Crafting a Competitive Future

CAPITALIZING ON
RURAL AMERICA

A POLICY
FORUM

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FOREWORD

About The Study

This conference report was prepared for the Federal Home Loan Bank of Des Moines by SRI International's Center for Science, Technology, and Economic Development (CSTED). The SRI Project Team consisted of Lynne Manrique, Matty Mathieson, Ophelia Yeung and Katherine Johnston. The opinions, findings, and conclusions expressed in this report are those of the project team and do not necessarily represent those of the Federal Home Loan Bank of Des Moines. SRI International is an independent, not-for-profit research and consulting organization with a public service charter.

CONTENTS

CRAFTING A COMPETITIVE FUTURE

EXECUTIVE SUMMARY	1
I. Introduction and Purpose	8
II. The Status of Rural America	11
A. Economic Drivers and Trends	14
B. Social Drivers and Trends	33
III. Federal Government Initiatives Targeting Rural America	40
A. Historical Focus and Today's Context	41
B. Current Programs – Estimated Number and Types	44
C. Economic Development Initiatives or Proposals	48
IV. Strategic Options for Capitalizing on Rural America	54
A. Guiding Principles	55
B. Strategic Thrusts	57
C. Pioneering a New Institutional Framework	70
Appendix A: List of Research Resources	71
Appendix B: Competitiveness Scores for U.S. States	78

EXECUTIVE SUMMARY

The Status of Rural America

Most people, businesses and government agencies perceive the economy of rural America as being the same as the agricultural economy. This view is only natural, given the history of the United States, beginning with the continuous westward push of hearty farming families and continuing through the creation of the unparalleled U.S. prowess of agricultural production in the 20th century.

Notwithstanding agriculture's enduring importance in the American experience, the agricultural economy has witnessed enormous changes. New cultivation methods along with long-term productivity increases continue to reduce the need for agricultural labor. The emergence of truly global agricultural supply networks has established new sources of competition. The introduction of new technologies stimulates ongoing transformations in business models. These forces and impacts are not limited to agriculture, but also apply to manufacturing and other sectors. The bottom line is that as these economic structures and activities evolve, our perceptions and approaches for regions that host them must undergo commensurate changes.

Rather than viewing rural America as synonymous with "agriculture," it is important to delve into the modern components of the rural economy. From today's perspective, rural regions enjoy a number of strengths or "assets" on which to build strategies for the future. They also face several important challenges or "liabilities" in their efforts to prosper in a changing country and world.

Summary of Rural "Assets" and "Liabilities"	
Strengths	***Weaknesses***
▪ Low cost of doing business ▪ High quality of life ▪ Steadily improving educational attainment ▪ Increasingly high levels of entrepreneurship and small business development	▪ Uncertainties and resistance to change needed to adjust to structural economic change ▪ Declining population (except in concentrated rural counties) ▪ Difficulty retaining educated residents ▪ Lack of employment opportunities, particularly in growing economic sectors

Effective development policies and programs will acknowledge these characteristics, building upon rural assets and addressing rural liabilities. Recognition of these assets and liabilities, combined with awareness of the diversity of today's rural economy, implies that a dramatic shift in attention towards potential new sources of economic growth by rural policymakers, businesses, and residents is needed.

Federal Government Initiatives Targeting Rural America

Quantitatively, there is no shortage of funding or programs directed toward rural America; however, the appropriateness and effectiveness of these programs cannot be determined by their sheer volume. In fact, the sheer quantity of programs has led many observers to the conclusion that such efforts are spread too thinly, are difficult to access, and essentially do not meet the ultimate goal of rural development.

Most federal dollars for rural areas are provided in the form of farm subsidies, which for the U.S. Department of Agriculture (USDA) account for more than eight times the monies directed toward broader rural development programs ($24.3 billion for farm support versus $2.9 billion

for rural development). USDA operates 58 "key"[1] programs for rural areas, while the federal government as a whole is estimated to have 337 such programs.

Recently-established federal programs have shifted from traditional support for agriculture toward broader business development goals. The fact that newer programs pursue this latter substantive focus is an indication of recognition that "more of the same" (e.g., continued or greater farm subsidies) will not turn around the fortunes of rural areas.

By contrast to the positive trend in the focus of newer federal initiatives, the long time frame that has characterized the progress of such initiatives from legislation to funding to action is less heartening. Likewise, even when a program's substance and direction appears appropriate to spur rural revitalization, the process of understanding and applying for such resources remains daunting for many rural residents and enterprises. When multiplied by the sheer number of programs and agencies involved in federal support for rural areas, this complex web of access requirements presents high "entry barriers" for struggling rural communities.

Strategic Options for Capitalizing on Rural America

Rural regions of the country face difficult challenges in re-defining and re-tooling themselves for the current and prospective economy. However, the personal qualities and community characteristics that provided rural America with a sound foundation during the predominately agricultural era likewise are continuing reasons for optimism that rural regions can restore their fortunes in the future. There are no simple fixes to rural regions' very real predicaments, but revitalizing rural America is neither impossible nor even improbable – if new attitudes and activities replace the status quo. This report outlines proposed guiding principles for revitalization efforts and recommended strategic thrusts to renew rural America's prospects.

Underlying these guiding principles is the overall conclusion of this conference report: namely, that it is time for a fresh start in formulating strategies to strengthen rural America. Under the conference's overall theme of "Capitalizing on Rural America," these strategies can revolve around a conceptual framework that can be called "Rural America's Value

[1] "Key" funding programs for rural America are defined by the USDA's Rural Information Center based on program focus, eligibility requirements, and use of funds.

Proposition." The approach implies that communities and policymakers should shift from the traditional focus on problems to an emphasis on re-discovering the economic value that is offered by rural regions and upon which new, productive activities can be pioneered and grown.

Guiding Principles

Principle #1: Focus On Opportunities, Not Problems

Much attention in the literature on rural areas, both by practitioners and analysts of rural development and in conferences related to rural issues, has been dedicated to defining and examining various aspects of rural America's current plight. It is important to re-direct attitudes and informational resources to focus on what can be done, rather than what is not working.

Principle #2: Utilize Existing Rural Entities and People

One of the lessons learned from the rural development strategy of attracting manufacturing enterprises to rural areas is that, without deep ties to a region and its people, it is much more likely for plants or companies to leave when profitability declines. While "outside" investment and expertise undoubtedly will be necessary or desirable at times, looking internally and connecting regionally, rather than searching for external solutions, will build sustainable advantage for rural regions.

Principle #3: Marshall the Lessons of Success

All parts of rural America no longer march to the same economic drum. Instead, great differences in rural economies have developed over the past two decades, and rural counties accordingly have experienced divergent economic fortunes. Much can be learned by identifying rural "success stories," defining root causes of change in those areas, and then extrapolating from these lessons to craft strategies for other rural regions.

Strategic Thrust #1: ANCHORS – Build Critical Mass around Key Assets

An anchor is "something that provides a point of support" or "something that provides security or stability."[2] For the purpose of this paper, "anchor" means an existing entity, structure, and/or resource rooted in the community, which can serve as a focal point for renewal efforts. Three initiatives built around anchors are outlined below; prospective champions

[2] Webster's II New Riverside University Dictionary (Boston, MA: Houghton Mifflin Company), 1984.

and partners for these initiatives (and those built around other strategic thrusts) are described later in the conference report.

Initiative #1: Identify Anchors

Need: Focal points around which to build rural advantage
Approach: Identify and leverage existing center(s) of activity
Benefits: Communities take charge of the future without starting from scratch

Initiative #2: Leverage Neighboring Growth Poles

Need: Linkages are required to overcome low population density
Approach: Integrate existing and new economic/business entities
Benefits: Brings advantage of scale economies to rural areas

Initiative #3: Create Productive Networks

Need: Increased flow of ideas among businesses
Approach: Use technology to network entrepreneurs, business service providers, and support organizations
Benefits: Expanded access to resources/opportunities outside immediate geographic area

Strategic Thrust #2: EMPOWERMENT – Expand and Replicate Home-Grown Success

Great divergence in rural areas' performance has been witnessed during the past decade. Although many successful rural counties enjoy "fixed" characteristics (like location) that cannot be replicated, identifying "what has worked" in communities similar to one's own builds a community's sense of ownership and optimism about next steps. Three initiatives centered on rural empowerment are described below.

Initiative #1: Use Information Technology To Spread Success Stories

Need: Innovative approaches for rural growth are not being disseminated
Approach: Use information technology to serve as a clearinghouse on "what works"
Benefits: Rural communities can leverage proven approaches relevant to their circumstances

Initiative #2: Highlight and Nurture Entrepreneurship

Need: Small businesses create jobs and attract new investment

Approach: Promote the concept and value of entrepreneurship in schools and support organizations

Benefits: Establishes home-grown foundations for a healthy rural economy

Initiative #3: Promote the Value Of Rural Life

Need: Rural areas are not capitalizing on Americans' preferences for rural/small town living

Approach: Compile and disseminate data/testimonials about rural quality of life and returnee successes

Benefits: Attracts and retains people and businesses

Strategic Thrust #3: INNOVATION – Identify and Nurture New Productive Activities

In order to prosper, rural America's future cannot be the same as the past. However, innovation does not necessarily mean radical change; rather, it can mean strategically adapting an existing product or process to meet new needs. Three avenues for rural innovation are provided below.

Initiative #1: Unearth Existing "Innovation Space"

Need: Find niches for added value and competitive advantage in rural areas

Approach: Pinpoint and pursue the value-adding, innovation-based clusters in rural areas, focusing on sub-sectors in manufacturing, agro-industry,[3] and services

Benefits: Establishes competitive advantage based on factors other than low costs or natural resources

Initiative #2: Increase Return On Existing Investments

Need: Federal resources are not currently having desired impact

Approach: Seek value-added changes in federal and state resources to focus on programs that yield the highest long-term impact

Benefits: Leverages the impact of scarce resources for long-term competitiveness

[3] The term "agro-industry" refers to entities dealing with the supply, processing, packaging and distribution of agricultural products.

Initiative #3: Maximize Human Capital Advantages

Need:	Counteract the disadvantages of low population density and out-migration of young adults
Approach:	Identify skills sought by high-growth sectors and establish curricula that focus on such skills
Benefits:	Builds on rural Americans' resourcefulness and hard work to bring higher wages, better employment options, and greater opportunities.

CHAPTER I:

INTRODUCTION AND PURPOSE

At the request of the Federal Home Loan Bank of Des Moines, SRI International has prepared this conference report to serve as technical background for the bank's April 2005 policy forum on "Capitalizing on Rural America." The purposes of the paper are threefold:

- To summarize recent trends and conditions in rural America;
- To review federal policies and programs aimed at stimulating rural America's economic performance; and
- To develop a conceptual framework and potential policy/program thrusts to serve as a foundation for a new start.

In order to carry out these tasks, the SRI project team conducted a thorough review of the literature regarding the status of rural America; identified federal programs focused on rural areas, with particular attention to economic development initiatives broadly defined (i.e., not limited to farming or agriculture); and, on the basis of this research and analysis, developed a series of strategic options that have the potential for materially improving the economic performance and prospects of rural America. The list of research resources consulted is provided in Appendix A.

The discussion and analysis in this paper relates to rural America in general, though particular facts or issues related directly to the five states served by the Federal Home Loan Bank of Des Moines (Iowa, Minnesota, Missouri, North Dakota, and South Dakota) are highlighted occasionally. Throughout the paper, the definition of "rural" that is most commonly found in the literature is used – that is, a rural area is equivalent to a "non-metropolitan" area. Metropolitan areas are defined as having a core city of at least 50,000 residents and an area population of at least 100,000. All other areas are termed "non-metropolitan."

Inevitably, the breadth of this terminology masks enormous variations between, for example, a remote town of 250 people and a small city of 30,000. As a result, in certain sections of the paper, urban-rural continuum codes (also known as Beale codes) are used to examine differences based on geographic characteristics.

This paper is organized in sections corresponding to the three purposes highlighted above – namely, the status of rural America, federal programs supporting rural regions, and foundations for a new start. As a way to

spur discussion on future strategies, the final section identifies guiding principles for revitalization efforts, outlines recommended thrusts, and then provides initiative descriptions for consideration by conference leaders or participants.

CHAPTER II:

THE STATUS OF RURAL AMERICA

When the first settlers arrived, virtually all of the United States was rural. Through much of U.S. history, rural America represented the frontier, where the strongest and most adventurous sought opportunity, personal freedom and escape from the often brutish life found in cities. Great waves of people pushed continuously west and eventually populated the rich cultivating grounds of the central states and the far west. Regional cities emerged as major trading and transportation centers and served as hubs to many systems of medium-sized and small towns. Eventually, the breadth and productivity of the American "heartland" became a key source of strength, vitality, and competitiveness for the nation.

The flow of people into rural areas peaked in the early 20th century, as machine-aided agricultural productivity reduced the need for farmers, and as the growth of major industries located around large cities acted as a magnet for workers. The population of rural America declined further as a result of the prolonged drought and Great Depression of the 1930s. While the economy of rural America recovered, and agricultural productivity continued to climb, rural areas experienced continued depopulation as a natural result of urbanization. In the latter part of the last century, the nation also witnessed the southern and western migration of the population as people and businesses moved out of the industrial best of northern and eastern states. The mean center of the U.S. population shifted from Baltimore, Maryland in 1790, to southern Ohio in the mid-1800s and eventually to southern Missouri in the year 2000.

Today, rural America faces a serious challenge as a consequence of protracted out-migration. Literally thousands of small towns lack the critical masses of people and businesses needed to support basic infrastructure such as schools, utilities and other public services. Retail stores have an insufficient number of customers to keep their doors open. The vitality of communities is sapped. Under these circumstances, young people feel an increasing need to look to cities to seek employment opportunities.

It is inevitable that this long-term out-migration will eventually be reversed, as technology advances open up new economic opportunities, and as the superior quality of life and values of rural America once again draw people from cities and suburbs. The question to be explored in this paper is whether that process can be accelerated.

In terms of recent economic performance, "rural America today is a striking picture of the best and worst of times."[4] Viewed in aggregate, rural areas emerged from the 1990s having experienced a strong economic rebound. These gains, however, were highly concentrated: 40 percent of rural counties, namely those with scenic amenities, proximity to metropolitan areas, or ability to transform themselves into commercial hubs, accounted for nearly all of the growth.[5] By contrast, the remaining 60 percent of rural America has experienced a serious, continuing decline in its economic fortunes, as well as deep societal changes that jeopardize rural areas' future prospects.

Briefly stated, compared to metropolitan areas, the majority of rural America has witnessed lower economic growth, lower incomes and a widening income gap, higher poverty rates, slower growth in employment, and migration to more populous areas. Though some rural areas showed gains in recent years, it is the economically distressed parts of rural America that concern policy-makers, businesspeople, and residents. Therefore, this summary of current conditions focuses on describing the changes and challenges facing such areas. As is emphasized in the section of the report describing new strategic thrusts, however, it will be important to draw lessons from better performing rural areas.

[4] Drabenstott, Mark, "New Policies for a New Rural America," *International Regional Science Review*, Volume 24, No. 1, p. 4.
[5] Ibid., p. 7.

A. Economic Drivers and Trends

Summary of Economic Drivers and Trends

- Globalization and the rise of low-cost agricultural producers and manufacturers overseas challenge the traditional rural economic base.
- As agriculture's share of the rural economy declines, rural areas have become increasingly dependent on manufacturing and services for growth, employment, and income.
- Economic growth in the 1990s was driven by a high-tech boom that benefited selected urban areas and their adjacent rural regions.
- While urban areas cultivated an advantage in producer services, a growing sector, the rural economy has been dominated by traditional manufacturing, a declining sector.
- Entrepreneurship, innovation, and small business vitality are likely to be the future sources of competitiveness and growth for both rural and urban areas.
- Benchmarking results suggest that rural regions have the competitive advantages of *low business costs* and *high quality of life*.

Overall Economic Context and Dynamics

Much has been written about the dramatic economic changes experienced in the United States and around the world during the 1990s and the initial years of this century. Increased globalization and rapid advances in technology are the factors most often cited as underlying and stimulating the rapid changes in the global economic landscape. While these changes affected all parts of the country, the impact on rural areas naturally has differed, since rural regions have a different economic base and circumstances than their more populous counterparts.

For example, in addition to broader economic changes, commodity prices have been subject to prolonged weakness. The combination of low commodity prices and increasing globalization particularly affected the outlook for traditional agricultural crops, a situation that inevitably was felt most keenly in rural America. At the same time that U.S. agriculture

struggled to grow and sell commodity crops profitably at the prevailing international market prices, increased globalization of markets made it possible for production from developing countries (where wages and other costs typically are lower) to easily reach markets in the United States and other developed countries.

