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*Commentary on the rural economy*



## **Exploring Policy Options for a New Rural America**

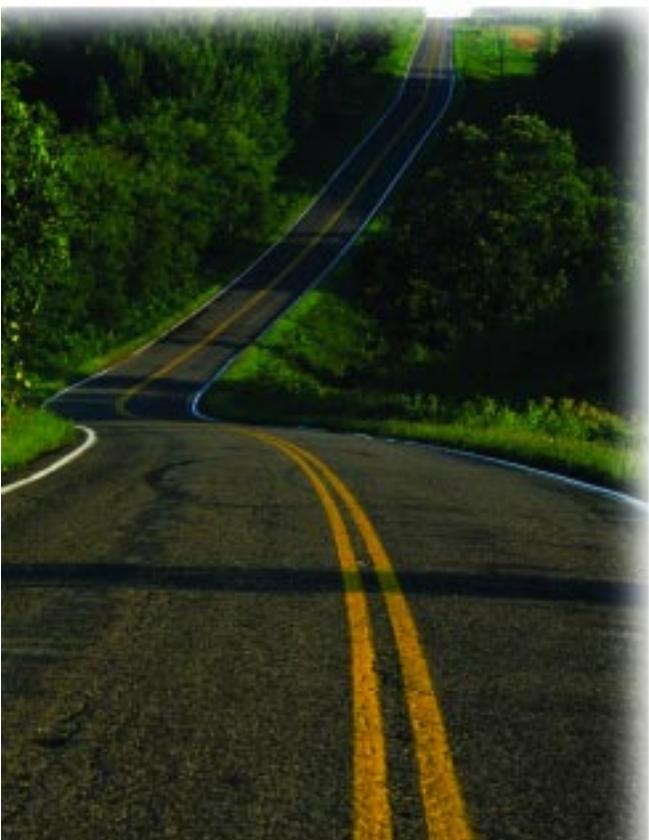
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The United States needs a new rural policy. That was the conclusion of ten policy experts and 250 rural leaders from throughout the nation who met in Kansas City for the Center's second annual conference on rural policy matters, *Exploring Policy Options for a New Rural America*. The conference examined a menu of promising policy options and also considered ways to combine these options into a more coherent overall approach to the challenges facing rural communities.

Conference participants agreed that new rural policy will be needed to help local communities seize the economic opportunities ahead. Participants noted that an essential starting point for any new policy is a fresh appraisal of why rural America matters to the nation.

Given a new social contract with rural America, several new policy options might be considered. Participants agreed that fostering more entrepreneurs and tapping digital technology will be critical ingredients of a new policy approach.



They also agreed that capital—especially equity capital—will be an important part of the mix. Cooperation among firms and communities was a major theme in discussing ways to reinvigorate traditional rural industries, whether helping manufacturing clusters to form, encouraging new alliances in a more product-oriented agriculture, or helping rural places make more of their scenic amenities.

Perhaps the most challenging discussion at the conference centered on building a new overall framework for rural policy and a new slate of policy options. The United Kingdom and Italy provided interesting new experiments in rural policy. Yet participants concluded that moving the United States from a longstanding reliance on supporting one sector to a broader focus on rural policy will not be easy. No matter how difficult, though, participants agreed that the transition was one worth making.

### The rationale for new rural policy

The conference began with a probing assessment of what the nation has at stake in rural America. *Will the nation craft unique policy aimed at rural places, and if so, what will the policy look like?*

Karl Stauber argued that the nation's current rural policy is unfocused, outdated, and ineffective. Its goals are not clear, it lacks diversity, and its focus is on just one sector.

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In addition, many policies are passed with little consideration for their impact on rural areas. Stauber contended that many of the policymakers passing this legislation still believe that some public institutions serve the unique needs of rural America. In part, these shortcomings are the fruit of decades of incremental changes in rural policy, at a time when more fundamental shifts were required

by the sea changes in the rural economy. Looking ahead, Stauber suggested that a new social contract between rural America and the nation's new majority in the suburbs will be the crucial starting point for any new discussion of rural policy. Stauber offered a series of new reasons for investing in rural America in the 21<sup>st</sup> century—ranging from regarding the countryside as a national treasure, to valuing a new generation of highly differentiated food products, to viewing rural places as a crucible for testing solutions to social problems, such as education. Stauber also pointed out that rural communities can serve as a source of healthy, well-educated citizens and provide an alternative to overcrowded urban and suburban areas.

