STATE GOVERNMENTS CAN HELP

by DeWitt John and Kim Norris

> Many rural communities declined in the 1980s, but not all. Those communities that have prospered provide important lessons to leaders of other communities and to state and federal officials. These leaders must recognize that not all communities will prosper in the 1990s. But some will. And states have a special role in helping local communities assess prospects and restructure their institutions and development efforts.

The forces of economic change worked against most parts of rural America in the 1980s. But there are bright spots.

Signs of hope can be found in individual communities which have prospered in the 1980s. Some have grown by attracting tourists and retirees. Others have grown because they are adjacent to booming metro areas. A third, and very important group, has grown "against the tide", even though they lack any natural advantages and their neighbors have succumbed to economic decline.

Other signs of hope are found in state government. States have emerged as important new players in economic development, and several states are focusing on the special challenge of rural development. States may become leaders in what Governor Terry Branstad of Iowa calls "a new alliance for rural America."

Despite many disadvantages, some rural areas are prospering. Economic growth in counties dependent on recreation and retirement or on government almost kept pace with the metro average from 1979 to 1986. And even in Mid America during the early 1980s, some counties performed much better than average. For example, the average rural county in Iowa, Missouri, Oklahoma, Kansas, Nebraska, and the Dakotas lost 2 percent of its wage and salary employment between 1979 and 1984. Yet in 100 of the 548 rural counties in these seven states job numbers increased 5 to 25 percent, and in another 10 counties employment increased 25 percent in the five years. If there are keys to success in rural economic development, perhaps they lie in these communities—communities which prospered in a time of widespread rural economic distress.

Keys To Success

These contrasts led the National Governor's Association (NGA) to sponsor a study focused in the seven farm states of Iowa, Missouri, Oklahoma, Kansas, Nebraska, and the Dakotas. The study asked, "Why do some communities grow while others fade away?

To answer this question, the NGA study examined patterns of employment change from 1979 to 1984 in 548 rural counties in the seven states. A statistical model for predicting growth was developed in cooperation with the Agriculture and Rural Economy Division of the Economic Research Service, USDA. But the 15 variables used in the model, including government spending, education and adjacency to metropolitan areas, explained only 17 percent of the variation in changes in employment. Although researchers always hope for as good a fit as possible, this result is consistent with reports in the literature. It is very difficult to predict changes in the economic vitality of different rural communities.

Some communities will prosper. But others will lose population and wealth.

However, from the viewpoint of state and local leaders, the model results are encouraging. The results suggest that a county has potential for economic growth even if it is not adjacent to a metro area, lacks access to an interstate highway, has no state university, does not include a large town, and has only average levels of family income, college-educated workers, and federal development funding.

The NGA study examined 48 "high growth" counties, including 40 identified by the model as having gained more jobs than predicted from 1979 to 1984, and 8 others—suggested by state officials—that gained jobs from 1984 to 1986. Of these 48 counties, the research team visited 16 that experienced the kind of success most rural communities would like to achieve: sustained growth that is not based on unique recreational resources and does not arise from metro sprawl. Eight keys to success were present in these counties.

Key #1: Recruit industry and promote entrepreneurship. Although these are often are viewed as rival strategies, high-growth communities used both. Sometimes the strategies blend together. For example, some communities recruited their entrepreneurs from out of town. In other communities, local entrepreneurs bought local branch plants and led them to rapid growth.

Although the high-growth communities recruit aggressively, most community leaders recognize the dangers of relying on large firms—particularly branch plants. In the words of a retired Missouri businessman, "I would rather have a hundred small businesses employing 10 people each in this town than have just a couple of big industries providing all jobs. It's just like the saying about not putting all your eggs in one basket."

Key #2: Do not rule out traditional manufacturing. Traditional manufacturing continues to be very important in the high growth counties. All 16 counties visited rely heavily on "plain vanilla" manufacturing such as bending metal, making consumer goods, or contributing to the ubiquitous motor vehicle industry.