By contrast, the technological boom was centered in urban or suburban areas. Research Triangle, Massachusetts' Route 128, and Austin, Texas, among others, joined Silicon Valley as fast-paced, tightly-networked, innovation-producing regions that gave rise to sweeping technological advances. Although rural areas now have access to many of these technologies, few if any rural regions participated significantly in their development – unless their geographic location fortuitously positioned them near a technology center. For example, previously rural Loudoun County, Virginia, is the 34th fastest growing county in the country, in large part because it is relatively close to Northern Virginia's high technology corridor and the nation's capital. As was mentioned earlier, the proximity of rural areas to urban or suburban growth centers, as well as existence of natural or physical amenities, created wide divergence within rural America during the 1990s, with some rural areas enjoying the benefits of the country's economic successes and others falling yet further behind.

Structural Changes in Global Economic Activity

Rural America has been affected by two major structural changes in the global economy: the increased competitiveness of manufacturing and agricultural production in developing countries. Since the 1960s, the United States has been the leading exporter of staple crops such as soybeans, wheat, and corn. Today, countries such as Brazil and Argentina are becoming major producers, and the trend is toward increased production of commodity crops outside the United States.

Likewise, as has been widely discussed, manufacturing jobs also have relocated from the United States to less costly production sites around the world. From 1980 to 2000, U.S. manufacturing exports grew by 7.6 percent, while manufacturing imports rose 10.7 percent.[6] Correspondingly, the share of U.S. employment in manufacturing decreased from 29 percent in the late 1960s to just 16 percent in 1995.[7]

[6] SRI International, "Globalization: Trends and Impact Factors of Globalization of Manufacturing Input Factors on Future U.S. Manufacturing Capability," for Manufacturing Extension Partnership, National Institute of Standards and Technology, U.S. Department of Commerce, March 30, 2004, p. 20.
[7] Baker, Dean, "The U.S. Wage Gap and Decline of Manufacturing," Economic Policy Institute, Washington, DC, no date.

Although rural regions did not suffer manufacturing job or earning losses to the same extent as urban areas during the 1990s, observers do not expect traditional manufacturing to be a dependable or enduring source of strength for rural America in the future.

Sectoral Shifts in Rural Economic Activity

During the latter half of the 20th century, a profound shift in the structure and nature of the rural economy occurred. The rural economy today is much more diverse and much less dependent on agriculture than ever before, and changes in agricultural production have contributed to the sector's declining importance to rural livelihoods. Manufacturing remains an important contributor to rural America's economy, although its performance and prospects have waxed and waned with changes in the global environment. Lastly, as in the rest of the nation, services have assumed an increasingly prominent role in rural economies.

■ Changes in agricultural production

Agricultural production is moving rapidly away from the longstanding model of crops produced by large numbers of farmers, sold via commodity exchanges and spot markets to intermediaries, and transformed by purchasers into consumer products. Instead, agribusiness has adopted and adapted supply chain principles from other economic sectors, and agricultural production today exhibits much greater integration from farm to store. In 1998, for example, "35 percent of the total value of U.S. agricultural production was produced under some sort of contractual arrangement."[9] Contract production is highly concentrated in commodity

Supply Chains and Pork Production in the United States

"It is possible that only a relatively few hubs [for large-scale animal operations] will be economically feasible under supply chain arrangements … Some industry observers believe that under [such an] arrangement, for example, 50 or fewer pork producers and 12 state-of-the-art packing plants could, in the near future, supply the entire U.S. pork market."[8]

[8] Benjamin, Gary L., "Industrialization in Hog Production: Implications for Midwest Agriculture," *Economic Perspectives*, Federal Reserve Bank of Chicago, 1997, as cited in Cowan, Tadlock, "Economic Development Options and Constraints in Remote Rural Counties: A Case Study of the Great Plains Region," Congressional Research Service, April 29, 2004, p. 25.

[9] Cowan, Tadlock, "Value-Added Agricultural Enterprises in Rural Development Strategies," Congressional Research Service, October 8, 2002, p. 22.

products. Further concentration of production is possible, even probable, for some agricultural products.

Farms today are fewer, larger, and more specialized, spurred in part by agricultural technologies that increase crop productivity and yield, but require expensive machinery and other inputs that cannot be used profitably on smaller farms. In short, agriculture today looks "more like manufacturing businesses and less like traditional perceptions of 'family farms.'"[10] These trends – toward increased use of marketing and production contracts and greater prevalence of large, technologically-driven farming – are expected to continue.

- **Reduction in agriculture's share of the rural economy**

Agriculture is no longer a major economic driver in the vast majority of rural counties. The nation's number of "farm counties" – defined as those where 15 percent or more of the county's total earnings or employment is derived from farming – decreased from 618 to 420 during the period 1990 to 2000.[11] Among the nation's 2,000 rural counties, only one-fifth were classified as farm counties in 2000. Even in farm counties, an average of 80 percent of jobs are in non-farm sectors.[12]

- **Increase in importance of services**

As agriculture's significance has declined, rural America has seen a rising share of its economy held initially by manufacturing and, more recently, by services (as in the rest of the country). In the past, attracting manufacturing enterprises to rural areas was a major focus of rural development policies, based primarily on the lower wages in rural America relative to metropolitan areas. As a result of these past trends and policies, manufacturing's share of the rural economy expanded significantly. Even between 1990 and 2001, when the rest of the country suffered a decline in manufacturing employment, rural regions gained manufacturing jobs, albeit at a rate of only .03 percent annually.[13] However, both agriculture and manufacturing jobs have been eclipsed by the rapid growth of service sector employment.

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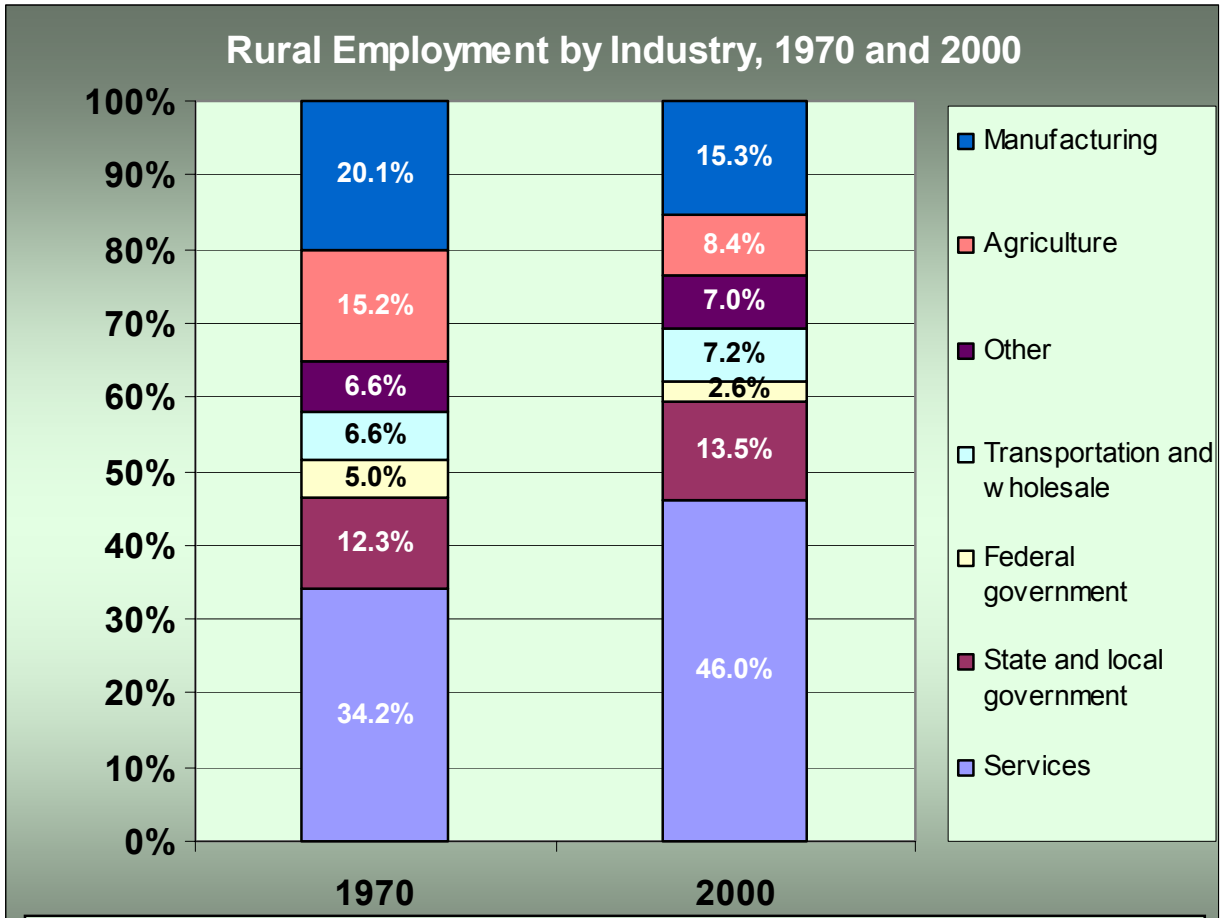
[10] U.S. Department of Agriculture, Economic Research Service, "Non-farm growth and Structural Change Alter Farming's Role in the Rural Economy," *Rural Conditions and Trends*, Vol. 10, No. 2, p. 5.
[11] U.S. Department of Agriculture, Economic Research Service, "One in Five Rural Counties Depends on Farming," *Amber Waves*, June 2004, p. 11.
[12] Porter, Michael E., with Christian H.M. Ketels, Kaia Miller, Richard T. Bryden, "Competitiveness in Rural U.S. Regions: Learning and Research Agenda," Institute for Strategy and Competitiveness, Harvard Business School, February 25, 2004, p. 19.
[13] Ibid, p. 33.

Inevitably, the low wage, low skill manufacturing jobs that once located in rural areas will be drawn towards even lower wage opportunities overseas. Therefore, manufacturing can be expected to decline in importance as a driver of the rural economy. Nonetheless, as indicated in the chart below, manufacturing still accounted for 15.3 percent of rural employment in 2000. Services likewise provide a significant proportion of rural employment: nearly half of rural Americans were employed by the services industry in 2000, compared to approximately one third thirty years ago.



Source: Henderson, Jason and Stephen Weiler, "Beyond Cows and Corn: Rural America in the 21st Century," The Main Street Economist, Center for the Study of Rural America, Federal Reserve Bank of Kansas City, October 2004, p. 2.

Sectoral Shifts in Employment and Income

Changes in the major sources of employment and income have paralleled the overall economic changes described above. As might be expected from the decline in agriculture's share of the rural economy, agriculture also has become much less important as a source of jobs and income for inhabitants of rural areas. Today, agriculture employs less than 8 percent of the rural workforce, and only 1.7 percent of the rural population is engaged in farming full-time.[14]

Reliance on agriculture as a source of income likewise has dropped in significance. According to Thomas Johnson, "the average farm family depended on off-farm jobs, dividends, interest and transfers for more than 88 percent of its income. On average, 54 percent of this income came from off-farm jobs in the community."[15]

The "Modern Economy" and Rural America

The "modern economy" is knowledge-intensive and technology-based, with entrepreneurs and small businesses supplying much of the innovation and ideas underlying the development of more advanced technology and information tools. Accordingly, to understand the extent to which rural America participates in the modern economy, it is important to look at the composition of its manufacturing output (in order to ascertain high-technology production) and at producer services, a sector that in the 1990s expanded dramatically in importance to the U.S. economy, as knowledge-based resources such as information and professional and technical services became drivers of economic growth. Likewise, because small businesses have spawned much new economy growth, it is important to assess the climate for entrepreneurship in rural areas. Last, to identify existing and potential strengths (as well as weaknesses) in today's market, it is also useful to measure how rural America fares in terms of overall competitiveness. These topics are discussed below.

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[14] Cowan, Tadlock, "Value-Added Agricultural Enterprises in Rural Development Strategies," Congressional Research Service, October 8, 2002, p. 4.

[15] Johnson, Thomas G., "The Rural Economy in a New Century, 2001, *International Regional Science Review*, Vol. 24, No. 1, p. 32.

■ Producer services and manufacturing in the rural economy

As indicated in the table below, the producer services sector is a much less important contributor to earnings in rural than in urban areas. Nearly a third of urban earnings are derived from producer services, whereas such services comprise slightly more than one-tenth of the rural earnings. By contrast, manufacturing is a more important source of earnings in rural areas than in urban areas.

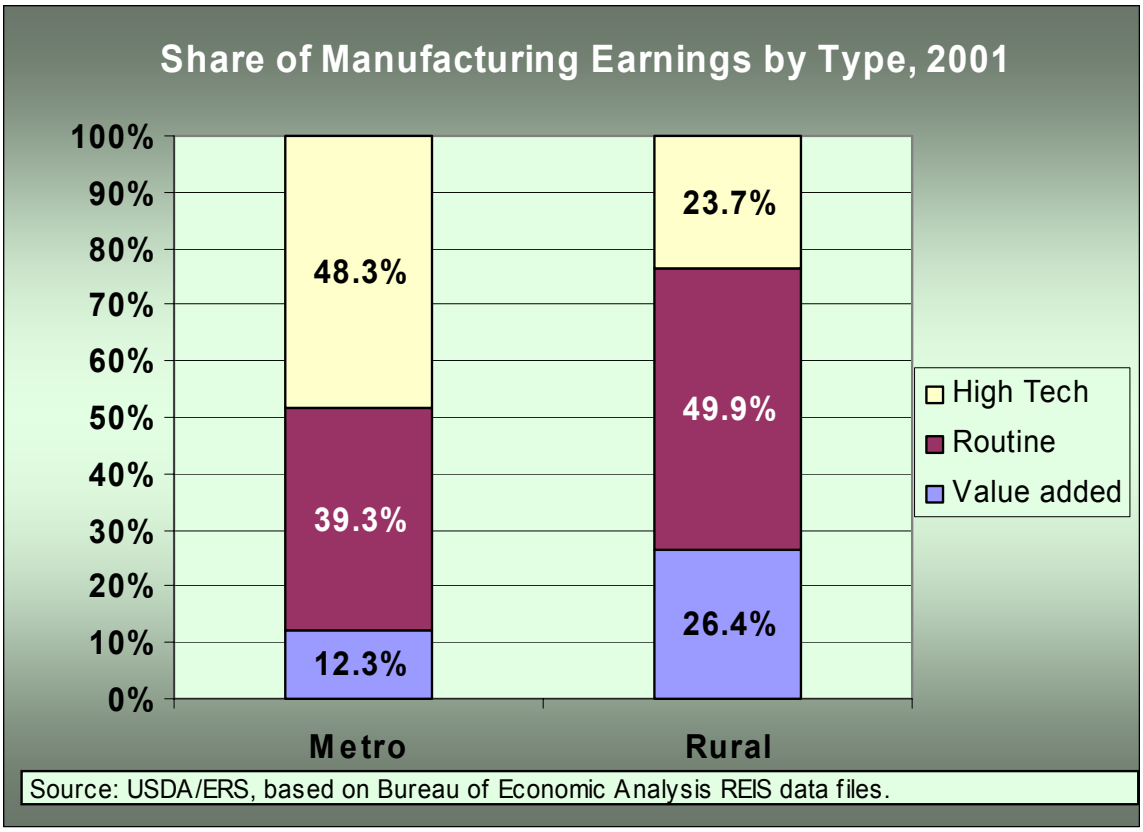
Industry Share of Metro and Non-Metro (Rural) Earnings, 2001

Metro Areas		Non-Metro Areas	
Industry	**Percent**	**Industry**	**Percent**
Producer services	31.3	Government services	21.8
Consumer services	19.4	Consumer services	21.7
Manufacturing	12.5	Manufacturing	19.0
Government services	15.1	Producer services	11.8
Utilities, transportation, wholesale	9.8	Utilities, transportation, wholesale	8.0
Construction	6.2	Construction	6.8
Recreation	4.4	Recreation	4.6
Mining	0.7	Agriculture, forestry, fishing	4.2
Agriculture, forestry, fishing	0.5	Mining	2.0

Source: U.S. Department of Agriculture, Economic Research Service, based on Bureau of Economic Analysis REIS data files.

