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Building Community Visions of Assets, Competitiveness, & Partnerships: A State's Role in Rural Economic Development

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The increasingly rapid changes in the world marketplace are having significant effects on all regional economies, creating both challenges and opportunities. The challenges for rural economies have been especially pronounced. Rural economies rely on low land and labor prices for their competitiveness, with commodity agriculture and manufacturing as their economic foundations. Globalization is introducing the possibility of much lower input costs for commodity production, leading to a steadily deteriorating competitive position for these traditional rural industries. Agriculture continues this transition after a particularly sharp series of contractions in the 1980's; rural manufacturing plants are arguably going through their most difficult transition phase. Neither can be the easy, natural, longer-term economic foundation for the rural economy in the future.

Rural communities are thus facing an especially uncertain economic future in the new globalizing environment. While some have prospered, such as those with natural amenity advantages, most have struggled. The most immediate symptom of these struggles is the rapid out-migration of educated youth, traditionally the first to yield to relative changes in geographic opportunity. School districts shrink and consolidate, alongside other public service providers with significant fixed costs, such as hospitals. Larger rural towns benefit from this transition, a fact underscored by the rapid growth of micropolitan counties as the nation recovers from its last recession (Henderson and Weiler, 2004). This shifting of the rural settlement hierarchy parallels changes in the underlying economic foundations of rural areas, and is likely to only accelerate.

Urban areas with more vibrant economies need less help with forward-looking perspectives, as the

greater amount of business activity naturally provides both scale and breadth of probing economic agents leading to constantly evolving insights on local assets and links to particular markets. In contrast, the smaller scale of rural areas limits the amount of information they can analyze from the outside world while at the same time limiting the amount of information they can provide about themselves. Information is a public good with a sizable fixed cost, putting sparser regions with greater coordination difficulties at a double disadvantage. In addition, rural regions facing ongoing economic stagnation problems, and thus limited business activity, also have the narrowest bases on which to evaluate potential new opportunities.

Given this context, states can most effectively support their resident communities' economic development prospects through three information-oriented leadership roles. First, states can help these areas get a sense of their local assets beyond their traditional reliance on low-cost land and labor. Second, states can illustrate the importance of connecting these asset bases to particular competitiveness strategies. Finally, states can underscore how such strategies can be made even more effective by thinking regionally rather than just locally. Even with state assistance, the ultimate prosperity goal of each community will be self-defined, balancing growth, income, jobs, environment, quality-of-life, and other features in whatever way it deems best for itself.

Assets

Throughout history, assets have determined the markets and strategies that regions can effectively engage. In the industrial era, immobile competitive advantages in economic assets guided the economic

prospects of regions. Immobile advantages are those that can not be cost-effectively moved over vast distances, such as soil fertility, ore veins, and direct access to transportation corridors such as rivers and railroads. Siting of production facilities was thus dictated by the location of the key inputs, leading to the steel mills of Pittsburgh and the hydro-electric power sources of the Northwest that supported Boeing's ship- then plane-building.

The traditional commodity orientation of rural economies in the 20th century was predicated on the assets of abundant and low-cost rural land and labor. Yet rapid globalization means that lower-cost sites are increasingly available overseas, as improvements in transport, technology, and information flows allow production for the domestic market from almost any corner of the planet. Rural communities now find themselves facing the global marketplace with decreasingly competitive traditional asset bases. From this situation arises the first role for state government, namely to encourage communities to more broadly assess their current and prospective foundational assets.

Labor and capital tend to be the first two focal points for economic development prospects; indeed, both have been foundational assets for past rural economic strength. In this way, areas without critical masses of manual *labor* can work to attract such workers to make the region conducive to growth in worker-intensive industries. A recent example is the meat-packing industry in the Midwest, based largely on immigrant labor from Latin America. Yet this strategy inevitably will run into the same factor-cost competition as past experiences, and cannot be the solution for more than a handful of rural towns.

Regions could also attract business *capital* investment directly by wooing and subsidizing firms to locate in their areas. But recent research indicates that such strategies are ineffective in significantly influencing company location decisions, and can have significant hidden community costs. Moreover, this approach focuses on poaching existing activity rather than creating new value, presenting the macroeconomy as a whole with at best a zero-sum game. Again, this approach is also not a long-term solution.

The informational leadership role for states, then, is to have communities recognize that critical assets have in fact changed over time in response to evolving marketplaces. The newly-dominant service sector is considerably more diverse than its blue-collar commodity-producing predecessor, ranging from high-skilled engineers and software developers to lower-paid retail workers and elderly care staff. Increasingly,

the key asset is a region's *human capital*—the knowledge, skills, and education of its residents.

The human capital asset base has many positive effects on a region's prosperity prospects. A local labor force's education and skills are primary determinants in firms' location decisions, particularly those with the greatest growth and income prospects. Education effectively opens regions to more information, networks, and markets given the clear relationship between educational attainment and intensity of Internet usage. Quality primary and secondary education, which are directly influenced by state policymakers, are high foundational priorities for most regions, and themselves are attractive to high-quality worker-parents. Regional universities and community colleges can be significant drivers for an economy, both through their role in creating an educated local workforce as well as through the seeding of new ideas and technologies into the region.

In conjunction with human capital, entrepreneurship is a further critical asset in the new economy, particularly in providing the basis for a continuously innovative regional economy. Entrepreneurs probe new ways to combine and leverage regional assets, paving the way for further innovative activity. In order to provide the crucial knowledge and ideas to this entrepreneurial base, as well as the broader workforce, human capital becomes even more critical as a core regional economic asset. Interestingly, rural areas tend to already be naturally entrepreneurial, given their history of farming (perhaps the most broadly entrepreneurial industry of all) alongside the fact that rural enterprises, shops, and services by their nature are almost universally small-scale.

