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Discussion: Economic Opportunities in Rural Communities

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Three economic opportunities are presented for rural areas in this invited paper session: self-employment, investments in broadband infrastructure, and agritourism. Self-employment has shown growth in rural regions at the expense of wage and salary employment in the long-term. Production agriculture interests by themselves are unlikely to provide sufficient funding to expand infrastructure for broadband in rural areas. Agritourism approaches appear to be very wide ranging with many educational demands needing to be met to maximize its diversification possibilities. Research and extension faculty should be careful to focus on explaining the tradeoffs of these opportunities so that rural stakeholders do not fall victim to the latest academic economic development fad.

Key Words: broadband, economic impacts, rural community, self-employment

JEL Classifications: J54, Q13, Q31, Q38, R11

In this session, three papers were highlighted that might provide rural development insights for the southern United States. In particular, an organizational structure (self-employment) (Goetz, Fleming, and Rupasingha, 2012), a growth/development input (broadband infrastructure) (Jeffcoat, Davis, and Hu, 2012), and a growth/development diversification strategy (agritourism) (Rainey and Bumbalová, 2012) are presented. In this discussion, I will highlight some of the key findings and provide some suggestions to the authors for further research and interpretation. Finally, I will attempt to link these papers with a larger discussion about overall rural development strategy.

Self-Employment

The first paper by Goetz, Fleming, and Rupasingha (2012) attempts to identify the dynamic relationships occurring between increasing growth in self-employment in the United States (both in rural and urban areas) and wage and salary employment. They initially point out that while the ratio of self-employment to wage and salary employment has grown measurably since 2000, earnings for the self-employed have declined to about one half that of the wage and salary worker counterparts in rural areas. The authors point out that conventional wisdom shows increases in self-employment are typically a "last resort for unemployed workers." At the same time, they point to impacts of small businesses and entrepreneurship on economic activity, complementary measures to self-employment, that have shown to have positive economic benefits.

To add to this literature, they evaluate the tradeoff between self-employment and wage and salary employment. Their key findings show that self-employment growth and wage and salary growth are initially complements. They found that current self-employment growth and lagged self-employment growth as far back as

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two years increased wage and salary growth in urban and rural counties. However, for lagged self-employment growth three and four years back, there were negative effects on wage and salary growth.

Their findings may suggest that self-employment growth is a proxy for the creation of new firms meeting alternative supply chain models for the production of goods and services in the economy. In particular, if one views the firm that pays wages and salaries as a "nexus of contracts" (Alchian and Demsetz, 1972), then the boundary of the firm could represent the proportion of the contracts that are internalized within the firm versus those contracts that are outsourced to third party contractors.

I believe two factors are likely to drive the outsourcing phenomenon. The first is cost savings. Much of the outsourcing that occurs in both the public and private sector occurs to (potentially) obtain cost savings over the public sector or private firm employing the individual and having to provide standard (and potentially expensive) employee benefits or abide by expensive union-negotiated labor contracts. Outsourcing may result in the delivery of the input product or service at reduced cost as one or more private self-employed establishments are able to successfully procure the product or service at a lower cost than internalized firm production with the firm's own employees.

The second is driven by innovation in the product to increase firm value. For example, Disney outsourced a measurable percentage of their digital animation movie production to Pixar (which it later absorbed into the company through a buy-out). The smaller Pixar firm was nimble and could make quick adjustments in storylines and use of new digital technology (Isaacson, 2011). Self-employment growth driven by innovation would potentially push a region to begin acting like Alfred Marshall's industrial districts where a large number of specialized input suppliers create external spillovers to economic growth in a region.

I believe that the Goetz, Fleming, and Rupasingha (2012) approach could answer the question whether greater self-employment growth is a product of "cost savings" or driven by the "innovation of new products and services." While their results tend to argue the former, they admit that secondary self-employment data are limited at best. Rural regions of the South would be well-served by the authors continued examination of this research topic.

Broadband

The Jeffcoat, Davis, and Hu (2012) paper focused on willingness to pay for broadband access by Kentucky farmers. They attempt, through traditional willingness to pay approaches from primary data collection techniques, to identify whether Kentucky farmers would be willing to self-impose a tax or fee to finance the infrastructure investments necessary to extend broadband availability to unserved agricultural regions in Kentucky. The results show that wide variation existed in the amount farmers were willing to pay based on farm size, full-time status, age, and whether the farmer used the Internet. They concluded that the wide range would make it less likely that an optimal one-time tax or fee could be determined and approved by the farming community in the state.

These research findings may imply that a single industry strategy to highlight potential broadband demand is insufficient in many rural regions to convince the private sector, as well as public-private partnerships and non-profits, to invest in broadband infrastructure. Rural regions will likely need to incorporate an aggregate strategy of addressing demand for broadband from multiple private sector industries, the public sector (including rural schools), as well as general households, to meet potential demand thresholds put into place by potential broadband suppliers.