The lesson is, from the viewpoint of an individual community, it may be premature to rule out traditional manufacturing industries in favor of "footloose" service industries such as data processing and telemarketing or agriculture-based industries like food processing).

Key #3: Look to firms that are progressive in implementing new production techniques, developing new products, and going after new markets. Flexibility, imagination, and drive of most owners and/or managers were evident in the counties studied.

Key #4: Sustain local economics development efforts. Success did not happen overnight in the high-growth counties. Most of the high growth communities had been actively supporting growth for at least 20 years.

Key #5: Maintain pro-growth attitude. Leaders in successful communities are "pro-growth." In these communities local people willingly commit time, effort, and resources to help business and industry solve their problems. Moreover, they take risks on behalf of both new and existing enterprises.

These communities stress that although industrial recruitment is an element of a pro-growth climate, it is not the only element. If local leadership is willing to go the distance only for branch plants, the effect might be to discourage local residents who are trying to start, maintain, or expand business enterprises. In the high-growth communities, local leaders also emphasize troubleshooting for homegrown businesses. One North Dakota banker explains, "We give the same attention and just as much help to our existing businesses as to possible recruits."

Key #6: Use the full range of familiar tools for promoting economic growth. Financial assistance, sites and buildings, access roads, and water, sewer, and electrical hookups are all important. No single type of capital assistance stood out as uniquely important.

Financial assistance, in the form of grants or loans, was provided to almost half the firms that contributed to employment growth in these communities. Rural banks played a key role in many instances, providing financing for businesses and taking an active role in recruiting.

Helping firms obtain sites and buildings is an important part of community efforts as well. Industrial sites are often made available by local development corporations, or by other partnerships

For More Information

This article reports on a study of high-growth rural counties in mid America, conducted at the National Governors' Association Center for Policy Research. It outlines "keys to success" found in sixteen rural counties that gained employment while most rural areas were losing jobs. The article also describes what states and the federal government can do, in a new alliance for rural America.

The study of high-growth rural communities is reported in A Brighter Future for Rural America? by DeWitt John, Sandra Batie, and Kim Norris. The discussion of state and federal options is based on New Alliances for Rural America, Report of the Task Force on Rural Development, National Governors' Association, 1988.

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For copies of the reports write to: Publications, National Governors' Association, 444 North Capitol Street, Washington, DC 20001-1572. The cost is $12.95 for each of the studies.

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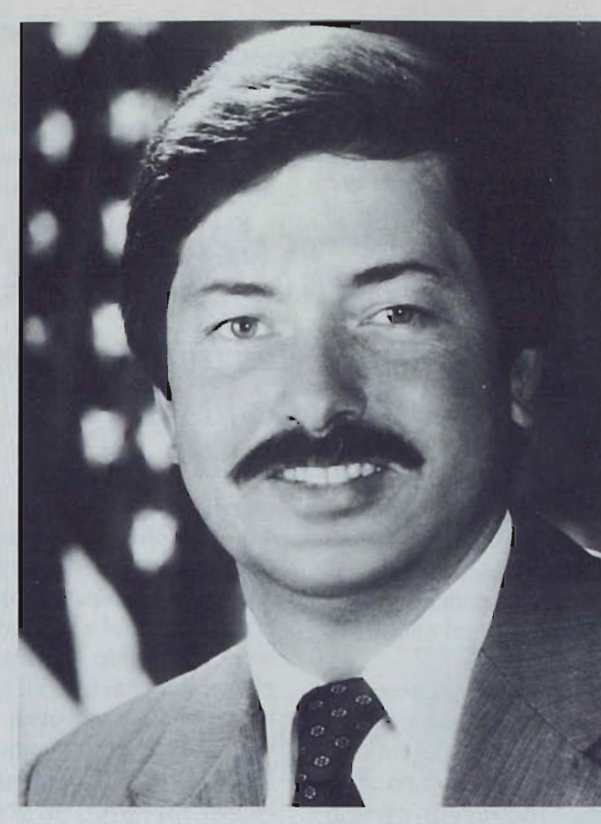
between local governments and the business community. In the high-growth counties, sites frequently had to be found outside existing industrial parks due to special needs of the firm.

