

BY PRISCILLA SALANT & JULIE MARX



STRATEGIC OVERVIEW SERIES

## SMALL TOWNS, BIG PICTURE

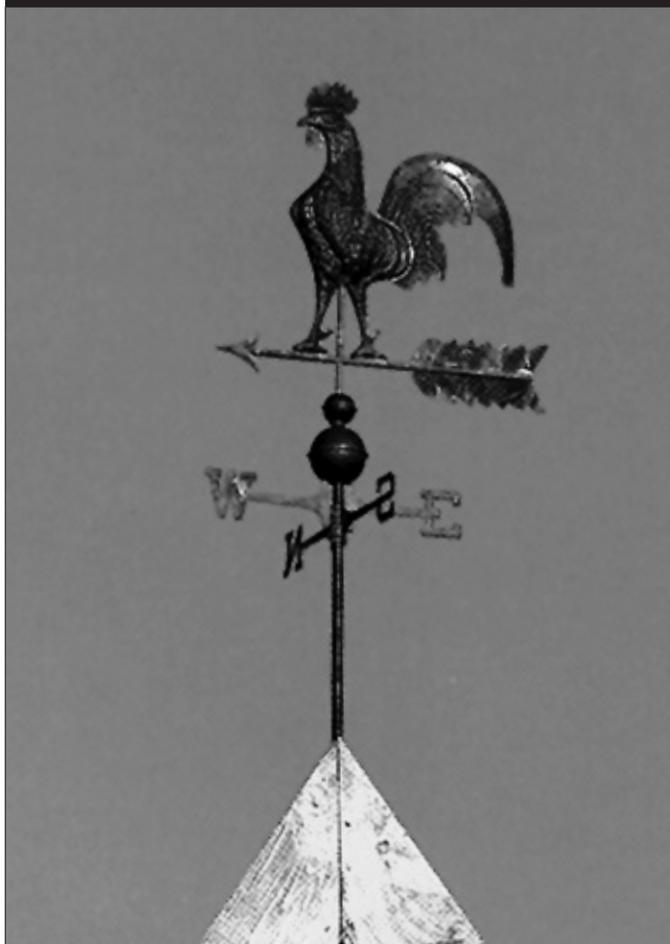
Rural Development in a  
Changing Economy



The Aspen Institute  
Community Strategies Group



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Changing Economy



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ISBN: 0-89843-176-X

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DESIGN AND PRODUCTION: BR PUBLICATIONS, WASHINGTON, DC.

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## ACKNOWLEDGMENTS

**M**uch of the analysis discussed in *Small Towns, Big Picture* is synthesized from research supported by the Rural Economic Policy Program (REPP) between 1985 and 1992. Through seminars, research recommended to The Ford Foundation for funding, and other activities, REPP, under the direction of Susan Sechler, contributed to a qualitative change in our understanding of rural development in the United States. Thanks to REPP, we can now speak with confidence about rural poverty, about economic sectors critical to rural well-being, and about the role of telecommunications in rural development.

Our goal is to provide a contextual framework for thinking and learning about rural development. We hope our work will stimulate debate among people with a strong bent towards action—whether at the local, regional or national level.

For many ideas discussed here, we are indebted to Bill Galston, a former REPP advisor, now Deputy Assistant to the President for Domestic Policy. In his clear and insightful way, Bill laid much of the analytic groundwork for this paper. In particular, we benefited from his original work on the comparative advantage of rural communities, as well as his and Karen Baehler's excellent industry-by-industry analysis in *Rural Development in the United States: Connecting Theory, Practice, and Possibilities*, recently published by Island Press.

Over the past decade, others have taken a similar approach to the one we use here. They have examined various policy objectives and looked at trends and opportunities in the individual industries that are important to rural America. *Rural Economic Development in the 1980s* from the USDA, *Rural Communities: Legacy and Change* supported by the Annenberg/CPB Project, and the Galston/Baehler book cited above are a few examples. We have tried to distill the most important lessons for rural development practice from these publications, and also to draw implications for rural communities from the broader development literature.

This report could not have been written without the generous financial support of The Ford Foundation's Rural Poverty and Resources Program, as well as the patience and encouragement of its staff. We would also like to thank the W.K. Kellogg Foundation for supporting the publication and distribution of this report.

Many people provided us with helpful comments on earlier drafts of this report. They include Paul Barkley, Bill Bean, Henry Carey, Don Dillman, Cynthia Duncan, Amy Glasmeier, Dave Holland, Meriwether Jones (REPP's current director), Dick Long, Bill Nothdurft, Chris Page, Michael Roberts, Stuart Rosenfeld and Janet Topolsky. Any remaining errors and omissions are the authors' responsibility.

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## EXECUTIVE SUMMARY

**C**ommunities across rural America are changing, some abruptly and others over several decades. Having lost their traditional economic base, some have found new economic opportunities which bring, in turn, new problems. Others face economic decline and the consequences of smaller and older populations. A few are finding a workable balance between preserving tradition and adjusting to change.

Overall, rural development opportunities are different now than they were in the past. The premise of this report is that efforts to take advantage of these opportunities must be grounded in an understanding of certain related and long-term trends. These include enormous productivity increases in traditional rural industries, global competitive pressures, advances in information technology and increasing interest in rural amenities.

In the 1990s and beyond, rural development means adapting to the demands of an increasingly integrated and competitive global economy. Across almost all industries, other countries have entered international markets that were once considered exclusive American territory. As competition increases and markets fragment into niches, firms must specialize and differentiate their products and services. There is a critical need to be innovative and flexible.

**In the 1990s  
and beyond, rural development  
means adapting to the demands  
of an increasingly integrated and  
competitive global economy.**

Under these circumstances, small remote communities are at a greater disadvantage than towns that are close to urban areas. Small size, low population density and remoteness make it expensive to provide the transportation and communications infrastructure that firms need to get supplies in and products out fast enough to remain competitive. Accessing new information and innovations can also be more difficult.

Advanced information technology offers small communities the chance to reduce some of the disadvantages that come with low population density and distance from cities, without becoming more urban or sacrificing quality of life. It can allow firms to locate in rural places less expensively and more efficiently. Further, it can improve competitiveness by giving rural firms direct access to customers and tying them into information about markets, suppliers, technology and government regulations. Finally, information technology can help improve rural quality of life by letting small towns import services like health care and education.

At the same time, information technology has a negative side for rural places. It exposes more remote and smaller firms to competition from those that are centrally located and can benefit from economies of scale. Also, it has enabled some firms to centralize decisionmaking operations in cities, and others to move branch offices and plants to off-shore locations.

**E**xploiting

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requires public policy that makes  
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and the local capacity  
to take advantage of emerging  
opportunities.**

Exploiting the positive side of information technology requires public policy that makes the necessary infrastructure available in rural places. It also requires the local capacity to understand and take advantage of emerging opportunities. Like the global economy, advances in information technology have different implications for each of the economic sectors that are important to various parts of rural America—natural resources, manufacturing, services and the amenity-based sector.

## Trends and Opportunities in Critical Sectors

**T**he **NATURAL RESOURCE SECTOR** includes agriculture, timber, mining and fishing. While these industries comprise a relatively small part of the national economy, they are very important in communities with little other basic economic activity. In such places, the continuing decline in natural resource employment and the changing political and budgetary climate are having serious consequences. The most promising development opportunities for resource-dependent communities include diversifying within the sector, adding value to natural resource products, and environmental restoration.

**MANUFACTURING** is another industry that is important to large parts of rural America. In the past two decades, it has undergone radical changes driven by globalization and rapidly advancing

**T**he most promising development opportunities for resource-dependent communities include diversifying within the natural resource sector, adding value to natural resource products, and environmental restoration.

technology. Many firms are reorganizing their operations to increase productivity and respond more quickly to rapidly changing markets. Such changes have weakened the advantage on which most rural manufacturing activity depended in the past: low land and labor costs; a non-unionized, hard-working workforce; a lax regulatory environment; and lucrative tax incentives.

Perhaps the greatest challenge for rural manufacturers is to upgrade production processes and other business practices that make better jobs and higher wages possible. Also critical are innovative networking strategies and efforts to overcome isolation with information technology.

**A**nother major challenge for rural communities is to gain a larger share of business-service growth, while retaining a strong consumer-service base.

The **SERVICE SECTOR** has been the largest source of new jobs in the United States over the last 40 years. It is the catch-all part of the economy that includes all industries other than natural resources, construction and manufacturing. Together, producer (or business) and consumer services account for most of the job growth in rural America, as they do nationwide. The challenge for rural communities is to gain a larger share of producer-service growth, while retaining a strong consumer-service base.

Producer-service firms like legal and financial services are seen as a source of economic development for several reasons: they tend to have relatively rapid growth rates, generate a large proportion of high-wage jobs, and are a source of export earnings when they are sold outside the community.

There are examples of sophisticated firms that export producer services from rural areas but, overall, producer services are growing more slowly in rural than in urban areas.

While consumer-service firms like restaurants and auto repair shops are often viewed as having less development potential, they still offer important rural opportunities. Some, like health care, can be exported to other communities and, in addition, provide high-skill, high-wage jobs. Moreover, when consumer-service firms are locally owned, they keep residents' income circulating within the local economy. Perhaps most importantly, without a strong consumer-service sector, rural communities will find it very difficult to maintain the quality of life that attracts new residents.

The **AMENITY-BASED SECTOR** includes businesses that provide services to vacationers and retirees. Amenity-based activities are a loosely defined subset of the service sector, but deserve special attention because they hold real promise for some rural places. Recreation-related attractions and services bring visitors, retirees and other new residents to communities with scenic mountains, tranquil lifestyles and interesting cultural heritage. Tourism and retirement-related services bring outside dollars into local communities and are therefore often viewed as new, rural export industries. Big-picture demographic and economic trends suggest cautious, but not unbounded, optimism for this sector.

**D**emographic and economic trends suggest cautious, but not unbounded, optimism for growth in the rural amenity-based sector—tourism and retirement-related services.

Amenities often yield far more than tourism or retirement economies. Yet the potential rewards of amenity-based development are balanced by its challenges, which can include threats to a community's culture and traditions, increased economic inequality and environmental degradation.

Opportunities in the amenity-based sector are tempered by the need for careful planning and management. Amenities can attract new residents and businesses that relocate for quality-of-life reasons. They offer the best long-term opportunities when treated like capital assets. If they are to yield a constant or increasing return, each generation of rural residents must invest in amenity upkeep and maintenance to make sure they continue producing jobs as well as goods and services.

## Rural Poverty

**In communities with persistently high poverty rates, there is little to attract development and jobs.**

In each of the four sectors important to rural America, economic restructuring has resulted in a high incidence of low-wage, unstable jobs. For this reason, many rural people are poor even though they work. In 1987, 65 percent of all rural poor families had at least one person who worked during the year. Of those poor heads of households who were not ill, disabled or retired, 70 percent worked for some part of the year, and nearly one in four worked full-time, year-round. Many rural people survive by piecing together multiple sources of income, combining a

patchwork of part-time or seasonal jobs with informal activities such as child care or auto repair.

Although some rural poverty is recent, poverty rates in much of rural America have been high for decades. This is caused in part by single-industry economies and a rigid social structure that permeates daily life—in schools, public welfare programs, service provision and work opportunities. In communities with persistently high poverty rates, there is little to attract development and jobs. Education and other services are seriously inadequate and people with training and skills leave for better opportunities elsewhere. Clearly, market forces alone cannot solve this serious problem.

### **Changing Context, Changing Opportunity**

**M**any rural communities are finding that they can no longer depend on traditional comparative advantages—a low-wage workforce and proximity to natural resources. Natural resource employment is steadily declining and low-wage jobs are threatened by global competition. On the other hand, many rural places are finding an advantage in natural and cultural amenities and, more broadly speaking, quality of life.

Small communities that are located close to urban places benefit from a double advantage: rural quality of life and amenities, combined with easy access to

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**development” must be understood as a great variety of efforts, each tailored to local conditions and grounded in the larger context described in this report.**

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capacity to adjust to change.

the positive side of urban agglomeration. Their experiences may provide lessons for rural communities seeking better linkages within their regions.

“Rural development” must be understood as a great variety of efforts, each tailored to local conditions and grounded in the larger context described in this report. One thing is certain—identifying the most promising opportunities requires deliberate effort on the part of people who live and work in rural places.

