

A Brief on When and How Rural Economic Development Should be Done

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Reports of worrisome economic trends and deficiencies in rural areas typically spawn pronouncements on the need for rural economic development. Such reports often highlight: declining employment in primary economic sectors, high unemployment, a lack of jobs for young workers and a consequent aging of the population, overall population loss, closures of local businesses, declining per capita incomes relative to urban areas, inadequate education and healthcare, and high rates of poverty. What are seldom subsequently addressed, however, are issues of whether these can and should be remedied, and whether the state should play a role.

In the following, I discuss these issues and recommend courses of action. The discussion and recommendations are based on what we know from academic research on rural areas (and regions more generally), including research I have done with long-time collaborator Mark Partridge. I first address the issue of whether a case can be made for state involvement in rural economic development efforts. This is followed by discussion of how to decide which areas to develop. I conclude by offering a few broad guidelines for state rural economic development strategies.

The Case for State Involvement

Following general decline in the 1980s, population growth rebounded in nonmetropolitan areas during the early 1990s, only again to falter in relative terms during the late 1990s and early part of this decade (USDA, 2006). In addition, nonmetropolitan growth has been unevenly distributed across regions, in which nonmetropolitan counties nearest metropolitan areas grew fastest (USDA, 2006). To be sure, for areas on the metropolitan fringe, concerns with urban sprawl and

environmental degradation may dominate economic development concerns. All else equal, during the 1980s and 1990s the further a nonmetropolitan county was located from a metropolitan area, the lower was its employment and population growth, and this effect was more pronounced the further a county was from the larger metropolitan areas (Partridge et al., 2006a; 2006b). That suggests that remote rural areas in sparsely populated regions were most at risk for stagnant or negative population growth. (As noted by Isserman (2005), however, nonmetropolitan areas are not synonymous with rural areas, in which rural areas exist within metropolitan counties and nonmetropolitan areas are varied in their ruralness).

Strong market forces likely underlie rural population growth patterns. The decline in family farming and many resource-based activities, along with globalization-induced decline in several manufacturing industries, have left many rural areas devoid of an economic base. Correspondingly, cities appear to have experienced an increase in competitive advantage, particularly in services (Desmet and Fafchamps, 2005) and information-based sectors (Le Bas and Miribel, 2005). Given the strong market-driven rural growth patterns, the natural question to ask is whether economically distressed rural areas should be targeted for economic development? Or should people in those distressed places simply be encouraged to relocate to areas with more vibrant economic growth?

The United States has often been characterized by academic economists as having perfectly mobile labor (Blanchard and Katz, 1992), which according to neo-classical economic theory argues against targeting specific rural areas for economic development (Partridge and Rickman, 2003b). If households are fully (costlessly) mobile, they reside in the location deliver-

ing them the most satisfaction. They respond to local job losses by relocating to areas with better economic prospects. This equalizes satisfaction with location of residence across all areas. So, tautologically, no attempt need be made by states to improve the welfare of their residents through within-state-geographically targeted economic development (and by implication no need for rural development by the federal government).

However, there is substantial evidence that rural households are not perfectly mobile. Households with lower levels of education and skills, who are typically least likely to be employed, have been observed to be less geographically mobile than the typical American household (Yankow, 2003). Distance to potential migration destinations creates transport and psychic costs of relocation for rural households, impeding their mobility. Likewise, cultural differences between rural residents in many remote areas and those in more urbanized areas may make rural residents reluctant to move. To move, rural residents also often must leave behind support networks, such as family child-care assistance, required for survival. Low-skilled and lesser-educated rural residents may simply move to other underperforming counties because that is where they may be most in demand, where available housing is cheapest, or where they have other support networks (Nord, 1998). Empirical support for sluggish labor market adjustment is provided by Gallin (2004) and for incomplete migration adjustment in particular by Partridge and Rickman (2003a; 2006).

Therefore, state economic development efforts that successfully stimulate employment in remote rural areas could potentially improve the welfare of their residents who may have been left behind economically, particularly in the short run (Partridge and Rickman, 2003b). Indeed, research on rural poverty reveals that remote rural areas possessing high rates of poverty particularly benefit from job growth (Partridge and Rickman, 2005a). According to this research, area job growth increases employment rates, increases wage rates, and thereby reduces poverty rates. The primary causal mechanisms for the greater anti-poverty effects of job growth are lower rates of migration and commuting in remote rural areas. Potential in-migrants or in-commuters may be unwilling to take work in these counties or are simply unaware of the jobs in these regions because of their remoteness. Lower out-migration and out-commuting of residents occurs in response to job losses for the reasons mentioned above. Thus, the well-being of long-term residents in remote rural areas is more dependent on local job growth; rather than adjustment to employment shifts through migration, remote rural areas

more likely experience changes in unemployment rates, labor force participation rates, wage rates, and poverty rates.

Rural Area Targeting Guidelines

The above discussion suggests that targeted rural economic development can potentially increase overall state economic welfare. Targeted rural development also could address the issue of economic equity or fairness. However, aside from equity concerns, how can the best candidates for economic development be identified?

First, areas containing larger population shares of those economically disadvantaged and left behind should be identified. Some remote areas may only contain individuals who desire more space or other site-specific amenities, and are satisfied with their economic opportunities. For example, areas dominated by economically footloose households seeking a high quality of life (e.g., retirees) would be poor candidates for further development. In addition, if people readily leave economically declining areas there may be little reason on social welfare grounds for developing them; these individuals may simply have lived there to take advantage of temporal economic opportunities and have few other ties to the area (e.g., energy boom/bust areas).