The composition of manufacturing in the two regions differs significantly. Metro areas significantly outpace rural regions in terms of high-tech manufacturing, demonstrating one aspect of urban areas' advantage in the modern economy. By contrast, rural areas account for a greater proportion of routine manufacturing (e.g., primary metal manufacturing, textile mill products, apparel, furniture, etc.), as well as value added manufacturing, which consists of food, beverage, tobacco, wood product, leather, and paper production.[16]

[16] Definitions and data for routine manufacturing and value added manufacturing are based on Bureau of Economic Analysis REIS files. The source for the data in the chart is "Earnings by industry, metro and non-metro areas, 2001," Economic Research Service, U.S. Department of Agriculture.



■ **Entrepreneurship and small business development**

The lack of appropriate, consistent data hampers the efforts of researchers to analyze entrepreneurship and small business development trends in the United States, both generally speaking and in rural areas in particular. Some data is available only at the state level; some is presented by "labor market areas,"[17] which sometimes cross state boundaries; and some is obtainable at the county level. However, because entrepreneurship has recently received substantial attention as a potential foundation for rural revitalization, defining the extent of small business development in rural areas is an expanding area of research focus.

Using U.S. Census data on self-employer firms and small companies (defined as those that have twenty or fewer employees), the Corporation for Enterprise Development has found that "high-performing small labor markets are found widely distributed across the country – there appears

[17] "Labor market areas" are defined by the U.S. Department of Labor for the purpose of tracking employment and unemployment.

to be no obvious common locational characteristics."[18] The states served by the Federal Home Loan Bank of Des Moines, for instance, contain many counties that are in the top-third nationwide in terms of numbers of small businesses as a proportion of county jobs. All but nine labor market areas in the five states covered by the Des Moines Home Loan Bank had, on average, more than three firm startups per 1,000 labor force per year from 1994 to 1996. Parts of western South Dakota had 4.5 to 5.5 firm startups per 1,000 labor force annually.[19] Although additional research would be useful to formulate more definitive conclusions and to frame future support efforts, existing analyses suggest that entrepreneurship and small business development may be areas upon which rural counties can build renewal strategies.

■ Competitiveness benchmarking

The modern economy has caused policymakers and businesspeople in states across the country to reflect upon what changes they need to make in order to compete within a dramatically different global economic environment. Although rural parts of the country undoubtedly face different pressures and challenges from more urban areas, examining how rural America fares from a competitiveness perspective is useful to begin to determine what strengths to build upon – and to define what corrective actions might be taken.

Through its work on behalf of state governments and business associations, SRI has developed a Competitiveness Web Model – a comprehensive set of 136 indicators in eight economic foundation categories that demonstrate the overall competitiveness of a state vis-à-vis its peers. These eight categories are summarized in the following table.

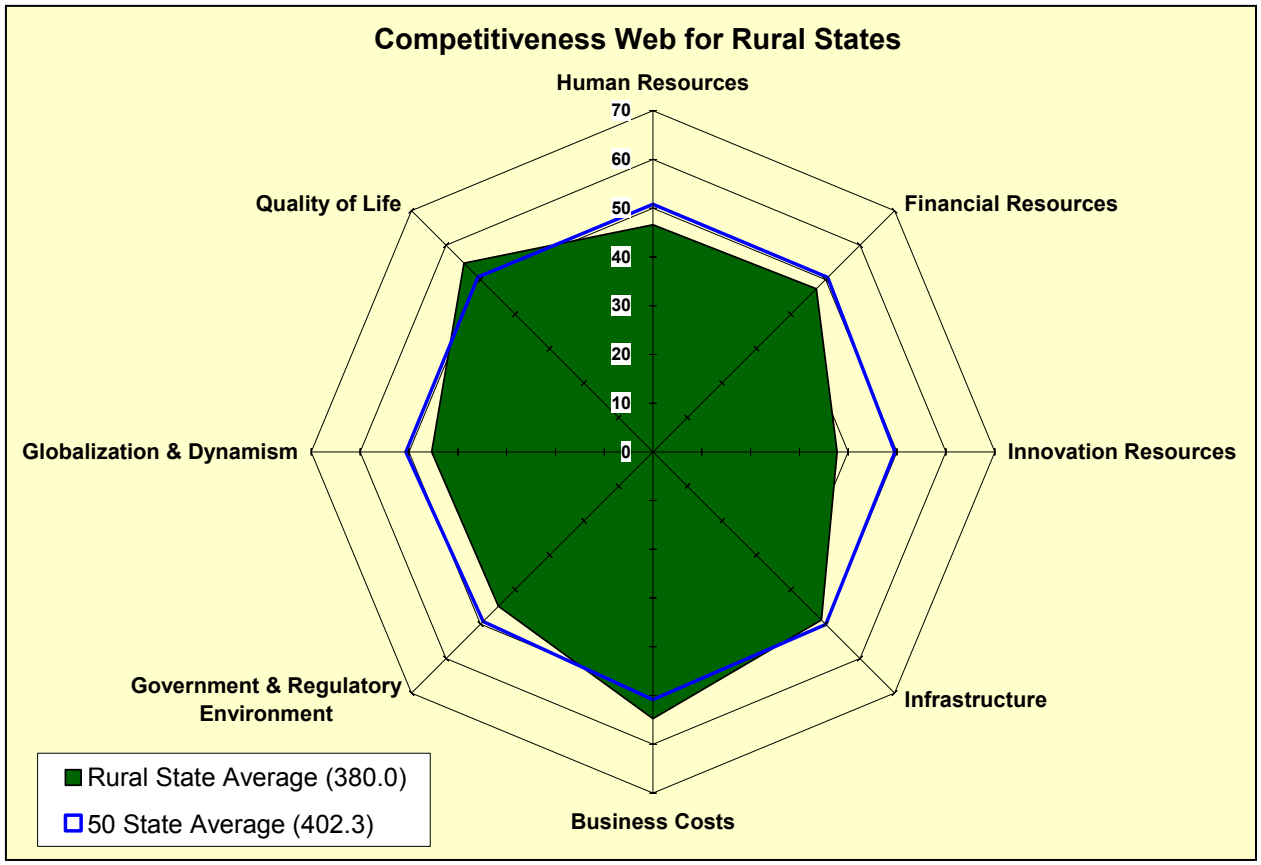
[18] Corporation for Enterprise Development, "Mapping Rural Entrepreneurship," for the W.K. Kellogg Foundation, August 2003, p. 24.
[19] Acs, Zoltan J. and Edward J. Malecki, "Entrepreneurship in Rural America: The Big Picture," Center for the Study of Rural America, Federal Reserve Bank of Kansas City, April 28-29, 2004, p. 23.

Eight Foundations of State Competitiveness	
Human Resources Quality of education ◆ Workforce characteristics ◆ Technology capacity	**Government & Regulatory Environment** Government size & efficiency ◆ E-government capacity ◆ Regulatory framework
Financial Resources Capital resources ◆ Entrepreneurial support	**Business Costs** Taxes ◆ Other costs of doing business
Innovation Resources Research & development support ◆ Collaboration & innovation	**Globalization & Dynamism** International linkages ◆ Entrepreneurship & business growth
Infrastructure Physical infrastructure ◆ Technology networks	**Quality of Life** Standards of living ◆ Health ◆ Environment & weather ◆ Lifestyle

Based on their rankings for the indicators that comprise each "foundation" category, states are given a score ranging from 1 to 100 for each of the eight competitiveness foundations. The total possible overall score for state competitiveness is 800.

To evaluate rural America's overall competitiveness in these eight foundation categories, SRI benchmarked the country's 25 "most rural" states – defined as those states with the highest proportion of residents in rural areas – against the national averages for the eight categories. The five states served by the Federal Home Loan Bank of Des Moines all fall into this group of 25 "most rural" states.

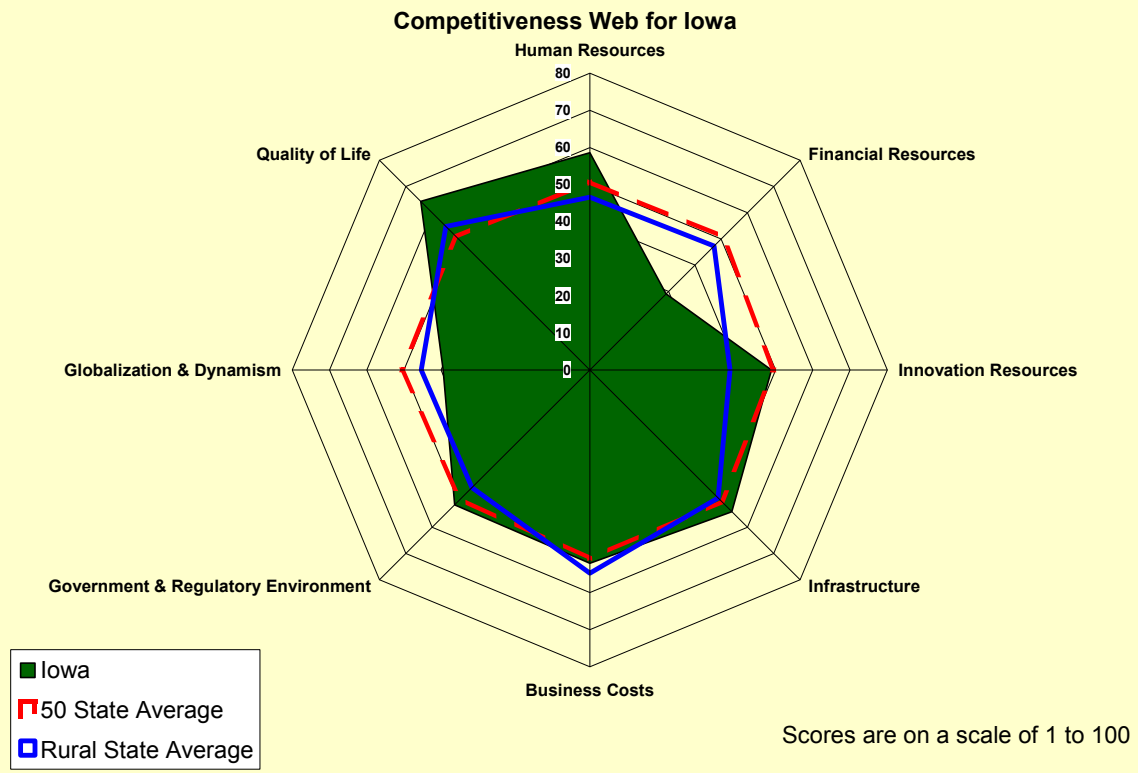
The summary benchmarking results are presented in the following diagram. As indicated, rural states score better than the national average in two competitiveness categories: business costs and quality of life. Examining the indicators that comprise these positive rankings (and exploring particular indicators that contribute to the poorer than average performance in the other six competitiveness foundations) could provide insights applicable to more detailed rural revitalization strategies.



The following table shows the actual scores for the most rural 25 states, the states covered by the Federal Home Loan Bank of Des Moines, and the average for all U.S. states. The areas in which the rural states scored the lowest in comparison to the U.S. average are innovation resources, government and regulatory environment, and globalization and dynamism. However, as noted above, these states can build upon their relatively high scores in quality of life and low business costs.

Competitiveness Web for Rural States and States Served by the Federal Home Loan Bank of Des Moines							
Competitiveness Category	**Iowa**	**Minnesota**	**Missouri**	**North Dakota**	**South Dakota**	**25 Most Rural States Average Score**	**All 50 States Average Score**
Human Resources	58.6	62.6	52.9	46.3	45.8	46.6	50.8
Financial Resources	29.0	65.3	54.7	51.7	33.2	47.3	50.6
Innovation Resources	48.9	70.3	52.0	28.8	14.6	37.7	49.5
Infrastructure	54.0	53.7	61.3	44.0	46.1	48.8	50.0
Business Costs	52.1	33.9	56.8	63.8	77.7	54.7	50.8
Govt. & Regulatory Environment	51.4	45.8	53.1	37.8	51.4	44.8	49.2
Globalization & Dynamism	39.4	60.2	44.5	39.0	39.8	45.4	50.6
Quality of Life	64.3	73.9	52.5	64.6	67.2	54.7	50.7
Total Competitiveness Score	**397.7**	**465.9**	**427.6**	**375.9**	**375.6**	**380.0**	**402.3**
Total possible score in each competitiveness category is 100. Total possible overall competitiveness score is 800.							

As illustrated by the table above, the scores achieved by the five states served by the Federal Home Loan Bank of Des Moines differ considerably, both at the aggregate total competitiveness score and within particular competitiveness categories. To provide an overview of these variations, competitiveness web diagrams for each state are presented below, along with outlines of the assets and liabilities revealed by the benchmarking results.



Iowa is moderately competitive among the rural states, but at 27th in the nation, ranks just below the U.S. average for its overall score in SRI's Competitiveness Web Model. Iowa's key strengths include its quality of life and human resources. The recent focus of Iowa's government on developing innovation-based industries has led to initiatives that improve its standing in innovation resources and infrastructure. Its strong network of state universities and private colleges supplies a competitive human resource base and is attracting new R&D funding. In spite of this relative strength, Iowa has not stimulated sufficient business investments in recent years to create a vibrant economy, a weakness that is reflected in its low scores for globalization and dynamism and financial resources.

Assets

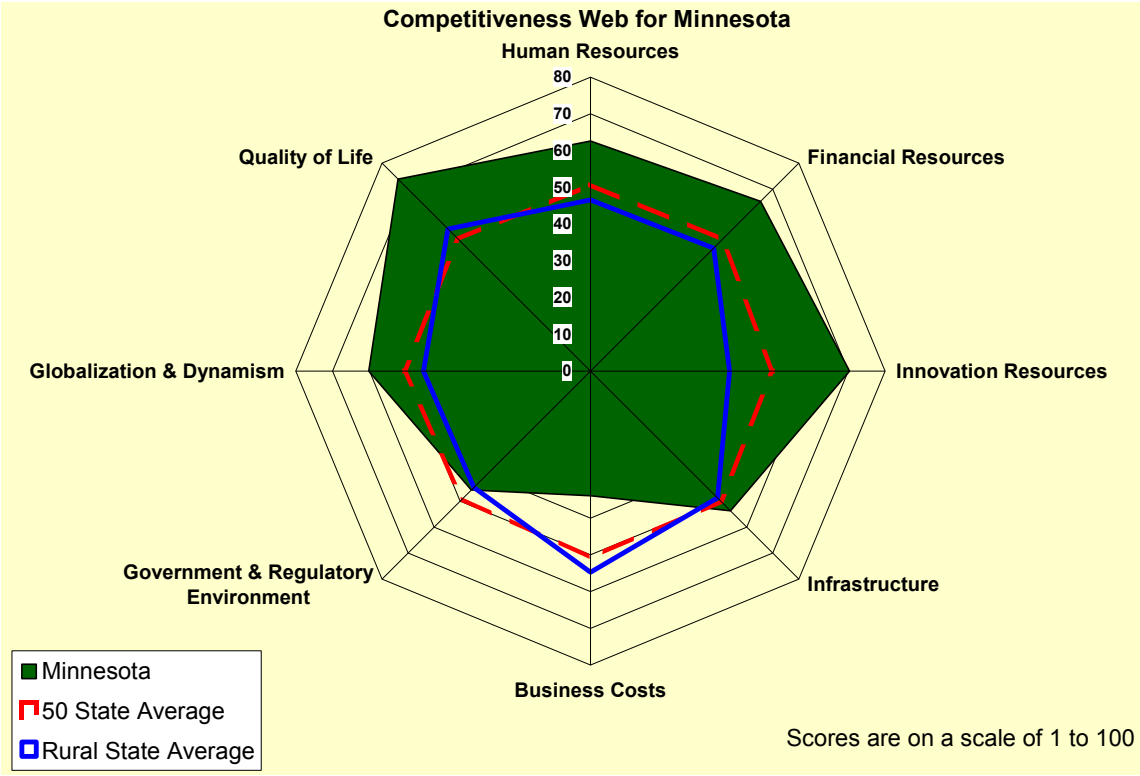
- Good reputation of state universities and private colleges[20]
- High academic R&D expenditures[21]
- Large number of high speed/broadband service providers
- Relatively low cost of living and affordable housing

[20] *U.S. News & World Report* peer assessment score: how school is regarded by administrators at peer institutions – average score for all ranked undergraduate schools in the state (2004).
[21] Academic R&D expenditures per $1,000 gross state product (2002).