Selecting and implementing successful strategies will require strong leadership, broad-based community participation and consensus building, and supportive policy, all guided by five development principles:

- To counteract the tendency for economic activity to centralize in urban areas, small communities and rural firms must collaborate and cooperate with other communities and firms in their region.
- Diversifying local economies away from single industries is critical.
- Because amenities and quality of life are valuable assets, they should be carefully preserved and enhanced whenever possible.
- Government at all levels should rethink public policies that subsidize and encourage low-wage indus-

tries, especially when these industries perpetuate poverty and damage the environment.

- Poor people and communities need targeted public attention and resources, including programs to raise income, improve services and strengthen infrastructure.

Underlying these principles and the development strategies discussed in this report is a critical need to build the capacity to adjust to change. This means understanding local strengths and weaknesses, as well as the larger context in which they exist. It also means working to build broad-based participation toward community goals—and to manage development, or decline, accordingly. Only with strong community capacity can rural people take advantage of opportunities waiting on the next horizon.



## INTRODUCTION

**C**ommunities across rural America are changing, some abruptly and others over several decades. Having lost their traditional economic base, some have found new economic opportunities which bring, in turn, new problems. Others are facing economic decline and trying to deal with the consequences of smaller and older populations. A few are finding a workable balance between preserving tradition and adjusting to change.

*The theme of this report is straightforward: Rural communities have different economic development opportunities now than in the past. These opportunities can be understood only in the context of certain related and long-term trends:*

- Productivity improvements in the industries on which rural communities have traditionally depended have eliminated millions of jobs since World War II.
- Because raw materials make up a declining share of final products, the demand for natural resource commodities, relative to total economic output, is falling.
- The federal government is decreasing its investment in rural areas and its subsidies to rural industries.

**T**he context in which future development opportunities will occur is shaped by certain national and international trends. Within that context, people in rural areas must find their own place.

- Advances in communications technology are causing fundamental changes in how firms operate and how people work.
- Competitive pressures on firms, resulting from economic globalization, are increasing significantly.
- Many Americans are becoming aware of the environmental costs of certain rural economic activities, even as their interest in rural landscape and quality of life is increasing.

**E**ach

**community must put in place  
development strategies  
suited to both local opportunities  
and the global context.**

The context in which future development opportunities will occur is shaped by these national and international trends. Within that context, people in rural communities must find their own place. That means evaluating local and regional assets. It also means identifying support for communitywide goals and working together to achieve them.

In this way, each community can put in place development strategies suited to both local opportunities and the global context.

### **Survival Requires Change**

In the 1980s, news from America's heartland was relentlessly discouraging. Although recent population data shows that conditions may be improving in certain places, the aggregate statistics still tell of a rural America that trails the rest of the country in income and employment

growth. Poverty and unemployment rates are higher, education levels lower, and the effects of recession often more severe. Many rural places, especially in the Midwest, are steadily losing population as people leave in search of better jobs. In small communities that have been hard hit economically and have lost population, access to health care, education and other services is often a serious problem.

People who work with and live in rural communities are searching for new development models that promise more stability and prosperity than in the past. While some people still yearn for the “good old days,” others agree that if rural communities are to survive—let alone prosper—they must find new goods to produce, new services to offer, and new ways of interacting with each other and the world around them. While it is increasingly clear there is no silver bullet that will bring development, some communities are making progress toward these goals by finding ways to collaborate, share resources and achieve some measure of scale economies.

*Our premise is this: Rural development efforts will not succeed unless they are grounded in an understanding of opportunities and challenges posed by the long-term trends detailed in this report. Ungrounded efforts may even harm places where precious time and energy is wasted on endeavors with no chance of success. As Bill Galston puts it:*

“A sounder understanding of broad developments will create a context

**I**f rural communities are to survive—let alone prosper—they must find new goods to produce, new services to offer, and new ways of interacting with each other and the world around them.

in which policy analysts and local decisionmakers can more realistically evaluate the odds of success for each of the options before them. Rural communities need not always ‘go with the flow,’ but they should at least understand the nature of that flow.”<sup>1</sup>

**F**or many  
remote and small communities,  
to be passive in the  
face of the changes that  
characterize modern life is  
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Often, rural leaders and citizens have told us they have no desire to turn their communities into small cities. On the contrary, they want to preserve the culture, values and way of life that make rural places so special. Our response is that *mere survival requires change*. Just to sustain current population levels into the next century, communities must be able to educate their children and offer them jobs when they grow up. That means acting now to alter the *status quo*—to build on existing assets, develop new ones and take advantage of amenities that are emerging as rural America’s new comparative advantage. For many remote and small communities, to be passive in the face of the changes that characterize modern life is to abdicate the future.

## Purpose and Organization of this Report

**O**ur objective here is to help people who design and implement policy and programs understand the multi-faceted context within which rural development takes place. We focus mainly on economic aspects, but the context is also geographic, political and sociological. To

achieve our objective, we draw on a rich literature developed since the mid-1980s, as well as on our own experiences with rural people and places.

First, we briefly describe policy objectives often used to justify rural development efforts. Second, we discuss the diversity of rural America and explore how this diversity helps us understand changing development opportunities. Third, we provide an overview of the global economy and its effects on rural places. Fourth, we look specifically at how information technology both helps and hinders rural participation in the global economy.

In the fifth section of the report, we focus on the four economic sectors that are critical to rural America: natural resources, manufacturing, services and the amenity-based sector. For each one, we discuss major trends, their rural impact, and implications for rural development. Next, we examine how economic, political and social structures often perpetuate rural poverty. Finally, we summarize themes that our analysis suggests are key to future rural development efforts.

Because we have tried to synthesize very complex issues, our discussion often lacks nuance and glosses over conflicting schools of thought. Hence, we encourage readers who want more detailed information to use the reference list at the end of the report. Moreover, we do not conclude our analysis with specific programmatic or policy prescriptions, which we believe vary from place to place. Instead, because rural America is so diverse, we try to address broad implications that may touch many kinds of rural places.



## WHY SHOULD WE CARE?

**R**oughly 57 million people live in rural America, or about 23 percent of the total U.S. population.<sup>2</sup> That's a significant share, but one that has declined almost every decade since the country was founded.<sup>3</sup> Why, then, should public investments attempt to forestall this long-term decline? Three arguments are often used to justify public policy measures intended to improve conditions in rural places.

The first argument has to do with efficiency. It holds that some rural problems exist because the market isn't working the way it should. Economists generally argue that the country as a whole benefits when these so-called "market failures" are corrected.

The second argument concerns equity and fairness. It suggests that rural people deserve a standard of living that compares favorably with that of urban Americans and, further, that people should be able to live in a rural place without having to sacrifice access to employment and essential services.

The third argument has to do with the public goods nature of rural places—the existence of peaceful landscapes, wildlife habitat, dramatic scenery, and the relative absence of crime, congestion and pollution. Market

**T**hree

**arguments—efficiency, equity and public goods—are often used to justify public policy measures intended to improve conditions in rural places.**

prices don't reflect the value of these public goods, and society loses something when they aren't protected.<sup>4</sup>

None of these three arguments—efficiency, equity or public goods—will or should justify a massive policy intervention on behalf of rural America. Each can be criticized in one way or another and carried only so far.

Take, for example, a remote town that has a declining, single-industry economic base and a population of 350 people. While none of the three arguments can fully justify spending large amounts of public money to reverse the town's population decline, each makes at least some sense. For example, the efficiency argument may justify a good education program to make sure the town's children can one day take advantage of job opportunities elsewhere. A concern about equity may justify safety net programs to make sure people who can't move still have basic services. And finally, a desire to preserve public goods may justify natural resource policies that protect the town's rural landscape.

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It is critical that everyone concerned about rural issues be honest about these policy objectives because each one implies different development strategies. An interest in efficiency leads to programs that attempt to correct market failures; a concern about equity points us toward policies that alleviate rural poverty; and a desire to preserve public goods means we must learn how to reconcile conflicting environmental and

economic goals. These arguments help us structure policy interventions and gather support for their adoption.

Hence, how one answers the question, “Why care about rural places?” depends on policy objectives. It also depends on which part of rural America is of most concern, the subject to which we turn our attention in the next section.



## THE FICTION OF ONE RURAL AMERICA

**P**erhaps the greatest constraint on our ability to create new models for rural development is the very word “rural.” It implies that there is one kind of rural community in America, undifferentiated by size, location or economic base.

Too often, it prevents us from viewing social and economic organization along a continuum: from the suburbs of densely populated urban areas to remote, sparsely settled regions; from diversified, small cities to single-industry towns; from persistent poverty to newly acquired wealth. The word “rural” has been used to embody all these extremes and many places in between.

As a result, even some thoughtful people who write about rural America tend to see all places that aren’t urban as being about the same. This simplistic perspective is counterproductive because it keeps people from understanding both opportunities for and constraints on development.

Consider what, if anything, the following places have in common:

- a southern town of 25,000 whose main industry, textile manufacturing, faces enormous pressures from international competition
- a town of 2,500 in the northern Rocky Mountains whose economy is changing from ranching to

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tourism and whose residents are caught in a cross-fire between developers and environmentalists

- a midwestern town of 4,700 whose single employer is a large meat processing plant and whose labor force increasingly consists of immigrants from both Central America and Southeast Asia
- a northeastern town on the outskirts of a major city, whose growth rate is high and whose economy is diverse
- a remote town on an Indian reservation, with no major industry and high poverty rates, whose residents are divided over plans to host a hazardous-waste disposal facility

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Each of these five is different with respect to its economic base, labor force characteristics and geography. Still, each is likely to be classified as nonmetropolitan and therefore grouped within the aggregate statistics for what is loosely referred to as “rural” America.

What *do* rural communities have in common? Three features are often used to describe them: small-scale, low-density populations; remoteness from urban centers; and economies that are narrowly dependent on one or two industries.<sup>5</sup>

But not all rural places are equally small, remote or economically special-

ized, nor are they all declining. From 1990 to 1992, almost two-thirds of all nonmetro counties gained population. Almost three-fourths of nonmetro counties adjacent to metro centers gained population. Those that were destinations for retirees or centers of recreation also grew significantly.<sup>6</sup>

The diversity of rural America is often hidden within aggregate statistics. Researchers, practitioners and policymakers must look at the experiences of a wide range of rural communities to discover past and emerging patterns, as well as new opportunities for development. They must understand overarching trends and, at the same time, be aware of capacities in individual places. In the next sections, we discuss two trends influencing economic change in diverse rural communities: first, economic globalization, and second, the rise of information technology.



## RURAL COMMUNITIES IN THE GLOBAL ECONOMY

In the past, “rural development” meant increasing agricultural and raw materials production and then hoping commodity prices would be high enough to make a profit. Businesses in some rural places specialized by adding value to their natural resources with manufactured goods like leather and textiles. In almost all industries, low labor costs and minimal business regulations gave rural communities a significant competitive advantage.

In the 1990s and beyond, rural development means adapting to the demands of an increasingly integrated and competitive world economy. Evidence of change is all around us. Shoes once manufactured in rural Ohio are now made in the Dominican Republic and sold in the United States. Timber is harvested in Oregon, shipped to Japan to be made into wood products, and marketed all over Asia. Insurance claims that once were processed on-site in Boston are now sent by satellite as visual images to rural Ireland for processing.

These examples may seem far removed from the day-to-day concerns of a small-town mayor or economic development official. We cite them because they illustrate how an insular perspective can keep people from identifying difficult challenges and promising new opportunities.

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What exactly is a global economy? Robert Reich, U.S. Secretary of Labor, describes it this way:

“Money, technology, information, and goods are flowing across national borders with unprecedented rapidity and ease. The cost of transporting things and communicating ideas is plummeting. Capital controls in most industrialized countries are being removed; trade barriers reduced. Even items that governments wish to prevent from getting in... or out... do so anyway.”<sup>7</sup>

This fluidity has resulted in radical changes in the way firms are organized and do business. Many corporations produce and sell their wares across the globe. The goods and services they produce may be standardized and sold interchangeably across regions or tailored to small, specialized markets. Some firms own facilities in other countries, but many operate globally by participating in complex networks, contracting or collaborating with other firms on an international basis.<sup>8</sup>

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**global markets.**

Globalization means that American firms face vastly more foreign competition today than they did 25 or even 10 years ago. In almost all industries, other countries have entered international markets that once were considered exclusive American territory. Even firms that have traditionally served circumscribed local markets face competition from other firms operating in re-

gional, national and global markets. Industries like agriculture and manufacturing—historically, the economic base for many rural communities—are especially vulnerable to this heightened competition.

