REVERSING THE TIDE

Strategies for Successful Rural Revitalization

Summary Paper

Revitalizing Rural British Columbia:

Some Lessons from Rural America

Written in the Spring of 2009

This paper was produced as part of the 'REVERSING THE TIDE: Strategies for Success Rural Revitalization' project. It provides insights with regards to rural well being and revitalization based on regions rather than individual communities. It also highlights three keys to success: the creation of effective regional partnerships, the development of strategies based on regional competitive advantages, and the prioritization/ implementation of critical public investments to support regional redevelopment.

Note that a companion paper has been prepared by Dr. Bill Reimer, Director of Research for the Canadian Rural Revitalization Foundation. It identifies key findings regarding characteristics and changes in rural Canada, and then suggests strategic options for revitalization for rural communities and policy-makers to consider.

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Revitalizing Rural British Columbia: *Some Lessons from Rural America*

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INTRODUCTION

Rural regions the world over have been hit by twin punches. The global financial crisis and associated economic downturn have turned commodity booms to bust and sent unemployment climbing in most rural regions. New concerns about capital availability are also rising as financial markets digest huge bank losses. This punch is widely evident, and while it may not yet be fully understood its impacts are widely seen. The second punch was much slower in coming and much more hidden in its advance. Yet it probably has had an even bigger impact on rural regions. This "punch" is the onrush of globalization that has profoundly and forever changed how rural regions think about the whole process of economic development.

Historically, rural development has generally been about one of two things. It was about supporting the dominant natural resource sector (mostly agriculture, but also mining and forestry). The general belief was that a strong dominant sector created a tide that lifted all boats. Or, it was about recruiting businesses — mostly factories — to rural areas with a panoply of financial incentives. The thinking here was that rural areas have cheap land, cheap labor, and low taxes — the perfect recipe for industrial development.[1]

Globalization has turned both approaches on their head. Globalization of markets for goods, services and capital has created intense competitive pressures for natural resource industries like agriculture and forestry. Consequently, to remain viable these sectors must adopt leading edge technologies and exploit economies of scale. Even when they remain in rural areas, consolidation means the economic impact is often far less than in the past. Globalization has also put consumers in touch with producers around the world, many with far lower cost structures than rural areas in America or Canada. This has a powerful implication for rural development: *rural regions can no longer recruit their way to economic happiness*.

Globalization has, in fact, ushered in a new paradigm for rural development. This new paradigm has relatively few keys to success (OECD 2006). First, a region must do what it does best in global markets. Put another way, this is an era of competitive advantage like no other. Second, a region must accumulate critical mass by thinking regionally to compete globally. Global markets are big, and rural regions will compete best if they accumulate some "muscle" before going forth to battle. And third, rural regions must tap into and engage rich sources of innovation, since the field of economic play has shifted. For more than a century, the game was about being the lowest cost place to produce. Today, the game increasingly is finding new markets before someone else does. Rural areas are well-schooled in the former; the latter is a much bigger challenge.

Adopting a new paradigm for rural policy and practice takes on far greater urgency in the shadow of the current economic crisis. Government policy is playing the biggest role in spurring economic recovery since the 1930s. A critical question is whether this new round of fiscal stimulus represents investment or just spending. And if it is investment, how do we select the right investments? The best answer, I believe, will come when each region prioritizes its own investments in tune with a comprehensive strategy that seizes its competitive advantages. The sum total of these investments, region by region, provides the best opportunity to build the strongest macro-economy.

Rural policy and development practice must both change if rural regions — whether in America or Canada — are to build a stronger economic future. This paper reaches this conclusion after reviewing what the United States has learned from a new set of development projects that use a regional competitiveness

[1] There have been three broad eras of economic development in the United States — industrial recruitment (smokestack chasing), cost competition, and regional competitiveness. Industrial recruitment remains the most entrenched development framework (Drabenstott 2005).

framework. The evidence is still ad hoc and scattered. Still, the results provide an important base of information on which some early conclusions can be reached.

This paper develops these conclusions in four steps.

How are U.S. rural regions faring in the global economic race? The first section shows that rural areas in the United States are lagging behind in many measures of economic competitiveness. While the analysis might reveal slight differences if it focused strictly on rural Canada, the general conclusions likely still stand. Importantly, the data show that new approaches to policy and practice in rural regions are necessary if they are to spur new growth. Among other findings, this section shows that fewer than 10 non-metro counties rank among the top 310 U.S. economic hot spots over the past decade.

What must rural regions do to compete more effectively? The second section describes an emerging "competitiveness" approach to rural economic development, identifying four key pillars in the framework and a three-strand process to yield a strategy founded on competitive advantage.

What are the new development needs of rural regions? The third section discusses four critical development needs that emerge in rural regions that follow this approach.

What can the provincial government do to implement the new rural paradigm? Based on answers to the first three questions, the final section makes three recommendations for provincial policy officials.

HOW ARE US RURAL REGIONS FARING IN THE GLOBAL ECONOMIC RACE?

Rural America is a vibrant part of the nation's economy, yet the evidence shows that many rural regions are falling behind in the global economic race. With rare exceptions, rural areas do not show up in the league table of top-performing U.S. economic regions. This appears to be largely the result of powerful economic inertia. Most U.S. rural regions are still tied to commodity engines, whether agricultural or industrial. This results in a powerful, persistent tide of consolidation — farms and factories keep getting bigger and fewer. This allows per capita incomes to hold up, but only as more rural people leave. In many cases that exodus is led by talented youth, posing questions about future growth. Meanwhile, the transcending power of innovation — enabling regions to do better things instead of just doing old things better — seems to be more evident in metropolitan areas than in rural areas.

