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CHANGING THE RURAL NARRATIVE FOR MISSOURI
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Twenty years ago, I, with two colleagues, wrote a report called *Bidding for Business: Are Cities and States Selling Themselves Short?* It presented compelling evidence that widespread use of economic incentives to attract companies to relocate was ineffective and wasteful…and should be curtailed if not banned altogether. Of course, this report had zero impact. Many nodded their heads in agreement, but used the arms race metaphor to argue that nothing could be done.

Fast forward to today. There is still widespread use of incentives to attract relocating companies, and they are still ineffective and wasteful…and I still think they should be banned. Recruitment is still the tool of choice for most economic developers and elected officials in Missouri and everywhere else – tax incentives, land and infrastructure deals, and training programs all intended to attract companies to relocate or expand, often from one side of a state line to the other.

A whole industry has grown to advise companies and local governments on site selection, so that this competition continues. For rural regions, and in reality many urban locations, few areas can meet the selection criteria, rendering most state incentive programs irrelevant. The exceptions are likely to be industries unlikely to be accepted in more urban locations – noisy, polluting operations, or certain public functions such as prisons, or where local and state governments are prepared to take a risk on dubious proposals without due diligence.

So what else is in the economic developer's tool box? Retaining existing businesses is part of most economic development programs. Visitation and incentives for expansion are common, sometimes morphing into recruitment when companies threaten to move somewhere else or to downsize if tax breaks are not forthcoming. A dark side to retention is to invest in industries that are dying as a political gesture of support for affected communities – this merely delays the inevitable and does nothing to prepare communities for a different future.

Another approach is to foster entrepreneurship. This is seen by many as the only viable strategy for rural economic development – encouraging local residents to establish and grow their own business, or attracting individual entrepreneurs to relocate (and in some cases, return) to rural regions. Much effort has been put into creating and strengthening systems of support for entrepreneurs – networks, financing, skill development – but this approach is a long-term investment process and may not be fast enough in its impact to offset broader economic decline.

There are pros and cons for pursuing recruitment, retention, and entrepreneurship programs, and some combination would seem to be a prudent strategy for state and local investment. But it is clear that for many areas, particularly in rural Missouri, this is not enough. So what else can be done? What should be the response to obvious signs of economic decline in areas at a distance from our main metropolitan centers?

Looking around the country, I see four broad strategies in play.

First – **laissez-faire** – where we accept that rural regions are in decline, we focus investments in the growing urban and suburban locations, and applaud those small towns and communities that can carve out a role for themselves. This perhaps is the most common, and fits in well with the belief that rural America has had its day and that the future lies with the growing, innovative, entrepreneurial globally-oriented cities.

Second – **triage** – where we classify communities according to some metric such as growing, declining, and transitional, and we target investments into the transitional communities to push them to survival and growth, and withdraw public investments from those areas in decline. This makes sense in a world of performance-based funding and outcomes measurement, but requires strong political will to identify those communities that are doomed to die and are not deserving of public investment.

Third – **trending** – where we support communities that have "got their act together" through strategic planning, wise local investments, sound leadership, and a clear vision for the future. Instinctively, this sounds like the best way to go, but we are backing the winners and diverting resources away from those communities that are struggling.

Fourth -- **broadcasting** – where we offer development and support programs to all rural areas based on some notion of equity and fairness, but recognizing that levels of investment will be thinly spread, and the overall impact may be small. This is a political easy option to avoid upsetting anyone, but probably not a wise use of limited public resources.

Before I talk about some of the ways in which the rural development challenge is being addressed around the country, I want to provide three contextual comments.

First – **critical infrastructure** – This summer, I was a judge for the Smart Rural Communities competition organized by the NTCA, the Rural Broadband Association. I saw the extraordinary benefits from rural broadband investments in Alaska, Iowa, Kansas, Kentucky, Montana, South Carolina, Tennessee, Vermont, and Wisconsin for communities that are more remote and with fewer resources than many in Missouri. Without high speed telecommunications, rural communities cannot survive. It is essential underpinning for education, healthcare, and business development.

Second – **critical Institutions** – Ruthless drives to achieve economies of scale, cut costs, and increase efficiencies have led to consolidation of institutions that are at the heart of rural communities – schools, hospitals and clinics, government services, post offices – and threaten the very survival of small towns. No economic development incentives can overcome the loss of these essential services.

Third – **the narrative** – and here I am restating an earlier point – the prevailing narrative is that most people live in metropolitan areas, most innovation and economic growth stems from urban areas, the future lies in metropolitan areas; rural America has political power way beyond its relevance, investments in rural America do not yield adequate returns; the answer is to focus investments in the main cities and all will benefit. This is hard to counter, but organizations such as the Rural Assembly and Stand-Up for America have been trying to present arguments that have power and resonance in Washington and state capitols, but so far with only limited success.

So where do we go from here?

Let us start with some important concepts: regionalism, rural-linkages, wealth creation, and community resilience.

First, **Regionalism.** I have long held the view that the future of rural communities is closely tied to their ability to operate collaboratively across jurisdictional and administrative boundaries. Resource and capacity constraints, the need for greater efficiencies and effectiveness, the benefits of pursuing common approaches in the face of common problems are all good reasons for counties and municipalities to embrace regionalism. The statewide network of regional development organizations (aka regional planning councils, councils of government, or economic development districts) represent an important infrastructure for rural advancement in Missouri.