- Strong public K-12 education system, reflected in high test scores and high proportion of adults with high school diplomas
- Low poverty rate

Liabilities

- Inadequate small and micro business loans[22]
- One of the lowest levels of venture capital (VC) investment in the nation (49th)[23]
- Low capital investment in manufacturing[24]
- Very low Small Business Investment Company (SBIC) financing (38th)[25]
- Weak business start-up rate (48th)[26]



Minnesota is a highly competitive state, ranking 4th in the nation in SRI's Competitiveness Web Model. Most notably, Minnesota ranks first in the country for its quality of life. The state is particularly strong in human resources, financial resources, and innovation resources. However,

22 Value of small and micro business loans per worker (2000).
23 Average annual value of venture capital investments made in the state (2000-2003).
24 Manufacturing capital expenditure per manufacturing employee (2001).
25 Total annual SBIC (Small Business Investment Company) financing per business establishment (2003).
26 Business formations as a percent of total businesses (2003).

much of those resources are concentrated in two metropolitan areas that contain strong medical research clusters. The state's government and regulatory environment is below average, but its main competitive weakness is its business costs (ranked 48th in the nation).

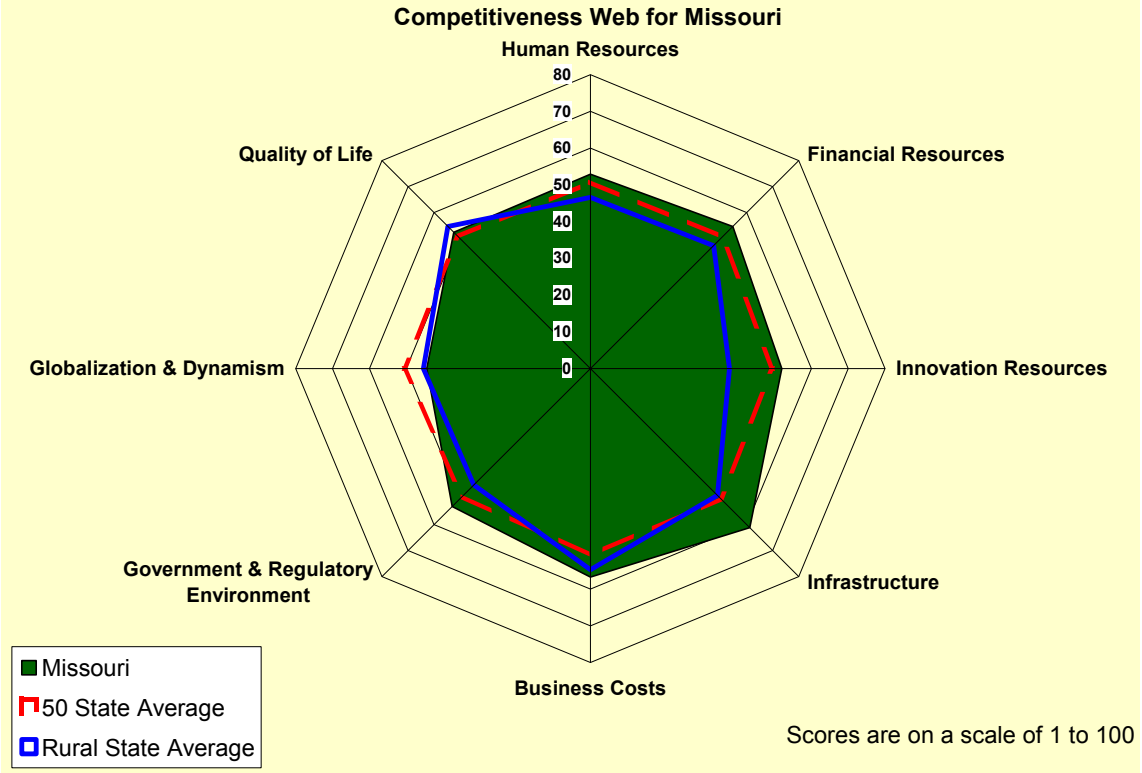
Assets

- Strong reputation of its universities and graduate programs[27]
- 92% of population over 25 has a high school diploma
- Relatively high proportion of adults with higher degrees[28]
- Second highest in start-up/seed VC investments among the rural states, and 11th in the nation[29]
- Very strong in patenting activity (2nd highest in the nation)[30]
- Very high home ownership rate, low poverty rate, and the highest health insurance coverage rate in the nation

Liabilities

- Loss of young adult population (ages 25-34) from 1990-2000
- High effective corporate income tax rate[31]
- High state property tax burden[32]
- Very high state personal income tax burden[33]

[27] *U.S. News & World Report* peer assessment score: how school is regarded by administrators at peer institutions – average score for all ranked undergraduate schools in the state (2004).
[28] Percent of adults with associate's, bachelor's, and graduate/professional degrees (2001).
[29] Average annual value of start/seed VC investments made in the state (2000-2003).
[30] Number of patents granted per 10,000 business establishments (2003).
[31] State corporate income tax revenues as a percent of state business income (2001).
[32] State property tax revenue as a percent of personal income (2001).
[33] Personal income tax revenue as a percent of personal income (2001).



Missouri is one of the most competitive rural states in the country, and but places in the average range (21st) nationwide. Missouri ranks right in the middle of all U.S. states in human resources, financial resources, and innovation resources. The combination of two major cities and many small towns and rural areas produces indicators that balance each other out to create scores that mirror the national average. Overall, Missouri is an "average" state that does not seem to have outstanding advantages to attract investment and stimulate growth in a highly competitive environment.

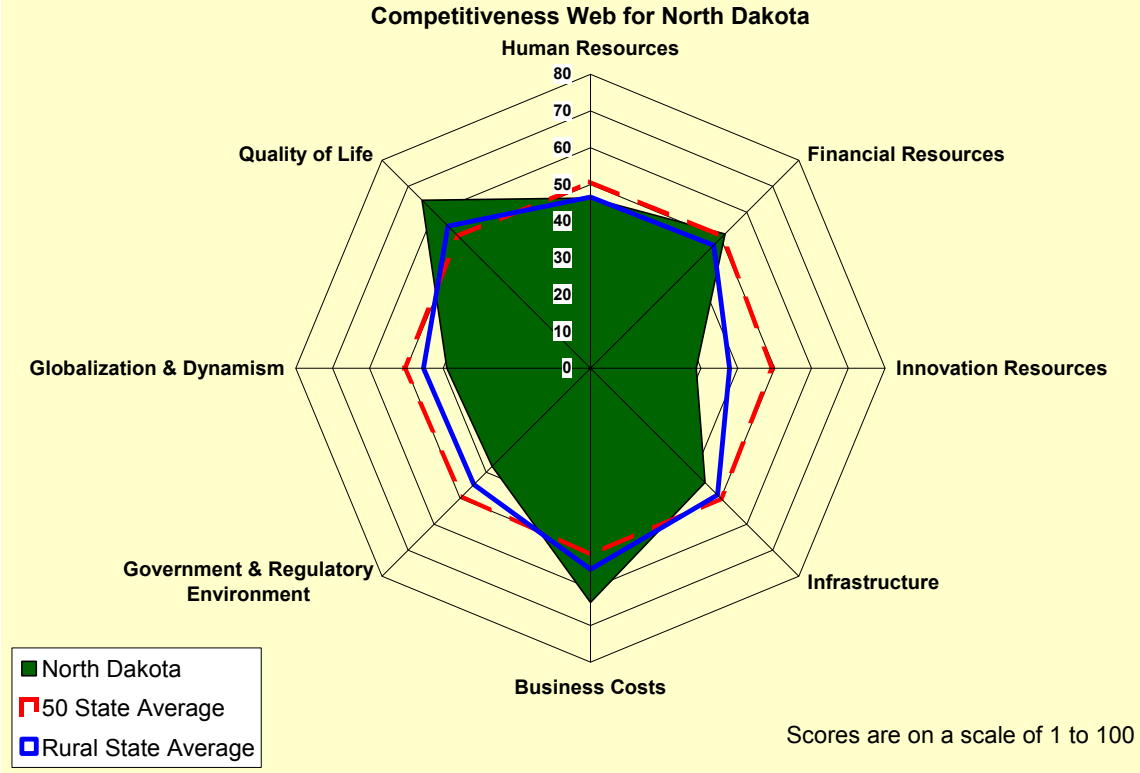
Assets

- Highest startup/seed VC investments among the rural states, and 11th in the nation
- Above average in the value of small business loans made per worker
- Above average in "new economy" infrastructure, such as number of high speed/broadband service providers and fiber cables deployed
- Convenient air transport[34]
- Affordable housing and competitive cost of living

[34] Ranked 5th in the number of scheduled aircraft departures per 1,000 population (2000).

Liabilities

- Average in most categories and indicators, with no outstanding advantages
- Above average state and local personal income tax burden
- Relatively high labor cost (35th)[35]
- Below average industry R&D investments, measured on a per worker basis
- High natural gas prices for industrial users (42nd)[36]



North Dakota ranks 35th in the nation for its overall competitiveness score and places just below average among the 25 rural states. The state's competitive advantages lie in its quality of life and low costs of doing business. However, it compares unfavorably nationwide and with many rural states in providing the innovation resources, infrastructure, and government and regulatory environment necessary for business growth. Its competitive assets and liabilities are similar to those facing many rural regions across the country.

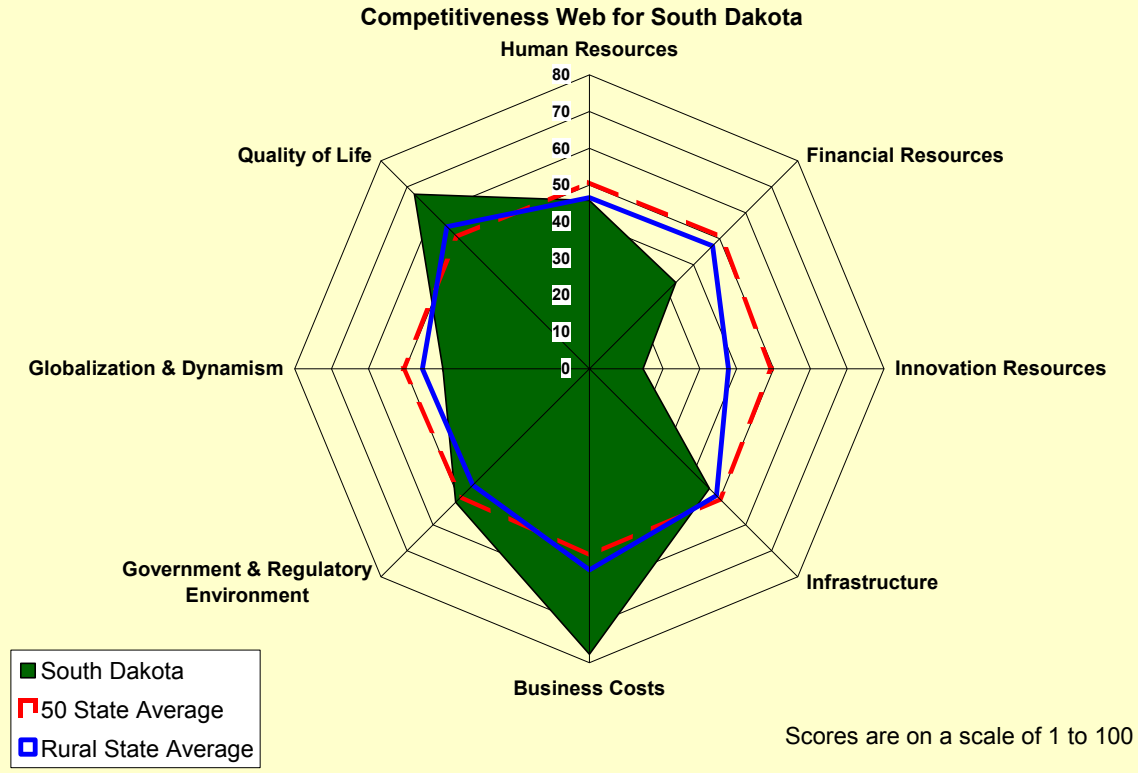
[35] Based on an Adjusted Unit Labor Cost Index, *North America Business Cost Review 2003* (10th edition).
[36] Average industrial prices for natural gas, measured in dollar per thousand cubic feet (2000-2002).

Assets

- Low overall local and state personal income tax burden
- Highly affordable Class A office space and competitive electricity rates
- Very competitive labor costs
- Affordable housing for residents
- Lowest crime rate in the nation
- One of the best states in the country for air quality

Liabilities

- Very low total R&D expenditures at universities and colleges (43rd) (but high when measured as a share of gross state product)
- Weak in total industry R&D performance (45th)
- Very weak in patent activity (47th)
- Weak undergraduate college and university reputation (50th)
- No startup/seed VC investments reported for 2000-2003
- No SBIC funding reported for 2003



South Dakota ranks 36th among all U.S. states in its overall competitiveness score. The Competitiveness Web for the state looks highly skewed because of its strong ratings in business costs and quality of life, and its weak indicators in innovation resources, financial resources, and globalization and dynamism. Similar to North Dakota, the

competitiveness conditions of South Dakota are fairly representative of the strengths and weaknesses of many rural regions across the country.

Assets

- Highly competitive labor cost – one of the lowest in the nation
- Fairly competitive industrial utility prices (gas and electricity)
- Low overall state and local tax burden (4th)[37]
- Second lowest crime rate in the nation
- One of the best in the country for air quality

Liabilities

- The lowest R&D expenditures at universities and colleges among all U.S. states
- Very low industry R&D (48th)
- Weak undergraduate college and university reputation
- Low total VC investments (37th)
- No startup/seed VC investments reported for 2000-2003

[37] Total state and local tax revenues as a percent of personal income (2001).

B. Social Drivers and Trends

Summary of Social Drivers and Trends
▪ Counties classified as "completely rural" have experienced the most significant population decline or stagnation over the past decade. ▪ Out-migration of young people has contributed to the rapid aging of rural counties. ▪ Rural counties have experienced significant increases in their Hispanic population. ▪ Rural regions have higher poverty rates. ▪ Educational attainment, particularly higher education, is lower in rural areas than in urban areas.

Demographic Factors

■ Overall population change

Figure 1 encapsulates population change across the United States from 1990 to 2000, with purple and light pink depicting areas that experienced either outward migration or minimal change. Counties shaded in deeper pink and red witnessed growth rates of three percent or higher, with the overall population growth rate across the country reaching 13.2 percent during this period. As is evident from the color patterns, the central part of the country experienced the most dramatic population declines. Nearly all of North Dakota, much of South Dakota, Nebraska, Kansas, and parts of Montana, Texas, Iowa, and Maine had significant shares of their states faced with declining population. Among the states covered by the Federal Home Loan Bank of Des Moines, only Minnesota and Missouri had large areas with modest or high growth, although both states experienced declining population in a few concentrated areas.

A quick visual comparison between Figure 1 and Figure 2 suggests that population declines were most significant in the counties classified as "completely rural" (that is, shaded green). However, as mentioned earlier, rural counties in some states (such as Colorado, Nevada, Utah, and Wyoming) have seen rapid population growth, most likely because of scenic amenities or rapidly growing cities such as Las Vegas and

Colorado Springs. Even in states where a high proportion of counties are shaded purple (indicating significant population decline), however, there are some counties that were relatively stable (i.e., low decline or growth) or saw modest, above average, or even high growth. Because some of these growing counties appear to be non-metropolitan areas, careful examination of the economic characteristics of such counties could contribute greatly to understanding potential drivers of rural revitalization.