A new foundation for rural policy should also lead to a fresh approach to rural policy options. Stauber proposed a framework founded on three pillars of economic development wisdom. These pillars turned out to be themes that would arise at several junctures later in the conference:

- Communities must have competitive advantage to prosper, and the advantage must stand a global market test.
- Communities that prosper constantly invest in creating *new* competitive advantage rather than protecting the *old*.
- Communities that prosper also make regular investments in building up the social and human capital of their institutions and people.

Finally, Stauber concluded that new rural policy must recognize rural America's diverse, unique geography. As a starting point, he suggested that rural policy identify four types of regions: *urban periphery*—places within a 90 minute commute of cities; *sparse populated*—places with low population density and where opportunities are limited by isolation; *high amenity*—rural places with scenery that attracts tourists and

retirees; and *high poverty*—rural areas characterized by persistent poverty.

### Growing the new rural economy

The second session of the conference examined ways to plug rural America into the new economy. The session focused on rural entrepreneurs, e-business, and financing issues. Presenters agreed that some bright opportunities lie ahead for rural America, but seizing them will take major shifts in rural policy.

In contrast with rural America's historical dependence on attracting branch plants,

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Brian Dabson suggested that greater emphasis should be placed on fostering local entrepreneurs. In giving higher priority to growing local businesses, he believes two approaches deserve special attention—investing in high-quality business assistance groups and helping existing businesses grow.

Dabson suggested that rural businesses face a unique set of challenges, but that initiatives at the state level can encourage entrepreneurship throughout rural America. Sparse populations and the difficulty of linking rural places to national and global markets present tough obstacles for new rural businesses. Some states are supporting a variety of groups to overcome these obstacles. North Carolina, for instance, is actively encouraging rural entrepreneurs through various small business development centers. More than 300 Individual Development Accounts have been created in the state to capitalize small businesses started by low income individuals.

New e-business opportunities in rural America present their own set of challenges. Much of rural America still lacks high-speed Internet access. Ed Malecki likened the situation of rural places near cable and

fiberoptic lines to that of houses that sit under a freeway—yet are 100 miles from an entrance ramp. The lines exist, but rural communities can't access them.

Malecki sees a strong link between gaining high-speed Internet access and spurring more rural entrepreneurs. He suggested that rural communities pursue telecommunication companies rather than waiting for them to come to the community. LaGrange, Georgia, has a city-owned fiberoptic network that serves more than 40 large commercial, institutional, and industrial customers. When big telecom companies decided to bypass LaGrange, the city's economic development team took the initiative to develop their own high-speed infrastructure. LaGrange now offers broadband to all its local businesses—a model that may be emulated by other rural communities, especially as more and more retirees accustomed to using the Internet spur the development of broadband in rural places.

Along with entrepreneurship and infrastructure (digital or otherwise), another key ingredient in launching new rural businesses is capital. Deborah Markley examined how rural America's new businesses might be financed. Debt and equity capital are vital elements in funding a new business, but these resources can be difficult to tap in rural America. Rural banks may not be willing to make nontraditional loans, and there may not be another bank around the corner to make that loan. In 1994, for instance, more than a quarter of the nation's rural counties were served by two or fewer banks. In addition, small banks owned by large banking companies, a trend evident in many parts of the nation now, make fewer small business loans than independent banks.

The situation is even more challenging for venture capital. Venture capital investments nationwide were approximately \$143 per capita in 1999. But in nearly half of the states—mostly in the Plains, the Midwest and the South Central regions—venture capital investments were less than \$20 per capita. These are predominately rural regions that depend heavily on agriculture, and prospects for attracting traditional venture

capital sources in these areas are not good. Many rural areas face a phalanx of funding problems—limited deal flow, higher costs per investment, limited opportunities for exiting deals, and a challenging local business environment.

Markley believes there are still promising alternatives to traditional venture capital funds. Some equity funds now operate outside of regions or industrial sectors where venture capital investments have traditionally concentrated. Often, these funds expect a lower rate of return than conventional venture funds. Such funds often have a geographic focus, such as Kentucky Highlands, an equity fund that operates in rural Appalachia. In addition, many of these funds have dual goals—financial returns *and* social and economic returns in the region or community. While there are good examples of success among these funds, the challenge will be building more of them, and crafting policies that promote this type of institution building.