A slightly different point is that we should be more focused on economic regions, such as those defined by the Bureau of Economic Analysis using commuting and other linkage data. In Missouri, this would mean that all communities would fall into one of six economic regions: St. Louis/St. Charles, Kansas City, Columbia, Springfield, Cape Girardeau, and Joplin. This would give us meaningful units of analysis for the second and related concept of **Rural-Urban Linkages.** These are mutually beneficial relationships between rural and urban places and economies. The underlying assumption is that rural and urban places are not separate, independent entities but have interdependencies. The task is to identify and understand these.

There are many types of interactions, including:

- **Flows of people,** which blur the lines between rural and urban
  - regular flows mainly for work (commuting), family visits
  - seasonal flows for tourism, recreation
  - migratory flows – longer-term population shifts from rural to urban/suburban and cross-border immigration
- **Sectoral interactions**, which blur location of activities
  - manufacturing in rural areas, farming in cities
- **Market interactions**, either
  - Broadly stated – interdependent exchanges, where rural contributes food, energy, workforce, ecosystem services, rural recreation and culture; urban contributes markets for rural goods and services, jobs, specialized services, urban recreation and culture

  or
  - More narrowly focused – economic exchanges between businesses through supply/value chains and clusters

A value chain is a sequence of activities and processes required to bring a product or service from conception to final use, where at each stage value is added, such as tools, labor, knowledge, and skills are applied. Unlike clusters, which have strong geographic proximity component, value chains can extend regionally, nationally, and globally.

The key is that rural businesses can participate in any value chain and compete with urban businesses on a level playing field provided they have good communications (broadband and physical) and have appropriate systems in place.

I have looked at value chains in sustainable forestry in Oregon; in bio-plastics in Nebraska; in local food systems in Louisiana; and in wind farms in Texas and found them to have both analytical and practical power. Ongoing work by WealthWorks suggests that there are real benefits to intentional encouragement of value chain development – much of this based on experience in central Appalachia – Ohio, Kentucky, West Virginia and Virginia.

Some important things to note:

- They require collaboration across private, public and nonprofit with demand as the driver
- They are inevitably regional in orientation – jurisdictional boundaries largely irrelevant
- They require facilitation and coordination to research markets, reduce transactions costs, remove barriers, and find investors
- They are focused on building upon local assets to create local wealth
- They are concerned less with individual businesses in isolation but more with how they fit into supply chains

Now, moving onto the apparent oxymoron: **Rural Wealth**, by which I mean the stock of enduring assets over which rural places have stewardship, control, or ownership.

Increasing attention is being given to the loss of financial wealth from rural communities as family estates are distributed to children that have moved to cities and suburban areas – the process known as **intergenerational wealth transfer** – and there are mechanisms, pioneered in Nebraska but now being explored and developed across the country, that are being introduced to capture some of that wealth via community foundations for reinvestment in rural communities. A study for Missouri last year showed that $135 billion will be transferred over the next 10 years – if just 5 percent could be captured by local community foundations for community betterment, it would produce an endowment that would yield nearly $350 million over 10 years.
But there are other assets that are important to understanding rural wealth

- Social capital – stocks of trust, relationships, and networks that allow sharing of knowledge and connectedness within and beyond the community.
- Built capital – stocks of buildings and physical infrastructure.
- Individual capital – stock of skills and the physical and mental health of residents
- Intellectual capital – the institutionalized stock of knowledge and innovative capacity shared by people in the region/community
- Natural capital – the stock of natural resources such as forests, fertile land, and ecological services
- Political capital – stock of power and influence held by people, groups, and organizations that can be wielded to make things happen for the community

Ideally, the aim is to enhance the stock of each of these assets; but the bottom line is to ensure that improvement of one of these assets does not mean the deterioration of other assets. This approach allows a systematic review of assets that offer the potential to create new economic opportunities.

Finally, **community resilience**: the ability of a community/region to anticipate problems and opportunities, to reduce its vulnerabilities to natural and economic threats, to respond effectively to a disaster or emergency, and to recover rapidly in ways that are better, safer, and fairer.

The concept of resilience is most commonly applied to natural threats such as tornadoes, floods, and earthquakes – and increasingly to terrorism. But it also applies to economic shocks, such as plant closings, or an overall decline in the rural economy. For communities that have previously resisted efforts to plan or think strategically, tried and tested community development processes are being looked at afresh. Building on assets, reducing vulnerabilities, investing in the future – all based on clear-eyed self-assessments, and in some cases an appreciation of the short and long-term benefits of living in a safe and health community.

So…What does this mean for economic development (and specifically rural economic development) in Missouri?

1. Recognize the realities of regional economies within Missouri focusing on in order of personal income St. Louis/St. Charles, Kansas City, Columbia. Springfield, Cape Girardeau, and Joplin.
2. Engage the regional development councils as the primary organizational structure for integrated development in Missouri, including requirement for the 18 councils to collaborate around the main regional economies. Provide enhanced support on a performance-based three-year funding formula.
3. Develop integrated development strategies that explore the linkages between the metropolitan cores and their rural hinterland counties, with a focus on resilience and wealth creation.
4. Partner with rural telecommunications companies to ensure complete highest speed broadband coverage across the state. Use broadband investments to leverage parallel investments in virtual and distributed education, healthcare, and public services.
5. Encourage community foundations to establish funding mechanisms to capture part of the intergenerational wealth transfers out of rural counties.
6. Provide competitive funding for value chain development in each of the six main regional economies – open to public, private and nonprofit entities.
7. Align state economic development investments with and reallocate resources to the integrated development strategies.
8. Convert state economic development efforts from primarily marketing and tax incentives to primarily research, community capacity support, and strategic investments in regional integrated development strategies.

I hope all this strikes a few chords and that you will engage here at this conference and in the coming months on thinking through which of these ideas make sense to change the rural narrative and how to make them a reality. Missouri's rural communities may not be able to wait too long for a response.