Two potential disruptive forces may make the access issue less challenging going forward. First, ongoing technology improvements may help to increase speeds of satellite internet access and reduce latency. These improvements would allow for access in even the most remote rural regions. Second, the movement in the United States to price broadband based on both its speed (download and upload) and usage (total gigabytes used) may allow for more efficient usage of the overall broadband infrastructure

and create increased precision in demand estimates to match supply infrastructure.

Agritourism

Finally, Rainey and Bumbalová (2012) present a SWOT (**S**trengths, **W**eaknesses/Limitations, **O**pportunities, and **T**hreats) analysis for agritourism in the state of Arkansas. One of the biggest challenges to both research and extension support is helping to identify the domain of what activities are considered "agritourism." Responses from a telephone survey used by the author included a variety of activities from "u-pick it" operations, to on-farm retail outlets, to on-farm hunting and fishing, as well as farmer's markets. In addition, the major issues of concern for these operators ranged from promotion and marketing to affordable and available liability insurance to signage.

Rainey and Bumbalova's overview of agritourism in Arkansas suggested to me that both the "identification" and the "diversification" strategy are important for research and extension activities to support the development of agritourism activities in Arkansas. A cursory review of literature provides several definitions that vary widely in scope. However, they typically have some common threads. For example, the state of Virginia defines agritourism in statute as "any activity carried out on a farm or ranch that allows members of the general public, for recreational, entertainment, or educational purposes, to view or enjoy rural activities, including farming, wineries, ranching, historical, cultural, harvest-your-own activities, or natural activities and attractions. An activity is an agritourism activity whether or not the participant paid to participate in the activity" (Walker, 2009). Similarly, Brown and Reeder (2007) define it as an array of on-farm and farm-related activities including outdoor recreation, educational experiences, entertainment, hospitality services, and on-farm direct sales. In some ways, agritourism has been defined so broadly by its advocates that defining a research and extension program around it can be problematic.

I would argue that both the Virginia and Economic Research Service definitions provide an element that is fundamental: "activity." From an industrial classification perspective, an "activity" represents a production process of transforming inputs into output. Such an activity may be producing a raw product such as corn, processing corn into ethanol, or selling ethanol at the gas station. Each represents a production process with its own inputs as well as a product or service output. From an agritourism perspective, on-farm hunting and fishing and entertainment services (like corn mazes) represent the activity that generates a clear service. On-farm direct sales represent a sales service, and "u-pick it" type operations represent an example of something in-between where the production process generates a final product with a service experience.

In each of these cases, I believe research and extension efforts would be better served if we more clearly defined the role of agritourism in its diversification strategy for farm operations. Input-output scholars, when defining commodity and industry rectangular input-output modeling systems, are required to make an assumption about the production process – either an industry-based or commodity-based technology assumption (Miller and Blair, 2009). In the industry-based technology assumption, the industry is treated with a single production function (single activity) that produces multiple products or services. There is typically a primary product that generates the greatest output value for the industry as well as one or more by-products. Under a commodity-based technology assumption, each commodity or product produced by the industry is treated as having separate commodity production functions. Each product under the commodity-based technology assumption is considered a co-product.

Researchers interested in this area could assist organizing agritourism services from the extreme by-product to extreme co-product cases. Furthermore, such definitions could be used by extension personnel to better educate potential farmers interested in an agritourism model as a diversification strategy/potential business model. Agritourism activities that would be classified more as by-products may need less financial and educational investment than those considered co-products.

Challenges for the Academy

Each of these papers focuses on an attribute of economic opportunity (organizational structure of firms, infrastructure investment, and diversification strategy). When evaluating economic opportunities more broadly, academic scholars in this area are tempted to wade into the arena of rural development prescription as much or more than explaining economic activity in rural areas. I believe part of this behavior occurs because many in our field come from the land grant tradition often wearing both extension and research hats. We are asked to enter the policy arena and evaluate existing and proposed rural development policy strategies.

When evaluating proposed strategies, we often lean on historical conceptual frameworks to evaluate proposed strategies. Yet Polese (2011) argues that economic development in local regions driven by academic development fads (his focus is on cities but I believe it is equally applicable to rural regions) have had questionable success over the decades. He points to the evolution of these fads including smoke-stack chasing industrial tax credits and public infrastructure investments of the 1960s, high-tech industrial parks, cluster strategies of the 1980s advocated by Michael Porter from Harvard, local business development corporations, and investing in chasing a creative class labor force following the approach outlined by Richard Florida. While each approach has had its individual success (e.g., Research Triangle in North Carolina for high-tech industrial parks), there have been as many failures (e.g., Montreal's Multimedia City for clustering strategy).

I find myself siding with Polese's general finding in that for most regions, each of these development strategies are more often than not necessary, but not sufficient conditions for economic development. In the academy, I think we believe these strategies are not silver bullets; however, we have a difficult time convincing administrators, politicians, and other local community constituencies desperately trying to show they are intent on solving long-run development problems to consider these strategies more carefully. Those of us in the community and economic development research and extension arena would be well-served to provide local communities both sides of a development strategy before a community goes "all in."

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