The United States now competes with other industrialized nations as well as with developing countries where labor costs are a fraction of ours. To compete successfully in such a world economy, nations must specialize in those industries in which firms produce the most value for a given unit of input—whether they produce cars, clothing or computer programs. To maintain relatively high wage rates in this global marketplace, Americans must compete on the basis of advanced skills and technology.

As competition increases and markets fragment into niches, firms must specialize and differentiate their products and services. There is a critical need to be innovative and flexible. To remain competitive, firms must constantly seek higher levels of productivity (often substituting capital for labor and cutting employment), move operations to the lowest-cost and/or highest-quality location and, in many cases, contract out for goods and services, again to the lowest-cost but highest-quality suppliers.

In this fiercely competitive environment, economic activity tends to centralize due to two economic facts:

“There are costs to transactions across space; there are economies of scale in production...

**In this fiercely competitive environment, economic activity tends to centralize—and small, remote communities in the United States often fall behind.**

Because of economies of scale, producers have an incentive to concentrate production of each good or service in a limited number of locations. Because of the costs of transacting across distance, the preferred locations for each individual producer are those where demand is large or supply of inputs is particularly convenient—which in general are the locations chosen by other producers.”<sup>9</sup>

Hence, suppliers and final producers locate in the same place to capture scale economies, reduce costs, speed deliveries and share expertise. These concentrations are referred to as “agglomerations.”<sup>10</sup>

**B**ecause of the size and population density of rural areas, it is expensive to provide the transportation and communications infrastructure that firms need to get supplies in and products out fast enough to compete in today’s economy.

Against this background, small, remote communities in the United States often fall behind. Because of the size and population density in such places, it is expensive to provide the transportation and communications infrastructure that firms need to get supplies in and products out fast enough to compete in today’s economy. It is also difficult for firms to access new information and innovations. Rural communities that are adjacent to urban centers are at much less of a disadvantage under these conditions, which is why they are growing comparatively faster.

Some analysts are convinced that the rapid advances in information technology now taking place can

mitigate or lessen tendencies towards agglomeration. Certainly, information technology has played a key part in global integration by bringing distant places into closer contact with each other. But can it produce the benefits of agglomeration in small, remote places? In the next section, we discuss its complex role in rural development.



## INFORMATION TECHNOLOGY: SAVIOR OR THIEF?

Information is one of the powerful forces that drives the integrated economy:

“...As the competitive survivors of today’s economy learn to work smarter instead of just harder, all goods and services have more ‘information content’—that is, knowledge that improves quality, reduces costs, aids distribution and marketing, and in others ways enhances competitiveness.”<sup>11</sup>

Existing and emerging technologies make the storage, processing and transmission of information more efficient and effective. They include computer word and data processing, facsimile, computerized information services, electronic networks, teleconferencing and cellular telephones.

Sophisticated telecommunications equipment and other technologies have become essential infrastructure, without which development cannot occur. In a global economy, the cost, quality and speed of information flow can make or break the competitiveness of both goods- and service-producing businesses.<sup>12</sup> Hence, rural communities need access and expertise just to keep up.

These technologies can vastly increase the amount of information to which rural people have access, as well

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**I**nformation

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as revolutionize how information is exchanged and used to produce goods and services. In contrast, if rural places and people do not have access to new and emerging technologies, the centralization of information—and, therefore, of economic life—in urban areas can only increase, pushing rural people away from the mainstream of economic activity.

The problem is relevant to all rural people and places. Writing about Native Americans, for example, one analyst argues:

“Regardless of whether Indian people approve of the nation’s plans for the superhighway of the Information Age, the United States will proceed. Thus Indians either will travel that highway or they will be ‘techno-peasants’ left in the dust at the roadside.”<sup>15</sup>

Even *with* access, however, information technology is a double-edged sword that can invigorate or weaken prospects for rural development. On the positive side, it offers small communities the chance to reduce some of the disadvantages that come with low population density and distance from cities, without becoming more urban or sacrificing quality of life. More specifically, it can allow three things to happen.

First, information technology can make it less expensive and more efficient for firms to locate in rural places.

Though systematic research on this subject is just now beginning, evidence hints at the changes taking place. In some cases, urban-based firms are relocating parts of their work to lower-cost rural places, using instantaneous data transmission to coordinate decentralized activities. In other cases, rural firms are selling services like accounting and claims processing to people and businesses outside the local community. And in still others, consultants and other professional workers are moving to rural areas to take advantage of rural quality of life, and working for distant clients by using modems, fax machines and overnight delivery services. Some work for urban firms and others—so-called “lone eagles”—have started their own businesses.

Second, information technology can enhance the competitiveness of rural firms by giving them direct access to customers and tying them to up-to-the-minute news about markets, suppliers, technology and government regulations. This information lets them tailor products and services to market niches, respond quickly to changes in demand, tap new markets and reduce inventory and other costs. Moreover, small firms can form networks with each other to share resources, such as information, training and technology.

Finally, information technology can help improve rural quality of life by letting small towns import services like health care and education. Many small communities cannot provide enough customers to allow service providers to make a living. However, by aggregating demand and providing new ways to deliver services,

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technology sometimes makes it possible—and profitable—to deliver even specialized services in rural areas. Rather than riding the circuit from place to place, specialists can serve rural communities almost instantaneously from cities or from other rural places. For instance, urban radiologists can work with rural general practitioners to interpret x-rays, and foreign language specialists can use teleconferencing to teach students in several small communities at one time.

The negative side of information technology is that it exposes rural firms to even more competition. For example, rural “mom-and-pop” businesses now compete directly with national discount retailers, which benefit from economies of scale that local operations cannot

achieve. Using information technology to track inventory, delivery, sales and other transactions over long distances, these retailers “reach in” to undercut local businesses and shutter rural mainstreets.

Further, banks and utilities can centralize most of their decisionmaking operations in cities, leaving only pared-down branch offices in small towns. And communities now vie directly for jobs with less developed countries, where land and labor costs are extremely low. Manufacturers that used to operate facilities or buy from suppliers in the rural United States can now produce in or contract

from places like Sri Lanka and Brazil. Similarly, services like data processing can be purchased just as easily from Ireland as from South Dakota—and more cheaply.

**R**ural

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Because their competitors are using information technology effectively, rural firms also must harness its power if they are to remain competitive in the modern economy. Information technology is also vital to communities that must provide social services like education and health in areas of low population density.

Policy can help ensure that information technology invigorates rather than weakens rural communities. Because of distance and sparse population, it is often unprofitable for telecommunications firms to provide the necessary infrastructure in rural places. In the past, the communications industry was regulated to make sure rural places had access to affordable telephone service. The same kind of policy, applied to a wider range of telecommunications services, is critical now for reasons of both equity and efficiency. Without the necessary “on-ramps,” many rural places will miss opportunities to use information technology effectively.

Even if appropriate policies are in place, however, it is up to individual communities to seek opportunities afforded by the new technology:

“[T]elecommunications investment by itself does not guarantee economic growth. Development depends on the uses made of telecommunications services by rural businesses, residents, and government agencies.”<sup>14</sup>

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Information technology helps bring about rural development when people understand its possibilities and when diverse local leaders work together to realize its potential. Local business and community leaders must aggressively meet the challenges of global competition and pursue new opportunities—finding ways that information technology can stimulate creation of new firms, improve existing firms' efficiency and bring needed services. The rest of this report explores in greater detail those challenges and opportunities.

## TRENDS IN CRITICAL SECTORS

Identifying and taking advantage of the most promising rural development opportunities depends on understanding trends in certain key sectors—natural resources, manufacturing, services and amenity-based industries. Changes in each sector matter to large parts of rural America: natural resources and manufacturing because they have historically played an important role and offer new opportunities for forward-looking communities; services because of their growing importance in our information-based economy and their contribution to quality of life; and amenity-based industries because they build on a genuine comparative advantage for some rural places.

Each sector is extremely broad. Natural resources, for example, includes four distinct industries, and great variation exists within all four. In taking a sectoral perspective, we inevitably mask variation that truly matters to different types of rural communities. We encourage readers who are interested in more detail to use the references at the end of this paper.

Identifying rural development opportunities depends on understanding trends in certain key sectors—natural resources, manufacturing, services and amenity-based industries.

### Natural Resources

The natural resource sector includes agriculture, timber, mining and fishing.<sup>15</sup> Together, these industries com-

prise a relatively small part of the national economy—roughly 3 percent of total employment according to one definition.<sup>16</sup> Still, they are very important in communities with little other basic economic activity.

As of 1989, about 550 nonmetro counties in the United States depended primarily on agriculture. Most are concentrated in the Great Plains, while others are clustered in the lower Mississippi Delta and parts of the West. About 150 nonmetro counties depend primarily

on mining. Most are concentrated in Appalachia and others are scattered around the country, mainly in the West. Timber counties, for which USDA has no official count, are concentrated in the Pacific Northwest, northern California and some areas of the South.<sup>17</sup>

**The natural resource sector—agriculture, timber, mining and fishing—comprises a relatively small part of the national economy, but is very important in communities with little other basic economic activity.**

### **THE BIG PICTURE**

Three broad trends shape development opportunities in resource-dependent communities. First, *natural resource industries are not the national-level economic drivers they used to be*. Low prices and a downturn in agriculture, for example, don't slow down the U.S. economy as a whole—though the impact on individual communities can be severe.

Part of the reason for this is that raw materials now comprise much less of the value of final products than in the past, which means fewer natural resources are used per unit of total output. Therefore, natural-resource-based inputs represent a

smaller and smaller percentage of the final price of many goods. For example, the price of bread today depends far less than it once did on the cost of wheat, and far more on the cost of packaging, advertising and transportation.<sup>18</sup>

The decreased importance of natural resource industries in the overall economy is reflected in the industrial make-up of American jobs. For most of this century, the number of natural resource jobs has steadily declined while jobs in the economy as a whole have increased. For instance, during the 1980s, natural resource employment fell by 3 percent while total employment rose by 19 percent.<sup>19</sup> The phenomenon is even more dramatic in specific industries within the sector and in certain regions of the country. For example, because of restructuring in the timber industry, Oregon and Washington permanently lost roughly one-fifth of their primary and secondary wood products jobs during the 1980s. During the same decade, these states' total employment rose by about 26 percent.<sup>20</sup>

**F**or most of this century, the number of natural resource jobs has steadily declined while jobs in the economy as a whole have increased.

The second trend is that *the nation is producing more food, timber and energy with fewer and fewer workers*. Across the entire sector, investments in capital equipment and technology have resulted in large gains in productivity. Owners and workers who remain in the sector need increasingly more sophisticated skills to operate machinery, manage firms and use new technology.

The third trend—more complicated and harder to pin down—is that *the American public is beginning to*

*value natural resources for their amenity and ecological value* as well as for the commodities they provide.

People value forests, for example, as recreation sites and wildlife habitat as well as a source of timber. The growing environmental movement and increased interest in rural tourism are both evidence of this trend. Still, it is hard to say how much people are willing to pay to preserve natural resources that would otherwise be used to produce commodities; we see signs of shifting values but can't be sure about the magnitude of the shifts.

**T**he American public is beginning to value natural resources for their amenity and ecological value as well as for the commodities they provide.

## **THE RURAL IMPACT**

Many people still equate the rural economy with natural resource industries, but this sector provided only 9 percent of nonmetro jobs in 1990. During the 1980s, nonmetro employment in natural resources fell 14 percent while total nonmetro jobs rose 12 percent.<sup>21</sup> Overall, rural communities are becoming less and less dependent on natural resource jobs.

Despite the big picture, though, a significant proportion of rural areas still depend on natural resource industries, especially communities and reservations in the West. For these places, trends in the natural resource sector have very important consequences. Perhaps most important is that the political will to conduct business as usual is weakening. When the sector played a driving economic role and provided substantial employment, and when natural resources were valued principally in

terms of commodity production, public policy supported industry expansion with a variety of subsidies. As a result, the federal government gives farmers cheap water and power and a floor under agricultural prices. It sells timber from national forests at prices below the cost of production. It charges minimal royalties to mining companies and below-market grazing fees to ranchers who use public lands. In the past, few people questioned such policies because the industries and the commodities they produced had great national importance. Despite growing challenges to these policies, the political power of those who benefit has helped maintain the *status quo*.

