



CENTER FOR THE STUDY OF RURAL AMERICA
Federal Reserve Bank of Kansas City

November 2003

The Main Street --- Economist

Commentary on the rural economy



Top Ten Ways To Reinvent Rural Regions

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All across the nation, rural regions are on a quickening quest to reinvent their economies. The past year has witnessed a flurry of regions contacting the Center for the Study of Rural America about new efforts to spark new economic growth—from the coastal bend in Texas to the Mississippi River bend in Iowa. The push behind the widespread quest comes from many directions, although globalization of markets is a common driving force. In some cases, factory closings are focusing attention on new economic engines. In others, a deepening fiscal crisis in state and local governments imperils new investments in rural regions that need them the most. And in still other cases, the ongoing exodus of young talent leaves regions wondering about their future.

Reinventing rural regions has not yet been featured on the Late Show's Top Ten. For the Center for the Study of Rural America, however, the recent wave of regional development efforts has provided an excellent opportunity to collect some key findings from our work over the past four years. Many regions have asked the same starting question: "Where do we begin in reinventing our economy?" Here are our top ten answers to that question.

Preparing to Reinvent

Before jumping to the answers, though, it is helpful to set the economic context that drives them. Two economic issues are especially important: globalizing markets and regionalizing strategies.

Globalization is perhaps the biggest force behind new efforts to reinvent regional economies. Over the past decade, U.S. consumers have gained even greater access to an incredible array of products from around the globe. The benefits have been a drop in the price of everything from DVD players to automobiles—and a panoply of consumer products. Yet the widening web of global markets has placed steady downward pressure on the prices of all sorts of commodities used to make the consumer products. This trend applies equally to agricultural wares and industrial commodities, the kinds of factory products that typically compete more on price and less on specific attributes.

This poses a serious dilemma as agricultural and industrial commodities are the very mainstays of the rural economy. In effect, globalization forces commodity firms to respond to one overriding imperative—be the low-cost producer. In both agricultural and industrial commodities, that response often takes the form of consolidation, as firms grow in size to find more economies of scale.

While there is evidence that rural America will compete effectively in global markets for both industrial and agricultural commodities, the scale required to do so will mean that fewer rural regions benefit. Communities throughout the Western Corn Belt and Great Plains

increasingly wonder how many can depend on commodities like number 2 yellow corn. At the same time, more and more communities throughout the Midwest wonder what to do after their factory closes.

Even as globalization demands world-class businesses, economic strategies are becoming more regional in scope. There is a deepening realization that regions are where the impacts of globalization are being felt. Economists refer to this as The New Economic Geography, but the evidence is widely seen in budding efforts to think regionally. For instance, three cities in California and Nevada are now in the early stages of forming a new "region" because they have concluded that competing in global markets takes more critical mass than any one of the cities represents on its own. Monterey, Sacramento, and Reno are not necessarily rural, but their attempt to create an "economic crescent" that connects their businesses, universities, and workforces is very much like efforts in more remote corners of the nation. Twelve rural counties surrounding Corpus Christi, Texas, are trying to do the same thing. So are four counties in northeastern Iowa.

In all these cases and scores of others, regional thinking is driven by the realization that competing successfully in global markets requires a critical mass that single cities or counties cannot muster on their own. Thinking regionally is, in fact, the transcending answer to the question of how regions reinvent their economies.

Regional thinking does not come naturally, though, when regions are shot through with jurisdictional lines laid down a century ago or more. Whether the lines separate cities, counties, or even states, they rarely define new economic opportunities. Rather, those opportunities have a way of redrawing the map all on their own. For example, the Quad Cities straddling Iowa and Illinois represent a region that spills across the two states and the boundaries of more than eight cities. Yet the region is now discovering that its future depends importantly on its ability to serve as a distribution center for a variety

of products. Being a world-class logistical center is all about passing through jurisdictions as quickly and efficiently as possible. In much the same way, achieving that goal may mean transcending the many city limits that have defined the history of the Quad Cities.