Adequate infrastructure improves a rural community's prospects for economic growth. However, simply having adequate infrastructure does not guarantee success. Very often, the real issues are cost and the speed with which infrastructure can be put in place.

Key #7: Well-organized partnerships of local leaders contribute to economic growth and diversification. The partnership works through, and with the support of, local government. And generally one individual plays the role of "spark plug," seeing that the partnership keeps going through good times and bad.

The most successful communities can quickly assemble a team that includes the mayor, a bank executive, a utility executive, local plant managers, and perhaps a full-time community development director. This group is well-versed, enthusiastic, and presents a unified force. Members can answer questions on virtually any topic, including site and building availability, utilities, taxes, labor force, school system, and financial incentives.



Terry E. Branstad, Governor of Iowa and Chairman of the National Governors' Association's Task Force on Rural Development.

Key #8: State and federal agencies should assist. From the local perspective, the most important form of outside support is financial aid. Technical assistance to local businesses and elected officials, and access to data about local and national economic conditions are also important.

It Is Not for Every Community

Can all communities muster a sustained, broad-based local development effort? Local governments, lenders, and members of the community must be willing to take the risks and make the necessary sacrifices, which can involve dues to local economic development corporations, or higher taxes, and investment of private and bank funds in unfamiliar enterprises. Some rural communities may not choose this high-energy, high-risk path. However, the alternative approach is not attractive—continued slow erosion of a community's economic base, unless it is blessed with natural tourist attractions or lies in the path of metro sprawl.

Rural communities have distinctive needs to which state governments should respond.

Elements of a State Strategy

Since 1980, federal and state roles in economic development have shifted dramatically. Federal funding for 63 "rural and related domestic programs" fell by 63 percent, from $35 billion in FY 1980 to $14.6 billion in FY 1989. State spending on economic development in rural and metro communities combined has more than quadrupled in the period.

There have been four substantive changes in state activities related to economic development. In many ways they reflect responses to the 8 keys pinpointed by the study.

First, states have expanded their programs to include more aid to small and new firms, science and technology activities, export promotion, international education, increased investments in better education, and training for adult workers.

Second, industrial recruitment is changing. States are using new incentives and are actively seeking foreign investments. Also several states are emphasizing incentives that increase the productivity of the local economy such as training workers or increased spending on university research on subjects of interest to firms that are being recruited. Such incentives are less open to criticism than are tax breaks and industrial parks which are often seen as zero-sum subsidies without any net benefit to the nation as a whole.

Third, the newer style of economic development programs looks beyond individual "deals" to the productivity of the state's economy as a whole. The goal is not simply to buy jobs directly by providing incentives on a case-by-case basis, but to catalyze broad institutional change so that businesses, universities, schools, and workers respond more immediately to economic challenges and new opportunities. This approach requires that states work through other channels—the financial industry and educational institutions are two examples—to accomplish their economic development objectives.

Finally, the definition of "a favorable business climate" is changing. Traditionally, it meant low taxes, a light regulatory burden, and perhaps low wages. But as states try to maximize the high-tech, high-skill, high-wage portion of their economies, factors such as quality of university systems and public schools, linkages between universities and industry, availability of modern telecommunications systems, and availability of capital to new and innovative businesses become just as important as low taxes and reasonable regulation. The goal is, in fact, neither a low-cost nor a high-value climate, but rather an entrepreneurial climate—a climate in which individuals and institutions compete, take risks, place a high value on economic development, and are willing to invest energy and resources in growth.

Governors' Action Agenda

Last August, the National Governors' Association issued an "action agenda" for how state initiatives can benefit rural areas. The agenda was contained in the report of a task force, chaired by Governor Terry Branstad of Iowa. It included the Governors of Arkansas, California, Colorado, Georgia, Minnesota, Nebraska, North Carolina, Vermont, and Wisconsin.