### Re-invigorating the traditional economy

The third conference session focused on policy initiatives to invigorate traditional rural sectors—agriculture, manufacturing, and tourism. A common theme emerged in all three discussions. Partnerships among firms in a given industry should be encouraged.

Larry Martin described an agriculture industry that was becoming more product-oriented—an environment where producers and communities can form strategic alliances and cooperatives to their mutual benefit. Several strategic alliances in the agri-food business have realized such benefits. For instance, United Sugars Corporation, a small Canadian sugar beet cooperative, crafted an alliance with Pillsbury to market sugar with the Pillsbury label. Pillsbury's strong brand recognition helps United, while Pillsbury gains by adding more products to its shelves in the baking goods aisle.

According to Martin, agricultural alliances often boost the economies of surrounding communities in a number of ways. Community members involved in cooperatives and alliances can exercise significant

local control, making decisions that affect their lives, as well as the lives of their fellow community members. Alliance and cooperative jobs can keep young people in the rural areas. And financially successful alliances add to the local tax base which, in turn, helps local schools and hospitals.

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But forming alliances is not always easy. Public policy can play a crucial role by fostering the right business conditions for spawning alliances. These conditions include a favorable business climate for start-ups, a local infrastructure that can support specialized production and processing, and access to capital. Capital is a particularly important element, since most agricultural lenders are used to funding commodity production but lack experience with alliances geared toward specialized processing.

Extending the theme of cooperation, Stuart Rosenfeld suggested that networks and clusters will have a major influence on the prosperity of rural manufacturing, the largest sector in the rural economy. Rosenfeld differentiated between "hard networks" and "soft networks." Hard networks are small groups of companies that form to achieve specific shared business objectives (new markets, joint product development, co-marketing). Soft networks, which have open membership and tend to be larger groups of companies, form to deal with generic issues and to provide general services. "Clusters" are highly specialized economies in a geographic area, comprising groups of companies that provide similar goods or services. Clusters don't require membership and don't share goals, but they often give firms better access to suppliers, services, and labor markets—as well as to information and innovation.

Soft networks are more prevalent in the

United States, particularly in rural areas. Soft networks require less direct interfirm collaboration and are able to deliver enough value to justify members' investments. Rural soft networks have been able to address several problems. They can expand the contacts of small and mid-sized companies. They can buy more and pay less. They can move further upstream in the production process and reach global markets. They can "get smarter" and support entrepreneurs. The ability of networks to meet a variety of challenges has brought success to groups such as the Hosiery Technology Center, a network of hosiery companies in North Carolina that cooperates in marketing and exporting, training, testing materials, and other areas.

Today, as public grants to develop networks are drying up, the emphasis is turning toward clusters. Because many of the soft networks in rural America were open membership, these networks are in a good position to transition to the overarching clusters. Clusters encourage interfirm collaboration at a level beyond that of networks, and so bring further benefits both to the companies involved and their communities.

Another path to re-invigorating the rural economy is scenic amenities. Mario Pezzini examined the growing demand for scenic amenities that has stemmed from rising disposable incomes. Urban dwellers often vacation away from metro areas, and many of them are spending their retirement years in high-amenity areas. This increasing demand for scenic places can come into conflict with their limited supply. Too many visitors or new residents can alter the rural experience, often causing the same problems that many metro residents tried to escape in the first place. A balance must be struck between the supply and demand of rural scenic amenities.

Pezzini suggested that amenities should be transformed from public goods into collective goods and that a market solution be applied to the problem of over-use. One market strategy is to encourage rural land owners to sell to beneficiaries some or all of the rights to land on which an amenity is located. For instance, authorities in the UK

purchased the rights to remove hedges from land owners, leaving the landscape that attracts tourists undisturbed. The result was land that was valued both for farming and tourism—a compromise that yielded stronger economic growth for the rural community.

### Moving from policy options to rural policy

The fourth session of the conference stepped back from the menu of policy options presented the day before and asked a bigger question: *How does the nation begin to combine promising policy options into effective rural policy?*

Conference participants concluded that the United States has a 20<sup>th</sup> century rural policy mechanism for 21<sup>st</sup> century rural problems. While the conference did not provide a definitive solution to this problem, an examination of two rural policy experiments from two other nations revealed powerful new approaches to policy and shed new light on how the United States might move from policy options to policy.