Charles Wilkinson, a scholar of natural resource law and policy, convincingly argues that the nation is re-evaluating policies that subsidize natural resource industries. Wilkinson believes there is broad-based pressure to alter the policies that promoted westward expansion in the 1800s. Because it is no longer clear that production subsidies are in the overall economic interests of the nation, the power base and rationale behind these policies are eroding in favor of a more balanced approach:

“[A] consensus exists that western resources generally ought to be developed but that development ought to be balanced and prudent, with precautions taken to ensure sustainability, to protect health, to recognize environmental values, to

**T**he nation is reevaluating policies that subsidize natural resource industries. It is no longer clear that production subsidies are in the overall economic interests of the country.

fulfill community values, and to provide a fair return to the public.”<sup>22</sup>

If Wilkinson is right about a new consensus, policymakers will begin to subsidize production less, and environment and community more. Even if he is not right, policymakers are likely to reduce subsidies to bring down the budget deficit. What does this mean for rural jobs and income? On one hand, competitive pressures in the natural resource sector will increase. Only the most efficient will survive among ranchers who must

pay market or near-market prices for grazing on public land or among farmers who no longer receive subsidized water. While total output may increase, we can expect employment in the sector to decline even further from current levels.

On the other hand, shifting public values may strengthen the political will to support improved environmental practices and healthier rural communities. A possible model is the Clinton administration’s proposal for timber-dependent communities in the Northwest. It

provides money to better manage entire ecosystems as well as to retrain workers and diversify local communities. Similarly, some progressive farmers and nonprofit organizations espouse the use of sustainable agricultural techniques to promote environmentally sound farming practices and stronger farm communities.

While the net effect of changes like these is uncertain, it is clear that trends in the natural resource sector

**P**olicymakers

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make it necessary for rural communities to find new sources of employment and income.

## **OPPORTUNITIES FOR DEVELOPMENT**

Even though natural resource industries no longer drive the U.S. economy, traditional production activities like growing crops and cutting timber will continue to be important in some rural communities. And because firms in this sector face the same competitive pressures as those in the rest of the economy, maintaining productivity and profitability is not only an opportunity, it is a necessary part of any rural development strategy.

Unfortunately, higher productivity in the face of declining or stagnant demand will not translate into *more* rural jobs for farmers, loggers, fishermen or miners. The difficult truth is that nationwide employment in natural resource industries will not increase in the foreseeable future. What's more, higher productivity will have to be achieved in the context of the public's growing environmental concerns. Three promising options bear consideration by practitioners and policymakers.

First is to *diversify production within the natural resource sector*, which means identifying new products and product distribution systems. One study of agricultural diversification projects reached interesting conclusions about this strategy.<sup>23</sup> Briefly, the authors concluded that diversification means:

**M**aintaining  
the productivity and profitability  
of natural resource industries  
is still a necessary part  
of any rural development  
strategy.

- doing something different than your neighbors—and probably being viewed with skepticism and mistrust
- competing on the basis of price or creating unique niche markets with less competition
- continually differentiating products
- achieving economies of scale either individually or as part of a group effort
- getting outside professional advice on subjects that aren't familiar

**O**ne option is to diversify production within the natural resource sector, which means identifying new products and product distribution systems.

Part of diversification is *adding value to locally produced natural resource products* through processing (or manufacturing) and marketing.<sup>24</sup> “Value-added” activities cover a wide range—from meat processing plants with several thousand employees to home-based operations that make blue corn tortillas.

Given the discouraging experience of some small communities where large-scale processing activities dominate the economy (*see “Rural Poverty,” page 86*), some communities may want to consider small-scale, locally owned enterprises with strong marketing components as a potential development strategy.

Again, niche markets, product differentiation and economies of scale are all essential ingredients of successful diversification strategies. So too is understanding

the larger context of the manufacturing sector. (See “Manufacturing,” beginning on page 53.)

Another promising strategy for natural-resource-dependent communities is to *look for opportunities in the growing movement to protect and restore the environment*. Many development practitioners argue that displaced farmers, timber workers and others who have lost their jobs will do best if they can remain in their communities, learning new skills related to their old jobs. According to one analyst who has studied communities where people are working to link environmental restoration and community development:

“[S]ome communities and environmentally-minded organizations are looking at restoration initiatives as opportunities not only to improve environmental quality, but also to promote short- and long-term economic development. The growing interest among governments, universities, and foundations in ecosystem health and biological diversity creates new funding opportunities for restoration projects... Consumer and public interest in the environment can also create opportunities for businesses that restore degraded environments or operate in harmony with healthy ones.”<sup>25</sup>

**A**nother promising strategy for natural-resource-dependent communities is to look for opportunities in the growing movement to protect and restore the environment.

Forward-thinking firms and development practitioners are conducting exciting experiments in all of these

areas—diversifying within the sector, adding value to natural resource products, and working toward environmental restoration. Still, the ideas are in their infancy and we know little about their success rate. We need more information about the number, quality and stability of jobs they create.

**E**ach community must analyze its own capacities, advantages and goals as it crafts a plan of action. For some areas, large-scale value-added processing may be an option. For others, small-scale strategies may help maintain a resource-based way of life. But many rural areas will need to look beyond the natural resource sector for more promising opportunities.

Implementing these strategies is no easy task. Virtually all resource-dependent communities face the same problems and many consider the same strategies. Unfortunately, the same ideas implemented over and over around the globe only intensify the challenge—greater competition, increased productivity and fewer jobs. Some niche markets will fill up quickly—unless identified with a unique location or culture—and it may be hard for small firms to constantly adapt and maintain these markets.

Therefore, within the global context described here, each community must analyze its own capacities, competitive advantages and development goals as it weighs and crafts a plan of action. For some communities, large-scale value-added processing may be an option to consider. For others, small-scale strategies may help maintain a resource-based way of life. Still, people in many rural places will find they must look beyond the natural resource sector for more promising opportunities.

## Manufacturing

**M**anufacturing's share of U.S. employment has declined since the postwar years, when its workers made up more than one-third of the nation's labor force. By 1990, manufacturing employment dropped to 18 percent of total U.S. employment.<sup>26</sup> During most of this period, the number of workers increased, but at a slower rate than in the past. During the 1980s and early 1990s, the nation experienced periods of outright decline in manufacturing employment.<sup>27</sup>

Historically, manufacturing firms clustered in the Midwest and Northeast. During the last 25 years, however, they dispersed to Sunbelt states. As a result, states in the Southeast and West have increased their share of U.S. manufacturing employment from 35 percent to 47 percent.<sup>28</sup> About 500 nonmetro counties—comprising about 30 percent of rural Americans—depended primarily on manufacturing as of 1989.<sup>29</sup> Most of these counties are found in the eastern two-thirds of the country, with a small cluster in the Northwest.

**M**anufacturing

**made up more than one-third of the nation's labor force in the postwar years. By 1990, it had dropped to 18 percent of total U.S. employment.**

### THE BIG PICTURE

During the past two decades, manufacturing has undergone radical changes driven by globalization and rapidly advancing technology. As described earlier, worldwide competition has pressured U.S. firms to increase productivity, improve quality and cut costs—all while increasing

market share domestically and around the globe. New technologies can help firms achieve these goals. Since information is so rapidly diffused, however, one firm's innovation can quickly be adopted and even improved by its competitors. Thus, firms must continually innovate, as well as identify, develop and defend new markets.

As a result, many manufacturing firms are “restructuring” or reorganizing operations to increase productivity and respond to the rapidly changing global environment. For instance, some firms are automating production, while others are adopting more flexible production technology. In the process, they eliminate jobs and change the nature of those that remain. As in natural resource industries, productivity-enhancing technologies allow manufacturers to increase output with fewer workers. Depending on the nature of the technology, industry and firm, skill requirements in the remaining jobs may go up or down.<sup>30</sup>

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**natural resource industries,**  
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Increasingly, firms “outsource” or strategically spin off functions previously handled in-house—from administrative activities like accounting and marketing to the production of components or product lines. Outsourcing allows firms to reduce costs, increase flexibility and concentrate on what they do best—but it also tends to reduce the number of U.S. manufacturing workers.<sup>31</sup>

Many manufacturing firms are relocating facilities outside the United States. They choose new locations primarily to reduce land and labor costs, and to tailor and sell their

products to distant markets. Other factors important to off-shore location decisions are trade policies, labor skills, transportation and proximity to raw materials and other inputs.<sup>32</sup> The result of relocation is that domestic manufacturing employment has been reduced.

Many analysts distinguish firm restructuring strategies as either “high-road” or “low-road” depending on how changes in firm organization affect workers. Sabel describes low-road strategies and how they affect working conditions:

“[These firms] respond to the current economic environment... by cutting the production costs of standard goods. This can be done through automation of traditional production lines, subcontracting to low-wage producers, or some combination of both.

Firms pursuing this strategy are always at the mercy of new low-cost entrants.

Hence they are permanently tempted to cut costs by reducing pay, worsening working conditions, introducing machines that can be operated by cheaper or less labor, or shifting production to low wage areas.”<sup>33</sup>

In contrast, high-road firms increase workers’ skills, responsibility and authority to foster continuous innovation and improvement:

“A successful strategy for competitiveness in markets that expect quality, variety, service and timeli-

## **O**utourcing

**allows firms to reduce costs, increase flexibility and concentrate on what they do best—but it also reduces the number of U.S. manufacturing workers.**

ness... in a cost effective manner requires that the production system be transformed, the relationship between employees and management realigned, and the institutional framework restructured. These are the markets in which most U.S. firms compete.”<sup>34</sup>

As yet, however, it is not clear that high-road strategies lead to higher wages.<sup>35</sup> And while a number of firms are adopting such strategies, it does not appear that the United States is undergoing a large-scale shift to high-wage, high-skill manufacturing jobs.<sup>36</sup>

## **R**ural

**manufacturing activity grew during the 1960s and 70s. Although hit hard by changes in the 80s, it remains an important part of the rural economy—accounting for about 20 percent of all rural jobs.**

### **THE RURAL IMPACT**

Rural manufacturing activity grew during the 1960s and 70s, partially shifting the rural economic base away from natural resource industries. The sector was hit hard by changes in the 80s, but remains an important part of the rural economy. It now accounts for about 20 percent of all rural jobs.<sup>37</sup> While there are exceptions, rural manufacturing is generally characterized by low-wage, low-skill employment that is, in some cases, threatened by global competition.

The current status of rural manufacturing is best understood by looking at what happened in the 1950s, 60s and into the 70s. During this time, many large corporations moved low-skill, labor-intensive operations from

urban to rural areas, primarily in the South. These so-called “branch plants” mass-produced standardized goods such as textiles, auto parts and processed fish and poultry. Firms trying to cut the costs of their low-skill operations were attracted by what rural communities had to offer: low land and labor costs; a non-unionized, hard-working labor force; a lax regulatory environment; and lucrative tax incentives.<sup>38</sup>

In some parts of the manufacturing sector, the rural comparative advantage has proven temporary. During the 1980s, many firms moved their rural branch plants to less developed countries, where they could produce equally high-quality goods at significantly lower cost.<sup>39</sup> As a result, plant closings and layoffs plagued rural facilities whose products competed with those from less developed countries or whose parent firms shifted production to cheaper locations.<sup>40</sup>

In small communities where branch plants were the only major employer, plant closures and layoffs were devastating. Towns were often ill-prepared to pursue other options. Based on low-skill, low-wage labor, branch plants had done little to spur demand for higher education in the host communities. And, because they purchased supplies and services from corporate headquarters, they did little to strengthen other local firms.<sup>41</sup>

At the same time that globalization has weakened the rural low-wage advantage, small, remote communities are

**In general, rural communities lack the advantages—cutting-edge research, new technologies, a highly skilled workforce and up-to-the-minute market information—desired by innovative, niche-oriented manufacturing firms.**

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existing advantages.**

having trouble competing for high-wage, high-skill manufacturing jobs. For instance, rural communities have had less success in attracting or spawning high-growth, high-technology industries that require skilled labor.<sup>42</sup>

In general, rural communities lack the advantages—cutting-edge research, new technologies, a highly skilled workforce and up-to-the-minute market information—desired by innovative, niche-oriented manufacturing firms. If the future of rural manufacturing is to be more promising than the recent past, remote and small communities must overcome these barriers.