Figure 1 – U.S. Population Change by County, 1990-2000

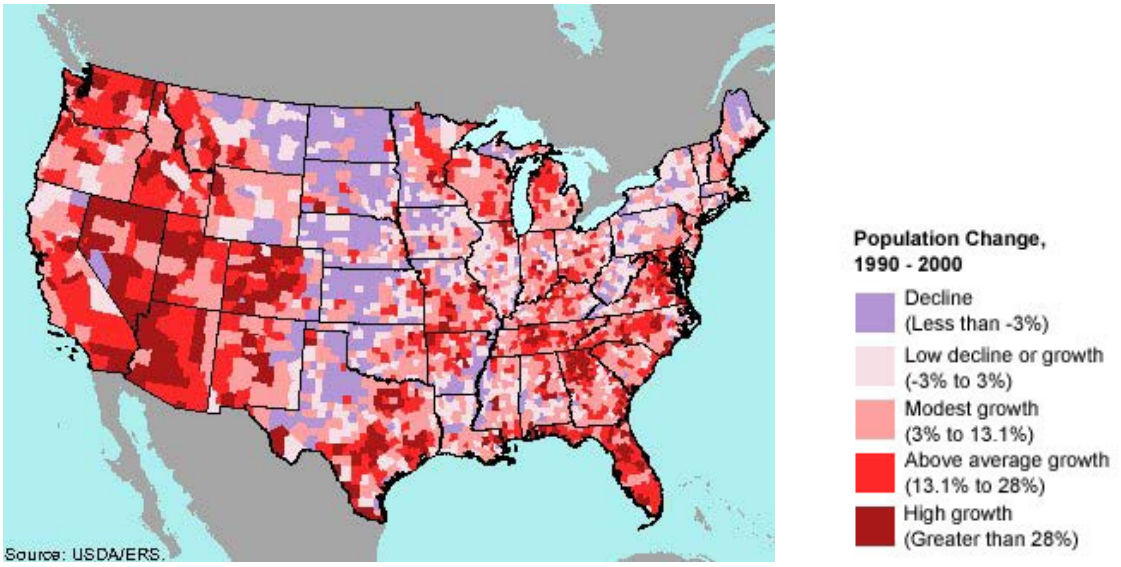
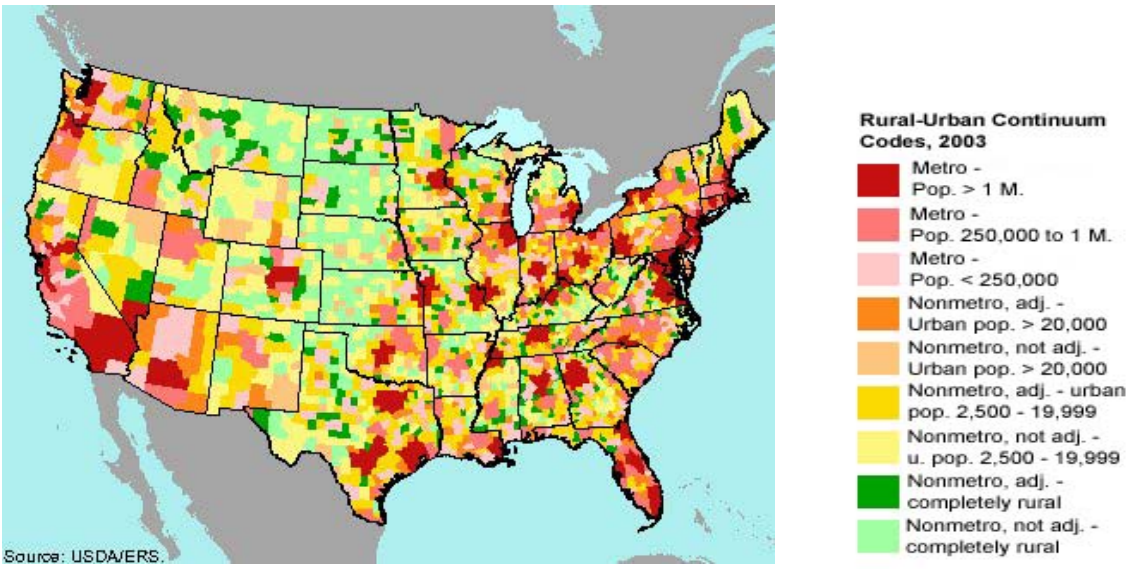


Figure 2 - U.S. Counties by Rural-Urban Continuum Codes

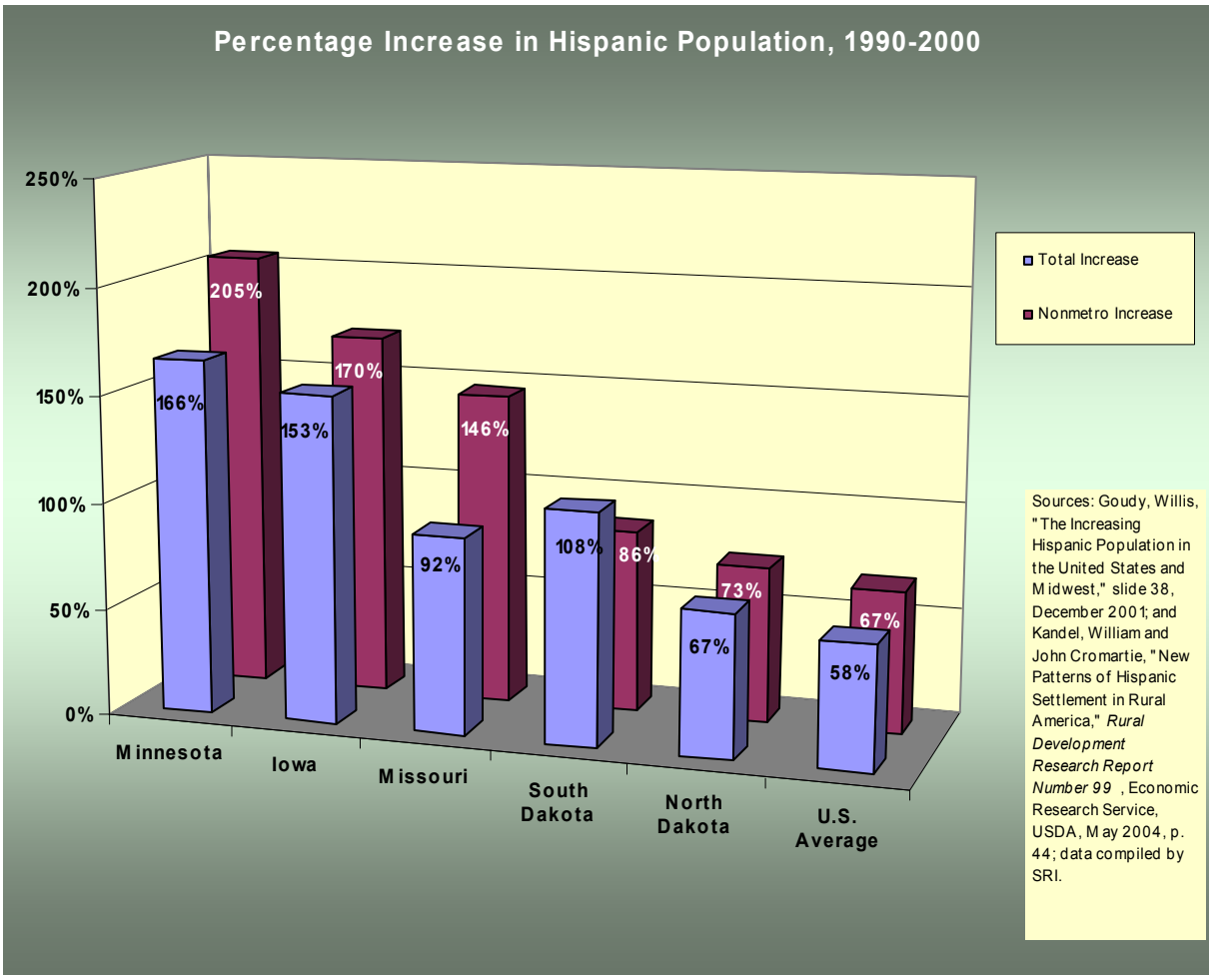


■ Hispanic in-migration

From 1990 to 2000, the overall population of the United States grew by 13.2 percent. During the same period, the country's Hispanic population increased by 57.9 percent,[38] a rate that makes this ethnic group the fastest growing in the nation. Although Hispanics on the whole are the most urbanized ethnic group in the United States – 90 percent lived in metropolitan areas in 2000 – non-metro areas have begun to see proportionately high Hispanic in-migration since the 1990s. Within non-metro counties, growth in Hispanic residents was highly concentrated and thus very visible. Specifically, "while almost all non-metro counties experienced Hispanic population growth, 30 percent of this growth occurred in the 149 counties whose Hispanic population growth rates exceeded 150 percent."[39]

The five states served by the Federal Home Loan Bank of Des Moines typified the national pattern of high Hispanic population growth, both in the states' metro and non-metro areas. Indeed, population declines would have been more pronounced in Iowa, North Dakota, and South Dakota without Hispanic population growth: in these states, 45, 44, and 30 counties, respectively, lost population overall despite experiencing growth in the Hispanic population. In Missouri and Minnesota, 24 and 18 counties, respectively, experienced overall population declines despite growth in the Hispanic population, and Missouri and Minnesota each had four counties in which overall population loss was avoided because of growth in the Hispanic population.[40] The following table depicts Hispanic population growth (both overall and in non-metro areas) in these five states.

[38] Goudy, Willis, "The Increasing Hispanic Population in the United States and the Midwest," December 2001 PowerPoint presentation at "Enhancing Extension's Capacity to Work with Spanish Speaking Populations in the North Central Region," sponsored by the North Central Regional Center for Rural Development, slide 33.
[39] Kandel, William and John Cromartie, "New Patterns of Hispanic Settlement in Rural America," *Rural Development Research Report Number 99*, Economic Research Service, U.S. Department of Agriculture, May 2004, p. 31.
[40] Ibid., p. 13.



Hispanic migrants to rural areas tend to include higher proportions of men than women and to be younger, less well-educated, and have larger families than their native non-metro counterparts. All of these factors have both visible and tangible impacts on the rural communities the migrants join. As William Kandel and John Cromartie state:

> Age and sex composition have important economic and policy ramifications. Younger populations attend schools, enter the labor force in relatively greater numbers, vote relatively infrequently, and require sharply different social services than older populations who, in contrast, require more health care, leave the labor force in relatively greater numbers, and vote more reliably … These differences can create tensions among residents over local budgetary choices and may consequently alter residential settlement patterns over time.[41]

[41] Ibid., p. 16-17.

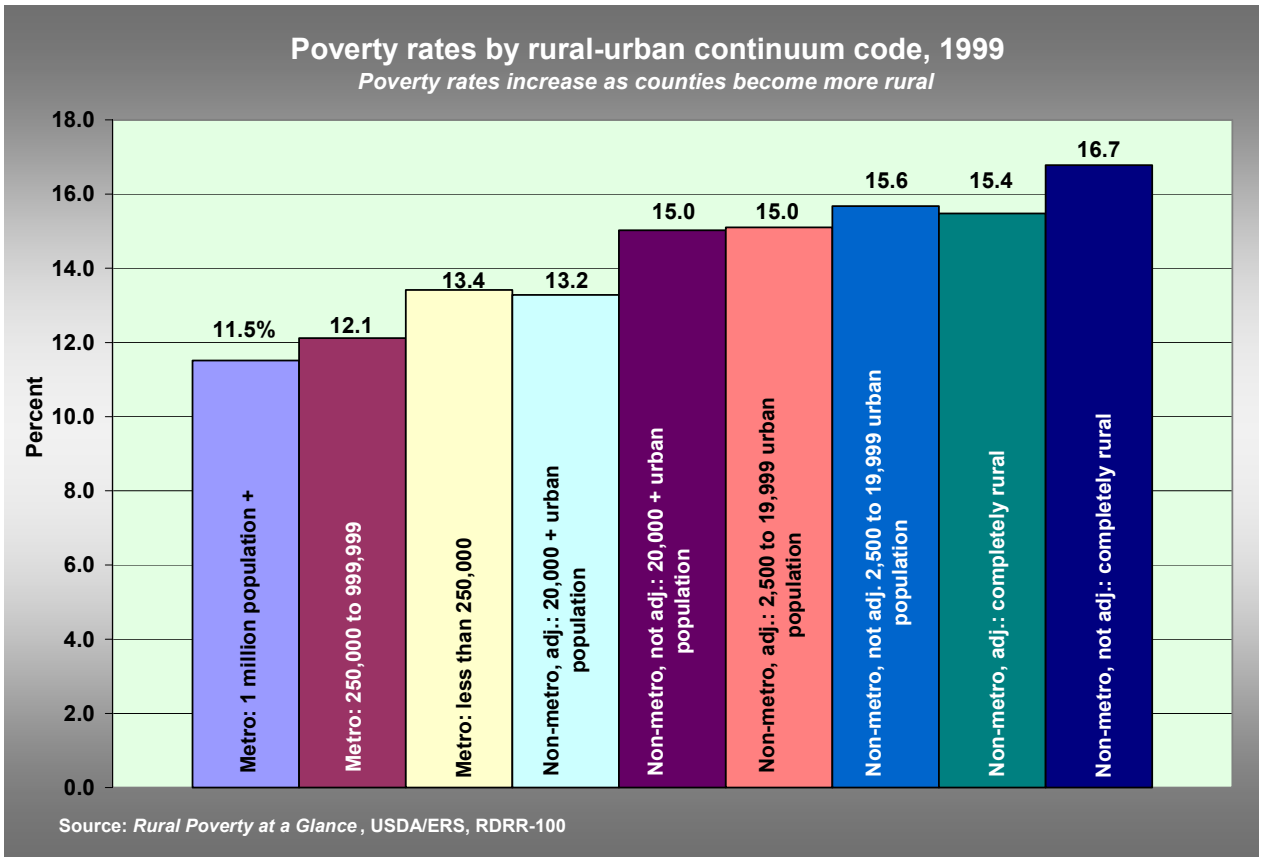
■ Age structure

The population of rural counties is aging rapidly, for three reasons: aging in-place (that is, rural residents who remain in their home communities as they age); out-migration of young people; and, in some counties, in-migration of the elderly.[42] Younger people tend to leave rural areas in search of better job and educational opportunities. Conversely, some rural counties – such as northern Michigan, northwestern Arizona, and parts of North Carolina and West Virginia – have become magnets for retirement, and thus experience higher than average concentrations of elderly. "Retirement counties – counties whose elderly populations grew at least fifteen percent … as a result of in-migration – have grown much more rapidly than other rural counties … [and], although retirement counties made up only nine percent of all rural counties, they accounted for twenty-five percent of rural population growth from 1990 to 1998."[43]

Poverty

Rural poverty rates in America have been higher than urban rates for as long as poverty has been measured officially (since the 1960s). Though the gap between urban-rural poverty rates narrowed during the 1990s, it still averaged 2.6 percent higher in rural regions during that decade. As of 2002, 14.2 percent of the rural population was poor, compared to 11.6 percent of the urban population. In numerical terms, this means that 7.5 million rural Americans faced poverty. Moreover, as depicted in the following chart, the more "rural" a county is (as defined by adjacency to metropolitan counties), the higher the poverty rate.

[42] Rogers, Carolyn C., "The Graying of Rural America," *Forum for Applied Research and Public Policy*, Winter 2000, p. 52.
[43] Ibid.

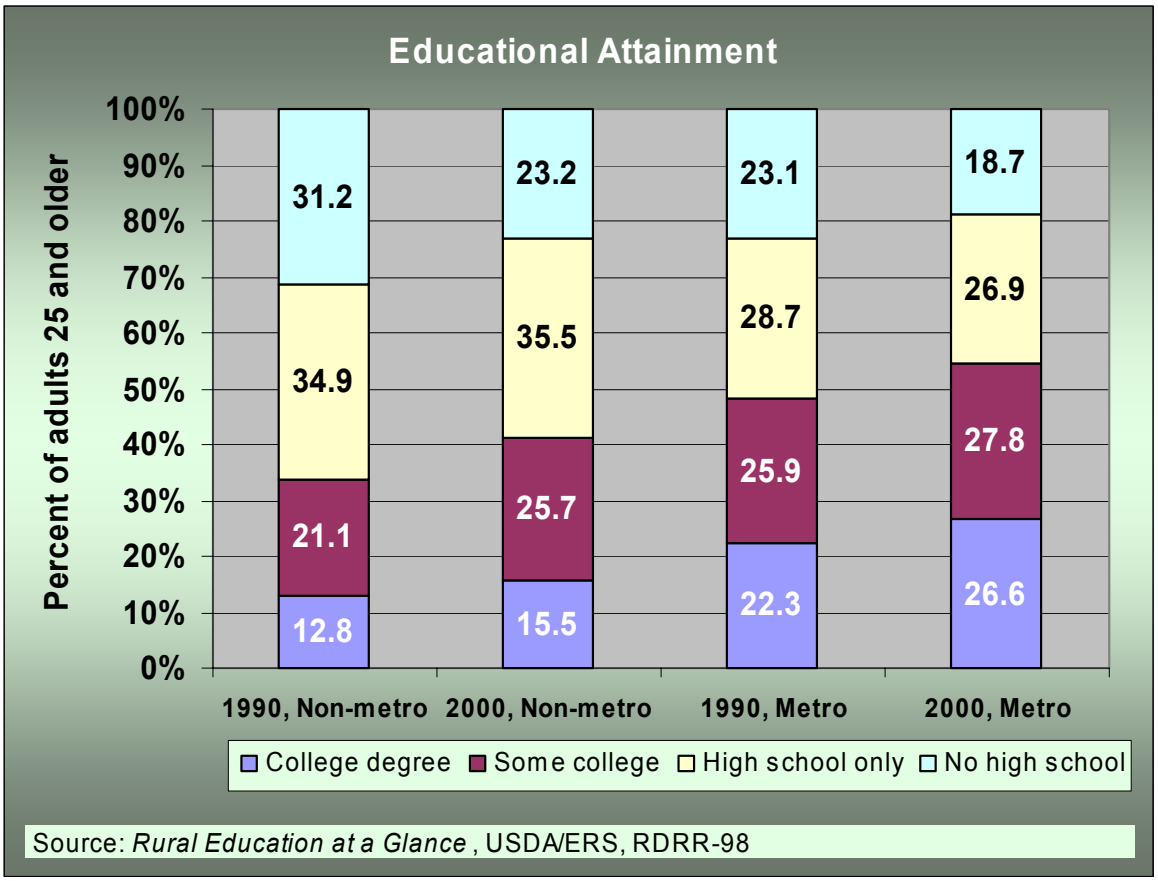


Rural counties also comprise a large majority of "persistently poor" counties – in fact, 340 out of 386 "persistently poor" counties are rural. "Persistently poor" counties are defined by USDA's Economic Research Service those in which 20 percent or more of the population was poor over the last thirty years.[44] Of these 340 persistently poor rural counties, more than four-fifths (280) are in the South. Persistent poverty, however, does affect some of the states served by the Federal Home Loan Bank of Des Moines: South Dakota is home to thirteen persistently poor counties, followed by Missouri with ten, and North Dakota with five, while Iowa and Minnesota have none.