Richard Wakeford discussed recent innovations in rural policy in the United Kingdom. In 1999, the UK created eight new Regional Development Authorities

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covering eight regions of England. These RDAs were charged with increasing economic growth within each region by encouraging new investments and improved skills. The RDAs were expected to partner with local governments, regional planning groups, and federal government offices in the region. As part of this general charge, it was also expected that in particularly rural regions, the RDAs would be a source of support for rural businesses, create better links between

town and country, and encourage development that was sustainable in terms of economic competitiveness and environmental stewardship.

The UK's regional approach has not yet yielded all of the hoped-for results due to continued fragmentation in governance. The UK has a strong central government, so many economic policies are still largely controlled in London. While the RDAs have wide-ranging authority to focus on economic regeneration policies, they have virtually no control over agriculture and tourism, two key rural industries. (The recent foot and mouth crisis in the UK illustrates the current difficulty in solving rural challenges with fragmented governance.)

Looking ahead, Wakeford suggested that rural growth in the UK will depend on a better rural policy framework. Central government will need to delegate more authority to the RDAs. And local governments, so far bypassed in rural policy discussions, will have to play a bigger role in forging new regional partnerships. Wakeford concluded that building the skills of local leaders and then devolving more policy decisions to the local and regional governments will be keys to a stronger rural economy in the future.

Fabrizio Barca presented a very different experiment in rural policy. Southern Italy, known as the Mezzogiorno, has long been a region suffering from poor economic growth. It has some striking similarities with parts of rural America due to its remoteness. In the past, the Italian government has pursued policies aimed at individual sectors and laden with subsidies. Beginning in 2000, a whole new approach was taken, one built on enhancing the competitiveness of the region while also redefining the role of state, regional, and local government.

The new approach is called Territorial Competitiveness Policy. It is founded on a principle put forward by Paul Krugman and other economists that regions must improve their competitiveness by making the most of their indigenous resources. In the Italian case, policy measures are specifically aimed at ensuring a marketplace where labor, products, and capital can move freely; improving

communication and transportation infrastructure with other regions; enhancing synergies among local entrepreneurs; and leveraging the region's scenic and cultural resources by improving access to them.

In general, the Italian approach is to use public funds to build infrastructure and create institutions that foster networking and synergies among local entrepreneurs and local public officials. Synergy is a very important pillar of their approach.

The key to finding such synergies, they believe, is to make local and regional governments critical players. In effect, the new approach amounts to redefining partnerships across levels of government. The new TCP plan will result in the investment of \$45 billion euros between 2000 and 2008. The bulk of the funds will go to infrastructure and projects that encourage cooperation among businesses—and to projects aimed at boosting tourism around southern Italy's scenic and cultural treasures.

Within this overall plan, each level of government has newly defined roles. Local governments are responsible for bringing local entrepreneurs and planning officials together to propose projects that build on a region's competitive features. Regional governments have the authority for selecting

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projects to be funded, with about three-fourths of total plan funds at their discretion. Federal government sets guidelines and rules for project proposals, monitors the implementation of those rules by regional governments, and provides technical assistance where needed. The European Union provides a significant amount of the funds for the territorial policy and also assures full compliance with project funding rules, thereby lending credibility to the process.

It is far too early to judge the effective-

ness of the Italian experiment. Still, the program appears to have energized local governments throughout southern Italy, and many projects have now been proposed. A key going forward, according to Barca, will be to continue efforts to improve the skills of local administrators. They become the key actors in the Italian plan, the group best situated to bring local businesses together to create partnerships. Thus, local officials must have competent economic development skills, both to spark new projects and to see them through the competitive granting process. Recognizing this, the Italian government is making sizable investments in new training programs for local officials.

### Conclusions

Distinguished rapporteur Stan Johnson synthesized the presentations and discussions of the conference. First, he underscored the need for new U.S. rural policy, a view expressed by many at the conference. Harking back to where the conference began, Johnson said there is abundant evidence that the implicit rural policy of the nation is failing and inspiring less public confidence. Moreover, he concluded that the time is ripe to have a national dialogue on rural policy at least in part because the social contract for agricultural policy is fraying as more and more communities conclude that agricultural subsidies are of little consequence in shaping their future.

Johnson drew two main conclusions from the conference. First, he concluded that strategic cooperation will be a dominant theme of any new U.S. rural policy. Cooperation is critical in the new economy—in communication networks, for instance. It is equally important to invigorate the traditional rural economy, whether that be by creating manufacturing clusters or alliances in a more product-oriented agriculture. But cooperation will not be confined to the private sector.