## **OPPORTUNITIES FOR DEVELOPMENT**

The trends described above suggest uncertain prospects for rural manufacturing. In this as in other sectors, the key is for rural communities to strategically analyze and build upon existing advantages. One tool for conducting such analyses has been produced by the Corporation for Enterprise Development. The tool helps communities examine their economic characteristics in a regional context, and then evaluate their development potential in comparison with other similar regions. This process emphasizes the importance of viewing assets and opportunities from a regional perspective rather than in a purely local setting.<sup>43</sup>

Manufacturing firms—small and large—do hold promise for some communities, especially if these firms inno-

vate; understand the regional, national and global markets in which they compete; and develop export capacity.

In some rural places, low-wage branch plants provide critical jobs and income. While providing lavish subsidies to attract such plants has proven costly and unwise, using these facilities to strengthen the local economic base does offer some longer-term opportunities. With active intervention by local community leaders and firms, branch facilities can help strengthen local infrastructure, build worker skills and provide valuable markets for local producers and service firms. To take advantage of such opportunities, however, rural communities must act before firms move to even lower-wage environments.

Given that globalization has depressed wages in standardized manufacturing, and that organized labor has declined, it is clear that lower-skill jobs will not provide rural workers with either wage stability or wide avenues for upward mobility. While strong worker organizations and public policy measures to improve job opportunities and wages are desirable, neither the political nor economic environment currently supports their widespread acceptance or effectiveness.

Therefore, the long-term challenge in both large- and small-scale manufacturing is to upgrade production processes and other business practices that will—it is hoped—make better jobs and higher wages possible.

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Modernization efforts can help firms integrate new technologies into their operations. They can help firms improve design and marketing methods, upgrade manufacturing processes, implement quality control systems and enhance management practices and worker skills.<sup>44</sup> The federally funded Manufacturing Extension Partnership (MEP) is developing a nationwide system, similar to USDA's extension service, to assist firms in such modernization efforts.

**W**hether

**they choose to build from existing low-wage facilities, develop high-road firms or retain small manufacturers, rural communities must work to overcome their isolation.**

The hope is that modernization will increase industry's demand for higher-skilled workers. Therefore, in order for rural workers to benefit, rural communities must increase education and skill levels. However, communities must also understand that education improvement strategies alone will not provide incentives to upgrade production or, by extension, bring about development.<sup>45</sup>

Whether they choose to build from existing low-wage facilities, develop high-road firms or retain small manufacturers, rural communities must work to overcome their isolation. Being remote makes it harder to access and use new technology, innovative production processes, worker training and market information. In addition, rural firms often have less access to programs designed to link manufacturers with sources of information and technical assistance. However, telecommunications can help overcome these problems. For example, MEP's electronic networking component links rural firms with the program's Manufacturing Outreach Centers.

Another way to overcome isolation is to organize flexible manufacturing networks, an idea from western Europe that is being implemented in a number of places around the United States. Networks enable firms to learn from each other, as well as to engage in common activities such as equipment purchase, production, training and marketing. They can be key building blocks in a regional strategy. Telecommunications, formalized business relationships, and outside facilitators called “brokers” can help strengthen networking among dispersed rural firms.<sup>46</sup>

Despite these and other efforts to retain jobs, many manufacturing workers have been and will continue to be displaced. Public and private efforts must be aimed at retraining these workers for other careers and providing a safety net for workers who have trouble finding new jobs. Many workers are likely to find opportunities in the service sector, to which we turn next.

**T**elecommunications, formalized business relationships, and outside facilitators called “brokers” can help strengthen networking among dispersed rural firms.

## Services

**D**uring the last forty years, the service sector has been the largest source of jobs in the U.S. economy. By 1990, it employed almost three-quarters of the total workforce—more than 84 million people—and 64 percent of the rural workforce. As of 1989, about 300 non-metro counties—distributed fairly evenly across the country—depended primarily on service industries.<sup>47</sup>

Our rapidly changing economy has generated considerable debate about what qualifies as a service. As defined here, the service sector encompasses all industries that produce something other than tangible products: transportation, communications and public utilities; wholesale and retail trade; finance, insurance and real estate; and recreational, educational, government, legal, health and social services.

## THE BIG PICTURE

Why has the service sector grown so much in recent years? About two-fifths of the growth between 1972 and 1985 was due to economic expansion.<sup>48</sup>

In other words, 40 percent of the new service jobs would have been created even if the sector had maintained its relative share of economic activity. Three major trends drive the remaining 60 percent.<sup>49</sup>

**P**  
art

**of the increased demand for consumer services has been fueled by higher average income, rapid growth in labor force participation by women, and changing demographics.**

First is *increased demand for consumer services* fueled by higher average income, rapid growth in labor force participation by women, and changing demographics. “Quality of life” services like entertainment and travel have become more important as the standard of living has risen. So, too, have services that replace work previously done by female

household members, such as preparing meals and cleaning house. And further, growing numbers of elderly persons with relatively stable incomes have a high demand for services like health care.

Second, as discussed earlier, *services now make up much more of the value of final products* than they used to. Heightened competition in the consumer goods market forces firms to continuously improve and specialize. This requires a much greater range of services to enhance product development, design and packaging, marketing, inventory control, and transportation, among other things.

To respond rapidly and flexibly to the constantly changing marketplace, firms depend on new information technologies to access, organize and communicate specialized, complex and timely information. Thus, information-intensive services are an important part of the sector's growth.<sup>50</sup>

The third trend has to do with the elusive notion of productivity in the service sector. Some analysts argue that the sector's relatively *slow productivity growth has resulted in more service jobs*. An ample supply of workers at low wage levels has allowed employers to hire more workers rather than increase productivity of existing employees.<sup>51</sup> Therefore,

"...even if the output of services increases no faster than the output of goods, employment would increase more rapidly in service-producing industries than in goods-producing industries. As a result, the share of total employment in services would increase."<sup>52</sup>

**H**eightened  
competition requires a greater  
range of services to  
enhance product development,  
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marketing, inventory control  
and transportation.

Still, slow productivity growth and the accompanying increase in service employment may not continue. There is no conclusive research yet, but some reports suggest that competition, a potential shortage of skilled, low-wage workers, and labor-saving technologies are pushing service firms to improve their performance—

much as is happening in manufacturing industries.<sup>53</sup> Furthermore, heavy capital investment by service firms is evidence of likely productivity increases in the future.<sup>54</sup>

**T**he rapid growth of services—combined with the decline of traditional industries—points to this sector as a possible base for rural development.

### **THE RURAL IMPACT**

As is the case nationwide, the service sector accounts for most of the job growth in rural America. During the 1980s, service employment increased 22 percent in nonmetro areas, as compared with 29 percent in metro areas.<sup>55</sup>

The rapid growth of services—combined with the decline of traditional industries—points to this sector as a possible base for rural development.

Two critical issues frame the debate about the role of services in rural—as well as overall—economic development. First is job quality and wage rates in the service sector. Second is whether services generate wealth in their own right, or depend on other economic activity—that is, on exports from goods-producing industries. Understanding the growth patterns of rural consumer and producer services helps illuminate how these two issues play out in rural development.

**PRODUCER SERVICES.** Producer- (or business-) service firms provide services to other firms. Examples include insurance, legal, financial, advertising and management consulting services.

In recent years, producer services have been viewed as a source of economic development for several reasons. First, they have fast growth rates, both in terms of Gross Domestic Product share and employment.<sup>56</sup> Second, they tend to generate a large proportion of high-skill, high-wage jobs.<sup>57</sup> Finally, many producer services—consulting, legal services, data processing and accounting, for instance—have export potential. By using information technology, rural producer-service firms can supply outside businesses and bring new income into the community. At the same time, they can improve the quality and competitiveness of local business clients.

Unfortunately, rural producer services are growing more slowly than those in urban areas. Producer services tend to locate in cities because they depend on advantages offered by agglomeration economies: access to suppliers and innovative firms; telecommunications and other technologies; and a large pool of skilled labor. In particular, producer services require face-to-face interactions. However, there are examples of sophisticated firms that export producer services from rural areas. They tend to be small, independently owned, and drawn to rural communities by quality-of-life considerations.<sup>58</sup>

## **P**roducer services

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**W**hen  
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Some analysts suggest that producer services might follow the manufacturing product-cycle model (*see endnote 38*) and, by using information technology, decentralize standardized operations to lower-cost, rural communities. In fact, some producer services have located in rural areas and provided new jobs. These service “branch plants” tend to be labor-intensive and provide low-skill, low-wage work, just as in manufacturing.

Some of the new jobs may eventually disappear because of technological changes or be moved to more remote, even cheaper locations.<sup>59</sup> Others, such as time-sensitive data processing or telemarketing, are probably less mobile because they require proximity to customers, or knowledge of the English language and culture.

When producer-service firms are located near rural goods-producing clients, they add value to local exports and replace services that would otherwise be imported. In this way, they keep income circulating within the rural community instead of leaking out. Farm credit and other agricultural services are, in fact, concentrated in rural counties. However, firms that provide producer services to manufacturers are more likely to be urban-based and to reach into rural markets as demand develops.<sup>60</sup>

**CONSUMER SERVICES.** Consumer- and retail-service firms account for the lion’s share of both rural and urban service employment and continue to add many new jobs

to the economy. Still, some analysts downplay the importance of consumer services to rural development because many provide low-wage, low-skill jobs with few opportunities for advancement. In addition, these firms tend to serve local rather than export markets and depend on income generated in other industries.

Other analysts believe that consumer services play an important role in local economies. Some services, like health care, can be exported to other communities and, in addition, provide excellent job opportunities. Others, including those related to tourism and retirement, bring outside dollars into the community. Moreover, when consumer-service firms are locally owned, they keep residents' income circulating within the local economy.

Despite overall growth in rural consumer services, there are two reasons for concern. First, many smaller towns are losing their retail trade businesses. Retail activity is centralizing in suburbs and medium-sized towns, forcing rural people to travel farther for retail purchases.<sup>61</sup> This puts people who are less mobile—such as seniors and those without transportation—at a disadvantage. And as business districts in small towns decline, so does the individual character and quality of life that might attract other kinds of firms.

Second, some national and regional firms are displacing their locally owned counterparts.<sup>62</sup> Large chain stores often sell a greater

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variety of goods at lower prices, but their profits flow out of the community.

Thus, a community's consumer-service sector:

"... may fortify or frustrate efforts at local economic revitalization. The more vital a local retail and consumer services sector, the greater the share of local consumer dollars spent in the rural economy, and the greater the level of local income. Conversely, when a community loses its retail base, the spiral of decline accelerates."<sup>63</sup>

## **S**ervices

**provide an important source**

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**But for small towns trying to**

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**trends aren't promising.**

Moreover, as national and regional chains replace local firms, high-wage, high-skill service jobs may become centralized in urban headquarters. This is the case in the banking industry in which consolidation means that more professional-level jobs are based in urban corporate headquarters. For instance, sophisticated credit analysis is now often done at the main office, leaving rural branches to process loan applications and perform other less skilled functions.<sup>64</sup>

In sum, services provide an important source of new jobs for rural communities. However, for small towns trying to strengthen their economic base and improve quality of life, the trends are hardly promising. Not only do rural communities seem less successful at attracting high-wage business services with export po-

tential, some are losing their consumer and retail services as well.

## **OPPORTUNITIES FOR DEVELOPMENT**

The challenge for rural communities is to gain a larger share of producer-service growth, while retaining a local consumer-service base. To do so, they must compensate for their lack of agglomeration economies while they improve inputs such as high technology and high-skill workers.

Some rural communities can strategically develop and retain labor-intensive producer services, such as data processing. While some producer services are vulnerable to foreign competition, others may be attracted to American rural communities because of the literate English-language workforce and proximity to U.S. markets. Many of these firms provide low-wage jobs, but they also bring opportunities to improve the host community's telecommunications infrastructure and workers' technological skills.

In this way, labor-intensive producer-service firms can act as stepping stones—helping communities overcome barriers to developing more specialized producer services.<sup>65</sup> Still, communities must recognize the challenges inherent in service “branch plants”: it is difficult to identify promising industries and firms, and it's always possible that firms will relocate again elsewhere.<sup>66</sup>

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In addition to this “stepping stone” strategy, communities may be able to use other assets to encourage specialized producer-service firms. As former urban dwellers escape to rural communities that offer a more relaxing, safe and enjoyable lifestyle, rural communities can promote quality of life and amenities to attract some service entrepreneurs, such as consultants. Using information technology, existing firms can specialize their service products and more efficiently serve customers both near and far.<sup>67</sup> In addition, new and existing rural service firms can create linkages to manufacturers and other businesses in the region.