States can usefully inform communities on the potential value of other neglected new economy assets in the financial and lifestyle arenas as well (Weiler, 2004). "Thick" information on regional markets is itself an asset, indicating the relative transparency of private business opportunities and lesser needs for public and non-profit sector economic development support (Weiler, Hoag, and Fan, 2006). Yet such information is likely to be lacking in rural communities. These "thin" informational markets tend to obscure opportunities for private investment, yet yield additional community returns for new private sector activity (Weiler, Scorsone, and Pullman, 2000). Information provision by states thus can help rural areas compete on a more level playing field.

Competitiveness Strategies

Given that assets are the bricks and mortar of regional development potential, competitiveness strate-

gies are the blueprint that puts these resources to best use in the pursuit of regional prosperity. Such strategies have their basis in the traditional economic notion of “comparative advantage,” in which nations or individuals specialize in particular activities to the benefit of both the producer and those with whom s/he trades. *Competitive* advantage denotes a criterion both stronger and broader than a superiority in particular activities compared to other areas. First, the term suggests that simply being comparatively good at something is not sufficient for success; one must be competitive in the nurturing of that specialty through a region-specific strategy combining local assets. But the term also indicates that simply because one region is specializing in a comparable niche or exploiting a particular asset does not preclude another region from also using that niche/asset competitively, especially given the expanded range of possibilities provided by the new global marketplace.

In terms of competitiveness strategies, states can guide communities in a variety of ways as they seek their own competitive niche. Retention of an asset base is as crucial as developing such a base, and thus becomes a strategic end in itself. In particular, rural areas must keep and attract a highly-skilled entrepreneurial citizenry to supply ingenuity as well as leadership to a region.

In this spirit, states can emphasize and support the importance of a broad variety of amenity factors. Human capital is more easily drawn to and retained by areas with amenities. Immobile competitive advantages are thus again shaping regional economic prospects, perhaps as much as their mineral vein and waterway antecedents. As Graves (e.g., 1976) noted in his seminal regional economics research, amenities are normal goods; as incomes rise, people prefer locations with better restaurants, thicker forests, and more sunshine. In particular, those people with the most skills, and thus highest income potential, are those that are most likely to desire amenities.

While many rural areas do not have the automatic advantages of California’s or the French Riviera’s coastline, nor the Rocky Mountains or Alps to attract good people, smaller-scale natural amenities such as parklands, trails, and waterways can be important to a region’s image as well. Developing such man-made amenities becomes a further possible asset-based strategy to promote regional prosperity prospects. The fact that people prefer natural amenities suggests the broader importance of a variety of amenities in shaping a place’s desirability.

Many people in fact consider the lack of congestion, low crime, good schools, neighborliness, and other features of rural areas as attractive “social”

amenities, which states can highlight as components of regional competitiveness strategies. Rural areas can supplement these traditional social amenities with arts, culture, and/or history unique to their locality, as small towns from the Rocky Mountains to the Dordogne to Tuscany have shown. Retirees with independent income sources are moving in considerable numbers to rural places, seeking precisely such amenities. Keeping good young people and attracting others would naturally complement such flows. Single localities may not be able to offer sufficient attractive characteristics on their own. However, broader regions could provide compelling combinations of amenities across a variety of categories. States have a natural leadership role here as well, as discussed below.

Regional Partnering

Given rural areas’ geographic sparseness, a critical level of assets may not be within reach for any single community, creating the third leadership role for states. Rural communities suffer from the reinforcing drawbacks of isolation and small scale, and encouragement to partner beyond traditional jurisdictional lines can help mitigate these disadvantages. A recent OECD report specifically emphasizes the value of “closer co-operation among municipalities [to improve] the cost efficiency of local public services and improving the coherence and impact of development projects” (OECD, 2005, p.14). Again, though, to maximize the chances for productive partnerships, these collaborations should match regional assets to make the regional whole greater than the sum of its parts. States have that broader vision that individual communities may not.

In addition to emphasizing the advantages of rural communities collaborating with each other, states can encourage both metropolitan and rural regions to strategically partner with each other to take advantage of each area’s relative strengths. Proximity to a metro area has been shown to be an unusually good predictor of rural area economic success. Yet metro areas themselves gain from the nearby rural options for back offices, broader residential choices, and other support services that mesh better with rural characteristics. Jason Henderson’s developing work (e.g., Henderson, 2004) demonstrates that rural areas in fact may help lead metro economies out of recessions. The result could be due precisely to the service/support orientation of rural areas, which allow lower fixed cost (and thus lower risk) establishments to develop early in an economic cycle when demand conditions do not yet warrant (urban) large-scale investment risks.

Such partnering tends to be a crucial factor defining those regions that achieve their economic development goals. Partnering allows synergies between regions' asset bases, expanding the range of potential competitiveness strategies and focal markets. Partnering also provides critical mass, allowing scale and scope economies to develop between sectors, institutions, and asset bases. In these ways, partnering itself becomes part of a rural region's competitiveness strategy.

By encouraging communities to think regionally, linkages between workers, consumers, businesses, and communities can generate new complementarities that enhance the prospects for economic prosperity. States can play vital roles in creating such fresh opportunities by providing key informational and leadership resources as rural communities discover the assets, competitiveness, and regional partnering on which to build their economic futures.

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