Second, areas suffering the greatest disadvantage of location should be identified, as these may be the most difficult to develop. If the areas lack sufficient scale, the costs may far outweigh any benefits from economic development. Yet for many underperforming remote areas there is some cause for optimism. In the 1990s, a large number of previously persistent high poverty counties experienced acceleration in their employment growth and dropped below the high-poverty threshold (Partridge and Rickman, 2005b). Initial conditions such as lower levels of education did not prevent them from experiencing positive economic outcomes.

Generally though, areas should be developed that have stronger ties to urbanized areas. Even among non-fringe nonmetropolitan areas, those closer to cities, particularly to larger cities, appear to be more attractive to businesses and households (Partridge et al., 2006b). Close proximity to cities reduces transportation costs for businesses in terms of delivering their products and in purchasing their inputs. Similarly, close proximity provides households job-commuting opportunities and allows them to take advantage of urban amenities such as better shopping, restaurants, and cultural attractions. The reason businesses are willing to locate outside cities is to avoid their conges-

tion costs while taking advantage of close proximity. However, since market forces favor these areas, they may be less in need of state economic development efforts. The trick is to find areas situated reasonably proximate to urban areas in which market forces have not already led to their development — i.e., areas where there is market failure.

Third, counties with excess public infrastructure should be identified. Excess public infrastructure in a county would reduce additional strains growth places upon state and local government budgets. For example, schools may have fewer pupils than the facilities can accommodate, there may be excess sewage and water capacity, or underutilized roads.

Development Strategy Guidelines

The above discussion suggests that a comparison of expected benefits and expected costs be made for each candidate area, in which not all counties may pass a benefit-cost ratio for economic development. There are numerous other factors which may affect whether a county would pass a cost-benefit requirement for economic development. These factors could be used as guidelines in developing statewide economic development strategies.

First, consideration should be given to the reason for an area's decline. Deficiencies cannot be corrected without first accurately identifying them. Some areas may have experienced declines because of concentration in nationally declining economic sectors. These areas would need to turn their attention to attracting firms in nationally growing sectors for which the region is competitive. Other areas may decline because of increased economic disadvantage. For example, increased global demand for education and skills in growing sectors hurts areas possessing lower skill and education levels. Similarly, an increase in the desire among households to live in cities draws population from remote rural areas, particularly those lacking household amenities. Some areas also may lack requisite private and public infrastructure to attract nationally expanding economic sectors. Low levels of education and infrastructure are factors that might then be addressed, while it may not be possible to remedy other deficiencies.

Second, states should identify which firms are most able to be competitive in more remote rural areas. Some firms require close proximity to other firms, because of transportation costs, or needed access to ideas and information flows. These firms are unlikely to locate and thrive in remote rural areas. For example, firms in mature sectors such as many manufacturing industries, which are no longer in the formative inno-

vative stages requiring location in dense areas, may be more profitable in remote areas where labor and land costs are lower (Rossi-Hansberg, 2005). Yet, it would need to be industries for which it is more profitable to produce in remote rural U.S. regions than in developing countries.

Third, rural economic development policy should be combined and coordinated with people-based policies. Successful economic development may require implementation of multiple strategies, which are tailored to the particular circumstances of the area (Blank, 2005). For example, recruiting "new economy firms" may prove to be futile if the area labor force lacks requisite education and skills, or lacks sufficient quality of life to attract educated households. Yet getting local households to further invest in jobs skills and education may require evidence there will be a payoff in the area, requiring ongoing business recruitment efforts.

Fourth, states should develop regional centers of economic activity. Economic competitiveness requires some concentration of economic activity. Rather than evenly spreading activity across all areas of a region, it would be better to concentrate the activity within the region, and have the benefits of the concentration spread outward from the mass of activity. The benefits can spread outward because residents from outlying areas may commute in to work in the regional center, and because of possible development of tertiary businesses in the outlying areas serving businesses in the regional center. Trying to evenly spread the activity across all areas may make the entire region economically uncompetitive and unsustainable. To be sure, Partridge et al. (2006b) find that rural county employment growth increases with proximity to urban areas, but is unaffected by proximity to economic activity in general if it is not concentrated. States should also then encourage cooperation among all areas in an economic region. Empirical research documenting the linkages between regional centers and outlying areas (e.g., Partridge et al., forthcoming) could be used to convince legislators and economic development policy makers of the need to cooperate. States can provide leadership and incentives for local areas to leverage their economic development efforts with the state. For example, states can provide tiered subsidies and tax breaks, which are tied to regional partnering and cooperation in rural area economic development efforts. These efforts also should be leveraged and dovetailed with federal economic development efforts.

Summary and Conclusion

An economic case can be made for state involvement in rural economic development. People in many rural areas have been left behind economically. Yet, rural areas most in need of economic development may be the most difficult to develop. A balance between need and cost must be struck. This requires a sound understanding of the strengths and weaknesses of rural areas. Likewise, it requires understanding the spatial economic structure of rural areas, both in terms of economic interrelationships between rural areas, and those between rural and urban areas. This knowledge also should be used in the design of state rural economic development programs. Economic development specialists in universities are often an ignored or underutilized resource in this process. Finally, states should work to obtain broad-based support and cooperation for their rural economic development programs, coordinate all efforts, and monitor their progress, to ensure broad-based socioeconomic policy objectives are being met.

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