In the area of consumer services, the challenge of retaining locally owned firms is great, especially in the smallest communities. A variety of efforts may help local firms compete. For instance, information about regional markets can help firms improve service and target retail goods to local buyers. Where possible, businesses can bolster sales by selling to the tourist market. Downtown revitalization efforts can make local shops more attractive, both to residents and visitors.

Underlying these opportunities and challenges is a critical need for both technology and human capital. Information and information technologies are necessary to help firms interact more readily with their customers and deliver services in a timely and targeted fashion. As information becomes more important, so does the need for skilled workers who can handle it efficiently and ef-

fectively—especially in high-growth, high-wage producer services. And, as many services become more specialized, owners and workers must be able to deliver high-quality, personalized service that distinguishes their firm from competitors. Because rural communities may lack the expertise and resources to build these capacities, public policy can play an important role in supporting technical assistance and training providers.

Also important are efforts to upgrade the quality of rural service jobs. Significant employment growth will continue to come from low-wage parts of the sector, especially rapidly growing consumer services that offer relatively few opportunities for advancement. This serious problem has no easy solution. “Sectoral employment development” is one idea that seems promising. Intended to improve job opportunities for low-income people, sectoral employment development projects establish training interventions and new business ventures in a single industry, like health care. By intervening in one industry, this strategy aims to have significant impact on regional employment practices and policies.<sup>68</sup>

We do not yet have evidence on the large-scale impact of programs like sectoral economic development. For now, as more and more rural workers displaced from traditional industries take service jobs, we must continue to explore and evaluate ways to improve wages and upward mobility. The same challenge exists in the amenity-based sector, discussed next.

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service sector in rural America.

## **A**menities

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## **The Amenity-Based Sector**

**A**menities are natural, cultural and recreational resources in which people find enjoyment. We value amenities like parks, historic sites and wilderness areas, for example, because we enjoy visiting them, living nearby or passing them on for our children to enjoy. In a broader sense, quality of life is an amenity—something hard to put a price on, but valuable nonetheless. Many rural communities have such amenities and are finding them an important comparative advantage.

Pinpointing rural industries whose strength depends on amenities is difficult:

“The term amenity resources is not necessarily synonymous with tourism, although tourism and hospitality facilities are often integral components. Some amenity resources may enrich rural communities only by bringing pleasure and pride to local residents. Those same resources may also attract new residents or retirees to a community.”<sup>69</sup>

As defined here, the amenity-based sector includes those businesses that provide services to vacationers and retirees: restaurants, lodging, recreation and some specialized retail trade and consumer services. Without question, the amenity-based sector is loosely defined and has unclear boundaries.

Amenity-based activities are actually a subset of the service sector—but they deserve separate attention here because they hold real promise for some rural places. Both vacationers and retirees bring outside dollars into local communities, just as if the community were selling goods in non-local markets. For this reason, tourism and retirement-related services are often viewed as export-based industries.<sup>70</sup>

## THE BIG PICTURE

We set the stage for discussing development opportunities in the amenity-based sector by looking separately at trends affecting tourism and retirement.

All over the world, tourism is being recognized as an important source of new jobs. However, it is difficult to know exactly how *many* new jobs. One reason that this is true has to do with the system used to classify industries. Rather than being a separate category, “tourism” consists of parts of several industries. Hence, tourism statistics depend on how individual researchers define the sector and, therefore, are often very hard to compare. Invariably, they show that tourism is growing, although by how much is unclear.

### **S**tatistics

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It isn't difficult to see why tourism might be a growing part of the economy. Improved transportation makes traveling much easier than it once was. Real in-

comes in industrialized countries are growing over the long term. More and better information about travel

destinations is available all the time.

And improved facilities make it possible for businesses to cater to segmented markets.<sup>71</sup>

**A**<sub>s</sub>

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On the other hand, the future of this part of the economy is not easy to predict. Some analysts think that Americans' leisure time is decreasing, which makes recreation travel less likely. Coupled with slowing population growth, less leisure time means greater competition among destinations for what may be a constant amount of tour-

ism dollars. Furthermore, concern is growing about issues related to overcrowding in tourist destinations, as well as about what has been called mass tourism:

“By the 1990s, there is a sense that the public has become ‘tired’ of the crowds, weary of jet lag, awakened to the evidences of pollution, and in search of something ‘new.’”<sup>72</sup>

The picture is also somewhat ambiguous with respect to trends affecting retirement-related development opportunities. The first trend is demographic. People who will reach retirement age in the next decade were born in the Depression, when birth rates were much lower than they had been earlier and would become after World War II. Hence, until the post-war baby boomers begin hitting age 65, there will be a relatively small pool of new retirees.

Further, although the average retirement age was decreasing until several years ago, it now seems to have leveled off and is expected to begin rising again. Partly offsetting the smaller pool of retirees and increasing retirement age is a longer and more active life expectancy. It's possible that these demographics favor tourism and second (pre-retirement) homes over actual retirement.<sup>73</sup>

Another big-picture consideration is the number of retirees who actually move and, therefore, might be attracted to a rural community. Each year between 1988 and 1992, for example, 2 or 3 percent of people 65 and older—about 660,000—moved to a new county.<sup>74</sup> As we'll see in the next section, the number going to nonmetro counties was very small.

Finally, the overall increase in the well-being of elderly people has contributed to the growth of retirement-related services. Poverty rates among people 65 and older have been falling in recent decades, from 29 percent in 1965 to 13 percent in 1992.<sup>75</sup>

Not surprisingly, only about one-fifth of the elderly's income comes from earnings, while the rest is from transfer payments (pensions and Social Security, for example) and property (in the form of dividends, interest and rent). Transfer payments are generally thought to be a stable income source—hence, the idea that attracting retirees is an economic development strategy. However, the long-run solvency of the Social Security Trust Fund and private pension funds should not be taken for granted.<sup>76</sup>

**T**he big-picture trends for amenity-based development opportunities suggest cautious—but not unbounded—optimism.

In sum, the big-picture trends for amenity-based development opportunities suggest cautious—but not unbounded—optimism.

## THE RURAL IMPACT

Only recently have statistics been released that tell us how big-picture trends are affecting rural communities where amenities are important. According to one USDA definition based on natural environmental characteristics, 76 percent of “high-amenity” nonmetro counties gained population in the 1980s, compared to 47 percent for all nonmetro counties taken together. High-amenity counties adjacent to metro areas tended to grow more than others.<sup>77</sup> According to another definition focusing on the presence of vacation homes and economic activity in recreation-based firms, 88 percent of nonmetro recreation counties grew from 1990 to 1992.<sup>78</sup>

**Three-quarters of “high-amenity” nonmetro counties gained population in the 1980s, compared to fewer than one-half of all nonmetro counties taken together.**

The picture is similar when we look at nonmetro retirement counties, which USDA defines as those with at least 15 percent net migration of people age 60 and older during the 1980s.

Nearly all of these 190 counties grew during the 1980s, and their employment and population growth surpassed that in nonmetro counties overall.<sup>79</sup> Between 1988 and 1992, about 100,000 more people age 65 and older moved *into* than *out of* nonmetro counties.<sup>80</sup>

Eighty-seven percent of nonmetro retirement counties gained population from 1990 to 1992.<sup>81</sup>

These findings support the claim that amenities are a real advantage for some rural places:

“The kinds of natural characteristics regarded as ‘amenity values’ by retirees, vacationers, and certain businesses have emerged as the chief new source of rural comparative advantage. (We may speculate that this relative advantage has been widened by declining amenities in many urban areas.) Rural places with substantial locational assets have commanded the lion’s share of nonmetro population and employment gains.”<sup>82</sup>

Increasingly, rural quality of life—a cleaner, safer and less congested environment and a slower pace of life—is regarded as an amenity in itself. Some rural communities are also developing new attractions to complement—or compensate for the lack of—natural amenities and quality of life. Casino gambling, currently operating on a number of Indian reservations and in other rural communities, is the most visible and controversial example of this strategy.<sup>83</sup>

As is the case with gambling, amenity-based development brings opportunities, as well as conflicts and challenges. While there is little reliable research that

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quantifies the rural impact, case studies and anecdotal evidence do provide some clues.<sup>84</sup>

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On the positive side, amenities bring outside dollars and new jobs into communities where natural resource industries have declined. When retirees or other “amenity-migrants” come to settle, they bring new experiences, expertise, ideas and energy. Moreover, tourists and new residents can contribute to the renaissance of local retail-service firms and, in the case of retirees, boost demand for better health care. Equally important, newcomers often provide the impetus to preserve and maintain natural amenities and local culture.

Amenities often yield far more than tourism or retirement economies. They attract new residents and businesses in other industries that relocate for quality-of-life reasons. This isn’t a well-documented trend, but anecdotal evidence shows that firms and individuals are moving to amenity-rich small communities. Many use information technology to connect with distant clients and markets. All bring outside dollars into the communities in which they are located, and help diversify the local economy.

The potential rewards of amenity-based development are balanced by its challenges. Not every place has or can develop a mix of amenities that attracts retirees or tourists.

Those communities that are successful risk becoming too dependent on the industry. Local residents often

lose control over the direction and scale of development as non-local firms purchase and develop large tracts of prime real estate. Some communities lose their rural character as visitors and the businesses that serve them take over the natural and cultural landscape. Often, the community's infrastructure gets stretched beyond its limits. In many western states, new residents are placing untenable demands on natural resources, especially scarce water supplies.

Heightened interest in Native American communities highlights the cultural conflicts that tourism can bring. Native American tourism has enabled many artisans to benefit economically from their crafts. Sometimes, it has increased respect for native culture. However, it has also contributed to the commercialization of traditional art and religious ceremonies.

Low-income residents of amenity-based communities are often the most negatively affected. Land values may increase to a level that makes it difficult or impossible for them to continue living in their homes. Many residents can't benefit from development because they lack the investment capital needed to purchase or develop increasingly valuable real estate. When locals lose their land, traditional livelihoods like small-scale agriculture and ranching may be crowded out. Often the only opportunities that remain are seasonal, low-wage service jobs with little opportunity for advancement.

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Residents of retirement communities experience similar difficulties. As in the case of tourism, retirement-based economies generate many lower-paying service jobs. In addition, retirees are sometimes unwilling to support taxes that finance spending on schools and highways—factors important to long-term economic development prospects.<sup>85</sup>

Clearly, amenities are playing an increasing economic role in rural America. Places with attractive scenery, recreational opportunities and cultural resources are gaining population and jobs. The real challenge is to find ways to manage amenity-related development over the long term.

### **OPPORTUNITIES FOR DEVELOPMENT**

Amenities offer the best long-term opportunities when treated like capital assets. If they are to yield a constant or increasing return, each generation must invest in their upkeep and maintenance to make sure they continue to produce jobs.<sup>86</sup>

Maintaining an amenity means being aware of its carrying capacity. By that, we mean the threshold level which, if exceeded, leads to the deterioration of an amenity, whether it's too many hikers on a trail or too much traffic on the narrow streets of a scenic village. One way a community can protect its amenities and avoid exceeding its carrying capacity is to make amenities an

integral and explicit part of a larger economic development strategy. Rather than putting all their eggs in one basket (by pursuing only tourists or retirees, for example), communities should diversify their economic base in order to reduce pressure on the amenities.

Inclusive, comprehensive community planning should be part of any strategy to maintain amenities and promote local ownership. Planning can enable community residents to determine carrying capacity and the appropriate scale for amenity-based development.

Tools like land-use regulations and historic preservation codes can help manage the ownership, direction and scale of development. They are likely to be unpopular with people who stand to benefit from uncontrolled growth, and unfamiliar to many rural residents. However, without education and experimentation with such tools, many communities will find their natural amenities, rural character and other community assets compromised, if not destroyed.

Equally important, therefore, are the *processes* of community planning. Planning can help build consensus and capacity for broad-based, community-driven change. Planning efforts are difficult to implement successfully because they require diverse parts of the community to participate, develop a shared vision and collaborate over a long period of time. Partly because these efforts are often led by established community leaders, it can be difficult to gain the participation of low-income

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residents. Still, the participation of those who stand to gain or lose the most from amenity-based strategies is crucial.