Rural America Rode A Commodity Boom But is Now in Recession

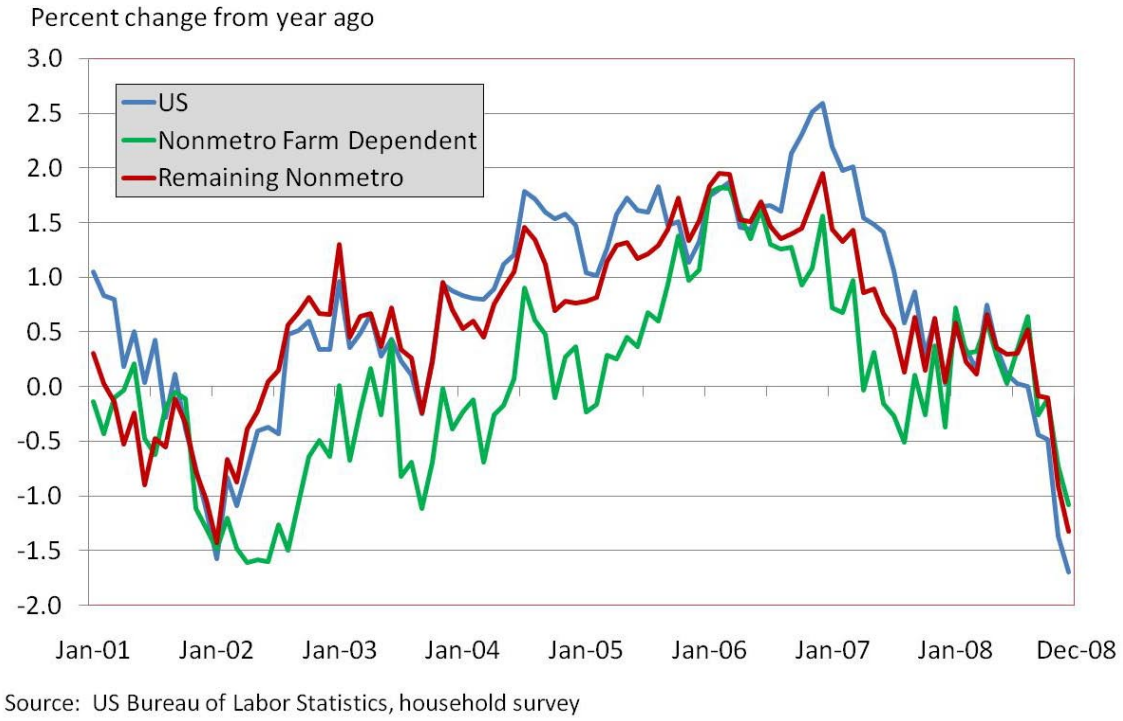

Chart 1: Monthly Employment Growth

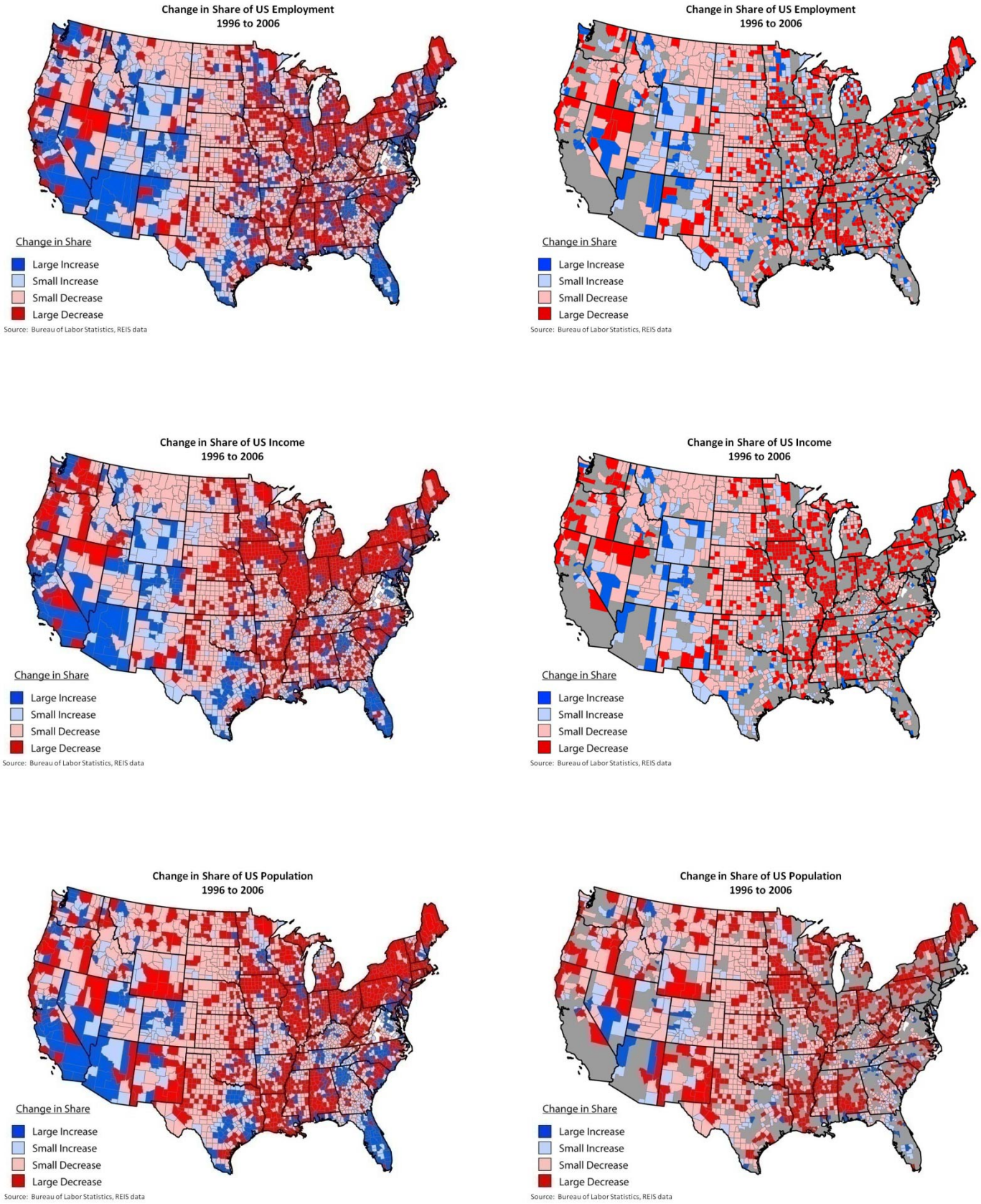

Figure 1: Gains/ Losses in Employment, Income and Population

The U.S. rural economy is feeling the impact of the economic crash, after enjoying a relatively brief commodity boom. A review of monthly employment data from 2001 through 2008 for the nation, farm-dependent rural counties, and all other rural counties reveals three key findings (*see Chart 1 below*):

1. *Farm and other rural counties mirror trends in the national economy to a very considerable degree.* Job growth trends are remarkably similar across the three groups.

2. *Farm-dependent rural counties generally have the slowest job growth.* Despite large federal commodity payments and a boom in the farm economy over the past two years, farm dependent counties have lagged behind the nation and the rest of rural America. The only exception is the farm boom in 2008, but that simply allowed farm economies to catch up briefly before turning down with the rest of the economy.

3. *Non-farm rural counties are feeling the impact of the recent economic downturn.* The nonfarm rural counties have tracked the national economy in near lock-step for several years, although growth has generally been weaker. Growth in non-farm rural counties held up a bit longer in 2008, but since then the pace of decline appears to be about the same as the nation as a whole.

Rural Areas Lag Behind in Most Competitiveness Measures

Competitiveness is hard to track, but two proxy measures both suggest rural areas in the United States are generally falling further behind in the global economic race. The first measure looks at whether a given county is getting a bigger or smaller share of the nation's economy (and looks specifically at its share of jobs, income, and population). The second measure adopts more of a league table approach. In this case, the league table is actually a listing of economic leaders defined as those counties that rank among the top 10 percent. The goal is to see how many and what types of rural counties make it onto that 'leader board', to borrow a golf analogy.