[44] U.S. Department of Agriculture, Economic Research Service, "Rural Poverty at a Glance," *Rural Development Research Report*, Number 100, July 2004.

Education

Educational attainment traditionally has been considered one of rural America's strengths, and trends point to continued advancement in this arena. The year 2000 not only was an historic low in the rate of rural adults without a high school diploma or equivalent – 23.2 percent – but also 15.5 percent of rural adults having earned college diplomas (a doubling of share since 1970).[45] Nevertheless, as illustrated in the chart below, non-metropolitan (rural) areas remain behind metropolitan areas in overall educational attainment, particularly with respect to college graduates.



A major quandary for rural areas is that the managerial, professional, and technical jobs available to college graduates are relatively scarce in non-metropolitan areas. As a result, more highly educated rural residents (and their urban counterparts) often make their homes in urban areas in order to access employment that rewards their educational background.

[45] U.S. Department of Agriculture, Economic Research Service, "Rural Education at a Glance," *Rural Development Research Report*, Number 98, November 2003.

CHAPTER III:

FEDERAL GOVERNMENT INITIATIVES TARGETING RURAL AMERICA

Overall, observers note that federal programs targeting rural America are large in number but deficient in achieving the goal of improving the prospects of rural communities. The programs are fragmented among many departments and agencies, offer little flexibility to accommodate differing circumstances among communities, and make accessing resources difficult.

Summary of Federal Government Initiatives

- Federal support for rural regions focuses on two areas: direct subsidies to agricultural producers and programmatic efforts (economic development, infrastructure, and human resources).
- Although agriculture has a declining share of the rural economy, the bulk of the U.S. Department of Agriculture (USDA) budget for rural areas goes to farm subsidies.
- Over the last decade, new federal programs for rural areas have increasingly begun to focus on broader business development initiatives.
- The sheer number of federal programs for rural areas, spread across twenty government agencies, makes it difficult for rural communities to identify and access these programs.
- Federal rural development initiatives remain ill-coordinated, difficult to use, and poorly understood by rural residents and businesses.
- Recent federal programs targeting economic development in rural areas have suffered from complex requirements, lack of funding, and lack of implementation.

A. Historical Focus and Today's Context

Federal programs for rural areas generally have focused on agriculture and business attraction (mainly attraction of manufacturing plants), under the premise that strength in these historically dominant sectors would precipitate gains in other sectors and lead to overall rural prosperity. As the rural economy has diversified over the past decade, new federal government efforts have moved toward financial support and technical assistance for small business development and entrepreneurship, though many existing, more traditionally-focused programs remain in place.

Federal support for rural areas is comprised primarily of direct subsidies to agricultural producers and programmatic efforts. Both forms of assistance are outlined below; however, the bulk of this chapter focuses on programmatic initiatives, since agriculture is not anticipated to fulfill a growing role in the rural economy's future. Economic development efforts of a programmatic nature, rather than agricultural subsidies, relate more directly to the goal of re-framing and strengthening rural America's prospects.

Farm Subsidies

Direct subsidy payments to farmers include commodity price and income support, some conservation and environmental activities, and some disaster loss compensation. Notably, even as agriculture's importance to the rural economy has dwindled, farm subsidies have remained substantial: in 2002, they totaled $12.2 billion, an amount that is consistent with averages for the previous seven years.[46] The beneficiaries of these subsidies are concentrated narrowly, with just five percent of recipients (85,358 individuals) receiving 50 percent of the payments[47] (i.e., $6.1 billion). On an individual basis, this translates into an average of $71,177 per person for these 85,358 people and $3,750 per individual for the remaining 1,620,156 recipients.

Programmatic Support

Besides direct subsidies to farmers, federal agencies also provide programmatic support to rural areas. There are three main categories of federal program assistance:

- Economic development (including business creation and retention);
- Infrastructure expansion and strengthening; and
- Human resource support (including training, education, health, community, and housing services).

As outlined in the next section, these activities are conducted through a large number of separate programs under the aegis of numerous federal agencies. Over at least the past fifteen years, it has been recognized

[46] Womach, Jasper, "Average Farm Subsidy Payments, by State, 2002," Congressional Research Service, September 16, 2004, p. i.
[47] Ibid.

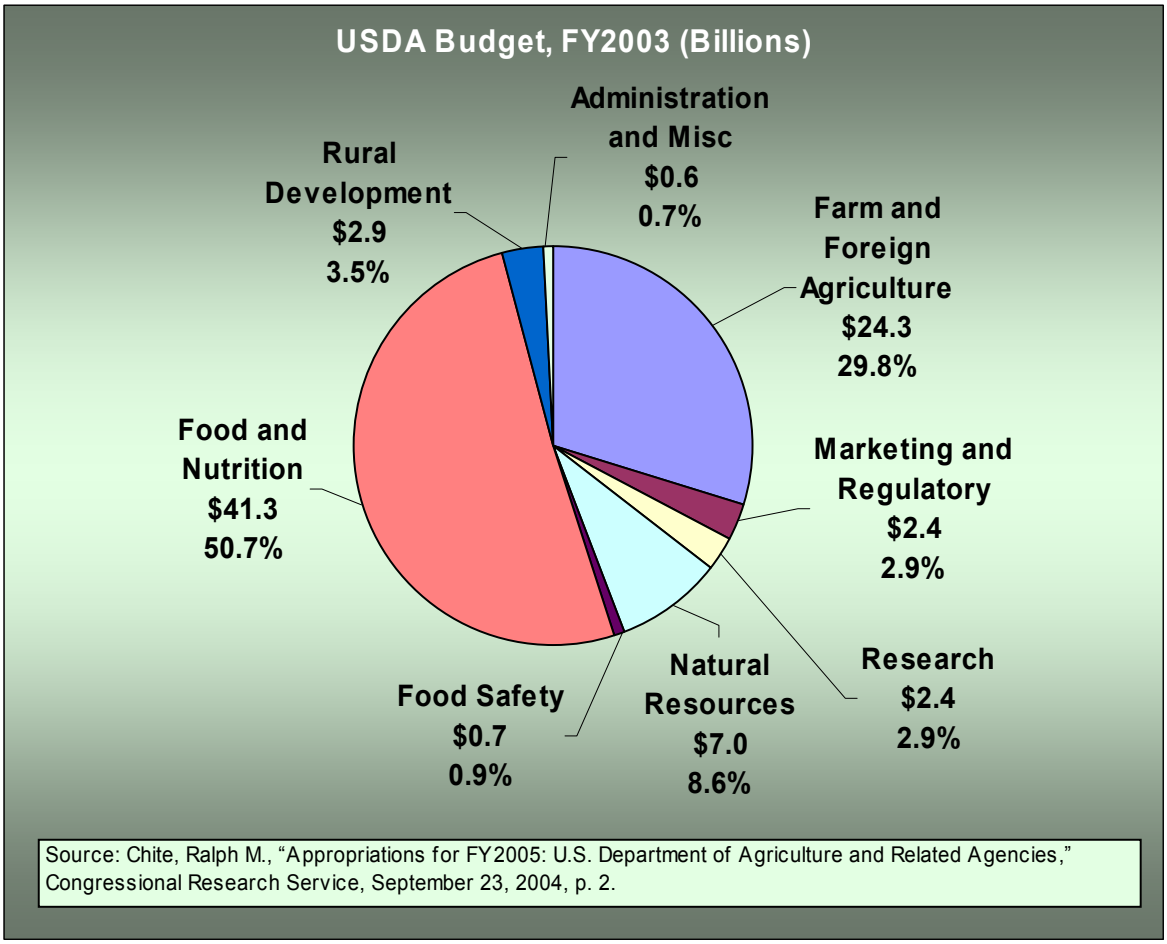
widely that both factors – i.e., the sheer number of programs and implementing entities – result in difficulty identifying and accessing relevant sources of finance and technical assistance by rural communities.[48] As a result, reorganization of activities for greater efficiency, particularly within the USDA, was attempted during the mid-1990s. Despite these efforts, federal rural development programs remain ill-coordinated, difficult to use, and poorly understood by intended participants in rural regions.[49]

Dollar Values of Farm Subsidies and Program Assistance

Because some support for rural regions is provided through generally available funds, rather than through specifically targeted "rural" programs, it is more difficult to calculate the dollar value of program activities for rural development than farm subsidies. To provide an order of magnitude, however, it is useful to compare allocations within the USDA, the department that devotes the greatest proportion of its budget to rural regions.

As indicated in the following chart, in fiscal year 2003, USDA dedicated 4 percent of its budget, or $2.9 billion, to rural development, compared to nearly 30 percent of its budget for farm and foreign agriculture (a category that includes the farm subsidies described above as well as crop insurance, farm loans and foreign food aid programs). In other words, in the USDA, farm-related efforts garner more than eight times the funding provided to broader rural development efforts, even though agriculture and farming have declined precipitously as sources of income, earnings, and employment for rural residents.

[48] See, for example, General Accounting Office, "Rural Development: Federal Programs that Focus on Rural America and its Economic Development," January 1989, or "Rural Development: Patchwork of Federal Programs needs to be Reappraised," July 1994.
[49] See, for example, Corporation for Enterprise Development, "Mapping Rural Entrepreneurship," for the W.K. Kellogg Foundation, August 2003 or Porter, et al. (2004).



Source: Chite, Ralph M., "Appropriations for FY2005: U.S. Department of Agriculture and Related Agencies," Congressional Research Service, September 23, 2004, p. 2.

B. Current Programs – Estimated Number and Types

Because of the large number of agencies involved, it is almost impossible to tally precisely the number of federal programs supporting rural America. A 1989 General Accounting Office study counted more than 88 programs focused on rural development in 16 federal agencies. In the intervening fifteen years, however, these numbers undoubtedly have changed. Indeed, according to the federal funding sources database for rural areas compiled by USDA's Rural Information Center (RIC), the estimated number of federal programs and implementing agencies has grown considerably.

As indicated in the table on the next page (which summarizes information from the RIC database), the number of "key" federal funding programs for rural areas totals 337, while total programs available to rural areas

number 1,399. Twenty federal agencies offer at least one "key" program targeted to rural America.

Federal Government Agencies Providing Services to Rural Areas		
Department	**Number of "Key"* Programs for Rural Areas**	**Total Number of Programs Serving Rural Areas**
1. Department of Agriculture	58	159
2. Appalachian Regional Commission	6	6
3. Department of Commerce	8	90
4. Department of Defense	4	35
5. Denali Commission	1	1
6. Department of Education	37	164
7. Department of Energy	2	26
8. Environmental Protection Agency	15	78
9. Federal Emergency Management Agency	8	8
10. Department of Health and Human Services	70	307
11. Department of Homeland Security	Not available	58
12. Department of Housing and Urban Development	22	102
13. Department of Interior	48	112
14. Department of Justice	16	96
15. Department of Labor	6	49
16. National Credit Union Administration	1	2
17. National Endowment for the Arts/National Foundation on the Arts and Humanities	6	12
18. Institute of Museum and Library Sciences	3	8
19. Small Business Administration	8	18
20. Department of Transportation	14	58
21. Corporation for National and Community Service	4	10
TOTAL	**337**	**1,399**

* "Key" funding programs for rural America are defined by the USDA's Rural Information Center based on program focus, eligibility requirements, and use of funds.

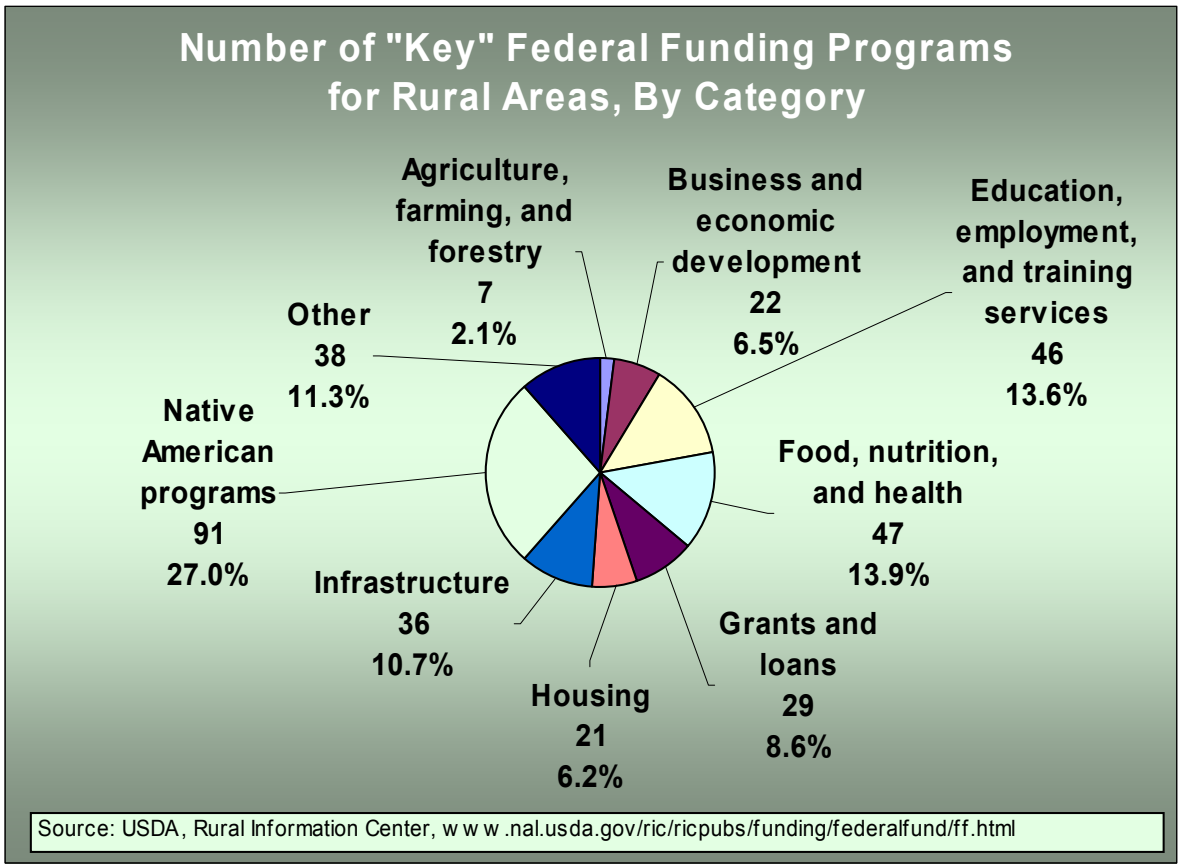
Source for number of "key" programs: U.S. Department of Agriculture (USDA), Rural Information Center (RIC), "Key Federal Funding Programs for Rural Areas Listed by Department":
http://www.nal.usda.gov/ric/ricpubs/funding/federalfund/fedcont.htm
Source for total number of programs: USDA, RIC, http://grande.nal.usda.gov/ric/funding.php
Data compiled by SRI by counting programs listed on the websites. Programs that were listed under more than one department were counted once and attributed to what appeared to be the most relevant department.

