significant effect on livelihood outcomes; that the interaction of human capital and language ability influences acculturation strategies; and that the rural community context—particularly language pressure and experience of discrimination—also strongly affect outcomes.

In “Forest wealth and economic resilience of Oregon communities”, Bruce Weber and Yong Chen examine how federal decisions about the management of natural capital in forests affects changes in population, real property wealth and incomes in rural communities in Oregon. In the early 1990s, the Federal government implemented a major policy shift on federal lands in the Pacific Northwest from harvesting forests to preserving forests. The impacts of this policy on rural communities depended on the economic context; in particular, on whether or not the towns were heavily dependent on mills and logging. Communities close to protected Federal forests experienced greater growth in population, real property wealth, and median household income than more distant communities during this period. If the communities close to protected forests were logging-dependent or mill towns, however, they experienced slower growth in these outcomes.

In “Red light ahead: preparing local governments financially for the next disaster”, J. Matthew Fannin and Joshua Detre discuss how Federal programs that fully financed emergency costs and debris removal costs helped to maintain public sector wealth in Louisiana and Mississippi after Hurricanes Katrina and Rita. They provide evidence that the financial liquidity and solvency of counties in the hurricane affected region were little changed after the hurricanes, and argue that this was largely due to the fact that the Federal government provided full reimbursement to local governments. They investigate a counterfactual situation if the Federal government had required a 25% local share of these costs and show the dramatic difference in public financial outcomes that would have occurred. They discuss policy approaches to reduce the risks faced by such communities, considering how likely similar events are to recur and the risk that the Federal Government will not provide full insurance in future disasters.

For More Information

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