**O**ne clear message from our examination of critical sectors is that globalization and the rapidly changing economy have not affected every rural place equally. Some communities have benefited, while many have seen their economies sputter and their poverty rates rise. Because we believe a key goal of development policy should be to alleviate poverty, we focus next on the growing and persistent problem of poor people in rural America.

## RURAL POVERTY

**P**overty is commonly believed to be an urban problem. In fact, the nonmetro poverty rate—about 16-17 percent in the last few years—is significantly *higher* than the overall metro rate, and close to that in inner cities. The Census Bureau estimates that, in 1992, about 9.5 million people in nonmetropolitan counties had incomes below the official poverty level. Since 1979, the proportion of nonmetro residents with poverty-level incomes has been constant or rising.<sup>87</sup>

Rural poverty is greatest in the South. About 55 percent of the rural poor, but only 44 percent of all rural people, live in the 16 southern states. One in five rural residents in the South is poor, compared to one in seven or eight in other regions.

Three-fourths of the rural poor are white, because white people make up the majority of the rural population. But the poverty rate among rural white people, at 14 percent, is significantly lower than poverty rates among non-white groups. Among rural blacks, the poverty rate is 41 percent; among rural Hispanics, 37 percent; among Native Americans living on or near reservations, 51 percent. Among black, female-headed households, the rate is 69 percent.

As is the case in urban areas, many of the rural poor are people who have difficulty working. Public assistance

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programs, such as Social Security, have made great strides in combatting poverty among the elderly and the disabled. Still, 14 percent of the rural poor are elderly and 9 percent are disabled. Thirty percent of the rural poor live in female-headed households—a figure that is growing steadily, but still lower than the share of urban poor living in families with no adult male present. Thirty-five percent of the rural poor are children. However, as we will see in the next section, many of them live in households where at least one person works.

**A** high incidence of rural poverty is the direct outcome of remoteness, undiversified local economies and the preponderance of low-wage jobs.

By devoting a separate section to rural poverty, we may give the impression that it is a discrete, isolated condition. In fact, our message is exactly the opposite. A high incidence of rural poverty is the direct outcome of remoteness, undiversified local economies and the preponderance of low-wage jobs. Behind the many statistics we present is a story of interrelated economic, social and political conditions, many of which grow out of the trends discussed earlier in this report.

## Poverty and Work

**M**any rural people are poor even though they work. In 1987, 65 percent of all rural poor families had at least one person who worked during the year. Of those poor heads of households who were not ill, disabled or retired, 70 percent worked for some part of the year, and nearly one-fourth worked full-time, year-round.<sup>88</sup>

How can so many people who work still be poor? Part of the answer is that education and skill levels among rural workers are lower than among their urban counterparts. At least as important—and certainly related—is that the economy in many small communities is dominated by industries and occupations that pay low wages or offer only intermittent work. In other words, differences in poverty rates between urban and rural areas, and between rural areas themselves, have to do with the kinds of jobs that are available as well as with people’s individual characteristics. Poverty rates are highest in rural labor markets dominated by resource-based industries, and lowest when the economy is diversified.<sup>89</sup>

According to recent research, the problem is getting worse. Across all major industry categories, the proportion of low-wage earners in rural areas rose from 1979 to 1987.<sup>90</sup> And in each industry and across a range of demographic groups, more people in rural than in urban areas were low-wage earners:

“The economic turbulence of the 1980s has created terrible difficulties for rural America. This is reflected clearly in the tremendous growth in the share of rural workers earning too little to raise a family of four above poverty, regardless of their region, sex, race, age, or educational attainment. Equally disturbing is the fact that we seem to be moving farther away from the goal of economic equality. The rural/urban gap in earnings has widened, as

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areas is getting worse.

have those between rural men and women, between Whites, Blacks, and Hispanics, between age groups, and between those with and without any college education.”<sup>91</sup>

Conditions in small agricultural communities in Washington State illustrate the trends that Gorham discusses. In their study of one such community and the processed potato industry on which its economy depends, Bean and Runsten found high poverty rates and significant inequality.

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The study found that about three-fifths of Latino families whose livelihood comes mainly from farmwork have incomes below poverty. The figure for those who depend primarily on potato processing jobs is 17 percent. Farmworkers earn less than processing workers, who in turn earn less than other workers. Not surprisingly, Hispanics earn less than Anglos, and rural less than urban workers, all in a state where promoting and subsidizing potato production and processing is widely viewed as an important economic development strategy.<sup>92</sup>

Hence, the high rate of poverty in rural communities is explained by low-paying, unstable jobs intertwined with low education and skill levels. Many people survive by piecing together multiple sources of income—combining a patchwork of part-time or seasonal jobs with informal activities such as child care or car

repair. In addition, rural people often depend on help from family and friends. Kinship networks are critical in times of need, especially for single mothers trying to provide for their children.<sup>93</sup>

Unfortunately, the patchwork of income sources that has sustained many rural families is unraveling as good jobs disappear:

“[A] combination of less-than-adequate jobs and informal economic activities was a possibility only so long as there were also secure, well-paying jobs that could augment the income from lower-waged ones or, even more importantly, could augment income... from informal economic activities... With the disappearance of better jobs, the underpinnings upon which the low wages and informal sector of the economy worked has been severely threatened and along with it the highly complex household economy of rural families.”<sup>94</sup>

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## Persistent Poverty

**S**ome rural poverty is relatively new, the result of the economic restructuring in the 1980s discussed earlier. But in certain parts of the rural United States, poverty rates have been high for decades. In nearly one-quarter of nonmetro counties, rates have been at least 20 percent since 1960 and averaged 29 percent in 1990.<sup>95</sup> Most of these “persistent poverty” counties are clustered

geographically and have distinctive racial and/or cultural characteristics:

“A map of persistent poverty nonmetro counties shows large numbers in the coastal plain and highlands regions of the South, along or near the Rio Grande..., portions of the Texas plains, and scattered counties elsewhere... They are counties in which the source of the high overall poverty rate is primarily in the black population, the

Hispanic population, the American Indian or Alaskan native population, or the population of the Southern Highlands.”<sup>96</sup>

Duncan’s study of Appalachian coal towns paints a vivid picture of how poverty can become entrenched in remote places:

“The scarcity and volatility of work and the absolute arbitrary control of coal-industry employers during the first half of this century set the stage for conditions in coal communities today. In the early coal-company towns there were two social classes—

miners and managers—and the large gap between them was rigidly maintained. Over time the lack of economic diversity, the lack of numerous different employers and different options for employment has perpetuated the basic system of haves and have-nots.”<sup>97</sup>

**I**n certain parts of the rural United States, poverty rates have been high for decades. Most of these “persistent poverty” counties are clustered geographically and have distinctive racial and/or cultural characteristics.

A single-industry economy in small communities can make poverty hard to escape. It often leaves a legacy of rigid social stratification and political control that permeates daily life—in schools, public welfare programs, service provision and work opportunities. Duncan points out that public subsidies like welfare programs can perpetuate these stratified systems: food stamps, Aid to Families with Dependent Children, Medicaid and unemployment benefits compensate for low wages and sustain a labor force that is needed only intermittently.

Still, single-industry economies do not tell the whole story behind persistent poverty. On Indian reservations and in many parts of the South, for example, rural poverty is the result of having no economic or tax base whatsoever. In communities like these, there is little to attract development and jobs. Education and other services are seriously inadequate and people with training and skills leave for better opportunities elsewhere. Several decades of anti-poverty policies have done little to improve the situation.

**A**

**single-industry economy often leaves a legacy of rigid social stratification and political control that permeates daily life—in schools, public welfare programs, service provision and work opportunities.**

**H**ere, we've touched on some of the analysis that helps us understand the nature and causes of rural poverty. Researchers and community developers continue to challenge conventional wisdom on the subject. For ex-

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ample, it is becoming clear that rural poverty isn't always static or the direct result of declining local economies. On the contrary, poor people often are temporary residents in a given rural community, attracted by its low cost of living and the presence of family members rather than job opportunities, and likely to move on when things don't work out.<sup>98</sup>

We still have much to learn about how to improve prospects for the rural poor. Clearly, though, pervasive poverty in many rural places shows that quality of life is a comparative advantage only for some people and some places.

Market forces alone will not solve this problem. It is critical that government at all levels use policy levers to enable poor people to participate more effectively in

the economy, both by making work pay better and by enabling the poor to accumulate assets for property and business ownership and education. In addition, public policy can help strengthen social institutions in places with persistent poverty and provide essential services where the tax base is too low.

## CHANGING CONTEXT, CHANGING OPPORTUNITY

**O**ne theme has echoed throughout this report: Rural comparative advantage has shifted and rural communities have different development opportunities now than in the past. At one time, the capacity to produce abundant food, timber and energy translated into decent jobs at good wages. Later, in many places, low land and labor costs brought manufacturing plants that seemed to ensure a stable future. Now, the possibility of depending on any single industry has faded almost everywhere. Future survival depends on diversifying and building on new comparative advantages.

Many rural communities are finding that they can no longer depend upon traditional comparative advantages—a low-wage workforce and proximity to natural resources. Natural resources employment is steadily declining, and low-wage jobs are threatened by global competition.

Firms that are often viewed as the most desirable, such as those in producer services and high-tech manufacturing, are drawn to cities and suburbs where they have ready access to other firms, high-skilled workers, customers, and research facilities and other information sources. Therefore, it is critical that rural communities act to overcome their remoteness and isolation.

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Both technological and human capacity are key building blocks for such efforts. Rural residents can take advantage of telecommunications as a way to overcome the problems posed by distance and lack of agglomeration economies. Still, communities must have the necessary infrastructure and understand its applications to compete effectively.

In addition, rural communities must seek to improve education and skill levels. While these efforts alone will not bring development, they can allow rural residents to take advantage of better job opportunities wherever they are. And as part of an integrated development strategy, education can help foster rural revitalization.

**T**he evidence is clear that too many rural jobs do not pay a living wage, and that rural work is increasingly associated with poverty.

Many rural places are finding an advantage in natural and cultural amenities and, more broadly speaking, quality of life. Recreation-related attractions and services bring visitors to communities with scenic mountains, tranquil lifestyles and interesting cultural heritage. Rural communities have also begun to attract retirees and other new residents who seek a more relaxed and healthy lifestyle, scenic beauty and recreational opportunities. However, opportunities in the amenity-based sector are tempered by the need for careful planning and management to encourage local ownership, a diversified economy and maintenance of natural and cultural amenities.

Small communities that are located close to urban places benefit from a double advantage: rural quality of life

and amenities, combined with easy access to the positive side of urban agglomeration. These communities enjoy what has been called the “metropolitan embrace.” Their experiences may provide lessons for rural communities seeking better urban linkages within their region.

As rural communities develop new comparative advantages, they must actively seek to improve wages. The evidence is clear that too many rural jobs do not pay a living wage, and that rural work is increasingly associated with poverty. This is especially true in remote communities where single industries have historically dominated the economy and upheld a rigidly stratified social structure. It is also true in places that are growing because of labor-intensive industries like tourism and food processing, where many jobs are seasonal, part-time and low-paying.

Within the broad framework presented here, it is crucial to remember that rural communities are widely diverse. They differ in their geography, economy, resource base, political structure and social characteristics. No single framework explains their condition; no silver bullet or public policy will solve their problems. On the contrary, each rural community must investigate and experiment with those development strategies that offer the best chance of success based on its assets, its carrying capacity and its goals—as well as its place in the larger regional, national and international context.

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Hence, “rural development” must be understood as a great variety of efforts, each tailored to local conditions but grounded in the larger context explored here.

Given the size and complexity of the task, it may seem like swimming against the tide to pursue rural development in the 1990s and beyond. But this report suggests that rural communities can gauge the current and, using small strokes, move forward. We should not have impossible expectations. Even if strategies only work on the margins of a problem, we should spend the time and resources to understand what succeeds, what does not, and why. In this way, our efforts can provide us with a basis for creating larger-scale solutions over the long term.

## A Foundation for Progress

**O**ne thing is certain—identifying development opportunities requires deliberate effort on the part of people who live and work in rural communities. Recent experiments with development banks, manufacturing networks, micro-enterprise programs and other strategies give people many options with which to work. But selecting and implementing successful strategies will require strong leadership, broad-based community participation and consensus building, and supportive policy, guided by five development principles.