It is beyond the scope of this paper to analyze the 337 "key" rural programs systematically. However, to provide a general sense of the types of assistance provided, SRI classified the USDA-identified "key" funding programs into nine broad categories:[50]

- Agriculture, farming, and forestry
- Business and economic development
- Education, employment, and training services
- Food, nutrition, and health
- Grants and loans[51]
- Housing
- Infrastructure
- Native American programs[52]
- Other[53]

The following chart summarizes the distribution of programs within these nine categories. As indicated, by number (but not necessarily funding levels), Native American initiatives comprise just over one-quarter of key federal funding programs, followed by education, employment, and training services, and food, nutrition, and health, both composing 14 percent of programs. Twenty-two business and economic development programs were identified, meaning that, by number of initiatives, such programs comprise a relatively small proportion (7 percent) of federal efforts in rural areas. As mentioned, however, these figures do not provide insight into the *levels of funding* allocated to the different categories of programs; rather, they demonstrate only the *number* of distinct initiatives accessible to rural residents, businesses, and local governments.

[50] These categorizations were made solely on the basis of the program name and thus should be treated as an illustrative analytical tool rather than a definitional assessment.
[51] Includes grants and loans *outside* of the eight identified categories, e.g., domestic violence prevention grants, fire management assistance grants, grants to promote the arts, etc.
[52] Includes all initiatives dedicated to Native Americans regardless of subject matter.
[53] Includes a wide range of activities, from disaster relief to resource conservation, and from community policing to disposition of surplus property, among many other topics.



C. Economic Development Initiatives or Proposals

In recognition of the change and diversification that has characterized the rural economy in the past two decades, the approaches used to support rural areas by federal policy-makers, legislators and implementers also have evolved. In general, initiatives developed since the early 1990s have revolved around support for business development and entrepreneurship and have incorporated a variety of assistance modes, including attraction of equity capital, availability of other types of financing, and tax incentives for individuals residing in and businesses locating in rural regions. In addition, federal agencies implement an array of nationwide entrepreneurship support programs that rural areas can access. Several of these programs are summarized below.

Empowerment Zones/Empowerment Communities/Renewal Communities

In 1993, Congress established two related programs – Empowerment Zones and Enterprise Community programs, or EZ/EC – to support development in economically distressed regions of the United States, both urban and rural. In 2000, a third, related initiative – the Renewal Community (RC) program – was added. Composed of varying combinations of grants and/or tax credits, the EZ/EC program has been administered in three rounds of competition, with Round I taking place in 1993, Round II in 1997, and Round III in 2000 (during which the first RC designations also were made). Although eligibility requirements and selection criteria differed depending on urban or rural status,[54] participation in these programs was initiated by community self-nomination for EZ, EC, or RC designations. To qualify for the designation, the communities were required to demonstrate their areas' level of poverty (measured by census tract), overall unemployment, population, geographical area (in square miles), and "general distress" (a factor that was not defined by the legislation).

Four federal agencies are involved in implementing the EZ, EC and RC programs:[55]

- The Department of Housing and Urban Development (HUD) oversees EZ/EC in urban areas, administers grants to Round II urban EZs, and is responsible for the RC program in both urban and rural areas.

- USDA operates EZ/EC in rural areas and is responsible for grants to Round II rural EZ/ECs and Round III EZs.

- The Department of Health and Human Services (HHS) administered block grant funds to Round I EZs and ECs (but has not had a role in subsequent rounds of implementation).

- The Internal Revenue Service (IRS) oversees administration of tax benefits provided under EZ, EC, and RC.

The table below summarizes the total number of EZs, ECs, and RCs designated through the three rounds of selection. There are 10 EZs, 48

[54] Some eligibility and selection criteria also differed depending on the round of designation and between the EZ, EC and RC programs.
[55] General Accounting Office, "Federal Revitalization Programs are being Implemented, but Data on the Use of Tax Benefits are Limited," Report to Congressional Committees, March 2004, p. 4-5.

ECs, and 12 RCs in rural areas. Among the five states covered by the Federal Home Loan Bank of Des Moines, nine communities are designated as an EZ, EC, or RC, although not all of these are in rural areas. The following rural communities in the bank's service area have received EZ, EC, or RC designations:[56]

- Beadle/Spink Counties, South Dakota (EC)
- City of East Prairie, Missouri (EC)
- Griggs-Steele, North Dakota (EZ)
- Oglala Sioux Tribe, South Dakota (EZ)
- Turtle Mountain Band of Chippewa, North Dakota (RC)

Number of EZ, EC and RC Designations as of September 30, 2003*

Type of Program	Urban	Rural
Empowerment Zone	30	10
Enterprise Community	49	48
Renewal Community	28	12
Total	**107**	**70**

* Excludes the special HUD designations for two "supplemental empowerment zones," four "enhanced enterprise communities," and for the Washington, DC, enterprise zone.
Source: General Accounting Office, "Federal Revitalization Programs are being Implemented, but Data on the Use of Tax Benefits are Limited," Report to Congressional Committees, March 2004, pp. 25-26.

It does not appear that systematic efforts have been undertaken to measure the impact of these programs on participating communities. For example, the General Accounting Office (GAO) found only eleven evaluations of program effectiveness, none of which examined the EZ/EC program vis-à-vis poverty reduction, only one that attempted to measure employment effects, and three that evaluated economic growth impacts.[57] In any case, funding for fiscal year 2005 is estimated to be zero,[58] so regardless of impact or lack thereof, it is unclear whether these programs will continue.

One observation that can be made about the implementation of EZ/EC/RC to date is that these programs seem to be very complex. As documented fully in the above-referenced GAO report, eligibility requirements and selection criteria not only were different among the three programs (EZ, EC, and RC), but also *within* the same programs depending on the year in which communities applied. Moreover, the benefits of receiving an EZ or EC designation also differed among the different rounds of designation. Such variations within one effort illustrate

[56] Ibid., p. 27.
[57] Ibid., p. 41.
[58] Cowan, Tadlock, "An Overview of USDA Rural Development Programs," Congressional Research Service, August 26, 2004, p. 31.

the hurdles that rural communities must overcome in order to understand and access federal support programs.

Rural Business Investment Corporations

The 2002 Farm Bill (formally known as the Farm Security and Rural Investment Act of 2002) authorized the establishment of Rural Business Investment Companies (RBICs) to encourage equity investments in rural businesses. Funding in the farm bill totaled $44 million in grants and $280 million in debt guarantees for such companies. Funding for the program was to be "mandatory," i.e., not subject to annual Congressional appropriations. The 2002 Farm Bill also authorized operational assistance grants to help RBICs and their portfolio companies with management, technical, or networking assistance.

To qualify as an RBIC, an entity must be founded and led by experienced venture capitalists and community development financiers, and its founders must raise $5 million in private capital, which is matched up to 3:1 by USDA loans. Moreover, 75 percent of its capital must be invested in small, rural businesses (defined as businesses having a net financial worth of less than $6 million and located in areas with cities of 50,000 residents or fewer, excluding those areas adjacent to cities larger than this size).

Though this type of support for rural areas seemingly would provide a needed impetus for growth, it does not appear that the 2002 legislation has been translated into action quickly or at the levels originally anticipated. As reported in a 2004 Congressional Research Service report, "a portion of the mandatory funding for the program was blocked by appropriators in FY2003 and FY2004 while providing some initial funding to begin the program." [59] A Small Business Administration (SBA) fact sheet about the program (obtained from the SBA website) reported that the President's FY2005 budget request for the program was $60 million, or enough to support creation of three RBICs.

The program was announced officially on June 2, 2004 by SBA, but according to the program announcement, the earliest that final selection of RBICs will take place is late-May/early-June 2005; within one year from this date, selected applicants must finalize and submit to SBA all remaining legal documentation. Accordingly, it appears that actual

[59] Ibid., p. 18-19.

funding of RBICs will begin in the second half of 2006 at the earliest, or nearly four years after the authorizing legislation was passed.

Support for Rural Entrepreneurs

At the federal level, assistance for rural entrepreneurs generally falls within broader mechanisms for entrepreneurship development. However, as might be expected, USDA offers some entrepreneur-related programs targeted specifically to rural areas. Most federal support is composed of loans or loan guarantees, although some technical assistance, education, and networking efforts have been implemented in Appalachia, and some equity capital is now available. The following table lists major federal entrepreneurship development programs at the USDA, the SBA, and the Department of Treasury.

Federal Entrepreneurship Support Programs	
U.S. Department of Agriculture	
• Business and Industrial Guarantee and Direct Loan Programs • Intermediary Re-lending Program	• Rural Business Enterprise and Opportunity Grants • Rural Economic Development Grants and Loans
Small Business Administration	
• 7(a) Guaranteed Lending Program • 504 Certified Development Program • Micro-loan Program • Program for Investment in Micro-entrepreneurs (PRIME) • Women's Business Centers Program	• Service Corps of Retired Executives Program Small Business Development Centers Program • Small Business Investment Centers • New Markets Venture Capital Companies • New Markets Tax Credit
U.S. Department of Treasury	
• Community Development Financial Institutions (CDFI) Fund	

New Homestead Act

Like its historical predecessor – the original Homestead Act of 1862 – the New Homestead Act aims to attract people and businesses to rural areas. If passed by Congress, the act would provide numerous tax and financial incentives for individuals and companies who locate in rural counties that have experienced out-migration of 10 percent or greater during the previous 20 years. Benefits for individuals would include student loan repayments, tax incentives for new home buyers, tax deductions for

losses in home value, and tax-favored accounts to promote savings and increase access to credit. For businesses, benefits would include investment and micro-enterprise tax credits. The act would also establish a venture capital fund to invest in rural counties with high out-migration.

CHAPTER IV:

STRATEGIC OPTIONS FOR CAPITALIZING ON RURAL AMERICA

There is no doubt that rural regions of the country face difficult challenges in re-defining and re-tooling themselves for the modern economy. However, the personal qualities and community characteristics that provided rural America with a proud tradition and sound foundation during the predominately agricultural era likewise are continuing reasons for optimism that rural regions can regain economic momentum. Moreover, states that have greater proportions of rural population do enjoy some competitive strengths compared to their more urban counterparts.

Underlying these guiding principles is the overall conclusion of this conference report: namely, that it is time for a fresh start in formulating strategies to strengthen rural America. These strategies can revolve around a conceptual framework that can be called "Rural America's Value Proposition." The approach implies that communities and policymakers should shift from the traditional focus on problems to an emphasis on re-discovering the economic value that is offered by rural regions and upon which new, productive activities can be pioneered and grown.

Focusing on rural issues from the perspective of economic value and competitiveness helps to pinpoint both advantages to be built upon and specific areas for improvement, rather than simply categorizing the challenges as a uniquely "rural problem." While there are no simple fixes to rural regions' very real predicaments, revitalizing rural America is neither impossible nor even improbable – if new attitudes and activities replace the status quo. Proposed guiding principles for revitalization efforts and recommended strategic thrusts to renew rural America's prospects are presented below.

A. Guiding Principles

Principle #1: Focus on Opportunities, Not Problems

Much attention in the literature on rural areas, by practitioners and analysts of rural development and in conferences related to rural issues, has been dedicated to defining and examining various aspects of rural America's current situation. Undoubtedly, more details regarding the problems facing rural America could be found through further research and analysis. However, continuing to concentrate on rural regions' weaknesses seems likely to generate simply "more bad news," without necessarily beginning to turn the prevailing tide of pessimism.

Shifting toward identifying rural areas' strengths – such as those outlined in this paper's competitiveness analysis – can generate movement toward developing strategies to capitalize on realistic opportunities. The returns to investing in such opportunities may not be quick or large in the near term – but it is important to begin to re-direct attitudes and resources to focus on what can be done, rather than what is not working.

Principle #2: Utilize Existing Rural Entities and People

One of the lessons learned from the rural development strategy of attracting manufacturing enterprises to rural areas is that, without deep ties to a region and its people, it is much more likely for plants or companies to leave when profitability declines. While "outside" investment and expertise undoubtedly will be necessary or desirable at times, the foundation of future rural strategies should revolve around leveraging the strengths of and increasing the networks between existing organizations and people in rural areas.

Rural community colleges, universities, businesses, factories, local governments, chambers of commerce, and many other such organizations, as well as the individuals who conduct their day-to-day operations, all have the embedded interest and first-hand knowledge to work together for change that furthers their communities' interests. Looking internally and connecting regionally, rather than searching for external solutions, will build sustainable advantage for rural communities.

Principle #3: Marshall the Lessons of Success

All parts of rural America no longer march to the same economic drum. Instead, great differences in rural economies have developed over the past two decades, and rural counties accordingly have experienced divergent economic fortunes. Much can be learned by identifying rural "success stories," defining root causes of change in those areas, and then extrapolating from these lessons to craft strategies for other rural regions. Certainly, not every rural county can become a tourist destination or a retirement mecca, nor can all rural counties benefit from commuting proximity to a city, but examining the factors that propelled selected rural counties to grow (i.e., formerly rural counties that have moved into the next higher population category) will contribute tremendously to marshalling resources and designing realistic, place-based plans to build rural America's future.

B. Strategic Thrusts

A major impetus behind the Federal Home Loan Bank of Des Moines' commissioning of this conference report was to generate new ideas about how to revitalize rural America. Accordingly, three strategic thrusts, intended to spur thinking at the conceptual rather than operational level, are presented below, along with brief outlines of potential initiatives within each thrust. This is followed by an elaboration of each potential initiative, including the identification of the need, approach, benefits, and champions that the initiative might entail.

Strategic Thrust #1: ANCHORS – Build Critical Mass around Key Assets

An anchor is "something that provides a point of support" or "something that provides security or stability."[60] For the purpose of this paper, "anchor" means an existing entity, structure, and/or resource rooted in the community, which can serve as a focal point for renewal efforts.

1. ***Identify Anchors.*** Every community has one or more centers of activity, though the size and number naturally will vary. These "anchors" can take many forms – the crossroads of a state highway and an interstate freeway, the local post office, a regional "box store," or a community college, among many other possibilities. Once identified, rural regions can build upon these anchors, rather than start from scratch.

2. ***Leverage Neighboring Growth Poles.*** One key characteristic of the modern economy is inter-connectedness. Embracing and strengthening linkages with nearby economic centers – whether urban, small-town, or rural – can enable rural areas to maintain their unique characteristics while building new foundations from which to grow. A deliberate strategy of centering economic development efforts in small-town, rather than entirely rural, clusters would take advantage of economies of scale while providing rural residents with a nearby locus of activity.

3. ***Create Productive Networks.*** Isolation generally inhibits creativity, since interaction is a key source of new ideas, experiences, and opinions. Today, overcoming the physical barriers of geography is

[60] Webster's II New Riverside University Dictionary (Boston, MA: Houghton Mifflin Company), 1984.

eminently possible, given the range of communications technologies now enjoyed. Concerted efforts to establish and maintain "networks of knowledge" among rural organizations and individuals (especially entrepreneurs) are needed. These networks will also allow rural areas to capitalize on their identified "anchors" by connecting them with "anchors" in other nearby regions.

Strategic Thrust #2: EMPOWERMENT – Expand and Replicate Home-Grown Success

As discussed earlier, rural areas' performance during the past decade has diverged significantly. Although many successful rural counties enjoy "fixed" characteristics (like location) that cannot be replicated, identifying "what has worked" in communities like one's own builds a community's sense of ownership and optimism about next steps.

1. ***Use Information Technology To Spread the Stories of Success.*** To break the cycle of pessimism that pervades observations on the rural situation today, it is critical to identify and efficiently disseminate examples of how rural individuals, communities, or regions have seized on opportunities and leveraged their strengths to build vibrant growth poles that encourage entrepreneurs and attract in-migration. Not every rural region can expect to emulate such successes, but, because people most readily relate to "stories" of individuals with whom they can identify, empowering those who strive to change with information about improvements of those in comparable situations can be exceptionally useful in changing attitudes.

2. ***Highlight and Nurture Entrepreneurship.*** Fostering an entrepreneurial culture is vital in today's economy. Support for both existing and future entrepreneurs will strengthen rural regions' prospects. Although there is a wide range of options for providing such support, examples include expanding access to capital resources for today's entrepreneurs and instilling the concept and value of entrepreneurship at the grade school levels.

3. ***Promote the Value of Rural Life.*** Twenty-four percent of Americans would prefer to live in rural areas, and an additional thirty-six percent prefer small town life.[61] As indicated by the benchmarking analysis of

[61] Atkinson, Robert D., "Reversing Rural America's Economic Decline: The Case for a National Balanced Growth Strategy," Progressive Policy Institute, February 2004, p. 21.

quality of life indicators, the perceived benefits of rural life clearly are high. Rural regions should forcefully articulate these advantages.