Indeed, the basic question facing many regions is, What is a region? There are many possible answers, but the best regions are self-defined. In some cases, it may be the communities and counties that find themselves in the same economic struggle—misery loves company. In other cases, it may represent the critical mass needed to seize a new economic opportunity. Some farming areas are working to develop pharmaceutical crops, and the acreage and capital needed to move to commercial scale often defines the region. In still other cases, it may be the area served by a regional catalyst organization, such as a community college or regional university.

No matter what the organizing principle may be, a sense of region is an essential starting point for any region looking to reinvent its economy. Regions are becoming the policy frame for economic development in the 21st century.

The Top Ten

Throughout the nation, regions are forming in a spontaneous flurry, the strongest evidence there is that public and private leaders alike increasingly understand the challenges ahead. A variety of efforts to forge new regional economic development strategies are now under way. What steps will be helpful to be successful in the new economic race? Here are the Center's top ten steps worth considering.

1. Build a home for the regional partnership.

The regional effort to reinvent the economy must have a durable home. Regions that create an institutional home for their strategy are outperforming those that merely have infrequent meetings. The home can take many different forms. Some regions use higher education institutions, while others use nonprofits. Still others

create new business alliances that drive the new regional strategy. Ultimately, though, regional development is increasingly about the institutions that it creates—institutions that can forge regional partnerships and guide new development efforts going forward.



Within the new institutional framework, an ongoing challenge is to make win/win the rule that governs all regional efforts. Reinventing the economy of a region is hard work that demands the best efforts of all players. Trust among the partners is essential to elicit the best contributions of all parties. In every region, there are always small players that distrust bigger players. In many rural regions, for example, there is often one city that attracts a lot of retail, business, and financial activity from the surrounding rural regions. When new economic development efforts begin in the wider region, the smaller communities often have a healthy skepticism that new gains will accrue mainly to the benefit of the city in their midst. The Waterloo/Cedar Falls metro area lies at the very center of a six-county regional effort in northeast Iowa, OpportunityWorks. A critical question the region's leaders constantly face is ensuring that new efforts benefit the entire region.

2. Find your region's unique competitive niche.

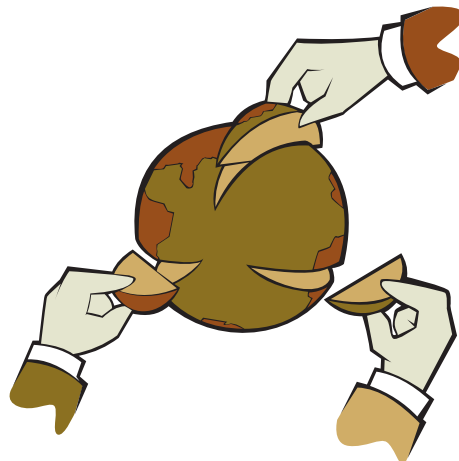
The economic imperative facing every region in the nation is building a source of competitive advantage in the global marketplace. It is no longer good enough to be

the best region in the state in producing a particular product, or even the best in the nation. A region's niche must stand the test of the global market.

Whatever the niche, it must include exporting something beyond the region. Very few regions have the size and balance to be self-sufficient and simply sell things to one another. Especially for rural regions with small populations, it is crucial to be able to sell products or services to the other regions—whether in the U.S. or beyond. To be sure, some rural regions will still focus on traditional natural resource-based products, such as agricultural commodities, timber, minerals, or energy. Others will stay focused on industrial commodities. But the fact remains that fewer and fewer rural regions will be successful in an overall commodity approach simply due to the unyielding forces of consolidation at work in these sectors.

Most regions will be exploring new sources of competitive advantage, including such sectors as product agriculture, advanced manufacturing, and professional services. These and other new economic engines will be driven mainly by technology and knowledge, underscoring the importance of higher education in the strategies.

Many regions will pursue more than one niche, but in most cases the new economic menu is not long. Being world class is a demanding challenge, and few regions will be able to succeed in several niches at

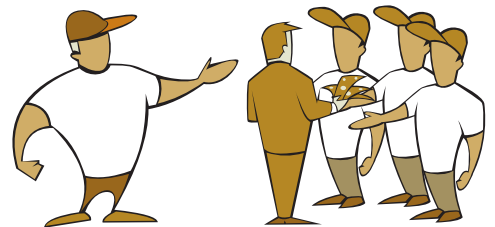


once. At most, regions may discover a few niches that may suit their unique resources.