Roughly over the past decade rural counties have generally lost ground in jobs, income, and population. The maps in Figure 1 assess the extent to which any given county has gained or lost share in jobs, income, and population, respectively. Large gains are shown in dark blue and large losses in dark red (with smaller gains and losses shown in lighter shadings). The first column of maps shows all U.S. counties, urban and rural alike. The second column of maps shows only non-metro counties. This is an admittedly crude measure, but it still provides a broad indication of how rural counties are faring.[2]

A scan of the maps reveals two things. The maps in the first column are decidedly more dark blue than those in the second column. This means comparatively more of U.S. economic gains are happening in metropolitan areas than in rural areas.[3] And focusing on the second column, the jobs map for rural areas only has more blue than the income or population maps. This means rural areas are faring best in adding new jobs, but it appears many of them are low-paying jobs that do not raise the bar in terms of income gains.

Another way to assess the competitiveness of rural areas is to see how many rural areas rank among the nation's economic leaders. Results from this exercise generally corroborate the findings above. The maps in Figure 2 below highlight the top 10% of U.S. counties by growth in jobs, income, and population, respectively. There are approximately 3,100 counties in the United States, so these maps reveal the 310 economic hot spots, as it were.

Very few rural areas are on the economic leader board in the United States. The red dots on each map show the number of rural counties in the top 10%. In each case, there are few red dots: seven for jobs, zero for income, and 11 for population. As is evident, these rural places have great scenic attraction (such as the Gulf Coast, the Grand Canyon, or Yellowstone National Park) or they are being integrated into the orbit of metropolitan areas in selected East Coast locations. Rural areas in the nation's midsection, where agriculture and manufacturing are major rural economic engines, are notably absent on the leader board.

What Must Rural Regions Do to Compete More Effectively?

The evidence shows that rural America can do better in the global economic race — perhaps much better. The key question is how? Over the past decade, a new paradigm for rural development has emerged, one founded on the concept of regional competitiveness. There is evidence that this new paradigm is taking root in rural policy frameworks in many countries (OECD, 2005); however it is moving forward in fits and starts.

The regional competitiveness approach is founded on extensive conceptual and empirical research. Essentially, it weaves together three important findings about how regional economies work. The first has shown the importance of clusters to regional economic growth (Porter 1998). The second advocates that agglomeration economies are critical to the new economic

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[2] The data for these maps come from the Regional Economic Information System maintained by the Bureau of Economic Analysis, U.S. Department of Commerce. The maps reflect the most recent county data currently available — 2006.

[3] To be sure, many metropolitan regions have fared poorly over the past decade. Rust Belt cities like Detroit and Cleveland are examples of metro areas that show up as mostly dark red in the three maps. Nonetheless, in total, metro areas appear to have captured more of the big gains over the past decade.

geography (Krugman 1991). The third focuses more on the regional character of organic growth through innovation and entrepreneurship, noting that fresh ideas and a fertile seedbed for those ideas to take root are critical determinants to regional growth (Acs and Armington 2004).

To a considerable extent, rural development in the United States remains a new laboratory. Nevertheless, useful findings are flowing from a new set of regional experiments in rural development. To date, these have been largely ad hoc. Three of them, however, have been conducted by RUPRI's Center for Regional Competitiveness at the University of Missouri, and these form the basis for this discussion.[4]

Three sets of findings are particularly relevant. First, much has been learned about how best to frame 21st century rural development. Four building blocks are especially important in this emerging framework. Second, a lot has also been learned about the process by which a rural region crafts a development strategy. Strategy represents the true cornerstone of the four building blocks, and experience suggests the best way to ensure it is well-crafted is by weaving together three key components. Third, economic development is now an entirely new game, and thus rural policy must address very different needs in the new paradigm than under previous policy regimes. Finally, five needs appear to be common across rural regions.

The Four Building Blocks to Rural Development

The new paradigm is founded in the basic notion that rural regions will enjoy the strongest economic growth when they do what they do best. The obvious question, of course, is how to identify "best." Diagnosing competitive advantage could be viewed as the Gordian knot that unlocks all answers. In practice, though, rural development is far more complex than that. Partners must pool their knowledge. Innovation must be spurred by seen and unseen elements of a regional innovation system. And entrepreneurs must find a fertile climate in which to successfully take new ideas to the marketplace.

Experience suggests, in fact, that these are the four critical building blocks to regional prosperity, whether in rural or urban regions.

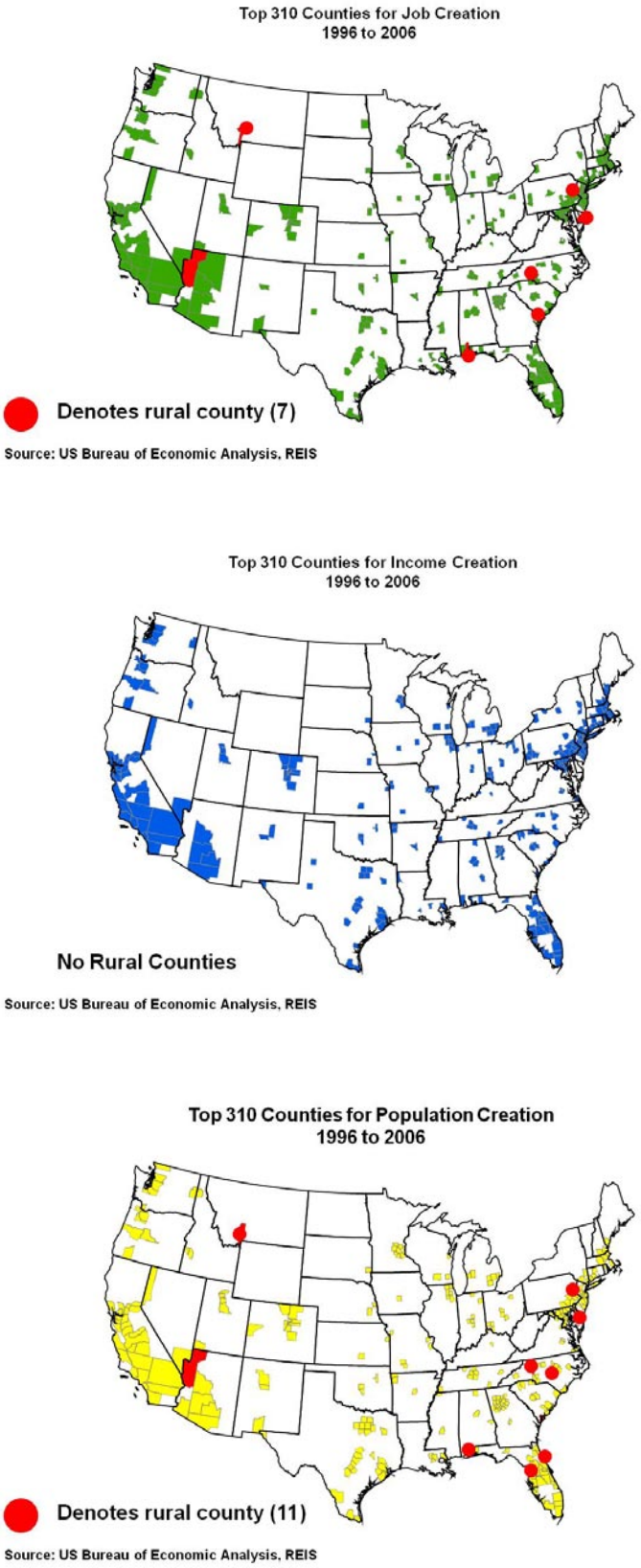


Figure 2: Top Ten Percent Growth Counties in the United States, 1996–2006.