Strategic Thrust #3: INNOVATION – Identify and Nurture New Productive Activities

Innovation does not necessarily mean radical change; rather, it can mean strategically adapting an existing product or process to meet new needs. Gourmet coffee and organic produce are examples of innovations that built on existing products to create new niches, markets, and major profits.

1. ***Unearth Existing "Innovation Space."*** Rural regions should pinpoint precisely their value-adding, innovation-based clusters (current or potential), with a particular focus on sub-sectors in manufacturing, agriculture and agro-industry, and services that offer high potential in the emerging economy. All of these areas have been past sources of strength for rural areas; finding the "innovation space" within these existing sectors and sub-sectors will be central to the future.

2. ***Increase Return on Existing Investments***. As described earlier in this paper, there is no dearth of overall resources for rural areas – the issue is how the monies are being directed. One clear initiative should be a comprehensive assessment of federal programs and policies, to determine which programs (or elements of programs) contribute substantially to rural development and which do not have significant impact and, on this basis, to define appropriate changes. Even if a wholesale revision of federal programs for rural areas is not feasible, local institutions may wish to seek incremental changes in how resources are deployed. For instance, it would be beneficial for land-grant universities to invest more federally-funded research dollars in identifying new markets and products (e.g., organic crops and higher value-added agricultural products), rather than devote additional resources to further improving the productivity of declining traditional crops.

3. ***Maximize Human Capital Advantages.*** Returns to human capital investments would be increased if university and community college systems were to move toward demand-driven curricula addressing the knowledge and skills needed to succeed in rural America's increasingly diverse economy. Through greater attention to modern

economy skills in the educational system, rural Americans can translate their longstanding resourcefulness, hard work, independence, and perseverance into a competitive advantage.

Strategic Thrust #1: ANCHORS – Build Critical Mass Around Key Assets	
Initiative 1: Identify Anchors	
Need	**Approach**
Competitive advantages in rural areas are often overlooked because of the low density of economic activity and the lack of strategic thinking. Rural communities need to find a focal point of advantage, or a cluster of assets that can be leveraged to jumpstart economic activities.	Identify one or more existing centers of activities, or a strategic asset that can be turned into a regional anchor with modest investments/improvements. These anchors can take many forms – the local airport; the crossroads of a state highway and an interstate freeway; a local artistic community; heritage, nature, and recreational assets; a regional "box store" or distribution center; or a community college, among myriad other possibilities. The idea is to take the stock of what exists locally, see their possibilities and potential, and leverage them to develop new businesses and attract people and investments.
Benefits	**Champions & Partners**
Given their immediate and continuing challenges, it is important that rural communities feel they can develop competitiveness by building on what they have, instead of starting from scratch or relying on the "next big thing" from the outside. By thinking strategically and acting locally, they will take charge of their future more effectively.	▪ Local businesses ▪ Community leaders ▪ Regional/local economic development and financial services organizations ▪ Local financial institutions ▪ Regional/local higher education institutions

Strategic Thrust #1: ANCHORS – Build Critical Mass Around Key Assets

Initiative 2: Leverage Neighboring Growth Poles

Need

One characteristic of the modern economy is interconnectedness. Developing competitive economic activities in rural areas is challenged by the low density of people, resources, and activities, and, hence, the difficulty of achieving economies of scale and efficiencies. To be competitive, people and business in rural areas need to build upon and leverage the activities, resources, and opportunities that exist beyond their rural boundaries.

Approach

Embrace and strengthen linkages with nearby economic centers – whether urban, small town, or rural – to build new foundations from which to grow. Economic development experiences have demonstrated that businesses, industries, and regions are more successful when they viewed not as a stand-alone entity, but as an integrated cluster of economic activities. A deliberate strategy of centering economic development efforts in small-town, rather than entirely rural, clusters would take advantage of existing economies of scale while providing rural residents with nearby centers of activity upon which to draw and expand.

Benefits

This strategy leverages resources, infrastructure, connections, and existing economic activities in nearby growth poles to bring the advantage of scale economies to rural areas. Connecting rural areas with other rural or urban areas also helps to lessen the real and imagined rural-urban divide, when it comes to addressing shared challenges or taking advantage of common opportunities.

Champions & Partners

- Local and regional businesses
- Community leaders
- Regional/local economic development organizations
- Local financial institutions
- Regional/local higher education institutions

Strategic Thrust #1: ANCHORS – Build Critical Mass Around Key Assets

Initiative 3: Create Productive Networks

Need

There is no doubt that remoteness and geographical isolation in many rural areas inhibit face-to-face interaction, and thus the flow of ideas and building of business networks. Insufficient networking in turn limits the creation of business opportunities. It is critical for rural regions to overcome isolation and facilitate more interaction amongst rural businesses and people, and between rural stakeholders and outside business resources and networks.

Approach

Establish and expand "entrepreneurial networks" to facilitate interaction among rural entrepreneurs, business service providers, and other supporting institutions. Today, overcoming the physical barriers of geography is possible, given the range of communications technologies available and the telecommunications infrastructure that has been extended to many rural regions. Such virtual business/entrepreneurial networks have been established on a small scale as pilot projects in a few regions (e.g., BizPathways in Minnesota). Expanding virtual entrepreneurial networks will help disseminate opportunities for business investment, potential partnerships, and means for prospective buyers and sellers to find each other.

More broadly, productive networks should include not only entrepreneurs and vendors, but also partner institutions such as community colleges and schools, business chambers, banks, research institutions and federal laboratories, nonprofit organizations, business assistance and financing programs, and other organizations and networks that may offer synergistic benefits to rural entrepreneurs. Such networks may also enable rural areas to capitalize on their identified "anchors" by connecting them with "anchors" in other nearby regions.

Benefits

Rural businesses and people will enjoy expanded access to resources and opportunities outside their existing operational boundaries, feel more connected, and become the sources of new ideas and opportunities.

Champions & Partners

- Local and regional business chambers
- Economic development organizations
- Higher education institutions
- Local financial institutions

Strategic Thrust #2: EMPOWERMENT – Expand and Replicate Home-Grown Success

Initiative 1: Use Information Technology To Spread the Stories Of Success

Need

Existing research and observations on rural economic development are dominated by the description and diagnosis of the overall challenges, while innovative approaches and the stories of success are not adequately articulated and disseminated. To empower rural communities to look at opportunities instead of focusing on problems, there is a need to break the cycle of pessimism pervasive in many regions.

Approach

Use information technology to disseminate examples of how rural individuals, businesses, or communities have seized on opportunities to build vibrant growth poles that attract new business and people. Most of the resources that exist on the Internet cater to policymakers and researchers in the field of rural economic development. It would be useful to create rural development information clearinghouses as user-friendly, web-based mediums for rural communities to read about success stories in other rural areas, and to access tools, strategies, and lessons learned.

Even though many success stories are built on unique location-based factors, the fact that similar rural communities have built upon their assets, and are succeeding and thriving, offers powerful and inspirational lessons to other rural peers.

Benefits

By being more informed about how other rural areas have successfully leveraged their advantages to build economically viable communities, rural areas will be better equipped to chart own their path to growth opportunities.

Champions & Partners

- Federal programs
- Local, regional, and state-level economic development organizations
- Local and regional business chambers
- Local financial institutions

Strategic Thrust #2: EMPOWERMENT – Expand and Replicate Home-Grown Success	
Initiative 2: Highlight and Nurture Entrepreneurship	
Need	**Approach**
Small business is presently the most dynamic and fastest growing segment of the U.S. economy. Successful entrepreneurs not only enjoy fulfilling self-employment, but also create jobs for the community and attract new investments. Thus, it is critical for rural areas to highlight home-grown success and to encourage and support more people to become entrepreneurs.	Instill the concept and value of entrepreneurship among young people. Business should work with school systems to promote entrepreneurship as an exciting career option to young people, both at the vocational and high school levels. Workshops, mentoring programs, and competitions for school groups to start and run a real or mock business are some approaches to introduce the concept of entrepreneurship and familiarize young people with its possibilities, as well as teach the skills needed to be successful in business. Traditional assistance offered to small business by economic development organizations – technical assistance, enterprise zones, business incubators, counseling, etc. – should be complemented with access to financing resources, such as first-stage/seed capital and small/micro business loans.
Benefits	**Champions & Partners**
Successful, dynamic home-grown businesses will be the foundation of a healthy rural economy.	▪ Local and regional business chambers ▪ K-12 school systems ▪ Economic development organizations ▪ Local financial institutions

Strategic Thrust #2: EMPOWERMENT – Expand and Replicate Home-Grown Success	
Initiative 3: Promote the Value of Rural Life	
Need	**Approach**
As mentioned previously, 24 percent of Americans would prefer to live in rural areas, and an additional 36 percent prefer small town life. Moreover, as indicated by the benchmarking analysis of quality of life indicators, the perceived benefits of rural and small town life clearly are high – low housing costs, low crime rates, lack of traffic congestion, strong sense of community, etc. Rural regions need to articulate these advantages clearly and forcefully to attract and retain people and businesses.	Compile results of surveys and studies that highlight the superior quality of life enjoyed in many rural areas (compared to urban and suburban living). Highlight the physical and telecommunications infrastructure that will allow for telecommuting or working off-site. Obtain testimonials from successful entrepreneurs who started their business in their rural home base, or relocated their business to rural areas for a better lifestyle. Package these observations, analyses, and testimonials into a coherent theme focusing on the opportunities and advantages of a rural lifestyle, and promote them aggressively to businesses and people in nearby urban and suburban regions through multiple media channels and investment promotion campaigns.
Benefits	**Champions & Partners**
Maximize the advantages of the rural quality of life in order to attract and retain people and businesses.	▪ Local and regional economic development organizations ▪ Local and regional business chambers

Strategic Thrust #3: INNOVATION – Identify and Nurture New Productive Activities

Initiative 1: Unearth Existing "Innovation Space"

Need

The concentration of the technological boom in urban and suburban areas has created a perception that rural areas lack the conditions or assets needed to produce innovation and competitive advantages. This is not true, because "innovation space" can exist in both high-tech or low-tech industries. There is a need to find niches where innovation can add unique value and produce competitive advantages in rural regions.

Approach

Rural regions should pinpoint precisely their value-adding, innovation-based clusters (current or potential), with a particular focus on sub-sectors in manufacturing, agriculture and agro-industry, and services that offer high potential in the emerging economy. All of these areas have been past sources of strength for rural areas; finding the "innovation space" within these existing sectors and sub-sectors will be central to their future. This approach does not require the invention of new products, new technologies, or new processes. Instead, finding "innovation space" could involve the application of existing technologies and business processes to add value and gain a competitive edge, such as producing a niche product and marketing it in an innovative way. Gourmet coffee and organic produce are examples of innovations that built on existing products to create new niches, markets, and profits.

Benefits

This approach helps to establish dynamic competitive advantage that is not based on low costs or natural resources. Businesses that succeed by finding their "innovation space" are likely to be rewarded with a higher return to investment, and their workers will enjoy higher wages linked to high value-added.

Champions & Partners

- Businesses
- Local and regional economic development organizations
- Community and regional venture capital providers
- Higher education institutions
- Local financial institutions

Strategic Thrust #3: INNOVATION – Identify and Nurture New Productive Activities	
Initiative 2: Increase Return On Existing Investments	
Need	**Approach**
There is no dearth of overall resources for rural areas. As discussed in a previous chapter, there are now 1,442 assistance programs available to rural areas, and 337 of these are considered "key" federal funding programs for rural areas. The issue is whether financial resources have been so diluted that they are not having sufficient aggregate impact.	Adopt a new approach that views federal and state resources as scarce investment capital, whose return should be maximized through careful investment in the programs that yield the highest long-term impact. One clear initiative should be a comprehensive assessment of federal programs and policies, to determine which programs (or elements of programs) contribute substantially to rural development and which do not have significant impact and, on this basis, to define appropriate changes. Even if a wholesale revision of federal programs for rural areas is not feasible, local institutions may wish to seek changes in how resources are deployed. For instance, it would be productive for land-grant universities to invest more federally-funded research dollars in identifying new markets and products (e.g., organic crops, higher value-added agricultural products), rather than devoting additional resources to further improving the productivity of declining traditional crops.
Benefits	**Champions & Partners**
Leverage and increase the impact of federal resources to build a foundation for long-term competitiveness.	▪ Local and regional economic development organizations ▪ Business chambers ▪ Local and regional financial institutions ▪ Federal programs

Strategic Thrust #3: INNOVATION – Identify and Nurture New Productive Activities	
Initiative 3: Maximize Human Capital Advantages	
Need	**Approach**
Human resources are the most important competitive asset in today's knowledge-based economy. Employers are attracted to regions with large pools of qualified and skilled workers in the labor force and in the pipeline. Many rural communities have suffered from the disadvantage of low population density and the out-migration of young adults. It is important that the rural labor force be equipped with the education and skills mix that can attract and sustain businesses and new investment.	K-12 educational systems, community colleges, and universities in rural regions can work more closely with businesses to design and establish curricula that equip students with the skills and knowledge that are needed to succeed in the industries of the future. A more demand-driven approach – identifying the skills that are sought by emerging and high-growth sectors, instead of focusing on the skills of the traditional rural industries – will help position the rural workforce to maximize its human capital advantages. This approach, which has been piloted in selected communities, should be adopted more widely to better prepare rural students as tomorrow's workforce.
Benefits	**Champions & Partners**
Through greater attention to modern economy skills in the educational system, rural Americans can translate their longstanding resourcefulness, hard work, independence, and perseverance into a competitive advantage, and be rewarded with higher wages, better employment options, and more opportunities for advancement.	▪ Higher education institutions ▪ Public school systems ▪ Training programs ▪ Businesses ▪ Economic development organizations

C. Pioneering a New Institutional Framework

New ideas and approaches, such as those described above, are needed in order to improve rural America's prospects. Correspondingly, it will be important for stakeholders to examine the institutional framework in which such activities can best be pursued. The need to carefully assess programmatic priorities and organizational realities is heightened by the current, across-the-board downward pressures on federal funding. In an environment of reduced funds, strategic investment of resources assumes even greater significance, as does the importance of conducting activities via an effective institutional framework.

Moreover, in light of recent proposals to streamline and consolidate federal community and economic development programs,[62] a proactive approach by stakeholders to restructure rural development efforts could help ensure that the revised structure appropriately serves struggling rural communities. The following features are central to a new institutional framework to "house" and direct future rural revitalization efforts:

- Driven by rural needs and initiative
- Reduction of duplication
- Greater flexibility (in nature of assistance, timeframes, etc.)
- Consolidation of programs for ease of access and use
- Incorporation of co-investment by rural communities, businesses, and institutions.

With a new institutional structure and with programmatic options that empower the pioneering character of rural Americans, rural regions can establish a strong foundation for their "reinvention" – a reinvention in which their residents' enduring initiative and character is harnessed and in which new productive activities are built upon true competitive advantages.

[62] For example, the "Strengthening America's Communities Initiatives," to be proposed by the administration as part of the FY2006 budget, would consolidate 35 federal community and economic development programs from seven agencies into one program administered by the Department of Commerce. Among the 35 programs are several that serve rural areas, such as the EZ/EC/RC program, Rural Business Enterprise Grants, and Rural Business Opportunity Grants.

APPENDIX A:

LIST OF RESEARCH RESOURCES

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APPENDIX B:

COMPETITIVENESS SCORES FOR U.S. STATES

Competitiveness Scores for U.S. States			
Alabama	382.4	Montana	343.7
Alaska	354.6	Nebraska	371.5
Arizona	435.6	Nevada	326.9
Arkansas	307.0	New Hampshire	407.4
California	454.6	New Jersey	417.0
Colorado	465.6	New Mexico	380.6
Connecticut	408.7	New York	426.5
Delaware	392.2	North Carolina	455.7
Florida	415.3	North Dakota	375.9
Georgia	464.9	Ohio	429.8
Hawaii	308.4	Oklahoma	359.8
Idaho	396.7	Oregon	405.6
Illinois	423.1	Pennsylvania	462.8
Indiana	418.7	Rhode Island	368.6
Iowa	397.7	South Carolina	385.6
Kansas	384.9	South Dakota	375.6
Kentucky	351.6	Tennessee	425.4
Louisiana	338.0	Texas	473.8
Maine	349.4	Utah	465.1
Maryland	456.6	Vermont	385.7
Massachusetts	484.6	Virginia	512.3
Michigan	453.8	Washington	446.4
Minnesota	465.9	West Virginia	291.5
Mississippi	302.0	Wisconsin	427.3
Missouri	427.6	Wyoming	356.9
Average U.S. Competitiveness Score: 402.3			

Total possible overall competitiveness score is 800.

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