The state agenda, as recommended by the task force, would include:

• Community development: a "bottom-up" approach involving help to individual rural communities in charting their economic future;

• Infrastructure: making wise investments in rural health, schools, and highways;

• Economic development: tailoring the state economic development agenda to make the most of opportunities for economic growth.

Keys to success in rural economic development may lie in the communities which prospered in a time of widespread rural economic stress.

State Community Development Efforts

Although development is a "bottom-up" process, rural communities have distinctive needs to which state governments should respond.

States can help meet the special needs of rural communities for technical assistance and specialized information by such devices as computer networks, specialized technical assistance for local officials and rural business people, community preparedness programs, leadership training, and packaging economic information so that it is accessible and available to rural leaders and businesses.

A second approach focuses on rural leadership. In communities facing economic adversity, economic development depends on the skills of local leaders. States can support the development of strong leadership through training programs, community preparedness programs, and packaging economic information so that it is accessible and useful to rural leaders and businesses.

Another way states are responding to rural economic distress is by finding new ways to mobilize existing resources and make them more accessible to rural areas. To this end, several states have encouraged the development of sub-state regional economic development activities and have established specialized advocacy offices for rural or distressed areas.

There are several advantages to a regional approach to economic development in rural areas and state governments have a major responsibility to foster it. The population of a sub-state region is larger than that of a county or town, so there is a larger pool of individuals with specialized skills in leadership or in financial matters. Also, the financial resources available to an individual county or town are limited. Regionalism offers at least the promise of pooling funds. Economic growth in one community often benefits neighboring communities and counties where part of the workforce will live and shop. By focusing on helping existing businesses and encouraging new businesses, towns may be more inclined to cooperate than compete with each other. Also, states can use regional institutions as a way of assuring resources are distributed to all parts of the state and as a way of cutting down on the number of competing applications for state resources.

A fourth way to ensure rural access to state resources and decisionmakers is for states to hire specialized staff to serve as a communication link between rural communities and state, federal, and private agencies. This may include establishing offices for rural advocacy or offices to coordinate the use of federal and state programs by rural areas. Another approach is to establish written guidelines to ensure that state programs are managed with a sensitivity to rural areas.

Making Wise State Investments

It is not reasonable to expect that all rural communities will flourish economically. How should states set priorities for investments in education, health, and highways in rural areas that are losing population?

States can encourage local efforts to restructure institutions. This means avoiding simple subsidies and bailouts, but making assistance contingent on local initiatives to deal with economic realities.

Restructuring of institutions may mean closures and consolidations in some cases. State governments can assist in these processes. However, for state governments, providing additional flexibility in regulations, funding formulas, and statutes are more important. Rural institutions need greater freedom to share services and share purchasing among rural schools and hospitals, and to use telecommunications for "distance learning" in schools. States can encourage schools to play active roles in economic development and other community activities, and they can gear highway finance to respond efficiently and promptly to economic opportunities.

Customizing Economic Development

The development process is much the same in rural and metro areas. Goals, the roles of states and the private sector, and much of the program "technology" are essentially the same. Like metro areas, rural America needs to focus on existing businesses and on entrepreneurship, commercialize new technology quickly, use strategies for managing the workplace, upgrade the skills of the workforce, and rationalize industrial recruitment.

But rural areas are also different from metro areas and from each other, so some customizing is necessary. In addition to assuring access to specialized skills and information discussed above, communities need flexibility, to use federal and state program resources in ways that tailor investments to their specific community situations.

Currently rural communities and businesses can look to dozens of federal and state programs for development assistance. But multiplicity does not equal flexibility. Indeed, most federal programs are narrowly drawn, restrictively guarded, and shrinking. The NGA Task Force called for a new alliance, that would consolidate federal programs, give states a role in setting broad priorities, and give local communities greater freedom in tapping multiple programs to support a "bottom-up" development strategy.

One must be realistic about what a new alliance among state governments and local communities can achieve in terms of economic development.

Some communities will prosper. But others will lose population and wealth. States can work with all areas to help them assess their prospects and to restructure their institutions and development efforts. C