Other projects have been sponsored by the U.S. Department of Labor under its Workforce Innovation Regional Economic Development (WIRED) program, though many of these were in metro regions. More information is available at: http://www.doleta.gov/wired. The Purdue Center for Regional Development has also been engaged in emerging competitiveness projects in rural regions (including a WIRED project in a mostly rural region in Indiana). More information on their projects can be found at: http://www.pcrd.purdue.edu.

- **Strategy:** This identifies the region's competitive advantage and then charts the best course to seize it. It acts as a development compass, saying yes to the right opportunities and setting aside others not rooted in the region's distinct assets. The strategy also forms the starting point in moving the region to a set of new priorities for investment in public goods.

- **Partnership:** The strategy can only be formed by a group of public and private actors from the region itself. They must not only identify the "region," but also create a decision framework strong enough to create the strategy, implement it, and monitor it. How this group forms, how it sustains itself, and how partners become a partnership are all critical questions that normally find answers only in the unique institutional landscape of each region.

- **Innovation:** Every region must make deliberate steps to create an innovation system that can transform its economy in a continual way. The features of these systems are poorly understood, but any casual reading of economic trends plainly shows that regions that innovate well achieve much stronger economic gains. While institutions, such as higher education, have an important role, most experts believe that soft infrastructure (such as business and technology networks) may be just, if not more, important.

- **Entrepreneurship:** Recruiting has been *de rigeur* for the past half century or more, but home-grown businesses likely loom larger in the economic landscape of the future. Regions that harness capital, create support systems for new businesses, and create and connect markets for emerging goods and services will enjoy stronger, more sustained economic gains.

Together, these building blocks form a self-reinforcing system of development. The strategy informs public investments that underpin innovation and new businesses. The partnership sustains and implements the strategy and ensures a sound innovation system. The entrepreneurs become the agents who take innovation to markets and provide the true market test of the strategy. And the innovation system constantly expands the economic horizons of the region, shaping the next chapter in the strategy. When all four building blocks are present, the result is expanding regional prosperity, the goal of all economic development.

The Emerging Process for Designing Development Strategy in Rural Regions

The new rural paradigm is founded on competitive advantage. It is no surprise, then, that designing a sound strategy now forms the cornerstone for successful rural development. How do rural regions create such a strategy? A rich array of development experiments across the nation (indeed around the world) point to a robust process with three key elements: public and private actors who must engage the process (the who); the strategic outcomes the process must achieve (the what); and the collaborative process by which key outcomes are achieved (the how).

The Who: Partners in the Regional Strategy Process

Every region has a set of public and private actors who represent potential "partners" in the development process. The goal of the regional development process is to turn partners into a durable partnership, a resilient network of leaders capable of executing and monitoring investment decisions. This transformation into a partnership or decision network does not happen easily or overnight. Geography represents a major challenge. In most cases, a 21st century economic region will spill across county lines and often cross state lines. To develop a globally competitive region, therefore, the partners must reach across jurisdictional borders that have all too often been barriers to collaboration in the past.

Another challenge is bringing a diverse set of partners together. Protecting institutional boundaries must give way to a new mindset of collaborating to compete. Underlying this shift is a change in perception. Regional economic development is no longer a zero-sum game of winners and losers. Instead, regional economic development focuses on aligning, linking and leveraging assets to pursue new opportunities. When done properly, this creates a positive sum game where everyone benefits from a growing pie.

To be successful, the development process must continuously engage actors across the economic spectrum from public, private, and nonprofit sectors. Public actors include local government officials (such as mayors and county commissioners), as well as representatives from state and federal governments. Private actors include business leaders, financial executives, hospital administrators, utility company executives, and agricultural leaders. Nonprofit actors include leaders from regional foundations, nonprofit development organizations, and education — spanning K–12, colleges, and universities.

The What: Critical Outcomes from the Process

The regional development process aims to produce the strategic outcomes necessary for the region to compete most effectively and sustain its growth. Three outcomes are critical.

The first is an open, resilient regional partnership capable of thinking and acting together. Economic development always engages local actors, but it does not always yield a region-wide partnership. Thus, the regional development process must recognize this as a critical outcome, and the process must be designed to build the partnership.

The second is a strategic action plan that represents a road map for development. This strategy is founded on the region's main competitive advantages. An effective strategy links and leverages the region's assets to take advantage of emerging opportunities. Through continuous evaluation and re-calibration, the strategy maintains the leadership's focus on a handful of transformational outcomes. In short, the plan focuses effort and funding on opportunities that unlock the region's distinct potential.

The third is a list of investment priorities — a strategic investment agenda — in public goods and services that links competitive advantages to new market opportunities. These investment priorities will align with private investments that will be made, and also take into account the ability to leverage public investment with funds from other sources, such as from foundations and other local funders.

These three outcomes provide the strongest possible regional foundation for 21st century economic development. Each reinforces the other in creating the necessary and sufficient conditions for development. Without a partnership, the strategy is merely a three-ring binder, and the investment priorities are never identified. Without a strategy, the region typically devolves to the default strategy of recruiting any business it can attract, and economic development investments are never focused on what the region does best. Without investment priorities, the partnership never makes hard choices or takes focused action. The strategy quickly falls apart.

The How: Weaving Together Three Critical Strands

The three desired outcomes do not magically appear — they are the result of a regional development process specifically designed to achieve them. Developing an effective regional strategy requires weaving together three key strands (See Figure 3 below).

The first process, collaboration, involves building the trust by which partners become a partnership. Collaboration starts by bringing public, private, and nonprofit economic actors together in roundtable, facilitated dialogue. This dialogue must be ongoing, sustained, and durable; it is a process, not an event. The dialogue must be open and transparent, assuring and reminding all parties that the goal is to grow the economy of the region, not advantage one partner over another. Finally, the dialogue must be focused on translating ideas into action.

Based on current U.S. development projects, the regional collaboration process evolves in phases, as the partners build trust and new habits of thinking together.