First, to counteract the tendency for economic activity to centralize in urban

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areas, *small communities and rural firms must collaborate and cooperate with other communities and firms in their region.* Thinking about and acting on development in a regional—rather than strictly rural—context holds great promise in this regard. Regional strategies encourage practitioners and policymakers to understand and capitalize on potential linkages, common interests, and complementary assets among rural and urban communities in an identifiable region.

A number of ongoing experiments deserve attention. Manufacturing firms can form networks to learn from each other, share resources and produce cooperatively. Social-service providers can collaborate to serve larger geographic areas, obtaining specialized services from urban areas. Local governments can federate to achieve economies of scale with respect to services and infrastructure. For any of these strategies to succeed, rural communities must be able to access and use information technology.

Second, recent population growth in rural places strongly suggests that *amenities and quality of life are critical assets* from which communities can build in the future. Whether a small town intends to build a visitor industry, attract new residents or stem out-migration, its leaders must preserve the advantage represented by amenities and quality of life. This means being aware of carrying capacity and intentionally planning for development, taking care that local people benefit as much as possible.

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promise.

Third, *diversifying local economies away from a single industry is critical*. Natural-resource-based communities, which have long suffered from boom and bust cycles, can add value to the raw materials they produce. They can also use natural resource amenities as capital assets to attract visitors and new residents.

Tourism-dependent communities can build on their natural advantages and protect themselves against seasonality and low wages by retaining at least some of their natural resource jobs. They can also work to attract or spawn high value-added manufacturing or producer-service businesses. The key assets of firms like these are skilled workers for whom quality of life is an important location factor.

Fourth, we need to *rethink development policies that subsidize and encourage low-wage industries* that do

little to help the working poor. It is true that firms like food processors and telemarketers provide important jobs in communities with few other employment opportunities, especially for unskilled and minority workers. However, it is also clear that such firms often damage the environment, perpetuate poverty and fail to strengthen the underlying economy.

Using experiments in modernization and sectoral employment development as lessons, we must learn how to turn jobs in these industries into stepping stones, providing opportunities for people to acquire marketable skills and then

**W**<sub>e</sub>

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move on to better jobs. We must also encourage policy that demands *quid pro quo* from firms that impose high social and environmental costs. Otherwise, many rural areas will continue to be home to the nation's persistently poor, often exacting a high environmental cost.

Providing equal opportunity in rural places is a large, complex goal that we really don't know how to achieve. Nor do we know exactly what to do about the trend in many industries toward lower wages. At the very least, we can help officials at every level of government understand the costs of low-wage and environmentally unsustainable development strategies. Local officials, in particular, need tools, incentives and financial help to invest in their residents and their communities.

Finally, for reasons of equity and fairness, *poor people and communities need public attention and assistance* that can help them participate more effectively in the economy. Policies to make work pay better include expanding the Earned Income Tax Credit and Unemployment Insurance programs, as well as raising the minimum wage. Income support programs can be changed to help both working and non-working poor people build assets for property and business ownership and education. Other programs such as universal health care and housing assistance enable poor people to get and keep jobs. In communities with persistent poverty or where the tax base is weak, assistance for education and training, social services and physical infrastructure

**U**nderlying

**all the strategies discussed in this report is a critical need to build the capacity to adjust to change.**

can help both individuals and communities improve their economic prospects.

As a result of the shifting rural tides described in this report, local governments and community leaders are often asked to deal with problems for which they are ill-equipped and unprepared. Therefore, underlying all the strategies discussed in this report is a critical need to build the capacity to adjust to change. This means understanding local strengths and weaknesses, as well as the larger context described here. It also means working to build broad-based participation toward community goals—and to manage development, or decline, accordingly. Only with strong community capacity can rural people take advantage of opportunities waiting on the next horizon.

## NOTES

*Full citations for all endnotes can be found in the references beginning on page 107.*

<sup>1</sup> Galston, 1993, 18.

<sup>2</sup> Most federal statistics about “rural” America—and all those presented in this paper—are collected and reported at the county level, specifically for nonmetropolitan counties. Counties are considered nonmetropolitan if they have neither a city with a population of at least 50,000 nor close economic ties with such a city. For ease of reading, we have frequently substituted the word “rural” for nonmetropolitan and “urban” for metropolitan.

<sup>3</sup> See Stauber.

<sup>4</sup> See Deavers.

<sup>5</sup> See Deavers.

<sup>6</sup> See Johnson and Beale.

<sup>7</sup> Reich, 6-7.

<sup>8</sup> See Glasmeier.

<sup>9</sup> Krugman, 98.

<sup>10</sup> See Bonnett, 17-23 for a discussion of the tendency towards agglomeration and ways in which it might be overcome.

<sup>11</sup> Parker *et al.*, 1992, 30.

<sup>12</sup> See Parker *et al.*, 1992.

<sup>13</sup> Ambler, 11.

<sup>14</sup> Parker *et al.*, 1989, ix.

<sup>15</sup> We leave natural amenity-related industries like tourism until later in the discussion, focusing here on what are sometimes called “extractive” activities.

<sup>16</sup> See U.S. Department of Agriculture.

<sup>17</sup> See Cook and Mizer.

<sup>18</sup> See Drucker for discussion and specific examples of this trend, which he calls the uncoupling of primary products from the industrial economy. Galston and Baehler provide an excellent discussion of how this trend affects rural communities.

<sup>19</sup> See U.S. Department of Agriculture.

<sup>20</sup> See Helton.

<sup>21</sup> See U.S. Department of Agriculture.

<sup>22</sup> Wilkinson, 17.

<sup>23</sup> See Nothdurft and Popovich.

<sup>24</sup> See Fossum, Chapter 5, for an excellent discussion of value-added strategies in the natural resource sector.

<sup>25</sup> Johnson, 38.

<sup>26</sup> See U.S. Department of Agriculture.

<sup>27</sup> See Galston and Baehler.

<sup>28</sup> See Bernat.

<sup>29</sup> See Cook and Mizer.

<sup>30</sup> See Rosenfeld, 1992.

<sup>31</sup> Outsourcing administrative functions reduces the number of jobs officially classified as manufacturing, and increases those classified as services. This means at least some manufacturing jobs haven't been lost; they've just been reclassified (correctly) as services.

<sup>32</sup> See Glasmeier *et al.*

<sup>33</sup> Sabel, 138.

<sup>34</sup> Appelbaum and Batt, 7.

<sup>35</sup> Rosenfeld, Telephone interview.

<sup>36</sup> See Rosenfeld, 1992; and Glasmeier *et al.*

<sup>37</sup> See U.S. Department of Agriculture.

<sup>38</sup> The product cycle model helps explain why this happened. In the early stages of an industry's development, firms employ higher proportions of technically skilled workers to develop new products and production methods. As production becomes standardized over time and broken into a series of routine operations, firms employ more low-skill workers to perform repetitive production and assembly work. In these "sunset" industries, more firms enter the market, intensifying competition. Currently, even firms in sunset industries are modernizing and adopting new technologies to compete. See Rosenfeld, *Competitive Manufacturing*.

<sup>39</sup> See Glasmeier *et al.*

<sup>40</sup> See Rosenfeld and Bergman.

<sup>41</sup> See Glasmeier *et al.*

<sup>42</sup> Glasmeier and Kays-Teran define high-technology industries as those which employ a greater than average proportion of engineers, engineering technicians, mathematicians and life scientists, and that apply science and engineering principles in product and process developments. Between 1972 and 1982, employment in high-technology industries grew by 1.2 million, while manufacturing employment as a whole declined by approximately 500,000.

<sup>43</sup> See Corporation for Enterprise Development, *The Regional Performance Benchmarks System*, 1993, for methodology and applications.

<sup>44</sup> See Rosenfeld, Shapira and Williams.

<sup>45</sup> See McGranahan.

<sup>46</sup> See Bosworth and Rosenfeld; and Rosenfeld, 1995.

<sup>47</sup> See Cook and Mizer.

<sup>48</sup> See Glasmeier and Howland.

<sup>49</sup> See Galston and Baehler; Glasmeier and Howland; and Miller and Bluestone for a more detailed discussion of these and related trends.

<sup>50</sup> See Parker *et al.*, 1989.

<sup>51</sup> See Galston and Baehler.

<sup>52</sup> Miller and Bluestone, 138. This analysis relies on the work of Victor Fuchs.

<sup>53</sup> See Redburn.

<sup>54</sup> See Galston and Baehler.

<sup>55</sup> See USDA.

<sup>56</sup> Office of Technology Assessment; and USDA.

<sup>57</sup> See Glasmeier and Howland.

<sup>58</sup> See Glasmeier and Howland.

<sup>59</sup> See Glasmeier and Howland.

<sup>60</sup> See Glasmeier and Howland.

<sup>61</sup> See Anding.

<sup>62</sup> See Glasmeier and Howland.

<sup>63</sup> Glasmeier and Howland, 12.

<sup>64</sup> See Thompson.

<sup>65</sup> See Dillman.

<sup>66</sup> See Glasmeier and Howland.

<sup>67</sup> See Glasmeier and Howland.

<sup>68</sup> More information on sectoral employment strategies will be available in 1995 from the Sectoral Employment Development project of The Aspen Institute.

<sup>69</sup> Seihl, 2.

<sup>70</sup> See Galston and Baehler for a detailed and thorough treatment of opportunities related to tourism and retirement.

<sup>71</sup> See Eadington and Smith.

<sup>72</sup> Eadington and Smith, 6.

<sup>73</sup> See Riche.

<sup>74</sup> See U.S. Bureau of the Census, selected dates.

<sup>75</sup> See U.S. Bureau of the Census, September 1993.

<sup>76</sup> See Galston and Baehler.

<sup>77</sup> See McGranahan.

<sup>78</sup> See Johnson and Beale.

<sup>79</sup> See Cook and Mizer.

<sup>80</sup> See U.S. Bureau of the Census, selected dates.

<sup>81</sup> See Johnson and Beale.

<sup>82</sup> Galston, 1992, 207.

<sup>83</sup> For two insightful discussions of rural communities' experience with legalized gambling, see: Goodman; and Long and Liston.

<sup>84</sup> Examples of case studies that illustrate tourism-related opportunities and problems include Smith; Smith and Eadington; Cohen; Kim; and MacLellan *et al.*

<sup>85</sup> See Reeder and Glasgow.

<sup>86</sup> See Nothdurft.

<sup>87</sup> Poverty statistics presented in the first four paragraphs of this section were compiled from the following sources: Deavers and Hoppe, Tickamy, Gorham, Fitchen, and U.S. Department of Agriculture.

<sup>88</sup> See Deavers and Hoppe.

<sup>89</sup> See Tickamy.

<sup>90</sup> Gorham defines low earners as those whose wages would amount to less than the poverty level for a family of four, even if they worked on a full-time, full-year basis.

<sup>91</sup> Gorham, 38.

<sup>92</sup> See Bean and Runsten.

<sup>93</sup> See Dill and Williams.

<sup>94</sup> Smith and Nelson, 4-5.

<sup>95</sup> See Beale.

<sup>96</sup> Beale, 23.

<sup>97</sup> Duncan, 116.

<sup>98</sup> See Fitchen; see also Kusel.

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## THE COMMUNITY STRATEGIES GROUP (CSG)

**T**he Community Strategies Group (CSG) of the Aspen Institute gratefully acknowledges the support of the W.K. Kellogg Foundation, which contributed to the writing and publication of this case study. CSG also thanks Vaughn Grisham at The George A. McLean Institute for Community Development at the University of Mississippi and freelance writer Rob Gurwitt for their tireless efforts in the research, writing, and editing of the report. CSG's Robert Donnan also deserves great credit, as does graphic designer Betsy Rubinstein of InForm for fine-tuning this piece into publication. Finally, CSG wishes to thank the Ford Foundation for its many years of program support.

Originally established at The Aspen Institute in 1985 as the Rural Economic Policy Program, and renamed Community Strategies Group in 2000, CSG strives to have a positive impact on communities by designing, facilitating and participating in ongoing peer-learning and networking opportunities that enhance the efforts of organizations and practitioners working to achieve more widely shared and lasting prosperity in communities, and that sustain the impact of funders' investment in them. CSG's core business focuses on the fields of community and economic development, civic capacity, family and regional livelihood, and community-based philanthropy. CSG also designs and convenes occasional one-time gatherings of foundation or community practitioners working on issues critical to the collective

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