A niche approach to regional economic development flies in the face of existing practice in many corners of the nation. Copy-cat development has been widespread among many regions, driven by the longstanding view that industrial recruitment can succeed at the expense of your neighbor.

3. Grow the farm system instead of buying free agents.

In economic development, as in baseball, it is often easy to go after home run hitters. But buying free agents is an expensive strategy, and the strategy pays off most in the biggest markets—the Yankees syndrome. Smaller markets, like Kansas City, are finding new success in growing the



farm system, an approach that can pay off but takes more patience.

In economic development, industrial recruitment is the free agent model. In fact, it is hands down the most pervasive economic development strategy in America. More and more regions, however, are recognizing its shortcomings. In a globalizing economy where costs are compared not between parts of the nation but between parts of the globe, an industrial recruitment strategy carries serious risks. Earlier this year, Maytag closed its refrigerator plant in Galesburg, Illinois. *The Quad City Times* put this headline above its lead editorial the following Sunday, "Maytag Delivers Costly Lesson." The lesson was costly because the region bet heavily by giving Maytag sizable financial incentives a few years before to keep the company in Galesburg. The editorial urged the region to "aim higher in its economic development strategy," with a clearer focus on local companies, local jobs, and local wealth. Many other regions are

reaching similar conclusions, although the inertia behind existing recruitment strategies remains powerful and persistent.

Especially in rural regions, the future lies in growing more entrepreneurs—especially high-growth businesses that can create local jobs and wealth. Such businesses will be the real key to growing new economic engines.

As in farm club baseball teams, however, rural entrepreneurs need great coaches in order to succeed. As shown at the Center's national conference earlier this year, rural entrepreneurs often have one strong skill but need help rounding out the competencies that make businesses successful. In many cases, coaches are missing to mentor rural business owners and move them into the major leagues.

Thus, rural regions actually face two big challenges as they reinvent their regional economies. The first is deciding to give up on industrial recruiting and switch more resources to supporting entrepreneurs in the region. That is not an easy switch, since growing the farm system takes patience. The second is deciding to beef up the region's coaching ranks, an issue that raises new demands on public and private institutions.

4. Create clusters around your core niche.

Once a region identifies a unique competitive advantage, it is important to capitalize on it by creating clusters of firms. Clusters provide two distinct advantages: they provide the muscle to tap domestic



and global markets and they develop synergies among businesses in the region.

Tapping global markets takes scale and persistence. It is very difficult for the small firms typically found in rural regions to go it alone in marketing their products. A good example of the benefits that clusters can provide is regionally branded foods. Many agricultural regions in the United States are now considering how they can shift from agricultural commodities to regionally branded food products, the very transition that some parts of Europe have mastered. Champagne and roquefort cheese are two food products that represent regional brands marketed by clusters of small firms located in the regions that give the products their brand identity. Napa Valley is an example of a U.S. region that is exploiting this same strategy. In Napa as in Champagne, the cluster makes the regional brand possible—and the regional brand gives wider margins to the firms themselves.

Similarly, clusters help firms exploit synergies in adapting technology and training workers. Small firms often find it difficult to identify and test new technologies, a task that is much easier if shared with other firms. The Hosiery Technology Center at Catawba Valley Community College is a good example of technology adoption made possible by the cluster of firms in the area. The Center helps identify and test new technologies that are well-suited to the industry. In much the same way, clusters create a richer pool of trained workers that can benefit all the firms in the area.

Many of the best economic opportunities in rural America will develop with cluster-like, interdependent business models. Pharmaceutical crops, for instance, will take several hundred farmers all growing the same crop with the same ISO 9000 production protocols. Quite simply, this represents a totally different business than growing commodities as independent producers. Making the transition from independence to interdependence is one of the great challenges facing most rural regions.

5. Improve and leverage local amenities.

Evidence shows that rural regions with scenic amenities—usually mountains or lakes—have had the fastest economic growth. The Intermountain West is a huge case in point. Yet scenery will not be the only amenity in the economic strategies of rural regions. A wide range of quality-of-life amenities may be even more important.