- *The first phase involves pooling knowledge*. Partners share what they know and thus create a common pool of knowledge about the region's assets. Local actors have significant knowledge about the regional economy that has great value both in setting strategy and prioritizing investment. These assets take many forms: colleges and universities, unique scenery, workforce skills, local ownership of companies, a large pool of local capital that can finance start-ups, a regional history of innovation culture, or natural resources like soils, forests, or minerals. Local actors bring significant knowledge about the extent and quality of these local assets. This knowledge has great value both in setting strategy and prioritizing investment. It transcends secondary data, and cannot be deduced from an analysis of data alone. Pooling knowledge will yield a critical map of the region's assets, and also represents the first step in crossing organizational and political boundaries (U.S. Council on Competitiveness).

- *The second phase involves strengthening frameworks for regional action*. Development actions remain largely the province of local institutions. Broader frameworks are needed to coincide with the economic geography. This step involves creating new patterns of thinking — new mental models — among the partners. Typically, partners enter into regional discussions bound by organizational and political agendas. They are biased toward protecting boundaries, not expanding economic frontiers. To reach across these boundaries, the partners need to engage in new conversations explicitly designed to identify promising, mutually beneficial opportunities. In this way, the partners gradually move away from the zero-sum mindset typical of outdated economic development strategies.

- *The final, and most advanced phase, involves partners committing to the actions necessary for the region to compete effectively*. Partners agree to link and leverage their assets, to set joint investment priorities, and to establish protocols for making complex decisions. To take this step, the partners must draw on the trust built in the first two phases of the collaboration process. The net result of this collaboration is a powerful alignment of investment decisions in the region. By contrast, regions that fail to achieve this level of collaboration often experience development actions that lack alignment — even running at cross purposes (See the top of Figure 3 below). Such regions never seize the synergies that partnership and alignment bring.

The second process in achieving effective regional development is analysis. Analysis is the process by which the wide range of "the possible" becomes a focused strategy of "the best." An unfortunate legacy of the recruitment era of economic development is that rural development still often devolves to "trolling" — putting out lots of financial enticements and seeing what strikes the bait. Such incentives pay diminishing returns in a globalizing economy where cheap labor and land can be found in literally thousands of locations.

The new development paradigm requires a more disciplined approach, one with the transcending objective of focus

— targeting those economic niches where the region has a real competitive edge in global markets. Firsthand knowledge of the region generates new insights when existing regional assets are linked in new and different ways. But effective regional strategies emerge from more than insights and hope.

Ultimately, economic development investment decisions face a market test. Without rigorous analysis that shows how investment alternatives will meet with the risks and returns of the market, the process of economic development can degenerate into a distorted political process fraught with horse-trading, self-dealing or corruption.

Regional analysis is essentially a "winnowing" process (Refer again to the bottom of Figure 3 below). A region has many economic possibilities. Analysis first identifies those opportunities that seem to align with the region's competitive advantage. It then evaluates the potential impact of these alternatives, the critical information that allows the partnership to winnow the field to those holding the greatest promise.

The third critical process is coaching. Regions have many public and private actors that collectively represent players on the development team. In nearly all regions, however, there is no regional coach to forge a unified team capable of designing an effective strategy and implementing a complex investment action plan. The role of regional coach is increasingly understood, but they remain in short supply across the United States. Consultants, university groups, and public agencies are all working to fill this gap. There is no one right answer to who

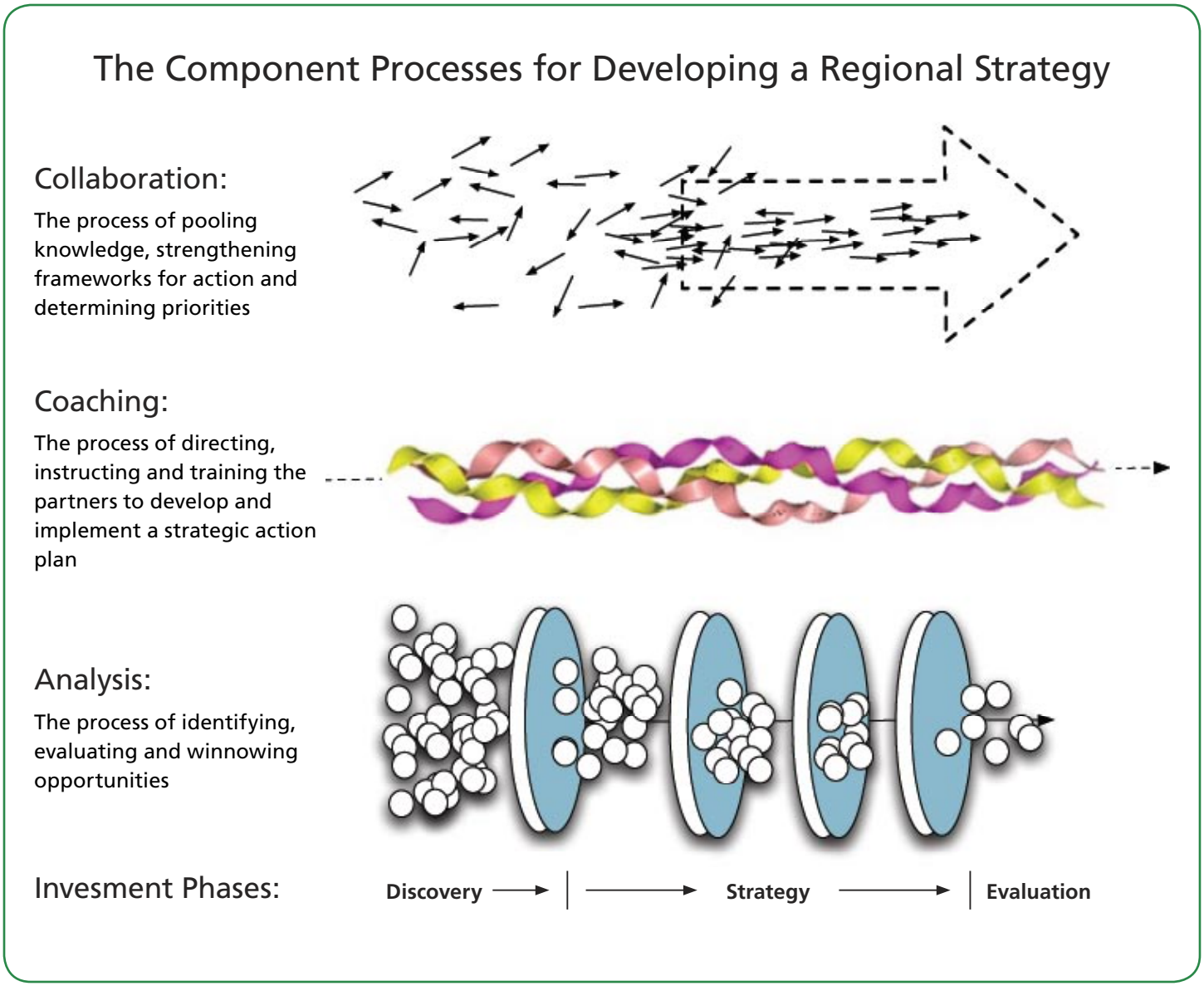


Figure 3: Collaboration, Coaching and Analysis — 3 Essential Strands

should be the regional coach, but the role is critical to every region's success.