The government will play a key important role as a “referee” in structuring policy mechanisms that encourage partnerships to form and thrive. This marks a dramatic change from the government's traditional

role in rural policy. Historically, rural policy has been aimed at individuals. In the future, Johnson concluded, it will be aimed much more at partnerships—of communities and of businesses.

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*Rural policy must shift from a focus on sector to a focus on place.*

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The second conclusion of the conference, Johnson suggested, is the strong consensus that rural policy must shift from a focus on *sector* to a focus on *place*. To some extent, this reflects the reality that communities, like businesses, must add value to survive. And for communities, adding value means differentiating the quality of life that they offer in such a way as to attract people to live there. An emphasis on differentiation, Johnson concluded, suggests a new rural policy aimed very much at the grass roots. Such an approach would recognize that much of what rural communities can and will be resides with the wisdom and culture of the local people.

The shift to a place-focused rural policy was a strong theme of the general discussion at the conference. Yet while most agreed that U.S. rural policy should focus on the unique challenges facing each region, there was little agreement on how to make the shift. Some suggested the debate over the new farm bill was the place to start. Others suggested that, while difficult, a whole new policy mechanism would be required. In the end, all agreed that rural America is truly at a crossroads.

# EXPLORING POLICY OPTIONS *for a* NEW RURAL AMERICA

## Keynote Address: Assessing the Rationale for New Rural Policies in the United States

**Karl Stauber**—*President, Northwest Area Foundation, St. Paul, Minnesota*

## Growing the New Rural Economy

**Brian Dabson**—*President, Corporation for Enterprise Development, Washington, D.C*

**Edward J. Malecki**—*Professor, University of Florida*

**Deborah M. Markley**—*Principal, Policy Research Group, Chapel Hill, North Carolina*

## Re-Invigorating the Traditional Economy

**Larry Martin**—*Director, George Morris Centre, University of Guelph, Ontario, Canada*

**Stuart Rosenfeld**—*Principal, Regional Technology Strategies, Inc., Carrboro, North Carolina*

**Mario Pezzini**—*Head of the Territorial Reviews Division, Territorial Development Service, OECD, Paris, France*

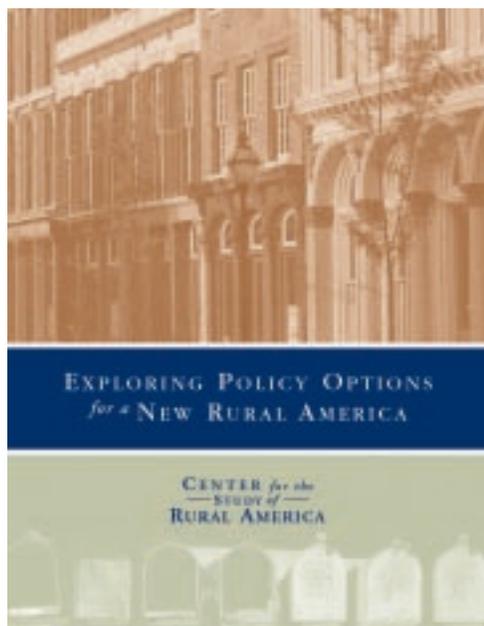
## Moving from Policy Options to Rural Policy

**Richard Wakeford**—*Chief Executive, The Countryside Agency, London, United Kingdom*

**Fabrizio Barca**—*Economic Advisor to the Treasury Minister, Rome, Italy*

## Conference Overview

**Stan Johnson**—*Vice Provost for Extension, Iowa State University*



Signs are mounting that a new generation of rural policy is in the making. More and more groups have become convinced that today's patchwork of agricultural and rural policies simply cannot help Main Streets across America meet the challenges of the new digital economy.

To shed light on which policy options offer the greatest promise for the future, the Center for the Study of Rural America hosted a conference, "Exploring Policy Options for a New Rural America," April 30–May 1, at the Westin Crown Center Hotel in Kansas City, Missouri.

A distinguished group of rural experts from the United States and beyond were on hand to share their ideas. Our audience included national leaders from government, business, finance, and academe.

The conference proceedings will be available soon. To receive a free copy, please visit our website at [www.kc.frb.org](http://www.kc.frb.org) or write us at:

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