Most regions must have a dual strategy going forward, one focused on competitive advantage and the other focused on quality of life. All too often, the quality-of-life aspect is ignored. To be sure, rural regions often have family-friendly attributes that can make a big contribution to a strong quality of life. Yet the ongoing exodus of young rural talent points to other aspects of quality of life that may be missing. Cultural attractions, entertainment options, educational opportunities, and outdoor recreation are all part of the bundle of amenities that tomorrow's leaders consider when they decide where to live.



6. Invest in your people.

People always make the difference in any economic strategy, but they are especially important as rural regions reinvent their economies. Two investments in people are likely to be richly rewarded in the future: developing regional champions and training workers for new economic engines.

Any analysis of regional economies inevitably turns up regions that defy all other trends and grow at a fast rate. Invariably, the explanation for the growth lies in superb economic leaders in the region. In the future, regional champions will be especially important, as new partnerships are built among businesses, higher education, and governments. Leaders that

appreciate the value of such partnerships and have the skill to build them will be essential ingredients in regional economic strategies. Regions that invest in the training of such leaders will reap considerable dividends.



A region's workforce will be the other key human ingredient. Unfortunately, many rural regions have workforces that were trained mostly for a 20th century commodity economy. These skills do not necessarily line up with the growth opportunities of the future. Accordingly, regions will have to give careful thought to training programs that can lift skill sets to match new business needs. In short, life-long learning will be a dominant feature of regional education strategies.

7. Enrich the region's supply of equity capital.

Rural regions have a rich web of community banks, institutions that can be critical suppliers of both capital and leadership in new development efforts. From a capital point of view, however, rural regions often face gaping shortages of equity capital. And if entrepreneurs will drive new economic engines, equity capital funds will be supplying the fuel for those engines.

Ironically, most rural regions have a big supply of available equity capital—the wealth owned by the region's residents. The problem is that there are few mechanisms to marshal those dollars into funds that reinvest in the region. Many capital owners would happily invest in the region—in some cases at below market

rates—if the investments were directed to boosting the economic future of the region. Rural people tend to have a strong commitment to the places they call home.

Thus, there is an opportunity to explore ways for public and private leaders to form new equity capital funds that can spur new businesses in the new rural economy. The public and private roles will be very different, however. The public can play an important catalyst role in giving rise to new equity capital funds. Cybus Capital in Des Moines started with a \$25 million grant from the state of Iowa, and the fund now aims to make investments in promising Iowa companies. Public programs can also be helpful in lending support to entrepreneurial activities through a wide range of business support organizations.



The public sector is not well-suited, however, to running regional equity funds. Private sector management by persons skilled in running equity funds is a hallmark of the scattered equity funds that have been successful in rural America. Such funds have also proven adept at providing hands-on guidance to managers of companies.

8. Tap technologies suited to your region.

Technology plays a pivotal role as rural regions shift from a commodity economy to a knowledge economy. Yet new investments in

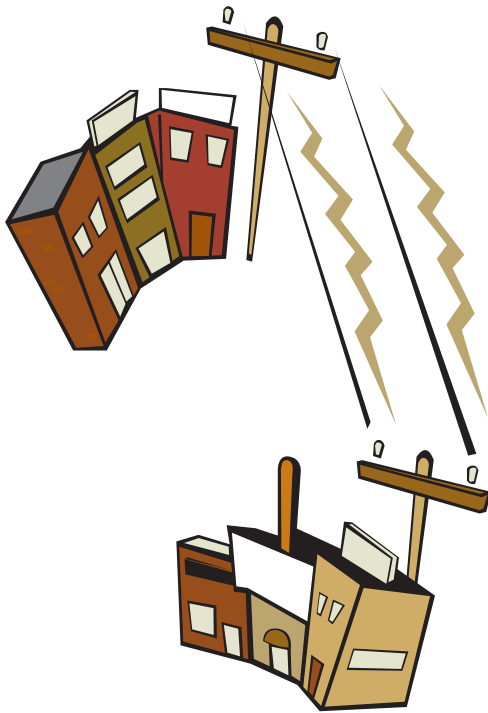
technology will have the biggest payoff if they are linked to the region's source of new competitive advantage—its niche. In the past, public investments in new technologies aimed at the rural economy have happened at the state and federal level. The Agricultural Experiment Stations at land grant universities and the Agricultural Research Service of the U.S. Department of Agriculture are prime examples. Going forward, it will be especially important to link new technologies to the needs of individual regions. That is, regions increasingly will be asking how public investments can help drive their new economic engine. Or put another way, technology investments in the future will be more about regions and less about sectors.