The coach must guide the design of an entirely new regional development process, coordinate that process, and weave together the collaboration and analysis in complementary ways. Put another way, the coach must be facile at both facilitating regional dialogue and conducting regional economic analysis. Effective coaches understand both the power of roundtable dialogue to build collaboration and the power of analytics to build understanding. They use analysis to guide the dialogue and use the dialogue to inform the analysis.

The coach has another critical role — playing umpire in the region. Trust is the ultimate currency of regional action, so the coach must be in a position to engender trust from all parties — public, private, and nonprofit alike. Effective coaches are masters of balance: promoting transparency while respecting confidences; seeing the larger patterns while focusing on next steps; accepting ambiguity while insisting on specifics; respecting process while demanding outcomes.

In summary, the regional development process now represents a triple-helix combination of collaboration, analysis, and coaching. While the coach is, to some extent, responsible for weaving together the other two strands, coaching represents an important element in its own right.

What is most important, however, is to recognize that 21st century rural strategy demands weaving the strands together. It is not enough to forge partners into a vibrant partnership. Without analysis, the partnership will not know on which economic opportunities to act. At the same time, it is not enough to conduct analysis without developing the capability among the partners to make complex decisions. The analysis will suffer if it does not benefit from the pooled knowledge of local actors, and it will only be a three-ring binder without region-wide collaboration partnership to implement it.

What are the New Development Needs of Rural Regions?

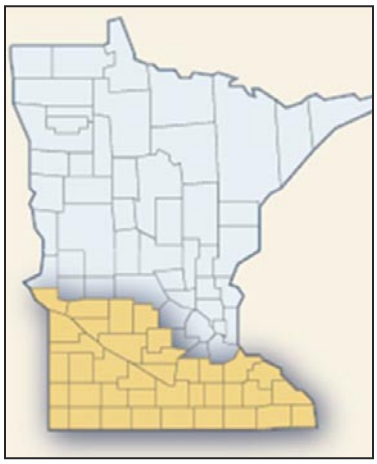
While these concepts provide important guidance, the most important learning happens on the ground, in real rural regions. An approach founded on these four building blocks and the strategy process has now been applied in three very different rural regions (See Figure 4 below). All three projects meet the threshold of being "regional." That is, each one represents a sound approximation of the underlying economic geography, they achieve some semblance of critical mass (roughly a million people in two of the three), and they reflect underlying ambitions to think and act more as one region.

Together, the three regions represent a diverse set of experiments in the new rural paradigm. The Western Alabama-Eastern Mississippi (WAEM) region is the most

Western Alabama, Eastern Mississippi (WAEM) Project

- 37 counties, 1.027 million people
- Largely rural region with an emerging manufacturing base ringed by several automotive assemblers.
- US Economic Development Agency (EDA), first-generation WIRED grant region.
- Funded by EDA and led by one non-profit institution and eight community colleges.

Southern Minnesota Competitiveness Project



- 38 counties, 987,552 people
- Ag-intensive, strong manufacturing base rural region, with world-renowned medicl research facilities in the Mayo clinic and Hormel Institute.
- Self-funded project led by 12 partners from the private sector,led by a financial institution and two philanthropic funds.

RiverLands Economic Advantage Partnership Project

- 14 counties, 460,676 people
- Largely rural region, deep industrial and farming roots, with an emerging business services sector in Dubuque, IA.
- Eight partners led by a regional utility, one university, and partial funding from EDA.

Figure 4: Examples of Regional Development

economically challenged. Three of every four counties in the region are persistent poverty counties by U.S. Department of Agriculture definitions. Educational attainments and workforce skill levels are low compared with many other parts of the nation. The region's economy has benefited from the relocation of manufacturing plants from more expensive locations in the United States, but leaders now worry about whether the plants will leave for still cheaper labour elsewhere in the world.

The Southern Minnesota region, by contrast, is in a much stronger economic position. Its population is highly educated, with strong workforce skills. It boasts an outstanding educational system, including many excellent colleges and universities. Agriculture and manufacturing in the region are highly competitive in global markets. Last but not least, the region has one of the premier research hospitals in the world, the Mayo Clinic, that helps sustain a top-flight health care system throughout the region.

The RiverLands region has signs of both strength and weakness. This region straddles three states (Iowa, Illinois, and Wisconsin) and has deep roots in manufacturing and agriculture. Of the three regions, it has the most clearly defined economic hub (Dubuque), which highlights opportunities but also begs questions about region-wide partnership. Like Southern Minnesota, RiverLands has an excellent education system, although it has deep concerns about the talented youth that keep leaving. RiverLands sees some distinct opportunities to transform its somewhat traditional rural economy, but these new engines are mostly new and just forming.

Based on our projects in these three regions, we conclude that rural regions have four critical needs as they frame their future in line with the new rural paradigm. All four needs emerged in each region, though to varying degrees. Together, these four developmental needs provide a valuable lens for thinking about rural policy in the future. The four needs are: regional scale, decision capacity and tools, region-wide partnership, and external support.

Regional Scale

Single-county or one-community development still reigns in much of rural America. Results from all three projects underscore the value of getting to regional scale — but the enormous challenges in doing so.

Critical mass appears to be an important pre-requisite in the new rural paradigm. Defining critical mass *a priori* is extremely difficult. Still, all three projects show that unique opportunities often reveal themselves only at the regional scale. For instance, the WAEM region has seen a significant but mostly scattered influx of factories over the past decade. Connecting the dots to aim for advanced manufacturing industries and lift workforce skills to get there can only happen at a regional scale. In Southern Minnesota, they have the unique mix of world-class agriculture and medical research. Unlocking the bioscience opportunities that result from connecting these two was only possible at a regional scale. And in RiverLands, going beyond its industrial roots to establish a significant beachhead in business services will require a commitment to education, quality of life, and new cluster support that can only succeed by marshalling the resources of the broad region.

Achieving such critical mass is extremely difficult in practice, however. All three projects offer powerful reminders that *regional* development is not a natural act. It requires reaching across long-established jurisdictional boundaries, which have often been more like battle lines than invitations to collaboration. It requires bringing leaders from public, private, and non-profit sectors from all corners of the region around one table. Our projects often provided the first time that had happened.

One encouraging sign from all three regions, however, is the willingness of regional leaders to build a sense of region once regional opportunities become real to them. While necessity may be the mother of invention, our experience suggests that creating a shared vision of what could be often translates into stronger commitment to the region. For instance, in the case of Southern Minnesota, the project gathered significant momentum once farm leaders, Mayo Clinic officials, and researchers from another major research facility in the region (The Hormel Institute) met and bioscience synergies began to multiply.

Decision Capacity and Tools

The new rural paradigm requires new decision skills and tools. For more than a half century, the most widespread approach to development in rural America has been doing site selection studies and putting financial incentives on the table to recruit firms (often factories). The companion was often public investment in roads, housing, sewers, and water systems to support this overall approach.

The new paradigm requires a completely different set of tools and decision metrics. Assessing economic assets, analyzing economic strengths and specializations, understanding established and emerging business clusters, identifying public investments required to unlock competitive advantages — these are the new tools of the trade. While some of these tools are available, combining them in the best decision process is no small challenge in most rural regions.

The tools to identify regional competitive advantage are still early stage. Regions want a Holy Grail tool that provides all the answers in one punch of the button. Our experience suggests a combination of tools yields the best results. Cluster analysis is well advanced, but it has blind spots; some analysts wonder

if "cluster fatigue" has set in. For instance, cluster analysis did not uncover the bioscience opportunity in Southern Minnesota, nor the business services transformation on the horizon in RiverLands.[5]

Table 1 below reviews the tools that have been combined in the three projects. Structural analysis assesses the existing industry mix in the region and notes areas of distinct specialization. Industry cluster analysis provides a picture of established and emerging constellations of businesses. These clusters point to niches where business firms are signaling either established or potential areas of excellence.[6] Occupational clusters provide a similar picture, but through the lens of workers instead of businesses. This perspective is especially valuable in a region that must undergo a major economic renewal due to the dislocation of one its major industries or natural disaster. Finally, innovation indices provide an overall picture of a region's capacity to innovate and transform its economy. Such information is especially useful in gauging how adept the region may be in exploiting new and emerging industries.

While all these tools are useful, the importance of pooling the knowledge of regional leaders cannot be underestimated. Local roundtables were a critical part of our overall approach to helping identify competitive advantage. In every case, these roundtables uncovered opportunities that would never have been apparent from the economic data alone. The key is creating a safe space for the dialogue to occur, and designing the dialogue in ways that extract knowledge in a systematic way.

Ultimately, however, rural development success rests on the decision skills of each region's leaders. This capacity ranges widely. In one of our regions it was extremely high, and the key was simply presenting them with the best synthesis of information. In another region, getting past the focus on industrial recruitment was much more of a challenge. This raises an important question for public policy. What role should public policy play in raising decision skills of regional leaders, especially in areas where it is low at the outset of the development process?

Region-wide Partnerships

Rural development has always depended on strong leadership for success, but the regional scale of the new rural paradigm creates demands that are difficult for even the strongest areas to meet. To oversimplify, economic development has become one part science and one part art. The science is the analytical tools and decision metrics described above. The art is the ability to turn a diverse set of regional leaders into a *partnership*. Our experience suggests that the art trumps the science.

Every rural region starts with an existing network of underlying networks. These networks often develop along sector lines — agricultural organizations, educational institutions, renewable energy groups. These provide important threads that regional

[5] IBM announced in January, 2009 that it would create a technical assistance center in Dubuque, Iowa. The center is currently slated to employ up to 1,300 people at an average salary of roughly $45,000.

[6] This tool was the major focus of a research project funded by the U.S. Department of Commerce Economic Development Administration. Further information is available online at www.statsamerica.org/innovation/reports.html.

Tool	Outputs	Inputs	Benefits	Limitations
Structural Economic Analysis	Industries of specialization	Employment data	Identifies areas of economic strength compared with the nation	Ignores income effects and which opportunities will raise that bar
Establishment Cluster Analysis	Key constellations ob business firms in the region	Census Business data	See patterns of established and emerging business strength	Looks backward, not forward. More static than dynamic.
Occupational Cluster Analysis	Key constellations of workforce skills in the region	Occupational Information Network – O*NET, Census Bureau	See patterns of labour skills, especially valuable in charting economic transformations	Looks backward, not forward. More static than dynamic.
Innovation Indices	Measures of innovation for the region	Various	Benchmarks the regions ability to innovate against the nation	These are proxies, and innovation is difficult to capture.

Table 1: A Toolkit for Regional Development Analysis

leaders can begin to weave together into region-wide framework for action. The key, though, is recognizing that this over-arching framework for regional action simply does not exist at the outset.

Southern Minnesota's experience is very instructive on this point. The region has a strong heritage of collaboration that reflects the legacy of the immigrants from Northern Europe who settled it. Many of the founding project partners expressed skepticism about the need for activities that build partnership when they regarded it as a pre-existing strength. To be sure, two regional philanthropies were already operating at a significant regional scale. Yet as the project unfolded, it became clear that some of the most significant opportunities could move further and faster with regional collaboration. Moving to a 38-county region represented a whole new scale of economic development thinking and action. While the final form of the regional partnership is still in the making, the commitment to creating it is strong.

Creating the fertile conditions in which regional partners become a strong partnership may be the most important need in the new era of rural development. While the essential ingredients for partnership may be known, creating the recipe that works in the unique landscape of each distinct region is a huge challenge. This provides a huge opportunity for sharing research findings across regions and across countries.

External Support

Rural development under the new rural paradigm occasionally happens entirely on its own — but that is extremely rare. The Arrowhead region of northeast Minnesota is one of the best spontaneous stories of rural development I know. They transformed a timber and mining rural region into one focused far more on health care and business services (Sertich, 2004). In their case, the stars and planets of local leadership aligned in a remarkable way that yielded amazing results. Yet for every Arrowhead Region there are probably scores of others still laboring under the belief that they can recruit enough businesses to grow their economy.

Our experience suggests that providing support from outside the region can be a powerful catalyst for implementing a competitiveness approach to economic development. In WAEM, the U.S. Department of Labor grant (under the WIRED program) was the incentive to bring the 37 counties together across a state line that had long divided them. In Southern Minnesota, partners were inclined to act more regionally, but were eager to have an external advisor direct them in this process. We provided a safe space for partner discussions, and helped frame information in an objective way that allowed them to focus more on the decision itself. In RiverLands, partners were interested in building more critical mass, but needed help in identifying their competitive advantage and building a partnership framework durable enough to span three state lines. Our analytical and dialogue protocols are helping them do just that.

For rural America, few organizations are playing the role of catalyst and coach. Thus my conclusion is that, overall, there are huge unmet development needs. Some private firms have emerged, though the ranks of site selection consultants are much bigger. Some universities, including my own, have created new centers to meet this need. These centers are all quite young, and their reach is sporadic. The latest Farm Bill authorized the *Rural Strategic Investment Program*. This program would fund external technical assistance to help rural regions development competitiveness strategies. Unfortunately, however, this program has never been funded.

What Can the Provincial Government Do to Implement the New Rural Paradigm?

Many rural regions are lagging behind in the global economic race. To do better, rural regions must craft a strategy, build a durable partnership, deliberately invest in innovation, and create a world-class climate for growing entrepreneurs. Strategy is the most important building block, and is the result of a complex process that weaves together collaboration, analysis, and coaching. Experience to date suggests that a variety of rural regions can adopt this approach, but even in the strongest of regions, there are compelling developmental needs that must be addressed to succeed. While all these findings are based on work in rural America, work done by OECD and others suggest these conclusions are universal (OECD 2006).