Notwithstanding the unique needs of different regions, three types of technologies are likely to grow in importance to many rural regions. Product agriculture will help farming areas discover wider profit margins. Gene splicing for pharmaceutical crops and innovative packaging for regionally branded foods are but two of many technologies that will drive a widening array of products. Similarly, advanced manufacturing techniques and technologies will help rural factories move up the technology ladder. And information technologies that enable high-skill services to locate in rural areas will deepen the knowledge economy.



9. Invest in 21st century infrastructure.

A related need is to invest in 21st century infrastructure. Broadband is the poster child for this issue, but there are far more issues in play than just digital connections. As with technology, infrastructure investments must be guided by a region's competitive niche. Too often, infrastructure is tied to a generic recruitment strategy, leaving too few funds for the infrastructure critical to being world class in a new niche. Highways are widely viewed by public officials as an infrastructure tonic. Transportation is always an important consideration. Yet other types of infrastructure may even be more important in the future.



While regions will choose infrastructure investments on the basis of what their own region needs, attention is likely to rise for four types. Telecommunications is the most obvious. Indeed, some regions are beginning to view broadband as the new silver bullet. Broadband probably is necessary for building a new rural economy, but it is probably not sufficient by itself. Quality-of-life infrastructure, ranging from community centers to parks and recreation, will be essential to retaining talented

people. Rural education will be especially important, from primary and secondary schools to lifelong learning with distance technologies. Finally, regional air service may be infrastructure worth pursuing. NASA has an innovative program to explore the potential for small aircraft at smaller airports (the Small Aircraft Transportation System). Such technology may be crucial in putting rural people and businesses in touch with metro areas.

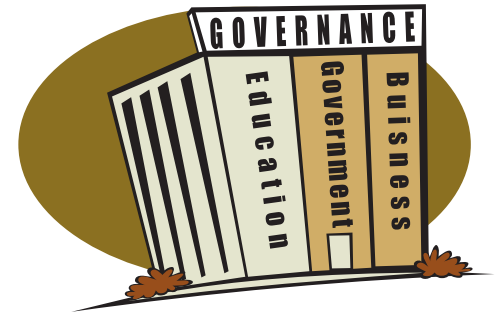
10. Reinvent regional governance.

Rural regions must adopt new economic strategies if they want to move from the old economy to the new. A final element in that new strategy involves reinventing the region's governance. Governance is the process by which regions make decisions and defines how the region's key public and private institutions relate to one another. To build new sources of competitive advantage, regions must be able to reach decisions as a region instead of independent jurisdictions.

Put another way, 21st century opportunities will be no respecter of 19th century surveyors. There is no one way to creating a new process for regional governance, but maintaining the status quo is unlikely to produce results in many rural regions.

New governance may mean reinventing some key public institutions. For instance, legislative and administrative structures in state government may not be aligned with new economic opportunities. Agriculture committees oversee rural economic issues in most state capitols, yet the future is more likely to be defined by a web of regional approaches, not one sector. Similarly, at state universities rural issues often flow to the College of Agriculture. While these colleges have many skilled people to address the issue, rural America's new economic engines will extend well beyond agriculture. The Cooperative Extension Service is a highly successful delivery system for technology transfer in agriculture, yet other technologies will be the focus of many new development efforts. And community colleges and

regional universities are natural candidates to lead new regional development efforts. In some regions, links with other key institutions are well-established and operate smoothly. In other regions, these relationships are still uncertain.



Reinventing regional economies in a global marketplace is the new frontier for economic development in the 21st century. More and more rural regions are beginning to understand that building new competitive advantage is their new imperative. Lessons drawn from recent innovations in economic development point to ten ways regions might begin their quest for a new economy. How quickly rural regions will be able to turn these and other strategies into success will be a fascinating issue to watch in the months and years ahead.

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