In light of these findings, what can provincial governments in Canada do to help their rural regions better compete? Four approaches stand out, and they probably hold just as much relevance in Canada as in the United States.

1. Help rural regions form in an organic way.
Too much rural development still happens at the level of a single county or community. Thus, federal and state/provincial governments have a big stake in encouraging economic regions to form. The best evidence from rural America and the rest of the world suggests that regions form best from the bottom-up (not top-down) but with clear encouragement to reach some semblance of critical mass.

A good role for federal and/or provincial government would be to provide the incentives economic regions need to create regional scale economic development. *Incentives* will play a critical role in creating regional scale. Getting to such scale requires counties, communities, and a whole host of public and private leaders to think and act regionally. Financial incentives are a sound way of encouraging such behavior. The key is being flexible enough to allow organic, bottom-up regions to form while being stringent enough to create regions that endure. There are already experiments that might be evaluated with

these twin criteria in mind. The U.S. Department of Labor's WIRED program is one; others may have been tried in Canada.

Building regions through incentives and from the bottom up will not be an easy sell to government officials accustomed to redrawing maps in parliaments and legislatures. Yet the approach is founded on a new reality — exploiting competitive advantages can only be achieved if the people with the most knowledge – regional leaders themselves – are captains of their own destiny.

2. Building regional partnerships (governance) is a founding and transcending policy objective.

Governance is a huge issue in the new paradigm for rural policy. In the vast majority of cases, the functional economic region that is the focus of policy intervention has no corresponding regional government. Thus, the policy focus often pivots to a discussion of how to fill this policy void. In almost every case, this quickly leads to a discussion of multi-level governance — how federal government, state or provincial governments, and local governments partner in the brave new world of the new rural paradigm.

In my opinion, multi-level governance is the sufficient condition for successful rural policy implementation. Gauging the proper roles for the respective levels of government is no small feat, and convincing central government that more of the policy responsibility needs to shift to state and local officials is an even bigger feat.

However, even the very best mechanism for multi-level policy implementation will fail if the region in question fails to achieve effective regional governance – how public/private leaders form a durable partnership to compete globally. This is the necessary condition for implementing the new rural paradigm. As such, it simply cannot be overlooked. Yet, in my experience, taking it as a given is a strong temptation for policy officials in central government.

Quite to the contrary, creating the right conditions for regional partnership to emerge and the capacity required to sustain it are transcending policy goals for the foreseeable future. Regional thinking and action is far from the norm in rural areas. To get there, provincial government must help encourage the formation of region-wide, public/private partnership that can own and drive regional development strategies. This is more art than science, and policy always struggles when it comes to art. It is far easier for government officials to leap forward to funding hard infrastructure and other visible symbols of rural development. The biggest public payoff of all, though, may be in soft infrastructure — giving regional leaders the skill sets they need to set sound investment priorities founded on what that region does best in the global economy.

3. Provincial government can provide the tools regions need to build sound regional strategies.

Rural policy must resolve an important conundrum in delivering rural development programs. In an era of enormous fiscal stress, one transcending demand for rural policy will be finding the most efficient way possible to deliver critical development programs. At the same time, by its very nature, the new rural paradigm marks the end of the one-size-fits-all policy era. This means programs must be flexible and tailored to the unique needs of every region. This could be a costly proposition when all is said and done.

Our experience to date suggests a potentially happy resolution of this conundrum. There appear to be huge economies of scale in developing the tools, processes, project templates, and governance guidelines associated with the new paradigm. That is, the overall approach to creating the building blocks, implementing the strategy process, and prioritizing investments appears to be quite robust across very different types of regions. Thus, one can imagine the creation of a technical assistance center to shepherd the process, the tools, and continually improve them as new findings roll in. The only real question is whether this is handled best at the provincial level or in Ottawa.

At the same time, much of the customization can be put in the hands of regional leaders themselves. After all, they best understand the unique features of the region. They also have the greatest incentive to get the region's strategy right. There is an important policy consideration, however. The region must have the necessary decision capacity to evaluate information and implement a sound strategy. Better methods are needed to identify regions that may require significant investments in capacity.

4. Setting priorities for public investment is the real pay-off to government — especially now.

Prioritizing public investments represent the highest calling for rural policy. Experience to date suggests that regions will sustain economic gains if they first develop a strategy firmly rooted in the region's competitive advantages. To seize the full potential of such strategies, however, both the public and the regions themselves benefit most when the partnership goes the last mile to prioritize the public investments most critical to success. This represents a critical last frontier in both analysis and regional decision. Tools to do this are in very early stages of development. Obviously, in the current economic crisis, these investment priorities take on both importance and urgency.

The next step, of course, is to consider investment pools that can fund the high priority public goods in each region. The last U.S. farm bill authorized just such a fund in the Rural Strategic Investment Program (though it has still not been capitalized by appropriation). I am confident there is considerable room to strengthen not only the underlying investment analytics but also the processes that best link strategy with investment priorities, priorities with investment projects, and projects with outcomes. In the fiscal environment ahead, monitoring this sequence will be critical.

ABOUT THE AUTHOR

Mark Drabenstott is a seasoned observer of regional development and policy issues whose insights have gained national and international recognition. Mark is a native of Markle, Indiana, where he grew up on his family's farm and learned agriculture and basketball firsthand. Mark earned his bachelor's degree from Earlham College and his M.S. and Ph.D. degrees from Iowa State University.

Mark was named founding director of RUPRI's national Center for Regional Competitiveness at the University of Missouri-Columbia in September 2006. The Center helps regions craft world-class development strategies for competing in the global economic race. The Center's regional projects aim to help regions build region-wide partnership, identify their competitive advantages, and prioritize investments. The Center is also part of the University of Missouri's Truman School of Public Affairs.

Mark has engaged leading topics related to regional development, the food and agriculture sector, and related policies throughout his career. He spent 25 years in the Federal Reserve System, and led the creation and development of the Center for the Study of Rural America. He has been a prolific researcher, writing more than 150 articles and editing 10 books. He has shared his economic and policy insights very widely. Throughout his career, Mark has given more than 1,000 presentations to audiences throughout the nation and beyond. He has also been invited to share his policy insights with Congress on numerous occasions.

Mark's provides leadership to global efforts to understand the new frontier of regional competitiveness. He is chairman of the OECD's Territorial Development Policy Committee, the premier global forum on regional development policy. In that role, he has guided the TDPC's research and policy agenda, including overseeing a global Ministerial Meeting on regional policy in March 2009. In 2005 he was selected to chair a U.S. Department of Commerce advisory panel that conducted the first major review of federal economic development in 40 years. He has also advised the World Bank.

RUPRI is a national, interdisciplinary public policy institute housed at the University of Missouri. RUPRI has an international public policy portfolio with more than 250 scholars representing 16 different disciplines in 100 universities throughout the United States and 25 other nations.

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